Egg plc

Under Embargo until 07.00h, 23 February 2004

Egg plc

Preliminary Results Announcement

(Full Year to 31 December 2003)

"The performance underlying the Group loss of £34 million reflects a year of two extremes.

In the UK Egg has had a phenomenal year, doubling profits to £73 million in 2003 and delivering a record level of customer acquisition with 635,000 net new customers joining Egg. We have now attracted an enviable customer base of over 3 million, whose income and propensity to hold financial products is significantly above the national average. We are well positioned for further growth and profitability.

However, in France, as previously reported the underlying business performance has been very disappointing. Whilst we still believe there is a significant market opportunity for a consumer-sided financial services business in France we clearly underestimated the level of investment required to deliver a scale business. As we explained last October we do not believe that it is appropriate for Egg to pursue this opportunity on a standalone basis. The search for a strategic partner has since been superseded by Prudential considering proposals for its shareholding in Egg. In the meantime we are managing discretionary expenditure tightly in Egg France as we await the conclusion of this process."

Paul Gratton, CEO, Egg plc

Highlights:

Analysis of Group Profit and Loss Account

	2003	2002
	£m	£m
Egg UK Operating Profit	**72.8**	34.8
Egg France Operating Profit	**(89.1)**	(46.7)
Other International	**(4.2)**	(3.4)
Subsidiaries/Associates/JV's	**(3.6)**	(1.3)
Restructuring	**(10.3)**	-
Group Loss before Tax	**(34.4)**	(16.6)

Group

- Group operating income up 30% to £424 million (2002: £327 million)
- Group loss before tax of £34 million (2002: £17 million)
- Group loss per share 4.0p (2002: 2.3p)
- Total group assets of £11.7 billion (2002: £10.6 billion)

UK

- Egg UK more than doubled operating profit to £73 million (2002: £35 million)
- The Q4 profit before tax was £16 million (Q3 2003: £20 million) but this included £9 million of one-off adverse items in the fourth quarter
- Egg UK customer base now at 3.2 million, achieving record growth of 635,000 net new customers acquired in 2003 (2002: 610,000)
- Unsecured lending balances grew by £1.5 billion (2002: £0.9 billion) leading to period end balances of £4.8 billion (Cards: £3.0 billion, Personal Loans: £1.8 billion)
- Record sales growth in personal loans with drawdowns of £1.7 billion year to date, more than double the levels achieved in 2002 (£0.8 billion)
- In 2003 Egg took 10% of the net increase in UK credit cards and 12% of the net growth in the UK personal loan market
- Credit quality remains strong with card delinquency levels still well below industry average

France

- Operating loss of £89 million (€128 million) in 2003
- Card balances growing to €171 million, up 36% on Q3 2003
- 66,000 cards in issue with 80% of card balances now revolving
- Total customers now reached 130,000

Chief Executive Paul Gratton said:

"The UK business has performed impressively in 2003. Profits have more than doubled and it was a record year for customer acquisition. Both these results were delivered against the backdrop of increasing competition and demonstrate the ability of our brand and marketing effort to differentiate the Egg offering and target the right people to whom our proposition appeals. This was achieved at an extremely low marketing acquisition cost of £33 per card, including brand spend, some 40% of the acquisition cost of our direct competitors and 74% of the industry average. We now have a proven track record of delivering both sustained profitability and rapid growth in the UK.

“Within unsecured lending in the UK we have continued to grow our market share of card balances to almost 6%, taking 10% of the net growth in the UK credit card market, while at the same time successfully cross selling record volumes of personal loans where we have taken 12% of the net growth in the UK personal loans market. Net lending growth was an impressive £1.5 billion, an increase of 60% on 2002 levels, taking total balances to almost £5 billion. Card balances now exceed £3 billion and at £1.8 billion, loan balances are an increasingly significant part of our business.

“The record UK operating profit of £73 million demonstrates the benefits of Egg’s business model continuing to emerge. Revenues grew almost 30% on the back of record sales volumes and increases in lending balances while expenses were held relatively flat. This led to our cost-income ratio improving to 51%, well on track to exceed our stated target of 40% by 2005. Credit quality remains strong with the card portfolio continuing to have significantly lower arrears rates than the industry average. We are particularly pleased that this strong profit performance has been achieved in a year where we invested heavily in growing the customer base and developing our business.

