Annual Report & Accounts

For the year to 31 January 1999

INTERMEDIATE CAPITAL GROUP PLC

Mezzanine ranks in terms of risk and reward between bank debt and equity capital and seeks a strong cash yield and an additional return related to the success of the investee company, usually in the form of a capital gain.

Mezzanine has been principally used to help finance buyouts but is increasingly used as expansion and acquisition capital and to finance capital reorganisations.

ICG is the leading independent provider of mezzanine in the United Kingdom and Continental Western Europe.

1999 Highlights

- Pre-tax profits up 18% to £26.8m (1998 – £22.6m)
- Earnings per share up 20%
- Core income up 16% to £17.7m (1998 – £15.3m)
- Proposed final dividend of 13.7p net per share making 19.8p per share for the year, a 14% increase
- A record £156m of new loans
- The loan book increased to £394m (1998 – £320m)
- Further growth in fund management activities

In our first ten years we have arranged or provided more than £1,200,000,000 in over 120 mezzanine transactions

Chairman's Statement

The first ten years

ICG was established in 1989. We have prepared a 10 Year Review which appears on pages 5 to 8 of these accounts to highlight some of the key events and the sustained record of profit and loan book growth in the first 10 years of ICG's life. The review demonstrates that we have produced substantial returns for our shareholders.

Our stated objective in 1989 was to "become the leading specialist, independent arranger and provider of mezzanine / intermediate capital in Europe." We achieved this objective quite early in our life and have retained this position, despite the very significant changes which have taken place in the financial markets over the last 10 years. Over this period we have arranged over £1.2bn of mezzanine for 120 companies in 12 European countries.

Results

I therefore have much pleasure in reporting a further record in this our tenth year, with pre-tax profits up by 18% to £26.8m. Net interest income and core income rose by 11% and 16% respectively to £16.7m and £17.7m and capital gains, net of related expenses and provisions, rose by 23% to £9.0m.

Dividends

The Board is recommending a final dividend of 13.7p net per share to be paid on 21 May 1999 which, with the interim dividend of 6.1p, brings the total for the year to 19.8p net per share. This dividend represents an increase of 14% over last year's dividend of 17.4p net per share.

It continues to be ICG's policy to increase the dividend broadly in line with the increase in core income. The net dividend is covered 2.0 times by earnings.

Lending activity

Our last financial year was another record for new lending. We arranged approximately £316m of financing. This was the largest amount of finance that we have ever arranged in any one year. Some £156m of this £316m was taken on ICG's balance sheet, thus continuing the strong growth in our loan book. Of the remainder, £105m was taken by funds under ICG's management and £55m was syndicated to third party investors.

ICG made 20 loans in the year of which 12 were in the UK and eight in the rest of Europe, broken down as to three in France and one each in Belgium, Ireland, Italy, Sweden and Switzerland. 12 of these 20 loans were to finance buyouts, most noteworthy of which were the £75m and the £50m of mezzanine which we arranged for the Cantrell and Cochrane and IPC buyouts respectively. These were the two largest mezzanine financings we have arranged. We were pleased that we again succeeded in providing mezzanine finance outside the MBO market with eight such transactions being completed. Particularly notable among these was the acquisition finance which we provided for two UK public companies which may otherwise have found it difficult to finance acquisitions in the current Stock Market environment which is not sympathetic to smaller quoted companies.

Funding

During the year ICG increased its borrowing facilities by £45m and since the year end we have increased our facilities by a further £45m. This leaves us with unutilised facilities of £100m. We continue to evaluate new sources of funding to ensure that the future growth of the business is not constrained.

Fund management

Last year saw continued growth in our fund management activities with £57.5m of new funds raised and an existing client entering into an agreement to participate in larger investments. By the end of the year we had invested £175m on behalf of funds under management compared with £101m at the beginning of the year.

It remains a priority to increase our funds under management and particularly to have such funds available to invest in the larger mezzanine investments which we arrange. Our objective is to increase the fees we earn from fund management activities and to make such income a more significant part of our revenues.

European mezzanine market

Last year the European buyout market, which represents our principal market for mezzanine finance, was split into two distinct parts. The first half of the year carried on where 1997 had left off, with ever increasing levels of activity and the value of buyouts reaching record levels. These levels of activity were fuelled not only by the availability of large amounts of private equity but also by the increasingly aggressive lending of banks and the growth in the high yield bond market. This led to the acquisition prices and the gearing of some of the larger transactions reaching levels which we found unattractive.

The uncertainty in the financial markets in the summer of 1998 caused there to be a significant change in the buyout market during the second half of the year. Firstly, banks became more conservative in their lending policies, particularly in the large buyout transactions and in the UK market. This led to lower gearing. Secondly, the sharp falls in the price of high yield bonds and the disappearance of liquidity in that market made it impossible to issue any new high yield bonds in the second half of the year.

In the active but competitive first half, ICG, while being selective in its choice of lending, was successful in finding good lending opportunities particularly as a result of its ability to provide a flexible financing product in both the buyout and other markets. In the second half, initially, we were not active lenders while we waited for the market to settle but in the last quarter of the year we invested in a number of transactions which benefited in their structuring from the changes in the market place.

In the first half of the year overall mezzanine pricing was under some pressure but this eased somewhat, particularly in the larger transactions, in the second half. We continued throughout the year to maintain the cash interest margin we receive on our loans. Overall our pricing has changed little compared to previous years.

Management and staff

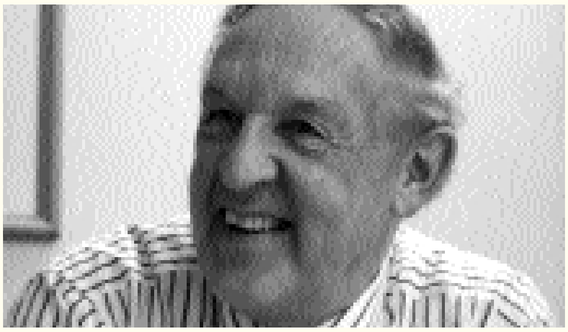
During the year we continued to grow our executive team in line with the growth of the business. We have recruited four new executives: two British, one Dutch and one French.

Much of the success of a business such as ICG is due to the experience and skills of its executive team. Over the past 10 years ICG has, I believe, benefited from the stability and the long term commitment of its team. On behalf of the shareholders I would like to express my thanks to all the management and staff, many of whom have been with ICG for all or most of the last 10 years.

Prospects

Over the ten years since ICG was founded, it has established a leading position in Europe for the provision of mezzanine finance. Our record over this period shows that ICG created good growth in both its lending activity and profits. It is our objective to continue this growth.

We believe that the European buyout market will remain strong in 1999 although possibly not at such high levels as were seen in the first part of 1998. While banks have become somewhat more conservative, particularly in the UK and in large transactions, we expect them to continue to offer a combination of senior debt and mezzanine debt in one package, again representing the principal form of competition to ICG in the year ahead. We believe that high yield bonds are likely to return as a source of funding for large buyouts in 1999. Notwithstanding this competitive environment we expect to be able to find attractive mezzanine lending opportunities both in and outside the buyout market.



Murray Stuart

In reviewing the prospects for the coming year we are conscious of the strong results we produced last year in terms of lending growth, transaction fee income and capital gains.

It is, as ever, difficult to predict the level of new lending and repayments. However, on the assumption that repayment levels will be similar to last year, we aim to grow our loan book in the coming year.

Our profitability this year will be influenced by the economic background in both the UK and Continental Europe. To date, only a small number of our investee companies have been adversely affected by the weaker economic conditions during last year and we are assuming that there will be a soft landing across Europe and no significant deterioration in our investee companies' ability to service their loans. The substantial growth in our loan book in 1998 should compensate for the adverse effect of reducing interest rates and we hope therefore to be able to show another year of growth in net interest income. Transaction fees are dependent on the size of new investments arranged by ICG, which at this stage of the year is unpredictable. We are confident, however, of an increase in fund management fee income arising from the increased amounts of funds invested on behalf of clients. In total therefore we view the prospects for core income as satisfactory.

The levels of prospective capital gains which we may achieve over the next couple of years look encouragingly high, with particularly good prospects for some of our Continental European investee companies. However the timing of such anticipated realisations is dependent upon the strength of the Continental European Stock Markets and mergers and acquisition markets. If these remain strong we can look forward to a further satisfactory year for capital gains although it is possible that certain realisations will be deferred to the following year. With a soft landing in the European economies, we would hope to be able to maintain our provisioning within historic levels but the levels of capital gains and provisions remain difficult to forecast and are by their nature volatile.

After ten years, the opportunities for ICG, with its experience and market reputation in the specialist area of the provision of mezzanine and related types of finance in Europe, remain considerable. We look forward to the future with confidence.

Murray Stuart

Chairman

6 April 1999

10 years old

Our 10th year has been a record one. £316m arranged or provided in 20 transactions, including a record £75m arranged for one single buyout. This makes a total of £1.2 billion in 120 transactions over 10 years, of which ICG has itself invested £750m.

Right ICG has invested £750m in 115 companies in the UK and Continental Europe since the company started in 1989

ICG – The first ten years

ICG
Group founded in February.

ICG
The Group makes its first investment.

ICG
First French investment.

ICG
The Group's first German investment.

ICG
ICG makes its first capital gain.

ICG
The Group moves into its Threadneedle Street office.

ICG
Murray Stuart appointed Chairman.

89 90 91 92 93

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RJR Nabisco
RJR Nabisco is world's biggest buyout.

Sky TV
Sky TV launched to only 50,000 customers.

Berlin
Berlin wall comes down.

Nelson Mandela
Mandela released after 26 years.

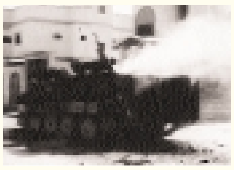
Mrs Thatcher
Mrs Thatcher resigns after 11 years in power.

