# Intermediate Capital Group PLC

## Annual Report and Accounts 2007

# About ICG

**Our vision is to be amongst the world's most innovative and successful investors, doubling in size every five years by employing and motivating great people.**

**To reach this goal we will leverage our unique advantages, which are: great people; an innovative, long term approach; local networks and relationships; our existing portfolio and permanent capital.**

## Contents



## Our Objective

is to deliver value to our shareholders over a long period of time

# Highlights

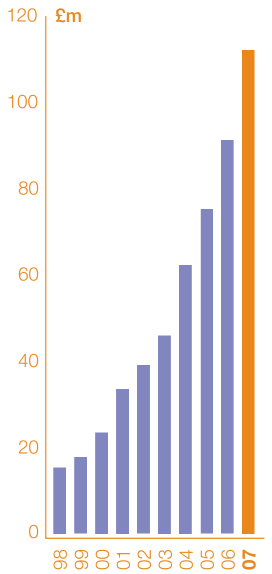
- Core income† up 23%* to £112m
- Gains on investments reach a record level of £197m
- Pre-tax profits up 37%* to £224m
- Proposed final dividend of 41.5p net per share making 58.0p per share for the year, an annualised 21% increase
- The loan book increased by 17%* to £1.7bn
- Funds under management rise to £5.8bn with 69% of assets invested

| | **Year ended 31 Mar 2007 £m** | 14 month period ended 31 Mar 2006 (annualised* unaudited) £m | 14 month period ended 31 Mar 2006 £m |
|---|---|---|---|
| Net interest income | **138.4** | 106.7 | 124.5 |
| Profit before tax | **224.0** | 162.9 | 190.1 |
| Core income† | **112.0** | 91.1 | 106.3 |
| Loans and investments | **1,749.9** | 1,493.9 | 1,493.9 |

† The detailed definition of core income can be found on page 20 under income statement.
* For ease of comparison, comparative information for the 14 month period to 31 March 2006 has been pro-rated on a 12 month basis.

## Ten year record

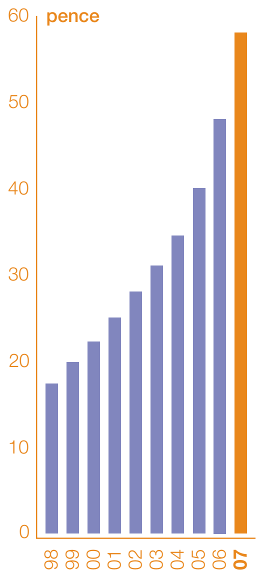
**Core income**




10 year annual compound growth rate

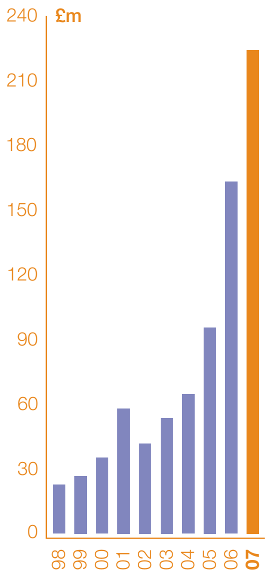
+25%

**Dividend per share**



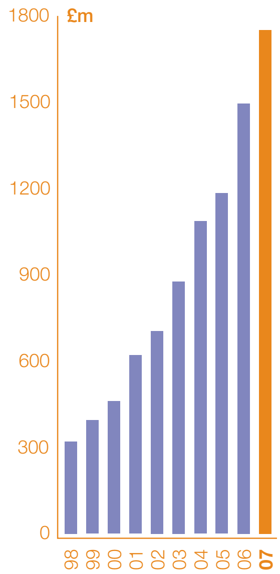

+14%

**Pre-tax profit**




+29%

**Loans and investments**




+21%

# The Board of Directors

**BACK ROW Left to right**

**Jean-Daniel Camus**
Non-executive Director age 61. He was a founding partner of Orium, a proprietary investment firm and previously worked for LBO France. He started his career in the French civil service and served as a special adviser to the Department of the General Secretary to the President of the French Republic.