“In Egg France, as previously reported, business performance has been very disappointing. Whilst we still believe there is a significant market opportunity for a consumer-sided financial services business in France we clearly underestimated the level of investment required to deliver a scale business. As we explained last October we do not believe that it is appropriate for Egg to pursue this opportunity on a standalone basis. The search for a strategic partner has since been superseded by Prudential considering proposals for its shareholding in Egg. In the meantime we are managing discretionary expenditure tightly in Egg France as we await the conclusion of this process."

Overview of Group Results

Summary profit and loss account by quarter (Unaudited)

	Q4 2003	Q3 2003	Q2 2003	Q1 2003	Q4 2002
UK	**£m**	£m	£m	£m	£m
Net Interest Income	**72.5**	64.6	61.6	64.3	58.0
Other Operating Income	**39.4**	43.6	43.0	30.6	34.0
Egg UK Operating Income	**111.9**	108.2	104.6	94.9	92.0
Operational and Administrative Expenses	**(39.7)**	(36.8)	(34.3)	(32.9)	(36.8)
Brand and Marketing Costs	**(8.5)**	(6.5)	(9.9)	(9.0)	(7.9)
Development Costs	**(4.5)**	(5.9)	(4.6)	(4.9)	(3.3)
Depreciation and Amortisation	**(6.5)**	(4.4)	(3.4)	(4.0)	(4.2)
Amounts written off Fixed Asset Investment	**(4.3)**	-	-	-	(3.1)
Provisions for Bad and Doubtful Debts	**(32.3)**	(34.6)	(33.0)	(26.8)	(23.7)
Egg UK Operating Profit	**16.1**	20.0	19.4	17.3	13.0
France					
Net Interest Income	**1.5**	1.8	1.3	0.9	0.6
Other Operating Income	**(0.2)**	(0.3)	(0.1)	(0.7)	(1.0)
Egg France Operating Income	**1.3**	1.5	1.2	0.2	(0.4)
Operational and Administrative Expenses	**(10.4)**	(12.8)	(11.7)	(10.3)	(9.1)
Brand and Marketing Costs	**(3.2)**	(3.6)	(9.5)	(9.7)	(11.5)
Development Costs	**(0.9)**	(0.5)	(1.0)	(1.0)	(4.9)
Depreciation and Amortisation	**(2.1)**	(2.1)	(2.1)	(2.1)	(0.8)
Provisions for Bad and Doubtful Debts	**(4.3)**	(3.3)	(1.7)	(1.0)	(0.6)
Egg France Operating Loss	**(19.6)**	(20.8)	(24.8)	(23.9)	(27.3)
Other International	**(0.7)**	(0.7)	(0.5)	(2.3)	(0.7)
Subsidiaries/Associates/JV's	**(0.2)**	(0.6)	(1.2)	(1.6)	2.3
Restructuring Costs	**(5.1)**	-	-	(5.2)	-
Group Loss Before Tax	**(9.5)**	(2.1)	(7.1)	(15.7)	(12.7)

Egg UK

Revenues

Net interest income in Q4 2003 at £72.5 million increased 12% over Q3 levels (£64.6 million). This was in line with expectations given both the strong growth in retail assets and the improvement in margins as the dilution effect of the 0% offers in the first half of the year reduced.

Moving forward we expect net interest margins to be stable over the next few years with a prudent assumption that Egg absorbs the base rate rises implied in current yield curves but this is offset by the ongoing reduction in margin strain of new business which becomes a decreasing proportion of total balances. Assuming retail assets continue to grow in line with recent trends this should lead to a 15%-20% growth in net interest income each year.

Other operating income in the fourth quarter at £39.4 million was impacted by a one-off catch up adjustment of £4.5 million to increase the provision for rebates of commission earned on payment protection insurance. This reflects a slight increase in anticipated early redemption levels on the loan portfolio and affects all in-force loans written since the launch of Egg in 1998. Excluding this item Egg maintained the high level of non-interest income achieved in the second and third quarters mainly due to the commissions earned on cross-selling insurance on loans and cards in line with the higher product sales volumes achieved. There was a loss of £0.1 million on disposal of investment securities (Q3 2003: £2.4 million profit).

