Interim Report

For the period to 31 July 2003

Highlights

- Core income up 31% to £28.4m (2002 – £21.6m).
- Pre-tax profits up 23% to £32.1m (2002 – £26.2m).
- EPS up 17% to 36.3p (2002 – 31.0p).
- Interim dividend up 10.5% to 10.5p per share.
- Loan book up 18% to £1.03bn in the first half.
- First closing of new mezzanine fund.
- A new loan fund raised €250m (£175m).

Chairman's Statement

Introduction

I am pleased to report another strong performance by ICG in the six months to 31 July 2003.

Core income rose by 31% to £28.4m compared with the corresponding period last year, primarily as a result of the particularly strong growth in net interest income. Net capital gains were slightly down on the previous year and pre-tax profits for the first half increased by 23% to £32.1m.

In the current financial year we have taken further significant strides in developing our fund management business. We have had a first closing on our latest mezzanine fund, the total size of which we are confident will exceed €1bn, including gearing. In addition, we have closed another fund to invest in sub investment grade debt of €250m.

In the first half we have seen a strong flow of attractive mezzanine opportunities throughout Europe, as a result of which, ICG has increased its loan book by 18% to £1.03bn at 31 July 2003. We believe that, in order to continue to grow our lending business, while maintaining prudent levels of gearing, it is now appropriate to raise new equity. Accordingly, we are proposing to raise approximately £82m net of expenses by means of a Placing and Open Offer to shareholders.

The European mezzanine market

The buyout market in the UK and Continental Europe was active in the first half of 2003 despite the negative impact on the marketplace of the Iraq war. While the value of buyouts at approximately £18bn was less than in the second half of 2002, it was nearly 50% higher than in the first half of last year.

The use of mezzanine in buyouts has been particularly strong, with the total value of mezzanine invested in the first half of 2003 amounting to approximately £1.6bn, which represents approximately 9% of total buyout financing, which is the highest level it has been in recent years. This high usage of mezzanine was driven by the need for private equity arrangers of buyouts to enhance returns in their financial structures and their increased willingness to use mezzanine rather than high yield bonds in some of the larger transactions together with the increased availability of mezzanine finance.

We have continued to see banks competing strongly for senior and mezzanine debt arrangement mandates, and we have seen funds raised by two US investment banks being more active investors in the mezzanine market. However, ICG remains one of the largest independent mezzanine investors with a strong pan European team and has therefore been approached on the majority of the significant mezzanine financings in the market.

Gearing levels have been quite high for some of the larger buyouts but, for the most part, have fairly reflected the risk of the transaction. Pricing has also been satisfactory with no erosion of cash margins. We have continued to see mezzanine in larger buyouts being structured with increased amounts of rolled-up interest at the expense of warrants but with similar total return expectations.

Asia Pacific

Our Hong Kong based mezzanine operation had a quiet six months as a result of the negative impact of SARS on business in the region. However, business has now returned to normality and there is a pick-up in activity.

Loan portfolio

We had a good start to the financial year in terms of new lending and, following a slowdown in activity because of the Iraq war, we saw a significant upturn in the number of mezzanine lending opportunities, several of which were quite large. As a result of this, we have had a strong six months of new lending in which we arranged or provided a total of £285m of financings of which £178m was invested on our balance sheet and £78m was invested on behalf of our fund management clients, with the balance being syndicated to third party investors. These new loans were to ten different companies of which three were in the UK, three were in Germany, two were in France and one was in each of The Netherlands and Spain.

During the first half we had a relatively quiet period for repayments with a total of £60m being repaid. The appreciation of the Euro against Sterling in the first half of our financial year had the effect of increasing the sterling value of our loan portfolio by £46m. As a result of the above ICG's loan book grew by 18% to £1.03bn.

Our first half saw continuing difficult business conditions throughout western Europe. There have been two new underperformers in our portfolio in the period but this was matched by some of the investments, which were performing poorly, now starting to improve. Overall we believe that our portfolio has performed satisfactorily, taking into account the economic background.

