

Egg plc

Interim Report 2000

Egg plc

2000 Unaudited Interim Results

Financial Highlights

	Half –year to 30 June 2000	Half –year to 30 June 1999	(Audited) Full year 1999
	£m	£m	£m
Loss on ordinary activities before tax	(80.7)	(69.8)	(149.7)
Retained loss for the financial period	(58.1)	(49.8)	(109.9)
Basic and diluted loss per share (pence per share)	(8.0p)	(9.7p)	(18.1p)
Total assets	8,721.7	8,172.2	8,936.0
Share capital, share premium and capital reserve	875.4	696.8	696.8
Profit and loss account	(294.9)	(169.8)	(229.9)

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Chief Executive's Review

Introduction

In the first half of 2000, Egg has made substantial progress towards delivering its strategic objectives of becoming our customers' pre-eminent online partner and creating sustainable long-term shareholder value.

We completed our Initial Public Offering ("IPO") on 12 June 2000 raising proceeds for Egg of approximately £150 million and we are now listed on the London Stock Exchange. This was an important milestone in the history of Egg. The IPO will enable us to accelerate our growth and value generation by providing continuing access to the capital markets, an acquisition currency and by allowing us to incentivise and retain the best people. Over 85,000 customers and employees took up the offer to purchase shares and we saw significant institutional demand. We continue to enjoy the support of Prudential plc as majority shareholder.

Overview

Results for the six months to 30 June 2000 showed a Group loss before tax of £80.7 million (30 June 1999 - £69.8 million), in line with our expectations at the time of the IPO. The increased loss was primarily due to brand, marketing and development costs rising by £18 million as we continue to aggressively grow our business and expand our customer offering. Net interest income grew to £30.6 million from £2.0 million as we increased our interest spread by 51 basis points. Other operating income increased to £2.6 million (1999 - £0.2 million) with net credit card fee income generating a positive contribution this year and commission income from protection insurance on personal loans and credit cards showing healthy growth. Loss per share decreased to 8.0p from 9.7p. Total assets at the end of the period were £8.72 billion (1999 - £8.17 billion).

We believe Egg's competitive strength is its unique business model, centred around an on-line bank available through multiple direct channels including internet, WAP and the telephone and one which has been built to prosper in a low margin world. The bank is closely linked to intermediation businesses that allow Egg's customers to buy best of breed products from many financial and non-financial suppliers online, safely, securely, with all the information they need to make fully informed purchases.

Our banking business continues to grow rapidly, with Egg Card our major customer acquisition vehicle. Egg's customer base grew by 311,000 in the first six months. In September we will launch a joint loyalty/credit card with Boots that will further boost growth at an attractive customer acquisition cost to us. Boots is a strong consumer brand and its Advantage card currently has approximately 9 million active users.

Our intermediation businesses took significant steps forward with the launch of our online mutual funds supermarket (Egg Invest) on 13 March 2000. This fund supermarket allows customers to make informed purchases of ISAs, PEPs, OEICs and Unit Trusts and to manage their own investment portfolios. It currently has 220 funds from 17 leading UK and US fund managers. We launched our Egg Invest share dealing service on 23 July 2000. Egg Shop, our online shopping mall now has over 225 retailers and over 4.5 million products that can be searched on both price and in many cases product features

Our brand awareness reached 79% in June. This is the highest level of brand awareness since the launch of Egg in October 1998 and is significantly ahead of other new entrants to online banking. Egg continues to be seen as the UK's leading e-commerce financial services website and according to MMXI Europe statistics is the most visited financial site. We believe that a successful e-commerce business requires a strong brand, and we continue to invest significantly to build that brand. Egg is a recognised name around the world - one of the

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key factors enabling us to develop joint ventures and alliances with the best potential partners to take our business forward.

We have made significant investment in our IT capability and in ensuring a high quality experience for our customers; we believe the platforms supporting our website are now amongst the most sophisticated and reliable in the UK.

New Channels

The Internet will continue to develop rapidly and unpredictably, with one of the most significant changes being the development of broadband services and the development of a whole array of mobile devices. These new distribution and communications tools will support our strategy of being accessible to our customers at anytime and from anywhere, allowing them to communicate with us through whichever medium they choose.

