Intermediate Capital Group PLC

Annual Report and Accounts 2005

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- Pre-tax profits up 48% to £95.5m
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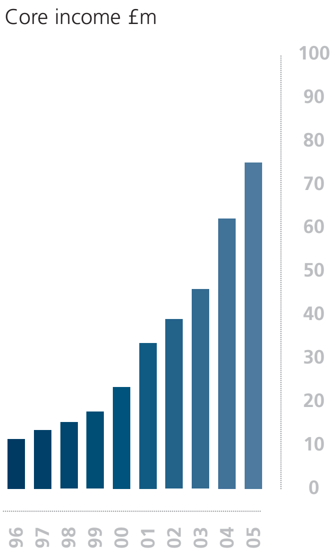
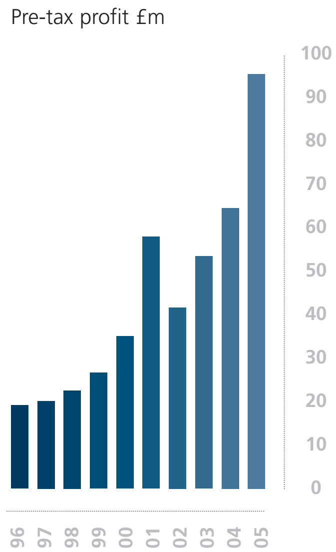
- The loan book increases by 8% to £1.18bn
- Funds under management rise to £2.4bn

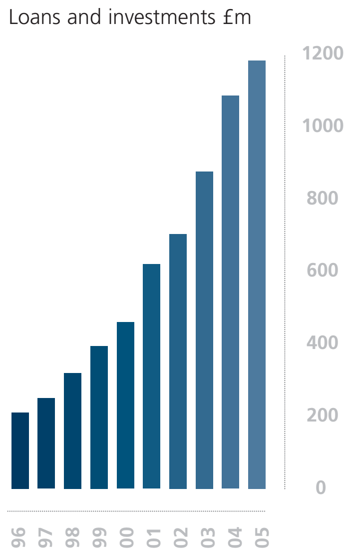
	2005 £m	Restated 2004 £m
Net interest income	**75.1**	64.0
Core income	**75.1**	62.2
Profit before tax	**95.5**	64.6
Loans and investments	**1,182.8**	1,093.9
Shareholders' funds	**359.5**	322.8

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

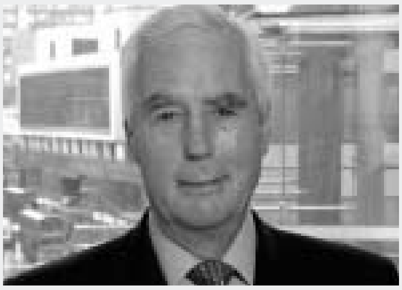
Ten Year Record







Chairman's Statement



Portfolio by country

1	**Denmark**	£26.4m
2	**Finland**	£3.1m
3	**France**	£426.6m
4	**Germany**	£152.7m
5	**Italy**	£11.2m
6	**Netherlands**	£52.2m
7	**Spain**	£27.5m
8	**Sweden**	£37.6m
9	**Switzerland**	£46.2m
10	**UK**	£399.3m

Introduction
It gives me great pleasure to report excellent results for our financial year ended 31 January 2005. Pre-tax profits increased to £95.5m as a result of strong growth in both core income and capital gains.

We have had another record year for new lending, which resulted from the high demand for mezzanine in Europe and our participation in a number of large mezzanine financings. Consequently the loan book increased by 8% to £1.18bn despite a high-level of loan repayments and a more competitive mezzanine market.

Last year we also saw a further advance in the scale of our fund management activities with the closing of a new €350m loan fund.

Results
Core Income, the most important element of ICG's profits, increased by 21% to £75.1m, primarily as a result of increased net interest income and fund management fees.

Gross capital gains increased by 140% to £62.9m, a new record. Taking into account provisions and payments under the management incentive scheme, profit before tax amounted to £95.5m, an increase of 48% over the previous year.

Dividends
The Board is recommending a final dividend of 28.2p net per share to be paid on 27 May 2005, which, with the interim dividend of 11.8p net per share, brings the total for the year to 40.0p net per share, an increase of 16% over last year's dividend.

Our policy remains to provide double-digit dividend growth on the back of continuing growth in core income.

The dividend will be paid to shareholders on the register on 6 May 2005.

The year's dividend is covered 2.2 times by post tax earnings.

The loan portfolio
We had an excellent year for new lending. We arranged or provided a record total of £778m of new investments, up 19% on the previous year, of which £409m (2004 – £354m) was invested on our balance sheet and £283m (2004 – £202m) taken by fund management clients with the balance being syndicated to third parties.

Most of the investments we made during the year were in medium sized transactions in the middle market but, in addition, we participated in four large mezzanine financings (two of which were in the UK and two in France). These two countries represented our largest markets for new investments, with £166m invested in the UK in 11 new loans and £147m invested in France in nine new loans. We also made two investments in both Germany and Sweden and one in each of Denmark, Italy, the Netherlands and Switzerland.

Loan repayment levels were particularly high last year with 23 mezzanine investments totalling £315m being repaid, which was nearly double the level of repayments experienced in the previous year. In what was a good year for exits, £215m was repaid as a result of trade sales and IPOs. In addition there was an unusually high level of prepayments amounting to £100m, arising principally because of the strong debt markets, which encouraged banks to offer refinancing of mezzanine with cheaper bank debt.

The overall performance of the portfolio continued to be satisfactory. However, we did see underperformance on three of our loans, against which we have taken significant provisions for the first time, and further underperformance on two of our loans where we had already taken some provisions.

As a result of the levels of new lending, repayments and provisioning, as well as the increase in the sterling value of the portfolio by £8m due to currency movements, our portfolio grew by 8% to £1.18 bn in the year.

At 31 January 2005 our portfolio of warrants and quoted shares was valued at £146m in excess of their nominal Balance Sheet cost compared with £82m in previous year.

At the year end our portfolio comprised loans to 86 companies in 26 different industry sectors across 10 different countries.

Funding

At 31 January 2005 we had borrowings outstanding of £848m, which represented a conservative gearing ratio of 2.4:1.

During the course of the year we undertook a number of initiatives on the funding side in order to take advantage of attractive borrowing conditions. We went back to the US and UK private placement market, raising £140m, and undertook a tap issue under the previous year's securitisation, raising £40m. In addition, we have, since the year end, refinanced all of our existing revolving credit bank bank facilities of £372m on more attractive terms with a new five year revolving credit facility of £845m.

Following these fund raising initiatives we have in place total borrowing facilities of over £1.5bn, leaving us currently with over £600m of unutilised facilities. We therefore have substantial spare capacity enabling us to grow our loan book in the future.

Fund management

Last year we made a further advance in the development of our fund management business with the closing in November 2004 of a new €350m Loan Fund. We now manage six CDOs/Loan Funds, and have €2.2bn (£1.5bn) under management in this area. All of these funds were in compliance with their covenants at 31 January 2005. Growing this sub-investment grade fund management business is, however, becoming increasingly challenging despite a benign fund-raising environment, as competition for attractive higher yielding assets is now very strong. We have therefore recently committed to fund the purchase of a €450m (£310m) portfolio of leveraged loans from a bank exiting the London market which will be transferred to current and future fund management clients, thus facilitating the raising of further funds in the current year.

Our €1.5bn (£1.0bn) 2003 Mezzanine Fund has made good progress and is now over 45% invested. We are pleased with the quality of the portfolio in terms of credit worthiness and diversification.

We expect further growth in our fund management business in the year ahead.

The European mezzanine market

2004 was an active year for buyouts in Western Europe, with recorded transactions totalling £53bn over the period compared with £43bn in 2003. This was because of the large cash resources in the hands of the private equity investors and the ever increasing amounts of debt available to finance buyouts as a result of the very high levels of liquidity in the debt markets. Senior bank debt was being offered aggressively across the market and the high yield bond market became active again with a continued reduction in pricing. In addition, mezzanine was again in demand with its use in European buyouts in 2004 reaching approximately £3.0bn compared with £2.3bn in 2003.

The increased demand for mezzanine was more than matched by increased supply, not only from traditional sources such as banks and independent mezzanine funds, of which there were some new entrants in the market last year, but also from new sources in the form of hedge funds and other structured debt funds. This led to increased competition for mezzanine assets, particularly at the larger end of the market, which often resulted in increased leverage levels and thus more risk and in some cases reduced pricing. Consequently, while we have invested in a number of large mezzanine transactions, we turned down more mezzanine opportunities last year than we have done in previous years.

In the middle market, which is where ICG does most of its business, the competitive pressures, although increased, were not as acute and consequently the adverse affect on leverage levels and pricing has not been as great. In this market ICG continues to benefit from its large experienced pan-European team of investment professionals and its local presence in most of the principal financial centres in Europe.

Another trend that we saw during the year was an increase in prepayment levels resulting from the exceptional level of liquidity in the debt markets. This liquidity has produced a higher level of risk

Chairman's Statement

Continued

appetite from senior and subordinated debt lenders who are prepared to refinance mezzanine with cheaper debt. This has the effect of shortening the life of mezzanine assets.

The Asia Pacific mezzanine market

Because of the size and quality of the deal flow we have been seeing in recent months in the Asia Pacific Region, together with the growing interest in the use of mezzanine, we increasingly believe that there is real potential for ICG to develop a good mezzanine business in the region in the years to come.

Of our first two investments in the region one has been successfully exited through an IPO and the other was fully repaid with the potential to generate a significant capital gain. While we completed no new transactions in the Asia Pacific market last year, we expect to be more active in the region in the coming year.

Offices, management and staff

In recent months we have opened a new office in Frankfurt, to add to our offices in London, Paris, Madrid, Stockholm and Hong Kong. The purpose of these offices is to get closer to our key providers of business in these countries and further differentiate us from our competition.

The performance of our staff during this extremely busy year has been exceptional. I would once again like to take this opportunity to thank them all on your behalf.

The Board

In January 2005 we announced that Tom Bartlam will be retiring as Managing Director at the end of April, but will be remaining on the Board as a non-executive director. Tom was a founder of ICG in 1989 and a key factor in its very profitable growth since then, and I know his fellow Directors and executives will miss him greatly. We are all grateful for his willingness to remain on the Board in a non-executive capacity.

In May 2004 we were delighted to announce the appointment of Martin Kohlhaussen to the Board. He is currently Chairman of the Supervisory Board of Commerzbank and a director of a number of leading German companies. His experience will be a great help in developing our European and International businesses.

Outlook

Like all markets the debt markets are cyclical. The benign global economic conditions of recent years, together with increasing liquidity in the debt markets, has pushed these markets near to what we consider to be a cyclical peak. Interest spreads across the whole spectrum of the global debt market have shrunk and lenders have become prepared to take more risk for the same or even lower return.

The high availability of debt in such a market, together with the large amounts of cash in the hands of private equity investors, should continue to sustain a strong buyout market in the year ahead.

