

Egg plc

Under Embargo until 07.00h, 20th April 2001

Q1 Financial Results and New Business Figures 2001

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Egg maintains momentum to breakeven during Q4 2001

“A strong start to the year with 224,000 net new customers acquired (up 60% on Q4 2000) and continued growth in margins.” Paul Gratton, CEO

Financial Highlights:

- Operating income up 14% to £36.5 million compared with Q4 2000
- Pre-tax loss of £37.9 million shows improvement of £0.4 million (1.1%) on Q1 2000 and £2.2 million (5.4%) on Q4 2000
- Loss per share of 3.4p reduced by 17% compared to Q1 2000 and by 8% compared to Q4 2000
- Continued retail asset growth as loans and advances to customers top £4 billion
- Net interest margin increases to 1.60% (31 March 2000: 0.59%)
- On track to breakeven during Q4 2001

Business Highlights:

- Customer growth of 223,649 in the quarter, now reached 1.575 million customers in total
- Cross buying in Q1 of 107,000 products taking total number of cross-held products to 504,000
- ISA season delivers over 15,000 new Egg Invest customers (to 5 April 2001) bringing the total to over 26,000 with cumulatively over £74 million funds under administration
- Digital TV through Sky's Open platform now live

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Chief Executive Paul Gratton commented:

“We are pleased with the strong start we have made to the year. The acceleration in our rate of customer growth in an increasingly competitive environment is particularly encouraging. Egg is proving attractive to a market that is becoming comfortable with using technology to manage its financial affairs.” *Notes to Editors 1

Business Performance

Customer Acquisition

We acquired 223,649 net new customers in the quarter leading to a total at 31 March 2001 of 1.575 million. This quarter's performance achieved 40% of last year's total customer growth in just 3 months. In particular Q1 2001 showed a 60% increase on Q4 2000.

The number of products cross-bought have increased from 97,000 in Q4 2000 to 107,000 this quarter and we expect to see this grow further throughout the year as more products are introduced and marketed to our existing customer base.

Banking

We saw continued growth in retail assets with total advances to customers reaching £4.18 billion, up 12% from the year end and up 65% from 31 March 2000.

Credit cards continue to deliver the majority of the growth, with quarter end balances of £1.26 billion, up £330 million since the year end.

Egg personal loans have grown by 14% since the year end to a quarter end balance of £485 million. Focus in this area continues to be on cross selling into the credit card base, providing both lower sales costs and superior credit quality.

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Overall mortgage balances grew 3% net in the quarter, with steady growth from the Egg branded portfolio, which saw sales of £90 million in the period.

We continue to see some shift in the profile of our deposit account base. There was a net increase of 7,000 in customer numbers in the quarter albeit with a continuing trend of new customers bringing smaller average balances. This together with seasonal outflows plus the impact of repricing the book in February led to an overall decrease in Egg-branded deposit balances of £394 million. Since the end of the ISA season Egg has once again seen net inflows of deposits.

Intermediation

Our investment supermarket performed creditably in what has been acknowledged as a disappointing ISA season. Egg Invest doubled its customer base to almost 22,000 customers at 31 March 2001. An additional 4,500 customers and £16 million of funds were signed up in the five days to 5 April, the tax year end. Total new monies invested since launch now exceed £100 million and funds under administration stood at £74 million on 6 April.

We added nearly 3,000 more Egg Insure customers in the quarter and Egg Shop continues to generate modest revenue streams at minimal cost.

Egg's multi-channel distribution capability was enhanced by the launch of our service on Sky's Open digital TV network.

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Financial Overview

The loss before tax for the period was £37.9 million (31 March 2000: £38.3 million loss). This is in line with our plan and reflects the continuing investment this quarter in customer acquisition.

Egg achieved strong revenue growth with operating income earned of £36.5 million (31 March 2000: £14.4 million). Net interest margin reached 1.60% (31 March 2000: 0.59%). Other income also grew strongly, primarily reflecting fees and commissions earned from the larger banking book, especially credit cards and personal loans.

The operational and administrative functions have continued to absorb the significant increases in business volumes this quarter, with only a modest increase in costs to £32.1 million compared to the fourth quarter of 2000 (£31.5 million). The increase in costs compared to period ended 31 March 2000 (£23.8 million) reflects the rapid growth in customer numbers and transaction volumes over the past twelve months.

Investment in brand and marketing was £15.0 million (31 March 2000: £12.1 million). This investment has resulted in a record number of net new customers this quarter as well as building awareness of the Egg brand in the ISA and mutual funds markets.

