Intermediate Capital
Group PLC

Intermediate Capital Group PLC Annual Report and Accounts

Intermediate
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Intermediate Capital
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Annual Report and Accounts

for the year ended 31 January 2004

Highlights

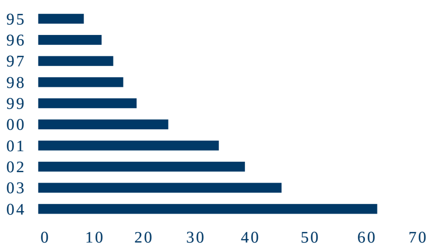
- Core income up 36% to £62.2m
- Pre-tax profits up 21% to £64.6m
- Proposed final dividend of 24.0p net per share making 34.5p per share for the year, an 11% increase
- The loan book increased by 24% to £1.1bn
- New mezzanine fund of over €1.0bn raised
- Non mezzanine funds under management rise to over €1.7bn

	2004 £m	2003 £m
Net interest income	61.3	42.5
Core income	62.2	45.9
Profit before tax	64.6	53.5
Loans and investments	1,085.5	876.1
Shareholders' funds	322.8	216.2

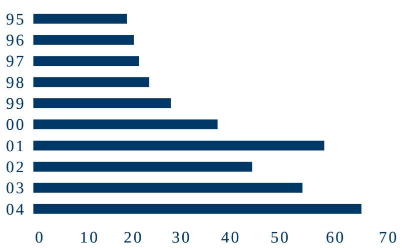
The definition of core income may be found on page 9 under results for the year.

Ten Year Record

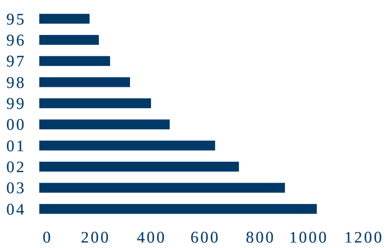
Core Income £m



Pre-tax profit £m

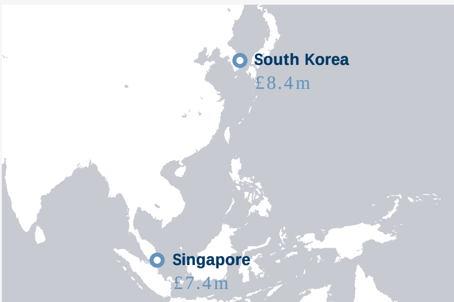


Loans and investments £m



Chairman's Statement

Portfolio by country



Introduction

It gives me great pleasure to report another strong performance by ICG.

ICG has had another record year for new lending helped by the buoyant mezzanine market in Continental Europe which has resulted in the loan book increasing by 24%. During the year we successfully raised £82m of new equity from our shareholders to help finance the continuing growth of our loan book. Our pre-tax profits have also shown good growth, reaching record levels on the back of a substantial increase in core income.

Last year saw a significant advance in the scale of our fund management activities. The closing of our new mezzanine fund, with a total expected size, including leverage, of well over €1bn, will lead to substantially increased profitability from this part of our business. In addition, our other sub-investment grade fund management activities are now reaching a scale where they are starting to contribute meaningfully to ICG's future profitability.

There is more confidence in the financial markets than there was a year ago which is helpful to many aspects of our business but is also leading to a more competitive environment for mezzanine lending in Europe. Demand for mezzanine, however, remains good and we are seeing a decent flow of new lending opportunities.

Results

Pre-tax profits for the year ended 31 January 2004 rose by 21% to £64.6m. The increase was driven by core income which grew by 36% to £62.2m, primarily as a result of the 44% increase in net interest income.

Dividends

The Board is recommending a final dividend of 24.0p net per share to be paid on 28 May 2004, which, with the interim dividend of 10.5p net per share, brings the total for the year to 34.5p net per share, an increase of 11% over last year's dividend.

The total cost of the dividend has increased by 26% to £23.0m, partly as a result of the final dividend being paid on the new shares issued last October.

The dividend will be paid to shareholders on the register on 7 May 2004.

While it is ICG's policy to deliver continuing dividend growth, subject to satisfactory core income growth, ICG is also conscious of the need to build up retained earnings to support the continuing growth of the business.

The year's dividend is covered 1.9 times by post tax earnings.

The Loan Portfolio

We had an excellent year for new lending which resulted in our loan book growing by 24% to £1.1bn. During the year we arranged or provided a total of £652m of new lending, of which £354m was invested on ICG's balance sheet, £202m taken by fund management clients with the balance of £96m being syndicated to third parties.

As we have anticipated, Continental Europe has continued to be a very significant market for our new lending and now represents 70% of our total portfolio. We had our most active year ever in Germany with four new investments. France continued to be busy with six new investments as was the UK with four new investments. In addition, we made two new investments in the Netherlands and one in each of Denmark, Finland, Singapore and Spain.

The level of repayments was quite low early in the year but increased in the second half, resulting in their totalling £161m for the year in respect of 12 investments. The appreciation of the euro against sterling, offset by the weakness of the US dollar, had the effect of increasing the sterling value of the loan portfolio by £15m.

The economic conditions in which the majority of our portfolio companies had to operate during the past year continued to be difficult. However, most of the companies in our portfolio have reacted well to these difficult trading conditions and have performed satisfactorily. Nevertheless, there was a deterioration in the performance of some of our portfolio companies and we have decided to make significant provisions against three of them. Looking at our portfolio as a whole we continue to be satisfied with its performance.

Funding

As a result of the strong growth in the size of our portfolio and the consequent increase in our gearing ratio to 3.6:1 at 31 July 2003, we decided, in September, to seek further capital from our shareholders. The placing of new shares, 97% of which were taken up by our shareholders, raised £82m of new equity. This materially reduced our gearing, enabling us to continue to grow our loan book in the future by taking on further borrowings, while remaining conservatively geared.

We reported at the half-year that we had successfully raised over £200m of new debt facilities from the securitisation market. We are pleased that we were able to raise such medium term debt facilities from a new source on attractive terms. We believe that this is a type of funding we can use further in the future.

At 31 January 2004 we had in place total borrowing facilities of over £1.0bn, compared with outstanding borrowings at that time of £792m, leaving us with £225m of unutilised facilities. As a result of the equity issue our gearing level has now reduced to 2.5 times. We continue to raise new medium term debt facilities to help fund further growth in the loan book and to replace maturing facilities.

Fund Management

Last year saw a considerable advance in the scale and potential profitability of our fund management business.

We are delighted to be able to announce the final closing of our new mezzanine fund with equity commitments of over €650m. It is our intention to gear up this fund by not less than 1:1 and we have already had discussions with a number of banks who have expressed interest in providing such gearing. We therefore expect the fund to have cash resources of up to €1.5bn, which is over three times the size of our previous mezzanine fund. This fund will take a 40% share of each of ICG's relevant European mezzanine investment opportunities. It will contribute significantly to ICG's future profitability, increase our underwriting ability and further strengthen our position as one of the largest mezzanine investors in Europe.

Our specialist sub-investment grade fund management business, investing primarily in high yield bonds and loans, has also continued its growth, raising a fifth fund which invests predominantly in leveraged loans. This brings our non-mezzanine funds under management to over €1.7bn. This business is starting to have real critical mass from which we can expect good increasing profitability as we raise further funds.

A strong bond market, together with active portfolio management, has helped our CDOs to be in compliance with all their covenants and to pay distributions to their equity investors. Our three loan funds also continue to perform well. Our good investment management performance is helping us to raise more funds.

We intend to put more marketing resource into our specialist fund management business this year so as to further expand the size of our operations and funds under management in an area which we believe has considerable growth potential. To this end an experienced marketing team will be joining ICG shortly.

ICG and the European Mezzanine Market

The European buyout market had a good year with high activity levels, particularly in Continental Europe, which had a record year. Once again we saw financial buyers with access to large amounts of cash well placed to acquire many of the companies being put up for sale. Demand for mezzanine in this strong buyout market was good.

The high yield bond new issue market was inactive for most of last year as far as the buyout market was concerned, which resulted in more mezzanine opportunities in large transactions. We are now seeing a recovery in the high yield market and although mezzanine will also still be used in larger deals, as it can often prove to be a more appropriate form of finance than bonds, we can expect high yield bonds to finance some of the larger buyouts. The middle market, where ICG continues to make most of its investments, remains unaffected by the high yield bond market.

The greatest competition to ICG continued to come from banks and investment banks seeking to arrange and provide a total debt package of senior debt and mezzanine for the buyout. However, many such banks remain keen to involve ICG, particularly where large amounts of mezzanine are required. With confidence returning to the debt markets, and as liquidity increases, the number of non-dedicated mezzanine investors to whom the banks syndicate is increasing. We are seeing some evidence of banks arranging poorly structured and priced mezzanine which they are able to syndicate and which ICG and the more experienced mezzanine investors reject.

Competition from independent funds has also increased with a few new funds being raised.

The pricing of mezzanine has for the most part remained satisfactory with no erosion of cash margin. However we have seen increased use of warrantless mezzanine with minimal repayment penalties, which we usually find unattractive.

In this more competitive market ICG still sees virtually all the mezzanine opportunities of relevant size in the European market. Our ability to provide as big an amount of mezzanine for an individual transaction as anybody gives us a strong position in the large transactions. In the middle market our reputation, experience, pan-European reach and multi-national team of professionals continues to give us a distinct competitive advantage. Our overall market position therefore remains strong.

The Asia Pacific Mezzanine Market

The Hong Kong office was constrained in the first half of the year by the impact of SARS. In the second half of the year, however, activity levels have started to increase and we successfully completed one new investment. While the volume of mezzanine opportunities in the region has not been quite as high as we originally expected we believe in the medium term potential for mezzanine in the region.

Offices, Management and Staff

In recent months we have opened new offices in Stockholm and Madrid. The purpose of these offices is to get closer to our key providers of business in these countries and further differentiate ourselves from our competition. We are expecting to open an office in Frankfurt during the current year for similar reasons. We continue to gradually increase our staff resources in the areas in which we see growth potential, particularly Continental Europe.

We are particularly proud of the quality of our professional staff and consider them to be one of the great strengths of our business. I would like to take this opportunity to thank all our staff on your behalf.

The Board

Since last year's statement Andrew Jackson and Jean-Loup de Gersigny, two of the founders of ICG, have retired from the Board. Without them ICG would not exist and they made an enormous contribution to the success of ICG over the last fifteen years. We wish them well in their retirement. Last year we appointed to the Board three new Executive Directors - Christophe Evain, Francois de Mitry and Andrew Phillips - all of whom have many years experience in the mezzanine market. Andrew Phillips has also been responsible for developing our sub-investment grade debt fund management business.

Outlook

We expect the European buyout market to continue to be strong in the year ahead, with good demand for mezzanine, particularly on the Continent. While competition in the mezzanine market has increased over the last year, ICG remains well placed, because of its size, leading market position and its unique pan-European spread, to see a good flow of mezzanine opportunities. Increased liquidity in the debt markets may affect the structuring of some new mezzanine loans, which will cause ICG to be particularly selective in its choice of investments.

The pipeline of new potential deals is good, and, in our new financial year, we have to date made four new loans on our balance sheet totalling £49.0m. However, we are also seeing an increase in the level of repayments.

On the back of last year's growth in the loan book we can expect further growth in net interest income, but not at the rate seen last year. Increased fee income, resulting from the significant recent increase in funds under management, should also help to provide growth in core income.

A number of our portfolio companies are currently actively seeking an exit and we think therefore that there is a good prospect of achieving some attractive capital gains in the current year. While some companies in our portfolio continue to find trading conditions difficult we are pleased that overall our portfolio, which is well diversified, is performing well.

We continue to believe that our business areas of European mezzanine finance and sub-investment grade fund management offer attractive growth opportunities and we therefore continue to look forward to the future with confidence.

John Manser
Chairman
19 April 2004

Business and Financial Review

1 The UK and Continental Buyout Market

Despite the slowdown in activity caused by the Iraq war early in the year, 2003 turned out to be a strong year for buyouts. The total value of European LBO activity for the year is estimated to amount to £43.5bn compared with £40.0bn in 2002. This high level of activity arose for the same reason as in the previous two years, namely the strong position financial buyers have relative to their corporate competitors in acquiring businesses coming up for sale at a time when the cost of borrowing is low. While corporate buyers towards the end of the year were becoming somewhat more active in the M&A market, they were for the most part constrained in their ability to finance acquisitions by weak stock markets and their inability to gear up their balance sheet in the way that financial buyers can.

Private equity funds continue to have billions of pounds available to them to finance acquisitions and also have access to debt capital markets, which, in a more confident financial environment, are able to provide them with greater amounts of debt to leverage up their acquisitions. Additionally, the dormant European IPO market has given the opportunity to financial buyers to acquire companies, particularly former buyouts, which might otherwise have gone to the IPO market. Last year private equity investors were particularly involved in buying subsidiaries of larger companies, which needed to make disposals, buying companies in secondary buyouts and buying companies as a result of a public to private process.

In 2003, Continental Europe provided £27.7bn of total buyout activity compared with £15.8bn in the UK, which represented the highest value of buyouts ever transacted in Europe in one year.

Debt was more readily available to help finance buyouts than in the previous year. This availability of debt, together with the large amounts of money held by private equity funds, led to strong competition for the available acquisition opportunities, particularly at the large end of the market. This has led to high prices being paid for quite a number of buyouts during the year. Private equity investors believe that such high levels are justified by the fact that they are now buying companies at what they believe to be the low end of the economic cycle and that improved profitability in the future will more than justify the high multiples being paid at the present time. Leverage levels have also increased in the large transactions as a result of the increased liquidity in the debt markets and also as a result of increasing confidence in the global economic recovery.

Looking forward, while corporate acquirers are starting to become more active and while there are some signs of activity in the IPO market, ICG believes that, with large amounts of money continuing to be available to financial buyers, together with more confident debt markets and continuing low interest rates, buyout activity in 2004 will again be good.

2 ICG and the European Mezzanine Market

In 2003 mezzanine was again much in demand from arrangers of European buyouts with total mezzanine investment of approximately €4bn being at similar levels to 2002.

