

# Interim results for the six months to 30 June 2003 highlights

30 July 2003

## Financial highlights

### Financial performance

Turnover	up 6% to £786.9 million (30 June 2002 - £745.7 million)
Profit before tax*	up 30% to £43.1 million (30 June 2002 - £33.2 million)
Earnings per share*	up 30% to 27.2p (30 June 2002 - 20.9p)
Net debt	reduced to £103 million (31 Dec 2002 - £155 million)
Dividend per share	up 5.4% to 9.7p (30 June 2002 - 9.2p)

### Statutory profit

Profit before tax	£15.4 million (30 June 2002 - £20.0 million)
Earnings per share	8.3p (30 June 2002 - 9.3p)

\* Pre exceptionals and goodwill amortisation

## Business highlights

### Consumer Services

- Profit up 20% to £25.7million (first half 2002 - £21.5million)
- Roadside revenues up 8% to £96.6 million (first half 2002 - £89.2 million); and innovative new RAC Solutions product launched
- Non-roadside revenues up 12% to £28.1 million (first half 2002 - £25.0 million)
- Members buying more than one service increased from 5% to 9%

### Business Services

- Major contract wins include 10 year £230 million British Airways fleet management contract
- Lex Vehicle Leasing grew profit by 16% to £9.5 million (first half 2002 - £8.2 million)
- Mechanical Handling issues being addressed through £98.5 million disposal of Lex Harvey and Lex Birchwood and restructuring of

remaining businesses

- Delivering cash value from Paccar contracts

**Andrew Harrison, Chief Executive of RAC plc, commented:**

“This is another good set of results with strong growth in pre-tax profit before exceptional items. We are driving growth in both Consumer Services and Business Services by building on our brands, our customer base and our unique motoring and vehicle capabilities. Consumer Services increased roadside revenues by 8% and non-roadside revenues by 12%. In Business Services the 10 year British Airways Ground Fleet Services contract has extended our record of big contract wins.

“Cash flow continues to be a strength, with a £52 million reduction in net debt. The interim dividend has been increased by 5.4% and we expect to deliver a full year performance in line with expectations.

“We are also pleased to welcome Richard Pennycook as our Finance Director and John Warren, Finance Director of WH Smith, as a non-executive director.”

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RAC plc is a motoring and vehicle services company with a strong customer base of both consumers and businesses. We are delivering sustained organic growth by leveraging the RAC, Lex and BSM brands, our customer base and our unique motoring and vehicle capabilities.

We delivered another strong performance in the first half of 2003 and made good progress on the priorities outlined at the beginning of the year:

- We have delivered continued growth in consumer and business services, increasing our individual customer base and extending our track record of winning major outsourcing contracts.
- We are generating substantial benefits from our systems investments:
  - Lex Vehicle Leasing's £12 million systems investment, completed in 2002, is delivering both cost efficiencies and competitive advantage through the provision of added value online customer services.
  - RAC's automated patrol despatch system is delivering improvements in customer service and efficiency, and our customer relationship management systems are providing improved quality of information to support our targeted marketing campaigns. 9% of our members now buy more than one service, up from 5% a year ago.
- We expect the benefits from our investment in systems to increase.
  - We are addressing the issues in Mechanical Handling through the disposal of Lex Harvey and Lex Birchwood to Finning (UK) Limited for £98.5 million, and have restructured our remaining mechanical handling businesses.

- We have successfully introduced changes to our pension scheme to address our pension deficit and the increasing ongoing costs of pensions, whilst retaining a final salary scheme for our employees.

## Financial results

Total turnover, including RAC's share of joint ventures and associates, increased by 6% to £786.9 million. Profit before tax, exceptionals and goodwill amortisation grew by 30% to £43.1 million (first half 2002 - £33.2 million). This included an additional £6.7 million profit from our Leyland contract (first half 2002, £ nil) and £1.7 million of costs relating to dual running as we implement our customer relationship management systems (first half 2002, £0.5 million). Earnings per share on this basis increased by 30% to 27.2 pence (first half 2002 – 20.9 pence).

Profit before tax was £15.4 million (first half 2002 - £20.0 million). This was after exceptional costs of £24.9 million relating to the disposal of the major part of our mechanical handling business. This gross figure is partly offset by the release of a tax credit of £7.3 million within our tax charge. Costs associated with the restructuring of our remaining mechanical handling businesses were £2.8 million higher than were estimated at the time of the announcement. £9.8 million relates to goodwill previously written off to reserves.

Earnings per share calculated in accordance with FRS14 were 8.3p (first half 2002 – 9.3 pence).

There was a net cash flow of £52 million, which reduced debt to £103 million from £155 million at the end of 2002.