This cyclical trend in the debt markets is also leading to an increased supply of mezzanine and other forms of subordinated debt, in some cases from new less experienced investors, and thus to increased competition. This, in turn, is now often resulting in increased leverage and reduced pricing which we believe sometimes gives the wrong balance of risk and reward within the mezzanine and subordinated debt markets, particularly in the larger transactions. We will therefore continue to be particularly selective in our choice of investments in the year ahead, seeking to maintain our credit discipline.

We believe our market position and reputation, size and local infrastructure will, in the current year, enable us to continue to source and execute a good number of sensibly priced and structured mezzanine investments, particularly in the middle market, where we are traditionally strong. However, taking into account the high expected level of repayments in the year ahead, it will be a challenge to grow our loan book.

So far this year, we have invested approximately £50m on our balance sheet in four different companies and we have had repayments of £55m.

As a result of last year's loan book growth the prospects for net interest income this year are good as are the prospects for fund management income, with further good growth in funds under management expected. We have had a strong start to the year for capital gains, and expect this to continue for the rest of the year as a result of where we now are in the market cycle. In addition, the portfolio continues to perform satisfactorily.

We are therefore pleased to be able to look to the year ahead with confidence.

John Manser
Chairman

15 April 2005

Business and Financial Review

1 The European buyout market

2004 produced another record level of buyout activity. The year saw strong deal flow in the UK, German and French buyout markets, and also an increase in very large transactions utilising mezzanine. With private equity firms remaining aggressive buyers of businesses, the secondary buyout market was extremely busy, accounting for 40% of activity in the year. The year was also characterised by a significant level of refinancings of existing buyouts.

Total volume of buyout loan activity in 2004 amounted to an estimated £53bn compared with £43bn in 2003.

The UK market continued to be strong, driven substantially by a number of very large transactions, notably the buyout of the AA, the buyout of two family-owned businesses, Saga and Weetabix, and the public-to-private of Debenhams. The French market continued to grow, again aided by two large transactions, the buyout of Keolis, a public transport business, and the secondary buyout of Picard, a frozen food retailer. In Germany, the buyouts of Grohe, Dynamit Nobel, Brenntag and ATU helped the market recover to record levels, and in the Netherlands, the market was mainly driven by the public-to-private of the country's largest retailer, Vendex, and the LBO of World Directories from the quoted publisher VNU.

Private equity firms, fuelled by significant cash resources and an aggressive credit market, have been bidding hard for investment opportunities. We have referred to the growth in funds available for investment in private equity in Europe in the past, and we believe that this trend is increasing, through a combination of fund-raising by existing players and of new entrants in the form of local start-ups, US private equity firms concentrating more resource on Europe, and hedge funds. Competition for investment opportunities is therefore usually fierce, with most businesses for sale going through a wide and aggressive auction process, pushing prices upwards.

Clearly, in such circumstances, it is challenging for investors to achieve their targeted returns. However, a very active debt market is helping investors. The drivers behind this market are fairly straightforward. The low interest rate environment has been persisting globally for a number of years now, and credit defaults have been low. More and more investors in search of higher yields and better overall returns, are being tempted into alternative assets, particularly the sub-investment grade market. High yield funds are therefore sitting on cash that they are struggling to deploy. Hedge funds, too, are bidding strongly for higher yielding assets. At the same time, despite low interest rates, banks are suffering from heavy pre-payment rates from their corporate customers, and have significant levels of excess capital, which they are seeking to deploy, in many cases into the leveraged market.

The consequences for the LBO market are essentially two-fold. Firstly, the price of leverage has come down. For example, the spread on the JP Morgan European high yield bond index has fallen from 4.46% to 2.88% over the past twelve months and from

11.03% in 2002, and fell a further 0.29% to 2.59% in the first two months of 2005 (source: J.P. Morgan). Secondly, private equity firms are usually able to borrow at higher leverage multiples, as investors are willing to accept greater risk in order to increase investment levels. This cycle has accelerated over the past six months.

The other trend of note in 2004 was the level of activity in the secondary buyout market. These are transactions which arise when private equity firms exit their investee companies by selling them to other private equity firms. In some cases, rather than selling to secondary buyouts, private equity firms realised part of their risk by releveraging their investments and taking out substantial dividends while retaining control. We expect to see more of such transactions while credit markets remain as liquid and aggressive as they are at present.

Regarding performance, with few exceptions, the market has been subject to relatively few shocks in the way of loan payment defaults. Low interest rates and strong demand for sub-investment grade assets generally mean that underperforming buy-outs are able to cover their interest bills and refinance where loan repayments are threatened. However, low growth levels generally in Western Europe and a weak dollar will mean that some buyouts will struggle to make plan.

In any event there is no margin for safety in a number of transactions.

In summary, the buyout market was exceptionally strong in 2004. The outlook for the market in 2005 is also strong, based on available funding resources. Further growth in ICG's loan book will depend on the number of substantial transactions taking place during the year.

2 The European mezzanine market

We estimate that the European mezzanine market saw further growth in 2004, driven in part by the overall growth in buyout activity referred to above, but also by an increased use of mezzanine in buyouts, particularly some of the larger transactions. The middle market was also very active.

Further drivers of growth were the use of mezzanine in existing buyouts to repay shareholder loans in order to provide partial exits to investors, a desire amongst some private equity firms for the greater flexibility mezzanine can offer relative to high yield bonds, and a significant increase in the supply of mezzanine, particularly at the larger, more liquid end of the market, from banks, CDOs and hedge funds. One large new mezzanine fund also launched during the course of the year.

There was an increase in the number of larger mezzanine loans in 2004. The largest, used in the buyout of the AA, came to £400m and was successfully sold down. Mezzanine loans of £125m or more are now becoming relatively commonplace. The growth in liquidity at this end of the market means that banks are increasingly willing to underwrite mezzanine and, in some cases, secondary markets in mezzanine have developed.

ICG's core market, the middle market, which we define as mezzanine tranches of between £10m and £50m, remains very active.

Looking at individual countries, the UK was the largest market in 2004, with 35% of new mezzanine loans. Although the headlines were dominated by larger transactions, ICG also saw a good deal of activity in the middle market, which had its best year for a while. The German market accounted for 18% of the total European market, mainly due to a number of larger transactions. The French market represented 16% of the market, representing a broad mix of middle market transactions together with two larger deals. With the exception of the Netherlands no other country accounted for more than 10% of the mezzanine market.

Regarding pricing, while this varies according to markets and transaction risk, we saw some downward movement in pricing in 2004 in percentage terms. In addition, in some areas we saw a continuing replacement of warrants with higher current yield and deferred interest, which in some cases will lead to a reduction in cash-on-cash returns, as borrowers will seek to refinance such loans as quickly as possible. At present levels of liquidity, such refinancings will be very commonplace. Furthermore, the increase in leverage which we noted above is not always being compensated for by better pricing.

In terms of outlook, we anticipate that there will continue to be substantial demand for mezzanine financing in Europe in 2005. However, if the market conditions we have experienced for the past few months persist, we could in certain areas see continued downward pressure in the market on cash-on-cash returns at relatively high levels of gearing.

3 Overview of the European high yield bond and leveraged loan markets

European high yield bonds
The European high yield market enjoyed another year of strong performance in 2004, with the JP Morgan European High Yield Index producing a return of 14.02%. New issuance totalled over €22bn, with 77 new transactions during the year. Equity sponsor driven deals drove new issue volumes in 2004, in contrast to 2003 when refinancing transactions from Fallen Angel credits dominated new issuance. As a consequence of new issuance in the past couple of years, diversity in the market has improved dramatically. The fastest growth area in new issuance in 2004 was from corporate credits, especially in Germany, where issuance levels in 2004 were double those in 2003. We expect this trend to continue into 2005 and beyond as European businesses take advantage of the low level of interest rates and very low spreads to lock in long term financing at favorable rates. Default rates in 2004 were at an all time low of less than 1%. 2005 default rates are forecast to remain low, although we expect an increase on 2004 levels.

European leveraged loans
2004 was a strong year for the European leveraged loan market in terms of overall volume €65bn and number of transactions 160 compared with €48bn and 129 deals in 2003. Volumes were at their second highest level ever, only surpassed by 2001's cable driven activity. The market is a much deeper and broader market today, with much larger transactions coming to market that are more attractive to institutional investors.

The market remains dominated by private equity activity, which has been focussed on opportunistic exits via secondary buyouts and refinancings. This activity, combined with unprecedented demand for higher yielding assets from banks and Europe's growing institutional investor base, has led to leverage levels increasing and covenant packages slipping, leading to a more frothy credit market. However against a backdrop of relatively benign economic conditions and low default rates we expect demand to remain high leading to further pressure on leverage and pricing in the short term. Liquidity in the secondary market has grown substantially in the last twelve months.

4 The portfolio

During the year our portfolio of loans and investments increased by 8% to £1.18bn. Although this year was a record for new loans and investments made, this rate of increase is lower than in previous years, mainly as a result of the record level of repayments during the year.

It has always been our policy to diversify risk by spreading our portfolio on both a geographical and sector basis and at the end of the year our portfolio was spread across 10 countries in Western Europe and over 26 sectors, with the highest concentration being transportation. A full breakdown of both geographical and industry sectors is shown on Page 13.

Our strongest markets continue to be France and the UK, with 36% and 34% respectively of the portfolio.

During the year, we continued our practice of taking small equity participations in a number of new deals, including those with a contractual only return, in order to enhance the overall returns. At the end of the year, the amount of such equity amounted to £50m.

The impact of currency movements against sterling during the financial year was to increase our portfolio in sterling terms by £8m.

Details of our portfolio, including all new loans and repayments, may be found on pages 11 to 15 of this report.

New loans and investments
This year was a record year in terms of new investments, with ICG underwriting or providing a total of £778m of mezzanine loans in 28 new deals. We took £409m of this for our own balance sheet, of which £28m related to equity investments.

In the second half of the year, we were particularly active, completing four large transactions (the AA, Keolis, Picard and Saga) in which we invested a total of £155m for our own balance sheet and £137m for our fund management clients.

Eleven of the new loans were in respect of UK deals and nine were in respect of French deals. Of the remaining loans, two were in each of Germany and Sweden, with one each in Denmark, Italy, the Netherlands and Switzerland.

ICG was the lead investor in 14 of the 28 transactions and is agent on 19 of them. 23 of these were in respect of buyouts, three were to finance acquisitions and two were refinancings of existing investments.

Repayments
Last year was a record year for repayments, with £315m being repaid in respect of 23 companies.

14 of the repayments were as a result of exits, through either flotation or a trade sale, and nine were as a result of refinancing of the mezzanine loans with cheaper debt.

Provisions
It is our policy to make specific provisions against any loan or investment where, in the judgement of management, the value of that loan or investment has become permanently impaired. Each quarter, management assesses the loans and investments in its portfolio to determine the performance of each asset and whether there is any future risk to its principal. It is on the basis of this quarterly review that provisions are decided.

During the year, a small number of companies in the portfolio continued to suffer from depressed trading conditions and, as a result, we made significant provisions against three of them, totalling £22.2m. In addition, incremental provisions of £7.8m were made against a further three loans, bringing our gross provisions for the year to £30.0m. There was also a release of a £1.8m old provision.