**Andrew Phillips**
Managing Director age 44. Prior to joining ICG in 1989, he worked for Chemical Bank. He is responsible for ICG's UK and Nordic mezzanine business.

**Paul Piper**
Managing Director Age 49. Paul joined ICG in 1989. He has performed a number of roles predominantly in the UK mezzanine market and latterly was responsible for the Operations of ICG. He is now responsible for maintaining the credit quality at ICG as well as for compliance. Paul is the Chairman of the Investment Committee, which he joined in 1996.

**James Nelson**
Non-executive Director age 59, is a non-executive partner in Graphite Capital, Chairman of PIFC Group Limited and a non-executive director of Henderson Smaller Companies Investment Trust Plc. He is a past Chairman of the BVCA.

**FRONT ROW Left to right**

**Christophe Evain**
Managing Director age 45. Prior to joining ICG in 1994, he worked for Banque de Gestion Privee in Paris. He is responsible for ICG's mezzanine business in Germany, Benelux and the Asia Pacific Region.

**Tom Attwood**
Managing Director age 54. Prior to joining ICG in April 1996, he was a director of James Capel & Co where he worked for eight years. He is Chairman of the Executive Committee and is responsible for ICG's Fund Management business.

All Managing Directors are members of the Executive Committee and the Investment Committee.

**Peter Stone**
Non-executive Director age 60, is a qualified solicitor. He is a non-executive director of DTZ Holdings PLC as well as a number of other businesses and was previously a director of Close Brothers Group plc.

**Tom Bartlam**
Non-executive Director age 59, is a Chartered Accountant. He joined ICG in 1989 and was a Managing Director until his retirement in 2005, when he was appointed a non-executive director. He is Chairman of Pantheon International Participations PLC, a non-executive director of Numis Corporation PLC and of F&C UK Select Trust PLC.

**Francois de Mitry**
Managing Director age 41. Prior to joining ICG in 1997, he worked for Societe Generale. He is responsible for ICG's French, Iberian and Italian mezzanine businesses and the sponsoring Managing Director for the Minority Partner business.

**Eric Licoys**
Non-executive Director age 68, was formerly Director General of Vivendi Universal, the media and communications group, having previously been President of the venture capital arm of Lazard Freres in France. He is a past chairman of AFIC.

**John Manser CBE DL**
Non-executive Chairman age 67, is a Fellow of the Institute of Chartered Accountants in England and Wales. He was formerly Chairman of Robert Fleming Holdings Limited and is currently Chairman of Shaftesbury PLC, Hiscox Investment Management Ltd, Deputy Chairman of Colliers CRE plc and a non-executive director of SAB Miller plc

**Justin Dowley**
Non-executive Director age 52, is a Chartered Accountant. He is currently a Partner of Tricorn Partners LLP, the independent advisory firm, which he co-founded in 2003 and a non-executive director of Bridgewell Group plc. He was previously head of investment banking at Merrill Lynch Europe.

**Philip Keller**
Managing Director age 41. He was Finance Director at ERM Holdings Ltd, one of the world's largest environmental consultancies. He is Finance Director and responsible for finance and operations. He has previously held a number of financial directorships in the GlaxoSmithKline and Johnson & Johnson groups.

# Chairman's statement

John Manser, *Chairman*

**Dear Shareholder**

I am pleased to report that the financial year ended March 2007 was another excellent year for the Group delivering record pre-tax profits of £224m. Our growth has resulted from our continued focus on innovation to meet changing market requirements, partnership with our fellow investors, a rigorous credit culture and the high calibre of our employees.

We are particularly pleased with the performance of our global network, which continues to develop and thrive even in continued competitive market conditions. During the year we opened new offices in Sydney and Tokyo and are already experiencing increased deal flow from these regions. Indeed our Direct Investment business, where we take investments to our own balance sheet, achieved excellent results across all regions, with Continental Europe flourishing despite the maturity of this market.

