MESSAGE FROM THE CEO

The year 2008 was very good for Localiza. It would have been exceptional had it not been for the contamination of the global liquidity crisis on the Brazilian economy, which had indirect impacts on the value of our assets in the fourth quarter.

The 2008 Goals Plan was very well executed and allowed flexibility when the scenario changed. In October the market for used cars was affected by the crisis with a strong drop in monthly sales volume. We immediately suspended car purchases and increased our focus on selling excess cars in order to close the year with our fleet adjusted. Localiza closed the year with a fleet of 62,000 cars and the Localiza network with 72,000 cars, including franchisees, which represented a growth of 18 percent.

The strategy of selling used cars directly to final consumers was essential for a successful and quick adjustment of the fleet since used car resellers suffered a steep drop in inventory turnover and would not buy our used cars.

Our differentiated business platform, unique in the car rental industry, is our most important competitive advantage and continues to demonstrate its operational efficiency, generating consistent results.

The business divisions are synergistic, lean, and agile with a well defined focus on their activities thanks to the full support of administrative areas as regards information technology, people management, finance, and legal advisory.

Growth in business volume of the car rental division was 37.1 percent. We expanded our distribution with the opening of new branches, both company-owned and franchises, in new markets. We currently have more than 400 branches. We increased company-owned branches by 21 and franchise branches by 20, 7 of which are located abroad, strengthening the Company´s position as market leader on the South American continent. The Localiza network branches have a high-quality standard that equals to or exceeds the standard of other car rental companies in the United States and Europe.

The business volume of the fleet rental division grew 25.1 percent, the highest rate in recent years. This division has last-generation processes and systems for the business, and adopts the best practices of its international peers specialized in fleet rental and management.

We also expanded the number of points of sale for used cars. We added 3 new branches to our network, reaching 35 well distributed points of sale in Brazil, taking into consideration the location of the branches of the car rental division and the potential demand in each region. It is worth noting that Localiza sells a differentiated used car, with an average age of 14 months and low mileage. Seminovos Localiza, responsible for the sale of the Company´s fixed assets (used cars), is an area of efficiency to reduce the fleet depreciation cost and dependence on intermediaries in the sale of used cars. Localiza believes that it is the only car rental company, either in Brazil or abroad, that strategically uses the cars of its points of sales during peaks in demand, serving a larger number of car rental customers.

The Company received innumerous awards for its performance, its customer vision, brand positioning, and other general rankings throughout 2008, standing out primarily as one of the “Most Valuable Brands in Brazil” as published by *Isto É* magazine; “Best CEO” and “Most Shareholder Friendly” according to *Institutional Investor* magazine; “Best Company in Governance for Shareholders” by *Capital Aberto* magazine; one of the “Fifty Human Resources Most Admired in Brazil” as well as “Best Franchisor in Brazil” in the car rental car segment according to *Pequenas Empresas, Grande Negócios* magazine.

With the abrupt change in the macroeconomic scenario at the end of 2008, Localiza reacted quickly to adjust to the new reality. With the sale of the excess fleet cars, the Company reduced its short-term debt. We believe that this quick reaction and the actions taken were well assessed by Moody´s, which ratified Localiza´s “Aa2.br” rating in December 2008. In 2009, as long as the market is closed to long-term

borrowings and lower spreads, the Company will maintain its current position of focusing on liquidity and funding operations with its own cash flow.

We will be cautious in our strategies for 2009, for which the scenario is hardly foreseeable. We replaced our strategies of rapid growth by strategies that strengthen our competitive advantages and financial soundness so that we can, undoubtedly, emerge stronger after the crisis and resuming the growth to become consolidators in this fragmented industry. We are confident about the future, because in the past, Localiza came out of all the crises it faced stronger than before.

Salim Mattar
Chief Executive Officer

MANAGEMENT´S REPORT

1 – MACROECONOMIC CONDITIONS

The year 2008 was marked by an abrupt change in the worldwide economic scenario. The subprime crisis brought to the surface the liquidity difficulties of large financial institutions, causing a recession in the United States and Europe and affecting other countries with greater or lesser intensity.

In Brazil, the impact was in the last quarter of the year, aggravated by a rise in the baseline interest rate. As a consequence, the fourth quarter of 2008 was marked by:

(i) scarcity of international credit line;
(ii) increase in bank spread;
(iii) shorter borrowing terms;
(iv) economy slowdown, specially in automotive sector;
(v) drop in commodity prices;
(vi) strong devaluation of the Brazilian real;
(vii) steady drop in the value of shares on the stock exchange.

The Brazilian government adopted various measures to increase liquidity and credit, mainly for exporters, and reduced IPI (federal Vat) on new cars by up to 7 percent until March 31, 2009.

In order to face this scenario, Localiza reduced its fleet by 5,100 cars, which were in excess in its car rental division at the end of the third quarter of 2008, thus reducing short-term bank debts and debts to car makers.

For 2009, the market is projecting:

- GDP of 1.5 percent;
- A 3 percent drop in the baseline interest rate; and
- Broad Consumer Price Index (IPCA) of 4.5 percent, close to the center of the target range

Localiza believes that it can come out of this crisis strengthened in relation to the market. Over its thirty-five year history, it knew how to be flexible and agile by adopting correct strategies to face each of the crises that it experienced.

Localiza, backed by its competitive advantages, will seek to improve its operating performance indicators by focusing on adjusting its fleet and paying in advance almost all its short-term debt.

2 – GENERAL DESCRIPTION OF THE BUSINESS

Localiza rents cars to individuals and legal entities in business or leisure trips through its chain of owned and franchised branches in and outside airport areas. These branches also serve companies in need of

fleets through short-term agreements.

By way of its subsidiary, Total Fleet, the Company rents fleets to corporate customers through long-term agreements for periods from 1 to 4 years.

As a supporting activity, the Company has its own structure to sell its fixed assets in view of the need to renew the rental fleet after the useful lives of cars in car and fleet rental division.

Localiza network fleet as of December 31, 2008 consisted of 72,041 cars, of which 62,515 owned by the Company and the remainder by franchisees in and outside Brazil.

The car rental market in Brazil has approximately 2,000 companies of different sizes, including some international brands.

3 - BREAKDOWN OF INCOME BY SEGMENT AND CONSOLIDATED

R$/million

1 - Car rental	2006	2007	Var. %	2008	Var. %
Net revenues from car rental and used car sales	807.1	1,120.0	38.8%	1,330.1	18.8%
Car rental and used car sales costs	(458.5)	(664.7)	45.0%	(771.6)	16.1%
Depreciation of revenue-earning vehicles	(117.6)	(145.7)	23.9%	(212.6)	45.9%
Gross profit of car rental and used car sales	231.0	309.6	34.0%	345.9	11.7%

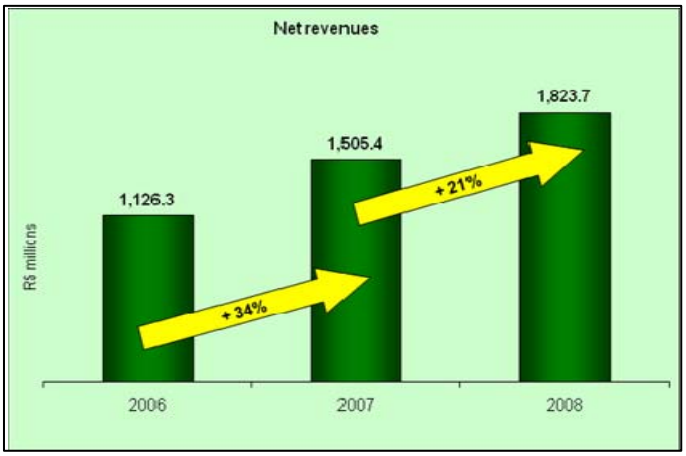
2 - Fleet rental	2006	2007	Var. %	2008	Var. %
Net revenues from fleet rental and used car sales	319.2	385.4	20.7%	493.6	28.1%
Fleet rental and used car sales costs	(121.9)	(156.9)	28.7%	(209.2)	33.3%
Depreciation of revenue-earning vehicles	(84.9)	(111.1)	30.9%	(147.5)	32.8%
Gross profit of fleet rental and used car sales	112.4	117.4	4.4%	136.9	16.6%

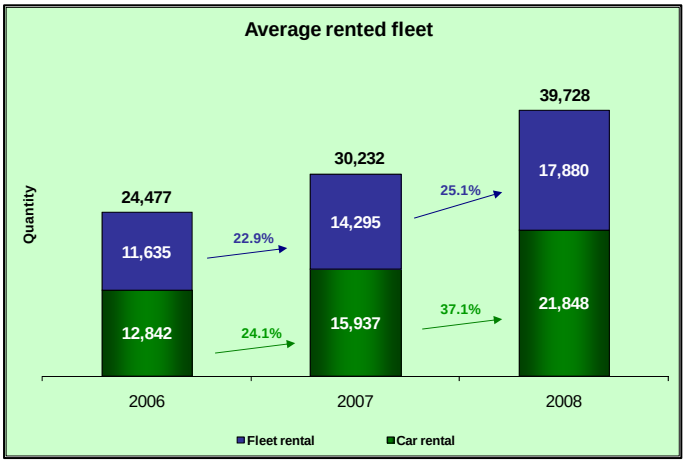
3 - Consolidated	2006	2007	Var. %	2008	Var. %
Total net revenues	1,126.3	1,505.4	33.7%	1,823.7	21.1%
Total costs	(580.4)	(821.6)	41.6%	(980.8)	19.4%
Depreciation of revenue-earning vehicles	(202.5)	(256.8)	26.8%	(360.1)	40.2%
Total gross profit	**343.4**	**427.0**	**24.3%**	**482.8**	**13.1%**
Advertising and selling	(79.5)	(101.2)	27.3%	(121.8)	20.4%
General, administrative and other	(37.3)	(28.5)	-23.6%	(39.8)	39.6%
	(116.8)	**(129.7)**	**11.0%**	**(161.6)**	**24.6%**
Financial expenses, net	(64.3)	(76.4)	18.8%	(133.2)	74.3%
Operating income	**162.3**	**220.9**	**36.1%**	**188.0**	**-14.9%**
Income tax and social contribution	(43.7)	(64.4)	47.4%	(51.3)	-20.3%
Minority interest	(0.2)	(0.2)	-	(0.2)	-
Net income	**118.4**	**156.3**	**32.0%**	**136.5**	**-12.7%**
% of net revenues	10.5%	10.4%		7.5%	

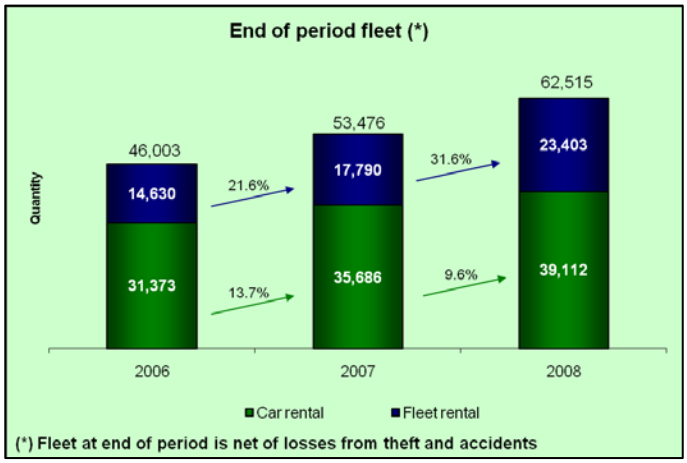
Net income x EBITDA reconciliation - R$ million

	2006	2007	Var. %	2008	Var. %
Net income	**118.4**	**156.3**		**136.5**	
Depreciation of revenue-earning vehicles	202.5	256.8		360.1	
Other depreciation and amortization	10.1	14.7		19.8	
Financial expenses, net	64.3	76.4		133.2	
Income tax and social contribution	43.7	64.4		51.3	
EBITDA	**439.0**	**568.6**	**29.5%**	**700.9**	**23.3%**
% of net revenues	39.0%	37.8%		38.4%	









Net Revenues from Rentals and Sales

The Company´s total net revenues from rentals and sales comprise (i) car rental; (ii) fleet rental; (iii) used car sales.

Total net revenues increased 21.1 percent in relation to 2007. This increase is mainly attributable to a growth of 31.4 percent in the average fleet rented, resulting from the growth in the number of car and fleet daily rentals, as well as a 13.9 percent increase in the volume of used cars sold.

This growth is due to the level of economic activity in Brazil, which generated the following:

(i) increase in the passenger flow at airports;
(ii) increase in the number of credit card holders;
(iii) investments in infrastructure; and
(iv) demand from companies to outsource fleets.

The rise in the volume of cars sold reflects the growth in the fleet itself, as part of the normal program for renewal.

Costs of Rentals and Sales

Direct operating costs increased 24.3 percent from R$1,078.4 million in 2007 to R$1,340.9 million in 2008. This increase is basically the result of an increase in the average operating fleet of 36.8 percent, which caused a 40.2 percent increase in depreciation, as well as maintenance, IPVA (tax on motor vehicle ownership), losses due to theft and accidents, among others. Direct operating costs as a percentage of net revenues increased from 71.6 percent in 2007 to 73.5 percent in 2008, mainly due to the decrease in the fleet utilization rate.

The drop in the utilization rate was caused by the excess number of cars in the fleet because car makers delivered in the third quarter of 2008 the cars ordered for that quarter and cars that they had failed to deliver in the first half of 2008. In addition, the sales volume for used cars in the fourth quarter of 2008 was 27.9 percent lower than the average for the first nine months of the year.

The cost of cars sold increased 13.6 percent in line with the growth of 13.9 percent in the number of cars sold.

Operating Expenses

Advertising and selling expenses grew 20.4 percent from R$101.2 million in 2007 to R$121.8 million in 2008. Selling expenses as a percentage of net revenues remained stable at 6.7 percent in 2007 and 2008.

General, administrative, and other expenses rose 39.6 percent from R$28.5 million in 2007 to R$39.8 million in 2008. This increase was mainly due to the payment of additional fees, profit sharing, and an increase in the number of employees in the amount of R$7.4 million, as well as expenses related to the engagement of management, information technology, human resources and operating process consulting in the amount of R$1.9 million. General, administrative, and other expenses increased as a percentage of net revenues from 1.9 percent in 2007 to 2.2 percent in 2008.

Net financial expenses increased 74.3 percent, from R$76.4 million in 2007 to R$133.2 million in 2008, mainly due to a 64.0 percent increase in net debts, basically represented by new funding to support fleet growth of 16.9 percent and the rise of 0.6 percent in the effective annual CDI rate.

Financial expenses, net (R$ million)	2007	2008	Var. %
Financial expenses and other	(101.9)	(161.8)	58.8%
Financial income	25.5	28.6	12.2%
Financial expenses, net	**(76.4)**	**(133.2)**	**74.3%**

Ratios	2007	2008	Var. %
Net debt (*) (in R$ million)	765.1	1,254.5	64.0%
Net debt (*) / Shareholders' equity + net debt	61%	70%	9p.p.
Net debt (*) / EBITDA	1.35	1.79	32.6%
Annual average CDI (interbank deposit rate)	11.8%	12.4%	0,6p.p.

(*) Net debt comprises current and noncurrent loans, financing and debentures offset by cash and cash equivalents and marketable securities.

Income Tax and Social Contribution

Income tax and social contribution fell by 20.3 percent from 64.4 million in 2007 to R$51.3 million in 2008, with reduction of the effective rate from 29.2 percent in 2007 to 27.3 percent in 2008. This reduction of the effective rate is attributable to the average increase of 25.3 percent in shareholders´ equity, which is the calculation basis for interest on capital for 2008, compared to shareholders´ equity in 2007.

Net Income

Net income fell 12.7 percent from R$156.3 million in 2007 to R$136.5 million in 2008. It also presented a reduction as a percentage of net revenues, dropping from 10.4 percent in 2007 to 7.5 percent in 2008. The increase in depreciation and financial expenses were the main items responsible for the reduction in income for 2008.