The Board has increased the interim dividend to 9.7 pence, an increase of 5.4% on the 2002 interim dividend of 9.2 pence. This will be paid on 29 August 2003 to shareholders registered at the close of business on 8 August 2003.

## Operating results

### RAC Consumer Services

RAC Consumer Services sells a comprehensive range of motoring services for individual motorists including roadside assistance, legal services, driver tuition, financial services and vehicle glass replacement. In the first half of 2003 this business maintained the strong profit growth it has delivered over the past three years. After adjusting for the disposal of Lex Autocentres in 2002, like for like revenues increased by 6% and like for like profits grew by 15% when compared with the first half of 2002. Reported revenue grew by 1% to £173.6 million (first half 2002 - £172.3 million) and profit grew by 20% to £25.7 million (first half 2002 - £21.5 million).

#### Roadside services

Roadside revenues grew by 8% to £96.6 million in the first half of the year (first half 2002 - £89.2 million). Service delivery and customer satisfaction have improved and cost efficiencies have been gained as a result of the new automated patrol despatch system which was completed in 2002. The introduction of a unique rapid deployment trailer enabling patrols to tow vehicles they cannot fix at the roadside is further improving customer service and efficiency. Additional service enhancements such as text messaging capabilities are on track for delivery in the second half of 2003.

RAC Solutions, an innovative new breakdown product was launched in July. This combines a free car check for members with a no-claims discount. This helps to prevent breakdowns and supports customer loyalty by rewarding members who stay with us and call on our services less frequently. The service reinforces RAC's new 'always there' brand positioning by delivering value to members who do not need to use our services as well as to those who do.

The individual roadside membership base continues to grow, with a 5% increase to 2.19 million in the first half of 2003 (30 June 2003 – 2.08 million), covering over 3.1 million people. The renewal rate remains high at 83%. This stable and growing customer base provides a strong platform for developing long term relationships with our members and providing additional motoring services tailored to meet their individual needs.

The number of customers who buy more than one service increased to 9% (first half 2002 – 5%), representing good progress towards our next milestone of 15%. The completion of our customer relationship management systems will support us in achieving this, by providing the information to better understand our customers' needs and to tailor services accordingly. Our customer data warehouse, which now has 10.5 million records, is delivering higher quality information and marketing efficiencies, and system testing is underway in RAC Consumer Services following the completion of the implementation in RAC Business Solutions. The new systems have delivered £1.1 million of benefits, which helps offset the additional £1.7 million of dual running costs incurred in the first half of the year.

### Non-roadside services

Growth in non-roadside services remains strong, with revenues increasing by 12% on a like for like basis to £28.1 million in the first half of the year (first half 2002 - £25.0 million).

Legal Services maintained the double digit growth rate it has established over the past three years, with revenue increasing by 32% to £4.9 million (first half 2002 - £3.7 million) and profit by 24% on the first half of 2002. The business operates with a panel of 24 solicitor firms around the UK and a team of 29 in-house solicitors. Legal Services has 2.0 million legal expense policy holders, primarily through partnerships with major insurance companies. Legal claims handled grew by 14% to 38,100 and personal injury claims increased by 25% to 9,600.

BSM delivered another strong performance with revenue growth of 14% to £16.1 million (first half 2002 - £14.1 million) and profit growth of 27%. The number of instructors grew by 11% to 2,532 (first half 2002 – 2,287). BSM's branding has been refreshed to strengthen the connection with the RAC brand and support our goal of promoting our full range of services to customers.

In Financial Services our remodelled partnership with AXA came into effect on 1 January 2003 with the launch of RAC Insure. The new business's operational infrastructure, including the establishment of a panel of insurers and the development of effective systems links with underwriters, has been successfully established and marketing expenditure recently increased. Revenue and profits were slightly down on the first half of 2002, reflecting the time invested in building a strong foundation for future growth. The range of financial services expanded with the launch of an RAC credit card in June 2003.

RAC Auto Windscreens' revenues were slightly down at £48.9 million (first half 2002 - £49.6 million). In the early part of the year we made substantial changes to the management team.

## Business Services

We sell to businesses using the Lex brand for vehicles and vehicle support services and the RAC brand for motoring and related insurance activities.

In the first six months of 2003 business services' revenues grew by 7% to £611.8 million (first half 2002 - £570.5 million) and profit increased by 35% to £26.2 million (first half 2002 - £19.4 million). This included an additional £6.7 million margin on the Leyland contract.