The net charge of specific provisions to the profit and loss account therefore amounted to £28.2 compared to a net charge of £19.0m last year, which included £6.9m of written back provisions.

At the end of the year, total provisions amounted to £64.2m in respect of 12 loans and investments. This represents 74% of the total cost of these loans and investments and 5.2% of the loan book.

Shares and warrants
As a result of our mezzanine lending we hold unquoted shares and warrants in companies to which we lend and whose value is not included in the balance sheet. In addition we also hold quoted shares which are held at cost in the balance sheet. At the end of the year the Directors estimated, using a combination of BVCA guidelines and quoted market prices, the excess value of these shares and warrants over cost amounted to £146m, compared to £82m at the beginning of the year.

5 Fund management

Mezzanine
The final closing of the Mezzanine Fund 2003 was achieved early in the year with equity commitments of €668m. Subsequently, the Fund raised debt by securitising its portfolio, with the initial amount of debt raised being €450m, giving an overall fund size of in excess of €1.1bn. It is anticipated that additional debt will be raised under this programme to enable the Fund to achieve it's target size of €1.5bn.

The Mezzanine Fund 2003 takes 40% of all mezzanine opportunities where the amount available to ICG exceeds €18.75m, thereby increasing its underwriting capability, as well as contributing significantly to fund management income.

At the end of the year, the amount invested by the Mezzanine Fund 2003 was £434m (€628m), having invested £283m (€410m) and been repaid £28m (€41m) during the year. The amount invested by our other mature mezzanine fund management clients decreased by £103m (€148m) during the year due to the high level of exits and repayments. As a result, the amount invested on behalf of all our mezzanine fund management clients increased during the year from £491m (€710m) at the beginning of the year to £643m (€931m) at the end of the year.

High yield and leveraged loan fund management
During the year, we raised a new loan fund of €350m, bringing the number of sub-investment grade structured funds to six. The total amount under management was €2.2bn at the end of the year.

All funds are fully invested, with the exception of the most recent fund which is substantially invested.

We have agreed to utilise our balance sheet to warehouse a number of assets for funds, accruing interest income and also taking any capital profits or losses through our Profit and Loss Account. Additionally, we have committed to purchase a substantial book of leveraged loans amounting to €450m (£310m), currently financed by a third party, which we will use to supply both new and existing funds. ICG is liable for the first 5% of losses that this portfolio may incur prior to it being purchased by our funds.

6 Borrowings and debt facilities

At the end of the financial year, our borrowings stood at £848m compared to £798m at the beginning of the year. The increase in debt was lower than the growth in the loan portfolio due to the level of retained profits during the year. Gearing stood at the comparatively low level of 2.4 times, compared to 2.5 times at the beginning of the year.

Early in the year, we returned to the US private placement for a fifth time, raising £110m (US$200m) from that market, along with a further £30m from the UK private

placement market. We have now raised £374m from this market, of which £348m was outstanding at the year end.

In 2003, we raised over £200m by securitising part of its portfolio and this year we raised a further £40m by way of a tap issue.

During the year, £13m (US$25m) of private placement debt matured, as did £140m of bank debt. As a result, at the end of the financial year we had unutilised facilities of £155m, compared to £225m at the beginning of the year.

Since the year end, we have consolidated all our banking facilities amounting to £372m into one large revolving credit facility of £845m. This facility has a five year maturity and a lower margin than the existing facilities.

Note 22 to the accounts shows the movement in borrowings during the year.

7 Shareholders' funds

At the end of the year, our shareholders' funds had increased by £36.7m to £359.5m primarily as a result of retained profits of £34.1m. The balance of £2.6m comes from the exercise of share options during the year.

Note 18 shows the movements in shareholders' funds during the year.

8 Results for the year

Our results for the year are summarised on page 1 of these statements, with the Profit and Loss Account being on page 32. Pre-tax profits increased substantially by 48% to £95.5m and although core income increased strongly by 21%, the main driver this year was the record level of capital gains which more than doubled from last year. The analysis of income, split between core income and other income, is shown in Note 3 to these accounts.

The pre-tax return on average shareholder funds amounted to 28%. Profit after tax amounted to £62.0m compared to £43.6m the previous year. Undiluted earnings per share amounted to 89.4p, compared to 70.4p last year.

The constituent parts of ICG's profits are:

Core income Core income is the key component of our profitability and consists of net interest income, plus fees, less related administrative expenses. This increased by 21% to £75.1m for this financial year.

Net interest income Net interest income increased by 17% from £64.0m to £75.1m. This increase reflects the increase in the size of our loan book over the past two years, the continuing use of roll up interest in deal structures and the impact for a full year of the equity issue in October 2003.

Fee income Total fee income rose by 31% to £27.4m for the year. Underwriting and arrangement fees rose slightly from £8.4m to £8.8m, reflecting the record level of new deals completed in the year. Agency fees dropped slightly from £1.4m to £1.3m.

Fund management fees rose from £11.1m last year to £17.3m. Fees from managing mezzanine funds increased from £6.9m to £10.6m, including £2.2m (2004: £1.4m) of carried interest fees. This increase reflects the fee structure on the Mezzanine Fund 2003, where fees are charged on amounts committed rather than invested which was the case in previous funds.

Fees from the management of non-mezzanine funds increased from £4.2m to £6.7m as more funds came under management.

Expenses Total administrative and operating expenses increased from the restated figure by £4.7m to £27.4m for the year. The most significant part of this expense relates to salaries and short term bonuses, which rose from £10.9 to £12.8m, reflecting growing staff numbers, particularly in the operations and finance areas, and the need to ensure that staff receive the appropriate rewards across the company.

Costs of the medium term incentive scheme included in core income rose to £6.3m from a restated £5.0m for last year. This reflects the increased amount of rolled up interest accrued in the year, on which an accrual is made for the incentive scheme.

Non-payroll costs increased by £1.5m to £8.3m, including the full year's cost of the overseas offices. Overall, total expenses represent 36% of net core income, unchanged from last year.

Capital gains The gross level of capital gains for the year increased from £26.2m to a record of £62.9m, reflecting the much improved market for exits compared to the previous few years. These gains were in respect of 19 investments of which five were flotations and 14 were trade sales and secondary buy-outs. Five of these gains arose in the UK, six in France, three in the Netherlands and one in each of Germany, Ireland, Belgium, Sweden and Singapore. Additionally, we hold listed shares not sold at flotation whose excess value over cost amounted to £11.3m at the year end.

The costs of the Medium Term Incentive Scheme increased from £4.8m to £14.3m as a result of the record level of capital gains.

Provisions
The charge for the year increased from £19.0m (net of write backs of £6.9m) to £28.2m (net of write-backs of £1.8m), primarily because of the need for provisions on three new underperforming assets.

9 International Financial Reporting Standards ("IFRS")

The Group is currently working on restating our January 2005 results on an IFRS basis. This will form the comparative results which we will disclose in the 2005 interim and the 2006 annual results. These reports will also include the restated opening reserves positions at 1 February 2004 and 1 February 2005.

The Group will explain the changes from UK GAAP to IFRS prior to the interim announcement. At this point the IFRS statutory comparative figures and opening reserves will have been audited.

The key areas for ICG that will be affected by IFRS are shown below.

Dividends payable Under UK GAAP, dividends are deducted from retained earnings in the year to which they relate. Under IFRS, dividends are recognised in the period that they are declared.

Loans and investments Under UK GAAP, loans and investments, including warrants, are measured at cost less provisions for bad and doubtful debts. Under IFRS, the loans are measured at amortised cost and the equity investments and warrants are measured at fair value.

Effective interest rate Under UK GAAP, interest is recognised on an accruals basis and loan origination and other related fees are recognised when receivable. Under IFRS, income on a loan is recognised using the effective interest rate method, with income being recognised at the rate that exactly discounts estimated future cash flows over the loan's expected life to its net carrying value, taking into account all fees received and paid, as well as any other transaction costs, premiums or discounts, that are integral to the loan. The effective interest rate method is used to calculate the amortised cost of a loan.

Impairment Under UK GAAP, provisions for bad and doubtful debts are made so as to record a loan or investment at its net realisable value. IFRS requires impairment losses on amortised cost assets to be provided for on an incurred basis. The impairment loss is calculated as the difference between the asset's carrying value and the present value of estimated future cash flows discounted at the asset's original effective interest rate.

Derivatives Under UK GAAP, hedging derivatives are accounted for on an accruals basis in accordance with the accounting treatment of the underlying transaction or transactions being hedged. IFRS requires all derivatives to be measured at fair value, with any changes taken to the profit and loss account. The resultant profit and loss volatility can be mitigated by the use of hedge accounting, although some volatility will remain due to residual hedge ineffectiveness.

The Portfolio

In the year ended 31 January 2005 ICG and its mezzanine funds invested in the following companies:

Ist Credit, a UK company, provides debt purchase and outsourced debt collection services. In October 2004 ICG arranged and provided a mezzanine facility of £20m to assist in the secondary buyout.

The AA is a UK provider of roadside breakdown services and insurance. In November 2004 ICG took a participation of £85m in the mezzanine facility provided to assist in the buyout. ICG also took a participation of £5m in the equity.

Accantia is a UK brand owner and manufacturer, operating in feminine hygiene and health & beauty. In March 2004 ICG took a participation of £23m in the mezzanine facility provided to assist in the secondary buyout.

Comptage Immobilier Services is the French leader in water and heat metering services. In July 2004 ICG arranged and provided a mezzanine facility of €20m to assist in the secondary buyout.

Condor Ferries, a UK company, provides ferry and catamaran services to the Channel Islands. In December 2004 ICG took a participation of £42.5m in the mezzanine and subordinated shareholder loan facilities used to assist in the secondary buyout.

D V Holding, a French company, is a leading operator in the nursing homes and elderly care market. In December 2004 ICG arranged and provided a €16m PIK facility to assist in the buyout of a minority shareholding. ICG also provided €10m of equity.

DSV Miljo is an environmental services business based in Denmark. In February 2004 ICG arranged and provided a mezzanine facility of DKK 200m to assist in the buyout.

Elmville, an existing borrower in the UK, is a hotel operating company. In March 2004 ICG arranged and provided a facility of £8m to refinance the portion of the mezzanine loan not held by ICG.

Eurodatacar is a French company that provides services to complement traditional insurance policies covering theft of vehicles. In January 2005 ICG took a participation of €9m in the mezzanine facility arranged to assist in the secondary buyout.

Eurofarad is the leading French manufacturer of customised and small batch high-end passive components. In June 2004 ICG arranged and provided a mezzanine facility of €20m to assist in the buyout. ICG also took a participation of €2m in the equity.

Gealan, a German company, is a manufacturer of PVC window systems. In January 2005 ICG provided a mezzanine facility of €25m to assist in the secondary buyout.

The Portfolio

Continued

Global Garden Products is the European powered garden equipment market leader with particularly strong positions in Italy, Scandinavia, France and the UK. In February 2004 ICG took a participation of €23m in the mezzanine facility arranged to assist in the secondary buyout.

Groupe Moniteur, a French company, is a leading magazine group. In April 2004 ICG arranged and provided a mezzanine facility of €47m to assist in the buyout. ICG also took a participation of €4m in the equity.