Channel Tunnel
French and British workers meet as Channel Tunnel is finished.

The Gulf
Conflict erupts between Allied forces and Iraq.

Golf
Europe lose Ryder Cup to America on last green.

Robert Maxwell
Robert Maxwell falls overboard from yacht.



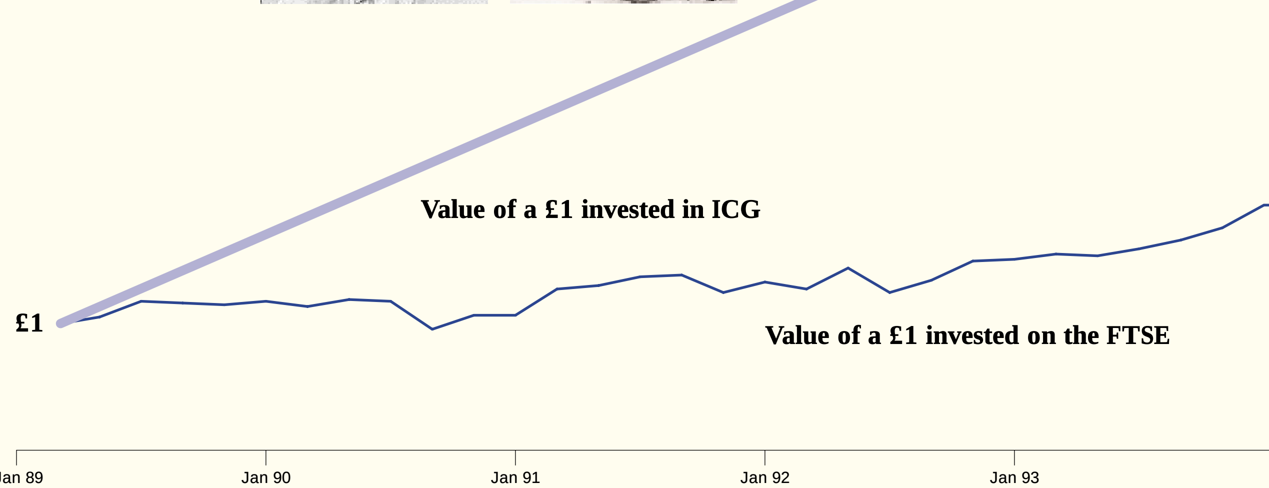
Europe
Sterling leaves ERM.

Olympic Games
Barcelona hosts the Olympic Games.

Clinton
Clinton becomes president of USA.

Europe
Maastricht treaty ratified by UK.

Yeltsin
Yeltsin troops bomb parliament building.



£11.38

Junkmail image

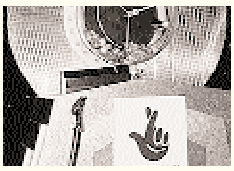
94

ICG
The Group starts up its Fund management business.

ICG
ICG floats on the Stock Market.

Cricket
Brian Lara sets test record with 375 runs.

National Lottery
Camelot launches the Lottery in the UK.



95

ICG
Paris office opens.

Nick Leeson
Barings Bank collapses.

Bosnia
Crisis in Bosnia erupts.

96

ICG
Continental portfolio exceeds UK for the first time.

Spice Girls
Spice Girls become the first UK act ever to reach the top of the chart with a debut album.

Euro 96
Germany wins Euro 96.

97

ICG
Profits exceed £20million.

Hong Kong
China triumphantly reclaims sovereignty over Hong Kong.

General election
Labour party wins power for the first time since 1979.

98

ICG
The Group makes its one hundredth investment.

ICG
The Group forms a £150 million underwriting club.

World cup
France 3-0 Brazil, the nation that invented the World Cup finally wins it.

Politics
Kohl loses election in Germany.

Titanic
Titanic wins 11 Oscars.

99

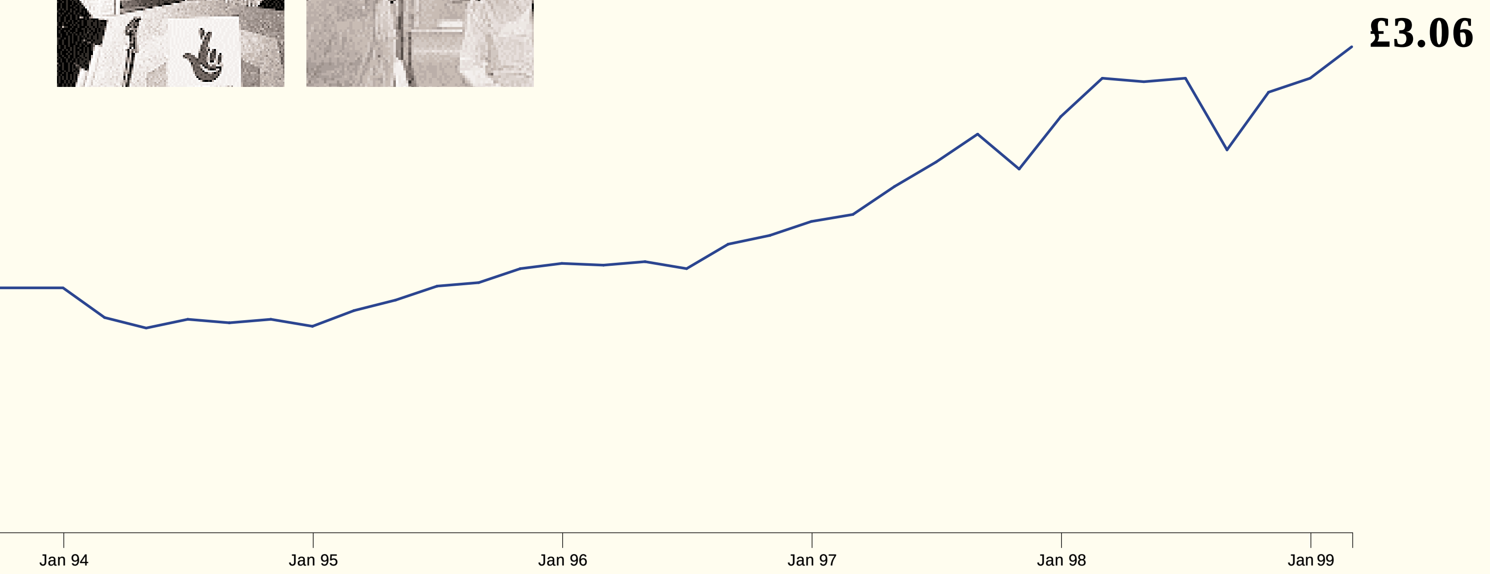
ICG
ICG celebrates ten years of business.

ICG
Record year for profits and investments.

Euro
Euro comes into being.

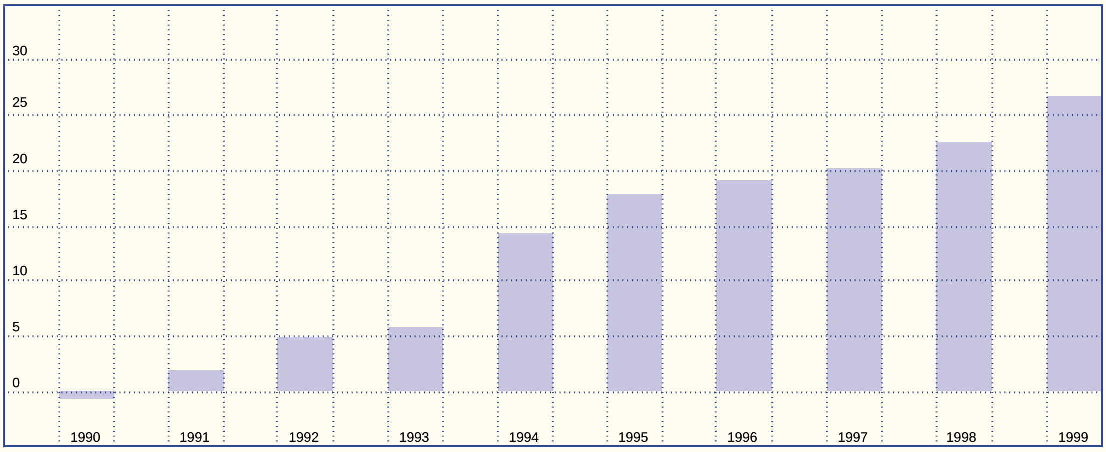
Serbia
Nato bombs Serbia.

Circumnavigation
First round the world in a hot air balloon.