During the year we arranged or provided £1.2bn in 31 transactions. Of this £727m was held on our balance sheet and £426m was taken by our funds. After taking into account the high level of repayments our balance sheet portfolio grew by 17%* in the year to £1.7bn.

Our Fund Management business goes from strength to strength, with a 93% increase in our funds under management to a total of £5.8bn, of which 69% was invested as at the end of March 2007. In the year we completed fund-raising for our latest mezzanine fund, the €2.25bn European Fund 2006. On the non-mezzanine Fund Management side we closed two new Collateralised Debt Obligations, increased the size of the Eurocredit Opportunities Fund and our Institutional Mandated Funds. The Fund Management business complements our Direct Investment business, ensuring that we have the resources to be selective and proactive in the transactions in which we choose to participate, while the fee income generated provides a stable and growing earnings base.

*The previous period's results were presented for a 14 month period. All comparative data is based upon the previous period on an annualised basis.

**Fee Income Generated**

provides a stable and growing earnings base

## Excellent results

Core income grew by £21m to £112m, an increase of 23% driven by net interest income and a 40% growth in fee income. We achieved another record gain on investments, up 59% from last year at £197m. This was due to the high number of realisations of warrants and equity investments, as private equity sponsors took advantage of continued buoyancy in the market to realise profits by way of exits. After impairments, the Medium Term Incentive Scheme, and other expenses, pre-tax profits increased by 37% to £224m.

## Increase in dividends

Our objective remains to provide double-digit percentage increases in our dividend broadly in line with growth in core income. The Board is recommending a final dividend of 41.5p net per share to be paid on 27 July 2007 which, with the interim dividend of 16.5p net per share, brings the total for the year to 58.0p per share. This is an increase of 21% over the previous period calculated on an annualised basis, reflecting the percentage increase in core income.

The dividend will be paid to shareholders on the register on 6 July 2007.

## Enhanced capital position

The Group continues to be well placed financially with a strong balance sheet and positive cash flows. During the year the Group undertook a thorough review of its balance sheet in the light of favourable conditions in the credit market. As well as reducing the cost of our debt, we wanted to ensure that our borrowing facilities are aligned with our strategy of geographic expansion and investing in a variety of subordinated investments. Furthermore we wanted sufficient flexibility to make opportunistic investments through a turn in the credit cycle. Our debt capacity has increased from £1.5bn to £2.0bn of which £1.2bn was drawn at year-end.

With gearing at 192% and, having amended the terms of our facilities, we believe we are very well placed to take advantage of adverse conditions in the debt market.

## Board and governance

In September 2006 Philip Keller was appointed to the Board as Finance Director. Prior to joining ICG, Philip was Finance Director at ERM Holdings Ltd, one of the world's largest environmental consultancies, during a period when it undertook two leveraged buyouts. His wealth of financial, business management and strategic planning experience has already made him a strong addition to our senior executive team.

In March 2007 we were pleased to announce the appointment of Jean-Daniel Camus as a non-executive Director of the Company. Jean-Daniel has more than 20 years of experience in private equity. He was a founding partner of Orium, a proprietary investment firm, which he joined from LBO France, a pioneer of leveraged buyout investments on the continent. The Board believes that Jean-Daniel's extensive private equity experience will enable him to make an extremely valuable contribution to the work of the Board.

Eric Licoys and Peter Stone will retire at the AGM. I would like to thank them for their considerable and helpful contribution as non-executive Directors over the last nine years, a period of sustained growth.

The Board remains committed to maintaining the highest levels of governance and compliance. We are keenly aware of the need to ensure that our business is responsive to the needs of clients, investors, staff and the wider community.

This year's AGM will be held on 18 July 2007 at our offices at 20 Old Broad Street in London, and I hope to have the opportunity to meet you there. If you miss it, we will be recording interviews for our website www.icgplc.com.

## Motivated employees

I would like to thank our employees for their hard work and commitment in helping to deliver another excellent set of results. In recognising the importance of the team, we are constantly working hard to attract the highest quality people while maintaining an attractive working environment for the existing staff.

