Under Embargo until 07.00h, 24 July 2001

Egg plc

Results for the Six Months to 30 June 2001

A Clear Path to Our Breakeven Target by Year End

" We acquired 370,000 net new customers at reduced acquisition cost and we increased our momentum towards our target of breakeven during Q4. We are also delighted with our recently announced strategic alliance with Microsoft as we continue to develop our network of powerful partnerships."

Paul Gratton, CEO

Financial Highlights:

- Operating income up 130% to £76.2m (30 June 2000: £33.2m)
- Reduction of 33% in pre-tax losses in Q2 (£25.5m) compared to Q1 (£37.9m)
- Pre-tax loss for H1 2001 of £63.4m (30 June 2000: £80.7m loss)
- Loss per share of 6.0p (30 June 2000: 8.0p)
- On-track for our target of breakeven during Q4 2001

Business Highlights:

- Customer growth of 370,000 in first half of 2001, up 19% over H1 2000
- 218,000 products cross sold in H1 (109,000 in H1 2000)
- Credit card balances exceed £1.5 billion at 30 June 2001
- Customer acquisition costs have reduced significantly across product portfolio
- Strategic alliance signed with Microsoft to distribute financial services products: first steps into establishing international presence

Chief Executive Paul Gratton commented:

"This has been a strong performance for the first half of the year. We are growing our customer base whilst driving down acquisition costs significantly and this positions us well to deliver a profitable business in line with our stated plans. The business is progressing well and we will continue to capitalise on the opportunities provided by the digital economy."

Business Performance

Customer Acquisition

This has been Egg's most successful six months in terms of customer acquisition with a total of 370,000 net new customers joining Egg, leading to a total customer base of 1.72 million. Growth in customer numbers for H1 2001 has increased by 19% compared to H1 2000. Over the same period, we have succeeded in reducing our Egg Card unit marketing costs from £37 in H1 2000 to £22 in H1 2001.

Cross sales continue to show encouraging growth doubling to 218,000 in first half of 2001 compared with the same period last year, giving us a cross sales ratio of 1.36 up from 1.09 at 30 June 2000.

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Banking

Retail assets grew by 21% in six months to £4.5 billion - card balances now exceed £1.5 billion.

The credit card portfolio continues to perform strongly, with a total customer base of 1.13 million. Our card offerings remain compelling and highly competitive in the market and we are attracting an upmarket customer base whose average monthly balance is c. £1,750, approximately double the UK average. Card balances are up 68% to £1,565,000 over the six-month period. We are pleased to report that our customer base is proving loyal to Egg: 89% of credit card customers who originally joined on incentive rates are migrating to paying interest at the full rate.

Egg Personal Loans have performed well with disbursements totalling £219 million (H1 2000: £154 million) and a significant reduction in unit marketing costs to £51 a loan from £127 each in H1 2000. This reflects success in cross selling personal loans, primarily to credit card customers. Cohort analysis shows that cross-sold loans are of higher credit quality than those acquired directly, further improving their profitability.

Our savings balances have decreased by £701 million over the six-month period in line with our expectations following the repricing of the book although we continued to be a net acquirer of deposit customers balances (5,000 increase in the period), albeit with lower average balances. Of particular note is the turnaround in revenue contribution from the savings portfolio. Interest margin when compared to base rate, amounted to a positive contribution of £6.7 million during the first half compared to a loss of £2.2 million in the corresponding period last year.

Our Egg branded mortgage sales were £164 million (H1 2000: £318 million). We have chosen not to compete aggressively in a highly competitive marketplace and have acquired a good volume of business at significantly reduced marketing costs (£55 this half-year, £422 last half-year). We have reduced operational costs as the benefits from what is proving to be a successful mortgage servicing joint venture with Marlborough Stirling come through. In addition we have further strengthened our portfolio of mortgage offerings during the last quarter with the introduction of a new market-beating product, the Egg Saver Mortgage and also the launch of our mortgage supermarket on the website. We are also pleased to report that our standard variable rate mortgage was voted best in the market (for a year to 30 June 2001) by leading financial best buys group, Moneyfacts.