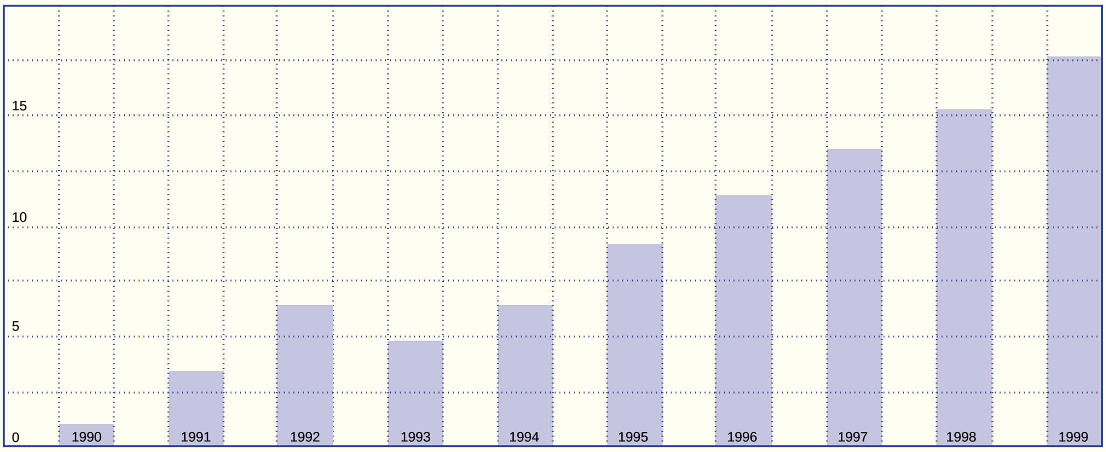


Ten year record

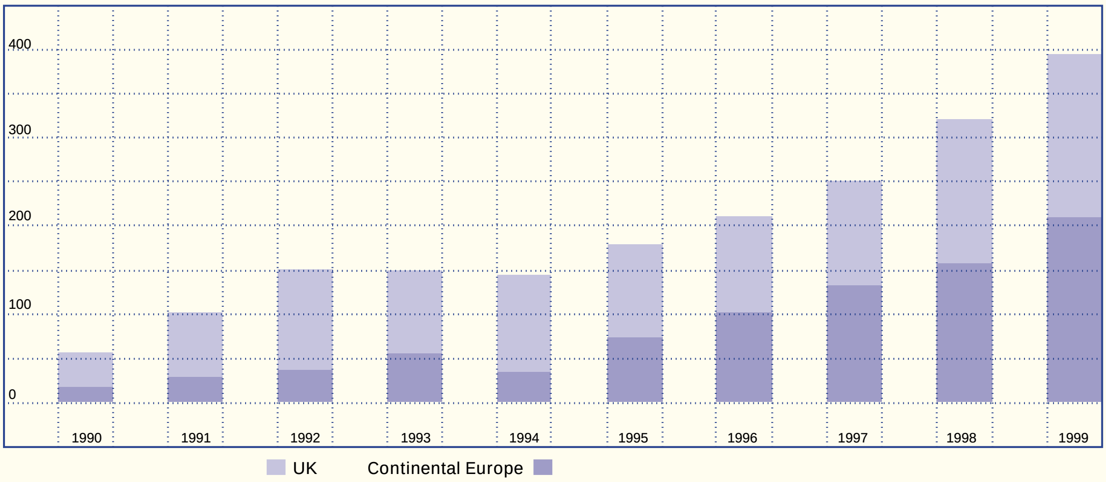
Profits before tax £m



Core income £m



Loans and investments £m



The European market for mezzanine capital

1 The UK and Continental European buyout markets

The first half of 1998 saw an even higher level of activity in the market than 1997. Large corporations, both in the UK and Continental Europe, continued to divest non-core subsidiaries, some of which were of significant size. In many cases financial buyers were the successful purchasers, often outbidding trade buyers. The reason for this was the ever increasing amounts of money available to finance such buyouts and the relatively cheap cost of capital for financial buyers in the current low interest rate environment. The traditional European private equity houses continued to raise more funds and have greater amounts of money available to invest than ever before and were often prepared to invest with lower return expectations. 1998 also saw a significant entry into the market by American private equity houses who were for the first time seriously seeking to finance some of the larger buyouts in Europe. At the same time we continued to see commercial banks prepared to lend large amounts of senior debt to help finance such buyouts. They were joined by investment banks arranging substantial amounts of senior debt and high yield bonds for the larger buyouts. This combination of large amounts of both private equity on the one hand and bank debt and high yield bonds on the other hand resulted in the prices being paid for buyouts being higher and their structure becoming more geared. In some cases ICG believed that the prices being paid and the levels of gearing were excessive.

The shake-out in the financial markets in late summer had a significant effect upon the buyout market. Some banks found themselves unable to fully syndicate the large underwritings into which they had entered. This, together with the increased attention to credit quality, made banks less prepared to take large underwriting risks and keener to insist on less geared financial structures. The effect on the high yield market was even more extreme. The prices of high yield bonds dropped significantly thus leading to a severe reduction in liquidity and the complete cessation of high yield new issues in the second half of the year.

In the immediate aftermath of the market change some buyouts arranged prior to this struggled to obtain finance while elsewhere there was a slowdown in levels of activity whilst investors waited to see how price levels were adjusting. In the latter part of the year activity levels picked up but with somewhat more conservative structures in the larger transactions. In the smaller transactions, whereas the UK has seen somewhat lower prices and more conservative lending, on the Continent there has not been such a noticeable change.

Within the European market the UK again was the most active country with a large number of transactions of all sizes achieving a record value of buyouts in 1998 of £12.7bn (1997 – £8.2bn). Activity in Continental Europe also continued to be quite strong, although not matching 1997 levels. Whereas in 1997 we were of the opinion that prices were somewhat more attractive on the Continent, in 1998 we saw acquisition price levels on the Continent catching up with the UK. On the other hand ICG continues to believe that there will in future years be a growing number of opportunities in the Continental European market.

2 ICG and the European mezzanine market

Within the European buyout market the demand for mezzanine continues on account of the desire of many buyout arrangers to maximise the price they can pay and the potential return they can make on their investment.

In the large buyouts requiring in excess of £50m of mezzanine ICG is well placed because of its ability with its underwriting club to arrange and underwrite mezzanine facilities of up to £150m. However, the competitive threat of high yield bonds will probably re-emerge in 1999, thus reducing the number of opportunities available to ICG in the larger end of the market. Nevertheless ICG believes that the market now has a more realistic view of the merits of high yield bonds and recognises certain advantages of using mezzanine, in particular its reliability and structural flexibility, and thus there will remain for ICG opportunities at the larger end of the market.

In the smaller transactions requiring less than £50m of mezzanine the greatest threat to ICG remains the exclusion of mezzanine from the financing as a result of all the funding being supplied by the providers of private equity and senior debt. Where mezzanine is used our principal competition is from banks providing a “one-stop” arrangement of both senior debt and mezzanine. However, in these circumstances, the banks usually want to syndicate the mezzanine and therefore are often keen for ICG to invest in the asset, giving ICG a new investment opportunity.

3 The use of mezzanine in Non-buyout transactions

ICG has continued to be successful in providing mezzanine for use in non-buyout transactions, which we continue to believe is a growth area for ICG.

At the present time there is considerable potential for smaller PLC's to use mezzanine to finance acquisitions at a time when Stock Market investors are not sympathetic to smaller companies, thus giving them low valuations and difficulty in raising money from the Stock Market. Last year ICG twice used mezzanine in leveraged off Balance Sheet joint venture vehicles with a PLC, enabling the PLC to make acquisitions which it otherwise might not have been capable of. In another instance ICG provided unquoted convertible loan stock for a PLC to make an acquisition which could not have been financed through the Stock Market.

ICG continued to provide mezzanine to finance acquisitions by private companies, where it is cheaper and less dilutive than using private equity. We were also pleased to be able to provide, for the first time, mezzanine finance to recapitalise a Swedish company.

4 The portfolio

At 31 January 1999, ICG's portfolio consisted of loans to and investments in 61 different companies, amounting to a total of £394m. This represented a 23% increase over the loans and investments of £320m at the beginning of the year. The sterling value of the loan portfolio would have been £9m lower if sterling had not appreciated against other European currencies during the year.

ICG's portfolio of loans and investments was spread across 10 countries, namely, the UK, France, Germany, Sweden, Italy, Ireland, Belgium, Denmark, the Netherlands and Switzerland, with warrants being held in a Spanish company. In the ten years since its foundation, ICG has invested substantial amounts in the rest of Europe and at the end of the year the proportion of loans by value made in the rest of Europe was 54%.

ICG has continued during the year to ensure that, as well as diversifying its risk on a geographical basis, it also diversifies its risks by investing in a wide range of industrial sectors, and at the year end had lent to 25 industrial sectors, with the largest sector contributing only 9% of its portfolio.

ICG continues to have a policy of normally lending from its own balance sheet between £3m and £15m to any one individual company so as to reduce the risk of being over exposed to one particular company. The average size of the loans in ICG's portfolio at 31 January 1999 was £6.6m.

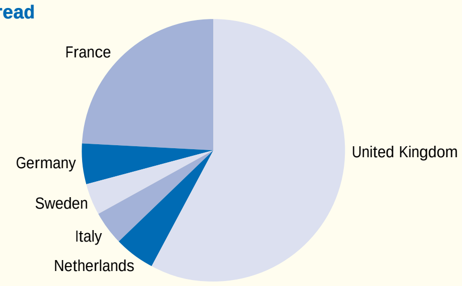
In addition to holding unquoted shares or warrants in most of the companies to which ICG made loans, there were also shares or warrants in companies which have prepaid their loan from ICG in full and these are also shown on page 15.

During the year, ICG made a number of small equity investments amounting to £8m. These investments were almost all in companies either where ICG also invested in the mezzanine or in companies which had been investigated in detail with a view to a possible mezzanine investment. ICG believes that it is sensible to make small amounts of such equity investments on a selective basis to improve ICG's potential overall return without incurring extra due diligence work or marketing effort.

New loans and investments

In the financial year ending 31 January 1999, the total amount of mezzanine provided by ICG and its fund management clients was £261m compared with £159m in the previous year. ICG made loans and investments on its own balance sheet amounting to £156m, once again the highest amount invested in any

Portfolio spread by country



one year, and in addition, £105m was invested on behalf of fund management clients, a substantial increase reflecting the growth in our fund management client base.

The 20 new loans arranged by ICG and the amount of money invested by ICG and its funds under management were as follows:

A-Com is one of Sweden's leading market communications groups. In July 1998 ICG arranged the SEK 200m mezzanine loan which provided finance for the recapitalisation of the group and provided SEK 135m.

Allflex is the world's leading designer, producer and distributor of animal identification tags. In December ICG arranged US$35m and provided US$28m of mezzanine finance for the buyout and invested a further US$5m in the equity.

Best People is a UK IT contracting and recruitment business. ICG arranged and provided two mezzanine loans in May and December 1998 of £5m and £3m respectively for development capital purposes.

