Intermediate Capital Group PLC

Interim Report 2005

Highlights

IFRS financial highlights

- Core income* up 28% to £44.0m (2004: £34.5m)
- Gains on investments up 173% to £64.6m (2004: £23.7m)
- Pre-tax profits up 94% to £78.5m (2004: £40.5m)
- EPS up 81% to 71.5p (2004: 39.4p)
- Interim dividend up 19% to 14.0p per share

Operational highlights

- New investments of £168m by ICG compared to repayments at exit of £141m
- £208m of loans were refinanced with ICG reinvesting £216m in these companies
- Loan book up 5% to £1.3bn

The interim comparatives have been restated under IFRS, but do not include the effects of IAS 32 and IAS 39 and are therefore not directly comparable to this year. A table setting out comparisons under UK GAAP, as well as IFRS, is shown below.

	UK GAAP**			IFRS			
	July 2004 (unaudited) £m	July 2005 (unaudited) £m	%	July 2004 (unaudited) £m	July 2005 (unaudited) £m	%	Jan 2005 (Pro-forma***, unaudited) £m
Net interest income	35.1	46.3		35.1	49.6		83.3
Core income*	34.8	41.1	18%	34.5	44.0	28%	76.5
Gains on investments	23.7	56.1	137%	23.7	64.6	173%	73.4
Provisions	(13.0)	(15.3)		(13.0)	(17.5)		(26.5)
Profit before tax	40.8	69.6	71%	40.5	78.5	94%	107.0
Investments	1,033.5	1,239.0		1,033.5	1,311.2		1,253.5

*The definition of core income may be found in the analysis of profit before tax on page 10.
**References to UK GAAP refer to UK GAAP used to present the 31 January 2005 financial statements rather than that currently in existence.
***From the transitional statement released on 16 September 2005 including the effects of IAS 32 and IAS 39.

Chairman's statement

Introduction

I am delighted to report an excellent performance by ICG in the six months to 31 July 2005.

Core income, prepared for the first time under IFRS, rose by 28% to £44.0m compared to the first half of last year. This resulted from growth in net interest income due to an increase in the loan book and the impact of the new accounting standards. On a like for like basis, under UK GAAP, the increase would have been 18%. Gains on investments were particularly strong in the period and, after taking into account provisions against impaired assets, pre-tax profits for the first half almost doubled to £78.5m.

While we have seen a good flow of mezzanine opportunities throughout Europe and had satisfactory levels of new lending, we have been selective in the increasingly competitive mezzanine market and continue to reject a number of potential deals on the grounds of inadequate return for the perceived risk. Refinancings and repayments have been at record levels.

The second half has started well, in similar market conditions to those of the first half. We continue to experience high levels of repayment which are being matched by a satisfactory level of investment opportunities. Profits for the second half should again benefit from a good level of gains on investments resulting from exit activity and from further growth in core income.

Loan portfolio

In the six months to July, our extensive coverage throughout Europe generated healthy deal flow. While we have continued to be selective in the face of increasing leverage, we have maintained a good level of new lending. We arranged or underwrote £302m in 14 new deals, with £168m being taken onto our own balance sheet, £94m being taken by our fund management clients and the balance being syndicated to third parties. Seven of these new deals were in France, two in each of Sweden and Germany and one in each of the UK, South Korea and the Netherlands. Twelve of these loans were to finance buyouts, one was acquisition capital and one a high yield bond.

After a good year for repayments in 2004/05, this year has been stronger still. The level of repayments in the first half has amounted to £141m from 13 companies in our portfolio. Additionally, existing borrowers with £208m of lending from ICG took advantage of the current hot debt market to refinance the debt in their balance sheet at lower pricing and, for the lender, higher risk. ICG chose to increase its overall exposure to these companies by £8m. In aggregate £349m of loans were repaid or refinanced, 28% of our opening loan book.

Taking into account the levels of new lending, repayments and impairment provisions, the value of the loan book has risen by 5% to £1.3bn over the last six months. In addition the depreciation of sterling against the US dollar increased the loan book by £7.4m.

While the majority of our portfolio continues to trade well and we benefit from having a diversified portfolio, both by sector and geography, a small number of our loans continue to disappoint and appropriate provisions have been made.