EBITDA

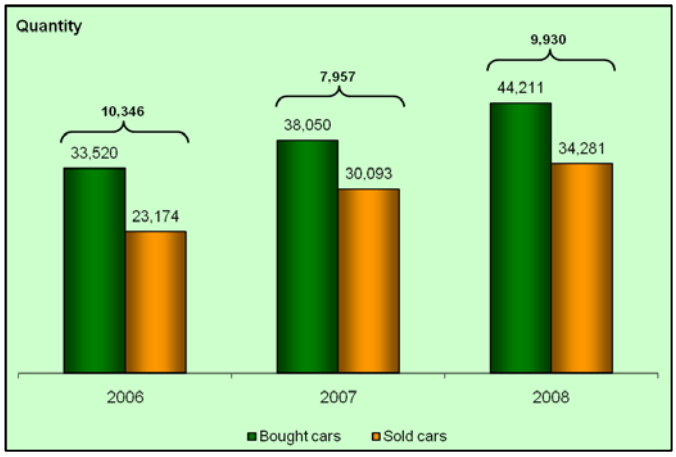
EBITDA is earnings before taxes, net financial expenses, depreciation and amortization. EBITDA is not recognized under BR GAAP, does not represent cash flow for the reporting period, should not be considered an alternative to net income, and is not a performance indicator. EBITDA is presented and used by the Company to measure its own performance. The Company understands that some investors and financial analysts use EBITDA as an indicator of the company's operating and cash flow performance

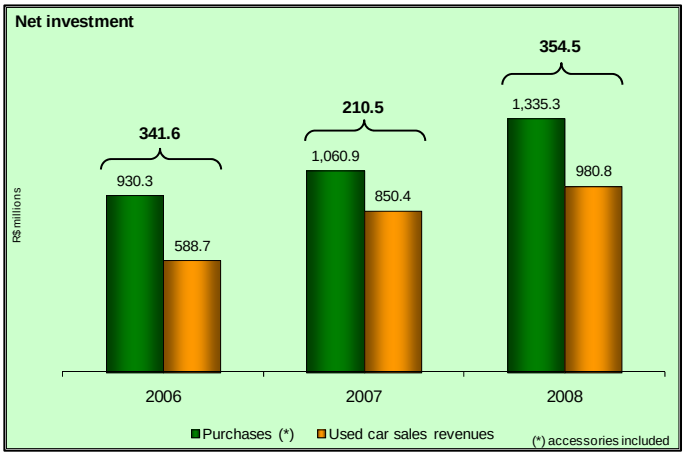
EBITDA grew 23.3 percent (R$132.3 million) from R$568.6 million in 2007 to R$700.9 million in 2008, reflecting a growth in revenues of 21.1 percent. The EBITDA margin as a percentage of revenues went from 37.8 percent in 2007 to 38.4 percent in 2008.

4 – INVESTMENT IN FLEET, CASH FLOW, AND INDEBTEDNESS

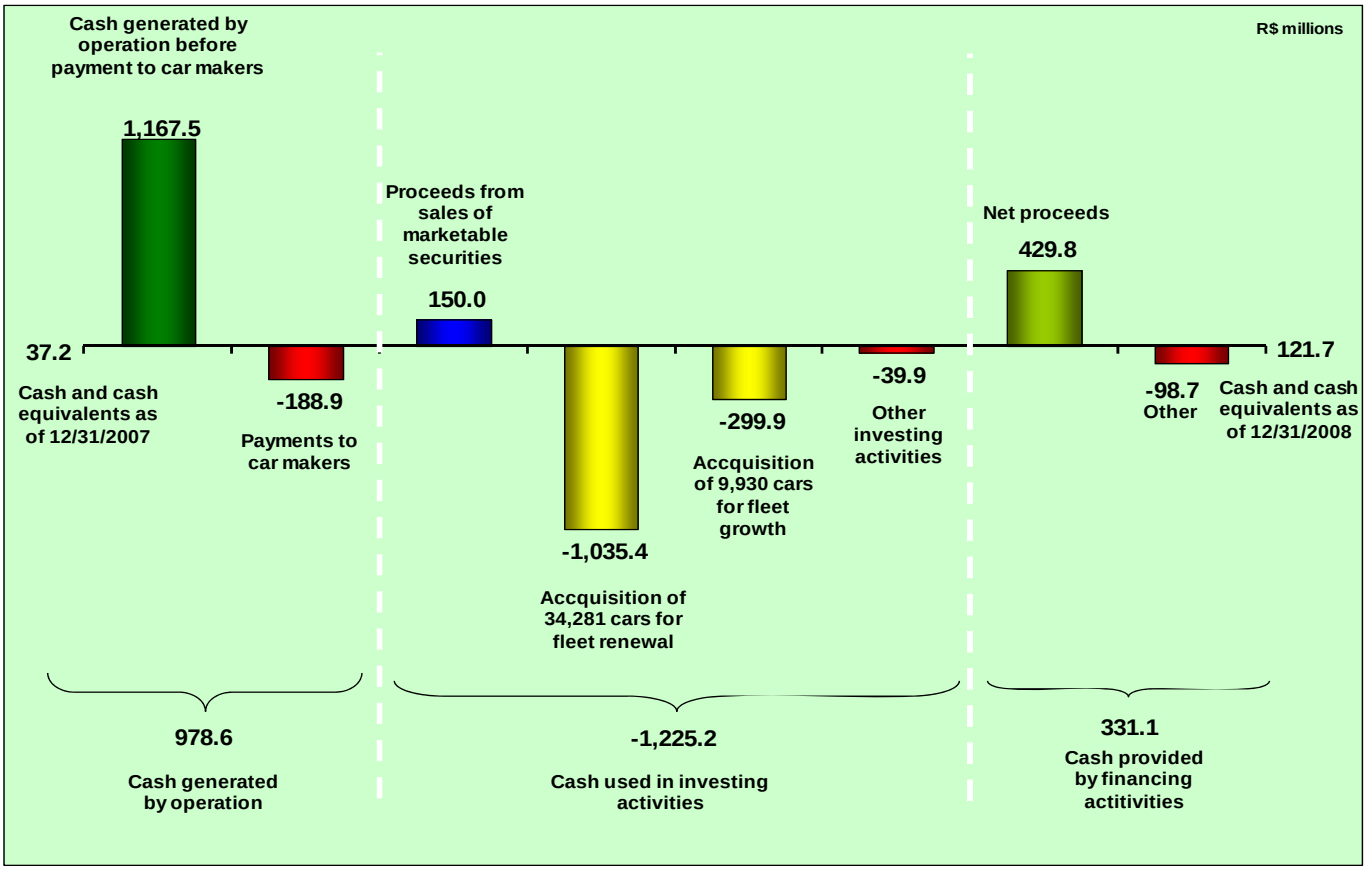
(a) Investment in fleet

The Company increased its fleet by 9,930 cars, which corresponded to a net investment of R$354.5 million.





(b) Cash flow



Cash generated by operating activities before payments to car makers in the amount of R$1,167.5 million, less investment for fleet renewal of R$1,035.4 million, represented R$132.1 million that was used to settle the balance payable to car makers in the amount of R$188.9 million.

In addition to funds generated by operating activities, the Company redeemed investments in marketable securities in the amount of R$150 million and also borrowed a net amount of R$429.8 million in the

market. These funds in the amount of R$299.9 million were used in the growth of the fleet, investment in other operating and financial activities, and increase in the cash balance by R$84.5 million.

(c) Indebtedness

The table below shows the debt amortization scheduled as of December 31, 2008:

Year	R$ million
Debt in 2009 (*)	257.6
Cash and cash equivalents + marketable securities	(129.9)
2009 (net debt)	**127.7**
2010 (*)	**501.1**
2011 (*)	**339.1**
2012 (*)	**114.2**
2013 (*)	**113.8**
2014 (*)	**66.8**

(*) Debt is shown at the principal amount + pro rata interest; transaction costs totaling R$8.2 million were not deducted.

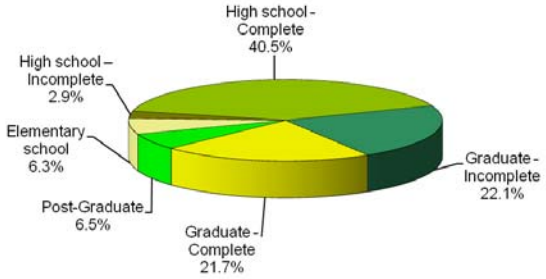
The fact that the Company issued a single series of simple nonconvertible debentures that mature in September 2011 in one undividable tranche with a nominal value of R$300 million and floating guarantee is noteworthy. The purpose of this funding was to extend the debt profile.

Debts with maturity up to November 2009 are planned to be fully settled in January and February 2009 using funds generated by the Company.

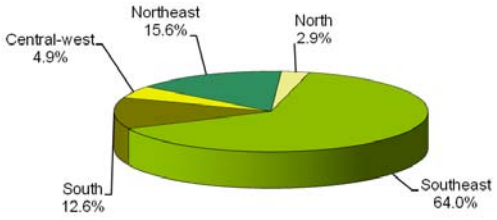
5 - PEOPLE MANAGEMENT

The number of Localiza and subsidiaries employees increased 18.7%, from 2,692 in 2007 to 3,195 in 2008. We highlight the following:

Education



Employees by region



The Company works focusing on esteem for individual effort and rewards for the best performances. A flexible compensation system (profit sharing) based on the achievement of targets defined in a management contract has been in place since 1991.

In 2008 the Company invested R$4.1 million in training, which corresponded to 123,375 training hours and represented an average of 39 hours per employee.

Benefits packages offered by the Company are those practiced in the market, including health care plan, dental care plan, and meal subsidies.

Localiza launched its second share purchase option plan in 2007, divided into five individual and annual programs that will grant 4,500,000 options, or 900,000 options for each program. The 2007 and 2008 programs included 291 employees as of December 31, 2008. This program has a vesting period for the exercise of buy options ranging from 3 to 11 years.

The purposes of this plan are as follows:

- Aligning shareholders' interests with those of Company's employees;
- Retaining talents; and
- Having a long-term vision in the decision-making process.

The Company invests in internal programs for the quality of life and wellbeing of its employees – "Live Better Program". In 2008, the People Management area received the "Fifty Most Admired HR´s" award for the third consecutive time. The result of a 2008 survey conducted by Hewitt Consulting for the *Valor Econômico* business newspaper deserves note. The survey revealed that 80 percent of employees interviewed feel that they are involved and have a positive perception of the Company and 88 percent have confidence in senior leadership.

The aforementioned practices and policies have allowed Localiza to operate steadily in the supervision, management and executive management levels. Talented employees, committed to the Company's mission and values and properly compensated, will be able to offer quality service to customers, with added differentials and, therefore, ensure their own and the Company´s growth. Employee turnover fell from 24.7 percent in 2007 to 23.9 percent in 2008.

6 – SOCIAL RESPONSIBILITY

The Company takes part in social action programs, thus showing its concern with the community, by way of projects focusing on culture, social actions and education. The following deserve special note:

- Junior Achievement - Minas Gerais: an education project mainly aimed at taking entrepreneurship to public schools. The Company is one of the sponsors of Junior Achievement and the Chairman of the Advisory Board in Minas Gerais is Mr. Eugenio Mattar, Executive Vice President of the Company.
- Institute for Entrepreneurial Studies: project intended to form business leaders that are committed to a social and political model for Brazil based on democratic ideals for individual rights, principles of market economy, free enterprise, and respect for the rule of law.
- Minas for Peace: project with the objectives of promoting social justice, peace, culture, citizenship, and human rights through implementation of actions to prevent violence and criminality, as well as through implementation of and incentive to cultural and social projects that pursue these objectives.
- Green Sign to Culture: this project has provided support for culture throughout Brazil for over twenty years using our own funds or donations for cultural projects with funding from income tax through the "Rouanet Law" incentive.
- Social Fund for Children and Adolescents: allocations are made by the Company to previously selected institutions that are qualified and have a good history and high reputation.
- Green Seed: a social project providing support for institutions by way of volunteers. Under this program, food, personal hygiene items and educational material are collected to aid two previously selected institutions.

7 - ENVIRONMENT

Car and fleet rental activities do not generate significant environmental impacts. The Company does not store any substances that might cause environmental accidents.

The Company's fleet is new and uses technology that reduces pollutants generated by cars. Most of the fleet is composed of flex-fuel car models, which allow the use of alcohol, a clean and renewable alternative source of energy, as fuel.

8 – CORPORATE GOVERNANCE

The Company maintained its purpose of counting on the highest Corporate Governance practices to add value and provide security to shareholders, particularly minority shareholders. Since it went public, the Company adhered to the "Novo Mercado" (*New Market*) segment, the highest governance level, which grants a tag along right to 100% of its shares. The Company is linked to arbitration in the Market Arbitration Chamber, pursuant to the Commitment Clause set forth in Article 36 of its bylaws.

The Company is managed by a Board of Directors comprised of 9 members and an Executive Board comprised of 4 members. In compliance with *New Market* Governance practices, the Company´s Board of Directors has 4 independent members. The Fiscal Council is not currently operating.

The Company´s Board of Directors implemented the Audit, Disclosure, Ethics, and People Management committees and established the internal regulations and competences.

BOARD OF DIRECTORS

Name	Position
Salim Mattar	Chairman
Antônio Cláudio Brandão Resende	Vice-chairman
Eugênio Pacelli Mattar	Member
Flávio Brandão Resende	Member
Aristides Luciano de Azevedo Newton	Member
Oscar Bernardes (*)	Member
Wilson Nélio Brumer (*)	Member
Stefano Bonfiglio (*)	Member
Paulo Roberto Nunes Guedes (*)	Member

(*) Independent member

EXECUTIVE BOARD

Name	Position
Salim Mattar	Chief Executive Officer
Eugênio Pacelli Mattar	Executive VP
Aristides Luciano de Azevedo Newton	Executive VP
Roberto Mendes	Chief Financial and Investor Relations Officer

NONEXECUTIVE BOARD

Name	
Alberto Wagner Teixeira Campos (*)	Hélvia Barcelos Guerra (*)
Bruno Moreira de Andrade (*)	Marco Antônio Martins Guimarães
Daltro Barbosa Leite Júnior	Silvio Guerra
Eugênia Maria Rafael de Oliveira	

(*) New boards constituted in 2008.

The annual compensation approved for the Board of Directors and the Executive Board in the period between the meeting held in April 2008 and the Shareholders' Meeting to be held in 2009 was set at up to R$11.0 million.

Code of Ethics

The Company has adopted a Code of Ethics since 1995 for the purpose of: (i) reducing subjective personal interpretations of ethical principles; (ii) being a formal and institutional reference for employees' professional behavior, becoming a standard for the Company's relationships with shareholders, customers, employees, suppliers, competitors, the society, government, the press, and the community in which it operates; and (iii) ensuring that concerns with efficiency, competitiveness and profitability do not overcome ethical standards.

Relationship with independent auditors

We adopt the principle of not engaging consulting services from external auditors to avoid the existence of potential conflicts of interest that could interfere in the independence of the audit work.

Deloitte Touche Tohmatsu Auditores Independentes, firm responsible for auditing the Company´s financial statements, was also engaged in 2008 to assist us in the diagnosis of existing processes and internal controls for the purpose of improving the Company's risk management. This engagement was effective on July 16, 2008 and the work is expected to extend over a period of approximately twenty-four months starting from November 2008 when the work was initiated. Fees for 2008 were approximately R$100 thousand, which corresponds to 19 percent of fees for the audit of the financial statements.