Blagden Packaging is a leading European supplier of large steel drums based in Belgium. ICG took a participation in June 1998 of £7m in the mezzanine loan, to support the buyout.

Brunner Mond is the leading Soda Ash manufacturer in the UK. In July 1998 ICG invested £10m in the High Yield Bond raised to support the buyout.

Cantrell & Cochrane is a leading Irish manufacturer, wholesaler and distributor of alcoholic and non-alcoholic drinks and in January 1999 ICG arranged the mezzanine facility of Euro 108m, to support the buyout from Allied Domecq, and provided Euro 81m.

Cartiere del Garda, an existing borrower, is the second largest manufacturer in Italy of coated woodfree papers. ICG arranged the additional mezzanine finance required to support the acquisition of a French paper mill in November 1998 from Jefferson Smurfit. ICG underwrote LIT 56bn and provided LIT 29bn.

Dionball is a joint venture vehicle with Regal Hotels, a UK publicly quoted company. ICG arranged and provided a £10m mezzanine loan to assist in the acquisition of the County Hotels Group in January 1999.

Elmville is a joint venture vehicle with Regal Hotels, a UK publicly quoted company. In April 1998 ICG arranged and provided an additional £5m mezzanine loan to assist in the acquisition of two further hotels.

Focus is the owner of a number of DIY retail outlets in the UK. ICG arranged and provided the mezzanine finance of £10m to assist in the acquisition of the Do It All DIY stores from Boots plc in August 1998.

Future Publications is a UK special interest consumer magazine publishing group which was the subject of a buy-out from Pearson. ICG took a participation of £6m in the mezzanine loan in July 1998.

Healthcall is the leading UK provider of deputising services for General Practitioners. In July 1998 ICG took a participation of £3.5m in the mezzanine loan to assist in taking the company private.

Hygiene Diffusion is a French manufacturer of diapers for adults and babies which was the subject of a buy-out in April 1998. ICG arranged and provided the mezzanine facility of FF 140m.

IPC is the leading publisher of consumer magazines in the UK which was the subject of a buyout from Reed Elsevier PLC in April 1998. ICG arranged the mezzanine facility of £51m and provided £38m.

Orefi is a leading French wholesaler of industrial goods. ICG arranged and provided a mezzanine loan note of FF 78m to assist in financing the buyout in December 1998.

SEC Group is a UK publicly quoted financial services company for which ICG arranged and provided £5m of acquisition finance in February 1998. ICG also made a £2m equity investment.

SIA is a French company which designs and sells collections of artificial flowers and interior decoration items. The company was sold by Electrolux in March 1998 and ICG arranged and provided a mezzanine loan note of FF 69m to support the buyout. ICG also made a FF 6m equity investment.

Tedco is a new company formed to acquire Tunstall Group PLC, a UK manufacturer of social alarms and monitoring systems. ICG arranged and provided the £10m mezzanine loan in June 1998.

Charles Vögele is the leading clothing retailer in Switzerland with a strong presence in Germany. In March 1998 ICG took a participation of CHF 20m in the mezzanine loan to support the buyout.

In addition to the equity investments noted above ICG also invested £8m in the equity of four other companies.

Realisations

In the last financial year loans of £86m in respect of 14 different companies were fully repaid or prepaid. These companies were:

Addum Industries is a diverse Swedish company operating in construction materials, equipment rental, mechanical engineering and other industries. In May 1998 ICG's investment of SEK 5m was prepaid.

Calvet is a French wholesale wine merchant involved in blending, bottling and distributing various wines. In June 1998 the balance of the loan note of FF 18m was prepaid. ICG has converted its warrants to shares which it continues to hold in the company.

Convenience Food Systems is a leading supplier of equipment for the preparation, processing and packaging of food products based in The Netherlands. During the year the company successfully sold part of the Group, the proceeds of which were used to repay the mezzanine loan of £11.3m. ICG continues to hold warrants in the company.

Flying Colours is a UK tour operator. In June 1998 the company was sold to Thomas Cook Group resulting in the repayment of ICG's £5m loan.

Gifi is a leading French retailer of household products. In January 1999 the FF 36m of loan notes were prepaid. ICG continues to hold warrants in the company.

Great Western Holdings is a train operating company franchisee. Our £12m loan was repaid following the sale of the company in March 1998 at which stage ICG's share appreciation rights were redeemed resulting in a capital gain.

Informa Group (formerly LLP) is a UK company which publishes specialist newspapers and journals for the maritime, insurance and freight markets. The company floated on the UK stock exchange in April 1998 and the loan of £8.1m was repaid in full. A portion of the shares were sold at flotation and some have been retained.

Merseyside Transport Limited is a leading UK bus and rail operator. In August 1998 the company sold a subsidiary and repaid the loan of £10.7m. ICG continues to hold warrants in the company.

NWG Group is a leading German company in contract cleaning for the healthcare, commercial, office and public administration sectors. In July 1998 the DEM 6m loan was repaid following the sale to a Danish company and our warrants were purchased resulting in a capital gain.

Norden Pac a Swedish company, is the world's largest manufacturer of tube filling and sealing machines. In April 1998 the SEK 86m loan was prepaid. ICG continues to hold warrants in the company.

Pisten Bully a German company, is the world's leading manufacturer of snow grooming vehicles. Following the flotation of the company in September 1998 ICG's DEM 5m loan was repaid in full and a capital gain achieved. ICG retains a shareholding in the company.

SBE is a Swiss manufacturer of electromechanical switches, motors and electronic controllers. ICG's loan of DEM 4m was repaid in May 1998 following the flotation of the company in Switzerland and a capital gain achieved.

Thomson Directories publishes the Thomson Local, the UK number two local business telephone directory. Our loan of £9m was repaid in December 1998 through refinancing and cash flow. ICG continues to hold warrants in the company.

Unipart Rail Holdings is a materials management and logistics service for spares in the maintenance and repair of rolling stock in the rail industry. In January 1999 ICG's loan £11m was prepaid. ICG continues to hold shares in the company.

5 Provisions

It is ICG's provisioning policy to make specific provisions against loans where, in the opinion of management, the value of the loan is presently impaired. In our last financial year we have made £10m of new provisions against loans to four companies. A Continental European asset already partially provided for and a small European loan to a company which is in financial difficulties as a result of very bad trading were both fully provided against. Small provisions were also made in respect of loans to two other companies.

There is also one other old loan against which we had provided in previous years. Consequently at the year end our total provisions amount to £23m against five different loans. One company against which a provision existed at the end of last year was sold during the year at a figure sufficient to repay its loan to ICG in full and, as a result, the provision of £2.2m which existed at the end of last year has been written back to profit. The net cost of the new provisions charged to the profit and loss account for the year was therefore £7.8m.

6 Funding and loan facilities

Fund management During the year, ICG raised a small mezzanine fund, attracting £57.5m from seven investors in the UK, Canada, France and the Netherlands, four of which were new fund management clients for ICG. In addition, during the year, ICG completed an agreement with our existing client, Alpinvest from the Netherlands, whereby it will both invest larger amounts in the larger transactions and be part of ICG's underwriting club, which now enables ICG to underwrite up to £150m of mezzanine in any one transaction.

As a result of these initiatives and the higher number of large investments made during the year, the amounts invested by its fund management clients increased from £101m at the beginning of the year to £175m at the end of the year, with £105m being invested in new deals and £31m being repaid.

Fund management contracts continue to be important to ICG as they provide additional quality income and also provide extra underwriting capability on large transactions.

Borrowing and loan facilities At 31 January 1999, ICG's total borrowings amounted to £313m compared to £247m at the beginning of the year and the ratio of debt to shareholders' funds stood at 3.4:1 leaving ICG comfortably geared.

During the year, ICG returned to the US private placement market and raised a further $75m of notes with maturities in 2006 and 2007. The attractively priced notes were swapped into floating rate Sterling and French Francs and the proceeds were used to reduce the amount outstanding under the Multi-currency Revolving Credit Facility.

At the end of the year, ICG had unutilised debt facilities of £52m. Since the year end, the company has increased its funding availability by £45m through a new bank facility thus further increasing its available funds. ICG continues to examine new sources of funding to ensure the growth in ICG's business is not constrained.

Shareholders' funds Shareholders' funds increased from £83m at the beginning of the year to £92m at the end of the year after taking into account the dividend of £9.2m.

Within the portfolio, the excess market value of shares acquired at nominal cost as a result of the flotation of investee companies increased from zero at the beginning of the year to £2m at the end of the year and the directors' valuation of unquoted shares and warrants, whose value is not included in the balance sheet, increased from £32m at the beginning of the year to £33m at the end of the year.

7 Results for the year

In the financial year to 31 January 1999, ICG's pre-tax profits rose to £26.8m from £22.6m in the previous year, an increase of 18%. The pre-tax return on shareholders' funds amounted to 31% which the directors consider to be attractive.

The net profit amounts to £18.5m compared with £15.4m for last year and undiluted earnings per share have risen from 33.1p per share in 1998 to 39.7p per share. The Board is recommending a final dividend of 13.7p per share which, when added to the interim dividend, represents an increase of 14% over last year.

The constituent parts of ICG's profit are:

Core income, which ICG defines as net interest income plus fees less related administrative expenses, is the most important element of ICG's income as it forms a regular, more reliable and higher quality source of income. ICG's core income increased from £15.3m to £17.7m, an increase of 16%.

a Net interest income Net interest and dividend income grew by 11% to £16.7m for the year, compared to £15.1m for the previous year. It benefited from the increase in shareholder funds and the increase in the loan book over the year which was offset by the repayment of some higher yielding loans and their replacement with loans earning lower levels of interest and an increase in non-payment of interest by a small number of underperforming investee companies.

b Fee income Fee income rose by 32% from £5.0m in the previous year to £6.6m.