Intermediation

The Egg Invest customer base has trebled in size since the start of the year reaching 32,000 customers. This is primarily due to a healthy end to the ISA season in March and April (where we took 2% of the equity ISA market in the last five weeks of the 2001 season, which is equivalent to approximately 10% of the direct market).

Egg Insure has made steady progress during the half year, doubling the size of its customer base to over 15,000 since 31 December 2000. We have introduced three new product offerings during this period to strengthen the portfolio (travel insurance and life and critical illness insurance).

We are pleased with the continuing demand for new distribution channels – Egg TV, which went live in Q1, is now attracting 1,000 hits a day. Traffic on www.egg.com remains high and we remain one of the most frequently visited financial websites (most recent figures from Jupiter MMXI reported egg.com as the second busiest financial services site with 844,000 visits during May).

Demand for and use of technology continues to increase. According to our latest research from MORI: in the last six months alone 48% of adult Britons are now using interactive technologies outside of work. [Notes to Editors 4]

Outlook

Paul Gratton continued:

"The second half of the year is important for Egg. We are clear about what we must do to achieve our target of break-even during Q4, whilst continuing to provide best in class products aimed at empowering our customers to manage their financial needs.

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“The creation of an international presence remains clearly in view, and a first step in this direction has been made through our alliance with Microsoft.“

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Financial Overview

Group loss before tax decreased by 21% to £63.4m (30 June 2000: £80.7m).

Net interest income increased by £29.2m to £59.8m for the half year to 30 June 2001, reflecting an increase in net interest margin to 1.69% (30 June 2000: 0.73%).

Other operating income increased by £13.8m to £16.4m primarily reflecting additional fees and commissions earned from the larger banking book, especially unsecured lending products.

Administrative expenses increased by £2.1m to £94.1m. Within this total there has been a £14.5m increase in operational and administrative expenses to £65.4m reflecting the rapid growth in customer numbers and transaction volumes over the past year. This has been offset by a £10.1m decrease in development costs to £7.6m, with the majority of the investment needed to deliver the core systems and product infrastructure being delivered in the previous year.

Depreciation increased by £3.0m to £10.4m reflecting the investment in fixed assets in the previous year.

The charge for bad and doubtful debts was £33.0m (30 June 2000: £14.5m). The increase reflects the significant growth in the credit card balances and the resulting change in mix of the retail asset book with a higher proportion of unsecured lending products.

The tax credit was £14.5m, an effective rate of 23%. Egg's tax losses will be surrendered, to other Prudential Group companies.

Loss attributable to ordinary shareholders after tax decreased by 16% to £48.9m.

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Loss per share decreased to 6.0p from 8.0p

Total assets remained stable at £7.9 billion in the six months ended 30 June 2001. Within this loans and advances to customers grew by £0.8 billion mainly due to the success of the credit card business.

Total liabilities also remained stable at £7.4 billion in the first half of 2001. Customer deposits reduced by £0.7 billion to £6.4 billion. Egg issued its first debt securities (£0.6 billion) in the period. These were issued under the recently launched Euro Medium Term Note programme.

Capital adequacy ratios at 30 June 2001 were 11.4% (tier 1) and 15.2% (total). 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.

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Financial Information

New Business Figures

	30 Jun 2001	30 Jun 2000	31 Dec 2000
Total Egg Customers (1) (2)	**1,720,881**	1,103,802	1,351,339
Egg Customers by product (1)			
- Deposits (3)	**625,471**	617,137	620,804
- Credit Card (4)	**1,125,982**	498,471	744,545
- Personal loans (3)	**91,566**	50,171	78,797
- Mortgages (3)	**22,496**	14,544	20,545
- Egg Invest (3)	**31,796**	4,561	10,951
- Egg Insure (3)	**15,534**	-	7,785
Product balances (1)	**£m**	£m	£m
- Egg Deposits	**6,014**	7,258	6,715
- Prudential Deposits	**342**	463	413
- Egg Mortgages	**913**	654	853
- Prudential Mortgages	**1,554**	1,398	1,553
- Credit Cards	**1,565**	617	929
- Egg Personal Loans	**527**	298	427
- Prudential Personal Loans	**15**	16	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.