We plan to offer Egg's products and services through Open, a leading interactive digital television service. In addition we have been piloting our WAP services since April and plan to roll out a full service to customers in August through British Telecommunications Genie Internet portal. We have also signed a deal with BT Cellnet to provide free WAP phones to all of Egg's new and existing customers.

Customer Growth

We now have 1.1 million Egg customers.

These customers have a high propensity to transact online. In addition to Egg Card and Egg Invest, which are full online propositions, our latest figures show that 69% of all deposit servicing transactions in June took place online and 44% of mortgage and unsecured loan applications were made via the Internet.

To date our customers have proved very loyal to Egg. Attrition has been limited and we are seeing an increase in the number of new customers who are introduced to Egg by a recommendation from family or friends.

As competition increases, customer acquisition will become more challenging. However, we believe we are in a strong position due to our first-mover advantage and our innovative approach. An example of this is the deal with Boots to operate a joint loyalty/credit card, due to launch in September, which gives us access to an excellent customer base at an attractive customer acquisition cost.

Banking

Our strategic goal in banking is to continue to grow a base of customers who are comfortable in transacting on the Internet. We seek to grow our retail asset book (credit cards, personal loans and mortgages) where it is profitable to do so.

Egg Card balances grew by £389 million to £617 million in the first half of 2000. The average balance is £1,718 per account (industry average is £859 according to the BBA Abstract of Banking Statistics). Average spend (annualised) in the first half of 2000 was £2,568 (industry average - £1,954 p.a.).

Mortgages sales in the first six months were £318 million Egg branded and £226 million Prudential branded. This is 16% up on the same period in 1999.

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We acquired approximately 46,000 net new deposit customers in the first six months of 2000. This growth reflects relatively stable levels of customer attrition. The new customers we are attracting tend to be younger and have lower average balances than those who are leaving us. In addition they are predominantly opting for the Internet-only account and have a high propensity to buy other financial products including ISAs and PEPs. There was a net outflow in deposit funds under management of £435 million in the period.

Personal loan sales were £154 million compared to £67 million in the first half of 1999, with cross sales starting to emerge from the Egg Card customer base.

Financial Services Intermediation

The mutual fund supermarket of Egg Invest has approximately £22 million in funds under administration at 30 June 2000 on behalf of over 4,500 customers. It launched just three weeks before the end of the tax year and we were pleased to get 2,500 customers during that time without any marketing. Since then we have been building awareness in readiness for the next ISA season in 2001, when we expect significant growth in the number of customers.

We recently added a share dealing service for customers priced at £9.99 per trade. This is being operated via Xest, the online broking division of Charles Stanley.

We have entered into an investment agreement to purchase a 37.5 per cent stake in IFonline, who operate a business-to-business, internet mortgage transaction-processing service for financial intermediaries and mortgage product providers. We intend to use IFonline's platform to facilitate our entry into mortgage intermediation later this year.

Plans are at an advanced stage for the launch of Egg Insure, an online general insurance supermarket, which will offer standardised insurance products at competitive prices from a range of leading insurance providers. We intend to launch with motor insurance in August, followed by home and contents insurance.

Transaction Portal

Egg Shop now has over 225 quality retailers in its online shopping mall and its Smart Search capability allows customers to compare price, product features and functionality, according to their own specifications, across 4.5 million products. In June, Egg Shop visitors viewed over 1.25 million pages and over 250,000 clickouts were passed through to our retailers' sites. This is the highest number of monthly clickouts yet achieved.

Egg is also planning to pilot an electronic secure payments system (Egg Wallet) that will help customers make purchases more easily and with greater confidence, help increase conversion rates for retailers and provide Egg with valuable customer information.

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Cross Buying

As we outlined in the prospectus, cross buying is an important element in our strategy. Whilst the majority of our marketing attention to date has been focussed on acquisition, we are starting to see cross buy activity emerge. A total of 229,000 products have been cross bought so far, ignoring those purchased through our retail business. As we increase our focus on customer development during the second half of this year we expect to see this number continue to increase.