Homann is a German company that produces chilled food and delicacies. In November 2004 ICG arranged and provided a €30m mezzanine facility to assist in the secondary buyout.

IMO Car Wash, a UK company, operates the largest standalone car wash business in Europe. In March 2004 ICG took a participation of £6m in the mezzanine bond provided to assist in the secondary buyout.

Keolis is France's leading private passenger transport company. In September 2004 ICG arranged and provided a mezzanine facility of €130m to assist in the buyout.

Leisure Link, an existing borrower, is a UK company that manages a wide range of gaming and other entertainment machines. In July 2004 ICG arranged and provided an additional mezzanine facility of £2.5m for business development.

Picard, is the leading French company in the distribution of frozen food. In December 2004 ICG jointly arranged mezzanine facilities totalling €270m to assist in the secondary buyout. ICG also took a participation of €15m in the equity.

Red Funnel is a UK company operating ferry services between Southampton and the Isle of Wight. In December 2004 ICG took a participation of £20m in the subordinated loan stock provided to assist in the secondary buyout.

Regent Medical, a UK company, manufactures and distributes surgical gloves. In September 2004 ICG took a participation of €20m in the mezzanine facility provided to assist in the buyout.

Remeha is a leading boiler manufacturer based in The Netherlands. In July 2004 ICG arranged and provided a mezzanine facility of €33m to assist in the acquisition of the French heating company.

Saga is a UK company providing products and services to people aged 50 and over. In December 2004 ICG took a participation of £85m in the mezzanine facility provided to assist in the buyout.

Score is a French company in the contract catering market. In October 2004 ICG arranged and provided a mezzanine facility of €7.5m to assist in the buyout.

Sia, an existing borrower, is a French company which designs and imports high quality decoration accessories. In June 2004 ICG provided €4.5m of additional financing for acquisition purposes.

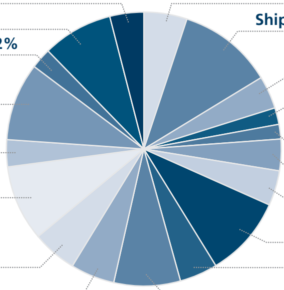
SR Technics, an existing borrower, is a high quality global aircraft maintenance provider based in Switzerland. In June 2004 ICG arranged and provided an additional mezzanine facility of £9.4m to assist in financing an acquisition.

Team System is an Italian company providing software packages and related maintenance. In December 2004 ICG arranged and provided a mezzanine facility of €25m to assist in the secondary buyout. ICG also took a participation of €5m in the equity.

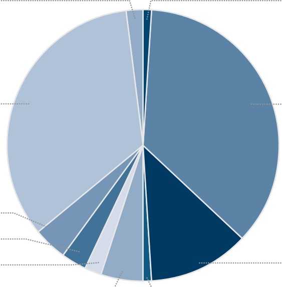
Thule is a Swedish based leading global sports utility transportation company. In December 2004 ICG took a participation of €33.6m in the mezzanine facility arranged to assist in the secondary buyout.

Vetco International is a UK company supplying products, systems and services to upstream oil and gas companies. In July 2004 ICG took a $31m participation in the mezzanine facility arranged to assist in the buyout.

Sector analysis of ICG's portfolio



Geographical analysis of ICG's portfolio



Repayments

During the year, repayments of loans and investments amounted to £315m. Loans to 23 companies were repaid or prepaid in full. These companies were:

Name	Country	Form of realisation
Adco Dixi	Germany	Refinance
Asia Cinema	South Korea	IPO
Asia Directories	Singapore	IPO
Baxi	UK	LBO
Blagden	Belgium	Trade sale
Cantrell and Cochrane	Ireland	IPO
Cegelec	France	Refinance
Coral	UK	Refinance
Danish Timber	Denmark	Refinance
Dometic	Sweden	Refinance
Eurodatacar	France	LBO
HMY	France	LBO
Janton	Finland	Refinance
Malmberg	Netherlands	Trade sale
Meyn	Netherlands	Refinance
MGE	France	Trade sale
Pets At Home	UK	LBO
Picard	France	LBO
Pinewood Studios	UK	IPO
Plastimo	France	LBO
Portman Travel	UK	Amortised
TMD Friction	Germany	Refinance
William Cook	UK	Refinance

Current Portfolio

At 31 January 2005, 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
Allflex	France	Animal identification tags
Asco	UK	Provider of logistic services for the oil industry
Bertelsmann Springer*	Germany	Academic publishing company
Ceva Sante	France	Developer and distributor of animal health products
Coal Products	UK	Producer of smokeless solid fuels
Codere*	Spain	Gaming company
Courtepaille	France	Chain of restaurants
DSV	Denmark	Transportation and logistics
Duni*	Sweden	Supplier of tabletop products
Edscha*	Germany	Global automotive supplier
Electrokoppar	Sweden	Manufacturer of copper wire and winding wire
Eliokem	France	Manufacturer of specialty chemicals
Elis*	France	Provider of textile rental and hygiene
Elmville	UK	Hotel operator
ERM	UK	Environmental consultancy and risk management
Gala*	UK	Bingo and casino operator
Gerflor	France	Manufacturer of PVC flooring
Grand Vins de Gironde	France	Wine trading company
Greeting Card Company	UK	Specialist greeting card retailer
HLF Insurance	UK	Insurance broking
IG Index*	UK	Spread betting and currency trading business
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
Materis*	France	Group of businesses in aluminates, mortars and paint
Medica	France	Nursing homes and elderly care
Moliflor*	France	Operation of casinos
Motip	Netherlands	Manufacturer of aerosol paints
Nocibe*	France	Retailer of perfumes and cosmetics
Orefi	France	Wholesaler of industrial components
Pasteur Cerba	France	Performer of clinical laboratory tests
Porcelain and Fine China	UK	Manufacturer of china and porcelain
Raet	Netherlands	Provider of payroll services
Retif	France	Wholesaler and retailer of display units
Saveurs	France	Producer of ingredients for food industry
Sebia	France	Clinical diagnostic equipment producer
Sericol	UK	Global ink manufacturer
Servicetec	UK	Computer services and maintenance
Sia	France	Retailer of decoration accessories
Souriau	France	Designs, manufactures and sells connectors to commercial aircraft market
Sound Holdings	Denmark	Hearing aid component supplier

Name	Country	Business
Spring	UK	IT recruitment agency
SP Investments*	Switzerland	Aviation ground handling company
SR Technics	Switzerland	Global aircraft maintenance provider
Symrise*	Germany	Manufactures flavours, fragrances and aroma chemicals
Takko*	Germany	Value retailer
Talbot	UK	Underwriter of insurance at Lloyds
Target	UK	Express delivery services
Thornbury	UK	Provider of relief nursing staff
TDF*	France	Operator of broadcasting towers
Tunstall	UK	Manufacturer and maintenance of social alarm systems
Via location	France	Independent truck rental company
Viatris	Germany	Developer of branded pharmaceuticals
Viterra*	Germany	Service provider in the metering industry
WZG Group	Netherlands	Distributor of mobility aids

*Top 20 investments plus the AA, DV Holding, Keolis, Picard and Saga from new investments on pages 11 and 12.

The portfolio of warrants and unquoted shares

At 31 January 2005 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 to ICG in full:

Name	Country	Business
Asia Cinema	South Korea	Multiplex cinemas
Cartiere del Garda	Italy	Manufacturer of coated wood-free papers
Cegelec	France	Provider of electrical contracting services
Coral	UK	Provider of betting services
Danish Timber	Denmark	Materials for building and home improvement
Dometic	Sweden	Supplier of appliances for recreational vehicles
DSV	Denmark	Transportation and logistics
Focus	UK	DIY stores
Janton	Finland	Publisher and distribution of free sheet newspapers
Meyn	Netherlands	Manufacturer of poultry processing equipment
Norcros	UK	Manufacturer and distributor of showers and tiles
Portman	UK	Travel agent
TMD Friction	Germany	Manufacturer of brake pads for automotive industry

Directors' Report

The directors present their annual report and the audited financial statements for the year ended 31 January 2005.

Principal activities and business review The principal activities of the group are those of providing mezzanine capital to companies in Western Europe and the Asia Pacific Region, along with the management of third party funds. The group's profit before taxation was £95.5m (2004 – £64.6m). The directors consider the state of the company's affairs to be satisfactory.

Directors The present membership of the Board is as set out below. All the directors shown below served throughout the year except for Mr M Kohlhaussen who was appointed to the Board in May 2004 and offers himself for re-election in accordance with the articles of association. In accordance with the articles of association, Messrs Bartlam, Nelson and Piper 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 2005 are as follows:

	2005 Number of 20p ordinary shares	2004 Number of 20p ordinary shares
T R Attwood	**152,527**	140,700
T H Bartlam	**586,065**	705,365
C A Evain	**108,514**	108,514
M Kohlhaussen	**–**	–
E G Licoys	**2,076**	2,076
P J Manser	**21,151**	18,731
F de Mitry	**37,639**	37,639
J J Nelson	**7,306**	2,306
A C Phillips	**175,394**	197,394
P J Piper	**184,894**	179,894
P J Stone	**14,134**	14,134

No changes to the directors' interests in shares at 31 January 2005 as set out above had been notified up to 15 April 2005.

The directors had no interests in the shares of any subsidiary company.

The company issued 461,088 shares under its Executive Share Option Schemes during the year raising £2.6m of new equity. The number of 20p ordinary shares in issue at the year end amounted to 69,503,526.

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 24 March 2005, they and the following investments managers (through separately managed funds) had interests in aggregate amounting to over 3%.

Threadneedle Asset Management Limited	5,497,690	7.91%
Newton Investment Management Limited	4,679,766	6.73%
Schroder Investment Management Limited	3,566,918	5.13%
Fidelity Investment Services Limited	3,386,687	4.87%
Legal & General Investment Management Limited	2,546,230	3.66%

Dividend The directors recommend a final net dividend payment in respect of the ordinary shares of the company at a rate of 28.2p per share (2004 –24.0p), which when added to the interim net dividend of 11.8p per share (2004 – 10.5p) gives a total net dividend for the year of 40.0p per share (2004 – 34.5p). The amount of dividend paid and proposed for the year was £27.9m (2004 – £23.0m). After dividends, retained profits of £34.1m (2004 – £20.6m) 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 34 (2004 – 35).

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.

Resolutions 6 and 7 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, 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. Resolution 6 will, if passed, authorise the directors to allot ordinary shares up to an aggregate amount of £4,031,205, representing approximately 29% of the current issued share capital of the company.

Resolution 7 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 £695,035, being 5% of the current issued share capital. These authorities will expire at the conclusion of the Annual General Meeting of the company in 2006 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 8 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 2006 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 2,386,445 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 3.4% of the company's existing issued share capital and would represent 4.0% of the company's issued share capital if the authority to purchase the company's own shares being sought were fully utilised.

Resolutions 9 and 10 will give the directors the ability to introduce and amend the company's incentive schemes for executives.

Resolution 9 will, if passed, give authority to the company to adopt a new Key Executive Retention Share Plan.

Resolution 10 will, if passed, give authority to the company to review and amend the current Medium Term Incentive Scheme.

Details of these resolutions can be found in the accompanying circular.

