# Egg plc

*Under Embargo until 07.00h, 19th October 2004*

**Egg plc**

**Results for the Nine Months to 30 September 2004**

***"The Group result for the year to date is a loss before tax of £103 million, including the previously announced provision of £113 million raised in July for the costs of exiting the French market and the operating losses of £35 million incurred in France up to the date of our announcement of Egg's intention to withdraw from the market. Our withdrawal from the French market is progressing and as we announced earlier this month we have received approaches for the consumer credit, savings and brokerage businesses which, if concluded, would result in the redeployment of up to 140 people and provide continuity of service to Egg's customers in France. Our expectations with regard to the total exit costs for France remain unchanged.***

***"Our UK business has delivered a satisfactory set of results in what has proved to be a challenging year for Egg, with the potential sale process initiated by Prudential in January creating uncertainty in addition to the increased competition and rising interest rates that have impacted the credit card and personal loan markets. We made a profit before tax of £53 million for the nine months to 30 September 2004 compared to the £57 million profit for the same period last year. Unsecured lending balances are growing strongly, with record personal loan drawdowns of over £1.6 billion and our new MasterCard offer is proving successful and helped generate healthy credit card balance growth this quarter.***

***"Looking forward, Egg people are firmly focused on the future development of our core UK business, leveraging our brand and high quality customer base to expand our franchise. We have recently launched a discount tracker mortgage product and we have an increased focus on general insurance cross sales, given research in our customer base indicates a high propensity to buy these products from Egg. In addition we have taken the opportunity to re-price our credit card portfolio in October following similar action by the majority of our competitors.***

***"As part of our renewed focus on our core UK business, we announce today the disposal of our funds supermarket, Egg Invest, to Fidelity FundsNetwork. The transaction will result in one-off costs of £3 million and lead to annual savings of a similar amount moving forward.***

***"We will continue to take actions to secure the significant value inherent in our existing unsecured lending business and given the strong brand consideration that exists among both our customers and the wider UK population we will look to offer a broader range of products in 2005 and beyond."***

***Paul Gratton, CEO, Egg plc***

**Highlights:**

Analysis of Group Profit and Loss Account:

| | **Nine Months to 30 Sep 2004** | Nine Months to 30 Sep 2003 |
|---|---|---|
| | **£m** | £m |
| Egg UK Operating Profit | **53.2** | 56.7 |
| Egg France Operating Loss (i) | **(35.0)** | (69.5) |
| Egg France Closure Provision (ii) | **(112.8)** | - |
| Other International | **-** | (3.5) |
| Subsidiaries/Associates/JV's | **(2.9)** | (3.4) |
| Transaction Costs | **(3.7)** | - |
| Restructuring Costs | **(2.1)** | (5.2) |
| Group Loss before Tax | **(103.3)** | (24.9) |

(i) The current period amount of £35.0 million reflects the operating loss before tax for the period from 1 January 2004 to 13 July 2004, the date on which Egg announced its intention to withdraw from the French market.

(ii) This is the total provision raised for the estimated costs of exiting the French market. In the consolidated profit and loss account for the nine months ended 30 September 2004 £19.7 million has been released to cover operating losses post 13 July 2004, fixed asset impairment and other costs incurred to date as part of the exit process.

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**Group**

- Group operating income up 17% to £364 million (Q3 2003: £311 million)
- Group loss before tax of £103 million, including £113 million provision for exit costs in France (Q3 2003: £25 million loss)
- Group loss per share was 8.5p (Q3 2003: 3.1p)
- Total group assets of £12.1 billion (Q3 2003: £11.5 billion)

**UK**

- Egg UK delivered an operating profit of £53 million (Q3 2003: £57 million)
- Unsecured lending balances grew by £0.9 billion (Q3 2003: £1.1 billion) leading to period end balances of £5.7 billion (30 September 2003: £4.4 billion)
- Strong sales growth in personal loans with drawdowns of £1.6 billion, up 33% on Q3 2003 (£1.2 billion)
- MasterCard offer proving increasingly popular to our customer base with balances now exceeding £100 million since launch in June 2004
- Credit quality remains strong and benchmarks continue to show Egg's card portfolio significantly outperforming industry norms

**France**

- Provision for costs of exiting the French market estimated at £113 million (€170 million) pre tax and accounted for in July 2004.

# Egg plc

Chief Executive Paul Gratton said:

“The Group result for the year to date is a loss before tax of £103 million, including the previously announced provision of £113 million raised in July for the costs of exiting the French market and the operating losses of £35 million incurred in France up to the date of our announcement of Egg’s intention to withdraw from the market. Our withdrawal from the French market is progressing and as we announced earlier this month we have received approaches for the consumer credit, savings and brokerage businesses which if concluded, would result in the redeployment of up to 140 people and provide continuity of service to Egg’s customers in France. Our expectations with regard to the total exit costs for France remain unchanged.

“The UK business continues to deliver a sound performance despite increased competition and rising interest rates. In the nine months to 30 September 2004 we have achieved an operating profit of £53 million and grown our customer base by almost 400,000 giving us 3.6 million customers in total.

“We have seen strong net growth in unsecured lending of £0.9 billion in the first nine months taking total balances to £5.7 billion up 19% on last year end. Cross selling personal loans into our credit card customer base remains highly successful, delivering record sales volumes with £1.6 billion disbursed thus far this year and the recently launched MasterCard proposition is proving popular with our customers and has now achieved over £100 million in balances.

