Not For Release until 07.00h, 25 February 2002

Egg plc

Preliminary Results 2001
(Full Year to 31 December 2001)

"Egg has built a significant and sustainable business in the UK, and achieved substantial growth in an increasingly competitive marketplace. We remain committed to delivering long-term value to shareholders through building an international business of scale and leading the industry for innovation in financial services."

Paul Gratton, Chief Executive, Egg plc

Financial Highlights:

- Operating income up 103% to £189.4 million (2000: £93.2 million)
- Reduction of 43% in pre-tax losses to £87.8 million (2000: £155.3 million)
- Loss per share of 7.6p (2000: 14.3p)
- Achieved our target of breakeven during Q4 2001

Business Highlights:

- Strong customer growth: total customers now exceed 2 million
- Credit card balances double to £1.8 billion (2000: £0.9 billion)
- Credit quality remains strong with low and stable arrears levels
- Egg's launch in Europe accelerated through acquisition of Zebank and associated distribution partnerships

Chief Executive Paul Gratton said:

"Egg has achieved substantial growth in 2001. We acquired 600,000 net new customers during the year, principally through our credit card business, which has now captured over 4% of total balances in the card market in a little over two years.

"Since launch Egg has gone from strength to strength. We have fulfilled our published commitments at time of flotation to bring the UK business into profitability during the fourth quarter of the year and we are confident that our UK business is now sustainably profitable.

"Throughout this year, we have shown at each set of quarterly results, that we are able to increase customers numbers and revenues whilst driving down unit costs. The operational and marketing efficiencies we have achieved during the year position us well for the future.

"In just over three years of trading, Egg has built a significant and sustainable business in the UK, and achieved growth in an increasingly competitive marketplace. We remain committed to delivering long-term value to shareholders through building an international business of scale and leading the industry for innovation in financial services."

Outlook

Mr Gratton continued:

"2002 will be an important year for Egg. We are now developing our international business, in France through the acquisition of Zebank and associated distribution parnerships. Our commercial alliance with Microsoft is progressing well, and we have extended our deal beyond investments to also offer digital payments services to their 10 million hotmail users in the UK as well as having secured advantageous distribution deals for other products, including credit cards.

“We have had a good start to the year with 82,000 new customers acquired up to 21 February 2002 and we now have over 2 million customers. Our website, egg.com, remains one of the leading financial services websites in the UK with over 1 million unique users (source: Nielsen/Netratings, January 2002). Latest findings from the Egg Index report, conducted by MORI, show the online banking market growing some 5% in the last 3 months to 33% (MORI, Embracing Technology, February 2002).*[1]

“Egg remains firmly committed to leveraging the opportunities presented in the digital financial services marketplace. We are encouraged by consumers increasing rates of adoption of technology for managing and investing their money. In addition to the digital payments offering we intend to launch shortly with Microsoft, we will also be launching our aggregation service.”

Business Performance

Customer Acquisition

Egg has had a year of strong growth as evidenced by the 600,000 net new customers acquired during 2001 (2000: 559,000), leading to a year-end total of 1.95 million. The final quarter of the year showed a return to previous levels of growth with 147,000 customers acquired (Q4 2000: 140,000). This was encouraging following the slowdown we had experienced in the third quarter in the aftermath of September 11th. Today, we have over 2 million customers.

We achieved over 450,000 product cross sales in 2001 compared to 275,000 in 2000. This led to a year-end cross-holdings ratio of 1.44. Encouragingly this growth in cross-holdings among the customer base has contributed to a strong growth in revenue per customer from £85 on average in 2000 up to £111 on average in 2001.

<u>Banking</u>

The credit card business has performed extremely well during 2001. At year end we had 1.37 million credit card customers and balances nearly doubled to £1.77 billion (2000: £0.93 billion). We are particularly pleased with the continuing loyalty of card customers, with approximately 87% electing to remain with Egg after the introductory rate offer expires. We continue to attract an upmarket customer, who typically earns c. £30k per annum and whose Egg Card has an average balance of £1,600 (national average, £900) and an average spend of £2,600 (national average, £1,400).