New Products and Services

We continue to invest significantly in developing new products and services. We spent £17.7 million in the first six months of 2000. We have launched Egg Invest with a mutual fund supermarket and a share dealing facility, the first phase of our Personal Balance sheet, and we are about to launch Egg Insure. In addition we continue to work on developing our current account, the Egg Wallet for online shopping customers, new channels such as digital television and WAP phones, further enhancements of the Personal Balance sheet, an advice proposition for investments and a mortgage intermediation service in conjunction with IFonline. We are also improving the navigation and design of the Egg website.

Conclusion

We are seeing increasing competition from both new entrants and incumbents. We expect this to continue. Egg is built to prosper in the low margin era that we believe will emerge. The strength of our brand, our first-mover advantage, our considerable IT experience and our established customer base will, we believe, allow us to be the leaders in online financial services. Most important of all is our proven ability to develop the business rapidly, responding to the changing shape of the financial services market quickly and effectively. We are pleased with our interim results and look forward to continuing to deliver on our strategic objectives.

Mike Harris
Chief Executive Officer
26 July 2000

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Overview of Results

Group loss before tax increased by 16% to £80.7 million (30 June 1999 - £69.8 million).

Net interest income increased by £28.6 million to £30.6 million for the half year to 30 June 2000. This reflected an improvement of 51 basis points in interest spread compared to the same period in 1999.

Other operating income (net) increased by £2.4 million primarily reflecting higher sales of payment protection insurance on personal loans and the addition of credit card fee income (net of cashbacks).

Administrative expenses increased by £25.3 million (38%) to £92 million. This has largely resulted from an increase of £14.5 million in brand and marketing costs and a £3.7 million increase in development spend.

Depreciation increased by £3.9 million, or 112% to £7.4 million reflecting the growth in fixed assets in the period compared to the previous year.

Provisions for bad debts grew by £12.7 million to £14.5 million mainly due to the provisions associated with credit cards.

The tax credit was £22.6 million – an effective rate of 28%. Our tax losses will be surrendered, to other Prudential Group companies.

Loss attributable to ordinary shareholders after tax increased by 17% to £58.1 million.

Loss per share decreased to 8.0p from 9.7p.

Total assets increased by £0.6 billion, to £8.7 billion at 30 June 2000. Within this, loans and advances to customers grew by 156% to £3.0 billion.

Deposits to customers grew by £0.3 billion to £7.7 billion.

Capital adequacy ratios at 30 June 2000 were 15.8% (tier 1) and 16.3% (total).

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Consolidated profit and loss account (Unaudited)

	Half –year to 30 June 2000	Half –year to 30 June 1999	(Audited) Full year 1999
	£m	£m	£m
Interest receivable	326.8	162.6	463.7
Interest payable	(296.2)	(160.6)	(439.5)
Net interest income	30.6	2.0	24.2
Other operating income/(expense)	2.6	0.2	(4.5)
Operating income	33.2	2.2	19.7
Administrative expenses			
- operational and administrative expenses	(50.9)	(43.8)	(101.0)
- brand and marketing costs	(23.4)	(8.9)	(21.7)
- development costs	(17.7)	(14.0)	(27.6)
Depreciation	(7.4)	(3.5)	(10.2)
Provisions for bad and doubtful debts	(14.5)	(1.8)	(8.9)
Loss on ordinary activities before tax	(80.7)	(69.8)	(149.7)
Tax credit on loss on ordinary activities	22.6	20.0	39.8
Retained loss for the financial period	(58.1)	(49.8)	(109.9)
Basic and diluted loss per share (pence per share)	(8.0p)	(9.7p)	(18.1p)

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 2000 £m	June 1999 £m	(Audited) December 1999 £m
Assets			
Cash and balances at central banks	4.8	0.9	2.6
Loans and advances to banks	1,059.6	3,602.9	2,613.2
Loans and advances to customers	2,957.6	1,153.0	2,046.3
Debt securities	4,445.4	3,144.4	3,971.0
Tangible fixed assets	46.7	31.6	49.0
Deferred tax	2.6	-	2.6
Other assets	87.1	177.0	133.3
Prepayments and accrued income	117.9	62.4	118.0
Total assets	8,721.7	8,172.2	8,936.0
Liabilities			
Deposits by banks	34.3	16.7	9.6
Customer accounts	7,722.1	7,425.4	8,156.6
Other liabilities	240.1	79.2	145.0
Accruals and deferred income	144.7	123.9	157.9
Total liabilities	8,141.2	7,645.2	8,469.1
Shareholders' funds			
Called up share capital	409.4	696.8	696.8
Share premium account	106.2	-	-
Capital reserve	359.8	-	-
Profit and loss account	(294.9)	(169.8)	(229.9)
Shareholders' funds (all attributable to equity interests)	580.5	527.0	466.9
Total liabilities and shareholders' funds	8,721.7	8,172.2	8,936.0
Memorandum items			
Credit lines and other commitments to lend	1,130.2	206.7	612.6