In addition to the growth from our individual businesses we have five target sectors for major account wins utilising the full breadth of our service capabilities:

- **Defence:** the Ministry of Defence is our largest customer in terms of both revenue and the range of services provided. We continue to grow our partnership through the provision of additional services and in February 2003 renewed our contract to supply the 3,300 RAF non-combatant fleet, bringing the total number of vehicles we supply to the armed forces to 13,100, with a combined lifetime contract value of over £600 million. We are bidding for further substantial contracts.
- **Insurance:** RAC Business Solutions provides a range of services such as roadside assistance, claims management and legal services to insurance customers including NFU Mutual, Lloyds TSB and Norwich Union, our second largest customer. Lex Auto

Logistics also works in partnership with Norwich Union to provide parts supply to the insurer's 260 approved motor repair centres. The pipeline for contracts to grow our business with other insurers is encouraging.

- Motor manufacturers: services to truck and car manufacturers include parts supply through Lex Auto Logistics and roadside services from RAC. In addition, RAC Business Solutions provides a range of customer service operations to manufacturers under their own brands.
- Airside: our presence in this sector was established in April 2003 when Lex Transfleet won a £230 million 10 year contract to provide fleet management services to British Airways ground fleet services, with parts support from Lex Auto Logistics. The implementation is progressing well and the contract has generated significant opportunities to provide services to other companies in this sector.
- Utilities: Lex Transfleet and Lex Vehicle Leasing provide vehicle services to a range of utilities including Scottish & Southern, Thames Water, East Midlands Electricity and Scottish Power, and there is potential for further growth in this sector.

RAC Business Solutions grew revenue by 12% to £78.7 million in the first half of 2003 (first half 2002 - £70.3 million) and doubled profits to £0.8 million (first half 2002 - £0.4 million). The margins in this business reflect the significant proportion of sales of roadside services to fleets and motor manufacturers which provide an important contribution to supporting the infrastructure in the Consumer roadside business.

Lex Vehicle Leasing, our joint venture with HBOS, performed strongly in the first six months of 2003. Our share of revenue grew by 8% to £102.5 million (first half 2002 - £95.2 million) and profit by 16% to £9.5 million (first half 2002 - £8.2 million). The fleet grew to 99,600 in the first half of the year (first half 2002 - 91,800) as a result of strong growth in new business and improved retention of new customers. Disposal losses on vehicles reaching the end of their contracts were comfortably absorbed within the £45 million provision made at the end of 2000. We remain confident that the provision will be sufficient to meet potential future disposal losses. New contracts are currently being priced in anticipation of a 10% reduction in used car prices over the next three years. Lex Vehicle Leasing is an important element in our service offering and creates significant value for shareholders, paying a net dividend to RAC plc of £65 million over the past 10 years.

Lex Industrial Solutions incurred a loss of £1.6 million in the first half of 2003 (first half 2002 - profit of £0.2 million) on revenue of £103.2 million (first half 2002 - £104.0 million). Lex Transfleet, our joint venture with Lombard, continues to perform well, growing its fleet management business including the £230 million British Airways Ground Fleet Services contract, which was awarded in March 2003. Lex Transfleet also plays a key role in delivering the Ministry of Defence white fleet. Its progress was offset by the underperformance in our mechanical handling businesses, which we are addressing through the sale of Lex Harvey and Lex Birchwood, completed in May, and by restructuring our remaining businesses. These businesses remain unprofitable and we have reduced costs significantly in the first half of the year.

Manufacturer Support Services grew revenue by 9% to £327.4 million (first half 2002 - £301.0 million) and increased profit by 65% to £17.5 million (first half 2002 - £10.6 million). This includes £6.7 million increased margin from Lex Auto Logistics' contract with Leyland, which will offset a loss of profit approaching £4 million in 2003 from the termination of the DAF contract in June; Leyland and DAF are both owned by Paccar. The contribution from the Leyland contract is expected to continue until at least 2005, albeit at a declining rate. Lex Auto Logistics performed well in the first half, expanding the services it provides to Norwich Union and providing parts support to British Airways.

Also within Manufacturer Support Services, Hyundai grew registrations by 11% whilst the overall market for UK vehicle car sales in the first half of the year was flat. The model mix has improved and margins were maintained. The parts business continues to grow and will be a stable source of income in future years.

## Board changes

Peter Smith succeeded Sir Trevor Chinn as Chairman of RAC plc following our Annual General Meeting on 30 April 2003. Richard Pennycook will join us as our Finance Director on 4 August 2003. John Warren, Finance Director of WH Smith, will join the Board as a non-executive director on 1st September 2003.

## Outlook

The transformation over the past four years has built RAC plc into a strong motoring and vehicle services company, with higher quality earnings and substantial growth opportunities. This is demonstrated by a strong performance in the first half of 2003 in both Consumer Services and Business Services, building around the strength of the RAC and Lex brands. The Board anticipates delivering a full year performance in line with expectations.