“Revenues have remained consistent at around the £120 million level each quarter this year. Growth in revenues has slowed this year given the pressure on interest-bearing balance growth and margins created by competition and rising base rates respectively, however re-pricing the credit card and opportunities to drive increased fee revenue from cross sales of payment protection and general insurances should see revenues growing in the fourth quarter. We are keeping tight control on costs and credit quality remains good with provision levels reflecting the continuing growth in the unsecured lending portfolio, the stage in the life cycle of the card and loan books and the increasing proportion of personal loans in the book.

# Egg plc

“This has been a difficult year for Egg with the uncertainty created by the potential sale of the group as well as the decision to withdraw from the French market. In addition the competitive and economic factors, affecting the entire UK unsecured lending market, have impacted our business. Against this background the results are satisfactory and we are confident and positive about the future of Egg.

**Outlook**

“Looking forward we are focused on our successful UK business. We have a highly attractive unsecured lending portfolio with the opportunity to grow it further by building on our strong relationship with our customers and the Egg brand. We have recently launched a discount tracker mortgage product and we have an increased focus on general insurance cross sales given research into our customer base indicates a high propensity to buy these products from Egg. We are keeping a tight control on costs and as indicated at our interim results, we are undertaking a review of our cost base to ensure it is focused on our key priorities moving forward.

“We will continue to take actions to secure the significant value inherent in our existing unsecured lending business and given the strong brand consideration that exists among both our customers and the wider UK population we will look to offer a broader range of products in 2005 and beyond.”

## Overview of Group Results

### Summary Profit and Loss account by quarter (Unaudited)

| | **Q3 2004** | Q2 2004 | Q1 2004 | Q4 2003 | Q3 2003 |
|---|---|---|---|---|---|
| **UK** | **£m** | £m | £m | £m | £m |
| Net Interest Income | **70.4** | 70.1 | 73.7 | 72.5 | 64.6 |
| Other Operating Income | **48.3** | 49.9 | 44.7 | 39.4 | 43.6 |
| Egg UK Operating Income | **118.7** | 120.0 | 118.4 | 111.9 | 108.2 |
| Operational and Administrative Expenses | **(34.5)** | (38.4) | (41.3) | (39.7) | (36.8) |
| Brand and Marketing Costs | **(9.0)** | (10.6) | (9.6) | (8.5) | (6.5) |
| Development Costs | **(5.2)** | (4.7) | (5.9) | (4.5) | (5.9) |
| Depreciation and Amortisation | **(4.3)** | (5.6) | (5.2) | (6.5) | (4.4) |
| Amounts written off Fixed Asset Investment | **-** | - | - | (4.3) | - |
| Provisions for Bad and Doubtful Debts | **(47.1)** | (41.3) | (41.2) | (32.3) | (34.6) |
| **Egg UK Operating Profit** | **18.6** | 19.4 | 15.2 | 16.1 | 20.0 |
| | | | | | |
| **France** | | | | | |
| Net Interest Income | **1.8** | 2.1 | 1.9 | 1.5 | 1.8 |
| Other Operating Income | **0.9** | (0.1) | - | (0.2) | (0.3) |
| Egg France Operating Income | **2.7** | 2.0 | 1.9 | 1.3 | 1.5 |
| Operational and Administrative Expenses | **(8.5)** | (9.9) | (9.1) | (10.4) | (12.8) |
| Brand and Marketing Costs | **-** | (0.9) | (1.6) | (3.2) | (3.6) |
| Development Costs | **-** | (0.2) | (0.4) | (0.9) | (0.5) |
| Depreciation and Amortisation | **(12.7)** | (2.0) | (1.7) | (2.1) | (2.1) |
| Provisions for Bad and Doubtful Debts | **(3.9)** | (5.5) | (4.9) | (4.3) | (3.3) |
| Utilisation of Exit Cost Provision | **19.7** | - | - | - | - |
| **Egg France Operating Loss** | **(2.7)** | (16.5) | (15.8) | (19.6) | (20.8) |
| | | | | | |
| **Other International** | **-** | - | - | (0.7) | (0.7) |
| **Subsidiaries/Associates/JV's** | **(1.2)** | (1.0) | (0.7) | (0.2) | (0.6) |
| **Transaction Costs** | **(1.1)** | (1.3) | (1.3) | - | - |
| **Provision for France Exit Costs** | **(112.8)** | - | - | - | - |
| **Restructuring Costs** | **-** | 0.2 | (2.3) | (5.1) | - |
| **Group Profit/(Loss) Before Tax** | **(99.2)** | 0.8 | (4.9) | (9.5) | (2.1) |

# Egg plc

## ***Egg UK***

### Revenues

Net interest income in Q3 2004 was £70.4 million, in line with the previous quarter. Our rolling annual credit card yield improved from 9.45% at the end of June to 9.51% at the end of September but this was offset by the higher average funding costs reflecting the rising base rate environment. However, we expect interest income to grow in Q4 on the back of the recent re-pricing of the Egg card portfolio, with the standard variable rate having increased by 100 basis points consistent with price increases among our key competitors.

