RAC plc 2003 preliminary results statement

25 February 2004

RAC plc announces further growth

Highlights

- Profit before goodwill amortisation, exceptional items and tax up by 24% to £86.7 million
- Earnings per share on this basis up by 24% to 54.4p
- Profit before tax £25.7 million (2002 - £23.1 million)
- FRS 14 earnings per share 8.3p (2002 - 8.5p)
- Strong cashflow: debt reduces to £154 million (2002 - £282 million)
- RAC Consumer Services’ profit increased by 21% to £51.3 million
- Revenue growth of 6% from continuing operations;
- Consumer Services up 7%
- Business Services up 6%
- Lex Vehicle Leasing profits up 12% to £19.6 million (our half share)
- Major new business wins - Ford, MOD, British Airways
- Full year dividend up 5.7% to 24.3p

Andy Harrison, Chief Executive, RAC plc, commented:

"2003 was our best year yet. We delivered good revenue growth, with sales in Consumer Services up 7% on a continuing basis and record new contract wins in Business Services, together with profits up 24% and a strong cashflow.

"In addition we have invested in new systems and infrastructure to increase efficiency and deliver improved service to our customers. We are confident that our strong brands, broad customer base and unique range of capabilities in motoring and vehicle services position RAC well for the future."

Notes:
A final dividend of 14.6p will be paid on 5 May 2004 to shareholders on the register on 2 April 2004.

A reconciliation between profit before goodwill amortisation, exceptional items and tax, and profit before tax, can be found in Note 1 of this preliminary statement.

A reconciliation between earnings per share on profit before goodwill amortisation, exceptional items and tax, and earnings per share on an FRS 14 basis, can be found in Note 10 of this preliminary statement.

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A year of investment and growth

Over the past few years RAC plc has been reshaped with a strategy to be the leading provider of motoring and vehicle services to consumers and businesses. We are pleased to report further good progress in 2003.

We have strong brands in RAC, Lex and BSM. Our strategy is to deliver growth by leveraging the strength of these brands and our customer base, together with our unique range of motoring and vehicle services. In this regard 2003 was a good year for us. In Consumer Services we successfully implemented our new customer relationship management system which will help us to provide more carefully targeted services to our individual customers. In Business Services we won more large, long-term contracts.

Our success depends crucially on our colleagues and on the service they provide to our customers. In the past year we were delighted to win a number of important awards as both an employer and as a service provider, with RAC plc, Lex Vehicle Leasing, Lex Commercials, RAC Business Solutions, Lex Auto Logistics and Lex Transfleet all receiving recognition.

Financial highlights

In 2003 our total revenues increased by just 1% to £1,526 million (2002 - £1,508 million), reflecting the impact of disposals. Profit before goodwill amortisation, exceptional items and tax grew by 24% to £86.7 million (2002 - £70.2 million). Earnings per share on this basis increased by 24% to 54.4p (2002 - 43.9p). After exceptional items, primarily associated with our withdrawal from the mechanical handling businesses, profit before tax was £25.7 million (2002 - £23.1 million) and earnings per share calculated in accordance with FRS 14 were 8.3p (2002 - 8.5p).

The revenues from our continuing operations increased by 6% to £1,469 million (2002 - £1,390 million) with profit before goodwill amortisation, exceptional items and tax from these businesses up by 15% to £87.0 million (2002 - £75.7 million).

The Group continued to generate cash, while at the same time investing significantly in future growth. Total net debt reduced by £127.9 million from £282.2 million in 2002 to £154.3 million.

The Board proposes a final dividend of 14.6p, to bring the total dividend for the year to 24.3p, an increase of 5.7% on 2002.