The European mezzanine market

The European buyout market was very active in the first half of the year, with its total value amounting to approximately £37bn, a 50% increase on the level of buyouts in the first half of 2004. There is heavy competition among financial buyers who have raised or are in the

process of raising record levels of liquidity for new funds. This has led to ever higher prices being paid for some companies.

Further increases in the levels of liquidity in the debt markets have resulted in banks being more aggressive in the amount of senior debt that they are prepared to offer to finance some of the larger buyouts. This is evident in the record levels of refinancing experienced across the leveraged buyout sector and in the banks', and other lenders', new willingness to allow private equity investors to take substantial amounts of money out of their investments prior to exit. The high yield bond market had a strong first quarter but activity fell in the second quarter following the rating downgrades of General Motors and Ford.

During the first half, there continued to be good demand for mezzanine, with growth of some 10% over last year. However, it should be noted that over 75% of this volume was derived from recapitalisations and secondary or tertiary buyouts. Mezzanine accounted for approximately 6% of the total value of buyouts.

In the highly competitive banking market, banks are being tempted to reduce margins and increase leverage for some larger mezzanine transactions. Banks, hedge funds and structured debt funds are targeting the mezzanine market. Accordingly, mezzanine loans have been arranged where, in ICG's opinion, the terms do not adequately reflect the risk and in which ICG has therefore chosen not to invest. The first half has also seen an increase in the use of second lien debt which, in some cases, replaced all or part of the mezzanine layer but at lower pricing.

Outside the larger transactions, lenders such as ICG, which 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

The Asia Pacific markets are becoming increasingly active. Private equity investors are targeting the region and over the last twelve months a significant number of new funds have been raised which is stimulating investment activity.

During the first six months of the year, we achieved our second exit, recording a very satisfactory return, and in the same period made one new mezzanine loan. In addition, we have in recent weeks launched our first Asia Pacific Mezzanine Fund, targeting third party funds of US$200m. The raising of a dedicated fund in Asia is an important step in building our business there. We believe the Asia Pacific region will provide a source of good investment opportunities and growth.

Funds under management

Our mezzanine funds are performing well. Total mezzanine funds under management now stand at £1.05bn of which £668m (€968m) is invested. Our latest fund, the ICG Mezzanine Fund 2003, is 57% invested.

Our specialist sub-investment grade fund management business has continued to perform satisfactorily. The strong liquidity in the high yield bond market that characterised the second half of 2004 continued into the first quarter but was reversed by mid year on the back of concerns in the Automotive Sector and inflationary fears in the US. The performance of our two older CDOs has been stable and both funds made distributions to their equity investors during the period. Our four loan funds are also performing well and are fully invested despite a high level of prepayments. We now manage assets of over €2.25bn (£1.55bn) for the six existing funds and, additionally, hold assets of £86m as current assets on our own balance sheet as a warehouse for future funds.

Chairman's statement

Continued

We have launched our new credit fund, Eurocredit Opportunities I PLC, which has attracted considerable interest from both existing and new investors. This fund is more lowly geared than our previous funds allowing us the flexibility to pursue alternative strategies in the European credit markets. We expect to close this fund within the next month at a level of €400m.

We remain confident that we have the potential to increase significantly the size of our fund management business in the years ahead.

IFRS

This year we have prepared our interim accounts under IFRS. We have restated last year's figures, but have taken advantage of the exemption to exclude the impact of IAS 32 (Financial Instruments: Disclosure and Presentation) and IAS 39 (Financial Instruments: Recognition and Measurement). The results for the year are therefore not directly comparable.

On page 1 is a table which sets out our headline figures in such a way that a comparison may be made. The overall impact of IFRS has been the earlier recognition of capital profits and non-cash interest which, along with the requirement to fair value financial derivatives, is likely to lead to increased volatility in our profits going forward.

Core income

Under IFRS, core income, which is the key component of ICG's profitability and consists of net interest and fee income less relevant administrative expenses, rose by 28% to £44.0m compared to the first half of last year. Under UK GAAP, the increase would have been 18%.

Net interest income at £49.6m rose strongly in the period due to the effects of an increased loan book plus the impact of IFRS from, firstly, the inclusion of underwriting and agency fees as part of interest income and, secondly, reserves against unpaid interest income now being shown as part of provisions.

