Intermediate Capital Group PLC

Interim Report

for the six months ended 31 July 2004

Highlights

- Core income up 23% to £34.8m (2003: £28.4m)
- Pre-tax profits up 27% to £40.8m (2003: £32.1m)
- Proposed interim dividend of 11.8p net per share, a 12% increase
- Gross capital gains up 49% to £23.7m (2003: £15.9m)
- New investments of £169m by ICG
- Repayment levels high at £190m

Chairman's Statement

Introduction

I am pleased to report another good performance by ICG in the six months to 31 July 2004.

Core income rose by 23% to £34.8m compared to the first half of last year, resulting from growth in both net interest income and fund management fees. Capital gains increased significantly in the period and, after taking into account provisions and the cost of incentive schemes, pre-tax profits for the first half increased by 27% to £40.8m.

During the first six months of the year, we closed our latest Mezzanine fund with €668m (£458m) of equity, which, with leverage, will have up to €1.5bn (£1.01bn) available for investment.

While we have seen a good flow of mezzanine opportunities throughout Europe and had satisfactory levels of new lending, we have been particularly selective in a more competitive mezzanine market, rejecting more than the usual number of potential deals on the grounds of leverage, structure and pricing. The level of repayments was, as expected, unusually high. Consequently our loan book reduced by 5% in the first half to £1.03bn.

The second half has started well with some attractive opportunities for new lending including two particularly significant transactions. We are also having an encouraging response to our increased marketing efforts for our sub-investment grade debt fund management business.

Loan Portfolio

In the first half, due to our market position and coverage through our European offices and teams, we have seen almost all the mezzanine opportunities in the market. However, because we have been very selective, the level of new investment is slightly below that in the first half of last year. We arranged or underwrote £266m in fifteen new deals, with £169m being taken onto our own balance sheet, £84m being taken by our fund management clients and the balance being syndicated to third parties. Six of these new deals were in the UK, five in France, with one each in Denmark, Netherlands, Sweden and Switzerland. Eight of these loans were to finance buyouts, three were to refinance the debt of companies to which we had already lent, and four were acquisition and development capital, of which three were to existing portfolio companies.

During the last couple of years the level of repayments has been relatively low as a number of borrowers were waiting for an improvement in the market for repayments and exits. This year we are seeing such an improvement and consequently there has been a significant increase in the level of repayments, which in the first half amounted to £190m from eleven companies in our portfolio, greater than the repayment level for the whole of last year.

The appreciation of sterling during the period reduced the value of the loan book by £23m. As a result of this and the levels of new lending, repayments and provisions the value of the loan book fell by 5% to £1.03bn.

While a small number of our investments continue to disappoint, overall, the majority of our portfolio continues to trade well and we benefit from having a well-diversified portfolio, both by sector and geography.

The European Mezzanine Market

The European buyout market continued to be strong in the first half of the year, with its total value amounting to £21bn, a 17% increase on the level of buyouts in the first half of 2003. The market has seen strong competition among financial buyers which has led to high prices being paid for some companies.

Increasing levels of liquidity in the debt markets have resulted in banks being more aggressive in the amount of senior debt they are prepared to offer to finance some of the larger buyouts. The high yield bond market also saw increased activity levels. However, there was still good demand for mezzanine which accounted for approximately 8% of the total value of buyouts.

In the first half we have seen a lot of new money coming into the mezzanine market, not just from banks and mezzanine funds, but also from hedge funds and structured debt funds.
We are now at that stage in the cycle when banks are being tempted to reduce margins and increase leverage for some larger mezzanine transactions, particularly in the London market, because they are confident they can syndicate such assets to less sophisticated investors.
A consequence of this has been that the banks have increasingly been arranging mezzanine loans where, in ICG's opinion, the terms did not adequately reflect the risk, and in which, accordingly, ICG refused to invest. Competitive pressures are however not so great outside the larger transactions; and lenders, such as ICG, who have long credit experience in the mezzanine market and the ability to structure complex transactions, coupled with a pan European presence, remain well placed.

Asia Pacific

Despite an increasing flow of opportunities we did not complete any new investment in the first half. There are a number of interesting lending opportunities which we are currently pursuing.

Funds under management

We closed our new mezzanine fund in March with equity commitments of €668m (£458m). We are currently arranging debt financing for the fund that should enable it to reach its target size of €1.5bn (£1.01bn). This fund contributed materially to fee income in the first half and at 31 July had invested €320m (£218m). The portfolios of our other fully invested mezzanine funds reduced from £290m at the beginning of the year to £230m at 31 July as a result of a high level of repayments.

Our specialist sub-investment grade fund management business, investing primarily in high yield bonds and loans, has continued to perform well. The improvement in the high yield bond market seen at the end of last year has continued into the first half and this has benefited the performance of our two CDOs, both of which made distributions to their equity investors during the period. Our three loan funds are also performing well and are almost fully invested. We now manage assets of over €1.7bn (£1.15bn) for the five existing funds and anticipate closing a new loan fund in the second half which should take us over €2bn (£1.35bn).