Egg had grown non-interest income significantly over the first half of the year with Q2 2004 reaching a total at £49.9 million. Q3 saw a slight decrease to £48.3 million which reflects the lower sales volumes achieved on personal loans with the resulting impact on commissions earned on cross-selling payment protection insurance. This was expected as, on a seasonal basis, disbursements of loans in Q3 2004 were consistent with the same period last year. Looking ahead we expect Q4 to be the highest quarter for other income this year reflecting the sales plan for personal loans and the fact that we will also be putting more focus on general insurance products.

### Costs

Operational and administrative costs at £34.5 million for the quarter remain tightly managed and also reflect a cumulative adjustment of £4.4 million release in the provision for the cost of the various share schemes in operation to incentivise Egg staff. This reduction reflects our revised view of the cost of share awards post Prudential's announcement that it was no longer seeking offers for its stake in the company.

Brand and marketing costs were £9.0 million in Q3 2004. This reflected a tactical reduction in credit card marketing activity for seasonal reasons. Q3 is traditionally the slowest quarter for card sales. Sales performance was pleasing with 105,000 net new customers acquired in the third quarter, despite some attrition in the savings base which was expected given our relative price point in the market. Looking into Q4 we expect to spread the marketing budget over mortgages and general insurance, as well as credit cards and personal loans, including some brand awareness campaigns. Overall we are on track to spend the £40 million for the full year that was highlighted in the interim results in July.

Development costs were £5.2 million for the quarter, a slight increase on Q2 (£4.7 million). We expect a further increase in Q4 reflecting the investment in systems and processes in preparation for IFRS, Basel 2 and other regulatory changes.

Depreciation and amortisation at £4.3 million in Q3 2004 showed some savings compared to the first half run rate which had included some accelerated charges.

<u>Bad Debt Provisions</u>

Credit quality remains good and provision levels reflect the continuing growth in the unsecured lending portfolio, the stage in the life cycle of the card and loan books and the increasing proportion of personal loans in the book. As noted in the interim results we have made improvements in our analytics capabilities and consequent enhancements to our provisioning methodologies which enable us to predict our provision requirements more accurately. Application of this revised methodology led to overall provisions held against our unsecured lending portfolio being slightly reduced in Q2 as a proportion of impaired balances and also effected a shift in mix between general and specific provisions. Allowing for the benefit seen in the Q2 charge for these changes, the Q3 bad debt charge of £47.1 million is consistent with previous trends. The improvement in performance of delinquent accounts is most noticeable in those accounts 6 months and further past due, where the previous assumptions about ultimate default have been favourably revised in the light of actual recoveries. This results from improvements in both collection techniques and the quality of the customer base.

***<u>Egg France and Provision for Exit Costs</u>***

The provision estimate of £112.8 million includes the operating losses that will be incurred in running the business throughout the closure process, asset impairment write downs, redundancy and other social plan costs, contract break costs and the write off of the remaining goodwill. In the period from 13 July to 30 September 2004 £19.7 million of the provision was utilised leaving £93.1 million in reserve. Our expectations with regard to the total exit costs for France remain unchanged.

***Subsidiaries/Associates/JV's***

The £1.2 million net loss in Q3 2004 was primarily in respect of Egg's 85% owned subsidiary Investment Funds Direct Holdings Limited ("Funds Direct").

***Transaction Costs***

The costs of £1.1 million in Q3 2004 relate to incremental expenses incurred in relation to the process whereby Prudential were considering proposals for its shareholding in Egg. The most significant cost is the loyalty bonus scheme that was put in place for all staff at Egg as a retention tool and which will pay out in October.

***Restructuring Costs***

There were no further costs in Q3. The charge related to exit costs on one of our leased properties within Egg France.

# Egg plc

## Business Performance

## Egg UK

### Summary New Business Figures by Quarter

| | Q3 2004 | Q2 2004 | Q1 2004 | Q4 2003 | Q3 2003 |
|---|---|---|---|---|---|
| Net New Egg UK Customers (‘000) | **105** | 144 | 148 | 150 | 145 |
| | | | | | |
| Net New Customers by product (‘000) | | | | | |
| - Savings | **(12)** | 7 | 17 | 4 | (1) |
| - Credit Card | **105** | 171 | 157 | 160 | 167 |
| - Personal loans | **15** | 23 | 23 | 23 | 23 |
| - Mortgages | **(1)** | (1) | (1) | (1) | - |
| - Egg Invest | **-** | 1 | 1 | 1 | - |
| - Egg Insure | **25** | 1 | (1) | 2 | (8) |
| | | | | | |
| Products | £m | £m | £m | £m | £m |
| - Egg Card Balance Growth | **215** | 81 | (5) | 122 | 250 |
| - Egg Personal Loan Drawdowns | **496** | 574 | 563 | 526 | 490 |
| - Egg Mortgage Drawdowns | **54** | 57 | 60 | 58 | 64 |
| - Egg Savings Flows (net) | **(339)** | 244 | (47) | (229) | (637) |