Fund management fees of £1.8m were similar to last year. This was because, in the first half of the year, there were quite high repayments of managed funds, with the fees on one large new investment being lower than usual. The big increase in new investments by funds took place close to the year end, thereby having little impact on fees earned.

Underwriting and transaction fees increased from £2.7m to £4.3m as a result of a higher level of investment and in particular ICG leading a number of high value transactions where the proportion of fees earned by the company is greater.

Agency fees, which are recurring fees from monitoring loans and investments, increased to £0.5m for the year.

c Expenses Operating expenses of £5.6m represented an increase of 15% over last year's figure of £4.8m. This increase arose primarily from increased staff costs and from the increased costs of fund raising activities. The ratio of expenses to total revenue remains at 13%, the same level as last year and is low by the standards of financial service companies.

Capital gains (net of provisions and related expenses)
Capital gains for the year amounted to £21.6m which, after provisions and the costs of the medium-term incentive scheme gave net capital gains of £9.0m, compared to net capital gains of £7.3m in the previous year. Gross capital gains of £21.6m compared to £13.8m in the previous year. The gains were achieved from the flotations of LLP (UK), Buffetti (Italy), Pisten Bully (Germany) and Sia Burgess (Switzerland), and from the trade sales of Great Western Trains (UK), NWG Group (Germany), Gerland (France) and Hygiene Diffusion (France). The trade sale of Great Western Trains alone produced a gain of £11.7m, which led to capital gains being higher than in previous years.

Specific provisions for the year amounted to £7.8m compared to £5.3m for the previous year.

The costs of the Medium Term Incentive Scheme increased from £1.2m last year to £4.7m in the current year. This increase resulted from the high level of capital gains and because for the first time almost all of such gains arose on investments made since January 1994, when the Incentive Scheme commenced.

The Portfolio

At 31 January 1999, in addition to the 20 new loans and investments made in the last financial year referred to above, ICG had loans outstanding to the following companies:

Name	Country	Business
Adco and Dixi	Germany	Hirer of portable toilets
Automotive Products	UK	Automotive clutch and brake manufacturer
Bercy Management	France	Contract and concession caterers
Cartiere del Garda	Italy	Manufacturer of coated woodfree papers
Centum Investments	UK	Holding company for Raleigh bicycles and Royal Worcester / Spode
Coal Products	UK	Producer of smokeless fuel and foundry coke
Crompton	UK	Specialist paper manufacturer
Edrasco	France	Manufacturer of educational equipment
Electrokopper	Sweden	Manufacturer of copper wire rod and winding wire
Elis	France	Textile rental and cleaning business
Elmville	UK	Hotel operator
Empe	Germany	Manufacturer of interior trim for automotives
Frans Bonhomme	France	Distributor of pipes and couplings
Hermès Metal	France	Supermarket & hypermarket equipment manufacturer
Holding de Restauration	France	Concession catering group
Krings	Germany	Rental of trench shoring systems
Landal Greenparks	Netherlands	Holiday park operator
Marie Brizard	France	Producer and distributor of wines and spirits
Meccano	France	Manufacturer of construction toys
Meneba	Netherlands	Producer of flour, bakery and animal feed products
MGE	France	Manufacturer of uninterrupted power supplies for IT sector
Microtronic	Denmark	Hearing aid component manufacturer
Nobia Byginterior	Sweden	Door, window and kitchen manufacturer
Plastimo	France	Manufacturer of marine equipment
Porcelain & Fine China Companies	UK	Manufacturer of china and porcelain
Portman Travel	UK	Travel agent
Premier Oilfield Services	UK	Hirer of North Sea oilfield equipment
Presspart	UK	Manufacturer of anodised aluminium
Regal Hotels	UK	Hotel operator
Servicetec	UK	Computer services and maintenance
SLD	UK	Pump hire and other industrial companies
Sublistatic	France	Manufacturer of textile printing paper transfers
Tensar	UK	Manufacturer of polymer nets and mesh products
TGE Group	UK	Fluid processing technology and control instrumentation
The Stationery Office	UK	Publication, printing and business services
Unipoly	UK	Manufacturer of building products and other industrial composites
William Cook	UK	Manufacturer of steel castings
Wightlink	UK	Ferry operator

The Portfolio of warrants and unquoted shares

At 31 January 1999 ICG had unquoted shares and warrants in most of the unquoted companies in its loan portfolio, as well as in the following companies which have prepaid ICG's loan in full:

Calvet	France	Wholesale wine merchant
Convenience Food Systems	Netherlands	Supplier of equipment for the preparation, processing and packaging of food
Gerposa	Spain	Transportation of car parts
Gifi	France	Retailer of household accessories
IPT	UK	Textile fabrics
MTL Trust	UK	Bus and train operator
Norden Pac	Sweden	Manufacturer of tube filling machines and packaging
Thomson Directories	UK	Publisher of the well-known Thomson Local
Unipart Rail Holdings	UK	Materials management and logistics

Directors' Report

The directors present their annual report and the audited financial statements for the year ended 31 January 1999.

Principal activities and business review The principal activity of the group is that of providing intermediate capital to companies in the United Kingdom and elsewhere in Western Europe.

The group's profit before taxation was £26,753,000 (1998 – £22,592,000). The directors consider the state of the company's affairs to be satisfactory.

Directors The present membership of the Board is as set out on page 38. All of the directors shown on page 38 served throughout the year. In addition, Mr E Kinder and Mr J R B Odgers served as directors until their resignation from the Board on 18 March 1998. In accordance with the Articles of Association, Mr de Gersigny and Mr Jackson retire by rotation and offer themselves for re-election. Both Mr De Gersigny and Mr Jackson each has a service contract under which the company is obliged to give 24 months' notice of termination of employment. The interests of the directors of the company and their immediate families, as defined by the Companies Act, in the shares of the company at 31 January 1999 were as follows:

	1999 Number of 20p ordinary shares	1998 Number of 20p ordinary shares
T R Attwood	5,000	5,000
T H Bartlam	884,921	884,921
J-L de Gersigny	660,672	660,672
A D Jackson	964,922	964,922
E G Licoys	1,800	–
P L Stone	5,000	–
C M Stuart	5,000	5,000

No changes to the directors' interests in shares at 31 January 1999 as set out above had been notified up to 6 April 1999.

The directors had no interests in the shares of Intermediate Capital Investments Limited or any other subsidiary company.

Directors' and officers' liability Insurance cover is held by the group to indemnify directors and officers against liability as permitted by Section 310 of the Companies Act 1985.

Dividend The directors recommend a final net dividend payment in respect of the ordinary shares of the company at a rate of 13.7 pence per share (1998 – 12.0 pence), which when added to the interim net dividend of 6.1 pence per share (1998 – 5.4 pence) gives a total net dividend for the year of 19.8 pence per share (1998 – 17.4 pence). After dividends, retained profits of £9,278,000 (1998 – £7,326,000) have been transferred to retained earnings.

Year 2000 ICG has set up a task force under the control of a senior manager to assess and remedy problems which might arise from the effect of the Year 2000 on ICG's computer systems and business. The Group's objective is to ensure that all critical business systems are Year 2000 compliant by 30 June 1999 and that all other non-critical systems are compliant by 30 June 1999. Any costs of the compliance programme are written off as incurred and are not material to the Company.

Economic and monetary union The amendments to the treasury and accounting systems of the company, which were required as a result of the introduction of the Euro on 1 January 1999, have been implemented without any issues arising. Any costs arising are immaterial and have been written off.

Substantial shareholdings The company has received notifications from Standard Life, The BT Pension Scheme and The Post Office Staff Superannuation Fund, that each is interested in more than 3% of the ordinary share capital of the company. According to the company's share register at 6 April 1999, these, and the following investment managers (through separately managed funds), had interests in aggregate amounting to over 3%.

	Number of ordinary shares	Percentage of issued share capital
Standard Life	3,485,924	7.5
The BT Pension Scheme	3,164,934	6.8
Prudential Portfolio Managers Ltd	2,746,131	5.9
Schroder Investment Management Limited	2,732,722	5.9
M & G Investment Management Limited	2,650,000	5.7
Perpetual Investment Management Limited	2,549,167	5.5
The Post Office Staff Superannuation Fund	2,160,941	4.6
CGU Investment Management	2,132,440	4.5
Edinburgh Fund Managers PLC	1,995,791	4.3
F & C Nominees Limited	1,936,479	4.1
Framlington Investment Management Ltd	1,892,400	4.1

Fixed assets Movement in fixed assets are shown in note 13 to the accounts.

Close company status The company is not a close company nor a close investment holding company for taxation purposes.

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 25.

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

By Order of the Board
J E Curtis
Secretary

6 April 1999

Corporate Governance

A summary of the system of Corporate Governance adopted by the company is set out below. During the year, the new regime for reporting on the Hampel Committee's Principles of Corporate Governance and Code Provisions ("The Combined Code") was implemented. Throughout the year ended 31 January 1999, the company has been compliant with the Code Provisions set out in Section 1 on the Combined Code of Corporate Governance issued by the London Stock Exchange with the exception of the areas highlighted below.

As permitted by the London Stock Exchange, the company has complied with Code Provision D.2.1 on internal control by reporting on internal financial control in accordance with the guidance for directors on internal control and financial reporting that was issued in December 1994.

The auditors have confirmed that, in their opinion, with respect to the directors' statements on internal control and going concern below, the directors have provided the disclosures required by the Listing Rules of the London Stock Exchange and such statements are not inconsistent with the information of which they are aware from their audit work on the financial statements; and that the directors' other statements below appropriately reflect the company's compliance with the other paragraphs of the Combined Code specified for their review by Listing Rule 12.43(j). They were not required to perform the additional work necessary to, and did not, express any opinion on the effectiveness of either the company's system of internal control or its corporate governance procedures nor on the ability of the company to continue in operational existence.