Political contributions No contributions were made during the year (2004 – £nil) for political purposes.

Directors indemnity The company has Directors and Officers Insurance for all directors and executives that covers all employment related activities.

By Order of the Board

J E Curtis
Secretary

15 April 2005

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 has been 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 Committee. Throughout the year ended 31 January 2005, 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. However, in view of the number of executive directors on the Board, it is not currently considered appropriate to have a majority of independent non-executive directors, as this would create a Board which would be too large to be effective. The composition of the Board is kept under regular review by the Nomination Committee.

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 four further independent non-executive directors. With effect from 6 April 2005 Tom Attwood has been the Chief Executive Officer. 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.

M Kohlhaussen was appointed a non-executive director in May 2004.

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 annual performance evaluation of the Board and its Committees is being undertaken in April 2005.

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 50.

The Board believes that Messrs Kohlhaussen and Nelson should be re-elected to the Board because both of their performances continue to be effective and they demonstrate commitment to the role.

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, a Remuneration Committee and a Nomination Committee whose membership and functions are defined below.

Audit Committee The Audit Committee consists of five (2004 – four) independent non-executive directors, these being Messrs Kohlhaussen, Licoys, Manser, Nelson and Stone. The committee is chaired by Mr Manser who is also Chairman of the Board. It is not considered appropriate to recruit an additional independent non-executive director merely to fulfill the role of chairman of the Audit Committee. 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 three times a year and is responsible for:

- Selecting and recommending the appointment of the external auditors to the Board, 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 and monitoring the independence and objectivity of the external auditors, and approving non-audit work to be carried out by them, taking into consideration relevant legislation and ethical guidance. 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. The Audit Committee also undertakes an annual evaluation to assess the independence and objectivity of the external auditors and the effectiveness of the audit process, taking into consideration relevant professional and regulatory requirements. The results of the evaluation were reported to the Board in January 2005. An analysis of the fees paid to Deloitte & Touche LLP is shown in note 7 on page 38;
- 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; and
- Reviewing and approving the company's whistleblowing policy.

Corporate Governance

Continued

Remuneration Committee The committee consists of four (2004 – four) independent non-executive directors, these being Messrs Kohlhaussen, Licoys, Nelson and Stone. During the year Mr Manser retired as chairman of the committee and Mr Nelson was appointed. The committee recommends to the Board 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 Committee.

Nomination Committee The committee consists of five (2004 -four) independent non-executive directors, these being Messrs Kohlhaussen, Licoys, Manser, Nelson and Stone. Mr Manser is chairman of the 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 appointment of Mr Kohlhaussen to the Board during 2004.

Terms of reference The terms of reference of the Audit, Remuneration and Nomination Committees are available on the Group's website (www.icgplc.com) and copies are available on request.

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.

	Board meetings	Audit Committee meetings	Remuneration Committee meetings	Nomination Committee meetings
T R Attwood	6	–	–	–
T H Bartlam	6	–	–	–
C A Evain	6	–	–	–
M Kohlhaussen	2	2	–	–
E G Licoys	6	2	1	1
P J Manser	6	3	2	1
F de Mitry	6	–	–	–
J J Nelson	6	3	2	1
A C Phillips	6	–	–	–
P J Piper	6	–	–	–
P J Stone	5	3	2	–

M Kohlhaussen was appointed to the Board on 25 May 2004. The company operates in the specialist area of mezzanine finance and therefore personal introductions are found to be as appropriate as through executive recruitment agencies. Mr Kohlhaussen was recruited as a result of such a personal introduction.

Relationships with shareholders The company recognises the importance of communication 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 controls 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; and
- 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 in May 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.

Corporate Social Responsibility

ICG is an international business operating in six countries, with investments in a further four countries. It employs 71 people of which 55 are located at its main office in London and aims to conduct its business in a socially responsible manner. ICG believes that it needs to act in a commercial and professional manner, while at the same time respecting the requirements of the companies and individuals with which it deals. This includes shareholders, staff, suppliers and the businesses in which it invests.

Offices Although ICG is not a significant contributor to pollution, since most of its activities are office based, it is acknowledged that there is some impact that its activities have on the environment. It is ICG's aim to minimise this impact and to comply with the relevant legislation and regulations placed upon it. Areas where the company seeks to minimise its environmental impact are in the use of energy sources within its office, the recycling of paper and other waste and the use of recycled paper within its offices.

People ICG recognises that its employees are fundamental to the success of its business. The company therefore promotes a business environment that 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 involvement through a process of employee communications, including briefings held by senior executives.

The company's employee handbook, to be launched later this year, will set out, among other matters, the company's approach to the working environment and group policies for

- Recruitment and Training
- Reward and Recognition
- Health and Safety
- Personal Development
- Equality and Diversity
- Environmental Protection

During the year, all staff received money laundering training in accordance with the legal and regulatory requirements. Refresher training is to be given at least once every two years.

The company has a whistleblowing policy, which allows staff to raise matters of concern in a confidential manner and for appropriate follow-up action to be taken if required. No matters were reported during the year under review.

Charity and Community The company currently does not make charitable contributions although it does manage a Give As You Earn Scheme for its staff. The company does not currently involve itself in community projects, although a committee, consisting of three main Board directors, has been set up for the purpose of assessing how ICG might best involve itself in this area in the future. An update will be given in next year's report.

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 while on company premises. During the year, no reportable accidents or incidents occurred either under UK Health and Safety regulations or similar regulations outside the UK.

Investments The company currently invests in 86 companies throughout Western Europe and the Asia Pacific Region. The company recognises that the most significant risk to its long term value and reputation arising from environmental, ethical and social matters arises from its investment business. Therefore, when making an investment decision on a new company, ICG takes account of social, environmental and ethical issues and aims to invest in companies that respect human rights and comply with industry standards and local regulations. Part of ICG's due diligence process includes, where appropriate, the production of an environmental report by third party experts.

Although ICG cannot influence the day-to-day operations of the companies in which it invests, wherever possible, it seeks to enable senior executives to attend the board meeting of its investee companies, either as an observer or a board member. Through this attendance, it can influence the behaviour of these companies and encourage good corporate governance.

Report of the Remuneration Committee

This report has been prepared in accordance with the Directors' Remuneration Report Regulation 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 Committee The committee consists solely of four non-executive directors, Messrs Kohlhaussen, Licoys, Nelson and Stone. Mr Manser, who formerly chaired this committee, resigned during the year and Mr Nelson was appointed in his place. Mr Nelson is a non-executive partner in Graphite Capital, one of whose funds has a minority 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. Two executive directors and the Chairman of the Board attend the meetings by invitation as observers 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 MM&K 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 Schedule A annexed to the Code.

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 practices.

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 with the company, keeping the fees unless otherwise approved by the Remuneration Committee. During the year, T H Bartlam has been a non-executive director and latterly the chairman of Pantheon International Participations PLC for which he has received earnings of £23,000 in the year.

At the forthcoming AGM it is proposed to introduce a Key Executive Retention Share Plan (KERSP) Scheme and to review and amend the Medium Term Incentive Scheme. Details of these changes are referred to in the enclosed shareholders circular. In considering the appropriateness of these schemes the company has been advised by Deloitte & Touche LLP and Towers Perrin.

Report of the Remuneration Committee

Continued

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.

Increases will be seen over the next two years to align the salaries of the new and recently appointed executive directors with those of the longer standing executive director.

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 incentives 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 executive 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; and
  – 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 performance calculation criteria have been subject to review by the company's auditors.

With effect from the Annual General Meeting, the performance criteria for options issued after that date will not be subject to retesting provisions.

Carried interest arrangements The company has established for its executives, including the executives 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 will 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 2005 was as follows:

	Mezzanine Fund 1998	Mezzanine Fund 2000	Mezzanine Fund 2003
Executive directors	24.5%	21.6%	26.3%
Former executive directors	10.4%	7.4%	0.6%
Other executives	25.1%	31.0%	48.1%
ICG	40.0%	40.0%	25.0%
Total	100.0%	100.0%	100.0%

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 £400,000. The fee paid to the current non-executive chairman in the year was £85,000 and the annual fees paid to each other non-executive director was £35,000. 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, the Nomination and the Audit Committees, which in the case of Messrs Kohlhaussen, Licoys, Nelson and Stone amounted to £5,000 each. 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.

Report of the Remuneration Committee

Continued

Details of non-executive director's letters of appointment are as follows:

Non-executive directors	Date appointed	Last re-elected	Next re-election
P J Manser	Jan 2001	May 2004	May 2007
M Kohlhaussen	May 2004	–	May 2005
E G Licoys	Jan 1998	May 2004	May 2007
J J Nelson	May 2001	May 2002	May 2005
P J Stone	Jan 1998	May 2004	May 2007

Re-election of directors Mr Bartlam, Mr Nelson and Mr Piper are due to retire by rotation and offer themselves for re-election. Mr Kolhaussen was appointed to the Board on 25 May 2004 and offers himself 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 2005 £000**	Total 2004 £000
T R Attwood	260	1,898	–	39	2	**2,199**	1,018
T H Bartlam	260	1,898	–	39	2	**2,199**	1,018
C A Evain	210	1,536	–	21	45*	**1,812**	291
F de Mitry	210	–	1,536	21	2	**1,769**	243
A C Phillips	210	1,536	–	21	2	**1,769**	490
P J Piper	210	1,536	–	26	2	**1,774**	766

*Based in Hong Kong until July 2004 where ICG paid accommodation and education costs.

The emoluments paid to the executive directors include an amount of £8.4m 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.

The emoluments paid to former executive directors amounted to £3.5m and was contributed by Intermediate Capital Group PLC to the Intermediate Capital Group Employee Benefit Trust with the recommendation that it was appointed as follows: A D Jackson £1,724,000 (2004: £348,000), J L de Gersigny £1,772,000 (2004: £nil) in respect to their former service as directors.

In addition to the above, the executive directors received the following amounts under the terms of carried interest partnership agreements between the company and certain fund management clients. Former directors A D Jackson and J L de Gersigny also both received £222,000.