# Egg plc

**Cumulative Figures**

| | **30 Sep 2004** | 30 Sep 2003 | 31 Dec 2003 |
|---|---|---|---|
| Total Egg UK Customers [(1) (2)] | **3,594,109** | 3,046,942 | 3,196,435 |
| | | | |
| Total "Marketable" Egg UK Customers [(1) (2)] | **3,056,429** | n/a | n/a |
| | | | |
| "Marketable" Customers by product [(1)] | | | |
| - Credit Card [(3)] | **2,249,066** | n/a | n/a |
| - Savings [(4)] | **695,560** | n/a | n/a |
| - Personal loans [(5)] | **272,860** | n/a | n/a |
| - Mortgages [(5)] | **26,123** | n/a | n/a |
| - Egg Invest [(5)] | **60,124** | n/a | n/a |
| - Egg Insure [(6)] | **125,843** | n/a | n/a |
| | | | |
| Product balances [(1)] | **£m** | £m | £m |
| - Egg Card | **3,306** | 2,892 | 3,015 |
| - Egg Savings | **6,022** | 6,393 | 6,164 |
| - Egg Personal Loans | **2,403** | 1,536 | 1,773 |
| - Egg Mortgages | **1,117** | 1,231 | 1,197 |
| - Prudential Savings | **125** | 201 | 185 |
| - Prudential Mortgages | **632** | 883 | 798 |
| - Prudential Personal Loans | **1** | 2 | 2 |

**Notes:**

(1) Cumulative as at the date indicated.

(2) If a customer holds more than one Egg product they are treated as a single customer for the purposes of this line item.

(3) Includes accounts where there has been activity in the past 2 years. Second card holders are treated as separate customers.

(4) Includes accounts with activity within the past three years. Joint accounts are treated as 2 or more customers.

(5) Includes accounts with a balance greater than zero.

(6) Includes all customers holding an active insurance policy.

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## Egg UK

Customers

Egg now has 3.6 million customers including the 105,000 net new customers who joined during the third quarter. This is a good performance in an increasingly competitive market, especially with the summer months traditionally being the quietest for card acquisition and the fact that we saw some attrition in savings customers in the period.

Given the UK business is now a lot more mature we have decided to switch the basis on which we report customer numbers to align with the way we manage the business. This involves excluding those customers that we consider dormant and where we do not expect to be able to re-activate them and therefore exclude them from our marketing campaigns into the customer base. We believe that this new metric gives a better indicator of the value potential in the customer base. We will continue to enhance our analysis and disclosures going forward and in particular are making improvements to our customer databases in preparation for Basel 2. At 30 September 2004 we had 3.1 million “marketable” customers.

Unsecured Lending

Net lending balance growth was a healthy £362 million in Q3 bringing the total net increase to £921 million for the nine months to date. This is an excellent performance given the increased competition in the market and compares to £1.13 billion in the same period last year. Credit card balance growth returned to previously strong levels with £241 million net increase in the third quarter following the slight slowdown experienced in H1 2004. This performance is encouraging and our MasterCard offer is now making a good contribution with over £100 million in total balances since its launch in June 2004. While Q3 saw an expected slowdown in personal loan sales compared to the records established in the first half we remain on track to easily surpass £2 billion in disbursements this year which is an excellent result from a product that is predominantly cross sold to card customers.

Savings

Q3 2004 saw a net outflow on Egg deposits of £339 million. This is in line with our forecasts and gives an overall result of a £142 million net outflow year to date compared to £1,315 million outflow in the same period last year. The reduction in outflows reflects the success of our bonus account offering which ran in April and May to raise additional monies from the retail savings market as part of Egg’s funding strategy.

Investments

We announce today an agreement with Fidelity whereby from Q1 2005, Egg will host Fidelity's FundsNetwork on its website as its exclusive investment platform. This partnership will significantly increase the level of funds Egg can offer its customers to over 900 funds from 56 managers, from its current level of 220 funds from 25 managers. The new platform will also offer enhanced tools, information and services to all Egg investors.

As part of this agreement we will sell our existing funds supermarket business, which has assets under management of around £170 million, to Fidelity FundsNetwork. The transaction will result in one-off costs of £3 million and lead to annual savings of a similar amount moving forward.

All Egg employees who work within the investment business will be offered alternative roles within Egg. No job losses are expected as a result of the transfer.

This transaction is consistent with Egg's focus on its core UK business and is expected to be completed in Q1 2005, subject to regulatory approval.

Insure

Egg Insure had an excellent quarter with 25,000 new policies sold. These were predominantly motor insurance policies. This is consistent with our intention to extend our product range given research in our customer base shows a high propensity to buy general insurance policies from Egg. Work to raise awareness of our general insurance product range will continue to build momentum in Q4 and into 2005.

Mortgages

The third quarter continued the trend seen over the past year of £50-60 million of disbursements each quarter. However moving forward we intend to increase our focus on the mortgage business. As a first step we have launched a new mortgage proposition, the Egg Discount Tracker product, which is one of the best value mortgage offers in the market over both the short and the long term and is consistent with Egg's brand positioning.

# Egg plc

## Financial Review

This section analyses Group results for the nine months ended 30 September 2004 compared to the same period last year, as set out in the consolidated profit and loss account and balance sheet.

**Net interest income** increased by 13% to £219.9 million for the period (30 September: £194.6 million) resulting from the growth in retail asset balances (30 September 2004: £7.4 billion, 30 September 2003: £6.5 billion). Margins have remained relatively stable.

**Other operating income** increased by £28.0 million (24%) to £144.0 million. This has largely resulted from the continued success of our cross sale strategy in unsecured personal loans, with commissions and profit share from selling creditor insurance on loans in the UK up by £17.4 million (33%) to £69.6 million on the back of increased loan sales and increased penetration on the product. In addition commission earned on the sale of credit card protection insurance increased by £8.7 million to £37.6 million (30 September 2003: £28.9 million) reflecting the larger book.