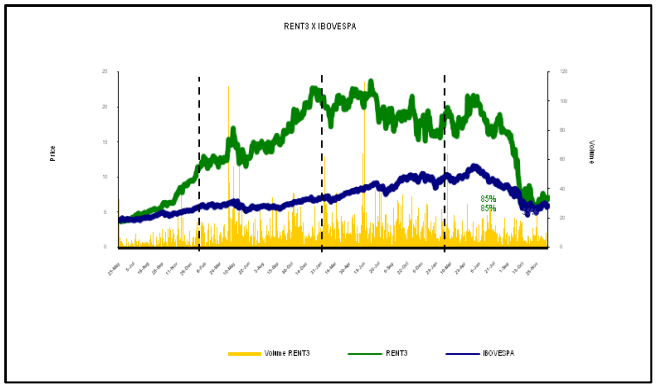
The additional services mentioned above were approved by the Company taking into consideration management´s evaluation that they do not affect the independent auditors' independence and are not included in the impediments set forth in Article 23 of CVM Instruction 308/99.

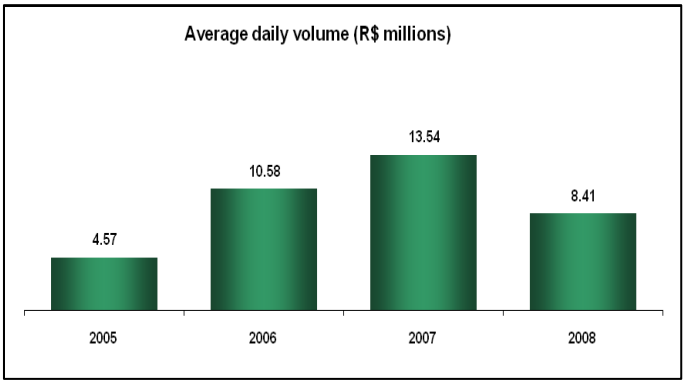
9 – CAPITAL MARKETS

In September 2008, the Company concluded its third debenture issue that matures in 2011, in the amount of R$300.0 million.

On December 30, 2008, the quoted price for RENT3 was R$7.10 (R$18.89 as of December 30, 2007). The book value of a share as of December 30, 2008 was R$2.66.

Localiza was ranked as the seventy-first most traded share on the Bovespa stock exchange in 2008.





Source: BOVESPA, Pladin

10 - DIVIDEND POLICY AND SHARE BUYBACK

a) Dividends:

The Company holds a Shareholders' Meeting by April 30th of each year, in which the annual dividend may be declared. Additionally, interim dividends may be declared by the Board of Directors on an "ad referendum" basis of the Shareholders' Meeting.

The Company's bylaws sets forth that at least 25% of adjusted net income is to be distributed as a mandatory dividend. The bylaws also sets forth that the Company may allocate up to 75% of adjusted net income to the statutory revenue reserve called "Reserve for Expansion", which is intended to secure funds for additional investments in operating assets.

Localiza has paid or credited to its shareholders the amounts below, as dividends and interest on capital:

in thousands of R$

Year	Dividends	Interest on Capital	Total
2008	5,583	31,603	37,186
2007	24,699	26,800	51,499
2006	196,665	35,232	231,897

In 2008, the Board of Directors approved early payments of interest on capital in the gross amount of R$31.6 million or R$27.0 million net of withholding income tax. Management has proposed to distribute R$5.6 million in dividends, totaling R$32.6 million that are equivalent to 25% of net income for 2008, calculated in accordance with Brazilian accounting practices. As of December 31, 2008, Management has proposed for approval of the Shareholders' Meeting the allocation of retained earnings in the amount of R$91.9 million to the Reserve for Expansion.

b) Share buyback:

The buyback of Company's common shares to be held in treasury for subsequent sale and without capital reduction was authorized at a Board of Directors´ meeting held on December 18, 2007. On November 24, 2008, the discontinuance of this stock buyback program was approved, and 4,226,300 shares of a total of 4,500,000 authorized shares were purchased, for R$43.6 million.

A new program for buyback of the Company's common shares to be held in treasury for subsequent sale and without capital reduction, as permitted by Law 6404/76 and the Company's by-laws, was authorized at a meeting of the Board of Directors held on November 24, 2008. The Company´s objective is to maximize the generation of value to shareholders and meet their interests, taking into consideration the quoted price for Company shares on the BOVESPA stock exchange. The number of shares approved for acquisition is 5,856,862, and the maximum period for carrying out the transaction is 365 days. As of December 31, 2008, no shares had been repurchased under this program.

11 - INVESTMENTS IN SUBSIDIARIES AND CORPORATE CHANGES

CHANGES IN INVESTMENTS IN SUBSIDIARIES IN 2008 (in thousands of R$)

DESCRIPTION	TOTAL FLEET	FRANCHISING BRASIL E INTERNACIONAL	PRIME	CAR RENTAL	RENTAL INTERNATIONAL	TOTAL
Investments as of 12/31/2007	340,088	1,186	-	3,882	-	345,156
Capital increase in subsidiaries	68,535	-	-	-	-	68,535
Acquisition of minority interests in subsidiaries	-	82	-	-	-	82
Equity in subsidiaries	60,607	4,382	(1,736)	6,690	(47)	69,896
Dividends received and receivable	(58,977)	(5,414)	-	(6,407)	-	(70,798)
Reclassification of shareholders' deficit of subsidiaries to current liabilities	-	328	1,736	-	47	2,111
Investments as of 12/31/2008	410,253	564	-	4,165	-	414,982

The Board of Directors at a meeting held on July 30, 2008 approved the purchase by Localiza of ownership interests held by the minority shareholder in the subsidiaries Franchising Brasil, Franchising Internacional, and LFI S.R.L., which became wholly-owned subsidiaries of Localiza.

12 – SOCIAL REPORT

	2008			2007		
Calculation basis for social indicators - R$ thousand						
Net revenue			1,823,776			1,505,454
Income from operations			188,021			220,906
Gross payroll			124,445			95,431
Internal Social Indicators	**Amount R$ thousand**	**% of Gross payroll**	**% of net revenues**	**Amount R$ thousand**	**% of Gross payroll**	**% of net revenues**
Meals	6,454	5%	0%	4,727	5%	0%
Compulsory payroll related charges	26,922	22%	1%	22,042	23%	1%
Health care	4,210	3%	0%	2,889	3%	0%
Professional qualification and development	4,153	3%	0%	2,742	3%	0%
Day care center or child care allowance	154	0%	0%	125	0%	0%
Profit sharing	19,824	16%	1%	13,903	15%	1%
Other	3,120	3%	0%	2,805	3%	0%
Total - Internal social indicators	**64,837**	**52%**	**2%**	**49,233**	**52%**	**2%**
External Social Indicators	**Amount R$ thousand**	**% of income from operations**	**% of net revenues**	**Amount R$ thousand**	**% of income from operations**	**% of net revenues**
Education	25	0%	0%	15	0%	0%
Culture	1,112	0%	0%	732	0%	0%
Other	258	0%	0%	182	0%	0%
Total contributions to society	**1,395**	**1%**	**0%**	**929**	**0%**	**0%**
Taxes (excluding payroll related charges)	116,194	62%	6%	125,502	57%	8%
Total - External social indicators	**117,589**	**63%**	**6%**	**126,431**	**57%**	**8%**
Personnel indicators						
Headcount at end of period			3,195			2,692
Number of employees hired during the period			1,193			971
Number of outsourced employees			80			43
Number of interns			80			88
Number of employees above age 45			166			126
Number of women working in the Company			1,561			1,282
% of supervisory positions held by women			52.76%			51.76%
Number of blacks working in the Company			1,698			1,304
% of supervisory positions held by blacks			35.58%			26.76%
Number of persons with disability or special needs			63			69

	2008			Goals 2009		
Significant information regarding corporate citizenship						
Highest/lowest compensations ratio			43 (*)			43(*)
Total number of occupational accidents			23			-
- The social and environmental projects developed by the Company were established by	( ) directors	( ) directors and managers	(x) all employees	( ) directors	( ) directors and managers	(x) all employees
- The safety and health standads in the workplace were established by	( ) directors and managers	( ) all employees	(x) all+ CIPA (Internal Accident Prevention Commission)	( ) directors and managers	( ) all employees	(x) all+ CIPA
- Regarding union freedom, right to collective bargaining and internal workers representation, the Company	( ) is not involved	(x) follows the standards of the International Labor Organization (ILO)	( ) encourages and follows the standards of the ILO	( ) will not be involved	(x) will follow the standards of the ILO	( ) will encourage and follow the standards of the ILO
- The profit sharing plan covers	( ) directors	( ) directors and managers	(x) all employees	( ) directors	( ) directors and managers	(x) all employees
- in selecting suppliers, the same ethical, social responsibility and environmental standards adopted by the Company	(x) are not considered	( ) are suggested	( ) are required	(x) will not be considered	( ) will be suggested	( ) will be required
- As to the participation of employees in volunteer work programs, the Company	( ) is not involved	( ) supports	(x) organizes and encourages	( ) will not be involved	( ) will support	(x) will organize and encourage
- Total number of complaints and criticisms from consumers	In the Company (**)	In Procon 62	In court 590	In the Company (**)	In Procon None	In court None
- % of complaints and criticisms from consumers handled or solved	In the Company (**)	In Procon 62.9%	In court 55.4%	In the Company (**)	In Procon None	In court None

(*) Salaries earned at the head office (Belo Horizonte) were used to calculate the ratio between the highest and lowest compensation at the Company.

(**) The customer service area answers calls related to mechanical issues, accidents, doubts in relation to billing, as well as complements and complaints. The Company has no information on the number of calls related only to complaints.

Management recommends the reading of the report disclosing the results for 2008 and which has been filed with the CVM and is available on our website (www.localiza.com/ri); the disclosed financial information is based on the financial statements prepared in accordance with USGAAP as required by *New Market* rules.

(Convenience Translation into English from the Original Previously Issued in Portuguese)

Localiza Rent a Car S.A. and Subsidiaries

Financial Statements for the Years Ended December 31, 2008 and 2007 and Independent Auditors' Report

Deloitte Touche Tohmatsu Auditores Independentes

(Convenience Translation into English from the Original Previously Issued in Portuguese)

INDEPENDENT AUDITORS' REPORT

To the Shareholders and Board of Directors of
Localiza Rent a Car S.A.
Belo Horizonte - MG

1. We have audited the accompanying individual (Company) and consolidated balance sheets of Localiza Rent a Car S.A. and subsidiaries as of December 31, 2008 and 2007, and the related statements of income, changes in shareholders' equity (Company), cash flows, and value added for the years then ended, all expressed in Brazilian reais and prepared under the responsibility of the Company's Management. Our responsibility is to express an opinion on these financial statements.

2. Our audits were conducted in accordance with auditing standards in Brazil and comprised: (a) planning of the work, taking into consideration the significance of the balances, volume of transactions, and the accounting and internal control systems of the Company and its subsidiaries; (b) checking, on a test basis, the evidence and records that support the amounts and accounting information disclosed; and (c) evaluating the significant accounting practices and estimates adopted by Management, as well as the presentation of the financial statements taken as a whole.

3. In our opinion, the financial statements referred to in paragraph 1 present fairly, in all material respects, the individual and consolidated financial positions of Localiza Rent a Car S.A. and subsidiaries as of December 31, 2008 and 2007, and the results of their operations, the changes in their shareholders' equity (Company), their cash flows, and the values added in operations for the years then ended, in conformity with Brazilian accounting practices.

4. As mentioned in note 3 to the financial statements, in view of the changes in Brazilian accounting practices in 2008, the financial statements for the year ended December 31, 2007, presented for comparative purposes, have been adjusted and are being restated as prescribed by Accounting Standard and Procedure (NPC) 12 - Accounting Policies, Changes in Accounting Estimates and Errors, approved by CVM Resolution 506/06.

5. The accompanying financial statements have been translated into English for the convenience of readers outside Brazil.

Belo Horizonte, January 30, 2009

DELOITTE TOUCHE TOHMATSU
Auditores Independentes

Walmir Bolgheroni
Engagement Partner

(Convenience Translation into English from the Original Previously Issued in Portuguese)

LOCALIZA RENT A CAR S.A. AND SUBSIDIARIES

BALANCE SHEETS AS OF DECEMBER 31, 2008 AND 2007
(In thousands of Brazilian reais - R$)

ASSETS

		Company		Consolidated	
	Note	2008	2007	2008	2007
CURRENT ASSETS:					
Cash and cash equivalents	*5*	101,980	17,009	121,684	37,197
Marketable securities	*6*	8,248	152,025	8,248	152,326
Trade accounts receivable	*7*	135,904	111,864	169,881	144,191
Recoverable taxes		3,671	4,384	6,667	6,272
Dividends receivable	*10*	21,667	21,875	-	-
Other	*8*	19,653	37,083	20,359	3,067
TOTAL CURRENT ASSETS		291,123	344,240	326,839	343,053
NONCURRENT ASSETS:					
Long-term assets:					
Escrow deposits	*9*	7,898	8,159	9,224	9,964
Deferred income tax and social contribution	*17(a)*	8,494	9,170	9,391	10,026
Advances for future capital increase	*10(a)*	33,000	56,081	-	-
Other		220	154	84	71
Investments	*10*	414,982	345,156	-	-
Property and equipment	*11*	1,047,903	924,628	1,698,086	1,406,798
Intangible assets	*10(e)*	10,985	7,052	11,415	7,509
TOTAL NONCURRENT ASSETS		1,523,482	1,350,400	1,728,200	1,434,368
TOTAL ASSETS		1,814,605	1,694,640	2,055,039	1,777,421

The accompanying notes are an integral part of these financial statements.

(Convenience Translation into English from the Original Previously Issued in Portuguese)

LOCALIZA RENT A CAR S.A. AND SUBSIDIARIES

BALANCE SHEETS AS OF DECEMBER 31, 2008 AND 2007
(In thousands of Brazilian reais - R$)

LIABILITIES AND SHAREHOLDERS' EQUITY

		Company		Consolidated	
	Note	2008	2007	2008	2007
CURRENT LIABILITIES:					
Loans and financing	*12*	127,880	348,865	211,594	383,178
Interest on debentures	*12*	39,532	20,188	39,532	20,188
Trade accounts payable	*13*	14,798	180,086	23,614	212,841
Payroll and related charges	*14*	17,376	13,931	24,304	20,500
Dividends and interest on capital payable	*18(b) and (c)*	13,027	31,074	13,027	31,199
Other	*15*	26,919	23,455	33,203	32,867
TOTAL CURRENT LIABILITIES		239,532	617,599	345,274	700,773
NONCURRENT LIABILITIES:					
Long-term liabilities:					
Loans and financing	*12*	152,360	3,052	285,044	3,052
Debentures	*12*	848,252	548,227	848,252	548,227
Reserve for contingencies	*16(a)*	18,279	22,070	22,495	25,767
Accounts payable to subsidiary	*10(d)*	17,078	21,167	-	-
Deferred financing incentive and other	*21(a)*	1,848	2,464	16,718	19,458
TOTAL NONCURRENT LIABILITIES		1,037,817	596,980	1,172,509	596,504
MINORITY INTEREST		-	-	-	83
SHAREHOLDERS' EQUITY:	*18*				
Capital		300,000	199,585	300,000	199,585
Capital reserves		5,857	148,998	5,857	148,998
Legal reserve		33,080	26,225	33,080	26,225
Reserve for expansion		198,319	106,452	198,319	106,452
Accumulated losses (Effects of first-time adoption of Law 11638/07)	*3*	-	(1,199)	-	(1,199)
TOTAL SHAREHOLDERS' EQUITY		537,256	480,061	537,256	480,061
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		1,814,605	1,694,640	2,055,039	1,777,421

The accompanying notes are an integral part of these financial statements.

