

RAC plc Interim results statement for the six months to 30 June 2004

RAC plc announces continuing progress

Financial highlights

- Profit before goodwill amortisation, exceptional items and tax up 4% to £44.9 million (first half 2003, £43.1 million)
- Earnings per share on this basis up 4% to 28.2p (first half 2003, 27.2p)
- Profit before tax £33.9 million (first half 2003, £15.4 million)
- FRS 14 earnings per share 19.0p (first half 2003, 8.3p)
- Strong cashflow: debt reduces to £123 million (December 2003, £154 million)
- Interim dividend up 5% to 10.2p (first half 2003, 9.7p)

Operating highlights

- No.1 in Roadside Assistance, as voted in JD Power survey
- 19% revenue growth in our Motoring Services businesses
- 26% growth in Lex Vehicle Leasing's fleet
- Record new registrations at Hyundai
- Successful disposal of Isuzu and the Mechanical Handling businesses

Andy Harrison, Chief Executive, RAC plc commented:

"We are combining service excellence, evidenced by the JD Power award for the No.1 Roadside Assistance Provider, with another good financial performance.

"RAC plc continues to grow in strength and focus. We will continue to leverage the power of our brands and unique capabilities in motoring in both the consumer and business markets to create sustained growth opportunities."

Notes

An interim dividend of 10.2p per share will be paid on 2 September 2004 to shareholders registered at the close of business on 6 August 2004.

For more information contact

Andy Harrison, Chief Executive
020 7705 1257

Richard Pennycook, Group Finance Director
07889 309988

Niall Addison, Group Finance and Investor Relations Manager
07764 624701

Neil Lovell, Corporate Communications Director
07768 298636

Nigel Prideaux, Brunswick
020 7405 5959

Email: racplc@rac.co.uk

Continuing progress

RAC plc continues to make progress and we have delivered a solid financial performance in the first six months of 2004. The highlights include:

- Delivering increased customer satisfaction through our roadside services. In June we were voted No.1 Roadside Assistance Provider in the annual JD Power and Associates survey. This reflects the calibre of our colleagues and the support they receive through our systems and infrastructure investments
- Growing revenue by 19% in our Motoring Services businesses
- Achieving good profit growth and higher quality earnings in RAC Business Solutions and providing a broader range of services to customers
- Building on Lex Vehicle Leasing's UK position as a leading leasing company, with a 26% growth in the total fleet to 125,000 vehicles. This includes the successful integration of the Ford contract, announced at the end of 2003
- Delivering strong revenue growth at Hyundai, with a record 19,600 new registrations
- Successfully completing the disposal of Isuzu and the Mechanical Handling businesses

Financial results

The Group has performed well in the first half with trading in line with our expectations. We have made further progress towards focusing on our core activities with the completion of the disposal of the Mechanical Handling businesses in France, Belgium and the UK. We also concluded the disposal of Isuzu, our small truck importership.

Total turnover from continuing operations, including RAC's share of joint ventures and associates, increased by 6% to £753.2 million (first half 2003, £710.2 million). Profit before goodwill amortisation, exceptional items and tax grew by 4% to £44.9 million (first half 2003, £43.1 million). Earnings per share on this basis increased by 4% to 28.2p (first half 2003, 27.2p).

During the period we benefited from the net repayment of a retrospective VAT claim of £1.7 million and an associated interest credit of £2.0 million. These have been treated as exceptional items. After goodwill amortisation and other exceptional losses resulting from disposals, profit before tax was £33.9 million (first half 2003, £15.4 million).

Earnings per share calculated in accordance with FRS 14 were 19.0p (first half 2003, 8.3p).

Net debt reduced to £122.8 million from £154.3 million at the end of 2003. Of this £31.5 million reduction, £12.3 million came from disposals.

The Board has increased the interim dividend to 10.2p (2003, 9.7p), an increase of 5%. This will be paid on 2 September 2004 to shareholders registered at the close of business on 6 August 2004.

Operating results

Across the UK we now cover over 7 million motorists through either individual membership, affinity sales, insurance or cover provided through our motor manufacturer relationships.

In June, RAC was voted No.1 Roadside Assistance Provider in the annual JD Power and Associates survey and came top in 22 out of the 23 measures in the survey. This reflects the investment we continue to make in our colleagues, our systems and our infrastructure. Our roadside patrols are now equipped with RACScan, a PC-based tool designed to diagnose faults, allowing them to quickly and accurately identify the breakdown problem at the roadside. This has undoubtedly helped us keep our members moving and our patrols now fix 80% of vehicles at the roadside.

Consumer Services

RAC Consumer Services provides a range of motoring and related services for individual motorists including: roadside assistance, financial services, legal services, driver tuition and training, and vehicle glass replacement.

The business performed well in the first half of 2004 with revenues up by 7% to £185.1 million, (first half 2003, £173.6 million) and profits up by 4% to £26.6 million (first half 2003, £25.7 million). We are confident in our ability to drive further value to our customers through extending our relationship with them.

Roadside

Roadside revenues grew by 5% to £101.6 million in the first half of the year (first half 2003, £96.6 million).

Our individual file continued to grow and at the end of the period we had 2.2 million members. This represented a lower rate of growth than had been experienced previously; reflecting the natural period of bedding down required by the new CCM system installed at the end of 2003. Our renewal rate remained high at 83%.