The growth in profit before interest, goodwill amortisation, exceptional items and tax from continuing operations is shown in the table below;

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<thead>
<tr>
<th></th>
<th>2003 £m</th>
<th>2002 £m</th>
<th>%</th>
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<tbody>
<tr>
<td>Consumer Services</td>
<td>51.3</td>
<td>43.2</td>
<td>19</td>
</tr>
<tr>
<td>Business Services</td>
<td>50.8</td>
<td>46.9</td>
<td>8</td>
</tr>
<tr>
<td>Other</td>
<td>(5.7)</td>
<td>(3.6)</td>
<td></td>
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<tr>
<td>Total</td>
<td>96.4</td>
<td>86.5</td>
<td>11</td>
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As per Note 1 to the accounts

Operating Review

RAC Consumer Services

RAC Consumer Services provides a comprehensive range of motoring services to motorists, including breakdown cover, replacement windscreens, driving tuition, legal support, travel services, insurance and
2003 saw further good progress from continuing operations, with revenues up 7% to £353.1 million (2002 - £330.1 million) and profits up 19% to £51.3m (2002 - £43.2 million). The Roadside business had another strong year. Individual memberships increased by 4%, and revenues were up 9% at £198.7 million. We maintained a strong renewal rate, with 83% of our members renewing. Through innovation, we continued to deliver improved services to our members in 2003. The new despatching system introduced in 2002 has proved highly effective in improving the efficiency of our patrols - both in deploying them more quickly and in helping us to diagnose more accurately the particular fault being experienced by the member. We also developed and introduced a new rapid deployment trailer. Carried in the back of the patrol van, this device is easily deployed to tow vehicles that cannot be repaired at the roadside, minimising the need for additional vehicles to attend and therefore speeding up our members’ recovery time. These innovations, combined with an 11% increase in our patrol force to 1,500 at the end of the year, resulted in record levels of customer service delivery. We were innovative in the development of new products too, with the launch of RAC Solutions mid-year. This range of products includes a no-claims discount for members who do not call us out and - to help them avoid breakdowns - a comprehensive annual vehicle inspection, which has been extremely well received. 320,000 members transferred to the new products in the first six months following launch.

BSM, the UK's largest driving tuition school, had another good year in 2003. Revenues grew 12% to £31.8 million, the third consecutive year of double digit growth, and more instructors taught more pupils than ever before. The business continued to innovate, for example with the increasing use of driving simulators to keep initial costs down for students and with the use of on-line training for the theory and hazard perception tests. A constant challenge is to retain the best instructors. A number of initiatives were introduced to improve instructor retention, including upgrading the BSM fleet to larger, more comfortable vehicles.

The Group's legal practice, RAC Legal Services, continued to grow strongly, with revenues up 27% to £10.3 million and profits up 36%. With the increase in the case load, work in progress doubled covering some 4,300 cases at year end. Policy holders grew by 18% to 2.1 million, further increasing our share of the motor legal expenses market. Following the success of the accident care scheme trialled with Avon and Somerset Constabulary in 2002, we are now in partnership with 13 police forces offering this innovative service to victims of road traffic accidents.

RAC Financial Services continued to grow strongly from a small base, and revenues were up 28% to £3.2 million. RAC Insure, our new broker panel business, overcame the operational difficulties experienced in the first half of the year and is making steady progress. This service, backed by the UK's leading car insurers, offers members and other customers a simple route to competitive car insurance. Our loans business grew in the year, and we launched an RAC credit card. We see significant opportunities for growth in financial services, using the trusted attributes of the RAC brand to assure customers of good value, and we are reinforcing the management of the business to accelerate the pace of expansion.

RAC Auto Windscreens had a challenging year in 2003 and, despite a marginal increase in sales (0.9%) to £96.9 million, profits were down 15%. We made significant changes to the senior management team in the early part of the year. The new team dealt well with a supplier recall later in the year, caused by a faulty batch of adhesive, and approximately 9,000 windscreens were refitted, with a minimum of inconvenience to customers. There are a number of business improvement programmes underway, but it will take time for these to take effect and trading remains challenging.

A significant achievement in Consumer Services in 2003 was the cutover to our new customer relationship management system in the final quarter. This operation was successful, despite its complexity, and was the culmination of three years’ effort. The new platform will enable us to understand and interact with our members with much greater insight. We are confident that the benefits we will derive over the coming years will justify the investment made. The new database provides greater visibility on our business than ever before, and as a result we have marginally adjusted previously reported membership and customer penetration figures. Our membership grew 4% to 2.1million (2002 restated - 2.11 million) and the number of customers buying more than one product rose to 13% (2002 restated - 11%).