Consolidated profit and loss account (Unaudited)

	Half-year to 30 June 2001	Half-year to 30 June 2000	(Audited) Full year 2000
	£m	£m	£m
Interest receivable	**307.0**	326.8	657.3
Interest payable	**(247.2)**	(296.2)	(577.3)
Net interest income	**59.8**	30.6	80.0
Other operating income	**16.4**	2.6	13.2
Operating income	**76.2**	33.2	93.2
Administrative expenses			
- operational and administrative expenses	**(65.4)**	(50.9)	(108.4)
- brand and marketing costs	**(21.1)**	(23.4)	(50.7)
- development costs	**(7.6)**	(17.7)	(33.6)
Depreciation and amortisation	**(10.4)**	(7.4)	(16.9)
Provisions for bad and doubtful debts	**(33.0)**	(14.5)	(37.2)
Operating loss	**(61.3)**	(80.7)	(153.6)
Share of operating loss of joint ventures	**(0.1)**	-	-
Share of Associates losses	**(2.0)**	-	(1.7)
Loss on ordinary activities before tax	**(63.4)**	(80.7)	(155.3)
Tax credit on loss on ordinary activities	**14.5**	22.6	39.7
Retained loss for the financial period	**(48.9)**	(58.1)	(115.6)
Basic and diluted loss per share	**(6.0p)**	(8.0p)	(15.1p)

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

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Consolidated balance sheet (Unaudited)

	June 2001 £m	June 2000 £m	(Audited) December 2000 £m
Assets			
Cash and balances at central banks	**7.9**	4.8	7.1
Loans and advances to banks	**38.1**	1,059.6	237.5
Loans and advances to customers	**4,516.6**	2,957.6	3,736.1
Debt securities	**3,083.4**	4,445.4	3,685.9
Financial fixed assets	**3.3**	-	4.4
Intangible fixed assets	**10.3**	-	10.8
Tangible fixed assets	**57.4**	46.7	62.8
Deferred tax	**-**	2.6	-
Other assets	**75.4**	87.1	69.4
Prepayments and accrued income	**83.8**	117.9	119.7
Total assets	**7,876.2**	8,721.7	7,933.7
Liabilities			
Deposits by banks	**52.0**	34.3	5.8
Customer accounts	**6,356.1**	7,722.1	7,127.6
Debt securities issued	**600.3**	-	-
Other liabilities	**149.3**	240.1	104.2
Accruals and deferred income	**118.8**	144.7	172.1
Subordinated liabilities			
- Dated loan capital	**123.6**	-	-
Total liabilities	**7,400.1**	8,141.2	7,409.7
Shareholders' funds			
Called up share capital	**409.5**	409.4	409.5
Share premium account	**106.0**	106.2	106.1
Capital reserve	**359.7**	359.8	359.7
Profit and loss account	**(399.1)**	(294.9)	(351.3)
Shareholders' funds (all attributable to equity interests)	**476.1**	580.5	524.0
Total liabilities and shareholders' funds	**7,876.2**	8,721.7	7,933.7

Consolidated Cash Flow (Unaudited)