Egg Mortgages had a satisfactory year. The book has grown 18% reaching £1.0 billion. The Egg Saver mortgage, which offsets interest against people's deposit balances now accounts for approximately 65% of our mortgage applications since its launch in June 2001. We have not been actively marketing mortgages in the face of selective and aggressive backbook re-pricing by the larger incumbents. Following the Banking Ombudsman's recent ruling on this practice by our competitors, allied with the fourth quarter improvement in our volumes thanks to the Egg Saver Mortgage, we are confident that we can continue to profitably grow the mortgage business.

Egg Loans continue to be offered as a cross-sale primarily to the Egg Card base. This is part of Egg's holistic strategy in relation to unsecured lending. Balances grew 37% year on year to £587 million with disbursements up 21% at £419 million. Customer numbers increased by 25,000 and marketing acquisition cost per customer fell significantly from £109 in 2000 to £27 in 2001.

Credit performance in both the secured and unsecured books remains strong with arrears levels remaining at low levels in all portfolios. Impaired balances as a percentage of total balances in the secured portfolio were 0.32% at the end of both fiscal years. For the unsecured portfolio the figures were 2.41% at end 2001 and 2.29% at end 2000. We continue to maintain a prudent view on provisioning for bad debts.

Egg Savings saw a net outflow of £1.1 billion, which was in line with expectations following the re-pricing of the book. Despite a small net growth in deposit customers, the average savings balance has reduced to approximately £10,000 per account with the loss of the unprofitable larger balances. The overall net interest contribution from deposits was £15.4 million in 2001 compared to a cost of £3.0 million in 2000. Additional re-pricing of the offline book in January 2002 is expected to lead to further outflows on these accounts during the first quarter, but will improve contribution further. We plan to introduce some new initiatives and offers for the savings base later this year, which we believe will increase balances and lead to an overall net inflow for the year across the portfolio of savings products.

Intermediation

Egg Invest has had a satisfactory year with 37,000 customers at end December and approximately £130m invested. The 2001 ISA season was disappointing in absolute terms for all providers with equity ISA volumes significantly down on previous years. Against this backdrop Egg Invest secured 2% of the total equity ISA market in the last five weeks of the season. Whilst we expect the market to have a subdued ISA season again this year it is encouraging that our enquiries for ISAs are currently running ahead of the same period last year.

To further enhance our B2B ambitions in the investment market Egg has recently acquired Fundsdirect, an online fund supermarket. The merger of Egg Invest with Fundsdirect represents the consolidation of two of the UK's leading fund supermarkets combining Egg's leading edge, scale, digital service capability and consumer offering with Fundsdirect's proven ability to serve the B2B marketplace. The net assets of Fundsdirect at 31 December 2001 were £2.7 million.

Egg Insure and Egg Shop continue to provide positive contributions with total intermediation revenues increasing to £2.5 million (2000: £1.5 million).

Egg France

We recently announced our intention to launch Egg in France in 2002. To accelerate this entry strategy we have, subject to regulatory approval, acquired Zebank, the leading French online banking business, for Euro 8 million (c. £5 million) in cash. Zebank's net asset value as at 31 December 2001 was Euro 31 million (c. £19 million). Zebank will provide valuable capability in terms of call centre, people and system assets. In addition to this deal we have signed distribution partnerships with the French retailers Sephora and La Samaritaine to provide access to their customer bases and physical presence for our brand.

We intend to offer a comprehensive range of financial services products and services, which have researched very well with French consumers. We will not be announcing further details until closer to the launch date to protect our competitive advantage.

The plans for Egg in France target breaking through into profit by the end of 2004. The total size of the profit and loss investment in the first three years in launching the business and acquiring the customer base is expected to be approximately £100 million, by which time Egg expects to have over 1 million customers in France. This includes a planned £50 million of brand and marketing spend and £15 million of development costs.

Microsoft

In addition to the commercial alliance announced in July 2001, Egg has extended its relationship with Microsoft's leading European consumer portal to offer a wider range of financial services products, including cards, in both the UK and France. We are working together to offer digital payments services to Microsoft's customers, including hotmail users.