Total fee income has reduced to £11.4m from £12.5m last year. The principal reason for this is that agency and deal fees have decreased from £3.9m to £2.8m as a result of their partial inclusion in interest income under IFRS. Fees from fund management remained at similar levels to last year at £8.6m.

Operating expenses, excluding the cost of the medium term incentive scheme, increased to £12.2m from £10.1m for the period mainly as a result of increased staffing and staff costs.

Gains on investments

As the market for exits has improved, the level of gains on investments increased substantially in the first six months of the year. Total gains amounted to £64.6m, of which £56.4m came as a result of cash gains arising from one IPO, eight trade sales and the sale of shares from our quoted portfolio. In addition, there has been a net increase of £8.2m in the fair value of warrants and listed shares held in the balance sheet and therefore included in gains on investments.

Provisions

Provisions relating to loans and investments during the period amounted to £17.5m compared to £13.0m for the same period last year. These provisions primarily relate to the recent significant underperformance of one of our portfolio companies along with some further provisions against existing impaired assets.

Dividends

The Board has declared an interim dividend of 14.0p per share, an increase of 19% over the interim dividend last year, reflecting the strong results and exceptional capital gains. This will be paid on 11 November 2005 to shareholders on the register at 21 October 2005.

Funding

In April we took advantage of the liquidity in the banking market and completed a new five year revolving credit facility with a group of banks for £845m, replacing previous banking facilities of £359m.

At the end of the period, ICG had £1.03bn of debt, which resulted in comparatively low gearing of 2.3:1.

Board appointment

It is with regret that I have to announce the resignation of Dr. Martin Kohlhaussen as a non-executive director of the company. Martin is Chairman of the Supervisory Board of Commerzbank and this sadly led to some conflicts of interest. I would like to take this opportunity to thank Martin for his valuable contribution to our discussions at the Board.

Year end

It is our intention to change the year end of the company from 31 January to 31 March for this and future years. The reason for the change is that we wish to align ICG's year end with those of our fund clients to enable us to provide common information to both our shareholders and our fund investors. The results for this accounting period will therefore be for 14 months ending 31 March 2006.

Prospects

The buyout market remains extremely buoyant, leading to a healthy stream of mezzanine opportunities. We expect this level of activity to continue in the medium term fuelled by record amounts of new fund raising by private equity funds.

The demand for mezzanine also remains high but competition in the European mezzanine market, including that from second lien debt, will continue to have an adverse influence on the pricing and structuring of some larger mezzanine loans. Maintaining our credit discipline in this environment will of course be essential. Nevertheless, we believe that with our brand, pan European network, long term commitment to the market and our ability to underwrite and supply large amounts of mezzanine, we will continue to see a satisfactory level of quality deal flow. However, the current trend of refinancing of loans to existing borrowers is having the effect of increasing the overall levels of risk. We will therefore remain particularly selective in new lending.

In the remainder of the year, we forecast that the level of repayments will remain high as evidenced by six repayments totalling £65m since July. We expect that this will continue to temper loan book growth although we have invested in four new loans totalling £59m over the same period.

The growth in the portfolio in the first half and the increase in funds under management should lead to decent momentum in core income. The strong exit market leads us to view confidently the outlook for gains on investments for the remainder of the year. As a result we expect to be able to record another good performance in profits in the second half. While there are a few of our investments whose performance gives us concern, our portfolio overall continues to do well. We therefore continue to view the future with confidence.

John Manser
Chairman

10 October 2005

Consolidated Income Statement

for the six months ended 31 July 2005

	Half year to 31 July 2005 (unaudited) £m	Half year to 31 July 2004 (unaudited) £m	Year to 31 January 2005 (audited) £m
Interest and dividend income	**67.9**	46.9	101.6
Gains on investments	**64.6**	23.7	62.9
Fee and other operating income	**11.4**	12.5	27.4
	143.9	83.1	191.9
Interest payable and similar charges	**(18.3)**	(11.8)	(26.5)
Provisions for impairment of assets	**(17.5)**	(13.0)	(28.2)
Administrative expenses	**(29.6)**	(17.8)	(42.2)
Profit before tax	**78.5**	40.5	95.0
Income tax expense	**(28.7)**	(13.2)	(33.5)
Profit for the period attributable to the equity shareholders	**49.8**	27.3	61.5
Earnings per share	**71.5p**	39.4p	88.6p

In accordance with the transitional rules on first time adoption of IFRS, the 2004/05 statutory comparatives do not follow IAS 32 'Financial Instruments: Disclosure and Presentation' and IAS 39 'Financial Instruments: Recognition and Measurement', but instead follow applicable UK GAAP requirements.