	Half-year to 30 June 2001	Half-year to 30 June 2000	(Audited) Full year 2000
	£m	£m	£m
Net cash (outflow)/inflow from operating activities	**(750.9)**	303.0	(450.0)
Return on investments and servicing of finance	**(0.1)**	-	-
Taxation:			
Group relief received	**13.8**	11.2	42.3
Capital expenditure and financial investment:			
Purchase of tangible fixed assets	**(5.0)**	(5.1)	(31.2)
Sale of tangible fixed assets	**-**	-	1.0
Own shares	**-**	-	(2.2)
Purchase of investments	**(728.5)**	(475.7)	(6,966.4)
Sale of investments	**1,351.5**	-	7,250.4
Net cash inflow/(outflow) from capital expenditure and investment	**618.0**	(480.8)	251.6
Acquisition and disposals:			
- Purchase of associated undertaking	**-**	-	(15.2)
- Purchase of joint venture undertaking	**(1.0)**	-	-
Net cash outflow from acquisitions and disposals	**(1.0)**	-	(15.2)
Financing:			
Issue of dated loan capital	**123.6**	-	-
Issue of share capital	**-**	172.7	172.7
Net cash inflow from financing	**123.6**	172.7	172.7
Increase in net cash	**3.4**	6.1	1.4

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

	Half-year to 30 June 2001	Half-year to 30 June 2000	(Audited) Full year 2000
	£m	£m	£m
Operating loss	**(61.3)**	(80.7)	(153.6)
Decrease/(increase) in accrued income and prepayments	**35.9**	(1.1)	(1.7)
(Decrease)/increase in accruals and deferred income	**(53.3)**	(13.2)	14.2
Provision for bad and doubtful debts	**14.9**	14.3	30.7
Profit on sale of financial investment	**(0.3)**	(0.3)	(3.1)
Depreciation and amortisation	**15.6**	10.5	21.8
Interest on subordinated liabilities	**0.1**	-	-
Net cash outflow from trading activities	**(48.4)**	(70.5)	(91.7)
Net (increase)/decrease in loans and advances to banks and customers	**(593.4)**	631.9	652.1
Net decrease in deposits by banks and customer accounts	**(725.3)**	(409.8)	(1,032.8)
Net increase in debt securities in issue	**600.3**	-	-
Net (increase)/decrease in other assets	**(29.1)**	56.4	63.1
Net increase/(decrease) in other liabilities	**21.1**	80.4	(29.1)
Net increase/(decrease) in items in the course of collection	**23.9**	14.6	(11.6)
Net cash (outflow)/inflow from operating activities	**(750.9)**	303.0	(450.0)

Reconciliation of movement in shareholders' funds (Unaudited)

	Half-year to 30 June 2001 £m	Half-year to 30 June 2000 £m	(Audited) Full year 2000 £m
Retained loss for the financial period	**(48.9)**	(58.1)	(115.6)
(Decrease)/increase in share capital	**-**	(287.4)	(287.4)
Share premium	**-**	106.2	106.1
Capital reserve created (note g)	**-**	359.8	359.8
Other movements – awards under incentive schemes	**1.0**	(6.9)	(5.8)
Net (decrease)/increase in shareholders' funds	**(47.9)**	113.6	57.1
Opening shareholders' funds	**524.0**	466.9	466.9
Closing shareholders' funds	**476.1**	580.9	524.0

Notes on financial information

a) The interim financial statements have been prepared on the basis of the accounting policies set out on pages 39, 40 and 41 of the Annual Report for the year ended 31 December 2000.

b) The results for the half years ended 30 June 2001 and 30 June 2000 are unaudited. The comparatives for the full year to 31 December 2000 have been audited. The comparative figures for the financial year ended 31 December 2000 are not the company's statutory accounts for that financial year. Those accounts have been reported on by the company's auditors and delivered to the registrar of companies. The report of the auditors was unqualified and did not contain a statement 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 £33.0 million (30 June 2000: £14.5 million). The balance sheet provisions for bad and doubtful debts and movements thereon were:

	General	Specific	**Total**
	£m	£m	**£m**
Balance at 1 January 2001	23.8	18.7	**42.5**
Amounts written off	-	(18.2)	**(18.2)**
New and additional provisions	7.7	25.3	**33.0**
Net charge against profit and loss	7.7	25.3	**33.0**
Balance at 30 June 2001	31.5	25.8	**57.3**
Balance at 30 June 2000	16.8	9.4	**26.2**

Provisions at 30 June 2001 were 1.3% of advances to customers (30 June 2000: 0.9% and 31 December 2000: 1.1%).