We will shortly be launching our investment platform on MSN in the UK, and we look forward to introducing the egg@msn investment platforms in France later this year.

Overview of Results

Group loss before tax decreased by 43% to £87.8 million (2000: £155.3 million) as explained below.

Net interest income increased by £65.7 million to £145.7 million for the year, reflecting an increase in net interest margin to 1.90% (2000: 0.97%). This increase was driven by both changes to product pricing on Egg Card and savings products and the maturing nature of those books which means a smaller proportion of our customer base are on dilutive introductory offers. In addition the risk-adjusted margin (after allowing for bad debt provisions) has also grown strongly each quarter and by year-end had reached 1.01%, in line with our IPO target of 1.00%.

Other operating income increased by £30.5 million to £43.7 million primarily reflecting fees and commissions earned from the larger banking book, particularly unsecured lending products. Commissions and profit share receivable on sale of associated insurances on personal loans and mortgages accounts for the majority of this revenue. Our penetration rates on sales of associated insurance on personal loans remain strong at 56%. Credit card fee income has also risen on the back of the increase in customers with interchange income, cash advance fees and currency fees all up strongly in line with the greater number of transactions completed this year.

Administrative expenses decreased by £8.2 million to £184.5 million. Within this total operational and administrative expenses totalled £132.0 million (2000: £108.4 million) reflecting the rapid growth in customer numbers (up 44% year on year) and transaction volumes over the past year plus the additional lines of business now in place. It also reflects £2.6 million of cost invested in building our international businesses including market research and partnership activity and

£2.7 million of one-off restructuring costs. On a unit cost per customer basis operational and administrative expenses have reduced from £99 in 2000 to £75 in 2001. This improvement is due to both operational process improvements and economies of scale in both customer facing and overhead areas.

Brand and marketing costs at £35.8 million (2000: £50.7 million) have reduced significantly despite record customer growth. This is due to greater efficiency in our marketing campaigns this year, which has seen unit customer acquisition costs fall across all banking products. It also reflects the continuing positive impact of Egg's high levels of brand awareness, which have consistently been around 88% throughout the year.

In addition development costs more than halved to £16.7 million in 2001. This included £2.8 million of spend on international projects and globalising our investment platforms. The majority of the investment needed to deliver the core systems and product infrastructure in the UK had been delivered in the previous year. Moving forward we expect this line to grow in 2002 reflecting our intention to spend approximately £15 million on new product development in France on top of ongoing improvements in the UK.

Depreciation increased by £3.8 million to £20.7 million reflecting the investment in fixed assets in the previous year.

The charge for bad and doubtful debts was £68.0 million (2000: £37.2 million). The increase reflects the significant growth in credit card balances this year (£840 million) and the resulting change in mix of the retail asset book with the unsecured lending book now equivalent to the secured book at £2.4 billion each. The underlying performance of both books remains strong. The average loan-to-value ratio in the mortgage book is 56% and default levels are minimal. Within the unsecured portfolio we continue to see low and stable levels of arrears (2001: 2.41% of total balances).

The charge for joint ventures (£0.1 million (2000: nil)) relates to Marlborough Stirling Mortgage Services Limited. This joint venture is proving highly successful in the mortgage administration market winning key clients such as Standard Life Bank and Alliance and Leicester, during the year. This business is expected to make a positive contribution in 2002.

The charge for associates (£3.9 million (2000: £1.7 million)) reflects Egg's share of the IfOnline Group Limited losses for the year. In 2000 the charge was only from period post purchase to year-end. This business is expected to achieve breakeven during the latter part of 2002.

The tax credit for the year was £25.7 million, an effective rate of 29% (2000: 26%). The tax rate has increased due to the early adoption of FRS 19 'Deferred taxation'. Deferred taxation is now recognised on all timing differences that have originated but not reversed by the balance sheet date. Our tax losses for 2001 will be surrendered to other Prudential Group companies.

Loss attributable to ordinary shareholders after tax decreased by 43% to £62.1 million.

Loss per share decreased to 7.6p from 14.3p.