The reasons for this high usage were similar to the previous year. Firstly, there has been a material increase in the number of larger buyouts, where mezzanine is more likely to be used. Secondly, the high yield bond market remained relatively inactive which left the opportunity for mezzanine to be used in larger buyouts, some of which might otherwise have used the public bond market. Thirdly, the market for buyouts was competitive in Europe with the private equity arrangers competing strongly for all the quality buyouts and consequently they were encouraged to use mezzanine in order to improve their expected returns.

The use of mezzanine in Germany increased during the year to €630m, while that in France declined to €860m from €1.3bn as in the previous year there had been three particularly large mezzanine transactions. In the UK usage of mezzanine increased materially from £430m to £800m.

The uncertainty in the financial markets in the first half of the year reduced the appetite of some debt providers and thereby improved the quality of many of the mezzanine opportunities available to ICG. With improved confidence in the debt markets more inexperienced investors are now showing interest in the mezzanine market.

The most active competitors to ICG were the banks operating as one stop shops arranging both senior debt and mezzanine as a package. While ICG often works closely with such banks and obtains good mezzanine opportunities from them, some of these banks occasionally overleverage the transaction and put in more debt than ICG regards as being appropriate. There were a number of such deals in 2003 which ICG turned down.

One U.S. mezzanine fund manager was more active in the market last year because it had raised a new larger fund. In addition a small number of independent fund managers raised new funds during the year which made them more competitive in the middle market in some countries. ICG believes it continues to have a significant competitive advantage over other mezzanine investors because it has many more experienced professionals of the relevant nationality committed to each of the key markets in Europe.

Pricing of mezzanine for the most part held up well with IRR's in excess 10% over EURIBOR or LIBOR. The make up of this return has been changing somewhat over the last few years, particularly in the larger transactions. In these transactions additional non cash interest has substituted part of the return which previously was obtained from warrants. Such rolled up interest can be attractive particularly when there is uncertainty about the value of the warrants. However it is important that such a return is obtained for a minimum period of, say, 3 years rather than being subject to early repayment which effectively turns it into a bridge loan.

3 Overview of the European High Yield Bond and Leveraged Loan Markets

European High Yield Bonds The European high yield bond market experienced a significant upturn compared with the low points of 2001 and 2002, with the CSFB Western European High Yield Index producing a return of 31% compared with a small negative return in 2002. This was mainly driven by a significant inflow of new money into the market during the year. There were 62 new transactions in 2003 totalling €16.7 billion compared with 25 transactions totalling €5.3 billion in 2002. A further increase in 2004 is possible, but unlikely to be as dramatic as 2003 as risk premiums are already tight and not all of the money put into the market in 2003 will remain. We do expect deal flow to continue to be good in 2004, driven by the buy-out market and corporate restructurings.

European Leveraged Loan Market The European leveraged loan market is, to a large extent, driven by private equity activity which is experiencing growth over the medium term, albeit this growth can be both seasonal and cyclical. Transaction volumes were reasonably strong in 2003. Demand from investors for loans has been high and is expected to continue to be so in 2004: not only are institutional investors growing their assets under management, but banks, after a period of reducing their balance sheet exposure to the asset class, are beginning to rebuild their portfolios. The consequences are that the secondary market is very illiquid and the pressure on leverage in buy-outs is marginally upwards. Primary new issuance volumes are expected to be relatively good in 2004.

4 The Portfolio

During the year to 31 January 2004, ICG's portfolio of loans and investments increased by 24% to £1.1bn which is a similar rate of increase to that in the previous year. The increase arose primarily because of the attractive environment for mezzanine, coupled with a relatively low level of repayments for the year.

It is ICG's aim to diversify its risk by spreading its portfolio on both a geographic and sector basis. At the end of the year, ICG's portfolio was spread across 11 countries in Western Europe, and two countries in the Asia Pacific Region. In Western Europe, ICG's strongest markets continued to be in the UK and France, although the German portfolio has increased significantly this year. The Spanish team, recruited in 2002, completed their first transaction in the year and the Scandinavian and Benelux teams are also being rewarded for their marketing initiatives with increased deal flow.

ICG's portfolio continues to be spread across a wide range of sectors and at the end of the year it was spread across 27 sectors, with the largest exposure in any being 13%.

Details of the portfolio, including new loans and repayments, may be found on pages 10 to 13.

New Loans and Investments During the year, ICG underwrote or provided a total of £652m of mezzanine loans relating to twenty new deals.

ICG was the lead mezzanine investor on twelve of the twenty deals completed and is the agent on sixteen of them. Fifteen of these deals were in respect of buyouts, of which two related to public companies being taken private. A further three related to acquisition finance and two were in respect of refinancing.

Repayments Last year loans totalling £161m were repaid or prepaid in respect of 12 companies. These repayments resulted from trade sales or the refinancing of the mezzanine loans with cheaper debt.

Provisions It is ICG's policy to make specific provisions against any loan or investment where, in the opinion of ICG's management, the value of that loan or investment has become permanently impaired. Last year a small number of companies in the portfolio continued to suffer from depressed trading and as a result of this, ICG made significant provisions against three of these. The amount of gross provisions made totalled £25.9m. However, during the year, ICG made a full recovery £4.8m in respect of a loan against which a full provision had previously been made, and is also writing back a provision of £2.1m in respect of a company whose financial performance has improved considerably and where a part of the loan has now been repaid. The net charge of specific provisions to the profit and loss account therefore amounted to £19.0m, compared to £17.5m in the previous year.

At the end of the year ICG's total provisions amounted to £56.9m in respect of nine loans and investments. This represents 78% of the total cost of these loans and investments and 5% of the gross loan book.

Shares and Warrants As a result of its mezzanine lending activity, ICG holds unquoted shares and warrants in companies to which it lends and whose value is not included in the balance sheet. These investments, which are held in the balance sheet at nominal cost, are valued by the Directors at £82m compared to £71m at the beginning of the year.

5 Fund Management

Mezzanine ICG continued to make investments on behalf of its Mezzanine Fund 2000 which during the year became fully invested utilising its equity of €300m and bank debt of €80m. This year a further new mezzanine fund was raised, the ICG Mezzanine Fund 2003. This has equity commitments of over €650m, which with bank facilities will enable the fund to be geared at least 1:1 times, giving a total fund size of up to €1.5bn. This fund will take 40% of all relevant European mezzanine opportunities, thus increasing the underwriting ability of ICG, as well as significantly increasing its future fund management income.

In the year, ICG invested £228m of mezzanine on behalf of these funds and, after £56m of repayments, including those from earlier fund management arrangements, the amount invested by ICG on behalf of its fund management clients at the end of the year was £491m.

High Yield and Leveraged Loan Fund Management During the year ICG raised a new loan fund of €250m. Consequently ICG now manages five different sub-investment grade structured funds totalling over €1.7bn. The first two CDO funds and Promus I fund are fully invested and, having recently issued additional notes through a tap issue, Promus II is now 60% invested and the new loan fund, CDO III, is 82% invested.

6 Borrowings and Loan Facilities

At the end of the financial year, ICG's borrowings stood at £792m compared to £671m at the end of the previous year. The increase in debt was lower than the growth in the loan portfolio due to the equity issue of £82m during the year. As a result of this equity issue, the company had a gearing level of 2.5:1 times at 31 January 2004, compared to 3.1:1 at the end of last year and 3.6:1 at the end of July 2003.

During the year, the company significantly increased its borrowing facilities by securitising part of its portfolio. This was achieved by selling a portion of each loan into a separate ring-fenced subsidiary and raising publicly rated debt to fund this. The debt is secured over the assets of the subsidiary but there is no security over assets in any other part of the group.This was completed in June 2003, and raised over £200m of new debt, which will be increasable to over £300m over time. This debt, along with the securitised assets, are included in the group's balance sheet. The initial costs of the securitisation are being written off against profit over a five year period.

During the year the company has also renewed £50m of maturing bank facilities.

At the end of the financial year, ICG had total unutilised facilities available of £225m, compared to £142m at the beginning of the year.

7 Shareholders' Funds

At the end of the year, ICG's shareholders' funds had increased by £106.6m to £322.8m. £20.6m of this increase came from retained profits for the year, while a further £81.7m came from the equity issue completed in October 2003 and £4.3m from share options exercised. Note 18 to the accounts shows the movements on shareholders funds. If the full value of warrants referred to earlier is included, ICG's equity base would have increased from £288m at the end of last year to £405m at the end of this year.

8 **Results for the year**

ICG's results for the year to 31 January 2004 are summarised on page 1 of these statements. Pre-tax profits increased by 21% to £64.6m. The main driver behind this increase in pre-tax profits is core income and in particular, net interest income. The analysis of core income is shown in note 3 to the accounts.

The pre-tax return on average shareholder funds amounted to 24%. Profit after tax amounted to £43.6m compared to £35.1m for the previous year. Undiluted earnings per share amounted to 70.4p compared to 59.8p last year.

The constituent part of ICG's profit are:

Core Income Core income is the key component in ICG's profitability and consists of net interest income plus fees less related administrative expenses and increased by 36% to £62.2m for the financial year.

Net interest income Net interest income increased by 44% from £42.5m last year to £61.3m. This increase was unusually high, and reflects the particularly large increase in the loan portfolio over the last 18 months together with the increasing use of rolled-up interest in the structure of mezzanine.

Fee Income Total fee income increased by 17% to £20.9m for the year. Underwriting fees rose 12% from £7.5m last year to £8.4m in the current year as a result of higher levels of new business. Agency fees increased 27% to £1.4m for the year. Fund management fees increased from £9.3m last year to £11.1m this year. Fees from managing mezzanine funds amounted to £6.9m (2003 - £6.3m) including £1.4m of carried interest fees, down on last year's figure of £2.0m. Fees from the management of non-mezzanine assets amounted to £4.2m compared to £3.0m last year.

Expenses Total administrative and operating expenses increased by £5.5m to £20.0m this year. Salaries and short term bonuses, the most significant part of ICG's expenses, increased from £8.2m for the previous year to £10.9m this year as a result of increased staffing levels and costs and a provision for National Insurance on issued share options reflecting the substantial increase in the share price. Costs of the Medium Term Incentive Scheme directly attributable against core income resulting from the cash receipts of rolled-up interest amounted to £2.3m.

Non-payroll related costs increased by £0.5m to £6.8m. Overall, total expenses represent 32% of core income, unchanged from last year.

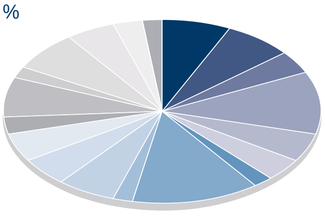
Capital Gains and Provisions Capital gains decreased from £33.9m to £26.2m as a result of the weak market for exiting investments. Payments under the Medium Term Incentive Scheme relating to capital gains reduced from £8.8m to £4.8m because of the lower level of gross capital gains. Capital gains were realised from eleven companies of which ten were trade sales or refinancings with the remaining one being from a sale of quoted shares.

Gross provisions for the year amounted to £25.9m, primarily as a result of provisions against three of our portfolio companies. Taking into account the release of £6.9m of provisions no longer required on two of our loans, net provisions amounted to £19.0m compared with £17.5m in the previous year.

The Portfolio

Sector Analysis of ICG's Portfolio

%

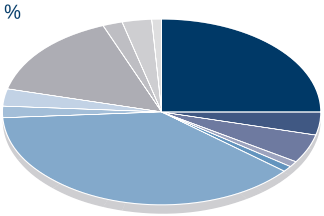


as at 31 January 2004

Brewers	3
Building Materials	7
Business Services	7
Chemicals & Plastics	3
Consumer & Household Products	7
Drapery & Stores	4
Electrical	11
Entertainment	2
Financial Services	5
Food	4
Health	5
Insurance	2
Leisure	13
Motor Parts	6
Other	7
Paper & Packaging	2
Pharmaceuticals	2
Publishing & Printing	5
Shipping & Transport	5

Geographical Analysis of ICG's Portfolio

%



as at 31 January 2004

Asia Pacific	2
Belgium	1
Denmark	3
Finland	1
France	37
Germany	14
Ireland	3
Netherlands	5
Spain	2
Sweden	3
Switzerland	4
UK	25

In the year ended 31 January 2004 ICG and its mezzanine funds made the following loans and investments:

1 **Asia Directories** is the holding company for Yellow Pages (Singapore) Pte, the official publisher of the Yellow Pages and the White Pages in Singapore. In December 2003 ICG arranged and provided a mezzanine facility of SG$ 32m to assist in the buyout.

2 **Bertelsmann Springer** is a scientific academic publishing company based in Germany. In September 2003 ICG took a participation of €80m in the mezzanine facility arranged to assist in the acquisition from Bertelsmann AG.

3 **Cardfair** is a specialist greeting card retailer in the U.K. In May 2003 ICG arranged and provided a mezzanine facility of £14m to assist in the acquisition of Card Warehouse.

4 **Ceva Sante Animale**, a French company, develops, manufactures and distributes animal health products. In September 2003 ICG co-arranged a mezzanine facility to assist in the buyout and provided €18.8m.

5 **Codere**, a Spanish company, is a leading gaming company managing slot machines, bingo halls, casinos and off track betting. In June 2003 ICG co-arranged a mezzanine loan of €135m to provide refinancing and acquisition facilities and provided €52m.

6 **Danish Timber** is based in Denmark and supplies materials and related services for building and home improvement. In December 2003 ICG took a participation of €50m in the mezzanine facility provided to assist in taking the company private.

7 **D V Holding**, a French company, is a leading operator in the French nursing homes and elderly care market. In June 2003 ICG arranged and provided a mezzanine facility of €15m to assist in the buyout.

8 **Edscha** is a leading global automotive supplier based in Germany. In March 2003 ICG took a participation of €25m in the mezzanine facility required to assist in taking the company private.

9 **Gala** is a leading U.K. bingo and casino operator. In March 2003 ICG took a participation of £50m in the buyout.

10 **IG Index** is a spread betting, contracts for differences ("CFDs") and currency trading business operating principally in the UK. In September 2003 ICG arranged facilities of £60m to assist in taking the company private and provided £40m.

11 **Janton Oyj** is a leading media company in Finland with it's core business in publishing and distributing free sheet newspapers. In December 2003 ICG arranged and provided a mezzanine facility of €30m to assist in taking the company private.