Consolidated Balance Sheet

31 July 2005

	31 July 2005 (unaudited) £m	31 July 2004 (unaudited) £m	31 January 2005 (audited) £m
Non current assets			
Property, plant and equipment	**1.3**	1.3	1.3
Financial assets, loans and investments	**1,311.2**	1,033.5	1,182.8
Deferred tax asset	**–**	0.9	0.8
	1,312.5	1,035.7	1,184.9
Current assets			
Trade and other receivables	**5.8**	25.5	20.2
Financial assets, loans and investments	**156.5**	1.4	40.9
Cash and cash equivalents	**83.7**	83.3	55.6
	246.0	110.2	116.7
Total assets	**1,558.5**	1,145.9	1,301.6
Equity and reserves			
Called up share capital	**13.9**	13.9	13.9
Share premium account	**174.0**	172.4	172.5
Capital redemption reserve	**1.4**	1.4	1.4
Other reserves	**13.4**	0.5	0.5
Retained earnings	**231.2**	165.6	191.6
Equity shareholders' funds	**433.9**	353.8	379.9
Non current liabilities			
Financial liabilities	**955.1**	649.3	711.4
Deferred tax liabilities	**11.7**	–	–
	966.8	649.3	711.4
Current liabilities			
Trade and other payable	**52.4**	56.9	58.9
Financial liabilities	**73.0**	69.1	131.5
Liabilities for current tax	**32.4**	16.8	19.9
	157.8	142.8	210.3
Total liabilities	**1,124.6**	792.1	921.7
Total equity and liabilities	**1,558.5**	1,145.9	1,301.6

In accordance with the transitional rules on first time adoption of IFRS, the 2004/05 statutory comparatives do not follow IAS 32 'Financial Instruments: Disclosure and Presentation' and IAS 39 'Financial Instruments: Recognition and Measurement', but instead follow applicable UK GAAP requirements.

Consolidated Statement of Recognised Income and Expense

for the six months ended 31 July 2005

	Half year to 31 July 2005 (unaudited) £m	Half year to 31 July 2004 (unaudited) £m	Year to 31 January 2005 (audited) £m
Available for sale investments:			
Valuation gains/(losses) taken to equity	**11.6**	–	–
Transferred to profit or loss for the period	**(9.0)**	–	–
Tax on items taken directly to or transferred from equity	**(0.8)**	–	–
Net income recognised directly in equity	**1.8**	–	–
Profit for the period	**49.8**	27.3	61.5
Total recognised income and expense for the period attributable to shareholders	**51.6**	27.3	61.5

Consolidated Statement of Changes in Equity

for the six months ended 31 July 2005

	Half year to 31 July 2005 (unaudited) £m	Half year to 31 July 2004 (unaudited) £m	Year to 31 January 2005 (audited) £m
Retained earnings			
Balance at 31 January (IFRS excluding IAS 32 and 39)	**191.6**	155.0	155.0
IFRS adjustments for IAS 32 and 39	**9.4**	–	–
Balance at 1 February	**201.0**	155.0	155.0
Profit on ordinary activities after tax	**49.8**	27.3	61.5
Dividends paid	**(19.6)**	(16.7)	(24.9)
Balance at 31 July/31 January	**231.2**	165.6	191.6