## Outlook

I am very pleased to report that we have started the new financial year well. We have a strong and diversified portfolio of investments, selected to be robust in more difficult market conditions. In spite of this we are expecting prices and structures, driven by excess liquidity in debt markets, to get worse before they get better. We are experiencing higher levels of repayments as companies seek to replace mezzanine with cheaper debt. We do not see this trend reversing or slowing down in the short-term but are determined to maintain our credit discipline. Consequently it is possible that our balance sheet may fail to grow and even if it does grow, net interest income may fall as spreads continue to tighten. Our portfolio and cash reserves anticipate the volatility and opportunity that will result when the market turns. Although the market is increasingly competitive, our network is still originating a number of investment opportunities which meet our rigorous credit standards.

We are a leading provider of intermediate capital in our chosen markets, and the fund manager of choice for our investors. We will invest in the necessary people and infrastructure to maximise value to our shareholders, investors and clients. We will continue to be innovative where appropriate, tailoring solutions to meet demand in changing markets. We expect our Fund Management business to show steady growth in income this year and beyond. We will maintain the efficiency of our balance sheet to give us greater flexibility and capacity whilst ensuring our investment strategy is driven by long term value creation.

We believe we can do more in the next year and beyond by continuing to put our partnership approach, credit culture and bespoke tailoring at the heart of everything we do. We will continue to seek attractive opportunities to expand geographically, in our core markets and in our product offering, where they complement and enhance our existing businesses. Indeed we will shortly be opening an office in New York. We have a strong balance sheet. The permanent capital it provides will give us a considerable advantage over the competition when the market turns. We look forward to the future with confidence.

**John Manser**
*Chairman*
12 June 2007

**Our Network**
is still originating a number of investment opportunities which meet our rigorous credit standards

# Managing Directors’ business and market review

**Tom Attwood,** *Managing Director*

Our business is a simple one. We invest money in companies managed by teams that are able to build value over the medium term and that operate in stable markets. Over the past 18 years, the companies in which we have placed our trust have collectively generated annual returns of over 20% for ICG. This is a remarkable achievement by these management teams and the staff of ICG involved.

ICG had another record year, with pre-tax earnings up 37%. We enjoyed an exceptional level of gains on investment and strong growth in core income. Our Direct Investment activities benefited from high levels of deal flow and our Fund Management business also performed very well. The loan book continued to grow despite a high level of repayments.

We believe the current year will be a good one but, with lower gains on investments, unlikely to be another record. While we expect our core income to keep growing, we would be comfortable maintaining a flat or even contracting portfolio if we cannot find suitable investment opportunities.

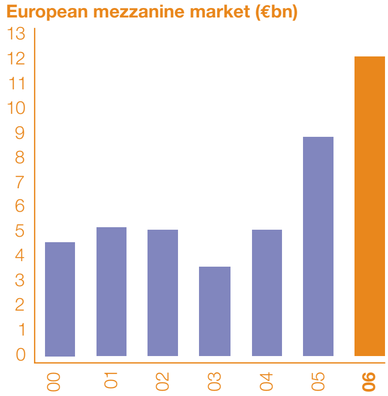
In the following sections we describe how we perceive market conditions, how we are responding to them, and we provide you with an overview of our business’s performance last year.

## Market review

The Private Equity market remains the principal driver of developments in the mezzanine and leveraged loan markets. In 2006 we continued to see record levels of new cash injected into private equity funds. During 2006, €108bn was raised by European sponsors which, when combined with the leverage available, was enough to finance around €450bn of acquisitions. During the same period, the value of transactions was €165.5bn, creating a large surplus for future years. This level of fund raising has driven the record volumes of leveraged buyout activity, with deals in 2006 including RWE Thames Water (€12bn), Pages Jaunes Group (€6bn), AWG plc (€8bn) and this year a £10bn bid for Boots PLC.