12 **Materis** is a French group of businesses in aluminates, mortars, paint, refractories and admixtures. In November 2003 ICG co-arranged mezzanine facilities to assist in the buyout. ICG underwrote €115m of the facilities and provided €65.5m.

13 **Medica** is the second biggest player in the nursing homes and elderly care market in France. In December 2003 ICG arranged mezzanine facilities totalling €60m to assist in the buyout and provided €30.2m.

14 **Motip Dupli** is a leading European manufacturer of aerosol paints, touch-up paint pencils and technical aerosols. In October 2003 ICG arranged and provided a mezzanine facility of €16m to assist in the recapitalisation of the company.

15 **Raet** is the leading provider of payroll services in The Netherlands. In July 2003 ICG took a €35m participation in the mezzanine facility to assist in the buyout.

16 **Sericol** is a global ink manufacturer and supplier based in the U.K. In February 2003 ICG arranged and provided a mezzanine loan of €18.8m to assist in the buyout.

17 **Souriau**, a French company, designs, manufactures and sells connectors and interconnection solutions to the commercial aircraft, space & defence markets. In April 2003 ICG arranged and provided a mezzanine facility of €25m to assist in the buyout.

18 **Symrise**, a German company, manufactures flavours, fragrances and aroma chemicals. In June 2003 ICG took a participation of €30m in the mezzanine facility provided as acquisition finance.

19 **Via Location** is France's second largest independent truck rental company. In January 2004 ICG arranged and provided a mezzanine facility of €26m to assist in the buyout.

20 **Viterra** based in Germany is a global services provider for consumption-based billing in the sub-metering and metering industry. In June 2003 ICG took a participation of €70m in the mezzanine facility provided to support the buyout.

In addition to the mezzanine loans provided to the companies above, ICG also took small equity participations in a number of them.

Repayments

During the year, repayments of loans and investments amounted to £161m. Loans to 12 companies were repaid or prepaid in full. These companies were:

Name	Country	Form of realisation
Clydesdale	UK	Trade sale
Craegmore	UK	Refinance
DSV	Denmark	Refinance
Frans Bonhomme	France	LBO
Halfords	UK	Refinance
Norcros	UK	Refinance
Pandrol	UK	Trade sale
Premier Oilfield Services	UK	Trade sale
Risdon Pharma	France	Trade sale
Sab Wabco	Sweden	Refinance
Tetley	UK	Refinance
Victorvox	Germany	Refinance

Current Portfolio

At 31 January 2004, in addition to the new loans and investments listed previously, ICG's portfolio consisted of the following companies:

Name	Country	Business
Accord	UK	Outsourcing for local authorities
Adco Dixi	Germany	Hirer of portable toilets
Allflex	France	Animal identification tags
Asco	UK	Provider of logistic services for oil industry
Asia Cinemas	South Korea	Multiplex cinemas
Automotive Products	UK	Automotive clutch and brake manufacturer
Baxi	UK	Manufacturer of central heating boilers
Best /Spring	UK	IT recruitment agency
Blagden	Belgium	Steel drum supplier
Cantrell & Cochrane	Ireland	Manufacturer, wholesaler and distributor of drinks
Cegelec	France	Provider of electrical contracting services
Charter	UK	Engineering and manufacturer of fastenings and components
Coal Products	UK	Producer of smokeless solid fuels
Coral	UK	Provider of betting services
Courtpaille	France	Chain of restaurants
Dometic Appliances	Sweden	Supplier of appliances for recreational vehicles
Duni	Sweden	Supplier of tabletop products
Electrokoppar	Sweden	Manufacturer of copper wire rod and winding wire
Eliokem	France	Manufacturer of speciality chemicals
Elis	France	Leader in textile rental and hygiene
Elmville	UK	Hotel operator
ERM	UK	Environmental consultancy and risk management
Eurodatacar	France	Provider of services to complement insurance policies
Gerflor	France	Manufacturer of PVC flooring
Grand Vins de Gironde	France	Wine trading company
Heath Lambert	UK	Insurance broking
HMY	France	Manufacturer of supermarket equipment
IBS Brocke	Germany	Manufacturer of automotive components
Jallatte	France	Manufacturer and distributor of protective footwear
Jane Norman	UK	Womens wear retailer
Kiekert	Germany	Automotive equipment manufacturer
Leisurelink	UK	Manager of gaming machines
Malmberg	Netherlands	Publisher of educational material
Meyn	Netherlands	Manufacturer of poultry processing equipment
MGE	France	Manufacturer of UPS equipment
Moliflor	France	Operation of casinos
Nocibe	France	Distributor of perfumes and cosmetics
Orefi	France	Wholesaler of industrial components
Pasteur Cerba	France	Performer of clinical laboratory tests
Pets at Home	UK	Retailer in domestic pet market
Picard	France	Frozen food manufacturer, distributor and retailer

Name	Country	Business
Pinewood	UK	Film studios
Plastimo	France	Manufacturer and distributor of recreational marine equipment
Porcelain & Fine China	UK	Manufacturer of china and porcelain
Portman Travel	UK	Travel agent
Retif	France	Wholesaler and retailer of display units
Saveurs	France	Producer of ingredients for food industry
Sebia	France	Clinical diagnostic equipment producer
Servicetec	UK	Computer services and maintenance
Sia	France	Retailer of decoration accessories
Sound Holdings	Denmark	Hearing aid component supplier
SP Investments	Switzerland	Aviation ground handling company
SR Technics	Switzerland	Global aircraft maintenance provider
Steiner Industries	Austria	Plastic packaging and garden furniture producer
Takko	Germany	Fashion retailer
Talbot	UK	Underwriter of insurance at Lloyds
Target	UK	Express delivery services
Thornbury	UK	Provider of relief nursing staff
Tower Participations	France	Operator of broadcasting towers
TMD Friction	Germany	Manufacturer of brake pads for automotive industry
Tunstall	UK	Manufacturer and maintenance of social alarm systems
Viatris	Germany	Developer of branded pharmaceuticals
WZG Group	Netherlands	Distributor of mobility aids
William Cook	UK	Manufacturer of steel castings

The portfolio of warrants and unquoted shares

At 31 January 2004 ICG had unquoted shares and warrants in most of the companies in its loan portfolio, as well as in the following companies which have repaid their loans in ICG in full:

Name	Country	Business
Cartiere del Garda	Italy	Manufacturer of coated wood-free papers
Convenience Food Systems	Netherlands	Supplier of equipment for the preparation, processing and packaging of food
De Dietrich	France	Manufacturer of heating and processing equipment
DSV	Denmark	Transportation and logistics
Focus	UK	DIY stores
Halfords	UK	Retailer of car parts and accessories
Landal Greenparks	Netherlands	Holiday park operator
Latium	UK	Manufacturer and retailer of UPVC windows
Meneba	Netherlands	Producer of flour, bakery and animal food products
Neste Oy	Finland	Manufacturer of epoxy resin
Norcros	UK	Manufacturer and distributor of showers and tiles
Novem	Germany	Manufacturer of interior trim for automobiles
Oriflame	Sweden	Direct selling of cosmetic products
Pasteur Cerba	France	Performer of clinical laboratory tests
Tensar	UK	Manufacturer of polymer nets and mesh products
Victorvox	Germany	Service provider for mobile and fixed telecommunication industry

Directors' Report

The directors present their annual report and the audited financial statements for the year ended 31 January 2004.

Principal activities and business review The principal activities of the group are those of providing mezzanine capital to companies in Western Europe, along with the management of third party funds. The group's profit before taxation was £64.6m (2003 – £53.5m). The directors consider the state of the company's affairs to be satisfactory.

Directors The present membership of the Board is as set out on page 49. Mr Phillips was appointed to the Board on 27 May 2003; Mr Evain and Mr de Mitry were appointed to the Board on 2 October 2003. Mr Jackson retired as a director on 31 July 2003 and Mr de Gersigny retired as a director on 31 January 2004. All other directors shown on page 49 served throughout the year. In accordance with the articles of association, Messrs Phillips, Evain and de Mitry offer themselves for re-election. Messrs Manser, Licoys and Stone retire by rotation and offer themselves for re-election. The interests of the directors of the company and their immediate families as defined by the Companies Act in the shares of the company as at 31 January 2004 are as follows:

	2004 Number of 20p ordinary shares	2003 Number of 20p ordinary shares
T R Attwood	**140,700**	10,000
T H Bartlam	**705,365**	734,106
C A Evain	**108,514**	-
J-L de Gersigny (retired 31 January 2004)	**694,240**	676,675
E G Licoys	**2,076**	1,800
P J Manser	**18,731**	5,000
F de Mitry	**37,639**	-
J J Nelson	**2,307**	2,000
A C Phillips	**197,394**	-
P J Piper	**179,894**	151,930
P J Stone	**14,134**	12,250

On 26 March 2004 T R Attwood exercised his option over 71,827 shares, increasing his interests to 212,527 shares. On 30 March 2004 A C Phillips sold 22,000 shares decreasing his interests to 175,394 shares. The directors had no interests in the shares of any subsidiary company.

Shares On 27 October 2003, the company completed a placing and open offer under which it placed 9,176,804 ordinary shares of 20p on the basis of 2 shares for every 13 shares held at £9.15 per share. This raised new equity of £81.7m after expenses.

In addition, the company issued 977,233 shares under its Executive Share Option Schemes during the year, raising £4.3m of new equity. The number of 20p ordinary shares in issue at the year end amounted to 69,042,438.

Substantial shareholdings The company has received notification from Fidelity Investment Services Limited that they are interested in more than 3% of the ordinary share capital of the company. According to the company's share register at 16 March 2004, they and the following investment managers (through separately managed funds) had interests in aggregate amounting to over 3%.

Fidelity Investment Services Limited	**5,989,345**	8.67%
Schroder Investment Management Limited	**4,419,662**	6.40%
Baillie Gifford & Co. Limited	**4,416,691**	6.40%
Morley Fund Management	**3,770,653**	5.46%
Threadneedle Asset Management Limited	**3,221,314**	4.67%
Deutsche Asset Management Limited	**3,004,605**	4.35%
M&G Investment Management Limited	**2,458,990**	3.56%
Legal & General Investment Management Limited	**2,343,197**	3.39%
Liontrust Asset Management	**2,254,177**	3.26%

Dividend The directors recommend a final net dividend payment in respect of the ordinary shares of the company at a rate of 24.0p per share (2003 – 21.5p), which, when added to the interim net dividend of 10.5p per share (2003 – 9.5p), gives a total net dividend for the year of 34.5p per share (2003 – 31.0p). The amount of dividend paid and proposed for the year was £23.0m (2003 – £18.3m). After dividends, retained profits of £20.6m (2003 – £16.8m) have been transferred to retained earnings.

Trade creditors It is group policy to agree and clearly communicate terms of payment as part of the commercial arrangements negotiated with suppliers and then to pay according to those terms, based upon the timely receipt of an accurate invoice. The group does not follow any code regarding terms of payment, and the average number of creditor days throughout the year was 35 (2003 – 23).

Auditors A resolution for the reappointment of the current auditors, Deloitte & Touche LLP, will be proposed at the forthcoming Annual General Meeting.

Annual General Meeting A number of other resolutions will be proposed at the Annual General Meeting as special business.

Resolution 6 will, if passed, give authority to the company to increase its authorised share capital from 77,500,000 to 90,000,000.

Resolutions 7 and 8 will give the directors flexibility to allot unissued shares, although the directors have no present intention to issue any further shares save on the exercise of options granted under the Intermediate Capital Group Executive Share Option Scheme 1994 and the Intermediate Capital Group Unapproved Executive Share Option Scheme 1997 and the Intermediate Capital Group PLC 2001 Approved and Unapproved Executive Share Option Schemes. Resolution 7 will, if passed, authorise the directors to allot ordinary shares up to an aggregate amount of £4,004,461, representing approximately 29% of the current issued share capital of the company. Resolution 8 will, if passed, authorise the directors to disapply pre-emption rights of existing shareholders on future issues of ordinary shares for cash in respect of up to a maximum nominal amount of £690,424, being 5% of the current issued share capital. These authorities will expire at the conclusion of the Annual General Meeting of the company in 2005 and in any event no later than 15 months after the passing of the resolutions. However, the directors have no present intention of exercising these authorities, except pursuant to any exercise of share options. It is intended to renew such authorities at successive Annual General Meetings.

Resolution 9 will, if passed, authorise the company to purchase its own shares up to a maximum of 14.99% of the current issued share capital. The price payable for shares purchased will not be more than 105% of the average of the market values for the ordinary shares (as derived from the Daily Official List of the London Stock Exchange) for the five business days before the day on which the purchase is made, nor less than 20p (the nominal value of the share). The authority will expire at the conclusion of the Annual General Meeting of the company to be held in 2005 and in any event no later than 15 months after the passing of the resolution. The authority will only be exercised if to do so would be in the best interests of shareholders generally. At the date of this report, there are outstanding 2,168,760 share options under the Intermediate Capital Group Executive Share Option Scheme 1994, the Intermediate Capital Group Unapproved Executive Share Option Scheme 1997, the Intermediate Capital Group PLC 2001 Approved Executive Share Option Scheme and the Intermediate Capital Group PLC 2001 Unapproved Executive Share Option Scheme, which represent 3.1% of the company's existing issued share capital and would represent 3.7% of the company's issued share capital if the authority to purchase the company's own shares being sought were fully utilised.

Resolution 10 will, if passed, enable the company to pay out, in aggregate, up to £400,000 per annum to its non-executive directors by way of fees. The current level of £200,000 contained in the Articles of Association, which was set in 1994, is sufficient for this year to 31 January 2004. However the company needs to be able to attract additional high quality non-executive directors in order to maintain the appropriate balance on its Board, and would be unable to do so within the existing limits. Authority is therefore being sought to increase the limit in aggregate to £400,000 per annum.

Resolution 11 will, if passed, give authority to the company to apply to the Inland Revenue for the approval of a Save As You Earn Plan.

This scheme will create a better balance between incentives available to executive directors and senior executives and other employees of the Group.

Political contributions No contributions were made during the year (2003 – nil) for political purposes.

Employees The company promotes a business environment which is based on meritocracy in which all staff may develop to their full potential, irrespective of their race, gender, marital status, disability, religious belief or sexual orientation.