**Operational and administrative expenses** increased by £3.2 million (2%) to £149.8 million. This has resulted from a combination of factors; there has been an increase in the core UK operational costs of £16.6 million (16%) in line with growth in customers (18%), offset by the credit of £4.4 million re the revised share scheme costs and savings of £7.1 million in France reflecting the increased cost control.

**Brand and marketing costs** have decreased by £16.4 million (34%) to £31.8 million. This reflects a deliberate slowdown in Egg France (£20.2 million lower in 2004).

**Development costs** have decreased by £3.7 million (18%) to £16.4 million. There was a decrease in costs relating to France of £2.0 million as the infrastructure is now in place. In addition during 2003 there was R&D expenditure in the USA of £2.3 million which has not been repeated this year.

**Depreciation and amortisation** increased by £13.0 million (69%). Within the UK, depreciation has increased by £3 million in line with expectations following the occupation of an additional building in Derby and the investment in our Customer Data Warehouse. The France depreciation figure has increased by £10 million largely due to the impairment provision booked in July 2004 once the decision was taken to exit the French market. This asset write-down is included in the £113 million exit cost provision some of which has been released to the profit and loss account to offset this cost.

**The charge for bad and doubtful debts** was £143.9 million (30 September 2003: £100.4 million). The increase in this figure over the previous year has predominantly resulted from strong growth in the UK personal loan book due to the success of the cross-sales strategy and the increasing mix of unsecured lending in the overall retail asset portfolio, which has resulted in a £37.5 million increase in the personal loan provision. Our delinquency levels on cards remain well below the industry average. The France bad debts charge has increased by £9.2 million to £14.1 million largely due to an increase in the credit card provision by £8.3 million to £13.5 million, reflecting the growth in France Credit card balances to £137.5 million (30 September 2003: £88.2 million).

**Provision for France exit costs** is £93.1 million net. This represents the £112.8 million booked in July on announcement of the intention to exit the French market less the release of £19.7 million to cover operating losses in the period from 13 July to 30 September 2004 plus the write off of the goodwill remaining from the original acquisition of Zebank plus recognising the assets that are now deemed impaired.

**The tax credit** was £33.3 million (30 September 2003: £0.7 million tax charge). The credit reflects the fact that the Group is now loss-making following the France exit provision. In the prior year we did not recognise a tax credit for the losses in France prior to the conversion of the business to a branch of Egg Banking in the UK, hence the small tax charge in that period.

**Loss attributable to ordinary shareholders** after tax was £69.6 million compared to a loss of £25.3 million for the nine month period to 30 September 2003.

**Loss per share** was 8.5p compared to 3.1p for the nine month period to 30 September 2003.

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**Total assets** increased to £12.1 billion as at 30 September 2004 (30 September 2003: £11.5 billion) mainly due to the ongoing growth in UK unsecured lending balances.

**Total liabilities** increased to £11.7 billion as at 30 September 2004 (30 September 2003: £11.1 billion), largely due to a further securitisation of credit cards of £500 million in September 2004 with increases in wholesale funding to offset the reduction in retail savings.

**Capital ratios** at 30 September 2004 were 7.6% (tier 1) and 14.4% (total) (30 September 2003: 9.6% (tier1) and 17.5% (total)). The reduction in capital ratios predominantly reflects the provision for exit costs in France.

## Independent review report by KPMG Audit Plc to Egg plc

### Introduction

We have been instructed by the Company to review the financial information set out on pages 19 to 27 and we have read the other information contained in the interim report and considered whether it contains any apparent misstatements or material inconsistencies with the financial information.

This report is made solely to the Company in accordance with the terms of our engagement to assist the Company in meeting the requirements of the Listing Rules of the Financial Services Authority. Our review has been undertaken so that we might state to the Company those matters we are required to state to it in this report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company for our review work, for this report, or for the conclusions we have reached.

### Directors' responsibilities

The interim report, including the financial information contained therein, is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the interim report in accordance with the Listing Rules which require that the accounting policies and presentation applied to the interim figures should be consistent with those applied in preparing the preceding annual accounts except where they are to be changed in the next annual accounts in which case any changes, and the reasons for them, are to be disclosed.

### Review work performed

We conducted our review in accordance with guidance contained in the Bulletin 1999/4: Review of interim financial information issued by the Auditing Practices Board for use in the United Kingdom. A review consists principally of making enquiries of group management and applying analytical procedures to the financial information and underlying financial data and based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review is substantially less in scope than an audit performed in accordance with auditing standards and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the financial information.

**Review conclusion**

On the basis of our review we are not aware of any material modifications that should be made to the financial information as presented for the nine months ended 30 September 2004.