Funds under management

Funds invested on behalf of our mezzanine fund management clients increased during the first half to £331m. As our last mezzanine fund is nearly fully invested, we have been working on raising a new fund. We are pleased to be able to announce the first closing of €295m of equity in this new fund at the end of September. As a result of anticipated further closings, together with our intention to gear up this fund, we are confident that the fund will have total cash resources in excess of €1bn. This fund will take a higher proportion of new investments than the last fund and will significantly increase the scale of our mezzanine fund management business in the future and will help to consolidate ICG's position as one of the biggest investors in the European mezzanine market.

High yield bond markets strengthened somewhat in the first half of the year and this has helped the performance of our two CDOs, although their performance continues to be below our original expectations. The performance of our two loan funds continues to be satisfactory and we were pleased to be able to announce at the end of September the raising of a further loan fund of €250m. As a result of this last fundraising the funds under management in high yield and leveraged loans amount to over €1.7bn.

Core income

Core income, which comprises net interest income and fee income less operating expenses, rose very strongly by 31% to £28.4m compared with the first half of the previous year, driven primarily by the 43% growth in net interest income to £28.1m. This increase arose from the 39% growth in our portfolio over the past 12 months and the continuing use of roll-up interest together with the strengthening of the Euro against Sterling.

Fee income increased by 5% to £8.9m compared with the first half of the previous year. Fund management fees increased by 16% to £5.1m, as a result of the increase in funds invested, which more than compensated for the slight fall in arrangement and agency fee income from £4.1m to £3.8m, a result of lower fees on some of the new transactions.

Operating expenses, net of the cost of the medium term incentive scheme, increased by 18% to £7.7m, primarily as a result of an increase in personnel costs.

Capital gains and provisions

Capital gains reached £15.9m, a similar level to the first half of last year. This can be regarded as satisfactory in light of the difficult market conditions for exiting investments, particularly through the IPO market.

We have made, at the half year, net provisions of £9.0m to cover the deteriorating performance of a small number of our investments. After charging these provisions and the cost of our medium term incentive scheme, net capital gains amounted to £3.7m.

Dividends

The Board has declared an interim dividend of 10.5p per share, an increase of 10.5% over the interim dividend of 9.5p per share which was paid last year. This is payable on 31 October 2003 to shareholders on the register on 10 October 2003.

Funding

In June, we successfully raised over £200m of new debt facilities by means of a securitisation of part of our portfolio. We were pleased to be able to take advantage, for the first time, of this new source of borrowings, which is capable of providing us with further debt in the future. This has resulted in our total borrowing facilities amounting to £992m at 31 July 2003.

There was a material increase in our borrowings during the first half from £671m at the beginning of the year to £912m at 31 July 2003. This arose primarily from the increase in our loan book, the appreciation of the Euro against Sterling and the borrowings we had taken on to fund short term loans which we warehoused for, and have now passed on to, our new mezzanine fund. Excluding these short term borrowings of £74m, which have now been repaid, the borrowings to finance our portfolio amounted to £838m at 31 July 2003, which represented a gearing ratio of 3.6:1. It is because of this relatively high gearing, resulting from a strong flow of attractive investment opportunities, and the need to raise additional funding for such deals in the future that we have decided that it is appropriate to raise further equity from our shareholders.

Board appointments

I am pleased to report that Christophe Evain, who previously ran our Paris office and is now responsible for our Asia Pacific business, and François de Mitry, who now runs our Paris office, are joining the Board. At the same time I have to announce that Jean-Loup de Gersigny, one of the founders of ICG, who has made an enormous contribution to the company, will be retiring from the Board at the end of January 2004.

Prospects

The demand for mezzanine has been strong over the past twelve months and we believe it should continue for the rest of the year, although not perhaps at quite the same pace. ICG's market position is good and will be further strengthened by our new mezzanine fund. We therefore expect to see a healthy flow of mezzanine opportunities.