Statement of compliance with the principles of the combined code

Board of Directors The company's Board of Directors meets regularly 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. Regular reports and presentations to the Board ensure that it is supplied with the quality information that it needs, in a timely manner. Although there is no formal procedure to allow directors to take independent professional advice, they have access to the company secretary who will instigate such advice as appropriate.

The Board comprises four executive directors, a non-executive chairman and three further non-executive directors. The company has no designated chief executive, each of the four executive directors having specific areas of responsibility and collectively forming the Executive Committee. No one director is able to significantly affect the running of the company without consulting other Board members. A senior independent director has not been identified as the directors consider that his role is performed by the non-executive chairman. The non-executive directors are as follows:-

Murray Stuart was appointed non-executive chairman of the company in September 1993.

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

Robert Padgett was appointed a non-executive director in January 1994.

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

The following also served as non-executive directors but resigned during the year:-

Eric Kinder was appointed a non-executive director in May 1994 and resigned in March 1998.

James Odgers was appointed a non-executive director in July 1996, having been an executive director and a founder of the company. He resigned in March 1998.

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

Audit Committee The Audit Committee meets regularly to oversee the production of the Annual and Interim Accounts, compliance with Accounting Standards and regulatory requirements and to keep the procedures and controls of the company continually under review. The Committee consists of four (1998 – four) independent non-executive directors, these being Messrs Stuart, Licoys, Padgett and Stone. The executive directors are not members of the Audit Committee but are invited to attend along with the Financial Controller. Deloitte & Touche, the company's auditors, are also invited to attend and have direct access to Committee members.

Remuneration Committee The Remuneration Committee consists of three (1998 – three) independent non-executive directors, these being Messrs Stuart, Licoys and Stone. It recommends the terms and conditions of employment of the executive directors. Levels of remuneration are considered sufficient, but not excessive to attract and retain the directors needed to run the company successfully. A significant proportion of directors' remuneration is linked to corporate performance. Executive directors have two year "rolling" service contracts which are judged appropriate for the investment and fund management nature of the company's business. Given the level of continuity required, it is not deemed appropriate to reduce the contract period to one year as suggested by the Code. Further details regarding remuneration policy and payments made can be found in the Report to Shareholders on Directors' Remuneration and in the Notes to the Accounts.

As the Board considers itself to be small, a separate nomination committee has not been established. Appointments of executive and non-executive directors are made as necessary as a result of discussions by the Board and the non-executive chairman and are subject to full Board approval. One-third of the directors offer themselves for re-election every year. Any director appointed during the year must offer himself or herself for re-election at the next AGM. Details of directors up for re-election at the forthcoming AGM are shown on page 37.

Relationships with shareholders The company is always willing to enter into dialogue with institutional shareholders, based on mutual understanding of objectives. Private investors are encouraged to attend the AGM.

Internal financial control The directors acknowledge their ultimate responsibility for ensuring that the group has in place a system of internal financial controls that is appropriate to the business environment in which it operates. The directors have reviewed the effectiveness of the system of internal financial control for the year ended 31 January 1999 and for significant developments since then. At the time of this review, such a system of controls was 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. These controls concentrate on the procedures for making and monitoring loans and investments and for the safeguarding of assets against unauthorised disposition.

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

Report of the Remuneration Committee

for the year ended 31 January 1999

Remuneration committee The Committee consists solely of three non-executive directors, Messrs C M Stuart, E G Licoys and P J Stone, under the chairmanship of Mr. Stuart. Neither of the Committee members has any personal financial interests (other than as shareholders), conflicts of interest arising from cross-directorships or day-to-day involvement in running the business. The Committee consults the executive directors about its proposals and has access to professional advice from outside the company.

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. The performance measurement of the executive directors and the determination of their annual remuneration package is undertaken by the Remuneration Committee. This policy has been formulated having given full consideration to Section B of the Best Practices Provisions annexed to the London Stock Exchange Listing Rules.

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

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

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 sought.

Basic salary An executive director's basic salary is determined by the Remuneration 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.

Annual 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 elements of the current bonus incentive scheme are as follows:

- an annual cash bonus scheme for executive directors and executives related to growth in core income. The Remuneration Committee determines bonus allocations for the executive directors. Bonus payments in respect of the executive directors for the year to 31 January 1999 are set out in note 9.
- a medium-term incentive scheme, implemented in 1994, related to the cumulative growth in earnings per share in excess of RPI and calculated by reference to the amount of realised gains. The first amounts in respect of the scheme were paid in the financial year ending 31 January 1997. The amounts payable rise proportionately with increasing growth in earnings per share. The extension and appropriateness of the scheme is considered by the Remuneration Committee on an annual basis.

Share options There is in existence a share option scheme which the company adopted on 18 May 1994 and which was approved by the Inland Revenue on 2 June 1994. The principal features of this option scheme are laid out in the Placing and Intermediaries Offer document dated 19 May 1994. This option scheme is, so far as executive directors are concerned, administered by the Remuneration Committee. Details of options granted to directors are shown in Note 9 to the financial statements.

The company adopted a further unapproved option scheme on 19 May 1997. The principal features of this scheme are substantially the same as those of the scheme dated 18 May 1994 and the scheme is, so far as executive directors are concerned, administered by the Remuneration Committee. Details of options granted to directors are shown in Note 9 to the financial statements.

Carried interest arrangements The company has established for its executives, including the executive directors, carried interest arrangements whereby 60% of the carried interest negotiated by the company in respect of future funds under its management be available for allocation to its executives. Whilst these arrangements are not a long term incentive scheme it being the investors in such funds who bear the cost of the carried interest, the company sought, and obtained, approval from its shareholders for such arrangements at an Extraordinary General Meeting on 21 January 1998.

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

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 by him 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.

Executive directors' contracts Executive directors have two 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.

Mr De Gersigny and Mr Jackson are due to retire by rotation and offer themselves for re-election.

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. The fee paid to the non-executive Chairman in the year was £65,000 and the fees paid to other non-executive directors varied between £10,000 and £25,000. The non-executive directors receive no further fees for additional work performed for the company in respect of time spent working on Remuneration and Audit Committees. Non-executive directors cannot participate in any of the company's share option schemes. Non-executive directors do not have a contract of service and are not eligible to join the company's pension scheme.

Details of directors' remuneration This report should be read in conjunction with note 9 to the accounts which provides details of the remuneration of each director and which also constitutes part of this report.

By order of the Remuneration Committee
6 April 1999

Statement of Directors' Responsibilities

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;
- 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 safeguarding the assets of the group and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Auditors' Report

to the Members of Intermediate Capital Group PLC

We have audited the financial statements on pages 24 to 36 which have been prepared under the accounting policies set out on page 27.

Respective responsibilities of directors and auditors The directors are responsible for preparing the Annual Report, including as described on page 22 the financial statements. Our responsibilities, as independent auditors, are established by statute, the Auditing Practices Board, the Listing Rules of the London Stock Exchange, and by our professions ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are 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 or the Listing Rules regarding directors' remuneration and transactions with the company and other members of the group is not disclosed.

We review whether the statement on pages 18 and 19 reflects the compliance with those provisions of the combined code specified for our review by the Stock Exchange, and we report if it does not. We are not required to form an opinion on the effectiveness of the corporate governance procedures or the group's internal controls.

We read the other information contained in the Annual Report, including the corporate governance statement, and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

Basis of opinion We conducted our audit in accordance with 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. 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 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.

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 1999 and of the profit of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Deloitte & Touche
Chartered Accountants and Registered Auditors
Stonecutter Court
1 Stonecutter Street
London EC4A 4TR

9 April 1999

Consolidated Profit and Loss Account

for the year ended 31 January 1999

	Note	1999 £000	1998 £000
Interest and dividend income		34,749	31,018
Capital gains		21,601	13,760
Fee and other operating income		6,619	5,005
	4	62,969	49,783
Interest payable and similar charges	5	(18,067)	(15,926)
Provisions against loans and investments	6	(7,850)	(5,266)
Administrative expenses	7	(10,299)	(5,999)
Profit on ordinary activities before taxation	3	26,753	22,592
Tax on profit on ordinary activities	8	(8,235)	(7,146)
Profit on ordinary activities after taxation		18,518	15,446
Dividends paid and proposed – ordinary	11	(9,240)	(8,120)
Retained profit transferred to reserves		9,278	7,326
Earnings per share	12	39.7p	33.1p
Diluted earnings per share	12	38.4p	32.4p

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

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

Balance Sheets
31 January 1999

	Note	Group 1999 £000	Group 1998 £000	Company 1999 £000	Company 1998 £000
Fixed assets					
Tangible assets	13	191	232	191	232
Loans	14	363,253	300,692	357,917	295,451
Investments	15	31,049	19,295	35,327	26,422
Current assets					
Debtors	16	9,342	9,378	8,422	9,288
Loans and investments	17	19,082	4,732	19,082	1,007
Cash at bank		2,938	4	2,924	4
		31,362	14,114	30,428	10,299
Total assets		425,855	334,333	423,863	332,404
Capital and reserves					
Called up share capital	18	9,333	9,333	9,333	9,333
Share premium account		32,221	32,221	32,221	32,221
Capital redemption reserve		1,389	1,389	1,389	1,389
Profit and loss account	19	49,161	39,883	18,477	17,416
Equity shareholders' funds		92,104	82,826	61,420	60,359
Provisions for liabilities and charges	20	88	1,187	–	–
Creditors: amounts falling due after more than one year	21	310,986	238,656	310,986	239,080
Creditors: amounts falling due within one year	22	22,677	11,664	51,457	32,965
Total capital and liabilities		425,855	334,333	423,863	332,404

These financial statements were approved by the Board of Directors on 6 April 1999

Signed on behalf of the Board of Directors by:

C M Stuart 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 1999

	Note	1999 £000	1998 £000
Operating activities			
Interest and dividends received		35,843	30,961
Gain on disposals		21,003	11,232
Fee and other operating income		7,275	5,054
Administrative expenses		(7,707)	(6,443)
		56,414	40,804
Interest paid		(18,994)	(13,895)
Net cash inflow from operating activities	23	37,420	26,909
Taxation paid		(5,842)	(9,533)
Capital expenditure and financial investment			
Loans and investments made		(159,061)	(130,379)
Realisations of loans and investments		86,843	35,462
Loans for syndication		(12,267)	3,690
		(84,485)	(91,227)
Purchase of tangible fixed assets		(58)	(93)
		(84,543)	(91,320)
Equity dividends paid		(8,447)	(7,467)
Net cash outflow before financing		(61,412)	(81,411)
Financing			
Increase in debt		61,785	78,547
Increase/(decrease) in cash	25	373	(2,864)

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

1 Accounting policies

The financial statements have been prepared in accordance with applicable 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 subsidiary.