Alongside the launch of the RAC Solutions products mid year, we refreshed our brand advertising with the introduction of the distinctive "helping hand" and the strapline "Always there". The new treatment has been well received, with a measurable improvement in consumer response to the brand.
The growth of the business, particularly motoring services, resulted in increasing pressure on space in our facility at Bradley Stoke in Bristol. Late in 2003 we agreed terms to lease an additional 500 seat facility nearby, which will come on stream in the spring of 2004. The annual cost of £1.8 million is a natural consequence of the continuing growth of the business.

**Business Services**

The continuing operations of Business Services grew further, with revenues increasing by 6% to £1,112.9 million (2002 - £1,053.8 million) and profits up by 8% to £50.8 million (2002 - £46.9 million).

We aim to broaden our relationships with major corporate customers, using the full range of the Group's capabilities. Our target sectors are defence, insurance, vehicle and truck manufacturers, utilities and airside vehicles. 2003 saw important contract wins in three of these sectors and the long term nature of these contracts has improved the quality of our earnings.

During the year we took on the management of the British Airways fleet of specialist airside vehicles, such as the tugs that move aircraft and crew buses. This is a 10 year contract with lifetime revenues of £230 million, involving 6,300 vehicles, with service provided through Lex Transfleet, supported by Lex Auto Logistics and Lex Commercials. In December, we announced that we had been successful in our bid to take on the contract hire services of Ford Financial in the UK, with a seven year term. The contract deepens our existing relationship with Ford, for whom we provide breakdown assistance as part of their new car warranties. Initially we will take on some 20,000 vehicles through Lex Vehicle Leasing, our joint venture with HBOS, and have responsibility for all new contract hire business sold through the network of Ford, Volvo, Jaguar, Land Rover and Aston Martin dealerships. Also in December, we were pleased to be confirmed, in partnership with Amey, as preferred bidder for the £500 million, 15 year Ministry of Defence C Vehicle contract to supply and maintain the fleet of construction vehicles, plant equipment and rough terrain mechanical handling equipment operated by the British armed forces worldwide. The contract is expected to be awarded by October 2004, leading to full service provision by April 2006. This will extend our relationship with the Ministry of Defence, for whom we are the largest vehicle services provider.

**RAC Business Solutions**

RAC Business Solutions sells motoring and related vehicle services to businesses, including breakdown assistance, accident management, insurance claims processing, vehicle inspections and customer contact centres. Revenues grew 10% to £160.8 million (2002 - £146.3 million) and profits by 56% to £1.4 million (2002 - £0.9 million).

Following further success in tenders in 2003, this division now provides breakdown assistance for 41% of all new cars sold in the UK including Ford, Audi, Toyota, Nissan, Peugeot, Citroen and Kia. The division also provides breakdown services to six of the top ten contract hire fleet operators in the UK, often combining this with accident management. In the insurance market Business Solutions manages motor claims on behalf of a number of companies including Norwich Union and NFU Mutual.

**Lex Vehicle Leasing**

Our half share of profit from Lex Vehicle Leasing, a joint venture with HBOS, grew 12% to £19.6 million on revenue up 5% to £207.2 million. The fleet under contract increased from 95,700 to 105,400, making the company the largest in its sector to have grown purely organically.

The quality of its services was recognised with further Fleet Excellence awards, this time including Best Contract Hire Company and Best Service Supplier. New customers included Siemens, Honda, Marconi, TRW, Goodrich and Wyko.

In a better year for the used car market, disposal losses of £6.2 million (RAC share) were lower than anticipated and of the £45 million provision (our share) created at the end of 2000, £16.3 million remains. We have carried out an impairment test on the existing fleet as required by FRS 11 which confirms that this amount is sufficient to meet potential disposal losses. We continue to take a cautious view of the used car market in pricing our contracts.

**Manufacturer Support Services**

Revenues in this division grew 3% in 2003, to £627.9 million (2002 - £606.7 million), whilst profits were flat at £31.2 million (2002 - £31.6 million).

Lex Auto Logistics, our inventory management operation, faced a challenging year dealing with the implications of the non-renewal, previously reported, of its contract to supply DAF parts. This contract expired in June 2003, resulting in a year on year profits decline from this source of approximately £4
million. However, the shortfall was made up in part by an increase to £11.8 million (2002 - £8.4 million) in the additional profits arising from the related contract to distribute Leyland parts which is anticipated to continue, with declining profitability, until at least 2005. The business took steps to position itself for the future, growing its distribution of parts to Norwich Union's accident repair network and, subsequent to the year end, moving into a dedicated warehousing facility in the Midlands to support this new business.