(Convenience Translation into English from the Original Previously Issued in Portuguese)

LOCALIZA RENT A CAR S.A. AND SUBSIDIARIES

STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007
(In thousands of Brazilian reais - R$, except earnings per share)

	Note	Company		Consolidated	
		2008	2007	2008	2007
GROSS REVENUE FROM RENTALS AND SALES		1,324,461	1,108,034	1,860,856	1,534,943
Deductions from gross revenue		(24,492)	(16,890)	(37,080)	(29,489)
Net revenue		1,299,969	1,091,144	1,823,776	1,505,454
COST OF RENTALS AND SALES		(982,504)	(808,718)	(1,340,929)	(1,078,447)
Gross profit		317,465	282,426	482,847	427,007
OPERATING EXPENSES					
Advertising and selling		(83,020)	(69,064)	(121,758)	(101,224)
General and administrative		(26,742)	(19,433)	(37,407)	(26,815)
Other operating expenses, net		(1,203)	(2,248)	(2,449)	(1,656)
Income from operations before financial items and equity in subsidiaries		206,500	191,681	321,233	297,312
Financial expenses, net	*19*	(121,472)	(78,850)	(133,212)	(76,406)
Equity in subsidiaries	*10*	69,896	73,130	-	-
Income before income tax and social contribution		154,924	185,961	188,021	220,906
INCOME TAX AND SOCIAL CONTRIBUTION					
Current		(23,373)	(28,799)	(52,761)	(63,296)
Deferred		5,556	(602)	1,416	(1,089)
	17 (b)	(17,817)	(29,401)	(51,345)	(64,385)
Income before minority interest		137,107	156,560	136,676	156,521
MINORITY INTEREST		-	-	(159)	(244)
NET INCOME		137,107	156,560	136,517	156,277
NUMBER OF SHARES OUTSTANDING AT YEAR END	*18 (a)*	197,481,700	201,708,000		
EARNINGS PER SHARE		R$0.69	R$0.78		

The accompanying notes are an integral part of these financial statements.

(Convenience Translation into English from the Original Previously Issued in Portuguese)

LOCALIZA RENT A CAR S.A.

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (COMPANY)
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007
(In thousands of Brazilian reais - R$)

	Capital reserves							Profit reserves			
	Capital	Options granted and recognized	Share premium	Treasury shares	Special goodwill reserve	Tax incentive	Revaluation reserve	Legal reserve	Reserve for expansion	Retained earnings	Total
BALANCES AS OF DECEMBER 31, 2006											
Originally reported	199,585	-	136,627		11,898	64	4,037	26,225	192	-	378,628
Realization of revaluation reserve	-	-	-	-	-	-	(4,037)	-	-	-	(4,037)
Balances as of December 31, 2006 - adjusted	199,585	-	136,627	-	11,898	64	-	26,225	192	-	374,591
Net income as reported	-	-	-	-	-	-	-	-	-	156,992	156,992
Effects of first-time adoption of Law 11638/07	-	409	-		-	-	-	-	-	(432)	(23)
Net income - adjusted										156,560	
Allocation of net income:											
Interest on capital (Note 18 (b))	-	-	-	-	-	-	-	-	-	(26,800)	(26,800)
Proposed dividends (R$0.12 per share) (Note 18 (c))	-	-	-	-	-	-	-	-	-	(24,699)	(24,699)
Recognition of reserve for expansion (Note 18 (f))	-	-	-	-	-	-	-	-	106,260	(106,260)	-
BALANCES AS OF DECEMBER 31, 2007	199,585	409	136,627	-	11,898	64	-	26,225	106,452	(1,199)	480,061
Capital increase using capital reserves (Note 18 (a))	100,415	-	(88,453)	-	(11,898)	(64)	-	-	-	-	-
Stock options (Note 18 (d))	-	900	-	-	-	-	-	-	-	-	900
Treasury shares (Note 18 (e))	-	-	-	(43,626)	-	-	-	-	-	-	(43,626)
Net income	-	-	-	-	-	-	-	-	-	137,107	137,107
Allocation of net income:											
Legal reserve (Note 18 (c))	-	-	-	-	-	-	-	6,855	-	(6,855)	-
Interest on capital (Note 18 (b))	-	-	-	-	-	-	-	-	-	(31,603)	(31,603)
Proposed dividends (R$0.03 per share) (Note 18 (c))	-	-	-	-	-	-	-	-	-	(5,583)	(5,583)
Recognition of reserve for expansion (Note 18 (f))	-	-	-	-	-	-	-	-	91,867	(91,867)	-
BALANCES AS OF DECEMBER 31, 2008	300,000	1,309	48,174	(43,626)	-	-	-	33,080	198,319	-	537,256

The accompanying notes are an integral part of these financial statements.

(Convenience Translation into English from the Original Previously Issued in Portuguese)

LOCALIZA RENT A CAR S.A. AND SUBSIDIARIES

STATEMENTS OF CASH FLOW
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007
(In thousands of Brazilian reais - R$)

	Company		Consolidated	
	2008	2007	2008	2007
CASH FLOW FROM OPERATING ACTIVITIES:				
Net income	137,107	156,560	136,517	156,277
Adjustments to reconcile income to cash and cash equivalents provided operating activities:				
Depreciation and amortization	231,903	159,947	379,852	271,526
Net book value of property and equipment written off	552,126	496,441	700,178	607,845
(Recognition) reversal of deferred tax assets	(5,556)	602	(1,416)	1,089
Recognition of provision for doubtful accounts	984	449	863	143
Recognition (reversal) of reserve for contingencies (principal and charges)	(3,409)	(5,367)	(2,314)	(5,951)
Equity in subsidiaries	(69,896)	(73,130)	-	-
Stock option plan	900	409	1,490	692
Other	-	3	141	247
(Increase) Decrease in operating assets				
Trade accounts receivable	(25,024)	(7,137)	(26,553)	(9,548)
Escrow deposits	250	(1,300)	605	(1,857)
Recoverable taxes	(3,228)	1,917	(4,886)	989
Interest on marketable securities	(6,210)	(15,558)	(5,909)	(15,733)
Other	28,063	(12,086)	(7,121)	(1,408)
Increase (decrease) in operating liabilities				
Trade accounts payable	(165,288)	(50,403)	(189,227)	(51,315)
Payroll and related charges	3,445	(2,613)	3,804	(1,904)
Taxes, other than on income	(5,651)	11,243	(10,486)	16,130
Interest on loans, financing and other liabilities	(6,867)	26,295	5,419	21,282
Deferred financing incentive	(616)	3,080	(2,740)	952
Other	2,750	5,199	358	(625)
Net cash provided by operating activities	665,783	694,551	978,575	988,831
CASH FLOWS USED IN INVESTING ACTIVITIES:				
Marketable securities:				
- Purchases	(47,569)	(44,380)	(47,569)	(46,380)
- Proceeds from sales	197,556	37,645	197,556	41,846
Revenue-earning vehicles				
- New acquisitions	(880,008)	(750,718)	(1,335,315)	(1,060,854)
Additions to other property and equipment, net	(34,898)	(23,576)	(34,991)	(24,045)
Acquisition of minority interests in subsidiaries	(4,918)	-	(4,918)	-
Capital increase in subsidiaries	(3,867)	(142)	-	-
Advances for future capital increase	(33,000)	(6,040)	-	-
Loans to subsidiary	(52)	(64)	-	-
Dividends from subsidiaries	71,006	1,110	-	-
Other	-	(882)	-	(882)
Net cash used in investing activities	(735,750)	(787,047)	(1,225,237)	(1,090,315)

	Company		Consolidated	
	2008	2007	2008	2007
CASH FLOWS FROM FINANCING ACTIVITIES:				
Loans and financing:				
- Proceeds	1,418,921	1,191,380	1,692,147	1,366,547
- Repayment of principal	(1,456,609)	(1,071,592)	(1,562,367)	(1,232,836)
Debentures:				
- Proceeds	300,000	200,000	300,000	200,000
Treasury shares	(43,626)	-	(43,626)	-
Dividends	(24,699)	(196,637)	(24,699)	(196,637)
Interest on capital	(30,306)	(28,498)	(30,306)	(28,498)
Transactions with related parties:				
- Repayment of principal	(8,743)	(850)	-	-
Net cash provided by financing activities	154,938	93,803	331,149	108,576
Cash provided during the year	84,971	1,307	84,487	7,092
Increase in cash and cash equivalents				
Balances at beginning of year	17,009	15,702	37,197	30,105
Balances at end of year	101,980	17,009	121,684	37,197
	84,971	1,307	84,487	7,092

Supplemental disclosures of cash flow information:

	Company		Consolidated	
	2008	2007	2008	2007
Cash paid during the year for:				
Interest	104,264	66,793	106,414	68,906
Income tax and social contribution	26,990	17,922	60,969	47,118
	131,254	84,715	167,383	116,024

The accompanying notes are an integral part of these financial statements.

(Convenience Translation into English from the Original Previously Issued in Portuguese)

LOCALIZA RENT A CAR S.A. AND SUBSIDIARIES

STATEMENTS OF VALUE ADDED
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007
(In thousands of Brazilian reais - R$)

	Company				Consolidated			
	2008	%	2007	%	2008	%	2007	%
Gross revenue less discounts	1,317,989		1,104,755		1,853,503		1,529,382	
Other revenues	4,093		3,592		4,399		5,602	
Revenues from construction of own assets	2,216		6,455		2,247		6,716	
Costs and expenses acquired from third parties	(698,685)		(619,945)		(906,080)		(775,815)	
Gross value added	625,613		494,857		954,069		765,885	
Retentions								
Depreciation and amortization	(231,903)		(159,947)		(379,852)		(271,526)	
Net value added	393,710		334,910		574,217		494,359	
Value added received in transfer								
Interest income	20,638		18,618		28,575		25,452	
Equity in subsidiaries	69,896		73,130		-		-	
	90,534		91,748		28,575		25,452	
Value added for distribution	484,244	100%	426,658	100%	602,792	100%	519,811	100%
Distribution of value added								
Government and community								
Federal	54,299	11%	67,311	16%	106,273	18%	119,891	23%
State	19,445	4%	15,170	4%	30,018	5%	23,424	5%
Municipal	1,670	0%	1,436	0%	2,502	0%	2,486	0%
Employees								
Direct compensation	74,178	16%	52,114	12%	103,340	17%	76,402	15%
Benefits	10,739	2%	8,404	2%	13,940	2%	10,681	2%
Severance Pay Fund (FGTS)	4,518	1%	3,611	1%	6,462	1%	5,402	1%
Stock option plan	900	0%	409	0%	1,490	0%	692	0%
Payments to third parties								
Interest	142,110	29%	91,265	21%	161,787	27%	93,647	18%
Rents for real estate and other	39,278	8%	30,378	7%	40,463	7%	30,909	6%
Payments to shareholders:								
Interest on capital	31,603	7%	26,800	6%	31,603	5%	26,800	5%
Dividends	5,583	1%	24,699	6%	5,583	1%	24,699	5%
Retained earnings	99,921	21%	105,061	25%	99,331	17%	104,778	20%
Total distributed and retained	484,244	100%	426,658	100%	602,792	100%	519,811	100%

The accompanying notes are an integral part of these financial statements.

1. OPERATIONS

Localiza Rent a Car S.A. ("Localiza" or the "Company") has been a publicly-traded corporation since May 2005 and is registered with the São Paulo Stock Exchange in the New Market segment, which represents the highest Corporate Governance level in the Brazilian capital market, traded under the symbol RENT3.

The Company and its subsidiaries operate in the following business segments: car rental, fleet rental, and franchising. As part of its fleet renewal program, the Company and its subsidiary Total Fleet sell used vehicles.

As of December 31, 2008, the Localiza network, including domestic and foreign franchisees, is comprised of (unaudited) 346 branches in 246 cities in Brazil and 76 branches in 48 cities in 8 other countries in Latin America. From the 346 branches in Brazil, 199 are operated by Localiza and the remainder by franchisees.

The Company's franchise system in Brazil is managed by the subsidiary Localiza Franchising Brasil S.A. - "Franchising Brasil", and in other Latin American countries by the subsidiary Localiza Franchising Internacional S.A. - "Franchising Internacional" and its subsidiary Localiza Franchising International S.R.L. - "LFI", based in Argentina.

As of December 31, 2008, Localiza network fleet consisted of (unaudited) 72,041 vehicles, of which 62,515 were owned by the Company, including 23,403 in the fleet rental segment, 6,945 of which owned by Brazilian franchisees and the remainder by foreign franchisees. The Company replaces its car rental fleet after its useful life, which is 12 months or more. A significant portion is sold to final consumers through 35 used car points of sale located in 18 Brazilian cities.

The fleet rental division, operated by the subsidiary Total Fleet, rents fleets for periods of 1 to 4 years. The cars are sold as they are returned from customers. The contracts may be terminated upon a 90-day prior notice and payment of contractual fines up to 40% of remaining installments, depending on the contract periods and renewal clauses. The fleet rental may include preventive and corrective maintenance, replacement of cars and others, according to the arrangement with the customer. Total Fleet provides technical assistance and maintenance throughout Brazil through a network of outsourced service providers.

2. SIGNIFICANT ACCOUNTING PRACTICES

The following significant accounting practices were applied:

(a) Cash and cash equivalents - Stated at the invested amount, plus income earned through the balance sheet date, when applicable.

(b) Marketable securities - Amounts invested in investment funds are stated at fair value based upon the value of the funds' shares, as determined by the investment fund managers.

(c) Allowance for doubtful accounts - Recognized based on an individual analysis of receivables, in an amount considered sufficient by Management to cover probable losses on their collection, taking into consideration past experience, the current financial situation of the Companies' and its subsidiaries' customers, and past-due accounts.

(d) Escrow deposits - Recorded in long-term assets and, for reporting purposes, reclassified to liabilities as a reduction of the account "reserve for contingencies", as applicable, as provided for in CVM Resolution No. 489/05.

(e) Investments - Investments in subsidiaries are accounted for under the equity method.

(f) Property and equipment - Stated at cost, inflation adjusted through December 31, 1995 and depreciated under the straight-line method at the annual rates described in Note 11. Leasehold improvements are amortized over the lease period. Vehicles are classified under property and equipment.

The Company periodically tests its property and equipment for impairment. A fixed asset is considered eligible for adjustment for impairment loss when its carrying amount exceeds its recoverable value. No impairment losses were recognized for 2008 and 2007.

(g) Intangible assets - include software licenses and goodwill on acquisition of investments. These assets are sated at acquisition cost, less accumulated amortization and impairment losses, when applicable.

(h) Indemnities and claims - The Company and its subsidiary Total Fleet recognize a reserve for potential indemnities arising from accidents caused by cars rented to customers, based on the opinion of their legal counsel. The Company and its subsidiary Total Fleet do not contract risk insurance coverage involving collision damage and vehicle theft, These losses are recorded when incurred.

(i) Income tax and social contribution - Recorded in income on the accrual basis, calculated based on prevailing tax legislation. When realization is expected, the Company and its subsidiaries recognize deferred tax credits on tax loss carry forwards and temporary differences, to be offset against future income.

(j) Derivative financial instruments - The Company recognizes its derivatives in the balance sheets at their fair value and any changes in fair value are recorded under the caption "financial income or expenses".

(k) Assets and liabilities in foreign currencies or subject to inflation adjustment - Assets and liabilities in foreign currencies are translated into Brazilian reais at the exchange rate reported by the Central Bank of Brazil at the balance sheet dates. Assets and liabilities in Brazilian reais and subject to contractual or legal indexation are inflation adjusted through the balance sheet dates by applying the related index. Gains and losses arising from exchange rate change and inflation adjustment are recognized in income on a current basis.

(l) Earnings per share - Calculated based on the number of shares outstanding at the balance sheet date. In 2008, the calculation is based on the number of outstanding shares, excluding treasury shares, as mentioned in Note 18(e).

(m) Interest on capital - Interest paid to shareholders, calculated in accordance with Law 9249/95, is recorded in income under financial expenses, as required by tax legislation. For financial reporting purpose, interest paid is stated as a charge to retained earnings and interest received as a credit to investments.