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Consolidated cash flow (Unaudited)

	Half –year to 30 June 2000 £m	Half –year to 30 June 1999 £m	(Audited) Full year 1999 £m
Net cash inflow from operating activities	303.0	2,869.6	3,671.9
Taxation:			
Group relief received	11.2	-	38.7
Capital expenditure and financial investment:			
Purchase of tangible fixed assets	(5.1)	(12.4)	(37.6)
Sale of tangible fixed assets	-	-	0.3
Purchase of investments	(475.7)	(3,146.3)	(3,974.1)
Net cash outflow from capital expenditure and investment	(480.8)	(3,158.7)	(4,011.4)
Financing:			
Issue of share capital	172.7	300.0	300.0
Net cash inflow from financing	172.7	300.0	300.0
Increase/(decrease) in net cash	6.1	10.9	(0.8)

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

	Half –year to 30 June 2000 £m	Half –year to 30 June 1999 £m	(Audited) Full year 1999 £m
Loss before tax	(80.7)	(69.8)	(149.7)
Decrease/(increase) in accrued income and prepayments	(1.1)	(34.5)	(92.4)
(Decrease)/increase in accruals and deferred income	(13.2)	80.9	114.9
Provision for bad and doubtful debts	14.3	1.8	8.8
(Profit)/loss on sale of financial investment	(0.3)	-	-
Loss on disposal of fixed assets	-	-	0.7
Depreciation and amortisation	10.5	4.7	15.0
Net cash outflow from trading activities	(70.5)	(16.9)	(102.7)
Net decrease/(increase) in loans and advances to banks and customers	631.9	(3,328.7)	(3,252.8)
Net (decrease)/increase in deposits by banks and customer accounts	(409.8)	5,232.8	5,956.9
Net decrease in other assets	56.4	3.4	25.6
Net increase in other liabilities	80.4	22.5	90.4
Net decrease in debt securities	-	923.6	923.6
Net increase in items in the course of collection	14.6	32.9	30.9
Net cash inflow from operating activities	303.0	2,869.6	3,671.9

Reconciliation of movement in shareholders' funds (Unaudited)

	Half –year to 30 June 2000 £m	Half –year to 30 June 1999 £m	(Audited) Full year 1999 £m
Retained loss for the financial period	(58.1)	(49.8)	(109.9)
(Decrease)/ Increase in share capital (see note f)	(287.4)	300.0	300.0
Share premium	106.2	-	-
Capital reserve created (see note f)	359.8	-	-
Other movements	(6.9)	-	-
Net increase in shareholders' funds	113.6	250.2	190.1
Opening shareholders' funds	466.9	276.8	276.8
Closing shareholders' funds	580.5	527.0	466.9

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Notes on results

- a) The interim financial statements have been prepared on the basis of the accounting policies set out on pages 73, 74 and 75 of the Egg plc prospectus (“Egg Share Offer” dated 25 May 2000) and are unchanged for the period to 30 June 2000.
- b) The results for the 2000 and 1999 half years are unaudited. The comparatives for the full year to 31 December 1999 have been taken from the Group’s prospectus, dated 25 May 2000 and are not extracted from the financial statements filed with the registrar. In the prospectus, the financial statements for Egg plc (formerly Egg Limited) were prepared using merger accounting principles.

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

The audited statutory accounts for Egg Limited for the year ended 31 December 1999 have been delivered to the Registrar. The auditors’ report was unqualified and did not contain a statement under s237(2) or (3).