Total assets remained relatively stable at £8.1 billion for 2001. Within this, loans and advances to customers grew by £1.0 billion mainly due to the success of the credit card business.

Total liabilities also remained stable at £7.6 billion in 2001. Customer deposits reduced by £1.2 billion to £5.9 billion. Egg now has £0.9 billion of debt securities in issue. These were issued under the Euro Medium Term Note programme, launched earlier in the year.

Capital adequacy ratios at 31 December 2001 were 10.1% (tier 1) and 13.6% (total) (2000: 12.4% (tier1) and 12.9% (total)). In June 2001 Egg raised £124 million of subordinated debt to supplement its strong equity capital base. In addition Egg also implemented further capital efficiency initiatives by putting in place a credit derivative on £1.1 billion of asset-backed securities within our treasury investment portfolio. This follows the credit derivative covering £0.9 billion of mortgages that was implemented last year.

Egg plc

Financial Information

New Business Figures

	31 Dec 2001	31 Dec 2000
Total Egg Customers (1) (2) (3)	**1,950,624**	1,351,339
Egg Customers by product (1)		
- Credit Card (4)	**1,368,642**	744,545
- Savings (3)	**625,720**	620,804
- Personal loans (3)	**102,727**	78,797
- Mortgages (3)	**24,827**	20,545
- Egg Invest (3)	**36,659**	10,951
- Egg Insure (3)	**23,665**	7,785
Product balances (1)	**£m**	£m
- Credit Cards	**1,769**	929
- Egg Savings	**5,656**	6,715
- Egg Mortgages	**1,003**	853
- Egg Personal Loans	**587**	427
- Prudential Savings	**289**	413
- Prudential Mortgages	**1,426**	1,553
- Prudential Personal Loans	**11**	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.

Egg plc

Consolidated profit and loss account

	Full year 2001 £m	Full year 2000 £m As restated
Interest receivable	**604.7**	657.3
Interest payable	**(459.0)**	(577.3)
Net interest income	**145.7**	80.0
Other operating income	**43.7**	13.2
Operating income	**189.4**	93.2
Administrative expenses		
- operational and administrative expenses	**(132.0)**	(108.4)
- brand and marketing costs	**(35.8)**	(50.7)
- development costs	**(16.7)**	(33.6)
Depreciation and amortisation	**(20.7)**	(16.9)
Provisions for bad and doubtful debts	**(68.0)**	(37.2)
Operating loss	**(83.8)**	(153.6)
Share of operating loss of joint ventures	**(0.1)**	-
Share of Associates losses	**(3.9)**	(1.7)
Loss on ordinary activities before tax	**(87.8)**	(155.3)
Tax credit on loss on ordinary activities	**25.7**	45.7
Retained loss for the financial year	**(62.1)**	(109.6)
Basic and diluted loss per share (pence per share)	**(7.6p)**	(14.3p)

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

The 2000 results have been restated for the prior year adjustment in respect of the implementation of Financial Reporting Standard 19 'Deferred Taxation.'

Egg plc

Consolidated statement of total recognised gains and losses

	Full year 2001 £m	Full year 2000 £m As restated
Retained loss for the financial year	**(62.1)**	(109.6)
Total recognised losses related to the year	**(62.1)**	(109.6)
Note on prior period adjustment		
Total recognised losses related to the year	**(62.1)**	
Prior year adjustment in relation to the implementation of FRS 19	**11.5**	
Total recognised losses since the last annual report	**(50.6)**	

Egg plc

Consolidated balance sheet

	December 2001 £m	December 2000 £m As restated
Assets		
Cash and balances at central banks	**9.1**	7.1
Loans and advances to banks	**67.2**	237.5
Loans and advances to customers	**4,712.4**	3,736.1
Debt securities	**3,060.9**	3,685.9
Shares in joint ventures	**0.9**	-
Investment in associated undertakings	**9.7**	13.0
Tangible fixed assets	**54.5**	62.8
Own shares	**2.2**	2.2
Deferred tax	**14.8**	11.5
Other assets	**77.4**	69.4
Prepayments and accrued income	**74.5**	119.7
Total assets	**8,083.6**	7,945.2
Liabilities		
Deposits by banks	**4.8**	5.8
Securities sold under agreements to repurchase	**384.2**	-
Customer accounts	**5,944.5**	7,127.6
Debt securities issued	**915.0**	-
Other liabilities	**108.5**	104.2
Accruals and deferred income	**127.1**	172.1
Subordinated liabilities		
- Dated loan capital	**123.6**	-
Total liabilities	**7,607.7**	7,409.7