(n) Stock option program - The Company recognizes remuneration costs under the straight- line method over the vesting period. These remuneration costs are measured at their fair value when share purchase options are granted and were estimated using the Black Scholes Model for valuing options.

(o) Use of estimates - The preparation of financial statements requires Management to make estimates and assumptions that, in its best judgment, affect the reported amounts of assets and liabilities, as well as the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

(p) Revenues and expenses - Revenues from vehicle rentals are recognized as earned on a daily basis under the related rental contracts with customers. Revenues from fleet rentals are recognized as earned on a monthly basis over the term of the lease. Revenues from used car sales are recognized when the vehicles are sold. Revenues from franchise fees are generally based on a percentage of franchisee rental revenue and are recognized as earned on a monthly basis. Expenses, including vehicle maintenance and repairs, are recorded as incurred. Revenues and expenses previously presented as nonoperating income and expenses are now presented in the operating group, as required by Provisional Act 449/08.

3. PRESENTATION OF FINANCIAL STATEMENTS

The financial statements have been prepared and are presented in conformity with Brazilian accounting practices, which comprise the Brazilian corporate law, pronouncements, guidances, and interpretations issued by the Accounting Pronouncements Committee (CPC) and standards from the Brazilian Securities and Exchange Commission (CVM).

In 2008, Law 11638/07 and the changes introduced by Provisional Act 449, dated December 3, 2008, went into effect, changing, revoking and adding new provisions to the Brazilian Corporate law, especially with respect to chapter XV, Fiscal Year and Financial Statements. This new law was designed primarily to update accounting practices as contemplated in Brazilian Corporate Law so as to enable the convergence of Brazilian accounting practices with international financial reporting standards (IFRS). The Law also allows the Brazilian Securities and Exchange Commission (CVM) to issue new accounting standards and procedures in conformity with such international accounting standards.

As part of the process of convergence of international financial reporting standards (IFRS) and regulation of accounting practices that were changed by Law 11638/07 and Provisional Act 449/08, pronouncements and technical guidances were enacted, with application mandatory for the year ended on or after December 31, 2008. We highlight below the main pronouncements that impacted the Company´s financial statements and notes to financial statements:

- CPC 01 (CVM Resolution 527/08) - Impairment of Assets - The Company assessed its assets for impairment and concluded that no adjustment was required.

- CPC 02 (CVM Resolution 534/08) - Effects of Exchange Rate Changes and Translation of Financial Statements - The Company defined the Brazilian real as its functional currency and properly recorded its transactions in foreign currency.

- CPC 03 (CVM Resolution 547/08) - Statement of Cash Flows - The Company presented comparative cash flows for 2008 and 2007.

- CPC 04 (CVM Resolution 553/08) - Intangible Assets - The Company transferred to intangible assets its software and goodwill based on expected future earnings. See Note 10 (e).

- CPC 05 (CVM Resolution 560/08) - Related Party Disclosures - The Company disclosed the balances and transactions with related parties as required by this Pronouncement. See Note 10.

- CPC 06 (CVM Resolution 554/08) - Leases - The Company concluded that there are no adjustments to be made since it does not have any finance lease agreements. The Company has an operating lease for an aircraft. See Note 21 (a).

- CPC 08 (CVM Resolution 556/08) - Transaction Costs and Premiums on the Issue of Securities - The Company reclassified borrowing costs to liabilities, as a reduction of the related loans, and recalculated and disclosed their internal rate of return. See Note 12.

- CPC 09 (CVM Resolution 557/08) - Statement of Value Added - The Company presented a comparative Statement of Value Added for 2008 and 2007.

- CPC 10 (CVM Resolution 562/08) - Share-Based Payments - The Company recorded the costs with share-based payment programs in its income statement and made the required disclosures. See Note 18 (d).

- CPC 12 (CVM Resolution 564/08) - Adjustment to Present Value - The Company concluded that it was not applicable since long-term assets are not subject to adjustment and short-term impacts are not material.

- CPC 13 (CVM Resolution 565/08) - First-Time Adoption of Law 11638/07 - The Company made the required adjustments and chose to prepare its opening balance sheet with a transition date as of January 1st, 2007, as shown below.

- CPC 14 (CVM Resolution 566/08) - Financial Instruments: Recognition, Measurement and Disclosure, together with CVM Instruction 475/08 - The Company adjusted swap transactions to their fair value and disclosed all information related to financial instruments, including the table showing the sensitivity analysis. See Notes 12 and 20.

The financial statements for the year ended December 31, 2008 are the first presented with the changes introduced by this new law. In conformity with CVM Resolution 506/06, for purposes of comparability of financial statements, the effects of the first-time adoption of this new law have been reflected in the financial statements for the prior period herein disclosed.

The effects of the first-time adoption of Law 11638/07 are as follows:

	Shareholders' Equity	Profit and loss		Shareholders'Equity	
		Company	Consolidated	Company	Consolidated
	12.31.06	12.31.07	12.31.07	12.31.07	12.31.07
Revaluation reserve - land (*)	(4,037)	767	767	(3,270)	(3,270)
Stock options (*)	-	(409)	(692)	-	-
Fair value of financial instruments (*)	-	(790)	(790)	(790)	(790)
Net effect	(4,037)	(432)	(715)	(4,060)	(4,060)

(*) These adjustments had as contra entries the captions "property and equipment", "options granted and recognized" (shareholders´ equity), and "loans and financing", respectively.

4. CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements have been prepared in conformity with the accounting practices described in Note 2, and include the accounts of the Company, Localiza, and the direct and indirect subsidiaries based in Brazil and abroad, listed in Note 10.

In consolidation, the Company's equity in subsidiaries, as well as intercompany balances, transactions and unrealized profits, have been eliminated.

The Company invests a substantial portion of its investments in investment funds, seeking a higher return on the money invested (see Note 6). The exclusive investment funds, managed by independent managers, are considered as special purpose entities ("SPEs"), since the Company holds control over its operations, as well as takes a majority share of their risks and returns. In accordance with CVM Instruction No. 408/04, the Company consolidated the investment funds for the years ended December 31, 2008 and 2007, showing the balances invested in exclusive investment funds segregated by nature of investments included in the funds' equity.

The reconciliation of Company and consolidated income is as follows:

	12.31.08	12.31.07
Net income - Company	137,107	156,560
Expenses related to stock option plan granted to employees of subsidiaries	(590)	(283)
Net income - Consolidated	136,517	156,277

5. CASH AND CASH EQUIVALENTS

	Company		Consolidated	
	2008	2007	2008	2007
Cash and banks	19,652	15,697	33,483	24,163
Bank certificates of deposit - CDB	30	1,312	910	13,034
Debentures subject to resale commitments	82,298	-	87,291	-
	101,980	17,009	121,684	37,197

CDBs and debentures subject to resale commitments have an average yield of 103.8% based on the variation of CDI (interbank deposit rate) and are highly liquid.

6. MARKETABLE SECURITIES

	Company		Consolidated	
	2008	2007	2008	2007
Exclusive investment funds quotas	8,248	152,025	-	-
Balanced fund quotas	-	-	3,630	53,974
Fund quotas referenced to the DI (interbank deposit rate)	-	-	298	63,165
Federal government fixed-rate securities	-	-	-	17,818
Resale/repurchase commitments	-	-	-	5,490
Other	-	-	4,320	11,879
	8,248	152,025	8,248	152,326

Marketable securities are managed by one independent manager not related to financial institutions, through one exclusive investment fund of Localiza. The purpose is to obtain a yield equivalent to the Company's funding cost.

Investments in marketable securities are stated at their fair value as of December 31, 2008. As part of the strategy of settling investments of this kind, a request for redemption of the balance as of December 31, 2008 was made and investments were substantially settled in January 2009.

Exclusive funds have a provision for withholding income tax at a 15% rate since they are considered long-term funds. Should these investments be redeemed before 720 days from the investment, the withholding income tax will be levied at the rates between 17.5% and 22.5%, according to the investment period.

7. TRADE ACCOUNTS RECEIVABLE

	Company		Consolidated	
	2008	2007	2008	2007
Car and fleet rentals	115,696	95,839	140,787	119,540
Used car sales	24,541	19,374	33,498	28,679
Royalties and other	-	-	1,945	1,474
	140,237	115,213	176,230	149,693
Allowance for doubtful accounts	(4,333)	(3,349)	(6,349)	(5,502)
	135,904	111,864	169,881	144,191

The Company mitigates its credit risk as it significantly operates with credit cards in the car rental business, and with finance and/or lease companies in the sale of used cars. The credit risk is reduced through an established credit and collection policy.

As of December 31, 2008, the accounts receivable aging, net of amounts received, is as follows:

	Consolidated			
	Car and fleet rentals	Used car sales	Royalties and other	Total
Undue	115,053	31,377	1,855	148,285
Up to 60 days past-due	13,946	1,299	17	15,262
From 61 to 90 days past-due	1,669	134	-	1,803
From 91to 180 days past-due	3,568	26	46	3,640
From 181 to 360 days past-due	1,883	111	27	2,021
Over 361 days past-due	4,668	551	-	5,219
Total	140,787	33,498	1,945	176,230

8. OTHER CURRENT ASSETS

	Company		Consolidated	
	2008	2007	2008	2007
Deferred income tax and social contribution (Note 17 (a))	14,496	776	16,684	1,758
Other receivables from subsidiaries (Note 10)	2,602	35,205	-	-
Prepaid expenses	1,150	928	1,150	928
Other	1,405	174	2,525	381
	19,653	37,083	20,359	3,067

9. ESCROW DEPOSITS

	Company		Consolidated	
	2008	2007	2008	2007
Income tax and social contribution	3,689	3,512	3,689	3,512
Social security litigation	3,064	2,836	3,064	2,836
Other	1,145	1,811	2,471	3,616
	7,898	8,159	9,224	9,964

The escrow deposits above refer primarily to appeal deposits, with no direct corresponding relation to the reserve for contingencies.

10. INVESTMENTS

The Company´s business is car rental and management of equity investments in Brazil and abroad. The Company has the following direct subsidiaries:

Total Fleet: Total Fleet is a privately-held corporation through which the Company conducts its fleet rental business.

Franchising Internacional (Brazil) and Franchising International (Argentina): Franchising

Internacional and Franchising International are privately-held corporations through which the Company conducts it international franchise business.

Franchising Brasil: Franchising Brasil is a privately-held corporation through which the Company conducts its franchise business in Brazil.

Prime: Prime is a privately-held corporation through which the Company conducts its used car sales intermediation business for cars previously used by Localiza and Total Fleet.

Car Rental: Car Rental is a privately-held corporation through which the Company carries out part of its car rental activities.

Rental International: Rental International is a wholly-owned subsidiary of the Company through which it carries out international financial activities.

		Ownership interest					
	Number of shares	In capital (%)		In shareholders' equity		In income	
	in 2007 and 2008	2008	2007	2008	2007	2008 (***)	2007 (***)
Direct subsidiaries:							
Total Fleet	103,280,354	100.0	100.0	410,253	340,088	60,209	62,510
Franchising Brasil	399,069	100.0	92.5	564	(**) 1,186	(**) 4,638	(**) 3,373
Franchising Internacional	616,254	100.0	92.5	-	-	(**) (368)	(**) (459)
Prime	15,000	100.0	100.0	-	-	(1,812)	1,765
Car Rental	1,339,961	100.0	100.0	4,165	3,882	6,689	5,723
Rental International	1,000	100.0	100.0	-	-	(50)	(65)
Indirect subsidiary:							
LFI	25,000	100.0	87.8	(*) 226	(*) 68	(*) 19	(*) 326

(*) Equivalent to 100% LFI amounts.
(**) Amount corresponding to Localiza's ownership interest, without minority interest.
(***) The sum of interests in the income of subsidiaries is different from the equity in subsidiaries due to expenses related to the stock option plan granted to employees of subsidiaries, as shown in Note 4.

Changes in investments in subsidiaries are summarized as follows:

	Company	
	2008	2007
Balance at beginning of year	345,156	288,198
Capital increase in subsidiaries	68,535	18,117
Acquisition of minority interests in subsidiaries	82	-
Capital reduction through partial spin-off followed by merger of subsidiaries	-	(9,727)
Equity in subsidiaries	69,896	73,130
Dividends received and receivable	(70,798)	(22,985)
Reversal of shareholders' deficit of subsidiary recorded in prior year	-	(3,890)
Reclassification of shareholders' deficit of subsidiary to current liabilities	2,111	2,313
Balance at end of year	414,982	345,156

As of December 31, 2008 and 2007, the summary of the subsidiaries' main balance sheet and statement of income accounts is as follows:

	Assets							
	2008				2007			
		Noncurrent				Noncurrent		
	Current assets	Long-term assets	Permanent assets	Total	Current assets	Long-term assets	Permanent assets	Total
Total Fleet	43,637	1,251	649,983	694,871	39,170	1,798	481,885	522,853
Franchising Brasil	7,420	665	586	8,671	6,560	804	694	8,058
Franchising Internacional	1,538	1	44	1,583	1,030	29	48	1,107
Prime (see (d))	2,862	17,385	-	20,247	1,904	21,473	-	23,377
Car Rental	9,265	-	-	9,265	11,718	-	-	11,718
Rental International	38	-	-	38	22	-	-	22

	Liabilities and shareholders' equity							
	2008				2007			
	Current liabilities	Noncurrent liabilities	Shareholders' equity	Total	Current liabilities	Noncurrent liabilities	Shareholders' equity	Total
Total Fleet	117,136	167,482	410,253	694,871	125,125	57,640	340,088	522,853
Franchising Brasil	6,761	1,346	564	8,671	5,567	1,209	1,282	8,058
Franchising Internacional	2,085	-	(502)	1,583	1,232	62	(187)	1,107
Prime (see (d))	8,131	15,942	(3,826)	20,247	7,606	17,862	(2,091)	23,377
Car Rental	5,100	-	4,165	9,265	7,836	-	3,882	11,718
Rental International	-	137	(99)	38	-	70	(48)	22

	Statement of income							
	2008				2007			
	Net revenue	Gross profit	Income (loss) from operations	Net income	Net revenue	Gross profit	Income (loss) from operations	Net income
Total Fleet	490,662	133,888	90,638	60,209	382,831	114,634	94,295	62,510
Franchising Brasil	7,980	6,155	5,828	4,801	6,141	4,765	4,365	3,648
Franchising Internacional	1,366	(604)	(621)	(372)	1,109	(157)	(433)	(493)
Prime	16,976	(6,473)	(1,813)	(1,812)	18,066	(3,082)	2,248	1,765
Car Rental	19,927	8,737	9,023	6,689	16,391	7,301	7,734	5,723
Rental International	-	(50)	(50)	(50)	-	(65)	(65)	(65)

The principal related-party balances and transactions are summarized as follows:

	Total Fleet		Prime		Other	
	2008	2007	2008	2007	2008	2007
Balances:						
Trade accounts receivable	348	219	-	-	827	1,678
Other receivables - current and noncurrent	226	33,788	2,305	1,315	71	102
Trade accounts payable and other payables	-	839	17,078	21,242	2,034	472
Transactions:						
Car rental revenue	1,999	1,313	-	-	11,781	8,770
Recovery of direct cost	(916)	(664)	-	-	(1,131)	(528)
Recovery of advertising and selling expenses	(7,370)	(4,419)	-	-	-	-
Recovery of administrative expenses	(8,866)	(5,913)	-	-	-	-

Intercompany guarantees refer to guarantees for loans and financing in the amount of R$372,108 (R$124,997 as of December 31, 2007) and are provided between Localiza and Total Fleet. There are also intercompany guarantees in contracting of bank letters of guarantee for lawsuits in the amount of R$9,390 (R$10,013 as of December 31, 2007). See more details in Notes 12 and 16.

Intercompany receivables and payables, except for the intercompany loan between Prime and Localiza (see item (d) below), do not have defined terms for receiving and settlement and are conditioned to the maximization of the companies' cash flows.