Since the end of July, we have completed 3 new transactions which has resulted in £55m being invested on our Balance Sheet and £50m by our managed funds. This should provide the platform for another strong period for new lending in the second half. Levels of repayment are, as ever, hard to predict but we think it likely that they will be higher than in the first half. The prospects for growth in net interest income and core income in the second half are good.

We expect to make further capital gains in the second half but as always it is impossible to forecast accurately what levels will be achieved.

While our portfolio has to date performed well in a difficult business environment, it does include a small number of underperforming investments which we continue to monitor closely.

With a strengthened Balance Sheet on the completion of the Placing to raise £82m, we believe ICG, with its strong pan-European team and leading position in the attractive and active European mezzanine market, is well placed to continue the growth of its mezzanine lending activities. This, along with its growing sub investment grade debt fund management business, makes us confident of the prospects for the company.

John Manser
Chairman
1 October 2003

Consolidated Profit and Loss Account

for the six months ended 31 July 2003

	Half year to 31 July 2003 (unaudited) £m	Half year to 31 July 2002 (unaudited) £m	Year to 31 January 2003 (audited) £m
Interest and dividend income	41.9	31.6	66.9
Gains on disposals	15.9	16.3	33.9
Fee and other operating income	8.9	8.5	17.9
	66.7	56.4	118.7
Interest payable and similar charges	(13.8)	(12.0)	(24.4)
Provisions against loans and investments	(9.0)	(8.0)	(17.5)
Administrative expenses	(11.8)	(10.2)	(23.3)
Profit on ordinary activities before taxation	32.1	26.2	53.5
Tax on profit on ordinary activities	(10.6)	(8.0)	(18.4)
Profit on ordinary activities after taxation	21.5	18.2	35.1
Dividends paid and proposed – ordinary shares	(6.3)	(5.6)	(18.3)
Retained profit transferred to reserves	15.2	12.6	16.8
Earnings per share	36.3p	31.0p	59.8p

All activities represent continuing operations

Profit on ordinary activities before taxation is split as follows:

	Core income		Net capital gains	
	31 July 2003 (unaudited) £m	31 July 2002 (unaudited) £m	**31 July 2003 (unaudited) £m**	31 July 2002 (unaudited) £m
Income				
Interest and dividend income	41.9	31.6	–	–
Gain on disposals	–	–	15.9	16.3
Fee and other operating income	8.9	8.5	–	–
	50.8	40.1	15.9	16.3
Less:				
Interest payable and similar charges	(13.8)	(12.0)	–	–
Provisions against loans and investments	–	–	(9.0)	(8.0)
Administrative expenses	(8.6)	(6.5)	(3.2)	(3.7)
	28.4	21.6	3.7	4.6

Consolidated Balance Sheet
31 July 2003

	31 July 2003 (unaudited) £m	31 July 2002 (unaudited) £m	31 January 2003 (audited) £m
Fixed assets			
Tangible assets	1.5	1.8	1.6
Loans	938.9	654.5	801.4
Investments	91.8	85.2	74.7
Current assets			
Debtors	41.2	19.2	26.5
Loans and investments	90.9	17.0	53.2
Cash at bank	48.7	0.8	1.9
	180.8	37.0	81.6
Total assets	1,213.0	778.5	959.3
Capital and reserves			
Called up share capital	11.9	11.7	11.8
Share premium account	89.1	85.3	86.0
Capital redemption reserve	1.4	1.4	1.4
Profit and loss account	132.2	112.8	117.0
Equity shareholders' funds	234.6	211.2	216.2
Creditors: amounts falling due after more than one year	815.2	539.1	627.0
Creditors: amounts falling due within one year	163.2	28.2	116.1
Total capital and liabilities	1,213.0	778.5	959.3