	December 2001 **£m**	December 2000 £m As restated
Shareholders' funds		
Called up share capital	**409.6**	409.5
Share premium account	**106.2**	106.1
Capital reserve	**359.7**	359.7
Profit and loss account	**(399.6)**	(339.8)
Shareholders' funds (all attributable to equity interests)	**475.9**	535.5
Total liabilities and shareholders' funds	**8,083.6**	7,945.2

Egg plc

Consolidated Cash Flow

	Full year 2001	Full year 2000
	£million	£million
Net cash outflow from operating activities	**(763.4)**	(450.0)
Return on investments and servicing of finance	**(4.4)**	-
Taxation:		
Group relief received	**31.5**	42.3
Capital expenditure and financial investment:		
Purchase of tangible fixed assets	**(11.3)**	(31.2)
Sale of tangible fixed assets	**-**	1.0
Own shares	**-**	(2.2)
Purchase of investments	**(2,411.4)**	(6,966.4)
Sale of investments	**3,039.5**	7,250.4
Net cash inflow from capital expenditure and investment	**616.8**	251.6
Acquisition and disposals		
- Purchase of associated undertaking	**(1.7)**	(15.2)
- Purchase of joint venture undertaking	**(1.0)**	-
Net cash outflow from acquisitions and disposals	**(2.7)**	(15.2)
Financing:		
Issue of dated loan capital	**123.6**	-
Issue of share capital	**0.2**	172.7
Net cash inflow from financing	**123.8**	172.7
Increase in net cash	**1.6**	1.4

Reconciliation of loss before tax to net operating cash flows

	Full year 2001	Full year 2000
	£million	£million
Operating loss	**(83.8)**	(153.6)
Decrease/(increase) in accrued income and prepayments	**45.2**	(1.7)
(Decrease)/increase in accruals and deferred income	**(45.0)**	14.2
Provision for bad and doubtful debts	**38.3**	30.7
Profit on sale of financial investment	**(0.9)**	(3.1)
Depreciation and amortisation	**31.3**	21.8
Interest on subordinated liabilities	**4.4**	-
Net cash outflow from trading activities	**(10.5)**	(91.7)
Net (increase)/decrease in loans and advances to banks and customers	**(844.7)**	652.1
Net decrease in deposits by banks and customer accounts	**(1,184.1)**	(1,032.8)
Net increase in securities sold under agreements to repurchase	**384.2**	-
Net increase in debt securities in issue	**915.0**	-
Net (increase)/decrease in other assets	**(27.5)**	63.1
Net increase/(decrease) in other liabilities	**0.9**	(29.1)
Net increase/(decrease) in items in the course of collection	**3.3**	(11.6)
Net cash (outflow) from operating activities	**(763.4)**	(450.0)

Reconciliation of movement in shareholders' funds

	Full year 2001 £m	Full year 2000 £m As restated
Retained loss for the financial period	**(62.1)**	(109.6)
Increase/(decrease) in share capital	**0.1**	(287.4)
Share premium	**0.1**	106.1
Capital reserve created	**-**	359.8
Other movements – awards under incentive schemes	**2.3**	(5.8)
Net (decrease)/increase in shareholders' funds	**(59.6)**	63.1
Opening shareholders' funds	**535.5**	472.4
Closing shareholders' funds	**475.9**	535.5

Notes on financial information

a) The financial information has been prepared on the basis of the accounting policies set out in our upcoming annual report.