Year on year other operating income grew very strongly from £102.7 million in 2002 to £156.6 million in 2003. Looking ahead we expect further strong growth in this area as we continue to cross-sell successfully payment protection insurance at point of sale on cards and loans and as the growing card book generates increasing fee income to offset the expected reduction in interchange revenues.

Costs

Operational and administrative costs at £39.7 million for the quarter remain tightly managed with the slight increase over previous quarters in line with the continuing growth in business volumes.

For the full year 2003 operational costs at £143.7 million were up 8% on the previous year in a period where customer numbers grew 25%. We expect further economies of scale to emerge over the next few years as the business reaches maturity and Egg's ongoing investment in the development of systems and processes delivers additional benefits.

Brand and marketing costs were £8.5 million in Q4 2003 (Q3 2003: £6.5 million). The increase reflected the fact that there was a higher TV presence than in the traditionally quieter third quarter. Sales performance remained strong with 150,000 customers acquired compared to 141,000 in the final quarter of 2002. Unit marketing acquisition costs have been consistently low throughout 2003 and according to a MORI survey Egg is acquiring credit card customers at 40% of the cost of its direct competitors and 74% of the industry average.

In 2003 as a whole Egg spent £33.9 million on brand and marketing compared to £34.6 million in 2002. We expect to invest at similar levels going forward using both our enhanced CRM techniques and the power of our brand to maximise acquisition volumes and manage the existing portfolios to deliver our expected strong growth in lending balances.

UK development costs were £4.5 million for the quarter (Q3 2003: £5.9 million). The decrease reflects a £2.4 million adjustment in Q4 2003 to capitalise software development which had been expensed previously but are now considered fixed assets in line with our accounting policy. The underlying Q4 costs increased to £6.9 million primarily due to development work in preparation for the implementation of the Basel 2 Capital Accord.

The full year investment in development spend was £19.9 million (2002: £17.4 million). The higher level of investment reflects some new propositions we have been working on in 2003, the CRM capability enhancements now finished and the initial phases of the Basel 2 project completed. We expect the annual investment in the next few years to be at similar levels to 2002 and 2003.

Depreciation at £6.5 million in Q4 2003 reflected a prudent decision to accelerate the charge in relation to some software assets in our investment business. Excluding this item, the underlying charge of £4.2 million was in line with the previous quarter (£4.4 million). We expect the depreciation charge to remain stable at this underlying level over the next few years.

Amounts Written off Fixed Asset Investments

The £4.3 million cost reflects a specific provision booked in respect of an investment within Egg's Asset Backed Securities ("ABS") portfolio. Added to the £3.1 million booked in 2002 against another ABS asset, this takes total provisions up to the £7.4 million first loss amount on the credit default swap that covers the majority of the ABS portfolio.

Bad Debt Provisions

Credit quality remains good and provision levels reflect the continuing strong growth in the unsecured lending portfolio, the stage in life cycle of the card book and the increasing proportion of personal loans in the book. In the fourth quarter the bad debt charge saw the benefit of both operational improvements in the collections team and an enhanced scorecard now in use for credit cards since Q3. This resulted in a quarterly charge for Q4 2003 of £32.3 million (Q3 2003: £34.6 million).

The full year charge for bad debts was £126.7 million (2002: £84.1 million). This equates to 2.0% of average receivables in 2003 up from 1.6% in 2002 reflecting the change in mix in the book with a higher proportion of unsecured lending. We expect a similar 40 basis point increase in the charge as a percentage of average assets in 2004 for the same mix reasons, followed by a modest reduction in this metric in 2005 and 2006 as the unsecured portfolio matures and the benefits emerge from the enhanced scorecards and further automation in credit operations. Traditionally we see the peak levels of bad debts emerge in the first 12-18 months after acquiring a customer with the provision reducing as the account matures. This naturally means the average charge will reduce over time as the average age of the portfolio increases.

Egg France

The operating loss for the fourth quarter was £19.6 million (€27.6 million) a reduction of £1.2 million (€2.5 million) on the Q3 results. The increased savings were mainly achieved in operational and administrative expenses at £10.4 million (Q3: £12.8 million) as costs were kept under tight control. Brand and marketing expenditure of £3.2 million in the quarter reflect a modest ongoing investment in maintaining a presence and protecting the brand asset built to date. Bad debt provisions increased in line with the growing book and the £10.3 million charge for the full year is consistent with our prudent expectations given the early stage of development of the French business, where, unlike in the UK, no credit bureau data exists.