Consolidated Cash Flow Statement

for the six months ended 31 July 2003

	Half year to 31 July 2003 (unaudited) £m	Half year to 31 July 2002 (unaudited) £m	Year to 31 January 2003 (audited) £m
Operating activities			
Interest and dividends received	36.8	29.2	58.0
Gain on disposals	15.9	16.3	33.9
Fee and other operating income	6.1	6.6	17.0
Administrative expenses	(18.3)	(13.0)	(15.8)
	40.5	39.1	93.1
Interest paid	(23.0)	(12.8)	(27.6)
Net cash inflow from operating activities	17.5	26.3	65.5
Taxation paid	(11.8)	(4.4)	(10.2)
Capital expenditure and financial investment			
Loans and investments made	(181.7)	(148.5)	(292.9)
Realisations of loans and investments	59.7	66.4	132.9
Loans for syndication	(29.8)	70.4	(20.3)
	(151.8)	(11.7)	(180.3)
Purchase of tangible fixed assets	–	(0.4)	(0.4)
	(151.8)	(12.1)	(180.7)
Equity dividends paid	(12.8)	(11.4)	(17.0)
Net cash outflow before financing	(158.9)	(1.6)	(142.4)
Financing			
Increase in share capital	3.2	0.1	0.9
Increase in debt	202.5	1.2	142.3
Increase/(decrease) in cash and cash equivalents	46.8	(0.3)	0.8

Notes

1 Basis of accounting

The interim financial statements have been prepared under the historical cost convention and on the basis of the accounting policies set out in the statutory accounts of the group for the year ended 31 January 2003.

2 Earnings per share

The calculation of earnings per share is based on earnings of £21.5 m (2002 – £18.2m) and an average number of shares in issue throughout the period of 59,307,144 (2002 – 58,658,402).

3 Dividends

The interim dividend of 10.5p per share will be paid out to members registered at the close of business on 10 October 2003.

4 Investments

The group's portfolio of warrants and listed shares is included in investments at the lower of cost or net realisable value.

5 General

The interim financial statements for the half year to 31 July 2003 were approved by the Board on 1 October 2003. These financial statements are unaudited, but they have been reviewed by the auditors, having regard to the bulletin "Review of Interim Financial Information" issued by the Auditing Practices Board. The comparative figures for the year ended 31 January 2003 have been extracted from the group's statutory accounts which have been delivered to the Registrar of Companies. The auditors' report on those statements was unqualified and did not include a statement under Section 237 (2) or (3) of the Companies Act 1985.

Copies of this statement are being sent to all shareholders. Copies are also available at the registered office of the company.

Independent Review Report

To Intermediate Capital Group PLC

Introduction

We have been instructed by the company to review the financial information for the six months ended 31 July 2003 which comprises the profit and loss account, the balance sheet, the cash flow statement and related notes 1 to 5. We have read the other information contained in the interim report and considered whether it contains any apparent misstatements or material inconsistencies with the financial information.

This report is made solely to the company in accordance with Bulletin 1999/4 issued by the Auditing Practices Board. Our work has been undertaken so that we might state to the company those matters we are required to state to them in an independent review 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, for our review work, for this report, or for the conclusions we have formed.

Directors' responsibilities

The interim report, including the financial information contained therein, is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the interim report in accordance with the Listing Rules of the Financial Services Authority which require that the accounting polices and presentation applied to the interim figures are consistent with those applied in preparing the preceding annual accounts except where any changes, and the reasons for them, are disclosed.

Review work performed

We conducted our review in accordance with the guidance contained in Bulletin 1999/4 issued by the Auditing Practices Board for use in the United Kingdom. A review consists principally of making enquiries of group management and applying analytical procedures to the financial information and underlying financial data and, based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit performed in accordance with United Kingdom auditing standards and therefore provides a lower level of assurance than an audit. Accordingly, we do not express an audit opinion on the financial information.

Review conclusion

On the basis of our review we are not aware of any material modifications that should be made to the financial information as presented for the six months ended 31 July 2003.

Deloitte & Touche LLP
Chartered Accountants
1 October 2003

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