The company encourages employee involvement through a process of employee communication. This includes internal communication through briefings held by senior executives.

Health and safety The directors are committed to developing and maintaining a management culture that ensures the health, safety and welfare of employees and others on company premises.

Corporate social responsibility The company recognises its responsibilities to conduct its business in a socially responsible manner. Its objectives are to be commercial and to maintain its integrity and professionalism while respecting the needs of shareholders, suppliers, staff and the businesses in which it invests.

The company's main office is in London where it employs 50 people and it also has small offices in Western Europe. The company currently invests in approximately 90 companies throughout Western Europe, with two in the Asia Pacific Region and it recognises that the most significant risks to its long term value in respect of environmental, ethical and social matters arise from its investment business.

The company therefore aims to invest in companies which respect human rights, seek to comply with their industry standards and comply with current environmental, ethical and social legislation and wherever possible, the company appoints executives to attend investee company board meetings either as an observer or as a non-executive director.

By Order of the Board

J E Curtis
Secretary
19 April 2004

Corporate Governance

The group recognises, and is committed to, high standards of corporate governance. The Board has kept its corporate governance practices under review throughout the year following the publication of the Higgs Report on the role and effectiveness of non-executive directors and the Smith Report on audit committees in January 2003 and the resultant revised Combined Code on Corporate Governance ("2003 FRC Code") published in July 2003. The 2003 FRC Code is applicable to the company from 1 February 2004.

An explanation of how the principles of good governance, set out in Section 1 of the Combined Code, which is appended to the Listing Rules of the Financial Services Authority ("the Code"), have been applied is contained in this report and in the Report of the Remuneration and Nomination Committee. Throughout the year ended 31 January 2004, the company has been compliant with the Code Provisions set out in Section 1 of the Code. In addition, the company has complied with the provisions set out in the 2003 FRC Code except in relation to Board composition, which is subject to continuing review and the provisions of the 2003 FRC code will be taken into account in respect of the future balance of the Board. The composition of the Board is kept under regular review by the Remuneration and Nomination Committee. In view of the size of the company, it is currently not considered appropriate to have a majority of independent non-executive directors on the Board.

Statement of compliance with the principles of the combined code

Board of Directors The Board comprises six executive directors, an independent non-executive chairman and three further independent non-executive directors. The company has never had a designated chief executive. Each of the six executive directors has specific areas of responsibility and all collectively, along with the Chief Financial Officer, form the executive committee, with no one director being able to significantly affect the running of the company without consulting his colleagues. P J Stone has been identified as the senior independent director. The non-executive directors are as follows:

P J Manser was appointed a non-executive director in January 2001 and non-executive chairman in May 2001.

E G Licoys was appointed a non-executive director in January 1998.

J J Nelson was appointed a non-executive director in May 2001.

P J Stone was appointed a non-executive director in January 1998.

The company's board of directors meets at least six times a year to discuss the performance of the company and to discuss matters which it has reserved to itself for decision as well as any other matters that are referred to it. It is their responsibility to present a balanced and understandable assessment of the company's position and prospects and this is done through the chairman's statement, business and financial review and the financial statements. The Board is supplied in a timely manner with the appropriate quality information to enable it to discharge its duties. Further information is obtained by the Board from the executive directors and other relevant members of senior management as the Board, particularly its non-executive directors, considers appropriate.

The need for directors training is regularly assessed by the company and a formal process for evaluating the performance of the Board and its members is undertaken on an annual basis.

At least one-third of the directors retire by rotation each year in accordance with the Articles of Association and all directors are re-elected at least once every three years. Any director appointed during the year must offer himself or herself for re-election at the next Annual General Meeting. Details of directors up for re-election at the forthcoming Annual General Meeting are shown on page 46.

All directors have access to the advice and services of the Company Secretary and may take independent professional advice at the company's expense in the furtherance of their duties.

The Board has established a number of committees consisting of certain directors, including an Audit Committee and a Remuneration and Nomination Committee whose membership and functions are defined on page 18.

Audit Committee The Audit Committee consists of four (2003 – four) independent non-executive directors, these being Messrs, Licoys, Nelson and Stone under the chairmanship of Mr Manser. The executive directors are not members of the Audit Committee but are invited to attend along with the Chief Financial Officer. Deloitte & Touche LLP, the company's auditors, are also invited to attend and have direct access to committee members.

The committee meets regularly, at least twice a year and is responsible for

• Selecting and appointing the external auditors, approving their terms of reference and fees and determining the scope and nature of their work.

• Reviewing the performance of the external auditors and ensuring appropriate rotation of audit partner.

• Acting as a forum for discussion of internal control issues and giving input to the Board's review of the company's internal control and risk management systems and procedures.

• Reviewing the independence of the external auditors and the relationship between audit and non-audit work performed by the external auditors. Procedures are in place to ensure that all significant non-audit work performed by the auditors is approved in advance by the committee and they assess whether such appointments impair, or appear to impair the auditors' judgement or independence. An analysis of fees paid to Deloitte & Touche LLP is shown in note 7 on page 34.

• Reviewing the annual and interim accounts before being presented to the Board, in particular any significant issues arising from the audit; accounting policies and clarity of disclosures; compliance with applicable, accounting and legal standards; issues regarding a significant element of judgement; and the statements on internal controls and business risk assessment.

Remuneration and Nomination Committee The committee consists of four (2003 – four) independent non-executive directors, these being Messrs Manser, Licoys, Nelson and Stone. It recommends the terms and conditions of employment of the executive directors. Levels of remuneration are considered sufficient, but not excessive, to attract and retain the directors needed to run the company successfully. A significant proportion of directors' remuneration is linked to corporate performance. All executive directors have one year rolling contracts. Further details regarding remuneration policy and payments made can be found in the Report of the Remuneration and Nomination Committee.

Appointments of executive and non-executive directors are made as necessary as a result of discussions by the committee and are subject to full Board approval. This process was followed for the appointments of Mr Phillips, Mr Evain and Mr de Mitry to the Board during 2003.

Attendance at Board/committee meetings The table below shows the number of Board and committee meetings held during the year and the attendance record of individual directors.

Number of Meetings	Board meetings	Audit Committee meetings	Remuneration/Nomination Committee meetings
Held	6	2	2
P J Manser	6	2	2
T R Attwood	6	-	-
T H Bartlam	6	-	-
C A Evain	2	-	-
J-L de Gersigny	5	-	-
A D Jackson	2	-	-
E G Licoys	5	2	2
F de Mitry	2	-	-
J J Nelson	6	2	2
A C Phillips	3	-	-
P J Piper	6	-	-
P J Stone	5	2	2

A D Jackson retired from the Board on 31 July 2003 and J-L de Gersigny retired from the Board on 31 January 2004. A C Phillips was appointed to the Board on 27 May 2003 and C A Evain and F de Mitry were appointed to the Board on 2 October 2003.

Relationships with shareholders The company recognises the importance of communicating with its shareholders which it achieves through regular interim and annual reports and the Annual General Meeting. The company is always willing to enter into dialogue with shareholders, based on mutual understanding of objectives, and meetings are regularly held with major shareholders. Investors are encouraged to attend the Annual General Meeting.

The Board as a whole is kept fully informed of the views and concerns of the major shareholders. When requested to do so, non-executive directors will attend meetings with major shareholders.

Internal control The directors acknowledge their ultimate responsibility for ensuring that the group has in place a system of internal controls that is appropriate to the business environment in which it operates. The directors have reviewed the effectiveness of the system of internal control and believe that such a system of controls is in place to give reasonable, but not absolute, assurance that assets are safeguarded, transactions are authorised and recorded properly and that material errors and irregularities are prevented or would be detected within a timely period.

The rationale for the system of internal control is to maximise effectiveness for the commercial management of the business and to provide the Board with regular and effective reporting on the identified significant risk factors. The Board is responsible for determining strategies and policies for risk control and management is responsible for implementing such strategies and policies.

The Board confirms that an ongoing process for identifying, evaluating and managing the group's significant risks has operated throughout the year and up to the date of approval of the directors' report and accounts. This process has been subject to regular review by the Board and accords with the guidelines contained in "Internal Control: Guidance for Directors on the Combined Code" issued in September 1999 by the Institute of Chartered Accountants in England and Wales. The key elements of this process are:

- Strategic risks are considered by both the Board and the Executive Committee in the context of an agreed strategic framework. A strategy paper and plan are produced annually to address the strategic challenges of the group and these are approved by the Board. A detailed financial plan is developed for the year ahead and monthly reports covering actual and planned performance are provided to the Board by the group's finance function.
- Financial risks (primarily loan losses and associated risks) are considered on behalf of the Board by the Executive Committee. The minutes of the Executive Committee are reviewed by the Board on a regular basis. These controls concentrate on the procedures for making and monitoring loans and investments and for the safeguarding of assets against unauthorised disposition.
- Operational risks (including compliance with the Financial Services Act) are considered on behalf of the Board by the Executive Committee.

The Board has established practices for reviewing the system of internal controls by way of reports it receives from the Executive Committee. The Board has considered the need for an internal audit function, but has decided that because of the nature of the current internal control system and size of the company it cannot be justified at present. The Board will review this decision next year. The Board undertook a formal annual assessment of the risk management and control arrangements on 19 March 2004 in order to form a view on the overall effectiveness of the system of internal control.

Going concern statement Based upon the review of the group's budgets and outline business plans for the next two years, the directors believe that the company has adequate resources to continue in operational existence for the foreseeable future and accordingly they continue to adopt the going concern basis in preparing the accounts.

Report of the Remuneration and Nomination Committee

This report has been prepared in accordance with the Directors' Remuneration Report Regulations 2002. The report also meets the relevant requirements of the Listing Rules of the Financial Services Authority and describes how the Board has applied the principles of good governance relating to directors' remuneration. As required by the regulations, a resolution to approve the report will be proposed at the Annual General Meeting of the company at which the financial statements will be approved.

The Regulations require the auditors to report to the company's members on the "auditable part " of the directors remuneration report and to state whether, in their opinion, that part of the report has been properly prepared in accordance with the Companies Act 1985 (as amended by the regulations).

Remuneration and Nomination Committee The committee consists solely of four non-executive directors, Messrs Manser, Licoys, Nelson and Stone, under the chairmanship of Mr Manser. Mr Nelson is a non-executive partner in Graphite Capital, one of whose funds has an investment in the ICG Mezzanine Fund 2000. Other than this, none of the committee members have any personal financial interests (other than as shareholders), conflicts of interest arising from cross-directorships or day-to-day involvement in running the business. One executive director attends the meetings by invitation and the committee consults the executive directors about its proposals and has access to professional advice from outside the company.

The committee meets at least twice a year and more frequently if necessary.

Remuneration policy on executive directors' remuneration Executive remuneration packages are designed to attract, motivate and retain directors of the high calibre needed to maintain the company's position as a market leader and to reward them for enhancing value to shareholders. In arriving at the executive directors' remuneration packages, the committee relies on objective research from MMMK Limited and McLagan Partners which contains up to date information from a comparative group of companies. The performance measurement of the executive directors and the determination of their annual remuneration package is undertaken by the committee. This policy has been formulated having given full consideration to Section B of the Best Practices Provisions annexed to the Financial Services Authority Listing Rules.

Whilst it is intended that the policy statement set out in this report should continue for future years, it is not certain that this policy will continue without amendment in subsequent financial years. This is because the committee considers that an effective remuneration policy needs to be sufficiently flexible to take into account changes in the company's business environment and remuneration pratices.

The main elements of the remuneration package for executive directors are as follows:

- basic annual salary;
- bonus payments;
- share option incentives; and
- carried interest arrangements.

The company's policy is that a substantial proportion of the remuneration of the executive directors should be performance related. As described below, well over half the expected value of their pay comes from bonus payments and carried interest arrangements, as well as from the benefits of participation in share option schemes.

Executive directors are entitled to accept appointments outside the company in connection with the company's activities and otherwise, providing the Chairman's permission is obtained.

During the year, T H Bartlam has accepted an appointment as non-executive director with Pantheon International Participations PLC for which he has received earnings of £8,000 in the year.

Basic salary An executive director's basic salary is determined by the committee at the beginning of each year. In deciding appropriate levels the committee can rely on objective research which gives up to date information on a comparator group of companies (which comprises development capital companies engaged in private equity investment). Executive directors' contracts of service which include details of remuneration will be available for inspection at the Annual General Meeting. The company also provides all executive directors, along with all other employees, with healthcare and prolonged disability and life assurance cover.

Bonus payments In setting appropriate bonus parameters the committee refers to the objective research on comparator groups of companies as noted above. The committee believes that any incentive compensation awarded should be tied to the interests of the company's shareholders and that the principal measure of those interests is shareholder value. The key element is the Medium Term Incentive Scheme, implemented in 1994, the payout of which is related to the cumulative growth in earnings per share in excess of RPI and calculated by reference to the amount of realised gains and rolled-up interest. No payment currently is made if the cumulative growth in EPS is less than RPI plus 4% per annum. The amounts payable rise on a straight line basis from 4% of realised gains to a maximum of 20% of realised gains when cumulative growth in earnings per share reaches RPI plus 9% per annum. The extension and appropriateness of the scheme is considered by the committee on an annual basis.

In the current year the amounts payable under the Medium Term Incentive Scheme were based on the maximum percentage of 20% of capital gains and rolled-up interest. This calculation has been confirmed by the company's auditors.

The company also operates a short term bonus scheme under which bonuses are paid to individuals whose share in the Medium Term Incentive Scheme is not, in management's opinion, sufficient to retain, reward or incentivise such individuals. These bonuses are normally paid to executives who are not participating fully in the Medium Term Incentive Scheme.