Other International

The costs incurred on this line relate to the strategy and business development teams that were assessing potential new territories for the Egg brand. This team has been downsized as part of the restructuring noted below and currently there are no costs expected in this category going forward.

Subsidiaries/Associates/JV's

The £0.2 million net loss in Q4 2003 was primarily in respect of Egg's 85% subsidiary Investment Funds Direct Holdings Limited ("FundsDirect") which mainly relates to development costs for the integrated business to business platform scheduled for launch later this year. FundsDirect recently signed a deal with the Marlborough Stirling Group allowing it exclusive access to the Exchange platform, thus securing it a significant distribution channel.

The Marlborough Stirling Mortgage Services Limited joint venture achieved a small profit in the quarter offsetting our share of the losses reported by IfOnline Group Limited, in which we retain a 39% stake.

Restructuring

As discussed in our third quarter results we have reviewed the level of overhead across the business and this has led to a reduction in headcount in the fourth quarter with associated restructuring costs of £5.1 million. This results in annualised payroll savings of approximately £7 million.

Business Performance

Egg UK

Summary New Business Figures by Quarter

	Q4 2003	Q3 2003	Q2 2003	Q1 2003	Q4 2002
Net New Egg UK Customers (‘000)	**150**	145	175	165	141
Net New Customers by product (‘000)					
- Savings	**4**	(1)	(15)	10	10
- Credit Card	**160**	167	196	181	130
- Personal loans	**23**	23	21	13	15
- Mortgages	**(1)**	-	-	-	1
- Egg Invest	**1**	-	-	1	-
- Egg Insure	**2**	(8)	12	27	23
Products	**£m**	£m	£m	£m	£m
- Egg Card Balance Growth	**122**	250	241	71	83
- Egg Personal Loan Drawdowns	**526**	490	427	284	294
- Egg Mortgage Drawdowns	**58**	64	72	83	124
- Egg Savings Flows (net)	**(229)**	(637)	(345)	(334)	(221)

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Cumulative Figures

	31 Dec 2003	31 Dec 2002
Total Egg UK Customers (1) (2)	**3,196,435**	2,561,167
Customers by product (1)		
- Credit Card (4)	**2,616,505**	1,912,526
- Savings (3)	**738,565**	740,506
- Personal loans (3)	**227,195**	147,453
- Mortgages (3)	**28,929**	29,947
- Egg Invest (3)	**57,942**	55,909
- Egg Insure (3)	**118,242**	85,468
Product balances (1)	**£m**	£m
- Egg Card	**3,015**	2,330
- Egg Savings	**6,164**	7,708
- Egg Personal Loans	**1,773**	967
- Egg Mortgages	**1,197**	1,233
- Prudential Savings	**185**	236
- Prudential Mortgages	**798**	1,127
- Prudential Personal Loans	**2**	5

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) 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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Egg UK

Customers

Egg now has almost 3.2 million customers including the 150,000 net new customers who joined during the fourth quarter bringing the full year total increase to a record 635,000. Since launch in 1998 Egg has achieved a compound annual growth rate in net new customers of 50%. It is pleasing to note that our card offer remains attractive to customers more than two years after we introduced 0% on balance transfers, given the number of imitation offers now available. We believe the brand still benefits from first-mover advantage and research shows Egg to be one of the most trusted financial services brands in the UK.

We have constantly outperformed our target of 500,000 net new customers per annum and believe this level of acquisition remains achievable moving forward as our target market grows in line with internet penetration and usage and the widening appeal of the brand. Added to this is our proven track record in brand, marketing and product development.

Unsecured Lending

The UK credit card business attracted 160,000 net new customers during the quarter, taking the total to over 2.6 million, with card balances standing at £3.0 billion at period end. Egg Card balances have consistently grown faster than the card market as a whole. Egg has taken approximately 10% of the net growth in UK card balances for the year ended 31 December 2003, thus increasing our market share to 6%. This is particularly pleasing given we are also successfully cross selling record volumes of unsecured loans to card customers, with consequent shift in card balances into structured lending.

Personal loan customers increased by another 23,000 in the quarter with record levels of disbursements (£526 million). This takes the full year total for disbursements to £1.7 billion, more than double the levels achieved last year. The loan book has now reached £1.8 billion in balances.