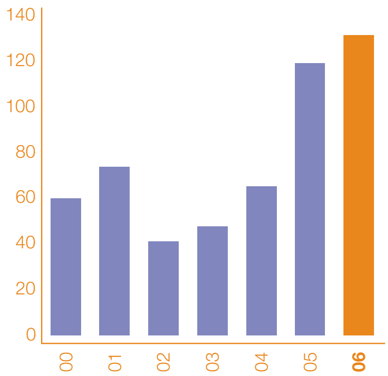
Not surprisingly, the mezzanine and leveraged loan markets have also expanded.

**European mezzanine market (€bn)**




*Source: S&P*

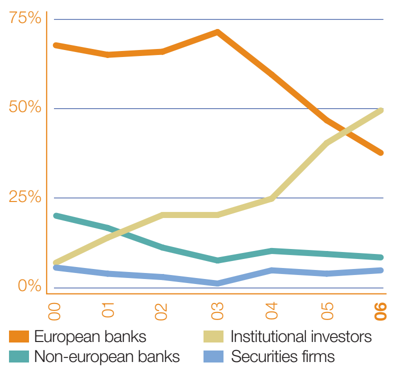
**European levered loan market (€bn)**




*Source: S&P*

As the markets have expanded investment vehicles like CDO’s (Collateralised Debt Obligations), CLO’s (Collateralised Loan Obligations) and hedge funds now account for well over 50% of the market, up from 6% in 1999. These vehicles use asset-backed structuring technology to gain leveraged exposure to their chosen asset class. These investors are putting pressure on pricing and leverage levels due to their huge demand for assets. In many larger deals senior debt is being stretched to levels that replace mezzanine, which could even contract as an asset class during the current year. Unlike ICG, few of these new investors have managed a portfolio through a difficult economic cycle, and many are not structured to take and hold long term debt in anything other than a benign environment. When there is a downturn, we believe we will benefit by being in a position to acquire high quality assets at attractive levels of return in the secondary and the primary market by employing the permanent capital on our balance sheet.

**Primary market by investor type** (S&P)




In Asia, the other market in which ICG is active, 2005 and 2006 were both record years for private equity fundraising. A number of European and US private equity firms have boosted their presence alongside local players. Australia and Japan are the most active markets and benefit from robust legal and government structures. In these relatively new markets, transactions often need more bespoke structures and we have the experience and resources to respond to that need.

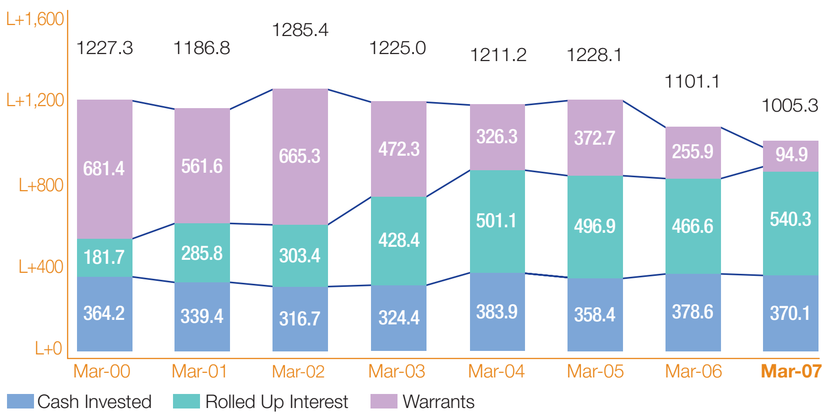
## ICG’s position in the market

Although the markets are buoyant and liquid, we believe that there is a scarcity of high quality transactions and too much money chasing them. There is real pressure on pricing for new transactions, and leverage levels continue to rise. So our current strategy is to invest in the highest quality companies, run by great management teams where we believe these companies will still be healthy in five to ten year’s time. Most of our investments are in regional mid-market companies and not in the highly commoditised London based LBOs. This plays to the strength of our long standing local network. Our selective strategy means that we currently turn down many of the deals that we are offered, a number of which are geared up with little or no margin for safety.