(a) Total Fleet

Total Fleet uses the Company's administrative structure. The respective amounts are charged regularly by Localiza. As of December 31, 2008, Total Fleet's accounts payable from such transactions amount to R$226 (R$33,788 as of December 31, 2007).

The Annual Shareholders' Meeting held on April 28, 2008 approved the allocation of the net income for 2007, adjusted as provided for by Brazilian corporate law, for payment of dividends in the amount of R$59,570, of which R$14,893 had already been proposed on December 31, 2007. In the second quarter of 2008, the total amount approved was fully settled.

The Extraordinary Shareholders' Meeting of August 22, 2008 approved a capital increase of R$58,535, without the issuance of new shares, R$56,081 of which as an advance for future capital increase and R$2,454 in cash.

At the Extraordinary Shareholders' Meeting held on November 17, 2008, shareholders approved a capital increase and contribution in Total Fleet by Localiza, in the amount of R$10,000, without the issuance of new shares, R$1,413 of which in cash and R$8,587 by transferring 332 cars to Total Fleet's fixed assets at their acquisition cost, according to a list properly filed at the Company´s headquarters. As a result of this increase, Total Fleet's capital rose to R$220,000.

As of December 31, 2008, Total Fleet has recorded a total of R$33,000 related to advances for future capital increase made by its parent company. These advances were made for the purpose of allowing Total Fleet to expand its fleet.

On December 31, 2008, Management proposed for approval at the Annual Shareholders' Meeting to be held in 2009 the allocation of 25% of the annual net income for payment of dividends in the amount of R$14,300. Management also proposed the allocation of the retained earnings balance, in the amount of R$124,550, to the reserve for expansion for the purpose of assuring funds for additional investments in operating assets as set forth in the Company´s by-laws.

(b) Franchising Brasil

The Annual and Extraordinary Shareholders' Meeting held on February 15, 2008 approved the allocation of net income for 2007, adjusted as provided for by Brazilian Corporate law, for the payment of dividends in the amount of R$2,871, including the advance payment of R$1,200, proposed by the Extraordinary Shareholders' Meeting held on July 23, 2007. The payment of dividends in the amount of R$1,671 occurred on February 15, 2008.

The Extraordinary Shareholders' Meetings held on April 30, 2008 and July 31, 2008 approved the advance payment of dividends for 2008, in the amounts of R$900 and R$1,278, calculated based on March 31, 2008 and June 30, 2008 financial statements, the payments of which occurred on May 2, 2008 and August 8, 2008, respectively.

As of December 31, 2008, the Executive Board proposed the payment of additional dividends on the 2008 income, in the amount of R$2,623, to be submitted for approval at the Shareholders' Meeting to be held in 2009. On the same date, the Executive Board proposed the distribution of the remaining balance of retained earnings from prior years, in the amount of R$776.

(c) Car Rental

The Annual Shareholders' Meeting held on April 28, 2008 approved the proposal for allocation of net income for 2007, in the amount of R$5,436, for the payment of dividends. The payment occurred in April 2008.

The Extraordinary Shareholders' Meeting held on June 6, 2008 approved the advance payment of dividends for 2008, in the amount of R$2,439, calculated based on May 30, 2008 financial statements, the payment of which occurred in June 2008.

On December 31, 2008, Management proposed for approval at the Shareholders' Meeting the distribution of income, adjusted as required by law, in the total amount of R$3,968, net of advances.

(d) Prime

A loan agreement was signed on October 5, 2006, with subsequent amendments thereto, between Prime and Localiza, whereby Prime transferred to the Parent company the total amount of R$16,785. The agreement has duration of 2 years, automatically renewable, and adjusted on a pro rata basis according to the CDI variation plus 1% per month, Interest will be paid together with the principal. As of December 31, 2008, the balance of this operation is R$17,078 (R$21,167 as of December 31, 2007), recorded in noncurrent liabilities.

(e) Acquisition of minority interests in subsidiaries

At a Board of Directors' meeting held on July 30, 2008, the acquisition of minority interests in subsidiaries Franchising Brasil, Franchising Internacional, and LFI by Localiza for R$5,000 was approved. These companies became wholly-owned subsidiaries of Localiza and a goodwill of R$4,918 was recognized based on expected future earnings, which was being amortized over five years. Goodwill was allocated to the car rental business unit, which requires that the Company assess goodwill for impairment annually or more frequently should circumstances indicate that an impairment has occurred. In 2008, the Company assessed goodwill for impairment and concluded that there are no losses to be recorded. The unamortized goodwill balance as of December 31, 2008 was R$4,508, recorded under "intangible assets", together with intangible assets related to "software", the unamortized consolidated balance of which was R$6,907. As required to comply with Law 11638/07 and Provisional Act 449/08, software and goodwill previously classified in property and equipment and deferred charges, respectively, were reclassified to intangible assets.

(f) Assignment of rights and obligations

On March 14, 2005, the Company, Total Fleet and Prime, as assignors, and Locapar, a company controlled by the Founders, as assignee, entered into an agreement pursuant to which the assignors assigned and transferred to Locapar all rights arising from tax and social security

lawsuits in which the assignors are plaintiffs. The amount involved was R$235,900 (unaudited) as of March 14, 2005. Therefore, Locapar assumed all pecuniary obligations arising from lawsuits, including attorney fees, inflation adjustment or revision, expenses, court fees, escrow deposits, fines and other penalties. The assignors undertook to carry on lawsuits, providing to the lawyers all relevant documents and information to conduct the lawsuits and obtain final favorable decisions.

In addition, considering the interest in using credits, the assignors assumed the commitment to use credits obtained in lawsuits to offset them against tax obligations and to subsequently pass on to the assignee the amounts corresponding to the benefit obtained in the offset, less an administrative fee of 3% of the amount of rights obtained in lawsuits that were actually received or used through offset against tax obligations.

On May 20, 2005, Locapar assigned a substantial portion of the rights to the founding shareholders, who assumed all the pecuniary obligations mentioned above.

On February 17, 2006, Localiza and its subsidiaries received a final and unappealable favorable judgment in the lawsuit concerning COFINS on other revenues, as determined by Law 9718/98, being entitled to utilize credits of approximately R$9,700. The remaining balance payable as of December 31, 2008 and 2007 is R$525, recorded under the caption “other” in current liabilities.

(g) Compensation of key management personnel

Compensation of key management personnel was as follows:

	Company		Consolidated	
	2008	2007	2008	2007
Compensation of Board of Directors members	625	800	625	800
Compensation of Management and Executive Board members	9,088	5,660	10,729	6,512
Payroll charges	1,596	1,169	1,837	1,355
Share-based compensation	686	313	785	351
	11,995	7,942	13,976	9,018

The Company does not provide post-employment, contract termination, or other long-term benefits to Management or other employees.

In 2008, immaterial transactions were entered into between the Company and key management personnel related to rental and sale of cars, under the same conditions granted to other Company employees. All these transactions were settled in full at maturity and no allowance for losses was recorded.

One of the controlling shareholders that was part of the Company’s board until July 2008 rendered consulting services after termination, receiving R$60.
In 2008 Localiza took over car rental operations in ten cities where business had been conducted under franchise and paid an indemnity of R$424 to the minority shareholder of Franchising Brasil. Localiza subsequently acquired the ownership interest held by this minority shareholder in Franchising Brasil, International and LFI (see item “e” above), who continued holding the position of vice president of Franchising Brasil.

11. PROPERTY AND EQUIPMENT

	Company				Consolidated				
	2008			2007	2008			2007	
	Cost	Accumulated depreciation	Net	Net	Cost	Accumulated depreciation	Net	Net	Annual depreciation rates
Vehicles	1,125,100	(161,716)	963,384	856,734	1,967,740	(355,467)	1,612,273	1,337,298	20%
Real properties	1,673	(379)	1,294	1,340	1,673	(379)	1,294	1,340	4%
Land	16,501	-	16,501	680	16,501	-	16,501	680	-
Leasehold improvements	60,369	(21,307)	39,062	34,878	60,369	(21,307)	39,062	34,878	31% (*)
IT equipment	13,717	(7,157)	6,560	7,163	14,325	(7,453)	6,872	7,461	20%
Furniture and fixtures	19,573	(5,840)	13,733	12,544	20,760	(6,268)	14,492	13,397	10%
Machinery and equipment	5,158	(1,914)	3,244	3,145	5,243	(1,935)	3,308	3,217	10%
Property and equipment in progress	2,215	-	2,215	6,456	2,246	-	2,246	6,717	-
Telephony systems	2,802	(894)	1,908	1,686	2,887	(955)	1,932	1,717	10%
Other	9	(7)	2	2	124	(18)	106	93	10% - 20%
Total	1,247,117	(199,214)	1,047,903	924,628	2,091,868	(393,782)	1,698,086	1,406,798	

(*) Weighted average rate of leasehold improvements.

12. LOANS, FINANCING AND DEBENTURES

	Currency	Company 2008	Company 2007	Consolidated 2008	Consolidated 2007	Contract date	Maturity	Internal rate of return	Guarantees
Compror (a)	Real, U.S. Dollar and Yen	12,576	233,229	12,576	267,542	04.18.08	04.13.09	Interest of 1.22% p.a. + 100% of CDI variation	-
Resolution No. 2770 (b)	Yen	63,611	24,214	118,876	24,214	01.11.08 a 01.18.08	04.15.09 a 05.21.09	Yen exchange rate change + coupon of 0.6713% p.a. to 0.8010% p.a.	Promissory note
Swap	Yen x Real	(19,122)	16,215	(34,784)	16,215	01.11.08 a 01.18.08	04.15.09 a 05.21.09	Yen exchange rate change + coupon of 0.6713% p.a. to 0.8010% p.a. versus 100% of CDI variation + coupon of 1.0248% p.a. to 1.30% p.a.	-
Resolution No. 2770 (b)	U.S. Dollar	-	48,918	3,020	48,918	02.01.08	01.26.09	U.S Dollar exchange rate change + coupon of 4.35% p.a.	-
Swap	U.S. Dollar x Real	-	25,395	(557)	25,395	02.01.08	01.26.09	U.S. Dollar exchange rate change + coupon of 4.35% p.a. versus 100% of CDI variation + coupon of 1.30% p.a.	-
Resolution No. 2770 (b)	Euro	19,564	-	19,564	-	02.01.08	02.05.09	Euro exchange rate change + coupon of 5.7444% p.a.	Total Fleet endorsement
Swap	Euro x Real	(2,899)	-	(2,899)	-	02.01.08	02.05.09	Euro exchange rate change + coupon of 5.7444% p.a. versus 105.2% of CDI variation	-
BNDES (c)	Real	3,061	3,946	3,061	3,946	06.18.07	05.15.12	TJLP (long-term interest rate) + 3.8% p.a.	Total Fleet endorsement
Debentures - 1st issue (d)	Real	361,373	357,948	361,373	357,948	04.01.05	04.01.10	110.8% of CDI	-
Debentures - 2nd issue (d)	Real	212,806	210,467	212,806	210,467	07.02.07	07.02.14	CDI + 0.59% p.a.	-
Debentures - 3rd issue (d)	Real	313,605	-	313,605	-	09.01.08	09.01.11	CDI + 2.00% p.a.	-
BCB (e)	Real	173,171	-	266,246	-	04.24.08 a 09.30.08	12.21.09 a 04.24.13	CDI + 1.5% p.a. and CDI + 3.87% p.a. + IOF (tax on financial transactions)	Endorsement between group entities
CCN (f)	Real	-	-	81,257	-	04.30.08 e 11.11.08	05.08.09 e 04.10.11	CDI + 108.2% p.a. and CDI + 4.49% p.a. + IOF (tax on financial transactions)	Localiza endorsement
Secured Account (g)	Real	30,278	-	30,278	-	10.10.08	04.08.09	CDI + 0.30% p.m.	Promissory note
		1,168,024	920,332	1,384,422	954,645				
Current		(167,412)	(369,053)	(251,126)	(403,366)				
Noncurrent		1,000,612	551,279	1,133,296	551,279				

(a) Compror

The Company has compror financing denominated in foreign and local currencies, in order to temporarily finance the purchase of cars. This type of financing is used to avoid costs for redemption of investments in order to meet short-term cash requirements.

(b) Resolution 2770

The Company contracts operations according to Bacen (Central Bank of Brazil) Resolution No. 2770, in order to finance the purchase of cars.

These operations are usually contracted in foreign currency and simultaneously swap (Plain Vanilla) transactions are contracted in order to eliminate its exposure risks to foreign exchange rate changes, swapping this index for CDI variation (see Note 20).

(c) BNDES

On June 18, 2007, R$4,000 of a total estimated financing of R$6,000 was released to fund part of the refurbishment works and the construction of new car rental agencies and used car points of sale.

The financing was obtained with a five-year term, quarterly interest during the six-month grace period, and monthly interest together with the amortization of the principal.

(d) Debentures

The Company has three issues of long-term debentures to meet its cash flow requirements due to its investments in the fleet.

Both issues have certain hypotheses of accelerated maturity, which include: (a) filing for and adjudication of bankruptcy; (b) default-related issues in an individual or aggregate amount equal to or higher than R$10,000 for the 1st issue and R$25,000 for the 2nd and 3rd issues; (c) reduction of the Company's capital and/or buyback of own shares for cancellation, except if previously authorized by debenture holders; and (d) failure to maintain required financial ratios calculated quarterly, based on the Company's consolidated financial statements: (i) the ratio obtained by dividing Net Debt by adjusted EBITDA[1] cannot exceed 2.75 for the 1st issue and 3.25 for the 2nd and 3rd issues; and (ii) the ratio obtained by dividing adjusted EBITDA[1] by Net Financial Expenses cannot be lower than 2.50 for the 1st issue and 2.00 for the 2nd and 3rd issues.

[1] For calculation purposes, the 1st and 2nd issues use adjusted EBITDA and the 3rd issue uses EBITDA, as described in each Issue Indenture.

Expenses incurred on the three debenture issues, including fees, commissions, and other costs, in the total amount of R$6,751, previously classified as prepaid expenses, were reclassified to the respective loan captions and are recorded over the life of the debt in order to comply with CPC 08. The unamortized balance as of December 31, 2008 was R$3,277, which is shown at its net amount for each debenture issue.

The specific features of each issue are as follows:

1st issue

On May 17, 2005, the Company registered the issue of 35,000 debentures with the Brazilian Securities and Exchange Commission (CVM), with net financial settlement of R$350,000 on May 20, 2005.

Debentures issued are simple, registered, book-entry and non-convertible, in single series, with a par value of R$10 on the issue date, April 1, 2005. The term is 5 years for the principal, with semiannual interest payments.

This issue of debentures also provides for the hypothesis of accelerated maturity in case of any change in ownership structure that may result in loss, transfer or sale of the Issuer's Control Power by the Issuer's Founders. At the Debenture Holders' Meeting held on October 20, 2006, the debenture holders approved the change of item "d" of clause 4.13 of the 1st Issue Indenture to redefine that the control power is typified when absolute majority of votes of the shareholders attending the last three Shareholders' Meetings is obtained, even if the founding shareholders are not holders of the shares that granted them the absolute majority of the voting capital.

At the Debenture Holders' Meeting held on October 4, 2007, the debenture holders approved the change of clause 4.11.1 of the 1st Issue Indenture to allow the discretionary early redemption of debentures.

2nd issue

On July 10, 2007, the Company registered its First Debenture Distribution Program with CVM, in the total amount of R$500,000.

In addition, on the same date the Company registered the issue of 20,000 debentures with CVM, with net financial settlement of R$200,000 on July 12, 2007, related to the 1st tranche of the First Debenture Distribution Program.

Debentures issued are simple, registered, book-entry and non-convertible, in single series, with a par value of R$10 on the issue date, July 2, 2007. The term is 7 years, with repayments in the 5th, 6th and 7th years and semiannual interest payments.