Hyundai, our car importership, had a successful year, growing market share in a record new car market to 1.3% and recording 32,238 registrations, up 10%. The model range is increasingly strong - the Getz traded well as a result of being the "What Car? Budget Car of the Year for 2003" and other models such as Matrix, Trajet and Santa Fe benefited from the unique five year warranty now offered on all new Hyundai cars.

Lex Commercials, our truck dealership network, had a good year, growing profits despite revenues being flat at £158.6 million. The business supported a number of Group companies in the delivery of complex bids. Isuzu Truck was recognised as being non-core for RAC, and we are well advanced in our negotiations to sell this small importership business to its management.

Lex Industrial Solutions
Last year we highlighted our dissatisfaction with the returns being achieved in our mechanical handling businesses, and our determination to restore shareholder value was confirmed with the sale, announced in April 2003, of Lex Harvey and Lex Birchwood. In January 2004 we disposed of Lex Havelange, our small Belgian subsidiary and we are in active discussions with a number of interested parties concerning the disposal of Lex Manutention in France and Lex Komatsu South, our remaining UK Mechanical Handling business. We also announced the closure of the Managed Services arm of Industrial Solutions. Our 2003 results include appropriate exceptional charges and asset impairments associated with these processes and these are described in the Financial Review.

The remaining business within this division is Lex Transfleet, the commercial vehicle contract hire, vehicle rental and fleet management business which is jointly owned by RAC and Lombard, a part of the Royal Bank of Scotland group. Revenues improved by 21% on a continuing basis, with strong performances from fleet management which grew from 17,500 trucks to over 21,000, and with the take-on of the British Airways Ground Fleet Services contract.

Our people
RAC has been supporting motorists for over a century, and the Group has developed a strong culture of service to its members and customers, for whom we are "Always there". Responsible for the service are 12,000 colleagues, and we thank them for the countless times when they have gone above and beyond the call of duty to deliver great service to our customers.

We are working hard to make RAC plc an attractive place for colleagues to develop their careers. We are committed to strong values which guide our decision making and recruitment processes. We encourage open communication and feedback from all parts of the Group - in 2003 our colleagues were engaged regularly in briefings from their business managing directors and Executive Board members. Our 2003 colleague satisfaction survey showed good progress with both an increased response rate and a higher level of overall satisfaction. Last year we highlighted the importance of pensions. Our decision to keep open our defined benefit scheme and extend its reach, was strongly supported by our colleagues and their union, and represents a valuable benefit to them.

At Board level, we welcomed Richard Pennycook in August and John Warren in September 2003. Richard joined as our Group Finance Director and John as a non-executive director.

Policy
RAC has always been an important voice of the motorist. In conjunction with our partners in the RAC Foundation, we engage at all levels of government and through the media to promote the interests of motorists. Our most recent Report on Motoring, now in its sixteenth year, highlighted the very significant cost of motoring with a quarter of average disposable family income absorbed by the cost of car use and ownership. Driving on the roads in Britain can be a miserable experience - only one in four motorists claims to enjoy driving, and our legal practice deals daily with the distress caused when our members are involved in accidents with one of the one million drivers who are not properly taxed and
insured. RAC will continue to put forward constructive and informed advice to policy makers to help make motoring in Britain safer, quicker and more enjoyable.

**Outlook**

RAC is a strong and unique motoring and vehicle services company which has delivered substantial growth in revenues and profits, together with strong cash flow.

We expect to see continuing growth in 2004, despite the anticipated reduction in profits from our contracts with Paccar which we have highlighted previously. Looking further ahead, the strength of our brands, the breadth of our customer base and the investment we have made in systems and infrastructure will continue to offer significant growth opportunities in both Consumer and Business Services.

Ends

Profit and loss account, balance sheet, cash flow and notes follow.

The financial information set out below does not constitute the company’s statutory accounts for the years ended 31 December 2003 or 2002 but is derived from those accounts. Statutory accounts for the year ended 31 December 2002 have been delivered to the registrar of companies, and those for the year ended 31 December 2003 will be delivered following the company's annual general meeting. The auditors have reported on those accounts; their reports were unqualified and did not contain statements under section 237 (2) or (3) of the Companies Act 1985.