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 profit and loss account over the full life of the loan. Such amounts, less tax, are considered to be non-distributable until such time as repayment occurs. Recurring fees, interest income, interest expense and overheads are accounted for on the accruals basis. Gains or losses arising on the early termination of financial instruments used for hedging purposes are shown as part of interest expense.

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

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

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

Furniture and Equipment – 20% per annum

Leasehold Premises – Over the term of the lease

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

f Loans and investments held as current assets Listed investments which are held as current assets, due to their impending sale, are held at their market value, with any resulting gain or loss being taken to the profit and loss account. 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 at the anticipated tax rates on timing differences arising from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in the financial statements to the extent that it is probable that a liability or asset will crystallise in the future.

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

j Foreign exchange Transactions denominated in foreign currencies are recorded at actual exchange rates ruling at the dates of the transactions, or where appropriate, at the rate of exchange in related forward exchange contracts.

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

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.

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 £1,061,000 (1998 – £934,000).

3 Analysis of profit before tax

	Core income 1999 £000	Core income 1998 £000	Capital gains 1999 £000	Capital gains 1998 £000
Income:				
Interest and dividend income	34,749	31,018	–	–
Gain on disposals	–	–	21,601	13,760
Fee and other operating income	6,619	5,005	–	–
	41,368	36,023	21,601	13,760
Less:				
Interest payable and similar charges	(18,067)	(15,926)	–	–
Provisions against loans and investments	–	–	(7,850)	(5,266)
Administrative expenses	(5,560)	(4,825)	(4,739)	(1,174)
	17,741	15,272	9,012	7,320

The administrative expenses included under capital gains represent the costs of the medium term incentive scheme, the amount of which is dependent on the level of capital gains for the year and earnings per share growth.

4 Analysis of gross income

	1999 £000	1998 £000
Gross income received from:-		
United Kingdom	37,244	25,492
Continental Europe	25,725	24,291
	62,969	49,783

Virtually all 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.

Gross income includes £74,000 (1998 – £157,000) of dividend income from listed investments.

5 Interest payable and similar charges

	1999 £000	1998 £000
Bank loans and overdrafts repayable within five years	12,917	12,362
US private placement within five to ten years	5,150	3,564
	18,067	15,926

6 Provisions

	1999 £000	1998 £000
Provisions against loans and investments:		
Specific provision charged in year	10,008	5,285
Written back in respect of past years	(2,158)	(19)
	7,850	5,266

7 Administrative expenses

	1999 £000	1998 £000
Administrative expenses include:		
Amounts due under medium term incentive scheme	4,739	1,174
Directors' remuneration, of which £1,996,000 (1998 – £684,000) is included under the medium term incentive scheme above	3,474	2,019
Depreciation	99	100
Auditors' remuneration:		
Audit	55	73
Other services	94	56

8 Tax on profit on ordinary activities

	1999 £000	1998 £000
Corporation tax on the profits for the year at 31% (1998 – 31%)	9,128	6,038
Tax on franked investment income	206	239
Deferred taxation	(1,099)	869
	8,235	7,146

9 Information regarding directors and employees

	1999 £000	1998 £000
Directors' emoluments:		
Fees	131	130
Other emoluments	3,472	1,889
	3,603	2,019
Employee costs during the year, including directors:		
Wages and salaries	6,581	3,471
Social security costs	611	347
Pension costs	227	237
	7,419	4,055
	No	No
Average number of employees	23	21

The performance related element included in wages and salaries is £4,717,000 (1998 – £1,351,000), which is derived as a result of the Management Incentive Scheme.

9 Information regarding directors and employees continued

Details of directors' emoluments for the year are as follows:

	Basic salaries £000	Annual bonuses £000	Medium term scheme £000	Pension scheme contributions £000	Benefits in kind £000	**Total 1999 £000**	Total 1998 £000
Executive directors:							
T R Attwood	217	184	85	33	2	521	314
T H Bartlam	217	–	637	33	2	889	415
J-L de Gersigny	217	–	637	33	2	889	415
A D Jackson	217	–	637	33	2	889	415

	Fees £000	**Total 1999 £000**	Total 1998 £000
Non-executive directors:			
C M Stuart	65	65	65
E Kinder	5	5	33
E Licoys	23	23	1
J R B Odgers	3	3	20
R A Padgett	10	10	10
P J Stone	25	25	1

Under the terms of the medium term incentive scheme, J R B Odgers is due an amount of £552,000 (1998 – £171,000) in respect of his former service as an executive director.

At 31 January 1999, 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	8,450	355p	31 Jan 2000	April 2006
Approved	April 1996	216,292	356p	31 Jan 2000	April 2003
Unapproved	April 1997	70,000	351p	31 Jan 2001	April 2004
T H Bartlam					
Approved	April 1998	5,555	540p	31 Jan 2002	April 2005
Unapproved	April 1998	69,445	540p	31 Jan 2002	April 2005
J-L de Gersigny					
Approved	April 1998	5,555	540p	31 Jan 2002	April 2005
Unapproved	April 1998	90,444	540p	31 Jan 2002	April 2005
A D Jackson					
Approved	April 1998	5,555	540p	31 Jan 2002	April 2005
Unapproved	April 1998	69,445	540p	31 Jan 2002	April 2005

The earliest exercise date is the announcement date of the results in respect of the year then ended. The market price of the shares at 31 January 1999 was 514p per share.

10 Valuation of warrants and unlisted shares

The group has warrants to subscribe for shares in a number of borrowers. These warrants are not marketable instruments and can generally only be realised by the group 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 £33,000,000 (1998 – £32,000,000) before tax. This valuation is based on the borrowers' current pro forma earnings multiplied by the appropriate price/earnings ratio, to which an appropriate discount has been applied by reference to the guidelines of the British Venture Capital Association (BVCA).

11 Dividends paid and proposed

	1999 Per share pence	1999 £000	1998 Per share pence	1998 £000
Ordinary dividend:				
Interim paid	6.1	2,847	5.4	2,520
Proposed final	13.7	6,393	12.0	5,600
	19.8	9,240	17.4	8,120

12 Earnings per share

The calculation of earnings per share is based on earnings of £18,518,000 (1998 – £15,446,000) and an average number of shares in issue throughout the period of 46,666,680 (1998 – 46,666,680).

The diluted earnings per share is calculated after taking into account options issued to executives in respect of 1,585,589 (1998 – 1,015,069) ordinary shares and is calculated on an average number of shares of 48,252,269 (1998 – 47,681,749).

13 Tangible fixed assets

	Furniture and equipment £000	Short leasehold premises £000	Total £000
Group and Company			
Cost			
At 1 February 1998	391	208	599
Additions	56	2	58
Disposals	(11)	–	(11)
At 31 January 1999	436	210	646
Depreciation			
At 1 February 1998	210	157	367
Charge for the year	58	41	99
Disposals	(11)	–	(11)
At 31 January 1999	257	198	455
Net book value			
At 31 January 1999	179	12	191
At 31 January 1998	181	51	232

14 Loans

	Group 1999 £000	Group 1998 £000	Company 1999 £000	Company 1998 £000
Other loans:				
Loans	378,547	308,724	372,360	302,970
Less: Specific provisions	(15,294)	(8,032)	(14,443)	(7,519)
	363,253	300,692	357,917	295,451

Additional information in respect of movements during the year is as follows:

	Group £000	Company £000
Other loans at cost:		
Balance at 1 February 1998	308,724	302,970
Net additions	142,264	142,264
Realisations	(82,493)	(82,493)
Transfer to investments	–	–
Amortised discount and capitalised interest	758	342
Currency movement on foreign loans	9,294	9,277
Balance at 31 January 1999	378,547	372,360

	Group £000	Company £000
Specific provisions:		
Balance at 1 February 1998	8,032	7,519
Provisions made during the year	6,552	6,552
Transfers from accrued interest	297	–
Disposals of loans	(130)	(130)
Currency movement on foreign loans	543	502
Balance at 31 January 1999	15,294	14,443

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

Company	Interest	Main activity
IBG Industrie Beteiligungs GmbH	73.8%	Rental of shoring equipment

IBG Industrie Beteiligungs GmbH is incorporated and registered in Germany. The results of this company have not been incorporated into these accounts on the basis that this interest was effectively acquired as a result of enforcement of security and control is intended to be temporary.

15 Investments

	Group 1999 £000	Group 1998 £000	Company 1999 £000	Company 1998 £000
Shares in group companies at cost	–	–	9,014	9,014
Other investments at cost:				
Redeemable preference shares (unlisted)	18,798	17,772	16,457	16,927
Redeemable preference shares (listed)	2,375	2,375	2,375	2,375
Equity shares (unlisted)	15,219	5,562	15,192	4,520
Equity shares (listed)	2,338	–	–	–
	38,730	25,709	34,024	23,822
Less: Specific provisions	(7,681)	(6,414)	(7,711)	(6,414)
	31,049	19,295	26,313	17,408
	31,049	19,295	35,327	26,422

The listed equity shares are listed on the London Stock Exchange and at 31 January 1999 had a market value of £1,761,000 (1998 – £nil).