The performance noted above demonstrates how Egg is now reaping the benefit of its investment in a new CRM platform which enables us to capture fully the value inherent in our customer base through targeted, personalised campaigns and offers. This has been at the heart of Egg’s success both in cross-selling loans to the card base and in growing lending balances in total. Egg now runs over 80 campaigns a month into its customer base, focused on selling new products, encouraging value positive customer behaviours and maximising retention. This capability has been phased in during 2003 and therefore should provide further material benefits in 2004.

Mortgages

Egg Mortgage completions in Q4 at £58 million were slightly down on previous quarterly levels reflecting some seasonality factors. The product remains competitive in the standard variable rate market and continues to win awards for value and flexibility. However we still take a low key approach to the mortgage market, choosing not to compete with the wide variety of introductory offers available to consumers.

Savings

Q4 saw a net outflow on deposits (£229 million), which was in line with our expectations given our relative market positioning during the quarter. The rate of outflow has slowed dramatically from the peak earlier in 2003 when a number of highly competitive savings products were launched by other banks. Egg is offering a new bonus account in Q1 2004 to raise additional funds from the retail savings market.

Egg France

In France progress in the first quarter was slow and the business initially suffered from high acquisition costs, low customer conversion rates and poor press locally. We responded by appointing a new Chief Executive and senior executive team, who together have introduced a range of improvements that saw a turnaround in many of the key operating metrics through the second and third quarters. Acquisition costs fell markedly, conversion rates improved, brand awareness reached new highs and customer satisfaction levels climbed to 95%.

However by Q4 a combination of seasonal factors, reduced marketing spend and negative market rumours following Egg's announcement that it was seeking a strategic partner in France has resulted in Egg issuing 8,000 new cards in Q4, compared to 16,000 in Q3, taking the total to 66,000. Card balances continue to increase, reaching €171 million by year end, up 36% on the Q3 position, reflecting the strategy of offering balance transfers into the base. 80% of these balances are now interest-bearing and this percentage has been increasing consistently since launch.

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Whilst research continues to confirm there is a significant market opportunity for a consumer-sided financial services business in France we clearly underestimated the level of investment required to deliver a scale business. As we explained last October we do not believe that it is appropriate for Egg to pursue this opportunity on a standalone basis. The search for a strategic partner has since been superseded by Prudential considering proposals for its shareholding in Egg. In the meantime we are managing discretionary expenditure tightly in Egg France as we await the conclusion of this process.

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Financial Review

This section analyses Group results for the twelve months ended 31 December 2003 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 20% to £268.8 million for the period (31 December 2002: £223.9 million) resulting from the growth in UK retail asset balances (31 December 2003: £6.8 billion, 31 December 2002: £5.7 billion). Margins have remained relatively stable with improved card yields offset by more competitive pricing on loans and the additional cost of debt capital.

Other operating income increased by £51.8 million (50%) to £155.2 million. This has largely resulted from the successful cross sale strategy in unsecured personal loans, with commissions and profit share from selling creditor insurance on loans in the UK up by £43.6 million (107%) to £84.3 million in line with the record sales volumes. There has also been a £13.1 million (48%) increase in card fees and commissions to £40.3 million reflecting the larger book. Profit on disposal of investment securities totalled £7.8 million for the period (31 December 2002: £9.1 million).

Operational and administrative expenses increased by £43.7 million (28%) to £202.6 million, mainly attributable to the £24.7 million increase in operational costs related to Egg France and the inclusion of £10.3 million of restructuring costs in 2003. The core UK operational cost base has increased by £10.2 million (8%) compared to prior year while customer numbers grew by 25%.

Brand and marketing costs increased by £11.4 million (23%) to £60.0 million, reflecting the additional costs incurred in Egg France of £12.0 million in its first full year of operations offset by a small reduction in UK costs reflecting the increasing efficiency of marketing spend.

Development costs decreased by £0.4 million (2%) to £25.7 million. There was a decrease in France costs of £5.3 million as the infrastructure build for the launch in 2002 was not repeated. In the core UK business there was an increase of £2.4 million due to the investment in CRM capability and preparations for Basel 2. In addition there was £2.3 million spent on R&D in the USA in Q1 2003.

Depreciation and amortisation increased by £5.2 million (24%) to £26.9 million due to the Egg France charge increasing by £5.1 million. UK depreciation was flat year on year.