Executive directors	Carried interest £000
T R Attwood	222
T H Bartlam	222
C A Evain	155
F de Mitry	111
A C Phillips	155
P J Piper	178

Non-executive directors	Fees £000	**Total 2005 £000**	Total 2004 £000
P J Manser	85	**85**	75
M Kohlhaussen (from 25 May 2004)	23	**23**	–
E Licoys	35	**35**	28
J J Nelson	35	**35**	28
P J Stone	35	**35**	28

Share Option Scheme At 31 January 2005, 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 2001	47,099	732.5p	31 Jan 2005	April 2011
	Unapproved	April 2002	35,785	830p	31 Jan 2006	April 2012
	Unapproved	April 2003	43,429	846p	31 Jan 2007	April 2013
	Unapproved	April 2004	41,209	1205p	31 Jan 2008	April 2014
T H Bartlam	Unapproved	April 2001	47,099	732.5p	31 Jan 2005	April 2011
	Unapproved	April 2002	35,785	830p	31 Jan 2006	April 2012
	Unapproved	April 2003	43,429	846p	31 Jan 2007	April 2013
	Unapproved	April 2004	41,209	1205p	31 Jan 2008	April 2014
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 2011
	Unapproved	April 2002	28,930	830p	31 Jan 2006	April 2012
	Unapproved	April 2003	30,134	846p	31 Jan 2007	April 2013
	Unapproved	April 2004	29,041	1205p	31 Jan 2008	April 2014
F de Mitry	Unapproved	April 2000	30,000	509p	31 Jan 2004	April 2007
	Unapproved	April 2001	22,526	732.5p	31 Jan 2005	April 2011
	Unapproved	April 2002	22,601	830p	31 Jan 2006	April 2012
	Unapproved	April 2003	33,089	846p	31 Jan 2007	April 2013
	Unapproved	April 2004	27,381	1205p	31 Jan 2008	April 2014
A C Phillips	Approved	April 1998	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 2011
	Unapproved	April 2002	23,355	830p	31 Jan 2006	April 2012
	Unapproved	April 2003	28,362	846p	31 Jan 2007	April 2013
	Unapproved	April 2004	27,381	1205p	31 Jan 2008	April 2014
P J Piper	Unapproved	April 1998	30,069	526.25p	31 Jan 2002	April 2005
	Unapproved	April 2001	28,584	732.5p	31 Jan 2005	April 2011
	Unapproved	April 2002	26,368	830p	31 Jan 2006	April 2012
	Unapproved	April 2003	31,907	846p	31 Jan 2007	April 2013
	Unapproved	April 2004	31,530	1205p	31 Jan 2008	April 2014

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 2005 was £11.45 per share.

Report of the Remuneration Committee

Continued

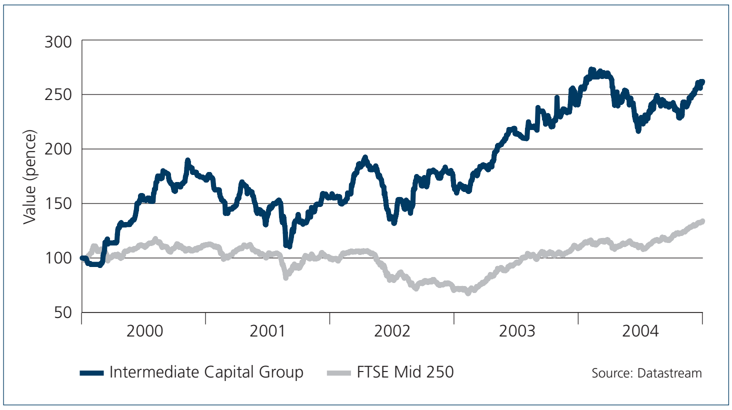
Directors' share options
Aggregate emoluments disclosed above do not include any amounts for the value of options to acquire ordinary shares in the company granted to or held by the executive directors. Details of options exercised during the year are as follows:

Name of director	Scheme	Number of options	Exercise price £	Market price at exercise date £	Gains on exercise £
T R Attwood	ICG Unapproved Executive Share Option Scheme 1997	71,827	3.4207	12.00	616,225.38
T H Bartlam	ICG Executive Share Option Scheme 1994	5,700	5.2625	12.13	39,144.75
P J Piper	ICG Unapproved Executive Share Option Scheme 1997	25,000	5.2625	12.13	171,687.50

No options have expired unexercised during the year. The options are issued at the average market price over the five business days prior to the date of grant. The options are allocated in line with performance with an upper limit of 200% of salary.

ICG's highest share price during the year was £12.32 and lowest was £9.56.

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 2005, of £100 invested in Intermediate Capital Group PLC on 1 February 2000 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 and share option entitlements are required to be, and have been, audited by the company's auditors, Deloitte & Touche LLP.

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

J J Nelson
Chairman of the Remuneration Committee

15 April 2005

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 2005 which comprise the consolidated profit and loss account, the balance sheets, the consolidated 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 that 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 nine provisions of the July 2003 FRC 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 2005 and of the profit of the group for the year then ended; and

- the financial statements and that 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

15 April 2005

Consolidated Profit and Loss Account

for the year ended 31 January 2005

	Note	2005 £m	Restated 2004 £m
Interest and dividend income		**101.6**	91.8
Capital gains		**62.9**	26.2
Fee and other operating income		**27.4**	20.9
	4	**191.9**	138.9
Interest payable and similar charges	5	**(26.5)**	(27.8)
Provisions against loans and investments	6	**(28.2)**	(19.0)
Administrative expenses	7	**(41.7)**	(27.5)
Profit on ordinary activities before taxation	3	**95.5**	64.6
Tax on profit on ordinary activities	8	**(33.5)**	(21.0)
Profit on ordinary activities after taxation		**62.0**	43.6
Dividends paid and proposed – ordinary	11	**(27.9)**	(23.0)
Retained profit transferred to reserves		**34.1**	20.6
Earnings per share	12	**89.4p**	70.4p
Diluted earnings per share	12	**88.7p**	69.5p

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

as at 31 January 2005

	Note	Group		Company	
		2005	Restated 2004	2005	Restated 2004
		£m	£m	£m	£m
Fixed assets					
Tangible assets	13	**1.3**	1.4	**1.0**	1.1
Loans and Investments	14	**1,182.8**	1,093.9	**789.7**	800.0
Current assets					
Debtors	15	**20.2**	19.2	**111.1**	59.5
Loans and investments	16	**40.9**	27.5	**40.9**	27.5
Cash at bank		**55.6**	38.6	**23.5**	24.1
		116.7	85.3	**175.5**	111.1
Total assets		**1,300.8**	1,180.6	**966.2**	912.2
Capital and reserves					
Called up share capital	17	**13.9**	13.8	**13.9**	13.8
Share premium account		**172.5**	170.0	**172.5**	170.0
Capital redemption reserve		**1.4**	1.4	**1.4**	1.4
Profit and loss account	18	**171.7**	137.6	**94.1**	70.2
Equity shareholders' funds		**359.5**	322.8	**281.9**	255.4
Creditors: amounts falling due after more than one year	19	**711.4**	730.0	**446.9**	528.7
Creditors: amounts falling due within one year	20	**229.9**	127.8	**237.4**	128.1
Total capital and liabilities		**1,300.8**	1,180.6	**966.2**	912.2

These financial statements were approved by the Board of Directors on 15 April 2005.

Signed on behalf of the Board of Directors by:

P J Manser Director

T H Bartlam Director

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

Consolidated Cash Flow Statement

for the year ended 31 January 2005

	Note	2005 £m	2004 £m
Operating activities			
Interest and dividends received		**93.8**	81.6
Gains on disposals		**62.9**	26.2
Fee and other operating income		**24.0**	19.4
Administrative expenses		**(28.9)**	(25.8)
		151.8	101.4
Interest paid		**(24.4)**	(25.6)
Net cash inflow from operating activities	21	**127.4**	75.8
Taxation paid		**(26.5)**	(20.8)
Capital expenditure and financial investment			
Loans and investments made		**(398.6)**	(353.7)
Realisations of loans and investments		**311.7**	160.9
Loans for syndication		**(14.2)**	25.7
		(101.1)	(167.1)
Purchase of tangible fixed assets		**(0.3)**	(0.1)
		(101.4)	(167.2)
Equity dividends paid		**(24.9)**	(19.1)
Net cash outflow before financing		**(25.4)**	(131.3)
Financing			
Increase in share capital		**2.6**	86.0
Increase in debt		**39.8**	82.0
Increase in cash	23	**17.0**	36.7

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

Notes to the Accounts

for the year ended 31 January 2005

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 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** Loans and investments, including warrants, 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 a 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.

Notes to the Accounts

Continued

1 Accounting policies continued

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.

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 primarily 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 £23.9m (2004 – £12.9m).

3 Analysis of profit before tax

	2005 £m	Restated 2004 £m
Income:		
Interest and dividend income	**101.6**	91.8
Fee and other operating income	**27.4**	20.9
	129.0	112.7
Less: related expenses		
Interest payable and similar charges	**(26.5)**	(27.8)
Administrative expenses – salaries and benefits	**(12.8)**	(10.9)
Operating expenses	**(8.3)**	(6.8)
Medium Term Incentive Scheme	**(6.3)**	(5.0)
Core income	**75.1**	62.2
Capital gains	**62.9**	26.2
Medium Term Incentive Scheme	**(14.3)**	(4.8)
Net capital gains	**48.6**	21.4
Provisions against loans and investments	**(28.2)**	(19.0)
Profit on ordinary activities before taxation	**95.5**	64.6

The costs of the Medium Term Incentive Scheme included under core income relate to the accrual of rolled-up interest.

3 Analysis of profit before tax continued

Restatement of prior year

As a result of the increasing prominence of rolled-up interest in mezzanine, the directors believe that it is now appropriate to modify the accounting presentation of the amount payable under the Medium Term Incentive Scheme with respect to rolled-up interest. It is now shown in full separately under administrative expenses in the profit and loss account and creditors in the balance sheet, whereas previously, it was shown as a reduction to interest income and investments.

As a result, both interest income and administrative expenses have increased by £2.7m for the year ending 31 January 2004 and £1.1m for the year ending 31 January 2005. Investments and creditors have both increased by £8.4m at 31 January 2004 and £9.5m for the year ending 31 January 2005.

Core income, profit before tax and net assets are unaffected in all periods.

4 Analysis of gross income

	2005 £m	Restated 2004 £m
Gross income received from:		
United Kingdom	**59.2**	63.0
Continental Europe	**128.8**	74.6
Asia Pacific Region	**3.9**	1.3
	191.9	138.9

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

	2005 £m	2004 £m
Bank loans and overdrafts	**1.9**	10.5
Floating rate secured notes	**10.5**	5.7
US private placement	**14.1**	11.6
	26.5	27.8

6 Provisions against loans and investments

	2005 £m	2004 £m
Specific provisions charged in year	**30.0**	25.9
Written back in respect of prior years	**(1.8)**	(6.9)
	28.2	19.0

Notes to the Accounts

Continued

7 Administrative expenses	2005 £m	Restated 2004 £m
Administrative expenses include:		
Amounts due under Medium Term Incentive Scheme	**20.6**	9.8
Directors' remuneration	**11.7**	5.5
Depreciation	**0.4**	0.3
Auditors' remuneration:		
Audit	**0.3**	0.2
Other services:		
Taxation	**0.2**	0.2
Employee related	**0.1**	0.1
Placing and Open offer	**–**	0.1
Other	**0.1**	0.2

8 Tax on profit on ordinary activities

a Analysis of tax on ordinary activities	2005 £m	2004 £m
United Kingdom corporate tax at 30% (2004 – 30%) based on the profit for the year	**33.5**	22.7
Prior year adjustment	**(2.3)**	2.3
	31.2	25.0
Deferred taxation:		
Current year	**2.3**	(1.6)
Prior year adjustment	**–**	(2.4)
Tax on profit on ordinary activities	**33.5**	21.0

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% (2004 – 30%).

The differences are explained below:

	2005 £m	2004 £m
Profit on ordinary activities before tax	**95.5**	64.6
Tax at 30% thereon	**28.7**	19.4
Effects of:		
Prior year adjustment	**(3.1)**	2.3
Movements in short term timing differences	**7.3**	1.6
Non-deductible expenditure	**(1.7)**	2.1
Overseas tax	**–**	(0.4)
Current tax charge for the year	**31.2**	25.0

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 £4.7m (2004 – £2.6m).