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

	Half-year to 30 June 2001	Half-year to 30 June 2000
	£m	£m
Group relief receivable	**14.5**	22.6

e) Basic loss per share of 6.0p (2000: 8.0p) is calculated by dividing the loss for the financial period (after tax) of £48.9 million (30 June 2000: £58.1 million) by the weighted average of 812.6 million (30 June 2000: 722.1 million) ordinary shares in issue during the half-year. Diluted loss per share of 6.0p (2000: 8.0p) is calculated by dividing the loss for the financial period (after tax) of £48.9 million (30 June: £58.1 million) by the weighted average of 813.5 million (30 June 2000: 722.1 million) ordinary shares in issue during the half-year.

f) The gross assets and liabilities in respect of joint venture undertakings are as follows:

	30 June 2001	30 June 2000
	£m	£m
Gross assets	**2.6**	-
Gross liabilities	**(1.7)**	-
	0.9	-

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

Independent review report by KPMG Audit Plc to Egg plc extracted from the Interim Report 2001

“Introduction

We have been instructed by the Company to review the financial information set out on pages 6 to 12 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.

Directors’ responsibilities

The interim report, including the financial information contained therein, is the responsibility of, and has been approved by, the directors. The Listing Rules of the Financial Services Authority 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. 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 for the six months ended 30 June 2001.

KPMG Audit Plc
Chartered Accountants
London
23 July 2001”

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Average Balance Sheet

	Half year ended 30 June 2001		Half year ended 30 June 2000		Year ended 31 December 2000	
	Avg. Balance	Avg. Rate %	Avg. Balance	Avg. Rate %	Avg. Balance	Avg. Rate %
	(£m, except percentages)					
Assets						
Loans and advances to banks	**74**	**5.95**	2,141	5.98	1,343	5.89
Debt securities	**3,303**	**6.13**	3,835	6.15	3,936	6.34
Mortgages	**2,457**	**6.64**	1,824	6.65	2,044	6.77
Personal loans	**499**	**9.90**	256	10.56	322	10.16
Credit card	**1,271**	**6.30**	446	3.27	599	6.69
Total average interest-earning assets	**7,604**	**6.57**	8,502	6.20	8,244	6.55
Fixed assets	**60**		48		50	
Other assets	**215**		199		182	
Total assets	**7,879**		8,749		8,476	
Liabilities						
Customer accounts	**6,745**	**5.32**	7,923	5.87	7,613	5.92
Wholesale liabilities and subordinated debt	**294**	**4.08**	26	4.57	27	3.67
Total average interest-bearing liabilities	**7,039**	**5.27**	7,949	5.86	7,640	5.91
Other liabilities	**343**		331		324	
Total liabilities	**7,382**		8,280		7,964	
Shareholders' funds	**497**		469		512	
Total liabilities and shareholders funds	**7,879**		8,749		8,476	

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

Average Yields

	Half year ended 30 June 2001 Average rate %	Half year ended 30 June 2000 Average rate %	Year ended 31 December 2000 Average rate %
Interest income as a percentage of average interest-earning assets	**6.57**	6.20	6.55
Interest expense as a percentage of average interest-bearing liabilities	**5.27**	5.86	5.91
Interest spread	**1.30**	0.34	0.64
Net interest margin	**1.69**	0.73	1.06

ends

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Notes to Editors:

1. According to latest findings from Nielsen / Netratings Internet, www.egg.com continues to be one of the most visited financial services website.

2. Egg plc is the UK's leading e-commerce financial services company, providing banking, insurance, investments, mortgages and a shopping portal through its Internet site and other distribution channels.

3. Egg plc floated on 12 June 2000 raising proceeds of approximately £150 million and is listed on the London Stock Exchange. Prudential plc continues to hold 79% of the share capital.

4. The Egg Technology Index, compiled with MORI, is due for public release in August 2001.