Consolidated Cash Flow Statement

for the six months ended 31 July 2005

	Half year to 31 July 2005 (unaudited) £m	Half year to 31 July 2004 (unaudited) £m	Year to 31 January 2005 (audited) £m
Cash flows from operating activities			
Interest and fee receipts	**59.2**	55.1	115.3
Dividends received	**3.1**	0.2	0.9
Gain on disposals	**56.4**	23.7	62.9
Interest payments	**(17.0)**	(13.9)	(24.4)
Cash payments to suppliers and employees	**(30.6)**	(17.8)	(28.9)
Cash generated by operations	**71.1**	47.3	125.8
Income taxes paid	**(19.8)**	(11.6)	(26.5)
Net cash from operating activities	**51.3**	35.7	99.3
Cash flows from investing activities			
Interest received	**0.9**	0.7	1.6
Purchase of current financial assets	**(110.5)**	26.1	(14.2)
Purchase of loans and investments	**(213.4)**	(168.7)	(398.6)
Proceeds from sale of loans and investments	**160.8**	190.3	311.7
Purchase of property, plant and equipment	**(0.1)**	(0.1)	(0.3)
Net cash (used in)/from investing activities	**(162.3)**	48.3	(99.8)
Cash flows from financing activities			
Dividends paid	**(19.6)**	(16.7)	(24.9)
Increase/(decrease) in long-term borrowings	**163.3**	(34.4)	39.8
(Decrease)/increase in other borrowings	**(6.1)**	9.4	–
Increase in share capital	**1.5**	2.4	2.6
Net cash from/(used in) financing activities	**139.1**	(39.3)	17.5
Net increase in cash	**28.1**	44.7	17.0
Cash at beginning of year	**55.6**	38.6	38.6
Cash at end of year	**83.7**	83.3	55.6

Notes

1 Analysis of profit before tax

	Half year to 31 July 2005 (unaudited) £m	Half year to 31 July 2004 (unaudited) £m	Year to 31 January 2005 (audited) £m
Income			
Interest and dividend income	**67.9**	46.9	101.6
Fee and other operating income	**11.4**	12.5	27.4
	79.3	59.4	129.0
Less: related expenses			
Interest payable and similar charges	**(18.3)**	(11.8)	(26.5)
Administrative expenses – salaries and benefits	**(7.8)**	(6.5)	(13.3)
Operating expenses	**(4.4)**	(3.6)	(8.3)
Medium term incentive scheme	**(4.8)**	(3.0)	(6.3)
Core income	**44.0**	34.5	74.6
Gains on investments	**64.6**	23.7	62.9
Medium term incentive scheme	**(12.6)**	(4.7)	(14.3)
Net gains on investments	**52.0**	19.0	48.6
Provisions for impairment of assets	**(17.5)**	(13.0)	(28.2)
Profit before tax	**78.5**	40.5	95.0

2 Basis of accounting

The interim financial statements have been prepared under International Financial Reporting Standards (IFRS). The Group's accounting policies and adjustments made on the implementation of IFRS were disclosed in the announcement released on 16 September 2005 and can be found on the Group's corporate website (www.icgplc.com). The accounting policies and disclosures adopted reflect the Group's current view of best practice and the accounting standards that will be in force and endorsed by the EU for the period commencing 1 February 2005. They are therefore subject to change. In accordance with the transitional provisions on first-time adoption of IFRS, the 2005 statutory comparatives do not follow IAS 32 "Financial Instruments: Disclosure and Presentation" and IAS 39 "Financial Instruments: Recognition and Measurement". Consequently, the statutory income statements for the six months ended 31 July 2004 and 31 July 2005 are not on a comparable basis.

3 Earnings per share

The calculation of earnings per share is based on earnings of £49.8m (2004 – £27.3m) and an average number of shares in issue throughout the period of 69,620,246 (2004 – 69,252,000).

4 Dividends

The interim dividend of 14.0p per share will be paid out to members registered at the close of business on 21 October 2005.

5 General

The interim financial statements for the half year to 31 July 2005 were approved by the Board on 10 October 2005. 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 2005 have been extracted from the Group's transitional statement which was published on 16 September 2005. The auditors' report on this statement was unqualified and did not include a statement under Section 237 (2) or (3) of the Companies Act 1985.

Copies of this statement are available on our website.

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 2005 which comprises the consolidated income statement, the consolidated balance sheet, the consolidated statement of recognised income and expense, the consolidated statement of changes in equity, the consolidated 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 policies 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.

International Financial Reporting Standards
As disclosed in note 2, the next annual financial statements of the group will be prepared in accordance with International Financial Reporting Standards as adopted for use in the EU. Accordingly, the interim report has been prepared in accordance with the recognition and measurement criteria of IFRS and the disclosure requirements of the Listing Rules.

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 International Standards on Auditing (UK and Ireland) 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 2005.

Deloitte & Touche LLP
Chartered Accountants, London

10 October 2005

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