The charge for bad and doubtful debts at £137.0 million (31 December 2002: £85.4 million) reflects the continuing strong growth in the retail asset portfolio and £10.3 million for the French business. In addition the proportion of unsecured assets, especially personal loans, has increased within the portfolio. This change in the mix of the portfolio is the reason why provisions as a percentage of advances to customers has risen to 2.8% at 31 December 2003 (31 December 2002: 2.3%). Our delinquency levels remain well below industry average.

The tax credit was £1.4 million (31 December 2002: £2.2 million charge). The lower effective rate of tax credit can largely be attributed to the fact that tax relief on the French losses has only been recognised since the amalgamation of the France subsidiary to a branch in April 2003. Therefore no relief was recognised in 2002 leading to a tax charge on the UK profits.

Loss attributable to ordinary shareholders after tax was £32.8 million compared to a loss of £18.8 million for the year ended 31 December 2002.

Loss per share was 4.0p compared to 2.3p for the year ended 31 December 2002.

Total assets increased to £11.7 billion as at 31 December 2003 (31 December 2002: £10.6 billion). Retail assets increased by £1.1 billion to £6.8 billion (31 December 2002: £1.2 billion) mainly due to the ongoing growth in unsecured lending. Treasury assets decreased slightly by £0.2 billion to £4.5 billion.

Total liabilities increased to £11.3 billion as at 31 December 2003 (31 December 2002: £10.1 billion). There were increases in funding from £1.0 billion of new credit card securitisations, £1.3 billion of additional wholesale liabilities and the £250 million of tier 2 debt issued this year. This was offset by £1.5 billion of savings outflows.

Capital ratios at 31 December 2003 were 9.7% (tier 1) and 17.5% (total) (31 December 2002: 9.9% (tier1) and 13.2% (total)). In addition to the card securitisations and tier 2 debt noted above, in August Egg completed the first Synthetic Residential Mortgage Backed Security transacted in the UK using KfW's Provide programme. This credit derivative effectively means £1.75 billion of mortgage balances are risk-weighted at 0%. These transactions have contributed to the improved total capital ratio.

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Consolidated profit and loss account

	2003	2002
	£m	£m
Interest receivable	**830.8**	664.7
Interest payable	**(562.0)**	(440.8)
Net interest income	**268.8**	223.9
Other operating income	**155.2**	103.4
Operating income	**424.0**	327.3
Administrative expenses		
- operational and administrative expenses	**(202.6)**	(158.9)
- brand and marketing costs	**(60.0)**	(48.6)
- development costs	**(25.7)**	(26.1)
Depreciation and amortisation	**(26.9)**	(21.7)
Amounts written off fixed asset investment	**(4.3)**	(3.1)
Provisions for bad and doubtful debts	**(137.0)**	(85.4)
Operating loss	**(32.5)**	(16.5)
Share of operating profit/(loss) of joint ventures	**0.1**	(0.1)
Share of associates losses	**(2.0)**	(3.5)
Profit on partial disposal of continuing operation	**-**	3.5
Loss on ordinary activities before tax	**(34.4)**	(16.6)
Tax charge on loss on ordinary activities	**1.4**	(2.2)
Minority interests	**0.2**	-
Retained loss for the financial period	**(32.8)**	(18.8)
Loss per share (pence per share)	**(4.0p)**	(2.3p)

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

Consolidated statement of total recognised gains and losses

	2003	2002
	£m	£m
Retained loss for the financial year	**(32.8)**	(18.8)
Currency translation differences on foreign currency net investments	**4.4**	0.7
Total recognised losses related to the year	**(28.4)**	(18.1)

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Consolidated balance sheet

	31 December 2003	31 December 2002
	£m	£m
Assets		
Cash and balances at central banks	**13.3**	13.0
Loans and advances to banks	**329.6**	238.6
Securities purchased under agreement to resell	**-**	150.0
Loans and advances to customers	**6,718.0**	5,546.3
Debt securities	**4,156.5**	4,267.6
Shares in joint ventures	**1.0**	0.8
Investment in associated undertakings	**5.4**	7.4
Intangible fixed assets	**6.0**	6.7
Tangible fixed assets	**95.3**	74.1
Own shares	**2.3**	2.2
Other assets	**268.5**	164.1
Deferred tax	**23.3**	18.5
Prepayments and accrued income	**75.5**	76.1
Total assets	**11,694.7**	10,565.4