Following the recruitment of an experienced marketing team earlier in the year we have had meetings with a wide range of potential new sub-investment grade debt fund management clients and have been encouraged by the interest they have shown in this asset class. We are confident that we have the potential to increase significantly the size of our fund management business in the years ahead subject to the availability of attractive assets.

Core income

Core income, which is the key component of ICG's profitability and consists of net interest and fee income less administrative expenses, rose by 23% to £34.8m compared to the first half of last year.

Net interest income rose by 18% to £35.1m compared to the corresponding period last year, despite the reduction in the loan book; primarily because of the benefit of last autumn's equity raising and the continuing use of rolled-up interest.

Fee income rose strongly by 40% to £12.5m. Fees from fund management, now benefiting from our new mezzanine fund and increased investment by our loan funds rose from £5.1m to £8.6m, with arrangement and agency fees remaining virtually unchanged at £3.9m.

Operating expenses, excluding the cost of the medium term incentive scheme, increased to £9.8m from £7.8m for the similar period last year, primarily as a result of increasing staff costs and the costs of the new offices in Madrid and Stockholm.

Funding

In the early part of the year, we returned to the US private placement market to raise additional funding. This market continues to be a reliable source of funding for ICG and we raised $250m (£140m). A tap issue under our securitisation programme raised a further £40m of funding for the balance sheet.

At the end of the period, ICG had £740m of debt, which resulted in a comparitively low gearing ratio of 2.1:1.

Capital Gains

As the market for exits has improved, the level of capital gains increased substantially in the first six months of the year. We made gains of £23.7m from ten different companies, arising from four IPOs and six trade sales. In addition, in respect of three of the IPOs, we hold, at nominal cost, shares with a market value of £10m, which we were restricted from selling at the time of the IPO but which will be a source of future capital gains.

Provisions

Provisions made against loans and investments during the period amounted to £13.0m compared to a gross provision for the same period last year of a similar amount and a net provision, after releases, of £9.0m. The charge to provisions primarily relates to the recent significant underperformance of one of our portfolio companies.

Dividends

The Board has declared an interim dividend of 11.8p per share, an increase of 12% over the interim dividend last year. This will be paid on 5 November 2004 to shareholders on the register at 15 October 2004.

Board appointment

We announced at our Annual General Meeting in May that Dr Martin Kohlhaussen has joined the Board as a non-executive director. Martin is Chairman of the Supervisory Board of Commerzbank, having been its Chief Executive for many years, and is also on the Supervisory Board of a number of other major German companies as well as being a non-executive director of other international entities.

His wealth of experience of German and international business at the highest level will be of great benefit to ICG.

Chairman's Statement
(continued)

Prospects

The demand for mezzanine remains strong. We believe increased liquidity in the European mezzanine market will continue to have an adverse influence on the pricing and structuring of some larger mezzanine loans in the remainder of the year. Consequently ICG will remain particularly selective in its new lending. Nevertheless, we believe that, because of our reputation, pan European spread, commitment to the market and our ability, together with our new mezzanine fund, to underwrite and supply of large amounts of mezzanine, we will see a satisfactory flow of attractive new lending opportunities.

Since the end of July we have made 2 new loans totalling £80m, with £50m being taken to our own loan book and £30m by our fund management clients. We are working on another significant transaction which we expect to close in the next month, and have a satisfactory pipeline of prospective lending opportunities. We expect the level of repayments to remain high, although probably at a lower level than in the first half, and this will continue to temper loan book growth. With our new fund management marketing team in place and increasing investor interest in the sub-investment grade debt, we expect to see a good increase in funds under management in the next twelve months. Prospects for both net interest income and fee income are therefore encouraging.

The outlook for capital gains in the second half is good, although it is not yet possible to forecast the level of such gains. While there are a small number of our investments whose performance gives us some concern, our portfolio, overall continues to do well.

We are seeing satisfactory levels of new deal flow and with the potential for growth in our fund management business, we continue to look forward to the future with confidence.

John Manser
Chairman
4 October 2004

Consolidated Profit and Loss Account

for the six months ended 31 July 2004

	Half year to 31 July 2004 (unaudited) £m	Half year to 31 July 2003 (unaudited) £m	Year to 31 January 2004 (audited) £m
Interest and dividend income	**46.9**	43.6	92.6
Capital gains	**23.7**	15.9	26.2
Fee and other operating income	**12.5**	8.9	20.9
	83.1	68.4	139.7
Interest payable and similar charges	**(11.8)**	(13.8)	(27.8)
Provisions against loans and investments	**(13.0)**	(9.0)	(19.0)
Administrative expenses	**(17.5)**	(13.5)	(28.3)
Profit on ordinary activities before taxation	**40.8**	32.1	64.6
Tax on profit on ordinary activities	**(13.2)**	(10.6)	(21.0)
Profit on ordinary activities after taxation	**27.6**	21.5	43.6
Dividends paid and proposed – ordinary shares	**(8.2)**	(6.3)	(23.0)
Retained profit transferred to reserves	**19.4**	15.2	20.6
Earnings per share	**39.9p**	36.3p	70.4p

The presentation of the results for the period ending 31 July 2003 and 31 January 2004 has been modified as described in Note 4.