Development costs were £3.8 million (31 March 2000: £7.2 million). This reduced in line with our plans reflecting the fact that the bulk of investment needed to deliver the core banking and intermediation infrastructure has now been completed.

Depreciation increased in line with capital expenditure over the previous twelve months. The charge for the period of £5.4 million also reflects the amortisation of goodwill on the investment in IFonline plc.

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The charge for bad and doubtful debt provisions rose to £16.6 million in accordance with our expectations (31 March 2000: £6.0 million) reflecting the significant growth in retail assets and the change in mix of the book from secured to higher margin unsecured lending.

The £1.5m charge for share of associate losses reflects Egg's share of the losses in IFonline plc and Marlborough Sterling Mortgage Services Limited.

The tax credit for the period was £9.8 million, an effective rate of 26%. Egg's tax losses will be surrendered to Prudential plc group companies with Egg being reimbursed for the full amount.

Shareholders' funds at 31 March 2001 were £495.9 million (March 2000: £460.8 million). The principal elements in the movement on shareholders' funds since first quarter last year were the proceeds of £150 million from the issue of ordinary shares following the IPO and the retained losses of £120.7 million over the twelve months ended 31 March 2001. The loss per share improved to 3.4p (March 2000: 4.1p)

Regulatory capital ratios at 31 March 2001 were 12.4% (tier 1) and 12.8% (total).

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Financial Information

New Business Figures

	31 Mar 2001	31 Mar 2000	31 Dec 2000
Total Egg Customers ^{(1) (2)}	1,574,988	989,467	1,351,339
Customers by product ⁽¹⁾			
- Deposits ⁽³⁾	627,714	594,493	620,804
- Credit Card ⁽⁴⁾	981,835	392,592	744,545
- Personal loans ⁽³⁾	82,892	39,865	78,797
- Mortgages ⁽³⁾	22,304	11,670	20,545
- Egg Invest ⁽³⁾	21,803	1,149	10,951
- Egg Insure ⁽³⁾	10,774	-	7,785
Product balances ⁽¹⁾	£m	£m	£m
- Egg Deposits	6,322	7,337	6,715
- Prudential Deposits	378	504	413
- Egg Mortgages	894	530	853
- Prudential Mortgages	1,578	1,294	1,553
- Credit Cards	1,259	464	929
- Egg Personal Loans	485	240	427
- Prudential Personal Loans	17	18	18

Notes:

- (1) Cumulative as at the date indicated.
- (2) If a customer holds more than one Egg product he is treated as a single customer for the purposes of this line item.
- (3) Joint holders are treated as two or more customers.
- (4) Includes second cardholders and individuals whose applications have been accepted in principle and who have been allocated a credit limit but for whom the application process has not yet been completed.

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Consolidated profit and loss account (Unaudited)

	Three months to 31 March 2001 £m	Three months to 31 March 2000 £m	(Audited) Full year 2000 £m
Interest receivable	157.1	162.9	657.3
Interest payable	(129.0)	(149.5)	(577.3)
Net interest income	28.1	13.4	80.0
Other operating income	8.4	1.0	13.2
Operating income	36.5	14.4	93.2
Administrative expenses			
- operational and administrative expenses	(32.1)	(23.8)	(108.4)
- brand and marketing costs	(15.0)	(12.1)	(50.7)
- development costs	(3.8)	(7.2)	(33.6)
Depreciation and amortisation	(5.4)	(3.6)	(16.9)
Provisions for bad and doubtful debts	(16.6)	(6.0)	(37.2)
Operating loss	(36.4)	(38.3)	(153.6)
Share of Associates losses	(1.5)	-	(1.7)
Loss on ordinary activities before tax	(37.9)	(38.3)	(155.3)
Tax credit on loss on ordinary activities	9.8	9.5	39.7
Retained loss for the financial period	(28.1)	(28.8)	(115.6)
Basic and diluted loss per share (pence per share)	(3.4p)	(4.1p)	(15.1p)

All of the Group's losses arose from continuing operations. The Group has no other recognised gains or losses apart from those reflected in the above profit and loss account.