- c) Group operating loss is stated after charging provisions for bad and doubtful debts of £14.5 million (30 June 1999 - £1.8 million). The balance sheet provisions for bad and doubtful debts and movements thereon were:

	General bad debt provision £m	Specific bad debt provision £m	Total £m
Balance at 1 January 2000	11.8	-	11.8
Charge for the half year to 30 June 2000	5.0	9.5	14.5
Amounts written off	-	(0.1)	(0.1)
Balance at 30 June 2000	16.8	9.4	26.2
Balance at 30 June 1999	4.8	-	4.8

Provisions at 30 June 2000 were 0.9% of advances to customers (30 June 1999 – 0.4%). Amounts provided for on a formulated basis are included in specific bad debt provisions in the current year (1999 - £1.6m included in general provision).

- d) The taxation credit assumes a UK corporation tax rate of 30% (1999 – 30.25%) and comprises:

	Half –year to 30 June 2000 £m	Half –year to 30 June 1999 £m
Group relief	22.6	20.0
	22.6	20.0

- e) Basic loss per share of 8.0p (1999- 9.7p) is calculated by dividing the loss for the financial period (after tax) of £58.1 million (30 June 1999 - £49.8 million) by the weighted average of 722.1 million (30 June 1999 – 514.7 million) ordinary shares in issue during the half year.

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- f) In May 2000 the Group converted each of its £1 ordinary shares into one 50p ordinary share and one 50p deferred share. Prudential plc, which at the time owned 100% of the share capital of the Group, then made a capital contribution to Egg by gifting all the deferred shares to Egg. Following this gift, the deferred shares were cancelled and the share capital of Egg was reduced accordingly and a non-distributable capital reserve of £359.8 million was created.

- g) The interim financial statements have been reviewed by the Group's auditors, KPMG Audit Plc., and their report is set out on page 14.

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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 8 to 13 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 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 as presented for the six months ended 30 June 2000.

KPMG Audit Plc
Chartered Accountants

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Average Balance Sheet

	Six months ended 30 June 2000		Six months ended 30 June 1999		Year ended 31 December 1999	
	Average Balance	Average Rate %	Average Balance	Average Rate %	Average Balance	Average Rate %
(£m, except percentages)						
Assets						
Loans and advances to banks	2,141	5.98	2,624	5.44	2,983	5.33
Debt securities	3,835	6.15	1,801	5.46	2,573	5.53
Mortgages	1,824	6.65	804	6.65	1,087	6.62
Personal loans	256	10.56	57	11.23	108	10.91
Egg Card	446	3.27	-	-	22	2.68
Total average interest-earning assets	8,502	6.20	5,286	5.69	6,773	5.69
Fixed assets	48		23		27	
Other assets	199		203		118	
Total assets	8,749		5,512		6,918	
Liabilities						
Customer accounts	7,923	5.87	5,000	5.87	6,375	5.68
Wholesale liabilities	26	4.57	9	3.42	8	4.08
Total average interest-bearing liabilities	7,949	5.86	5,009	5.86	6,383	5.68
Other liabilities	331		120		217	
Total liabilities	8,280		5,129		6,600	
Shareholders' funds	469		383		318	
Total liabilities/shareholders funds	8,749		5,512		6,918	

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

Average Yields

	Six months ended 30 June 2000 Average rate %	Six months ended 30 June 1999 Average rate %	Year ended 31 December 1999 Average rate %
Interest income as a percentage of average interest-earning assets	6.20	5.69	5.69
Interest expense as a percentage of average interest-bearing liabilities	5.86	5.86	5.68
Interest spread	0.34	(0.17)	0.01
Net interest margin	0.73	0.14	0.34

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Other Information

Non-financial operating data

	30 June 2000	30 June 1999	31 December 1999
Total Unique Egg Customers ⁽¹⁾⁽²⁾	1,103,802	510,078	792,348
Customers by product ⁽¹⁾			
- Deposits ⁽³⁾	617,137	498,039	571,202
- Egg Card ⁽⁴⁾	498,471	-	218,801
- Personal loans ⁽³⁾	50,171	10,600	31,337
- Mortgages ⁽³⁾	14,544	2,998	8,649
- Egg Invest ⁽³⁾	4,561	-	-
Percentage of Deposit Servicing Transactions Online ⁽⁵⁾	69%	n/a	61%

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 card holders 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.
- (5) Average for the months indicated.