9 Information regarding directors and employees

	2005 £m	Restated 2004 £m
Directors' remuneration:		
Fees	**0.2**	0.2
Other emoluments and benefits	**11.5**	5.3
	11.7	5.5
Employee costs during the year, including directors:		
Wages and salaries	**31.7**	19.0
Social security costs	**1.2**	1.1
Pension costs	**0.5**	0.6
	33.4	20.7

	2005 No.	2004 No.
Average number of employees	**66**	59

The performance related element included in wages and salaries is £20.6m (2004 – £9.8m), which is derived as a result of 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 the majority 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 £135m (2004 – £82m) before tax. This valuation is based on the borrowers' current proforma earnings multiplied by the appropriate price/earnings ratio, to which an appropriate discount has been applied by reference to the guidelines of the British Venture Capital Association (BVCA).

11 Dividends paid and proposed

	2005		2004	
	Per share pence	£m	Per share pence	£m
Ordinary dividend:				
Interim paid	**11.8**	**8.3**	10.5	6.4
Proposed final	**28.2**	**19.6**	24.0	16.6
	40.0	**27.9**	34.5	23.0

12 Earnings per share

The calculation of earnings per share is based on earnings of £62.0m (2004 – £43.6m) and an average number of shares in issue throughout the year of 69,388,260 (2004 – 61,961,139). The diluted earnings per share, is calculated after taking into account options issued to executives in respect of 2,398,966 (2004 – 2,339,357) ordinary shares and is calculated on an average number of shares of 69,899,325 (2004 – 62,765,890).

Notes to the Accounts

Continued

13 Tangible fixed assets	Furniture and equipment £m	Short leasehold premises £m	Total £m
Group			
Cost			
At 31 January 2004	1.0	1.2	2.2
Additions	0.2	0.1	0.3
At 31 January 2005	**1.2**	**1.3**	**2.5**
Depreciation			
At 31 January 2004	0.6	0.2	0.8
Charge for the year	0.2	0.2	0.4
At 31 January 2005	**0.8**	**0.4**	**1.2**
Net book value			
At 31 January 2005	**0.4**	**0.9**	**1.3**
At 31 January 2004	0.4	1.0	1.4
Company			
Cost			
At 31 January 2004	0.7	1.0	1.7
Additions	0.1	0.1	0.2
At 31 January 2005	**0.8**	**1.1**	**1.9**
Depreciation			
At 31 January 2004	0.4	0.2	0.6
Charge for the year	0.2	0.1	0.3
At 31 January 2005	**0.6**	**0.3**	**0.9**
Net book value			
At 31 January 2005	**0.2**	**0.8**	**1.0**
At 31 January 2004	0.3	0.8	1.1

	Group		Company	
14 Loans and investments	**2005 £m**	Restated 2004 £m	**2005 £m**	Restated 2004 £m
Loans and investments	**1,247.0**	1,150.8	**838.0**	846.8
Less: specific provisions	**(64.2)**	(56.9)	**(48.3)**	(46.8)
	1,182.8	1,093.9	**789.7**	800.0

14 Loans and investments continued

	Restated Group £m	Restated Company £m
Additional information in respect of movements during the year is as follows:		
Loans and investments at cost:		
Balance at 31 January 2004	1,150.8	846.8
Net additions	409.5	272.4
Realisations	(315.2)	(234.7)
Amortised discount and capitalised interest	14.5	13.3
Written off	(21.1)	(19.0)
Currency movement on non sterling denominated loans	8.5	5.4
Net sales to subsidiary	–	(46.2)
Balance at 31 January 2005	**1,247.0**	**838.0**
Specific provisions:		
Balance at 31 January 2004	56.9	46.8
Provisions made during the year	30.0	22.1
Provisions released during the year	(1.8)	(1.8)
Loans and investments realised or written off	(21.1)	(19.0)
Currency movement on non sterling denominated loans	0.2	0.2
Balance at 31 January 2005	**64.2**	**48.3**

	Group		Company	
	2005 £m	Restated 2004 £m	**2005 £m**	Restated 2004 £m
Shares in group companies at cost	**–**	–	**10.3**	10.1
Other investments at cost:				
Redeemable preference shares (unlisted)	**22.3**	31.3	**18.1**	27.3
Equity shares (unlisted)	**85.4**	95.9	**4.7**	33.3
Equity shares (listed)	**3.0**	5.7	**3.0**	5.7
	110.7	132.9	**36.1**	76.4
Less: specific provisions	**(30.3)**	(29.5)	**(21.6)**	(23.6)
	80.4	103.4	**14.5**	52.8
Loans (net of specific provisions)	**1,102.4**	990.5	**775.2**	747.2
Total loans and investments	**1,182.8**	1,093.9	**789.7**	800.0

The listed equity shares are listed on the London, Irish, Singapore and Stockholm Stock Exchanges and at 31 January 2005 had a market value of £14.3m (2004 – £4.7m).

Associates The group has the 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	39.0%	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 these 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.

Notes to the Accounts

Continued

15 Debtors	Group 2005 £m	Group 2004 £m	Company 2005 £m	Company 2004 £m
Other debtors	**9.6**	3.3	**17.5**	0.7
Amount owed by group companies	**–**	–	**85.4**	45.7
Deferred tax debtor	**1.7**	4.0	**1.7**	4.0
Prepayments and accrued income	**8.9**	11.9	**6.5**	9.1
	20.2	19.2	**111.1**	59.5

Deferred tax relates to the following:

	Group 2005 £m	Group 2004 £m	Company 2005 £m	Company 2004 £m
Timing differences	**1.7**	4.0	**1.7**	4.0

Movements in deferred tax:

	Group £m	Company £m
At 31 January 2004	4.0	4.0
Charged to the profit and loss account	(2.3)	(2.3)
At 31 January 2005	**1.7**	**1.7**

16 Loans and investments held as current assets	Group 2005 £m	Group 2004 £m	Company 2005 £m	Company 2004 £m
Loans and investments held for syndication	**40.9**	27.5	**40.9**	27.5

17 Called up share capital	2005 £m	2004 £m
Authorised:		
90,000,000 (2004 – 77,500,000) ordinary shares of 20p	**18.0**	15.5
Allotted, called up and fully paid:		
69,503,526 (2004 –69,042,438) ordinary shares of 20p	**13.9**	13.8

During the year, the company allotted 440,918 shares under its Unapproved Executive Share Option Scheme 1997 and 20,170 shares under Executive Share Option Scheme 1994 receiving a total consideration of £2.6m.

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 2004	13.8	170.0	1.4	137.6	322.8
Exercise of options	0.1	2.5	–	–	2.6
Profit for the year	–	–	–	62.0	62.0
Dividends paid and proposed	–	–	–	(27.9)	(27.9)
Balance at 31 January 2005	**13.9**	**172.5**	**1.4**	**171.7**	**359.5**

£52.4m (2004 – £31.0m) 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 2004	13.8	170.0	1.4	70.2	255.4
Exercise of options	0.1	2.5	–	–	2.6
Profit for the year	–	–	–	51.8	51.8
Dividends paid and proposed	–	–	–	(27.9)	(27.9)
Balance at 31 January 2005	**13.9**	**172.5**	**1.4**	**94.1**	**281.9**

19 Creditors: amounts falling due after one year

	Group		Company	
	2005 £m	2004 £m	**2005 £m**	2004 £m
US private placement	**308.8**	217.6	**308.8**	217.6
Bank loans	**99.5**	273.2	**99.5**	273.2
Bank overdraft	**–**	7.1	**–**	7.1
Floating rate secured notes	**265.3**	201.3	**–**	–
Other	**47.3**	41.4	**47.7**	41.4
	720.9	740.6	**456.0**	539.3
Prepaid expenses	**(9.5)**	(10.6)	**(9.1)**	(10.6)
	711.4	730.0	**446.9**	528.7

The bank loans and overdraft are unsecured and are repayable in instalments, £62.2m is due within one year, £37.3m is due between one and two years and £62.2m 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 is repayable in three equal instalments, each of US$25,000,000. One was repaid in December 2003, one was repaid in December 2004 and one is due within one year.

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 due within one and two years and one of US$50,000,000 due 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 five instalments, one of US$45,000,000 due within one year, one of US$3,333,333 due within one year, one of US$3,333,333 due between one and two years, one of US$3,333,334 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 one to two years, one of $25,000,000 repayable within two to five years and one of $40,000,000 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 one to two years and one of £20,000,000 repayable in five to ten years.

Notes to the Accounts

Continued

19 Creditors: amounts falling due after one year continued

The US$200,000,000 private placement issued in March 2004, which is denominated in US Dollars and swapped into floating rate European currencies is unsecured and is repayable in six instalments, one of $78,000,000 and three of $2,000,000 repayable within two to five years, one of $40,000,000, one of $72,000,000 and two of $2,000,000 all repayable within five to ten years. The £30,000,000 issued in March 2004 is unsecured and is repayable in two instalments, one of £20,000,000 repayable in two to five years and one of £10,000,000 repayable in five to ten years.

In order to raise additional funding with which to expand its loan book, in 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. Following a further issue in May 2004 the amount of these notes and their maturity dates are as follows:

€228,000,000	Class A floating rate notes maturing 2021
€73,500,000	Class B floating rate notes maturing 2021
€73,500,000	Class C floating rate notes maturing 2021
€9,500,000	Class D floating rate notes maturing 2021

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

20 Creditors: amounts falling due within one year	Group 2005 £m	Group Restated 2004 £m	Company 2005 £m	Company Restated 2004 £m
US Private placement (see note 19)	**38.9**	13.7	**38.9**	13.7
Bank loans (see note 19)	**62.2**	43.0	**62.2**	43.0
Overdraft	**17.8**	–	**17.8**	–
Other	**8.5**	0.5	**8.3**	0.5
	127.4	57.2	**127.2**	57.2
Trade creditors	**0.5**	0.6	**0.5**	0.6
Accruals	**62.2**	37.8	**60.5**	35.9
Amounts owed to group companies	**–**	–	**20.2**	9.6
Dividends proposed	**19.6**	16.6	**19.6**	16.6
Taxation – corporation tax	**19.9**	15.4	**9.1**	8.0
Taxation – social security	**0.3**	0.2	**0.3**	0.2
	229.9	127.8	**237.4**	128.1

21 Reconciliation of operating profits to operating cash flow	2005 £m	2004 £m
Income before provisions and taxation	**123.7**	83.6
Decrease/(increase) in accrued income	**1.1**	(3.5)
Increase in accrued interest expense	**1.0**	1.1
Increase/ (decrease) in other net current liabilities	**14.6**	(1.1)
Capitalisation of interest receivable (net)	**(13.0)**	(4.3)
	127.4	75.8

22 Analysis of net debt

	As at 31 Jan 04 £m	Cash flow £m	Reclassification £m	Exchange movement £m	**As at 31 Jan 05 £m**
Cash in hand and at bank	38.6	17.0	–	–	**55.6**
Debt due within one year:					
Bank debt	(43.0)	172.2	(190.6)	(0.8)	**(62.2)**
US private placement	(13.7)	13.7	(40.3)	1.4	**(38.9)**
Overdraft	–	–	(17.8)	–	**(17.8)**
Other	(0.5)	(6.1)	(1.3)	(0.6)	**(8.5)**
	(57.2)	179.8	(250.0)	–	**(127.4)**
Debt due between one and two years:					
Bank debt	(190.6)	(1.4)	152.4	2.3	**(37.3)**
US private placement	(38.5)	–	(6.8)	1.4	**(43.9)**
Overdraft	(7.1)	(10.7)	17.8	–	**–**
Other	(1.3)	–	(12.2)	(2.1)	**(15.6)**
	(237.5)	(12.1)	151.2	1.6	**(96.8)**
Debt due between two and five years:					
Bank debt	(82.6)	(17.5)	38.2	(0.3)	**(62.2)**
US private placement	(87.4)	(65.7)	33.4	3.1	**(116.6)**
Other	(21.0)	–	7.3	(3.0)	**(16.7)**
	(191.0)	(83.2)	78.9	(0.2)	**(195.5)**
Debt due after five years:					
US private placement	(91.7)	(73.1)	13.7	2.8	**(148.3)**
Floating rate notes	(201.3)	(60.2)	–	(3.8)	**(265.3)**
Other	(19.1)	–	6.2	(2.1)	**(15.0)**
	(312.1)	(133.3)	19.9	(3.1)	**(428.6)**
Total	(759.2)	(31.8)	–	(1.7)	**(792.7)**

At 31 January 2005 the group has available undrawn facilities amounting to £155m under its revolving credit facilities, due between two and five years.