Analysis of Profit Before Tax

for the six months ended 31 July 2004

	Half year to 31 July 2004 (unaudited) £m	Half year to 31 July 2003 (unaudited) £m	Year to January 2004 (audited) £m
Income			
Interest and dividend income	**46.9**	43.6	92.6
Fee and other operating income	**12.5**	8.9	20.9
	59.4	52.5	113.5
Less: Related expenses			
Interest payable and similar charges	**(11.8)**	(13.8)	(27.8)
Administrative expenses – Salaries and benefits	**(6.2)**	(4.8)	(10.9)
Operating expenses	**(3.6)**	(3.0)	(6.8)
Medium term incentive scheme	**(3.0)**	(2.5)	(5.8)
Core Income	**34.8**	28.4	62.2
Capital gains	**23.7**	15.9	26.2
Medium term incentive scheme	**(4.7)**	(3.2)	(4.8)
Net Capital Gains	**19.0**	12.7	21.4
Provisions against loans and investments	**(13.0)**	(9.0)	(19.0)
Profit on ordinary activities before taxation	**40.8**	32.1	64.6

Consolidated Balance Sheet

as at 31 July 2004

	Notes	**31 July 2004 (unaudited) £m**	31 July 2003 (unaudited) £m	31 January 2004 (audited) £m
Fixed assets				
Tangible assets		**1.3**	1.5	1.4
Loans and investments		**1,033.5**	1,036.7	1,093.5
Current assets				
Debtors		**25.5**	41.2	19.2
Loans and investments		**1.4**	90.9	27.5
Cash at bank		**83.3**	48.7	38.6
		110.2	180.8	85.3
Total assets		**1,145.0**	1,219.0	1,180.2
Capital and reserves				
Called up share capital		**13.9**	11.9	13.8
Share premium account		**172.4**	89.1	170.0
Capital redemption reserve		**1.4**	1.4	1.4
Profit and loss account		**157.0**	132.2	137.6
Equity shareholders' funds		**344.7**	234.6	322.8
Creditors: amounts falling due after more than one year		**649.3**	815.2	730.0
Creditors: amounts falling due within one year		**151.0**	169.2	127.4
Total capital and liabilities		**1,145.0**	1,219.0	1,180.2

Consolidated Cash Flow Statement

for the six months ended 31 July 2004

	Half year to 31 July 2004 (unaudited) £m	Half year to 31 July 2003 (unaudited) £m	Year to 31 January 2004 (audited) £m
Operating activities			
Interest and dividends received	**47.0**	36.8	81.6
Gain on disposals	**23.7**	15.9	26.2
Fee and other operating income	**9.0**	6.1	19.4
Administrative expenses	**(17.8)**	(18.3)	(25.8)
	61.9	40.5	101.4
Interest paid	**(13.9)**	(23.0)	(25.6)
Net cash inflow from operating activities	**48.0**	17.5	75.8
Taxation paid	**(11.6)**	(11.8)	(20.8)
Capital expenditure and financial investment			
Loans and investments made	**(168.7)**	(181.7)	(353.7)
Realisations of loans and investments	**190.3**	59.7	160.9
Loans for syndication	**26.1**	(29.8)	25.7
	47.7	(151.8)	(167.1)
Purchase of tangible fixed assets	**(0.1)**	-	(0.1)
	47.6	(151.8)	(167.2)
Equity dividends paid	**(16.7)**	(12.8)	(19.1)
Net cash inflow/(outflow) before financing	**67.3**	(158.9)	(131.3)
Financing			
Increase in share capital	**2.4**	3.2	86.0
(Decrease)/increase in debt	**(34.4)**	202.5	82.0
Increase in cash	**35.3**	46.8	36.7

Notes to the Accounts

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 2004.

2 Earnings per share

The calculation of earnings per share is based on earnings of £27.6 m (2003 - £21.5m) and an average number of shares in issue throughout the period of 69,252,000 (2003 – 59,307,144).

3 Dividends

The interim dividend of 11.8p per share will be paid out to members registered at the close of business on 15 October 2004.

4 Restatement of prior year

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

As a result, both interest income and administrative expenses have increased by £1.7m for the 6 months to 31 July 2003 and by £3.5m for the year to 31 January 2004. Investments and creditors have both increased by £6m at 31 July 2003 and by £8m at 31 January 2004. There is no further impact in the current year.

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

5 Investments

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

6 General

The interim financial statements for the half year to 31 July 2004 were approved by the Board on 4 October 2004. 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 2004, as amended by the above restatement 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

We have been instructed by the company to review the financial information for the six months ended 31 July 2004 which comprises the consolidated profit and loss account, the analysis of profit before tax, the consolidated balance sheet and cash flow statement and related notes 1 to 6. 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 2004.

Deloitte & Touche LLP
Chartered Accountants and Registered Auditors
London
4 October 2004

Office Locations

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