Liabilities		
Deposits by banks	**1,610.4**	501.0
Securities sold under agreements to repurchase	**829.2**	-
Customer accounts	**6,451.7**	8,016.4
Debt securities issued	**1,422.9**	1,014.9
Other liabilities	**340.1**	223.1
Accruals and deferred income	**153.7**	146.6
Subordinated liabilities		
- Dated loan capital	**450.8**	201.7
Total liabilities	**11,258.8**	10,103.7

	31 December 2003 £m	31 December 2002 £m
Shareholders' funds		
Called up share capital	**410.3**	410.1
Share premium account	**107.5**	107.3
Capital reserve	**359.7**	359.7
Profit and loss account	**(442.8)**	(416.9)
Shareholders' funds (all attributable to equity interests)	**434.7**	460.2
Minority interests (equity)	**1.2**	1.5
Total liabilities and shareholders' funds	**11,694.7**	10,565.4

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Consolidated Cash Flow

	2003	2002
	£m	£m
Net cash (outflow)/inflow from operating activities	**(259.9)**	1,298.1
Return on investments and servicing of finance	**(25.9)**	(11.2)
Taxation:		
Tax (paid)/group relief received	**(3.8)**	12.5
Capital expenditure and financial investment:		
Purchase of tangible fixed assets	**(46.7)**	(31.6)
Sale of tangible fixed assets	**-**	0.1
Restricted share plan purchase of shares	**(3.0)**	(2.7)
Purchase of investments	**(5,960.7)**	(6,154.3)
Sale of investments	**5,996.9**	5,028.6
Net cash inflow/(outflow) from capital expenditure and investment	**(13.5)**	(1,159.9)
Acquisition and disposals		
- Purchase of subsidiary	**-**	(28.4)
- Purchase of associated undertaking	**-**	(1.2)
Net cash outflow from acquisitions and disposals	**-**	(29.6)
Financing:		
Subsidiary share issue	**-**	5.0
Issue of dated loan capital	**249.1**	78.1
Issue of share capital	**0.4**	1.6
Net cash inflow from financing	**249.5**	84.7
Increase in net cash	**(53.6)**	194.6

Reconciliation of loss before tax to net operating cash flows

	2003 £m	2002 £m
Operating loss	**(32.5)**	(16.5)
(Increase)/decrease in prepayments and accrued income	**0.6**	0.5
Increase in accruals and deferred income	**8.1**	18.0
Provision for bad and doubtful debts	**64.2**	45.2
Profit on sale of financial investments	**(5.3)**	(9.1)
Depreciation and amortisation	**25.9**	41.6
Interest on subordinated liabilities	**47.6**	11.2
Net increase in loans and advances to banks and customers	**(1,379.0)**	(836.9)
Net decrease/(increase) in securities purchased under agreements to resell	**150.0**	(150.0)
Net (decrease)/increase in deposits by banks and customer accounts	**(455.2)**	2,411.3
Net increase/(decrease) in securities sold under agreements to repurchase	**829.2**	(384.2)
Net increase in debt securities in issue	**408.0**	99.9
Net (increase)/decrease in other assets	**(47.1)**	(36.9)
Net increase in other liabilities	**165.8**	74.4
Net increase in settlement balances	**(44.9)**	28.9
Other non-cash movements	**4.7**	0.7
Net cash (outflow)/inflow from operating activities	**(259.9)**	1,298.1

Reconciliation of movement in shareholders' funds

	2003	2002
	£m	£m
Retained loss for the financial period	**(32.8)**	(18.8)
Exchange and other adjustments	**4.5**	0.7
Increase in share capital	**0.2**	0.5
Share premium	**0.2**	1.1
Awards under incentives schemes	**2.4**	0.8
Net decrease in shareholders' funds	**(25.5)**	(15.7)
Opening shareholders' funds	**460.2**	475.9
Closing shareholders' funds	**434.7**	460.2

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.

b) The financial information set out above does not constitute the Group's statutory accounts for the years ended 31 December 2003 or 2002, but is derived from those accounts. Statutory accounts for 2002 have been delivered to the registrar of companies, and those for 2003 will be delivered following Egg plc's annual general meeting. The auditors have reported on both those sets 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 £137.0 million (31 December 2002 - £85.4 million). The balance sheet provisions for bad and doubtful debts and movements thereon were:

	General	Specific	**Total**
	£m	£m	**£m**
Balance at 1 January 2003	36.1	92.6	**128.7**
Exchange adjustments	-	0.4	**0.4**
Amounts written off	-	(72.7)	**(72.7)**
New and additional provisions	15.1	121.9	**137.0**
Net charge against profit and loss	15.1	121.9	**137.0**
Balance at 31 December 2003	51.2	142.2	**193.4**
Balance at 31 December 2002	36.1	92.6	**128.7**

Provisions at 31 December 2003 were 2.8% of advances to customers (31 December 2002: 2.3%).

d) The taxation charge assumes a UK corporation tax rate of 30% (2002: 30%) and comprises:

	2003	2002
	£m	£m
Group relief receivable/Corporation tax (payable)	**1.4**	(2.2)

e) Loss per share of 4.0p (31 December 2002: 2.3) is calculated by dividing the loss after tax for the financial period of £32.8 million (31 December 2002: £18.8 million) by the weighted average of 815 million (31 December 2002: 814 million) ordinary shares in issue during the period.

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

	2003	2002
	£million	£million
Gross assets	**2.9**	3.1
Gross liabilities	**(1.9)**	(2.3)
Shares in joint ventures	**1.0**	0.8

g) The table below analyses the Group results for the full year 2003 by the geographical area in which business is generated. Certain costs incurred in the UK on behalf of France included in the results of France.

	UK £million	France £million	Group £million
Interest receivable	**828.8**	**7.0**	**835.8**
Fees and commissions receivable	**176.3**	**4.0**	**180.3**
Profit on disposal of investments	**7.8**	**-**	**7.8**
Other operating income	**1.9**	**0.8**	**2.7**
Gross income	**1,014.8**	**11.8**	**1,026.6**
Operating profit/(loss)	**56.6**	**(89.1)**	**(32.5)**
Share of operating profit of joint venture	**0.1**	**-**	**0.1**
Share of operating loss of associates and amortisation of goodwill	**(2.0)**	**-**	**(2.0)**
Group profit/(loss) before taxation	**54.7**	**(89.1)**	**(34.4)**

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Average Balance Sheet (UK Business Only)

(£m, except percentages)

	Year ended 31 December 2003		Year ended 31 December 2002	
	Avg. Balance	**Avg. Rate %**	Avg. Balance	Avg. Rate %
Assets				
Wholesale assets	**4,345**	**4.11**	4,202	4.58
Mortgages	**2,210**	**4.74**	2,392	5.00
Personal loans	**1,326**	**8.03**	724	9.59
Credit cards	**2,650**	**9.59**	2,081	8.99
Total average interest-earning assets	**10,531**	**6.12**	9,399	6.05
Fixed and other assets	**159**		109	
Total assets	**10,690**		9,508	
Liabilities				
Customer accounts	**7,149**	**3.32**	7,133	3.77
Wholesale liabilities and subordinated debt	**2,875**	**5.00**	1,703	4.60
Total average interest-bearing liabilities	**10,024**	**3.80**	8,836	3.93
Other liabilities	**234**		197	
Total liabilities	**10,258**		9,033	
Shareholders' funds	**432**		475	
Total liabilities and shareholders funds	**10,690**		9,508	

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

Average Yields (UK Business Only)

	Year ended 31 December 2003 **Average rate %**	Year ended 31 December 2002 Average rate %
Interest income as a percentage of average interest-earning assets	**6.12**	6.05
Interest expense as a percentage of average interest-bearing liabilities	**3.80**	3.93
Interest spread	**2.32**	2.12
Net interest margin	**2.50**	2.36

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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<u>Notes to Editors:</u>

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 raising proceeds of approximately £150 million and is listed on the London Stock Exchange. Prudential plc holds 79% of the share capital.

3. On 26 January Prudential plc made the following announcement.

   "On 14 January 2004, Prudential plc announced that it was in preliminary discussions regarding a possible transaction with respect to its approximately 79 per cent shareholding in Egg. While these discussions have been continuing Prudential has received unsolicited indications of interest from a number of other parties and, with a view to delivering value for its shareholders, Prudential has now begun a process that will give a number of potential purchasers an opportunity to make a proposal. This may or may not lead to a transaction."