The total of net debt includes other of £55.8m (2004: £41.9m) which is excluded from note 23.

23 Reconciliation of net cash flow to movement in net debt

	2005 £m	2004 £m
(Increase) in cash in the period	**(17.0)**	(36.7)
Cash inflow from increase in net debt	**42.7**	105.9
Change in net debt arising from cash flows	**25.7**	69.2
Translation difference	**(6.1)**	(23.0)
Movement in net debt	**19.6**	46.2
Net debt at beginning of the year	**717.3**	671.1
Net debt at end of the year	**736.9**	717.3

Notes to the Accounts

Continued

24 Financial commitments

At 31 January 2005, the group estimated that it had no contractual obligations to provide further funding apart from an obligation to lend a further £3.6m on an existing investment (2004 – £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. ICG has committed to fund the purchase of a book of leveraged loans amounting to €450m (£310m), currently financed by a third party, which will be transferred to current and future fund management clients. ICG is liable for the first 5% of losses on the portfolio prior to the portfolio being purchased by funds.

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.
Mezzanine 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 Group SAS	100%	France	France	Advisory company.
Intermediate Capital Group Espana SL	100%	Spain	Spain	Advisory company.
Intermediate Capital Nordic AB	100%	Sweden	Sweden	Advisory company.
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.
Intermediate Capital GP 2003 Limited*	100%	Jersey	Jersey	General Partner in a number of Partnerships.

*These companies do not have co-terminous year ends.

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, private placements and publically rated notes, 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 interest rate swaps under which it receives a fixed rate. The average rate achieved on these swaps is 5.45%. As a result, the group does not have material financial exposure to interest rate movements.

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.

Since the year end the company has refinanced all its existing revolving credit bank facilities of £372m with a new five year revolving multi-currency credit facility of £845m.

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.

27 Financial assets and liabilities continued

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 2005 was as follows:

	Financial assets			Financial liabilities		
Currency	Total £m	Floating rate financial assets £m	Fixed rate financial assets £m	Total £m	Floating rate financial liabilities £m	Fixed rate financial liabilities £m
Sterling	301.8	249.8	52.0	36.6	117.9	(81.3)
Euro	794.4	684.9	109.5	(731.7)	(739.8)	8.1
Other currencies	94.7	70.1	24.6	(92.3)	178.0	(270.3)
	1,190.9	1,004.8	186.1	(787.4)	(443.9)	(343.5)

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 2005, interest expense was reduced by £8.4m (2004 – £11.2m) 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.

27 Financial assets and liabilities continued

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:

	2005 Net carrying amount £m	2005 Estimated fair value £m	Restated 2004 Net carrying amount £m	Restated 2004 Estimated fair value £m
Long-term loans and investments	**1,182.8**	**1,328.8**	1,093.9	1,175.9
Loans held for syndication	**40.9**	**40.9**	27.5	27.5
Cash at bank	**55.6**	**55.6**	38.6	38.6
Borrowings:				
Bank debt (including overdraft)	**179.5**	**179.5**	323.3	323.3
Floating rate notes	**265.3**	**265.3**	201.3	201.3
Private placements	**347.7**	**347.7**	231.3	231.3
Derivatives and financial instruments:				
Interest rate	**1.6**	**7.9**	–	1.4
Foreign currency	**(55.1)**	**(54.9)**	(41.9)	(41.9)

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 £1,182.8m, 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 consist mainly of 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 as all such notes are floating rate and there has been no material movement in margins on such instruments since their issue in June 2003 and May 2004.

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 23 May 2005 at 12.00 noon to transact the following ordinary business:

1 To receive and adopt the financial statements for the year ended 31 January 2005 together with the reports of the directors and auditors thereon.

2 To declare a final dividend of 28.2p per ordinary share.

3 To reappoint Deloitte & Touche LLP as auditors and determine their remuneration.

4 To re-elect as directors: a) T H Bartlam, b) M Kohlhaussen, c) J J Nelson, d) P J Piper.

5 To approve the Report of the Remuneration Committee for the year ended 31 January 2005

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

6 THAT the directors be and they are hereby generally and unconditionally authorised, in accordance with section 80 of the Companies Act 1985 (the "Act"), 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 £4,031,205 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 2006 or 23 August 2006, 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.

7 THAT, subject to the passing of Resolution 6 set out in the Notice of this Meeting, the directors be and are hereby empowered pursuant to section 95 of 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 6 up to an aggregate nominal amount of £695,035 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 2006 or 23 August 2006, 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.

8 THAT the company be and is hereby generally and unconditionally authorised to make market purchases (within the meaning of section 163 of the Act) 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 10,418,578;

(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 2006 or 23 August 2006, 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.

9 THAT;

(a) the rules of the Key Executive Retention Share Plan ("the KERSP") the principal features of which are summarised in the appendix to the chairman's letter contained in the enclosed circular (and a draft of the rules of which is produced to the meeting and initialled by the Chairman for the purposes of identification) be and are hereby approved and adopted and the directors of the company be and are hereby authorised to do all things necessary or expedient to carry the KERSP into effect;

(b) the directors of the company be authorised to establish further plans based on the KERSP but modified to take account of local tax, exchange control or securities laws in any overseas jurisdiction provided that the shares made available under such further plans are treated as counting towards the limits on individual or overall participation in the KERSP;

10 THAT;

(a) the rules of the Medium Term Incentive Scheme ("the MTIS") the principal features of which are summarised in the appendix to the chairman's letter contained in the enclosed circular (and a draft of the rules of which is produced to the meeting and initialled by the Chairman for the purposes of identification) be and are hereby approved and adopted and the directors of the company be and are hereby authorised to do all things necessary or expedient to carry the MTIS into effect;

(b) the directors of the company be authorised to establish further plans based on the MTIS but modified to take account of local tax, exchange control or securities laws in any overseas jurisdiction provided that the shares made available under such further plans are treated as counting towards the limits on individual or overall participation in the MTIS.

By Order of the Board

JE Curtis
Secretary

15 April 2005

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.

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.

3 Copies of the rules for the KERSP and the MTIS are available for inspection during business hours at the company's registered office and shall be available for inspection during the meeting and for a period of 15 minutes beforehand.

4 A form of proxy is enclosed for your use. To be valid the form of proxy, together with any power of attorney or other authority under which it is signed, must be lodged with the Company's registrars not later that 48 hours before the time fixed for the meeting.

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Registered office
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Chartered Accountants and
Registered Auditors
London

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111 44
Stockholm

Directors

Non-Executive Chairman

John Manser, CBE, DL, age 65, is a Fellow of the Institute of Chartered Accountants in England and Wales. He was formerly Chairman of Robert Fleming Holdings Limited and is currently Chairman of Shaftesbury PLC, Hiscox Investment Management Ltd and deputy Chairman of Colliers CRE plc and a non-executive director of SAB Miller PLC.

Executive Directors

Tom Attwood, age 52, Managing Director. Prior to joining ICG in April 1996, he was a director of James Capel & Co where he worked for eight years. He chairs the executive committee and is responsible for ICG's UK mezzanine business.

Francois de Mitry, age 39. Prior to joining ICG in 1997, he worked for Societe Generale. He is responsible for ICG's French and Italian mezzanine business.

Tom Bartlam, age 57, Managing Director, is a qualified Chartered Accountant. Prior to founding ICG in 1989, he was a director in Charterhouse Bank, where he worked for fourteen years. He is a non-executive Chairman of Pantheon International Participations PLC. He is stepping down as Managing Director but remaining on the Board as a non-executive director.

Andrew Phillips, age 42. Prior to joining ICG in 1989, at its formation, he worked for Chemical Bank. He is responsible for ICG's Fund Management business and its Nordic mezzanine business.

Christophe Evain, age 42. Prior to joining ICG in 1994, he worked for Banque de Gestion Privee in Paris. He is responsible for ICG's mezzanine business in Germany, Benelux, Spain and the Asia Pacific Region.

Paul Piper, age 47. Prior to joining ICG in 1989, at its formation, he worked for Chemical Bank. He is responsible for finance and operations and is chairman of the Investment Committee.

Non-Executive Directors

Martin Kohlhaussen, age 69, is the non-executive chairman of Commerzbank and a non-executive director of Bayer, ThyssenKrupp, Schering and a number of other positions. He serves on the International Investment Council to President Thabo Mbeki of South Africa.

Eric Licoys, age 66, was formerly Director General of Vivendi Universal, the media and communications group, having previously been President of the venture capital arm of Lazard Freres in France. He is a past chairman of AFIC.

James Nelson, age 57, 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 58, a qualified solicitor. He is a non-executive director of DTZ Holdings PLC as well as a number of other businesses and was previously a director of Close Brothers Group plc.

Management

Chief Financial Officer and Company Secretary

London

John Curtis

Finance Executives

London

Mark Hallala
Chris Connelly

Kim Rennie
Tony Payne

Mezzanine Executives

United Kingdom

Katharine Belsham
James Davis
Simon Morrell

Mark Crowther
Mike Anderson
Matthew Robinson

France

Hadj Djemai
Benoit Durteste
Herve Johnson

Rosine Vitman
Damien Scaillierez

Germany

Mark Brenke
Carola Babcock
Felix Hölzer

Germany/Italy

Philipp Schroeder
Luigi Bartone

High Yield and Leverage Loan Executives

London

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Debra Anderson

Sara Halbard
Richard Hudson

Robin Jenner
Claire Campbell
Frederic Jourdren

Designed and produced by **fourth**quarter Photography Graeme Harris Printed by SV.two

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Max Mitchell
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