Share options There are a number of share option schemes currently operated by the company. All schemes are, in so far as executive directors concerned, administered by the committee. The schemes are:

- The ICG Executive Share Option Scheme 1994, which was adopted on 18 May 1994 and was approved by the Inland Revenue on 2 June 1994. Options may be exercised between three and ten years after the date of grant only if performance targets are met. The grant of options under this scheme ceased in 2001. Options are not exercisable unless, during any period of three consecutive financial years, the company's earnings per share increases by an average rate of at least the Retail Price Index.
- The ICG Unapproved Executive Share Option Scheme 1997 was adopted on 19 May 1997. The provisions of this scheme are substantially similar to those of the ICG Executive Share Option Scheme 1994, except that options may only be exercised between three and seven years from the date of grant. The grant of options under this scheme ceased in 2001.
- The ICG 2001 Approved Executive Share Option Scheme, which was adopted on 21 May 2001 and approved by the Inland Revenue on 22 May 2001. The granting of options, the exercise price of which is based on the previous five days closing share price, are phased and may be exercised between three and ten years after the date of grant only if performance targets are met. It is intended that options will not be exercisable unless, during a period of three consecutive years from the date of grant, the company's earnings per share increases:
  i) in the case of executives:- by an average of at least 4% per annum above the Retail Price Index
  ii) in the case of Directors: - by an average of at least 3% per annum above the Retail Price Index in which case one third of options may be exercised
  - by an average of at least 4% per annum above the Retail Price Index in which case two thirds of the options may be exercised
  - by an average of at least 5% per annum above the Retail Price Index in which case all options may be exercised.

  The value of individual grants of options are restricted to an upper limit equivalent of 200% of salary (400% for the first grant to an individual) based upon the exercise price.
- The ICG 2001 Unapproved Executive Share Option Scheme which was adopted on 21 May 2001 and whose provisions are substantially similar to those of the ICG 2001 Approved Executive Share Option Scheme.
- The company's auditors confirm the performance calculation criteria to the committee, and have done so for the year to 31 January 2004.

Carried interest arrangements The company has established for its executives, including the executive directors, carried interest arrangements whereby between 60% and 75% of the carried interest negotiated by the company in respect of managed funds raised since 21 January 1998 be available for allocation to its executives. Although these arrangements are not a long-term incentive scheme as the costs of these arrangements are borne by the investors in such funds, the company sought, and obtained, approval from its shareholders for such arrangements at an Extraordinary General Meeting on 21 January 1998. Reconfirmation of the carried interest arrangements was obtained from shareholders at the Annual General Meeting held on 27 May 2003.

It is not possible to put a monetary value on these interests, as they are dependent upon the performance of such funds over the next few years, and amounts will not be payable until the investors in the funds have had their capital returned, plus a guaranteed return. However, the allocation of carried interest entitlements as at 31 January 2004 was as follows:

	Mezzanine Fund 2000	Mezzanine Fund 2003
Executive directors	**23.9%**	**18.6%**
Other executives	**36.1%**	**56.4%**
ICG	**40.0%**	**25.0%**
Total	**100.0%**	**100.0%**

Prior to joining the Board, Mr Phillips was a participant in ICG's non-mezzanine fund management business incentive scheme. On joining the Board he has given up his entitlements under that scheme and will in future receive the same benefits as Messrs Piper, de Mitry and Evain under the Medium Term Incentive Scheme and the Carried Interest arrangements.

Executive directors' pension arrangements Under their service agreements, each executive director is paid an additional gross annual amount to be paid into any one or more pension plans of his choice up to a maximum annual amount equal to 15% of basic annual salary. There have been no changes in the terms of executive directors' pension entitlement during the year and there are no other arrangements in place concerning their pensions. In respect of all other employees either (a) an additional gross annual amount is paid to them which they use to contribute to any one or more pension plans of their choice or (b) the company makes contributions into a designated group pension plan.

Executive directors' contracts Executive directors have one year "rolling" contracts which are deemed appropriate for the nature of the company's business. The company is obliged to pay damages for wrongful termination. No other payments are made for compensation for loss of office.

Non-executive directors The remuneration of the non-executive directors is determined by the Board within the limits set out in the Articles of Association, which currently limits the total amount paid to non-executive directors to £200,000. The fee paid to the current non-executive chairman in the year was £75,000 and the annual fees paid to each other non-executive director was £28,000. In arriving at these levels of fees, the committee relies upon objective research from Whitehead Mann which contains up to date relevant information.

Included in these amounts are fees for additional work performed for the company in respect of time spent working on the Remuneration and Nomination and Audit Committees, which in the case of Messrs Licoys, Nelson and Stone amounted to £5,000 each, being £2,500 in respect of each committee. Non-executive directors cannot participate in any of the company's share option schemes. Non-executive directors do not have a contract of service and are not eligible to join the company's pension scheme.

Details of non-executives letters of appointment are as follows:

Non-executive directors:	Date appointed	Last re-elected	Next re-election
P J Manser	Jan 2001	May 2001	May 2004
E G Licoys	Jan 1998	May 2001	May 2004
J J Nelson	May 2001	May 2002	May 2005
P J Stone	Jan 1998	May 2001	May 2004

Re-election of directors Mr Manser, Mr Licoys and Mr Stone are due to retire by rotation and offer themselves for re-election. Mr Phillips was appointed to the Board on 27 May 2003 and Mr Evain and Mr de Mitry were appointed to the Board on 2 October 2003 and offer themselves for re-election in accordance with the articles of association.

Directors' remuneration Details of directors' remuneration for the year are as follows:

Executive directors:	Basic salaries £000	Employee Benefit Trust interests £000	Medium Term Scheme £000	Pension scheme contributions £000	Benefits in kind £000	Total 2004 £000	Total 2003 £000
T R Attwood	253	725	-	38	2	1,018	1,404
T H Bartlam	253	725	-	38	2	1,018	1,404
C A Evain(1)	58	183	-	5	45(4)	291	-
J-L de Gersigny	253	696	-	38	2	989	1,404
A D Jackson(3)	126	348	-	19	1	494	1,404
F E L de Mitry(1)	55	-	183	4	1	243	-
A C Phillips(2)	110	367	-	11	2	490	-
P J Piper	190	550	-	24	2	766	301

The emoluments paid to the executive directors include an amount of £3.6m which was contributed by Intermediate Capital Group PLC to the Intermediate Capital Group Employee Benefit Trust ("the Trust") with the recommendation that it was appointed for the benefit of the above directors and their families in the amounts shown. It is understood that the trustees of the Trust followed that recommendation.

(1) From 2 October 2003 (2) From 27 May 2003 (3) To 31 July 2003 (4) Based in Hong Kong where ICG pay accommodation and education costs.

Non-executive directors:	**Fees** £000	**Total 2004** £000	Total 2003 £000
P J Manser	**75**	**75**	75
E G Licoys	**28**	**28**	27
J J Nelson	**28**	**28**	28
P J Stone	**28**	**28**	28

Under the terms of the company's incentive scheme, A D Jackson, a former executive director who retired from the Board on 31 July 2003, is due £696,000, £348,000 of which relates to his period as a Director; and J R B Odgers, a former executive director, is due nil (2003 - £123,000), in respect of his former service as an executive director.

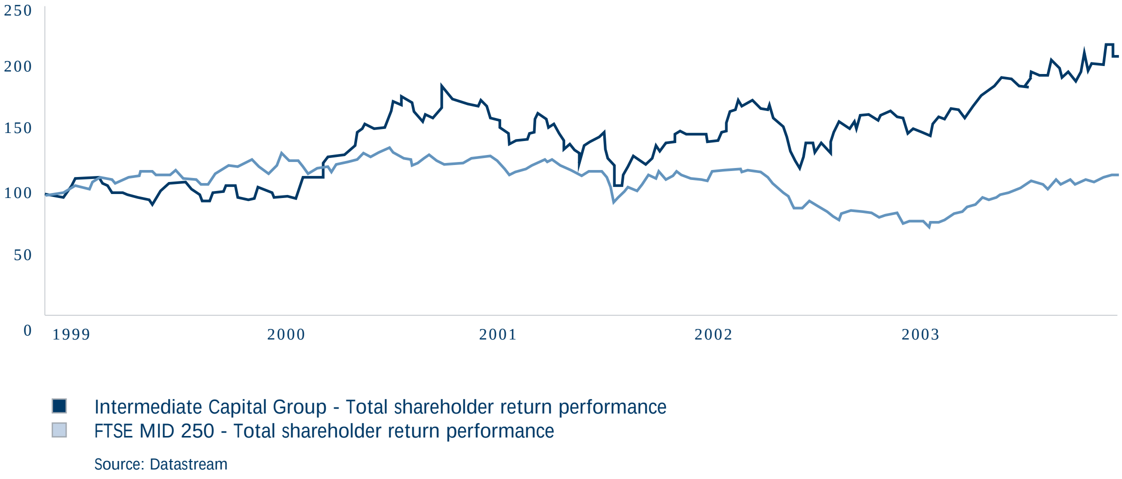
Share Option Scheme At 31 January 2004, the following directors had share options in the company which had not been exercised. The number of shares over which options are held is:

		Date granted	No. of shares	Exercise price	Earliest exercise date	Expiry date
T R Attwood	Approved	April 1996	8,670	346p	31 Jan 2000	April 2006
	Unapproved	April 1997	71,827	342p	31 Jan 2001	April 2004
	Unapproved	April 2001	47,099	732.5p	31 Jan 2005	April 2008
	Unapproved	April 2002	35,785	830p	31 Jan 2006	April 2009
	Unapproved	April 2003	43,429	846p	31 Jan 2007	April 2010
T H Bartlam	Approved	April 1998	5,700	526.25p	31 Jan 2002	April 2008
	Unapproved	April 2001	47,099	732.5p	31 Jan 2005	April 2008
	Unapproved	April 2002	35,785	830p	31 Jan 2006	April 2009
	Unapproved	April 2003	43,429	846p	31 Jan 2007	April 2010
C A Evain	Unapproved	April 2000	40,000	509p	31 Jan 2004	April 2007
	Unapproved	April 2001	30,205	732.5p	31 Jan 2005	April 2008
	Unapproved	April 2002	28,930	830p	31 Jan 2006	April 2009
	Unapproved	April 2003	30,134	846p	31 Jan 2007	April 2010
J-L de Gersigny	Approved	April 1998	5,700	526p	31 Jan 2002	April 2008
	Unapproved	April 1998	92,806	526p	31 Jan 2002	April 2005
	Unapproved	April 2001	47,099	732p	31 Jan 2005	April 2008
	Unapproved	April 2002	35,785	829p	31 Jan 2006	April 2009
	Unapproved	April 2003	43,429	846p	31 Jan 2007	April 2010
F E L de Mitry	Unapproved	April 2000	30,000	509p	31 Jan 2004	April 2007
	Unapproved	April 2001	22,526	732.5p	31 Jan 2005	April 2008
	Unapproved	April 2002	22,601	830p	31 Jan 2006	April 2009
	Unapproved	April 2003	33,089	846p	31 Jan 2007	April 2010
A C Phillips	Approved	April 1997	8,770	342p	31 Jan 2002	April 2008
	Unapproved	April 1998	55,069	526.25p	31 Jan 2002	April 2005
	Unapproved	April 2001	25,085	732.5p	31 Jan 2005	April 2008
	Unapproved	April 2002	23,355	830p	31 Jan 2006	April 2009
	Unapproved	April 2003	28,362	846p	31 Jan 2007	April 2010
P J Piper	Unapproved	April 1998	55,069	526.25p	31 Jan 2002	April 2005
	Unapproved	April 2001	28,584	732.5p	31 Jan 2005	April 2008
	Unapproved	April 2002	26,368	830p	31 Jan 2006	April 2009
	Unapproved	April 2003	31,907	846p	31 Jan 2007	April 2010

The earliest exercise date is the announcement date of the results in respect of the year then ended. The market price of each share at 31 January 2004 was £10.95 per share.

The Chairman of the committee will be available to answer questions on any aspect of the remuneration policy at the Annual General Meeting.

Performance graph The graph below shows a comparison between the company's total shareholder return performance and the companies in the FTSE 250 index. The graph compares the value, at 31 January 2004, of £100 invested in Intermediate Capital Group PLC on 1 February 1999 with the value of £100 invested in the FTSE 250 over the subsequent five years. The FTSE 250 group has been chosen to give a comparison with the average returns that shareholders could have received by investing in a range of other major UK companies.



Audited information The sections relating to directors' remuneration, pensions and directors' share option entitlements are required to be, and have been, audited by the company's auditors, Deloitte & Touche LLP.

P J Manser
Chairman of the Remuneration and Nomination Committee
19 April 2004

Statement of Directors’ Responsibilities

United Kingdom company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and the group as at the end of the financial year and of the profit or loss of the group for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed; and
- prepare the financial statements on a going concern basis unless it is inappropriate to presume that the group will continue in business.

The directors are responsible for ensuring that proper accounting records are kept which disclose with reasonable accuracy at any time the financial position of the company and the group and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for the system of internal control and for safeguarding the assets of the group and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Independent Auditors' Report

to the members of Intermediate Capital Group PLC

We have audited the financial statements of Intermediate Capital Group PLC for the year ended 31 January 2004 which comprise the profit and loss account, the balance sheets, the cash flow statement and the related notes 1 to 27. These financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the part of the directors' remuneration report that is described as having been audited.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors As described in the statement of directors' responsibilities, the company's directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards. They are also responsible for the preparation of the other information contained in the annual report including the directors' remuneration report. Our responsibility is to audit the financial statements and the part of the directors' remuneration report described as having been audited in accordance with relevant United Kingdom legal and regulatory requirements and auditing standards.

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the directors' remuneration report described as having been audited have been properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company and other members of the group is not disclosed.

We review whether the corporate governance statement reflects the company's compliance with the seven provisions of the Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the group's corporate governance procedures or its risk and control procedures.

We read the directors' report and the other information contained in the annual report for the above year as described in the contents section including the unaudited part of the directors' remuneration report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

Basis of audit opinion We conducted our audit in accordance with United Kingdom auditing standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the part of the directors' remuneration report described as having been audited. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements and of whether the accounting policies are appropriate to the circumstances of the company and the group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements and the part of the directors' remuneration report described as having been audited are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion, we also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the directors' remuneration report described as having been audited.

Opinion

In our opinion:

- the financial statements give a true and fair view of the state of affairs of the company and the group as at 31 January 2004 and of the profit of the group for the year then ended; and
- the financial statements and part of the directors' remuneration report described as having been audited have been properly prepared in accordance with the Companies Act 1985.