These debentures are subject to total or partial early redemption beginning in the 36th month after the issue date, with payment of the 1% premium, proportional to the period between the redemption date and the final maturity, calculated according to a formula included in the indenture.

This issue of debentures also provides for certain hypotheses of accelerated maturity, such as: (a) merger or spin-off of the Company, except in the cases established by article 231 of the Corporate Law; (b) downgrading of the Issue rating by Standard & Poor's by two or more notches in the risk rating at national level, in relation to the rating granted on the Issue Date, due to change in ownership structure that may result in loss, transfer or sale of the Company's control power by the founding shareholders.

3rd issue

On September 1, 2008, the Company issued 1 simple, nonconvertible debenture, in a single and indivisible lot of shares, with floating guarantee, of a single series, with a unit par value of R$300,000, in order to settle current debts and improving the Company's debt profile.

The term is 3 years for the principal from the issue date, thus maturing on September 1, 2011, with semi-annual interest payments.

This issue is subject to early redemption, at the Company's sole discretion, as from the 12th month after the issuance date, with no premium payment.

This issue of debentures also entails certain accelerated maturity hypotheses, such as:

(a) The Company's merger or spin-off, except in those cases mentioned in article 231 of the Brazilian Corporate Law.

As of December 31, 2008, the Company's management understands that the aforementioned restrictive covenants, related to three issues of debentures, have been complied with.

(e) BCB - Bank Credit Bill

On April 25, 2008, the subsidiary Total Fleet contracted R$86,000 in the form of a working capital loan, Bank Credit Bill (BCB) loans, to be settled in two installments of principal and interest due in 2012 and 2013.

On September 30, 2008, the Company contracted a working capital loan in the form of Bank Credit Bill (BCB) in the amount of R$169,486, with maturity on March 2, 2009.

The principal's amortization will be paid in a lump sum plus interest, on the maturity date.

On December 29, 2008, the Company amended the above contract, modifying the rate and maturity. The new maturity date is January 5, 2010.

These operations have the same restrictive covenants as the 2nd issue of debentures, except for the financial covenants, that are not applicable to these operations.

(f) CCN - Commercial Credit Note

On April 30 and November 11, 2008, the subsidiary Total Fleet S.A. contracted working capital loans in the form of Commercial Credit Note (CCN), in the amounts of R$35,000 and R$43,000 maturing on April 10, 2011 and May 8, 2009, respectively.

The principal and interest are due in a single installment on the maturity date.

(g) Secured Account

The Company has "revolving credit" (secured account) limits approved in the amount of R$181,050 and maturity on April 8, 2009.

As of December 31, 2008, the Company has already used the amount of R$30,278.

13. TRADE ACCOUNTS PAYABLE

	Company		Consolidated	
	2008	2007	2008	2007
Car makers	598	165,535	5,004	193,914
Maintenance service and spare parts	4,609	4,693	8,399	7,758
Leases	2,452	1,740	2,288	1,751
Other	7,139	8,118	7,923	9,418
	14,798	180,086	23,614	212,841

The balances payable to automakers as of December 31, 2008 and 2007 refer to cars purchased at the end of each period without financial charges and maturities of up to 60 days.

14. PAYROLL AND RELATED CHARGES

	Company		Consolidated	
	2008	2007	2008	2007
Management compensation	1,624	2,002	1,896	2,273
Accrued vacation	6,592	4,892	9,131	7,161
Provision for employee profit sharing	6,990	5,214	10,269	8,321
INSS (social security charges)	1,376	1,124	1,863	1,652
FGTS (severance pay fund)	349	274	475	411
Other	445	425	670	682
	17,376	13,931	24,304	20,500

The Company pays employee profit sharing on a semi-annual basis based on position and performance, recorded as operating costs or expenses, according to each employee allocation.

15. OTHER CURRENT LIABILITIES

	Company		Consolidated	
	2008	2007	2008	2007
Income tax and social contribution	-	9,496	988	15,991
Taxes, other than on income	3,168	2,919	5,071	4,846
Advances from customers	8,248	6,407	8,398	6,589
Accounts payable to subsidiary	2,034	1,347	-	-
Deferred income tax and social contribution (Note 17 (a))	7,488	-	12,875	-
Other liabilities	5,981	3,286	5,871	5,441
	26,919	23,455	33,203	32,867

16. RESERVE FOR CONTINGENCIES

(a) Reserves recognized

	Company						Consolidated					
	2008			2007			2008			2007		
	Reserve	Escrow deposits	Net	Reserve	Escrow deposits	Net	Reserve	Escrow deposits	Net	Reserve	Escrow deposits	Net
Finsocial	3,101	(2,134)	967	3,053	(2,134)	919	3,101	(2,134)	967	3,053	(2,134)	919
ISS (tax on service revenue)	4,760	(2,737)	2,023	7,904	(3,723)	4,181	5,512	(2,737)	2,775	8,531	(3,723)	4,808
SESC/SENAC	596	(539)	57	594	(539)	55	1,324	(846)	478	1,369	(837)	532
SEST/SENAT	4,934	(1,701)	3,233	4,806	(1,701)	3,105	5,606	(2,373)	3,233	5,478	(2,373)	3,105
Labor lawsuits	4,706	(3,002)	1,704	4,524	(2,312)	2,212	5,491	(3,184)	2,307	5,088	(2,376)	2,712
Social security litigation	6,366	(1,191)	5,175	6,323	(1,193)	5,130	6,366	(1,191)	5,175	6,323	(1,193)	5,130
Bodily injury and death claims	4,846	(467)	4,379	2,610	(159)	2,451	5,758	(479)	5,279	3,367	(173)	3,194
Other	2,908	(2,167)	741	6,183	(2,166)	4,017	5,097	(2,816)	2,281	8,183	(2,816)	5,367
Total	32,217	(13,938)	18,279	35,997	(13,927)	22,070	38,255	(15,760)	22,495	41,392	(15,625)	25,767

The Company and its subsidiaries are challenging in court the payment of certain taxes. Reserves for contingencies were recognized for probable losses, based on the opinion of the legal counsel. Management believes the reserves recognized are sufficient to cover potential losses.

The statement of changes in reserve for contingencies for 2008 is as follows:

	Company	Consolidated
Balances as of December 31, 2007	22,070	25,767
Reversals of reserves, net of recognitions	(2,302)	(1,504)
Contingencies paid	(371)	(823)
Reversals of monetary restatements, net of recognitions	(1,107)	(810)
Escrow deposits	(11)	(135)
Balances as of December 31, 2008	18,279	22,495

The main contingencies are summarized as follows:

- ISS (tax on service revenue) - The Company and its subsidiary Total Fleet are challenging the levy of ISS on car rental revenues in the period from July 2001 to July 2003 since their activities are not considered provision of services. This understanding is based on a decision of the Federal Supreme Court (STF) on the Extraordinary Appeal No. 116.121-3/SP, of 2000, definitely excluding from the levy of ISS the rental of chattels. Such understanding was maintained with the enactment of Supplementary Law 116/03, which excluded chattel rental revenues from the list of services subject to the levy of ISS. In spite of a previous court decision favorable to the Company, as established in CVM Resolution 489/05, the Company maintains a reserve to cover pending lawsuits, in which part of the amount accrued in prior years has been reversed gradually due to final court decisions favorable to the Company, and the remaining balances will be reversed as final and unappealable decisions favorable to the Company are rendered.

- SEST/SENAT - The Company and its subsidiary Total Fleet are challenging the collection of these payroll-related charges, since they do not carry out transportation activities. The lawsuits are in higher courts (Federal Supreme Court - STF and the Superior Court of Justice - STJ), and there are established case laws maintaining the understanding of the tax authorities. As of December 31, 2008, these lawsuits are guaranteed by bank letters of guarantee in the amount of R$4,605.

- Labor lawsuits - The Company and its subsidiaries are parties to several labor lawsuits, mainly related to the acknowledgement of employment relationship claimed by an individual service provider or contractor in court and to the payment of overtime and related effects. There are different court decisions regarding these matters. As of December 31, 2008, some of these lawsuits are guaranteed by bank letters of guarantee in the total amount of R$447 (R$516 in 2007).

- Civil lawsuits - The Company and its subsidiaries are parties to various civil lawsuits, mainly claiming compensation for damages caused to third parties in car accidents by customers driving cars rented from the Company. Although it is not responsible for accidents, the Company is many times demanded since it is the owner of the cars. The accrued amounts refer to lawsuits that the Company assesses as probable loss, including situations in which the likelihood of refund is remote due to the contractual right of recourse.

- Social security lawsuits - The Company and its subsidiaries are parties to several social security lawsuits. There are precedents and court decisions that support the theses defended by the Company. These lawsuits are guaranteed by bank letters of guarantee in the total amount of R$12,091 in 2008 (R$8,976 as of December 31, 2007).

The lawsuits above are at several administrative and judicial levels, both in lower and higher courts.

The Company's management, based on the opinion of the legal counsel, does not believe that the resolution of these matters will substantially impact its financial position. Except for the reserves above, which are full for the risks of probable losses and legal obligations, no other reserve is deemed necessary.

(b) Other significant lawsuits not accrued because of the possible or remote likelihood of loss and because they are not legal obligations.

- The Company, its subsidiary Total Fleet and certain vehicle transporters contracted by it are parties to administrative and judicial proceedings related principally to the levy of ICMS on vehicle transfers between the Company's business units, as well as on sale of used cars. The Company and its subsidiary Total Fleet did not record any reserve for said proceedings due to the remote likelihood of loss, based on the opinion of its legal counsel, which is based on legal precedents. In certain proceedings, the Company provided bank letters of guarantee to suspend the tax debt, in the total amount of R$4,370 as of December 31, 2008 (R$2,072 as of December 31, 2007).

  On July 7, 2006, the National Council of Financial Policy - Confaz enacted Agreement 64, establishing the levy of ICMS on the sale of vehicles in a period shorter than 12 months from their purchases. This Agreement was ratified by the Brazilian States, except São Paulo and Santa Catarina. In certain States, the Company is challenging the legality of this Agreement and has obtained injunctions and favorable decisions. The legal counsel, based on favorable precedents, classifies the likelihood of loss as remote and, therefore, no reserve was recorded.

- The Company has various assessments related basically to ISS on fuel billings charged to customers and discounts granted to them. The Company did not record any reserve for said proceedings due to the remote likelihood of loss, based on the opinion of its legal counsel, which is based on legal precedents. For certain lawsuits, the Company provided bank letters of guarantees to suspend the tax debt, in the total amount of R$5,008 as of December 31, 2008 (R$3,912 as of December 31, 2007).

- The Company's rental agreement includes an optional clause whereby the customer, upon payment of an additional rate, contracts an extended protection covering bodily injuries and/or property damages that may occur while using the car, with Localiza being held jointly liable for the risks. This option is named Rented Car Risk Coverage and Extended Protection. As a result, an administrative proceeding was filed by SUSEP - Superintendency of Privaty Insurance, currently under discussion at the National Council of Private Insurance, Pension Plan and Capitalization, where a fine in the historical amount of R$5,000, suspended by a preliminary injunction, is being challenged.
  The Company understands that the procedure adopted is legal and in line with industry practices, based on the vested rights doctrine. The Company did not record any reserve for this

contingency, since its legal counsel's opinion, based on the claims above and on Abstract 492 by the Superior Court of Justice (STF), is that a favorable decision is possible.

17. INCOME TAX AND SOCIAL CONTRIBUTION

In addition to modifying Law 6404/76, Provisional Act 449/2008 introduced the Transition Tax Regime (RTT), which is optional for calendar 2008 and 2009, for the calculation of taxes on income and revenue, and is mandatory beginning calendar 2010. Taxpayers that choose to use this regime can adopt, for tax purposes, accounting methods and criteria used by Brazilian corporate law in effect up to December 31, 2007.

(a) Deferred income tax and social contribution assets and liabilities

	Company		Consolidated	
	2008	2007	2008	2007
Deferred income tax and social contribution assets:				
Temporary differences in the deductibility of:				
Allowance for doubtful accounts	401	234	416	331
Reserve for contingencies	8,494	9,171	9,391	10,027
Provision for trade accounts payable and other	586	541	1,067	846
Tax loss carryforwards	13,509	-	15,201	580
	22,990	9,946	26,075	11,784
Current assets (Note 8)	(14,496)	(776)	(16,684)	(1,758)
Noncurrent assets	8,494	9,170	9,391	10,026
Deferred income tax and social contribution liabilities:				
Non realized Swap transactions (current)	7,488	-	12,875	-

The realization of deferred income tax and social contribution credits is dependent upon future events that will result in the deductibility of the items that gave rise to these credits, under prevailing legislation.

The Company and its subsidiary Total Fleet calculated income tax and social contribution on a quarterly basis in 2008 and 2007. Tax loss carryforwards were generated in the fourth quarter of 2008 and are mainly attributable to unrealized gains on swap transactions taxed on a cash basis. The Company believes that the tax credit resulting from tax loss carryforrwards, generated in the fourth quarter of 2008, will be realized over the course of 2009. Deferred income tax and social contribution liabilities result from gains on swap transactions not realized in 2008 and falling due in 2009, which are recorded under the caption "other current liabilities".

Franchising Brasil and Car Rental do not record tax credits, since they adopted the calculation of taxes according to the deemed income method.

(b) Income tax and social contribution - reconciliation of expenses at nominal and effective rates

	Company		Consolidated	
	2008	2007	2008	2007
Income before taxes (*)	154,924	185,961	188,021	220,906
Nominal rate	34%	34%	34%	34%
Expenses at nominal rate	(52,674)	(63,228)	(63,927)	(75,108)
Adjustments to expenses at nominal rate:				
Equity in subsidiaries	23,763	24,864	-	-
Effect of deduction of interest on capital	10,745	9,112	10,745	9,112
Tax incentives	675	614	1,189	944
Other, net	(326)	(763)	648	667
Expenses at effective rate	(17,817)	(29,401)	(51,345)	(64,385)

(*) Income before taxes for 2007 was adjusted to include the effects of the first-time adoption of Law 11638/07.

As of December 31, 2008, Franchising Brasil and Car Rental recorded R$1,029 and R$2,334 (R$716 and R$2,009 as of December 31, 2007) as income tax and social contribution expenses, respectively, paid according to the deemed income method. These amounts are included as "other" in the above table.

The Company's income tax returns are subject to review and assessment by tax authorities for a five-year period. Other taxes and contributions are also subject to review, according to applicable legislation.

18. SHAREHOLDERS' EQUITY

(a) Capital

As of December 31, 2008 and 2007, subscribed and paid-up capital is represented by 201,708,000 registered common shares without par value, totaling R$300,000 and R$199,585, respectively. Capital may be increased, upon resolution of the Board of Directors, by up to 43,962,000 common shares.

The Extraordinary Shareholders' Meeting held on April 24, 2007 approved a stock split in the ratio of two new additional shares for each existing share. Thus, capital that was represented by 67,236,000 registered common shares, is now represented by 201,708,000 registered common shares, keeping the full rights of the split shares. In view of such stock split, authorized capital went from 14,654,000 shares to 43,962,000 registered common shares.

At the Extraordinary Shareholders' Meeting held on December 17, 2008, shareholders approved a capital contribution of R$100,415 to the Company, within the limit of its authorized capital, as set forth in article 172 of Law 6404/76, and capital was raised from R$199,585 to R$300,000 through the capitalization of capital reserves without the issuance of new shares.

Capital was composed as follows:

	12.31.08		12.31.07	
Shareholders	Common shares	%	Common shares	%
Founders	100,876,378	50.01	100,876,378 (*)	50.01
Free float	96,576,217	47.88	100,735,617	49.94
Treasury shares	4,226,300	2.10	-	-
Board of Directors members	29,105	0.01	96,005	0.05
	201,708,000	100.00	201,708,000	100.00

(*) Includes 600,000 shares assigned by a controlling shareholder to a financial institution to conduct operations as a market maker, according to the differentiated loan and service agreement.