KPMG Audit Plc
Chartered Accountants
London
18 October 2004

# Egg plc

**Consolidated profit and loss account (Unaudited)**

| | **Nine months to 30 Sept 2004 £m** | Nine months to 30 Sept 2003 £m | (Audited) Full Year 2003 £m |
|---|---|---|---|
| Interest receivable | **671.6** | 615.7 | 830.8 |
| Interest payable | **(451.7)** | (421.1) | (562.0) |
| Net interest income | **219.9** | 194.6 | 268.8 |
| Other operating income | **144.0** | 116.0 | 155.2 |
| Operating income | **363.9** | 310.6 | 424.0 |
| Administrative expenses | | | |
| - operational and administrative expenses | **(149.8)** | (146.6) | (202.6) |
| - brand and marketing costs | **(31.8)** | (48.2) | (60.0) |
| - development costs | **(16.4)** | (20.1) | (25.7) |
| Depreciation and amortisation | **(31.7)** | (18.7) | (26.9) |
| Amounts written off fixed asset investment | **-** | - | (4.3) |
| Provisions for bad and doubtful debts | **(143.9)** | (100.4) | (137.0) |
| Utilisation of Provision for France exit costs | **19.7** | - | - |
| Operating profit/(loss) | **10.0** | (23.4) | (32.5) |
| Provision for France exit costs | **(112.8)** | - | - |
| Share of operating profit of joint ventures | **0.4** | - | 0.1 |
| Share of associates losses | **(0.9)** | (1.5) | (2.0) |
| Loss on ordinary activities before tax | **(103.3)** | (24.9) | (34.4) |
| Tax credit/(charge) on loss on ordinary activities | **33.3** | (0.7) | 1.4 |
| Minority interests | **0.4** | 0.3 | 0.2 |
| Retained loss for the financial period | **(69.6)** | (25.3) | (32.8) |
| Loss per share (pence per share) | **(8.5p)** | (3.1p) | (4.0p) |

All of the Group’s losses arose from continuing operations.

# Egg plc

**Consolidated statement of total recognised gains and losses**

| | **Nine months to 30 Sept 2004** | Nine months to 30 Sept 2003 | (Audited) Full Year 2003 |
|---|---|---|---|
| | **£m** | £m | £m |
| Retained loss for the financial period | **(69.6)** | (25.3) | (32.8) |
| Currency translation differences on foreign currency net investments | **(4.0)** | 4.5 | 4.4 |
| Adjustment to reserves in respect of UITF 38 | **8.1** | - | - |
| Total recognised losses related to the period | **(65.5)** | (20.8) | (28.4) |

# Egg plc

## Consolidated balance sheet (Unaudited)

| | 30 Sept 2004 | 30 Sept 2003 Restated | (Audited) 31 December 2003 Restated |
|---|---|---|---|
| | **£m** | £m | £m |
| **Assets** | | | |
| Cash and balances at central banks | **14.2** | 13.1 | 13.3 |
| Loans and advances to banks | **416.4** | 742.5 | 329.6 |
| Securities purchased under agreements to resell | **1.4** | - | - |
| Loans and advances to customers | **7,353.5** | 6,456.1 | 6,718.0 |
| Debt securities | **3,909.1** | 3,851.1 | 4,156.5 |
| Shares in joint ventures | **1.3** | 0.8 | 1.0 |
| Investment in associated undertakings | **4.5** | 5.9 | 5.4 |
| Intangible fixed assets | **1.9** | 6.1 | 6.0 |
| Tangible fixed assets | **107.9** | 87.8 | 95.3 |
| Other assets | **137.7** | 244.5 | 268.5 |
| Deferred tax | **23.3** | 27.2 | 23.3 |
| Prepayments and accrued income | **80.7** | 77.8 | 75.5 |
| Total assets | **12,051.9** | 11,512.9 | 11,692.4 |
| | | | |
| **Liabilities** | | | |
| Deposits by banks | **2,481.2** | 1,464.7 | 1,610.4 |
| Securities sold under agreements to repurchase | **531.1** | 612.3 | 829.2 |
| Customer accounts | **6,570.3** | 6,668.2 | 6,451.7 |
| Debt securities issued | **1,127.5** | 1,422.6 | 1,422.9 |
| Other liabilities | **232.2** | 304.3 | 340.1 |
| Accruals and deferred income | **197.7** | 149.9 | 153.7 |
| Provisions for liabilities and charges | **96.5** | - | - |
| Subordinated liabilities | | | |
| - Dated loan capital | **450.8** | 450.8 | 450.8 |
| Total liabilities | **11,687.3** | 11,072.8 | 11,258.8 |

| | 30 Sept 2004 | 30 Sept 2003 Restated | (Audited) 31 December 2003 Restated |
|---|---|---|---|
| | **£m** | £m | £m |
| **Shareholders' funds** | | | |
| Called up share capital | **412.2** | 410.3 | 410.3 |
| Share premium account | **111.0** | 107.5 | 107.5 |
| Capital reserve | **359.7** | 359.7 | 359.7 |
| Profit and loss account | **(519.2)** | (438.6) | (445.1) |
| Shareholders' funds (all attributable to equity interests) | **363.7** | 438.9 | 432.4 |
| Minority interests (equity) | **0.9** | 1.2 | 1.2 |
| Total liabilities and shareholders' funds | **12,051.9** | 11,512.9 | 11,692.4 |

# Egg plc

**Consolidated Cash Flow (Unaudited)**

| | **Nine months to 30 Sept 2004 £m** | Nine months to 30 Sept 2003 £m | (Audited) Full Year 2003 £m |
|---|---|---|---|
| Net cash inflow/(outflow) from operating activities | 9.7 | (343.0) | (259.9) |
| Return on investments and servicing of finance | (24.4) | (17.7) | (25.9) |
| Taxation: | | | |
| Tax paid | (8.5) | (4.3) | (3.8) |
| Capital expenditure and financial investment: | | | |
| Purchase of tangible fixed assets | (25.7) | (32.8) | (46.7) |
| Sale of tangible fixed assets | 1.9 | 0.1 | - |
| Restricted share plan purchase of shares | - | (3.0) | (3.0) |
| Purchase of investments | (4,253.2) | (4,614.9) | (5,960.7) |
| Sale of investments | 4,472.8 | 5,022.6 | 5,996.9 |
| Net cash inflow/(outflow) from capital expenditure and investment | 195.8 | 372.0 | (13.5) |
| Financing: | | | |
| Issue of dated loan capital | - | 249.1 | 249.1 |
| Issue of share capital | 5.4 | 0.4 | 0.4 |
| Net cash inflow from financing | 5.4 | 249.5 | 249.5 |
| Increase/(decrease) in net cash | 178.0 | 256.5 | (53.6) |