Motoring Services

Motoring Services' revenues increased by 19% to £33.5 million in the first half of the year (first half 2003, £28.1 million).

RAC Legal Services operates a panel of 24 firms of solicitors around the UK and an in-house team of 45 solicitors. Personal injury claims handled increased by 22% to 13,100. The number of legal expense policies sold grew by 7% to 1.1 million and we now underwrite more than 2.1 million policies. Overall, RAC Legal Services maintained its double digit growth rate established over the past four years, with revenue increasing by 39% to £6.8 million (first half 2003, £4.9 million).

BSM, the UK's largest driving school, underpinned its market leadership by growing to over 3,000 instructors in the first half of 2004 which represents a 7% growth in the period. We delivered revenue growth of 4% to £16.8 million (first half 2003, £16.1 million).

RAC Financial Services provides financial products ranging from motor insurance and motor loans through to home and travel insurance. This business continues to show potential, developing steadily over the last 12 months, albeit from a small base, and now operates a broker panel of 20 leading insurers. We also provide complementary benefits for policy holders in other areas of our business, with RAC Auto Windscreens as the supplier of choice for glass replacement, and RAC Legal Services providing services for first notification of loss and personal injury claims. Revenue increased by 24% to £5.2 million (first half 2003, £4.2 million).

RAC Auto Windscreens

RAC Auto Windscreens is number two in its market and operates in a highly competitive environment. In the first half of 2004 we have delivered a more robust performance, albeit on a reduced margin, and stabilised our revenue. Revenues in the first half of 2004 were £50.0 million (first half 2003, £48.9 million).

Business Services

Through our existing operations, we work across the business to business market with both the Lex brand, principally focused on fleet and commercial vehicle support services, and the RAC brand for motoring-related insurance activities such as the claims handling we provide for large insurance companies.

In the first six months of 2004 Business Services' revenues from continuing operations grew by 6% to £566.8 million (first half 2003, £535.1million). As expected, there was a reduction in profit as a result of the loss of the DAF contract and a lower contribution from the additional Leyland margin.

RAC Business Solutions includes a range of services covering vehicle inspections, customer contact centres, breakdown services and motor claims sold to motor manufacturers, fleet operators and insurance companies. In the first six months of 2004, we extended our customer relationships by selling existing customers new contact centre and inspection services. Revenue grew by 8% to £85.0 million in the first half of 2004 (first half 2003, £78.7 million) and profits by 188% to £2.3 million (first half 2003, £0.8 million). In France, we successfully launched an accident management business to fleet customers and expanded our warranty business to corporate customers.

Lex Vehicle Leasing, our joint venture with HBOS, continues to perform well, with the fleet growing to 125,000 vehicles, which includes the successful integration of vehicles from Ford Financial, a contract announced at the end of 2003. This contract will be earnings enhancing in 2005. Although the used car market has been stronger than expected, we are continuing to be cautious when pricing contracts. Our share of revenue grew by 16% to £118.7million (first half 2003, £102.5 million) and profit by 8% to £10.3 million (first half 2003, £9.5 million). Lex Vehicle Leasing continues to be an integral part of our service offering and provides significant value for shareholders, paying a net dividend to RAC plc of £64 million over the last decade.

Manufacturer Support Services includes: Lex Commercial, Lex Auto Logistics, Hyundai, our car importership, and Lex Transfleet, our joint venture with Lombard. Revenue grew 3% to £363.1 million, and profits were £12.6 million (first half 2003, £18.3 million) reflecting the expected reduction in profits from our Paccar contracts; a £3.8 million reduction from the non-renewal of the DAF contract and additional Leyland margin of £5.3 million (first half, 2003, £6.7 million). Hyundai performed well, registering 19,600 new vehicles and increasing its market share to 1.4%. In addition to these individual operations we focus on five key sectors where the scope and range of our group services form a comprehensive proposition for major organisations.

- **Defence:** where we manage over 14,000 vehicles for the MoD and are preferred bidder for their "C" Vehicle Capability PFI – with an expected award made by the end of 2004
- **Insurance:** where we provide services from roadside assistance to claims handling for clients including Norwich Union, NFU Mutual and Lloyds TSB
- **Vehicle manufacturers:** where we deliver roadside services – resulting in 41% of all new cars sold carrying RAC membership. We also provide parts supply, call centre support and vehicle inspection services and have recently won a contract to provide outsourced contract hire services to Ford Financial
- **Airside:** where we operate fleet management services and run over 6,300 vehicles for British Airways Ground Fleet Services
- **Utilities:** where we provide vehicle services to a range of utilities including Thames Water, East Midlands Electricity and Scottish Power

We will continue to build our presence in these target sectors, whilst taking a realistic view on the time it takes to complete large outsourcing contracts.

Outlook

Our strategy is to encourage growth through leveraging our brands in both the consumer and business to business markets. We are delivering results through this strategy and have confidence that the combination of our motoring heritage and broad-based motoring service capabilities will create sustained growth opportunities. The Board anticipates delivering a full year performance in line with their expectations.

Notes to Editors

RAC was ranked "No. 1 Roadside Assistance Provider in Customer Satisfaction" in the J.D. Power and Associates 2004 UK Roadside Study SM. Study based on responses from 23,641 owners and drivers of 51 and 02 registered vehicles who required roadside assistance. www.jdpower.com