(b) Interest on capital

The Company periodically pays interest on capital to shareholders, although it is not the practice of subsidiaries to pay interest on capital.

At Board of Directors' meetings, payments of interest on capital were approved, as follows:

Date of approval	Total amounts paid / payable	Amounts paid / payable per share (in R$)	Date of shareholders' position
03/28/2007	5,944	0.029469	03/29/2007
06/27/2007	6,611	0.032774	06/29/2007
09/27/2007	6,789	0.033658	09/28/2007
12/18/2007	7,456	0.036967	12/19/2007
Total 2007	26,800		
03/25/2008	7,343	0.036722	03/27/2008
06/30/2008	7,203	0.036017	07/02/2008
09/30/2008	8,304	0.041557	10/02/2008
12/15/2008	8,753 (*)	0.044323	12/17/2008
Total 2008	31,603		

(*) Planned to be paid on February 12, 2009.

(c) Dividends

The Company's bylaws provide for the payment of minimum dividends of 25% of net income for the year, adjusted as provided for by Brazilian corporate law. Upon resolution of the shareholders, a portion of net income for the year may be retained as provided for in the capital budget approved at a Shareholders' Meeting. The Company may yet designate up to 75% of adjusted net income for the year to the statutory reserve named "Reserve for Expansion".

The Annual Shareholders' Meeting held on April 8, 2008 approved the allocation of dividends proposed in 2007, related to income for that year, in the amount of R$24,699, the payment of which occurred on June 3, 2008.

Interest on capital of R$26,980 was paid in 2008, net of withholding income tax, and this amount will be attributed to mandatory dividends for 2008. Additionally, as of December 31, 2008, a proposal was submitted to the Annual Shareholders' Meeting for payment of dividends, related to income for the year in the amount of R$5,583.

Dividends were calculated as follows:

	2008	2007
Net income for the year - Company (*)	137,107	156,992
Legal reserve (5%) (**)	(6.855)	-
Adjusted net income	130,252	156,992
Mandatory minimum dividends (25%)	32,563	39,248
Dividends and interest on capital:		
Dividends	5,583	24,699
Interest on capital	31,603	26,800
Withholding income tax on interest on capital	(4,623)	(3,888)
Total	32,563	47,611
Percentage of adjusted net income	25.0%	30.3%
Dividends and interest on capital per share, net of treasury shares in 2008	R$0.16	R$0.24

(*) Net income for 2007, basis for payment of dividends for that year, is the one originally reported, not including the effects of the first-time adoption of Law 11638/07 and Provisional Act 449/08.

(**) As of December 31, 2007, the Company did not recognize the legal reserve of 5% of the net income for the year, as permitted by Law 6404/76, considering that the balance of this reserve, plus the amount of capital reserves, exceeded 30% of the capital. As of December 31, 2008, in view of the capital increase using capital reserves, the Company recognized a legal reserve as set forth by law.

(d) Stock option plan

The Board of Directors' Meeting held on March 9, 2007 approved the 2007 Stock Option Plan - "2007 Program" - through which 900,000 options were granted to 277 eligible employees, to be exercised in four tranches of 225,000 options per year, beginning in 2010.

The 2008 stock option plan - "2008 Program", through which 900,000 options were granted to 293 eligible employees, to be exercised in four tranches of 225,000 options per year beginning in 2011, was approved at the Board of Directors´ meeting held on July 30, 2008.

Should all stock options existing as of December 31, 2008 be exercised, current shareholders would be subject to a 0.9% dilution in ownership interest.

The fair value of 2007 and 2008 Programs was estimated based on the Black Scholes Model for valuing options and the following weighted average assumptions were used:

	Option granting year	
	2008	2007
Risk free rate	10.93%	8.67%
Length of program in years	4.5	4.5
Expected annualized volatility	43.57%	37.60%
Fair value of option on grant date (per share)	R$6.94	R$7.09

Consolidated remuneration costs related to 2007 and 2008 Programs for the year ended December 31, 2008 were R$1,490 (R$692 in 2007). Remuneration costs related to 2007 and 2008 Programs to be recognized using the remaining weighted average period of 2.8 and 3.8 years totaled approximately R$3,318 and R$3,844, respectively.

The table below summarizes the 2007 Program for the year ended December 31, 2008:

	Beginning of period		Granting			Cancellations		End of period	
Year	Eligible employees	Options	Eligible employees	Options granted	Exercise price	Eligible employees terminated	Options cancelled	Eligible employees	Existing options
2007	-	-	277	900,000	(*)	24	31,983	253	868,017
2008	253	868,017	-	-	(*)	17	70,878	236	797,139

(*) 2007 Program - The call option exercise price was prefixed for each annual tranche based on the market value of the share as quoted at the prior year´s closing plus an estimate for projected annual inflation, that is, the price of R$23.76 for options to be exercised in 2010; R$24.71 for options to be exercised in 2011; R$25.70 for options to be exercised in 2012; and R$26.73 for options to be exercised in 2013.

The table below summarizes the 2008 Program for the year ended December 31, 2008:

	Beginning of period		Granting			Cancellations		End of period	
Year	Eligible employees	Options	Eligible employees	Options granted	Exercise price	Eligible employees terminated	Options cancelled	Eligible employees	Existing options
2008	-	-	293	900.000	(*)	2	3.456	291	896.544

(*) 2008 Program - The call option exercise price was prefixed for each annual tranche based on the market value of the share as quoted at the prior year´s closing plus an estimate for projected annual inflation, that is, the price of R$22.77 for options to be exercised up to April 2012; R$23.74 for options to be exercised up to April 2013; R$24.76 for options to be exercised up to April 2014; and R$25.82 for options to be exercised up to April 2015.

All stock purchase options are unvested as of December 31, 2008.
As of December 31, 2008, Localiza and its subsidiaries do not have employee benefit policies other than the stock options plan (mentioned in this note) and the employee profit sharing (mentioned in Note 14).

(e) Treasury shares

The Board of Directors' Meeting held on December 18, 2007 authorized the purchase of common shares issued by the Company to be held in treasury and subsequently sold, without capital reduction, as permitted by Law 6404/76 and the Company's bylaws. The number of shares that would be acquired was up to 4,500,000, and the maximum period for carrying out the transaction was 365 days.

The discontinuance of the Company's stock buyback program launched on December 18, 2007 was approved at the board of directors´ meeting held on November 24, 2008. Under this program, 4,226,300 shares of a total of 4,500,000 authorized shares were acquired at a cost of R$43,626, which includes transaction costs at an average cost per share of R$10.32 (minimum of R$5.15 and maximum of R$16.55). The market value of the 4,226,300 shares acquired is R$30,007 (R$7.10 per share) as of December 31, 2008.

A new buyback program for acquisition of Company's common shares to be held in treasury for subsequent sale, without capital reduction, was approved, as permitted by Law 6404/76 and the Company´s by-laws. The Company's purpose is to continue its strategy of maximizing the generation of value to shareholders and meet their interests, considering the value of the Company's shares on the São Paulo Stock Exchange. The number of shares to be purchased is up to 5,856,862 shares, with a maximum period of 365 days for carrying out the transaction. No shares have been acquired under this program up to December 31, 2008.

(f) Recognition of reserve for expansion

The Annual Shareholders' Meeting held on April 8, 2008 approved the Management proposal for the allocation of retained earnings for 2007, in the amount of R$106,260, to the reserve for expansion, intended to assure funds for additional investments in operating assets, as provided for in item (e), § 2 - Article 24 of the Company's bylaws.

On December 31, 2008, Management proposed for approval at the Shareholders´ Meeting the allocation of retained earnings of R$91,867 to the reserve for expansion, which is intended to assure funds for additional investments in operating assets as set forth in article 24, paragraph 2, item (e), of the Company´s by-laws.

19. FINANCIAL EXPENSES, NET

	Company		Consolidated	
	2008	2007	2008	2007
Interest income	20,638	18,618	28,575	25,452
Interest expenses	(142,110)	(91,265)	(161,787)	(93,647)
Other	-	(6,203)	-	(8,211)
	(121,472)	(78,850)	(133,212)	(76,406)

20. FINANCIAL INSTRUMENTS

(a) Fair value

The Company and its subsidiaries used information available in the market and valuation methodologies to estimate fair values as of December 31, 2008 and 2007. However, a considerable amount of judgment in the interpretation of market information is required to develop these estimates. Therefore, the estimates presented herein may not be indicative of amounts that the Company would obtain in a normal market transaction. The use of different assumptions or methodologies for valuation could result in amounts different from estimated fair values.

The carrying values of cash and cash equivalents, trade accounts receivable, trade accounts payable and short-term loans approximate their fair values due to their short-term maturity. The carrying values and estimated fair values of other financial instruments of the Company are as follows:

	Consolidated			
	2008		2007	
	Carrying value	Fair value	Carrying value	Fair Value
Loans and financing:				
Resolution No. 2770 (*)	(141,460)	(142,029)	(73,132)	(72,753)
Debentures	(887,784)	(871,391)	(568,415)	(573,562)

(*) Transactions under Resolution No. 2770 were contracted simultaneously with swap transactions, as described in Note (d) below.

(b) Credit risk

The Company mitigates its credit risk as it significantly operates with credit cards in the car rental business, and with finance and/or lease companies in the sale of used cars. The credit risk is reduced through an established credit and collection policy. Additionally, the Company recognizes allowance for doubtful accounts based on an individual analysis of receivables, in an amount considered sufficient by Management to cover probable losses on their collection, taking into consideration past experience, the current financial situation of its customers, and past-due accounts.

(c) Interest rate risk

The Company uses cash from operations to conduct its daily business activities, renew its car fleet, and finance part of its growth strategy. To obtain complementary funding to support growth plans, the Company has entered into loans and financing with major financial institutions in Brazil, mainly indexed to CDI variation. See details on loans and financing as well as the respective interest rates in Note 12.

The inherent risk arises from the possibility of significant fluctuations in the CDI rate. See sensitivity analysis in item (f) below. Management continuously monitors the CDI rate for the purpose of adjusting rental rates to mitigate such fluctuations, if necessary.

(d) Exchange rate risk

To reduce financial costs of borrowings, the Company has contracted foreign currency loans, followed by swap transactions registered with CETIP (Clearinghouse for the Custody and Financial Settlement of Securities) and which are linked to CDI and entered into directly with financial institutions with no margin clauses. These transactions are matched in terms of amount, terms, and interest rates. The Company intends to settle these contracts simultaneously with the respective loans.

Considering that the Company´s exposure to the risk of fluctuations in exchange rates is fully mitigated through the use of swap transactions entered into for protection purpose, simultaneously with the respective loans, the recent devaluation of the Brazilian real in relation to other currencies as a result of current market conditions did not and will not have effects on the Company´s financial statements.

The value of swap transactions (Plain Vanilla) used to protect loans can be summarized as follows::

					Consolidated					
			Rates		Notional amount		Fair value		Amounts receivable (payable)	
Swap transaction	Contract date	Maturity	Asset	Liability	2008	2007	2008	2007		
							Asset/ (Liability)		2008	2007
Euro x Real	02.01.08	02.05.09	Euro exchange rate change + coupon of 5.7444% p.a.	105.2% of CDI variation	15,000	-	2,899	-	2,899	-
Dollar x Real	02.01.08	01.26.09	U.S. Dollar exchange rate change + coupon of 4.35% p.a.	100% of CDI variation + coupon of 1.30% p. a.	2,187	60,000	557	(25,395)	557	(25,395)
Yen x Real	01.11.08 to 01.18.08	04.15.09 to 05.21.09	Yen exchange rate change + coupon of 0.6713% p.a. to 0.8010% p.a.	100% of CDI variation + coupon of 1.0248% p.a. to 1.30% p. a.	74,500	29,120	34,784	(16,215)	34,784	(16,215)
					91,687	89,120	38,240	(41,610)	38,240	(41,610)

(e) Sensitivity analysis for swap transactions (Plain Vanilla)

Swap transactions recorded by the Company were entered into simultaneously with foreign currency loans, taking into consideration terms, rates, and equivalent amounts and swapping foreign exchange exposure on loans for exposure to the CDI rate. For purposes of testing the sensitivity of swap transactions, the Company estimated the probable scenario for the US dollar, Euro, and Japanese Yen on each hedge maturity date using data published in the Brazilian Central Bank´s Focus Bulletin on January 23, 2009. Scenarios I and II were estimated with a deterioration of 25% and 50%, respectively, above the probable scenario, as shown below:

Transaction	Risk	Probable scenario	Scenario I - deterioration of 25%	Scenario II - deterioration of 50%
US Dollar				
Foreign currency loan:	(increase US$)	(3,046)	(3,807)	(4,569)
Swap (asset in foreign currency	(increase US$)	3,046	3,807	4,569
	Net effect	Null	Null	Null
Euro				
Foreign currency loan:	(increase Euro)	(18,516)	(23,146)	(27,775)
Swap (asset in foreign currency	(increase Euro)	18,516	23,146	27,775
	Net effect	Null	Null	Null
Japanese Yen				
Foreign currency loan:	(increase Yen)	(119,276)	(149,096)	(178,915)
Swap (asset in foreign currency	(increase Yen)	119,276	149,096	178,915
	Net effect	Null	Null	Null

As shown, for the probable scenario and deterioration of 25% and 50%, respectively, in exchange rates, the net effect between swap transaction and loan is null, confirming the expected effects of swap transaction protection.

Except for these swap transactions, the Company has not entered into any other transaction in the derivative market.

The Company does not enter into transactions of a speculative nature involving financial instruments.

(f) Sensitivity analysis with respect to fluctuations in the CDI rate:

Almost all of the Company´s debt and cash are linked to fluctuations in the CDI rate. The Company presented a net debt of R$1,254,490, which comprised loans, financing, and debentures, net of cash and cash equivalents and marketable securities, as of December 31, 2008.

The market expectations were, according to data from the Central Bank of Brazil, as of January 23, 2009, that the probable scenario indicated an estimated average effective rate for CDI of 11.36% in 2009, compared to 12.37% for 2008.

In addition, the Company performed sensitivity tests for adverse scenarios, deterioration of the CDI rate by 25% or 50%, above the probable scenario, as shown below:

Transaction	Probable scenario	Scenario I - deterioration of 25%	Scenario II - deterioration of 50%
Effective annual CDI rate for 2008	12.37%	12.37%	12.37%
Net debt	1,254,490	1,254,490	1,254,490
Estimated annual CDI rate	11.36%	14.20%	17.04%
Annual effect on net debt:			
Decrease	12,670	-	-
Increase	-	22,957	58,585

21. SUPPLEMENTAL INFORMATION

(a) Operating lease

On June 27, 2005, the Company entered into an operating lease for an aircraft, model Cessna 550 Bravo. The transaction was entered into with AVN Air LLC. This aircraft is used exclusively by Management to facilitate their access throughout Brazil. The contract has a five-year life and annual payments amount to US$463 thousand.

(b) Commercial Cooperation Agreement with financial institution Banco do Brasil

On September 29, 2006, the subsidiary Prime entered into a Commercial Cooperation Agreement with Banco do Brasil S.A. Pursuant to this agreement, Prime granted to Banco do Brasil exclusivity rights to financing for used cars of Localiza and its subsidiaries, sold at points of sales, and to offer of other related products. The agreement came into force on the date of signature and is valid until February 28, 2017. For the exclusivity granted in car financing, Prime was entitled to a compensation, net of agency commission, of R$22,008, which was received in 2006 and recorded as deferred financing incentive, net of taxes, in the amount of R$13,121. Additionally, Banco do Brasil makes monthly payments according to the terms of the agreement, for the intermediation of financing and other related products. As of December 31, 2008, the deferred financing incentive net balance is R$8,620, of which R$1,264 is recorded under the caption “other current liabilities”.