# Egg plc

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

| | **Nine months to 30 Sept 2004 £m** | Nine months to 30 Sept 2003 £m | (Audited) Full Year 2003 £m |
|---|---|---|---|
| Operating profit/(loss) | 10.0 | (23.4) | (32.5) |
| (Increase)/decrease in prepayments and accrued income | (5.1) | (1.7) | 0.6 |
| Increase in accruals and deferred income | 43.0 | 4.3 | 8.1 |
| Provision for bad and doubtful debts | 52.3 | 48.3 | 64.2 |
| Profit on sale of financial investments | (1.6) | (5.0) | (5.3) |
| Utilisation of France exit cost provision | (19.7) | | |
| Depreciation and amortisation | 42.1 | 30.1 | 47.6 |
| Interest on subordinated liabilities | 24.4 | 17.7 | 25.9 |
| Net increase in loans and advances to banks and customers | (610.9) | (1,205.8) | (1,379.0) |
| Net (increase)/decrease in securities purchased under agreements to resell | (1.4) | 150.0 | 150.0 |
| Net increase/(decrease) in deposits by banks and customer accounts | 989.4 | (384.4) | (455.2) |
| Net (decrease)/increase in securities sold under agreements to repurchase | (298.1) | 612.3 | 829.2 |
| Net (decrease)/increase in debt securities in issue | (295.5) | 407.7 | 408.0 |
| Net decrease/(increase) in other assets | 54.6 | (82.9) | (47.1) |
| Net (decrease)/increase in other liabilities | (46.6) | 73.6 | 165.8 |
| Net increase/(decrease) in settlement balances | 74.9 | 11.7 | (44.9) |
| Other non-cash movements | (2.1) | 4.5 | 4.7 |
| Net cash inflow/(outflow) from operating activities | 9.7 | (343.0) | (259.9) |

## Reconciliation of movement in shareholders' funds (Unaudited)

| | **Nine months to 30 Sept 2004** | Nine months to 30 Sept 2003 Restated | (Audited) Full Year 2003 Restated |
|---|---|---|---|
| | **£m** | £m | £m |
| Retained loss for the financial period | **(69.6)** | (25.3) | (32.8) |
| Exchange and other adjustments | **(4.0)** | 4.5 | 4.4 |
| Increase in share capital | **1.9** | 0.2 | 0.2 |
| Share premium | **3.5** | 0.2 | 0.2 |
| Awards under incentives schemes | **(0.5)** | 1.3 | 2.5 |
| Net decrease in shareholders' funds | **(68.7)** | (19.1) | (25.5) |
| Opening shareholders' funds | **432.4** | 457.9 | 457.9 |
| Closing shareholders' funds | **363.7** | 438.8 | 432.4 |

### Notes on financial information

a) The financial information has been prepared on the basis of the accounting policies set out in the Notes to the Financial Statements within the Egg plc Annual Report and Accounts for the year ended 31 December 2003 and are unchanged for the period to 30 September 2004, with the exception of the adoption of the requirements of Abstract 38 issued by the Urgent Issues Task Force on Accounting for ESOP Trusts, the effect of which has been to reclassify shares held by the Egg Employee Trust as a deduction from shareholders' funds. The comparatives have been amended as appropriate.

b) The financial information set out above does not constitute the Group's statutory accounts for the years ended 31 December 2003 but is derived from those accounts. The auditors have reported on this set of accounts: their reports were unqualified and did not contain statements under section 237(2) or (3) of the Companies Act 1985.

c) Group operating loss is stated after charging provisions for bad and doubtful debts of £143.9 million (30 September 2003: £100.4 million). The balance sheet provisions for bad and doubtful debts and movements thereon were:

| | General | Specific | **Total** |
|---|---|---|---|
| | £m | £m | **£m** |
| Balance at 1 January 2004 | 51.2 | 142.2 | **193.4** |
| Exchange adjustments | - | (0.1) | **(0.1)** |
| Amounts written off | - | (87.8) | **(87.8)** |
| New and additional provisions | 2.8 | 141.1 | **143.9** |
| Net charge against profit and loss | 2.8 | 141.1 | **143.9** |
| Balance at 30 Sept 2004 | 54.0 | 195.4 | **249.4** |
| Balance at 30 Sept 2003 | 47.6 | 129.7 | **177.3** |

Provisions at 30 September 2004 were 3.3% of advances to customers (30 September 2003: 2.7%).