Deloitte & Touche LLP
Chartered Accountants and Registered Auditors
London
19 April 2004

Consolidated Profit and Loss Account

for the year ended 31 January 2004

	Notes	2004 £m	2003 £m
Interest and dividend income		**89.1**	66.9
Capital gains		**26.2**	33.9
Fee and other operating income		**20.9**	17.9
	4	**136.2**	118.7
Interest payable and similar charges	5	**(27.8)**	(24.4)
Provisions against loans and investments	6	**(19.0)**	(17.5)
Administrative expenses	7	**(24.8)**	(23.3)
Profit on ordinary activities before taxation	3	**64.6**	53.5
Tax on profit on ordinary activities	8	**(21.0)**	(18.4)
Profit on ordinary activities after taxation		**43.6**	35.1
Dividends paid and proposed	11	**(23.0)**	(18.3)
Retained profit transferred to reserves		**20.6**	16.8
Earnings per share	12	**70.4p**	59.8p
Diluted earnings per share	12	**69.5p**	59.0p

All activities represent continuing operations. There are no other recognised gains or losses for the current or prior year other than those shown in the profit and loss account.

The accompanying notes are an integral part of these financial statements.

Balance Sheets

31 January 2004

	Notes	**2004 Group £m**	2003 Group £m	**2004 Company £m**	2003 Company £m
Fixed assets					
Tangible assets	13	**1.4**	1.6	**1.1**	1.6
Loans and investments	14	**1,085.5**	876.1	**794.2**	791.1
Current assets					
Debtors	15	**19.2**	26.5	**59.5**	73.5
Loans and investments	16	**27.5**	53.2	**27.5**	53.2
Cash at bank		**38.6**	1.9	**24.1**	0.5
		85.3	81.6	**111.1**	127.2
Total assets		**1,172.2**	959.3	**906.4**	919.9
Capital and reserves					
Called up share capital	17	**13.8**	11.8	**13.8**	11.8
Share premium account		**170.0**	86.0	**170.0**	86.0
Capital redemption reserve		**1.4**	1.4	**1.4**	1.4
Profit and loss account	18	**137.6**	117.0	**70.2**	57.3
Equity shareholders' funds		**322.8**	216.2	**255.4**	156.5
Creditors: amounts falling due after more than one year	19	**730.0**	627.0	**528.7**	627.0
Creditors: amounts falling due within one year	20	**119.4**	116.1	**122.3**	136.4
Total capital and liabilities		**1,172.2**	959.3	**906.4**	919.9

These financial statements were approved by the Board of Directors on 19 April 2004

Signed on behalf of the Board of Directors by:

PJ Manser Director

TH Bartlam Director

The accompanying notes are an integral part of these financial statements.

Consolidated Cash Flow Statement

for the year ended 31 January 2004

	Notes	2004 £m	2003 £m
Operating activities			
Interest and dividends received		**81.6**	58.0
Gain on disposals		**26.2**	33.9
Fee and other operating income		**19.4**	17.0
Administrative expenses		**(25.8)**	(15.8)
		101.4	93.1
Interest paid		**(25.6)**	(27.6)
Net cash inflow from operating activities	21	**75.8**	65.5
Taxation paid		**(20.8)**	(10.2)
Capital expenditure and financial investment			
Loans and investments made		**(353.7)**	(292.9)
Realisations of loans and investments		**160.9**	132.9
Loans for syndication		**25.7**	(20.3)
		(167.1)	(180.3)
Purchase of tangible fixed assets		**(0.1)**	(0.4)
		(167.2)	(180.7)
Equity dividends paid		**(19.1)**	(17.0)
Net cash outflow before financing		**(131.3)**	(142.4)
Financing			
Increase in share capital		**86.0**	0.9
Increase in debt		**82.0**	142.3
Increase in cash	23	**36.7**	0.8

The accompanying notes are an integral part of these financial statements.

Notes to the Accounts

for the year ended 31 January 2004

1 Accounting policies

The financial statements have been prepared in accordance with applicable United Kingdom Law and Accounting Standards. The particular accounting policies adopted are described below.

a) Basis of accounting The financial statements are prepared under the historical cost convention as modified by the revaluation of certain assets as described below.

b) Basis of consolidation The group financial statements incorporate the financial statements of the company and its principal subsidiaries.

c) Revenues and expenses Underwriting fees and other arrangement fees are included in the profit and loss account on the date at which they are receivable. Amounts receivable at the repayment of a loan which exceed the original cost are taken to the profit and loss account over the full life of the loan. Such amounts, less tax, are considered to be non-distributable until such time as repayment occurs. Recurring fees, interest income, interest expense and overheads are accounted for on the accruals basis. Gains or losses arising on the early termination of financial instruments used for hedging purposes are shown as part of interest expense.

Dividend income is accounted for in the year in which the income is received.

The gain or loss arising on the disposal of a loan or an investment is recognised at the date of disposal. Any gain or loss is stated net of associated selling expenses.

d) Tangible fixed assets Depreciation is provided at rates calculated to write off the cost, less estimated residual value, of each asset on a straight line basis over its expected useful life, as follows:

Furniture and Equipment – 20%-33% per annum
Leasehold Premises – Over the term of the lease

e) Loans and investments held as fixed assets Loans and investments are shown at cost less provisions plus the accrual of amounts receivable at the repayment of a loan which exceed the original cost. The specific provisioning policy of the company is to make a provision against any loan or investment as and when the directors consider that the carrying value is wholly or partially impaired.

f) Loans and investments held as current assets Listed investments which are held as current assets, due to their impending sale, are held at their market value, with any resulting gain or loss being taken to the profit and loss account and included within capital gains. Loans and non-listed investments held as current assets are carried at the lower of cost and net realisable value.

g) Taxation Corporation tax is provided on the taxable profits of the company at the current rate.

h) Deferred taxation Deferred taxation is provided in full on timing differences which represent an asset or liability at the balance sheet date, at rates expected to apply when they crystallise based on current tax rates and law. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in financial statements. Deferred tax is not provided on timing differences arising from the revaluation of fixed assets where there is no commitment to sell the asset, or on unremitted earnings of subsidiaries where there is no commitment to remit these earnings. Deferred tax assets and liabilities are not discounted.

i) Pension costs It is the policy of the company to provide for pension liabilities by payments to insurance companies or to individuals for employees' private pension plans. The amount charged to the profit and loss account represents a percentage of the current payroll cost paid to defined contribution schemes.

j) Foreign exchange Transactions denominated in foreign currencies are recorded at actual exchange rates ruling at the dates of the transactions, or where appropriate, at the rate of exchange in related forward exchange contracts.
Monetary assets and liabilities denominated in foreign currencies at the year end are translated into sterling at the rates of exchange ruling at that date, or where appropriate, at the rate of exchange in related forward contracts. Any gain or loss arising from a change of exchange rates subsequent to the dates of the transactions is included as an exchange gain or loss in the profit and loss account and is included as part of interest expense.

for the year ended 31 January 2004

Accounting policies continued

k) Value added tax It is the company's policy to write off irrecoverable VAT on items of expenditure relating to the profit and loss account. VAT on tangible fixed assets is capitalised and written off over a similar period to the asset to which it relates.

l) Financial instruments Derivative instruments utilised by the group are interest rate swaps and forward exchange contracts. The group does not enter into speculative derivative contracts. All such instruments are used for hedging purposes to alter the risk profile of an existing underlying exposure of the group in line with the group's risk management policies. Amounts payable or receivable in respect of interest rate swaps are recognised as adjustments to interest expense over the period of the contracts.

Termination payments made or received are spread over the life of the underlying exposure in cases where the underlying exposure continues to exist. In other cases termination payments are taken to the profit and loss account.

2 Profit of parent company

As permitted by Section 230 of the Companies Act 1985, the profit and loss account of the parent company is not presented as part of these financial statements. The parent company's retained profit for the financial year amounted to £12.9m (2003 – £5.6m).

3 Analysis of profit before tax

	2004 £m	2003 £m
Income:		
Interest and dividend income	**89.1**	66.9
Fee and other operating income	**20.9**	17.9
	110.0	84.8
Less: Related expenses		
Interest payable and similar charges	**(27.8)**	(24.4)
Administrative expenses – Salaries and benefits	**(10.9)**	(8.2)
Operating expenses	**(6.8)**	(6.3)
Medium term incentive scheme	**(2.3)**	(-)
Core Income	**62.2**	45.9
Capital gains	**26.2**	33.9
Medium term incentive scheme	**(4.8)**	(8.8)
Net Capital Gains	**21.4**	25.1
Provisions against loans and investments	**(19.0)**	(17.5)
Profit on ordinary activities before taxation	**64.6**	53.5

The costs of the Medium Term Incentive Scheme included under core income relates to the cash receipt of rolled-up interest.

4 Analysis of gross income

	2004 £m	2003 £m
Gross income received from:		
United Kingdom	**61.6**	32.7
Continental Europe	**73.3**	85.3
Asia Pacific Region	**1.3**	0.7
	136.2	118.7

The majority of the company's costs and liabilities were derived from the United Kingdom and therefore no meaningful geographical split of net assets and profit before tax can be made.

5 Interest payable and similar charges

	2004 £m	2003 £m
Bank loans and overdrafts	**10.5**	13.9
Floating rate secured notes	**5.7**	-
US private placement	**11.6**	10.5
	27.8	24.4

6 Provisions

	2004 £m	2003 £m
Provisions against loans and investments:		
Specific provisions charged in year	**25.9**	17.5
Specific provisions released in the year	**(6.9)**	-
	19.0	17.5

for the year ended 31 January 2004

7 Administrative expenses

	2004 £m	2003 £m
Administrative expenses include:		
Amounts due under medium term incentive scheme	**7.1**	8.8
Directors' remuneration	**5.5**	6.1
Depreciation	**0.3**	0.3
Auditors' remuneration:		
Audit	**0.2**	0.1
Other services:		
Taxation	**0.2**	0.1
Employee related	**0.1**	0.1
Placing and Open offer	**0.1**	-
Other	**0.2**	0.1

8 Tax on profit on ordinary activites

	2004 £m	2003 £m
a) Analysis of tax on ordinary activities		
United Kingdom corporate tax at 30% (2003 – 30%) based on the profit for the year	**22.7**	18.4
Prior year adjustment	**2.3**	-
	25.0	18.4
Deferred taxation		
Current year	**(1.6)**	-
Prior year adjustment	**(2.4)**	-
Tax on profit on ordinary activities	**21.0**	18.4

b) Factors affecting tax charge for the current period

The tax assessed for the period is higher than that resulting from applying the standard rate of corporation tax in the UK: 30% (2003 – 30%)

The differences are explained below:

	2004 £m	2003 £m
Profit on ordinary activities before tax	**64.6**	53.5
Tax at 30% thereon	**19.4**	16.1
Effects of:		
Prior year adjustment	**2.3**	-
Movements in short term timing differences	**1.6**	-
Non-deductable expenditure	**2.1**	2.3
Overseas tax	**(0.4)**	-
Current tax charge for the year	**25.0**	18.4

A deferred tax asset has not been recognised in respect of short term timing differences as there is insufficient evidence that the asset will be recovered. The amount of the asset not recognised is £2.6m.

9 Information regarding directors and employees

	2004 £m	2003 £m
Directors' remuneration:		
Fees	**0.2**	0.2
Other emoluments and benefits	**5.3**	5.9
	5.5	6.1
Employee costs during the year, including directors:		
Wages and salaries	**16.3**	15.6
Social security costs	**1.1**	0.8
Pension costs	**0.6**	0.6
	18.0	17.0

	No.	No.
Average number of employees	**59**	51

The performance related element included in wages and salaries is £7.1m (2003 – £8.8m), which arises from the Management Incentive Scheme and contributions to the company's Employee Benefit Trust.

10 Valuation of warrants and unlisted shares

The group has warrants to subscribe for shares in a number of borrowers. These warrants are not marketable instruments and can generally be realised by the group only when the investment is realised. These warrants, along with unlisted equity shares, are held in the financial statements at nominal cost. The directors consider that a reasonable valuation of these shares and warrants, representing the group's interests in the equity value of those companies realisable over a period of time, would currently amount to £82m (2003 – £71m) before tax. This valuation is based on the borrowers' current pro forma earnings multiplied by the appropriate price/earnings ratio, to which an appropriate discount has been applied.

11 Dividends paid and proposed

	2004		2003	
	Per share pence	£m	Per share pence	£m
Ordinary dividend:				
Interim paid	**10.5**	**6.4**	9.5	5.6
Proposed final	**24.0**	**16.6**	21.5	12.7
	34.5	**23.0**	31.0	18.3

for the year ended 31 January 2004

12 Earnings per share

The calculation of earnings per share is based on earnings of £43.6m (2003 – £35.1m) and an average number of shares in issue throughout the year of 61,961,139 (2003 – 58,737,505). The diluted earnings per share, is calculated after taking into account options issued to executives in respect of 2,339,357 (2003 – 2,687,798) ordinary shares and is calculated on an average number of shares of 62,765,890 (2003 – 59,452,906).

13 Tangible fixed assets

	Furniture and equipment £m	Short leasehold premises £m	Total £m
Group			
Cost			
At 31 January 2003	0.9	1.2	2.1
Additions	0.1	-	0.1
At 31 January 2004	**1.0**	**1.2**	**2.2**
Depreciation			
At 31 January 2003	0.4	0.1	0.5
Charge for the year	0.2	0.1	0.3
At 31 January 2004	**0.6**	**0.2**	**0.8**
Net book value			
At 31 January 2004	**0.4**	**1.0**	**1.4**
At 31 January 2003	0.5	1.1	1.6
Company			
Cost			
At 31 January 2003	0.9	1.2	2.1
Additions	-	-	-
Disposals to subsidiary	(0.2)	(0.2)	(0.4)
At 31 January 2004	**0.7**	**1.0**	**1.7**
Depreciation			
At 31 January 2003	0.4	0.1	0.5
Charge for the year	0.1	0.1	0.2
Disposals to subsidiary	(0.1)	-	(0.1)
At 31 January 2004	**0.4**	**0.2**	**0.6**
Net book value			
At 31 January 2004	**0.3**	**0.8**	**1.1**
At 31 January 2003	0.5	1.1	1.6

14 Loans and investments

	Group 2004 £m	Group 2003 £m	Company 2004 £m	Company 2003 £m
Loans and investments	**1,142.4**	920.6	**841.0**	829.0
Less: specific provisions	**(56.9)**	(44.5)	**(46.8)**	(37.9)
	1,085.5	876.1	**794.2**	791.1

	Group 2004 £m	Group 2003 £m	Company 2004 £m	Company 2003 £m
Shares in group companies at cost	**-**	-	**10.1**	9.4
Other loans and investments at cost:				
Redeemable preference shares (unlisted)	**31.3**	18.5	**27.3**	12.1
Redeemable preference shares (listed)	**-**	-	**-**	-
Equity shares (unlisted)	**95.9**	73.6	**33.3**	30.7
Equity shares (listed)	**5.7**	3.5	**5.7**	-
	132.9	95.6	**76.4**	52.2
Loans	**1,009.5**	825.0	**764.6**	776.8
Total Loans and investments	**1,142.4**	920.6	**841.0**	829.0

The listed equity shares are listed on the London and Stockholm Stock Exchanges and at 31 January 2004 had a market value of £4.7m (2003 – £4.0m). A provision of £1m has been made against these shares.