Additional information in respect of investments for which there have been movements during the year is as follows:

	Group £000	Company £000
Other investments at cost:		
Balance at 1 February 1998	25,709	23,822
Net additions	16,797	13,654
Transfer from loans	–	–
Realisations	(4,350)	(3,951)
Currency movement on foreign loans	574	499
Balance at 31 January 1999	38,730	34,024
Specific provisions:		
Balance at 1 February 1998	6,414	6,414
Disposal of investments	(30)	–
Provisions made during the year	1,297	1,297
Balance at 31 January 1999	7,681	7,711

16 Debtors

	Group 1999 £000	Group 1998 £000	Company 1999 £000	Company 1998 £000
Other debtors	2,366	1,064	2,304	1,024
Prepayments and accrued income	6,976	8,314	6,118	8,264
	9,342	9,378	8,422	9,288

Prepayments and accrued income include £3,210,000 (1998 – £2,558,000) which is receivable after more than one year.

17 Loans and investments held as current assets

	Group 1999 £000	Group 1998 £000	Company 1999 £000	Company 1998 £000
Loans held for syndication	19,082	1,007	19,082	1,007
Listed investments held for disposal	–	3,725	–	–
	19,082	4,732	19,082	1,007

18 Called up share capital

	1999 £000	1998 £000
Authorised:		
62,000,000 ordinary shares of 20 pence	12,400	12,400
Allotted, called up and fully paid:		
46,666,680 ordinary shares of 20 pence	9,333	9,333

19 Reconciliation of shareholders' funds and movement on reserves

	Share capital £000	Share premium £000	Capital redemption reserve fund £000	Profit and loss account £000	Total £000
Group					
Balance at 1 February 1998	9,333	32,221	1,389	39,883	82,826
Profit for the year	–	–	–	18,518	18,518
Dividends paid and proposed	–	–	–	(9,240)	(9,240)
Balance at 31 January 1999	9,333	32,221	1,389	49,161	92,104

£1,221,000 (1998 – £2,825,000) of the retained earnings of the group is currently regarded as non-distributable.

	Share capital £000	Share premium £000	Capital redemption reserve fund £000	Profit and loss account £000	Total £000
Company					
Balance at 1 February 1998	9,333	32,221	1,389	17,416	60,359
Profit for the year	–	–	–	10,301	10,301
Dividends paid and proposed	–	–	–	(9,240)	(9,240)
Balance at 31 January 1999	9,333	32,221	1,389	18,477	61,420

20 Provisions for liabilities and charges

	Group 1999 £000	Group 1998 £000	Company 1999 £000	Company 1998 £000
Deferred taxation:				
On accrued income	88	1,187	–	–
Balance at 1 February 1998	1,187		–	–
Current year release	(1,099)			
Balance 31 January 1999	88		–	–

Full provision is made for deferred tax.

21 Creditors: amounts falling due after one year

	Group 1999 £000	Group 1998 £000	Company 1999 £000	Company 1998 £000
US private placement	91,308	45,871	91,308	45,871
Bank loans	219,226	198,367	219,226	198,367
Bank overdraft	2,708	3,035	2,708	3,460
Other	(1,370)	(7,429)	(1,370)	(7,430)
	311,872	239,844	311,872	240,268
Prepaid expenses	(886)	(1,188)	(886)	(1,188)
	310,986	238,656	310,986	239,080

The bank loans and overdraft are unsecured and are repayable in between two and 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 in between five and ten years. The US$75,000,000 private placement issued in July 1998, which is denominated in US Dollars and swapped into floating rate European currencies, is unsecured and is repayable in two instalments in between five and ten years.

22 Creditors: amounts falling due within one year

	Group 1999 £000	Group 1998 £000	Company 1999 £000	Company 1998 £000
Trade creditors	28	103	28	103
Accruals	11,920	5,544	11,446	4,699
Amounts owed to group companies	–	–	47,625	32,492
Dividends proposed	6,393	5,600	6,393	5,600
Taxation – corporation tax	3,811	339	(14,560)	(10,007)
Taxation – social security	525	78	525	78
	22,677	11,664	51,457	32,965

23 Reconciliation of operating profits to operating cash flow

	1999 £000	1998 £000
Income before provisions and taxation	34,603	27,858
Decrease/(increase) in accrued income	1,621	(58)
(Decrease)/increase in accrued interest expenses	(771)	1,620
Increase/(decrease) increase in other net current liabilities	2,479	(3,601)
Amortisation of deep discount securities (net)	–	358
Capitalisation of interest receivable (net)	(512)	732
	37,420	26,909

24 Analysis of net debt

	As at 1 Feb 98 £000	Cash flow £000	Exchange movement £000	As at 31 Jan 99 £000
Cash in hand and at bank	4	3,067	(133)	2,938
Overdrafts	(3,035)	(2,694)	3,021	(2,708)
	(3,031)	373	2,888	230
Debt due after one year:				
Bank debt	(198,367)	(15,801)	(5,058)	(219,226)
US private placement	(45,871)	(45,984)	547	(91,308)
Total	(247,269)	(61,412)	(1,623)	(310,304)

25 Reconciliation of net cash flow to movement in net debt

	1999 £000	1998 £000
(Increase)/decrease in cash in the period	(373)	2,864
Cash inflow from increase in debt	61,785	78,547
Change in net debt arising from cash flows	61,412	81,411
Translation difference	1,623	(14,657)
Movement in net debt	63,035	66,754
Net debt at beginning of the year	247,269	180,515
Net debt at end of the year	310,304	247,269

26 Financial commitments

At 31 January 1999, the group estimated that it had contractual obligations to provide further funding of £nil (1998 – £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.

27 Contracts with substantial shareholders

The company has intermediate capital fund management contracts to manage funds totalling £60m provided by the BT Pension Scheme and the Post Office Staff Superannuation Fund, whose investments are managed by Hermes Investment Management Limited. Mr R A Padgett, the Director of Corporate Finance of Hermes Investment Management Limited, is a non-executive director of the company. No other director has any material interests in contracts of significance.

28 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.

29 Principal subsidiary company

The principal subsidiary company is Intermediate Capital Investments Limited, a 100% owned company incorporated in the United Kingdom and registered in England and Wales, whose principal activity is that of an investment company.

Notice of Meeting

Notice is hereby given that the Annual General Meeting of Intermediate Capital Group PLC will be held at 62-63 Threadneedle Street, London EC2R 8HE on Monday, 17 May 1999 at 12 noon for the following purposes:

1 To receive and adopt the financial statements for the year ended 31 January 1999 together with the reports of the directors and auditors thereon.

2 To declare a final dividend of 13.7p per ordinary share.

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

4 To re-elect as directors:
J-L de Gersigny
A D Jackson

5 To transact any other ordinary business of the company.

By Order of the Board
J E Curtis
Secretary

6 April 1999

Notes:

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

2 Copies of directors' service contracts are available for inspection during business hours at the company's registered office at 62-63 Threadneedle Street, London EC2R 8HE.

Directors and Management

Non-executive Chairman

1 Murray Stuart, CBE, aged 65, is a graduate of Glasgow University and qualified both as a solicitor and a Chartered Accountant. He is Chairman of Scottish Power PLC and the Hammersmith Hospitals NHS Trust. He is a non-executive director of The Royal Bank of Scotland Group PLC, CMG plc and Old Mutual plc.


1

Executive Directors

2 Tom Attwood, aged 46, is a graduate of the University of Manchester. Prior to joining ICG in April 1996, he was a director of James Capel & Co where he worked for eight years.


2

3 Tom Bartlam, aged 51, is a graduate of Cambridge University and qualified as a Chartered Accountant with Price Waterhouse. Prior to founding ICG in 1989, he worked for fourteen years for Charterhouse Bank in London.


3

4 Jean-Loup de Gersigny, aged 45, is a Fellow of the Chartered Insurance Institute and has an MBA from the London Business School. Prior to founding ICG in 1989, he worked for Chemical Bank in London for seven years.


4

5 Andrew Jackson, aged 50, is a graduate of Cambridge University and has an MBA from the London Business School. Prior to founding ICG in 1989, he worked at Chemical Bank for sixteen years in London and Switzerland.


5

Non-executive Directors

6 Eric Licoys, aged 60, is a graduate of l'Institut d'études politiques de Paris. He is the Président Directeur Général of Havas, the French media and communications group and Directeur Général of Vivendi, the telecoms and utilities group, having previously been President of the venture capital arm of Lazard Frères in France.


6

7 Robert Padgett, aged 55, is a graduate of Oxford University, is a Chartered Accountant and has an MBA from the Wharton School of the University of Pennsylvania. He is the Head of Corporate Finance at Hermes Investment Management Limited.


7

8 Peter Stone, aged 52, is a graduate of Cambridge University and is a qualified solicitor. He is a director of Close Brothers Group plc.


8

Company Secretary and Financial Controller
John Curtis

Executives
Martin Conder
James Davis
Christophe Evain
Piers Millar
François de Mitry
Simon Morrell
Frédéric Nadal
Rolf Nuijens
Andrew Phillips
Paul Piper (member of investment committee)
Graeme Smith
Denis Viet-Jacobsen
Thomas Warnholtz

Clockwise from top right:
Denis Viet-Jacobsen and Martin Conder, François de Mitry and Christophe Evain, James Davis and Andrew Phillips, Paul Piper and John Curtis, Simon Morrell, Michele Fage, Vanessa Green and Tony Payne, Frédéric Nadal, Thomas Warnholtz and Graeme Smith, Piers Millar and Graeme Smith, Rolf Nuijens and Denis Viet-Jacobsen.

Company Information

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