b) The financial information set out above does not constitute the Group's statutory accounts for the years ended 31 December 2001 or 2000 but is derived from those accounts. Statutory accounts for 2000 have been delivered to the registrar of companies, and those for 2001 will be delivered following Egg plc'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.

c) Group operating loss is stated after charging provisions for bad and doubtful debts of £68.0 million (2000: £37.2 million). The balance sheet provisions for bad and doubtful debts and movements thereon were:

	General	Specific	**Total**
	£million	£million	**£million**
Balance at 1 January 2001	17.8	24.7	**42.5**
Amounts written off	-	(29.7)	**(29.7)**
New and additional provisions	9.6	58.4	**68.0**
Net charge against profit and loss	9.6	58.4	**68.0**
Balance at 31 December 2001	27.4	53.4	**80.8**
Balance at 31 December 2000	17.8	24.7	**42.5**

Provisions at 31 December 2001 were 1.7% of advances to customers (2000: 1.1%). The formulated provision has now been included within the specific provision to reflect the increasing amount of empirical evidence available. The 2000 comparatives have been reclassified accordingly.

d) The taxation credit assumes a UK corporation tax rate of 30% (2000: 30%) and comprises:

	Year to 31 Dec 2001	Year to 31 Dec 2000
	£million	£million
Group relief receivable	**25.7**	45.7

e) Basic loss per share of 7.6p (2000: 14.3p) is calculated by dividing the loss for the financial period (after tax) of £62.1 million (2000: £109.6 million) by the weighted average of 813.1 million (2000: 767.4 million) ordinary shares in issue during the period. Diluted loss per share of 7.6p (2000: 14.3p) is calculated by dividing the loss for the financial period (after tax) of £62.1 million (2000: £109.6 million) by the weighted average of 814.2 million (2000: 767.4 million) ordinary shares in issue during the period.

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

	Year to 31 Dec 2001	Year to 31 Dec 2000
	£million	£million
Gross assets	**3.3**	-
Gross liabilities	**(2.4)**	-
	0.9	-

Egg plc

a) Average Balance Sheet

(£m, except percentages)

	Year ended 31 Dec 2001		Year ended 31 Dec 2000	
	Avg. Balance	Avg. Rate %	Avg. Balance	Avg. Rate %
Assets				
Wholesale assets	**3,225**	**5.90**	5,279	6.21
Mortgages	**2,448**	**6.26**	2,044	6.77
Personal loans	**538**	**9.73**	322	10.16
Credit cards	**1,443**	**7.38**	599	6.69
Total average interest-earning assets	**7,654**	**6.56**	8,244	6.55
Fixed assets	**58**		50	
Other assets	**159**		182	
Total assets	**7,871**		8,476	
Liabilities				
Customer accounts	**6,413**	**4.89**	7,613	5.92
Wholesale liabilities and subordinated debt	**629**	**5.03**	27	3.67
Total average interest-bearing liabilities	**7,042**	**4.86**	7,640	5.91
Other liabilities	**371**		324	
Total liabilities	**7,413**		7,964	
Shareholders' funds	**458**		512	
Total liabilities and shareholders funds	**7,871**		8,476	

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

Average Yields

	Year ended 31 December 2001 Average rate %	Year ended 31 December 2000 Average rate %
Interest income as a percentage of average interest-earning assets	**6.56**	6.55
Interest expense as a percentage of average interest-bearing liabilities	**4.86**	5.91
Interest spread	**1.70**	0.64
Net interest margin	**1.90**	0.97

Note: In 2001 the net interest margin includes the effect of interest on off-balance sheet items. The comparatives have been restated to reflect this change.

ends

For further information:

Media:

Egg Press Office (main number) 020 7526 2600

prteam@egg.com

Emma Byrne: 020 7526 2565 / mobile: 07775 657 241

emma.byrne@egg.com

Investors/Analysts:

Kieran Coleman 020 7526 2648 / mobile: 07711 717 358

kieran.coleman@egg.com

Notes to Editors:

1. Embracing Technology, the Egg / MORI is published every quarter. For a full copy of the latest report – due out in March – please contact the press office on the numbers listed above.

2. Egg plc is the UK's leading digital 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.