d) The movement on the provision for exit costs in France is as follows:

| | **Nine months to 30 Sept 2004** | Nine months to 30 Sept 2003 |
|---|---|---|
| | **£m** | £m |
| Opening balance | **-** | - |
| Provision raised | **112.8** | - |
| Amounts utilised | **(19.7)** | - |
| Exchange adjustments | **3.7** | - |
| Closing balance | **96.8** | - |

e) The taxation charge assumes a UK corporation tax rate of 30% (2003: 30%) and comprises:

| | **Nine months to 30 Sept 2004** | Nine months to 30 Sept 2003 |
|---|---|---|
| | **£m** | £m |
| Tax credit/(Corporation tax payable) | **33.3** | (0.7) |

f) Loss per share of 8.5p (30 September 2003: 3.1p) is calculated by dividing the loss after tax for the financial period of £69.6 million (30 September 2003: £25.3 million) by the weighted average of 819.1 million (30 September 2003: 814.8 million) ordinary shares in issue during the period.

g) Egg's share of the gross assets and liabilities in respect of joint venture undertakings is as follows:

| | **30 Sept 2004** | 30 Sept 2003 |
|---|---|---|
| | **£m** | £m |
| Gross assets | **3.0** | 3.2 |
| Gross liabilities | **(1.7)** | (2.4) |
| Shares in joint ventures | **1.3** | 0.8 |

h) The table below analyses the Group results for the 9 months to 30 September 2004 by the geographical area in which business is generated. Certain costs incurred in the UK on behalf of France are included in the results of France.

| | **UK** | **France** | **Group** |
|---|---|---|---|
| | **£m** | **£m** | **£m** |
| Interest receivable | **662.0** | **9.6** | **671.6** |
| Fees and commissions receivable | **156.8** | **4.2** | **161.0** |
| Profit on disposal of investments | **1.6** | **-** | **1.6** |
| Other operating income | **3.4** | **-** | **3.4** |
| **Gross income** | **823.8** | **13.8** | **837.6** |
| Operating profit/(loss) | **45.0** | **(35.0)** | **10.0** |
| Provision for exit costs | | **(112.8)** | **(112.8)** |
| Share of operating profit of joint venture | **0.4** | **-** | **0.4** |
| Share of operating loss of associates and amortisation of goodwill | **(0.9)** | **-** | **(0.9)** |
| **Profit/(loss) before taxation** | **44.5** | **(147.8)** | **(103.3)** |

# Egg plc

**Average Balance Sheet (UK Business Only)**

**(£m, except percentages)**

| | **30 Sept 2004** | | 30 Sept 2003 | | 31 December 2003 | |
|---|---|---|---|---|---|---|
| | **Avg. Balance** | **Avg. Rate %** | Avg. Balance | Avg. Rate % | Avg. Balance | Avg. Rate % |
| **Assets** | | | | | | |
| Wholesale assets | **4,257** | **4.44** | 4,389 | 4.04 | 4,345 | 4.11 |
| Mortgages | **1,920** | **4.91** | 2,260 | 4.75 | 2,210 | 4.74 |
| Personal loans | **2,009** | **7.39** | 1,214 | 8.20 | 1,326 | 8.03 |
| Credit cards | **3,046** | **9.51** | 2,550 | 9.67 | 2,650 | 9.59 |
| Total average interest-earning assets | **11,232** | **6.42** | 10,413 | 6.06 | 10,531 | 6.12 |
| Fixed and other assets | **109** | | 166 | | 157 | |
| **Total assets** | **11,341** | | 10,579 | | 10,688 | |
| **Liabilities** | | | | | | |
| Customer accounts | **6,357** | **3.61** | 7,383 | 3.36 | 7,149 | 3.32 |
| Wholesale liabilities and subordinated debt | **4,282** | **4.52** | 2,523 | 5.10 | 2,875 | 4.04 |
| Total average interest-bearing liabilities | **10,639** | **3.98** | 9,906 | 3.81 | 10,024 | 3.52 |
| Other liabilities | **229** | | 236 | | 234 | |
| **Total liabilities** | **10,868** | | 10,142 | | 10,258 | |
| **Shareholders' funds** | **473** | | 437 | | 430 | |
| **Total liabilities and shareholders funds** | **11,341** | | 10,579 | | 10,688 | |

**Note:** The above analysis represents interest earned or borne on on-balance sheet assets and liabilities only. In each case the average balances and yields have been calculated on a 12-month rolling basis. Comparatives have been restated.

**Average Yields (UK Business Only)**

| | **30 Sept 2004 Average rate %** | 30 Sept 2003 Average rate % | 31 December 2003 Average rate % |
|---|---|---|---|
| Interest income as a percentage of average interest-earning assets | **6.42** | 6.06 | 6.12 |
| Interest expense as a percentage of average interest-bearing liabilities | **3.98** | 3.81 | 3.52 |
| Interest spread | **2.44** | 2.25 | 2.60 |
| Net interest margin (includes interest on off-balance sheet items) | **2.54** | 2.44 | 2.50 |

**Note:**

This press release contains certain forward-looking statements with respect to the financial condition, results of operations, and businesses of the Egg Group. These statements and forecasts involve risk and uncertainty because they relate to events that depend upon circumstances that will occur in the future. There are a number of factors that could cause actual results or developments to differ materially from those expressed or implied by these forward-looking statements and forecasts. The statements have been made with reference to forecast price changes, economic conditions and the current regulatory environment. Nothing in this press release should be construed as a profit forecast.

**Ends**

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# Egg plc

**Notes to Editors:**

1. Egg plc is the world's largest pure online bank, providing financial services products through its Internet site and other distribution channels.

2. Egg plc floated on 12 June 2000 and is listed on the London Stock Exchange. Prudential plc holds 78% of the share capital.