	Group £m	Company £m
Additional information in respect of movements during the year is as follows:		
Loans and investments at cost:		
Balance at 31 January 2003	920.6	829.0
Net additions	353.7	353.7
Realisations	(160.9)	(125.8)
Amortised discount and capitalised interest	20.4	6.0
Written off	(7.5)	(5.8)
Currency movement on non sterling denominated loans	16.1	26.0
Net sales to subsidiary	-	(242.1)
Balance at 31 January 2004	**1,142.4**	**841.0**
Specific provisions:		
Balance at 31 January 2003	44.5	37.9
Provisions made during the year	25.9	20.7
Provisions released during the year	(6.9)	(6.9)
Loans and investments realised or written off	(7.5)	(5.8)
Currency movement on non sterling denominated loans	0.9	0.9
Balance at 31 January 2004	**56.9**	**46.8**

for the year ended 31 January 2004

14 Loans and investments continued

Associates

The group has following substantial interests in the shares of the following companies to which it has provided loans:

Company	Interest	Main Activity
Elmville	45.0%	Hotel operator
Heath Lambert Holdings Limited	24.8%	Insurance broker
Servicetec	49.0%	Computer service and maintenance

The Directors believe that equity accounting for these investments, which may come within the Companies Act definition of associated undertakings, would not give a true and fair view of the income from the investment activities of the Group, since this is better measured by the inclusion of dividends and interest income. It is impractical to quantify the effects of this departure. The treatment adopted is in accordance with Financial Reporting Standard 9 – Associates and Joint Ventures.

15 Debtors

	Group		Company	
	2004	2003	**2004**	2003
	£m	£m	**£m**	£m
Other debtors	**3.3**	2.0	**0.7**	0.7
Amount owed by group companies	**-**	-	**45.7**	48.7
Deferred tax debtor	**4.0**	-	**4.0**	-
Prepayments and accrued income	**11.9**	24.5	**9.1**	24.1
	19.2	26.5	**59.5**	73.5

16 Loans and investments held as current assets

	Group		Company	
	2004	2003	**2004**	2003
	£m	£m	**£m**	£m
Loans and investments held for syndication	**27.5**	53.2	**27.5**	53.2

17 Called up share capital

	2004	2003
	£m	£m
Authorised:		
77,500,000 (2003 – 77,500,000) ordinary shares of 20p	**15.5**	15.5
Allotted, called up and fully paid:		
69,042,438 (2003 – 58,888,401) ordinary shares of 20p	**13.8**	11.8

During the year, the company allotted 947,747 shares under its Unapproved Executive Share Option Scheme 1997 and 29,486 shares under Executive Share Option Scheme 1994 realising a total consideration of £4.3m.

The company completed a placing and open offer in October 2003 under which 9,176,804 new shares were issued on the basis of two shares offered for every 13 shares held. This realised a total of £81.7m net of expenses.

18 Reconciliation of shareholders' funds and movement on reserves

	Share capital £m	Share premium £m	Capital redemption reserve fund £m	Profit and loss account £m	Total £m
Group					
Balance at 31 January 2003	11.8	86.0	1.4	117.0	216.2
Exercise of options	0.2	4.1	-	-	4.3
Placing & open offer	1.8	79.9	-	-	81.7
Profit for the year	-	-	-	43.6	43.6
Dividends paid and proposed	-	-	-	(23.0)	(23.0)
Balance at 31 January 2004	**13.8**	**170.0**	**1.4**	**137.6**	**322.8**

£31m (2003 – £20m) of the retained earnings of the group is currently regarded as non-distributable.

	Share capital £m	Share premium £m	Capital redemption reserve fund £m	Profit and loss account £m	Total £m
Company					
Balance at 31 January 2003	11.8	86.0	1.4	57.3	156.5
Exercise of options	0.2	4.1	-	-	4.3
Placing & open offer	1.8	79.9	-	-	81.7
Profit for the year	-	-	-	35.9	35.9
Dividends paid and proposed	-	-	-	(23.0)	(23.0)
Balance at 31 January 2004	**13.8**	**170.0**	**1.4**	**70.2**	**255.4**

for the year ended 31 January 2004

19 Creditors: amounts falling due after one year

	Group		Company	
	2004	2003	**2004**	2003
	£m	£m	**£m**	£m
US private placement	**217.6**	250.8	**217.6**	250.8
Bank loans	**273.2**	347.3	**273.2**	347.3
Bank overdraft	**7.1**	9.4	**7.1**	9.4
Floating rate secured notes	**201.3**	-	**-**	-
Other	**41.4**	19.9	**41.4**	19.9
	740.6	627.4	**539.3**	627.4
Prepaid expenses	**(10.6)**	(0.4)	**(10.6)**	(0.4)
	730.0	627.0	**528.7**	627.0

The bank loans and overdraft are unsecured and are repayable in installments, £197.7m is due within one and two years and £82.6m is due within two to five years. The US$ 75,000,000 private placement issued in December 1995, which is denominated in US Dollars and swapped into floating rate European currencies, is unsecured and was repayable in three equal instalments, each of US$25,000,000, one was repaid in December 2003, one is due within one year and one between one and two years.

The US$ 75,000,000 private placement issued in July 1998, which is denominated in US Dollars and swapped into floating rate European currencies, is unsecured and is repayable in two instalments, one of US$ 25,000,000 and one of US$ 50,000,000 both within two to five years.

The US$ 95,000,000 private placement issued in April 2000, which is denominated in US Dollars and swapped into floating rate European currencies is unsecured and is repayable in four instalments, one of US$ 45,000,000 due within one and two years, one of US$ 10,000,000 and one of US$ 20,000,000 both due within two to five years and one of US$ 20,000,000 due within five to ten years. The £25,000,000 private placement issued in April 2000 is unsecured and repayable within five to ten years.

The US$110,000,000 private placement issued in June 2001, which is denominated in US Dollars and swapped into floating rate European currencies is unsecured and is repayable in three instalments, one of $45,000,000 repayable within two to five years and two of $40,000,000 and $25,000,000 repayable within five to ten years. The £25,000,000 issued in June 2001 is unsecured and is repayable in two instalments, one of £5,000,000 repayable in two to five years and one of £20,000,000 repayable in five to ten years.

In order to raise additional funding with which to expand its loan book on 25 June 2003, Intermediate Capital Group PLC sold a portion of its portfolio to a wholly owned subsidiary, Intermediate Finance PLC. In order to raise the funding to purchase these assets, Intermediate Finance PLC issued a series of publicly rated notes, secured on the assets of that company only. The amount of these notes and their maturity dates are as follows:

€192,000,000	Class A floating rate notes maturing 2021
€62,000,000	Class B floating rate notes maturing 2021
€62,000,000	Class C floating rate notes maturing 2021
€8,000,000	Class D floating rate notes maturing 2021

Costs and expenses relating to the structuring and issue of this debt is deducted from the value of the debt raised and is written off against profit over 5 years, being the initial investment period of the vehicle.

20 Creditors: amounts falling due within one year

	Group		Company	
	2004	2003	**2004**	2003
	£m	£m	**£m**	£m
US Private placement (see note 19)	**13.7**	15.2	**13.7**	15.2
Bank loans	**43.0**	50.3	**43.0**	50.3
Other	**0.5**	(1.2)	**0.5**	(1.2)
	57.2	64.3	**57.2**	64.3
Trade creditors	**0.6**	0.3	**0.6**	0.3
Accruals	**29.4**	27.3	**27.5**	27.3
Amounts owed to group companies	**-**	-	**12.2**	25.9
Dividends proposed	**16.6**	12.7	**16.6**	12.7
Taxation – corporation tax	**15.4**	11.1	**8.0**	5.5
Taxation – social security	**0.2**	0.4	**0.2**	0.4
	119.4	116.1	**122.3**	136.4

21 Reconciliation of operating profits to operating cash flow

	2004	2003
	£m	£m
Income before provisions and taxation	**83.6**	71.0
(Increase) in accrued income	**(3.5)**	(11.9)
Increase/(decrease) in accrued interest expenses	**1.1**	(0.2)
(Decrease)/increase in other net current liabilities	**(1.1)**	9.0
Capitalisation of interest receivable (net)	**(4.3)**	(2.4)
	75.8	65.5

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22 Analysis of net debt

	As at 31 Jan 03 £m	Cash flow £m	Reclassification £m	Exchange movement £m	**As at 31 Jan 04 £m**
Cash in hand and at bank	1.9	36.7	-	-	**38.6**
Debt due within one year:					
Bank debt	(50.3)	56.8	(47.3)	(2.2)	**(43.0)**
US private placement	(15.2)	14.5	(15.2)	2.2	**(13.7)**
Other	1.2	(1.2)	1.2	(1.7)	**(0.5)**
	(64.3)	70.1	(61.3)	(1.7)	**(57.2)**
Debt due between one and two years:					
Bank debt	(47.3)	-	(144.3)	1.0	**(190.6)**
US private placement	(15.2)	-	(27.4)	4.1	**(38.5)**
Overdraft	-	2.3	(9.4)	-	**(7.1)**
Other	1.3	-	(2.8)	0.2	**(1.3)**
	(61.2)	2.3	(183.9)	5.3	**(237.5)**
Debt due between two and five years:					
Bank debt	(300.0)	30.3	191.6	(4.5)	**(82.6)**
US private placement	(126.7)	-	30.4	8.9	**(87.4)**
Overdrafts	(9.4)	-	9.4	-	**-**
Other	(8.7)	-	0.4	(12.7)	**(21.0)**
	(444.8)	30.3	231.8	(8.3)	**(191.0)**
Debt due after five years:					
US private placement	(108.9)	-	12.2	5.0	**(91.7)**
Floating rate notes	-	(209.8)	-	8.5	**(201.3)**
Other	(12.5)	-	1.2	(7.8)	**(19.1)**
	(121.4)	(209.8)	13.4	5.7	**(312.1)**
Total	(689.8)	(70.4)	-	1.0	**(759.2)**

At 31 January 2004 the group has available undrawn facilities amounting to £225m under its revolving credit facilities, £51m in less than one year, £91m is due between one to two years and £83m is due between two and five years.

The total of net debt includes other of £41.9m (2003: £18.7m) which is excluded from note 23.

23 Reconciliation of net cash flow to movement in net debt

	2004 £m	2003 £m
Increase in cash in the period	**(36.7)**	(0.8)
Cash inflow from increase in debt	**105.9**	142.3
Change in net debt arising from cash flows	**69.2**	141.5
Translation difference	**(23.0)**	(22.9)
Movement in net debt	**46.2**	118.6
Net debt at beginning of the year	**671.1**	552.5
Net debt at end of the year	**717.3**	671.1

24 Financial commitments

At 31 January 2004, the group had no contractual obligations to provide further funding (2003 – £nil).

The group regularly enters into forward contracts for financial instruments which are used to hedge interest rate and foreign exchange risk in the normal course of business.

25 Related party transactions

The company takes advantage of the exemption under FRS8 and does not report transactions or balances between group entities that have been eliminated on consolidation. There are no other related party transactions requiring disclosure under FRS8.

26 Principal subsidiary companies

Principal Subsidiary	Percentage owned	Country of incorporation	Registered in	Principal activity
Intermediate Capital Investments Limited	100%	United Kingdom	England and Wales	Investment company.
Intermediate Capital Managers Limited	100%	United Kingdom	England and Wales	Advisory company.
Intermediate Finance PLC	100%	United Kingdom	England and Wales	Provider of mezzanine finance.
Intermediate Finance (Guernsey) Limited	100%	Guernsey	Guernsey	Holding company for loans and investments.
Intermediate Capital Asia Limited	100%	Hong Kong	Hong Kong	Provider of mezzanine finance to companies in the Asia Pacific Region.
Intermediate Capital Limited	100%	United Kingdom	England and Wales	General Partner in a number of Partnerships.
Intermediate Capital GP Limited	100%	Jersey	Jersey	General Partner in a number of Partnerships.

27 Financial assets and liabilities

Treasury and hedging policies

The group's financial instruments, other than derivatives, comprise borrowings in the form of bank debt and private placements, and various items, such as accrued interest, debtors, trade creditors etc, that arise directly from its operations. The main purpose of these financial instruments is to raise finance for the group's operations.

The group also enters into derivatives transactions (principally interest rate swaps and forward foreign currency contracts). The purpose of such transactions is to manage the interest rate and currency risks arising from the group's operations and its sources of finance.

The main risks arising from the group's financial instruments are interest rate risk, liquidity risk and foreign currency risk. It is the group’s policy to match foreign currency loans and related net interest income, wherever possible, through either borrowing in the same foreign currency or entering into equivalent forward foreign exchange contracts. The group’s policy is to manage its exposure to interest rate movements present or future, actual or contingent so as to protect its net interest income over time. It is, and has been throughout the period under review, the group's policy that no trading in financial instruments shall be undertaken.

The Board reviews and agrees policies for managing each of these risks and they are summarised below. These policies have remained unchanged since the company’s flotation in 1994.

Interests and currency exposures

Interest rate risk The group’s main activity is to provide mezzanine finance to its borrowers at both fixed and floating rates in any freely traded currency. The group finances its operations by a mixture of retained profits, bank borrowings, private placements and floating rate notes. The group borrows in currencies at both fixed and floating rates of interest and then uses interest rate swaps in order to match the interest profile of its assets and to manage the group’s exposure to interest rate fluctuations. In order to protect its future interest income as its fixed rate assets mature, the company has entered into a series of delayed interest rate swaps under which it receives a fixed rate. The average rate achieved on these swaps is 6.35%. As a result, the group does not have material financial exposure to interest rate movements.