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Consolidated balance sheet (Unaudited)

	March 2001 £m	March 2000 £m	(Audited) December 2000 £m
Assets			
Cash and balances at central banks	7.0	2.5	7.1
Loans and advances to banks	39.9	2,375.3	237.5
Loans and advances to customers	4,177.7	2,528.2	3,736.1
Debt securities	3,303.8	3,470.1	3,685.9
Tangible fixed assets	60.3	46.3	62.8
Deferred tax	-	2.6	-
Intangible fixed assets	10.5	-	10.8
Financial fixed assets	3.9	-	4.4
Other assets	75.8	84.8	69.4
Prepayments and accrued income	99.6	121.1	119.7
Total assets	7,778.5	8,630.9	7,933.7
Liabilities			
Deposits by banks	81.5	23.1	5.8
Customer accounts	6,699.2	7,841.1	7,127.6
Debt securities issued	95.0	-	-
Other liabilities	285.0	184.2	104.2
Accruals and deferred income	121.9	121.7	172.1
Total liabilities	7,282.6	8,170.1	7,409.7
Shareholders' funds			
Called up share capital	409.5	719.5	409.5
Share premium account	106.1	-	106.1
Capital reserve	359.7	-	359.7
Profit and loss account	(379.4)	(258.7)	(351.3)
Shareholders' funds (all attributable to equity interests)	495.9	460.8	524.0
Total liabilities and shareholders' funds	7,778.5	8,630.9	7,933.7

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Consolidated cash flow (Unaudited)

	Three months to 31 March 2001 £m	Three months to 31 March 2000 £m	(Audited) Full year 2000 £m
Net cash outflow from operating activities	(474.0)	(529.9)	(450.0)
Taxation:			
Group relief received	6.3	6.0	42.3
Capital expenditure and financial investment:			
Purchase of tangible fixed assets	(2.6)	(0.8)	(31.2)
Sale of tangible fixed assets	-	-	1.0
Purchase of investment: own shares	-	-	(2.2)
Investment in associated undertakings and joint ventures	(1.0)	-	(15.2)
Net sale/(purchase) of investments	380.5	500.3	284.0
Net cash inflow from capital expenditure and investment	376.9	499.5	236.4
Financing:			
Issue of debt securities	95.0	-	-
Issue of share capital	-	22.7	172.7
Net cash inflow from financing	95.0	22.7	172.7
Increase in net cash	4.2	1.7	1.4

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Reconciliation of loss before tax to net operating cash flows (Unaudited)

	Three months to 31 March 2001 £m	Three months to 31 March 2000 £m	(Audited) Full year 2000 £m
Loss on ordinary activities before tax	(36.3)	(38.3)	(153.6)
(Increase)/decrease in accrued income and prepayments	20.1	(3.2)	(1.7)
(Decrease) /increase in accruals and deferred income	(50.2)	(36.2)	14.2
Increase in provision for bad and doubtful debts	12.1	6.0	30.7
Profit on sale of financial investments	(0.2)	-	(3.1)
Depreciation and amortisation	7.1	4.2	21.8
Net cash outflow from trading activities	(47.4)	(67.5)	(91.7)
Net (increase)/decrease in loans and advances to banks and customers	(251.8)	(251.5)	652.1
Net (decrease) in deposits by banks and customer accounts	(352.7)	(302.0)	(1,032.8)
Net (increase)/decrease in other assets	(2.9)	52.0	63.1
Net increase/(decrease) in other liabilities	123.5	2.7	(29.1)
Net increase/(decrease) in items in the course of collection	57.3	36.4	(11.6)
Net cash outflow from operating activities	(474.0)	(529.9)	(450.0)

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Reconciliation of movement in shareholders' funds (Unaudited)

	Three months to 31 March 2001 £m	Three Months to 31 March 2000 £m	(Audited) Full year 2000 £m
Retained loss for the financial period	(28.1)	(28.8)	(115.6)
New share capital issued	-	22.7	69.6
(Decrease)/increase in share capital (see note f)	-	-	(359.7)
Share premium	-	-	103.1
Capital reserve created (see note f)	-	-	359.7
Net (decrease)/increase in shareholders' funds	(28.1)	(6.1)	57.1
Opening shareholders' funds	524.0	466.9	466.9
Closing shareholders' funds	495.9	460.8	524.0

Notes on financial information

- a) The financial information has been prepared on the basis of the accounting policies set out on pages 39-41 of the Egg plc Annual Report and Accounts for the year ended 31 December 2000 and are unchanged for the period to 31 March 2001.
- b) The results for three month period ended 31 March 2001 are unaudited. The comparatives for the full year to 31 December 2000 have been taken from the audited financial statements contained in the Annual Report and Accounts. The results for the three month period ended 31 March 2000 have been taken from the Group's prospectus, dated 25 May 2000 and are not extracted from the financial statements filed with the registrar. In the prospectus, the financial statements for Egg plc (formerly Egg Limited) were prepared using merger accounting principles. The auditors report contained in the

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prospectus, based on the work performed in accordance with the Statements of Investment Circular Reporting Standards issued by the Auditing Practices Board, stated that the financial information gave a true and fair view of the state of the affairs of the Group as at 31 March 2000 and of its losses and cashflows for the period ended 31 March 2000.