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27 Financial Assets & Liabilities continued

Liquidity risk As regards liquidity, the group's policy has throughout the year been to ensure continuity of funding. Due to the long term nature of the group's assets, the group's policy is that, wherever possible, the majority of its debt should mature in more than five years. This has been achieved by using a combination of private placements with maturities of between five and ten years, by short term borrowings under a five year extendible, multi-currency bank facility and other further syndicated and bilateral facilities and by issuing floating rate notes with a maturity date in 2021.

The maturity profile of the group's financial liabilities, other than short term creditors, is shown in the net debt analysis in note 22 and the analysis of creditors over one year is shown in note 19.

Foreign currency risk Over one half of the portfolio of the group is in currencies other than sterling which gives rise to revenues in those currencies. In order to protect the group's sterling balance sheet from the movements in these currencies and the sterling exchange rate, the group finances its loans and investments by means of borrowings in the respective currency and by way of forward foreign exchange contracts. As a result, the group does not have material financial exposure to foreign exchange gains or losses.

After taking into account the various interest rate swaps entered into by the group to hedge its future income, the interest rate profile of the group's financial assets and liabilities at 31 January 2004 was as follows:

	Financial assets			Financial liabilities		
	Total	Floating rate financial assets	Fixed rate financial assets	Total	Floating rate financial liabilities	Fixed rate financial liabilities
	£m	£m	£m	£m	£m	£m
Sterling	**220.9**	**205.1**	**15.8**	**(126.4)**	**(126.4)**	**-**
Euro	**769.1**	**704.0**	**65.1**	**793.6**	**793.6**	**-**
Other currencies	**106.7**	**77.7**	**29.0**	**96.9**	**96.9**	**-**
	1,096.7	**986.8**	**109.9**	**764.1**	**764.1**	**-**

The group's financial assets consist of long term loans and investments. These usually have a term of between five and ten years, but are often prepaid prior to their contractual maturity. The interest rate for each fixed rate asset is set at the commencement of the loan. Interest rates for both floating rate assets and liabilities are based upon LIBOR plus the relevant margin.

Hedging

Interest rates As stated in the group's accounting policies, the amounts payable or receivable in respect of interest rate swaps are recognised as adjustments to interest expense over the period of the contracts. In respect of the year to 31 January 2004, interest expense was reduced by £11.2m (2003 – £11.3m) in order to reflect the amounts receivable for interest rate swaps. These interest rate swaps are primarily used to hedge the group's private placements, thereby lowering the higher costs of borrowing fixed rate US Dollars by converting into floating rate Sterling and Euros.

Currency exposure Forward foreign exchange contracts denominated in foreign currencies at the year end are translated into sterling at the rates of exchange ruling at that date, or where appropriate, at the rate of exchange in related forward contracts. Any gain or loss arising from a change of exchange rates subsequent to the dates of the transactions is included as an exchange gain or loss in the profit and loss account and is included as part of interest expense. However, because the group does not have any material financial currency exposure, this reduction in interest expense was offset by a corresponding increase arising from the translation of other monetary assets and liabilities, primarily its loans and investments, its bank borrowings, its private placements and its floating rate notes.

Fair value of financial assets and liabilities The carrying amounts and the estimated fair value of the group's outstanding financial instruments is set out below:

	2004 Net carrying amount £m	**2004 Estimated fair value £m**	2003 Net carrying amount £m	2003 Estimated fair value £m
Long-term loans and investments	**1,085.5**	**1,167.5**	876.1	947.5
Loans held for syndication	**27.5**	**27.5**	53.2	53.2
Cash at bank	**38.6**	**38.6**	1.9	1.9
Borrowings:				
Bank debt (including overdraft)	**323.3**	**323.3**	407.0	407.0
Floating rate notes	**201.3**	**201.3**	-	-
Private placements	**231.3**	**231.3**	266.0	266.0
Derivatives and financial instruments:				
Interest rate	**-**	**1.4**	-	3.6
Foreign currency	**(41.9)**	**(41.9)**	(18.7)	(18.7)

The following methods and assumptions were used to estimate the fair values shown below:

Long term loans and investments The estimate of the fair value of long term loans and investments is based on their cost, which is shown in the balance sheet at £1,085.5m, and the value of its warrants and listed equity shares. The fair value of the loans and investments does not include an adjustment to reflect interest rate movements since the date of the transaction as such loans are not readily marketable. The valuation of the warrants is based on the borrowers' current pro-forma earnings multiplied by the appropriate price/earnings ratio.

Loans held for syndication, cash at bank and bank debt The carrying values of these instruments approximate to their fair values because of their short term nature.

Private placements These are fixed rate US Dollar liabilities whose market value may be different to the carrying value. However, because the associated interest rate swaps provide a complete hedge to, and are considered part of, the transaction, any difference between the carrying value and fair value of the private placement will be offset by the difference on the associated interest rate swaps.

Foreign exchange contracts and interest rate swaps Foreign exchange contracts are revalued into sterling and shown in the balance sheet at their revalued amount. The fair value will therefore equate to the carrying value. The fair value of interest rate swaps (with the exception of those swaps taken out as part of the private placement) was estimated by discounting the future cash flows to net present values using appropriate market interest rates prevailing at the year end.

Floating rate notes The carrying value of these instruments approximate to their cost due to the immaterial movement in interest rates since their issue in June 2003.

Notice of Meeting

Notice is hereby given that the Annual General Meeting of Intermediate Capital Group PLC will be held at 20 Old Broad Street, London EC2N 1DP on 25 May 2004 at 12 noon to transact the following ordinary business:

1 To receive and adopt the financial statements for the year ended 31 January 2004 together with the reports of the directors and auditors thereon.

2 To declare a final dividend of 24.0p per ordinary share in respect of the year ended 31 January 2004.

3 To reappoint Deloitte & Touche LLP as auditors and to authorise the directors to determine their remuneration.

4 To re-elect as directors:
a) P J Manser
b) E G Licoys
c) P J Stone
d) C A Evain
e) F de Mitry
f) A C Phillips

5 To approve the report of the Remuneration and Nomination Committee for the year ended 31 January 2004

and as special business to consider and, if thought fit, pass the following resolutions, of which Resolutions 6, 7, 10 and 11 will be proposed as Ordinary Resolutions and Resolutions 8 and 9 will be proposed as Special Resolutions.

6 THAT the company be authorised to increase its authorised share capital from £15,500,000 to £18,000,000 by the creation of an additional 12,500,000 ordinary shares of 20p each identical to and ranking pari passu with the existing ordinary shares in the capital of the company.

7 THAT, subject to the passing of Resolution 6 set out in the Notice of this Meeting, the directors be and they are hereby generally and unconditionally authorised, in accordance with section 80 of the Companies Act 1985, to exercise all the powers of the company to allot relevant securities (within the meaning of the said section 80) up to an aggregate nominal amount of £4,004,461 during the period commencing on the date of the passing of this Resolution and expiring at the conclusion of the Annual General Meeting of the company in 2005 or 27 August 2005, whichever is earlier, but so that this authority shall allow the company to make before the expiry of this authority offers or agreements which would or might require relevant securities to be allotted after such expiry and notwithstanding such expiry the directors may allot relevant securities in pursuance of such offers or agreements.

8 THAT, subject to the passing of Resolution 7 set out in the Notice of this Meeting, the directors be and are hereby empowered pursuant to section 95 of the Companies Act 1985 (the “Act”), to allot equity securities (as defined by section 94 of the Act) pursuant to the authority conferred on them by the said Resolution 7 up to an aggregate nominal amount of £690,424 as if section 89(1) of the Act did not apply to any such allotment, provided that this power shall expire at the conclusion of the Annual General Meeting of the company in 2005 or 27 August 2005, whichever is earlier, save that this power shall enable the company before the expiry of this power to make offers or agreements which would or might require equity securities to be allotted after such expiry and the directors may allot equity securities in pursuance of such offers or agreements as if the power conferred hereby had not expired.

9 THAT the company be and is hereby generally and unconditionally authorised to make market purchases (within the meaning of section 163 of the Companies Act 1985) of ordinary shares of 20p each in the capital of the company ("ordinary shares"), provided that:

(a) the maximum number of ordinary shares that may be purchased is 10,349,461;
(b) the minimum price that may be paid for an ordinary share is 20p;
(c) the maximum price that may be paid for an ordinary share is an amount equal to 105%. of the average of the market values of the ordinary shares as derived from the London Stock Exchange Daily Official List for the five business days before the day on which such ordinary share is purchased;
(d) this authority shall expire at the conclusion of the next Annual General Meeting of the company in 2005 or 27 August 2005, whichever is earlier, unless previously renewed, varied or revoked by the company in general meeting; and
(e) the company may enter into a contract to purchase its ordinary shares under this authority prior to its expiry, which contract would or might be executed wholly or partly after such expiry, and may purchase its ordinary shares in pursuance of such contract.

10 THAT the company be authorised to increase the maximum aggregate level of non-executive directors' fees permitted to be paid in any one year from £200,000 as contained in the Articles of Association, up to a maximum aggregate level permitted to be paid in any one year of £400,000.

11 THAT the Intermediate Capital Group PLC Save As You Earn Plan as summarised in the enclosed shareholders' circular, a copy of the Rules of which has been produced to this Meeting and for the purposes of identification initialled by the Chairman be and is hereby adopted and established and the directors of the company be and they are hereby authorised to do all acts and things which they may consider necessary or desirable to carry the Save As You Earn Plan into effect including the making of further or consequential amendments thereto in particular as may be required to obtain Inland Revenue approval thereto.

By Order of the Board

J E Curtis
Secretary
19 April 2004

Notes:

1 A member entitled to attend and vote at this meeting is entitled to appoint a proxy or proxies to attend and vote instead of him. A proxy need not be a member of the company. Proxy forms must be lodged with the Secretary not later than 48 hours before the time fixed for the meeting.

2 Copies of directors' service contracts are available for inspection during business hours at the company's registered office at 20 Old Broad Street, London EC2N 1DP.

Company Information

Financial advisers

Lazard Brothers & Co., Limited
50 Stratton Street
London
W1J 8LL

Stockbrokers

Cazenove & Co.
12 Tokenhouse Yard
London
EC2R 7AN

HSBC Bank PLC
Corporate, Investment Banking and Markets
8 Canada Square
London
E14 5HQ

Bankers

The Royal Bank of Scotland plc
135 Bishopsgate
London
EC2M 3UR

Registered office

20 Old Broad Street
London
EC2N 1DP

Auditors

Deloitte & Touche LLP
Chartered Accountants and Registered Auditors
London

Registrars

Computershare Investor Services PLC
PO Box 92
The Pavillions
Bridgwater Road
Bristol
BS99 7NH

Offices

20 Old Broad St.
London
EC2N 1DP
England

38 Avenue Hoche
75008
Paris
France

3603-3604
Edinburgh Tower
15 Queens Rd Central
Hong Kong

Paseo de la Castellana 51
28046
Madrid
Spain

Mäster Samuelsgatan 1
111 44
Stockholm
Sweden

Directors

Non-Executive Chairman

John Manser, CBE, DL, age 64, is a Fellow of the Institute of Chartered Accountants in England and Wales. He was formerly Chairman of Robert Fleming Holdings Limited and currently is Deputy Chairman of Fitzhardinge plc and a non-executive director of Shaftesbury PLC and South African Breweries PLC.

Executive Directors

Tom Attwood, age 51, Managing Director. Prior to joining ICG in April 1996, he was a director of James Capel & Co where he worked for eight years.

Tom Bartlam, age 56, Managing Director, is a qualified Chartered Accountant. Prior to founding ICG in 1989, he was a director of Charterhouse Bank, where he worked for fourteen years. He is a non-executive director of Pantheon International Participations PLC.

Christophe Evain, age 41. Prior to joining ICG in 1994, he was an assistant director in the acquisition finance group of Banque de Gestion Privée in Paris. He is currently based in the Hong Kong office.

Francois de Mitry, age 37. Prior to joining ICG in 1997, he was an assistant director in Structured Finance at Société Générale. He is currently based in the Paris office.

Andrew Phillips, age 40. Prior to joining ICG in 1989 at its formation he worked in the specialist finance group at Chemical Bank.

Paul Piper, age 46. Prior to joining ICG in 1989 at its formation he worked at Chemical Bank.

Non-Executive Directors

Eric Licoys, age 65, was formerly Directeur Général of Vivendi Universal, the media and communications group, having previously been President of the venture capital arm of Lazard Frères in France. He is a past chairman of AFIC.

James Nelson, age 56, is a non-executive partner in Graphite Capital, Chairman of PIFC Group Limited and a non-executive director of American Opportunity Trust Plc and Henderson Smaller Companies Investment Trust Plc. He is a past chairman of the BVCA.

Peter Stone, age 57, is a qualified solicitor. He is a non-executive director of Alliance and Leicester PLC and DTZ Holdings Plc as well as a number of other businesses and was previously a director of Close Brothers Group plc.

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Management

Chief Financial Officer and Company Secretary

John Curtis

Finance Executives

Mark Hallala
Kim Rennie
Tony Payne

High Yield and Leveraged Loan Executives

Richard Hudson
Debra Anderson
David Ford

Sara Halbard
Robin Jenner
Claire Campbell

Mezzanine Executives

Martin Eriksson
Magnus Hildingsson

Mark Crowther
James Davis
Graeme Delaney-Smith

Carola Babcock
Felix Hölzer
Mark Brenke

Max Mitchell
Rolf Nuijens
Luigi Bartone

Matthew Robinson
Katharine Belsham
Mike Anderson

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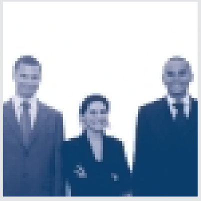
Martin Conder
Simon Morrell

Piers Millar
Vincent So

Elena Gimeno de Esteban
Jose-Maria Vegas-Cordobes



Herve Johnson
Rosine Vitman
Hadj Djemai

Benoit Durteste
Damien Scaillierez