- c) Group operating loss is stated after charging provisions for bad and doubtful debts of £16.6 million (31 March 2000: £6.0 million). The balance sheet provisions for bad and doubtful debts and movements thereon were:

	General bad debt provision £m	Specific bad debt provision £m	Total £m
Balance at 1 January 2001	23.8	18.7	42.5
Charge for the three months to 31 March 2001	3.9	12.7	16.6
Amounts written off	-	(4.5)	(4.5)
Balance at 31 March 2001	27.7	26.9	54.6
Balance at 31 March 2000	17.7	-	17.7

Provisions at 31 March 2001 were 1.29% of advances to customers (31 March 2000: 0.69%).

- d) The taxation credit assumes a UK corporation tax rate of 30% and comprises:

	Three months to 31 March 2001 £m	Three months to 31 March 2000 £m
Group relief	9.8	9.5

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- e) Basic loss per share of 3.4p (March 2000: 4.1p) is calculated by dividing the loss for the financial period (after tax) of £28.1 million (31 March 2000: £28.8 million) by the weighted average of 812.8 million (31 March 2000: 696.9 million) ordinary shares in issue during the three month period. Options issued over shares do not affect the calculation of loss per share on a fully diluted basis.

- f) In May 2000 the Group converted each of its £1 ordinary shares into one 50p ordinary share and one 50p deferred share. Prudential plc, which at the time owned 100% of the share capital of the Group, then made a capital contribution to Egg by gifting all the deferred shares to Egg. Following this gift, the deferred shares were cancelled and the share capital of Egg was reduced accordingly and a non-distributable capital reserve of £359.7 million was created. This has no net effect on shareholders' funds.

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Average Balance Sheet

	Three months ended 31 March 2001		Three months ended 31 March 2000		Year ended 31 December 2000	
	Avg. Balance	Avg. Rate %	Avg. Balance	Avg. Rate %	Avg. Balance	Avg. Rate %
(£m, except percentages)						
Assets						
Loans and advances to banks	109	5.81	2,497	5.94	1,343	5.89
Debt securities	3,536	6.17	3,829	5.96	3,936	6.34
Mortgages	2,439	6.79	1,719	6.77	2,044	6.77
Personal loans	472	9.93	228	10.51	322	10.16
Credit card	1,097	6.96	342	1.99	599	6.69
Total average interest-earning assets	7,652	6.71	8,615	6.08	8,244	6.55
Fixed assets	62		48		50	
Other assets	117		199		182	
Total assets	7,831		8,862		8,476	
Liabilities						
Customer accounts	6,942	5.59	8,023	5.86	7,613	5.92
Wholesale liabilities	52	4.69	10	4.14	27	3.67
Total average interest-bearing liabilities	6,994	5.59	8,033	5.86	7,640	5.91
Other liabilities	327		364		324	
Total liabilities	7,321		8,397		7,964	
Shareholders' funds	510		465		512	
Total liabilities and shareholders funds	7,831		8,862		8,476	

Note: The above analysis represents interest earned or borne on on-balance sheet assets and liabilities only.

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Average Yields

	Three months ended 31 March 2001 Average rate %	Three months ended 31 March 2000 Average rate %	Year ended 31 December 2000 Average rate %
Interest income as a percentage of average interest-earning assets	6.71	6.08	6.55
Interest expense as a percentage of average interest-bearing liabilities	5.59	5.86	5.91
Interest spread	1.12	0.22	0.64
Net interest margin	1.60	0.59	1.06

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Notes to Editors:

1. According to latest findings from Nielsen / Netratings Internet, www.egg.com continues to be the most visited financial services website. (February 2001: 257,883).
2. Egg plc is the UK's leading e-commerce financial services company, providing banking, insurance, investments, mortgages and a shopping portal through its Internet site and other distribution channels.
3. Egg plc floated on 12 June 2000 raising proceeds of approximately £150 million and is listed on the London Stock Exchange. Prudential plc continues to hold 79% of the share capital.
4. A copy of the MORI survey dated November 2000 commissioned by Egg, *Embracing Technology*, is available from the Egg Press Office (020 7526 2600). The next survey is due out in June 2001.