### Investments in warrants and equity

As illustrated by the graph below, the use of warrants as part of the mezzanine pricing mix is decreasing.

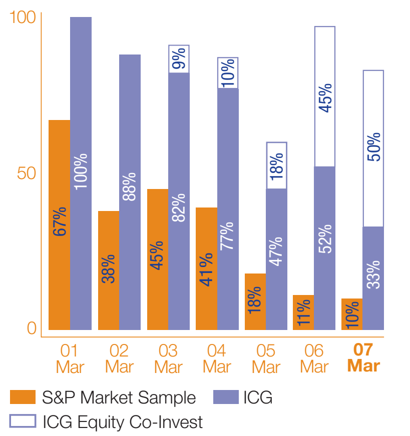
**Blended mezzanine spread – ICG Portfolio**




*Source: ICG Data (L= LIBOR)*

ICG continues to enjoy substantially more warrants on its transactions than the market as a whole and, as shown on the table below, we have increased our direct equity co-investment in deals to ensure we share in the equity upside on transactions where appropriate. As a result our equity portfolio has increased during the year from £221m to £260m in 64 companies. We expect this trend to continue.

**Warranted mezzanine by number of new investments (%)**




**Including finance deals*
*Source: ICG Data*

In addition, as the market matures, we are seeing greater opportunities in sponsorless and Minority Partner

**Our Strategy**
is to invest in the highest quality companies

# Our French team

"ICG has been a valued partner for the Group since 2002, both as a mezzanine provider and minority shareholder. Over the period, the Group grew substantially and experienced significant changes in organisation and management. The 2002 Astorg-led LBO to which ICG contributed came to a highly successful conclusion with Industri Kapital taking over majority ownership of the Group in July 2006. ICG once again arranged the subordinated financings including senior and junior mezzanine and took the opportunity to increase its equity stake. The Cerba Group is in a very good position to benefit from the accelerating consolidation of the industry in Europe. ICG's financial strength and clear support of our resolutely ambitious build-up strategy are undoubtedly important assets for our Group."

*– Catherine Courboillet, Chief Executive Officer, Cerba Group*

# Managing Directors' business and market review continued

investments; this is where the second generation of family companies, or LBO management teams, wish to own the majority of the business. These opportunities are an extension of ICG's existing business using our local network and our flexible approach. They may also require ICG to make larger equity investments, where we believe there is an appropriate balance of risk and reward.

With 47 Investment Executives on the ground in local markets, we have one of the largest dedicated and experienced teams in the market. Our unique business model enables us to source attractive assets that meet our rigorous credit tests.


Default rates in the market remain very low at 1% to 2%. Historically successive increases in interest rates, such as we are currently experiencing, have almost always led to higher defaults. While our portfolio companies would undoubtedly be negatively affected by a downturn in the economic environment, the way we manage and monitor deals should help protect us from rising defaults. Our Investment Executives are not rewarded for bringing in new deals. They are rewarded at the end of a deal when we get our money back and secure our principal and gains on investments. If a transaction does encounter difficulties, and inevitably some will, the same Investment Executives will work it through. This approach has meant that we have an unusually high average recovery rate from defaulted loans.

The mezzanine market is polarising, with larger London-based "commodity" transactions, often with tight spreads and unattractive terms, contrasting with local, mid-market transactions where we have always focused and where partnership with sponsor investors and management teams is more important. This is not all about price and structure. We avoid large unmanageable syndicate deals because we think that if anything goes wrong investors would struggle to make any kind of decent recovery.

In our Fund Management activities we have applied the same credit discipline. Consequently Intermediate Capital Managers Limited ("ICML"), our Fund Management subsidiary, is one of a small handful of portfolio managers who have a history of successfully managing these portfolios through challenging market environments.

## Business review

The past year has seen outstanding growth in our business. We would now like to comment on international expansion, Direct Investment activity, Fund Management and the investment we are making in key resources to support future growth.

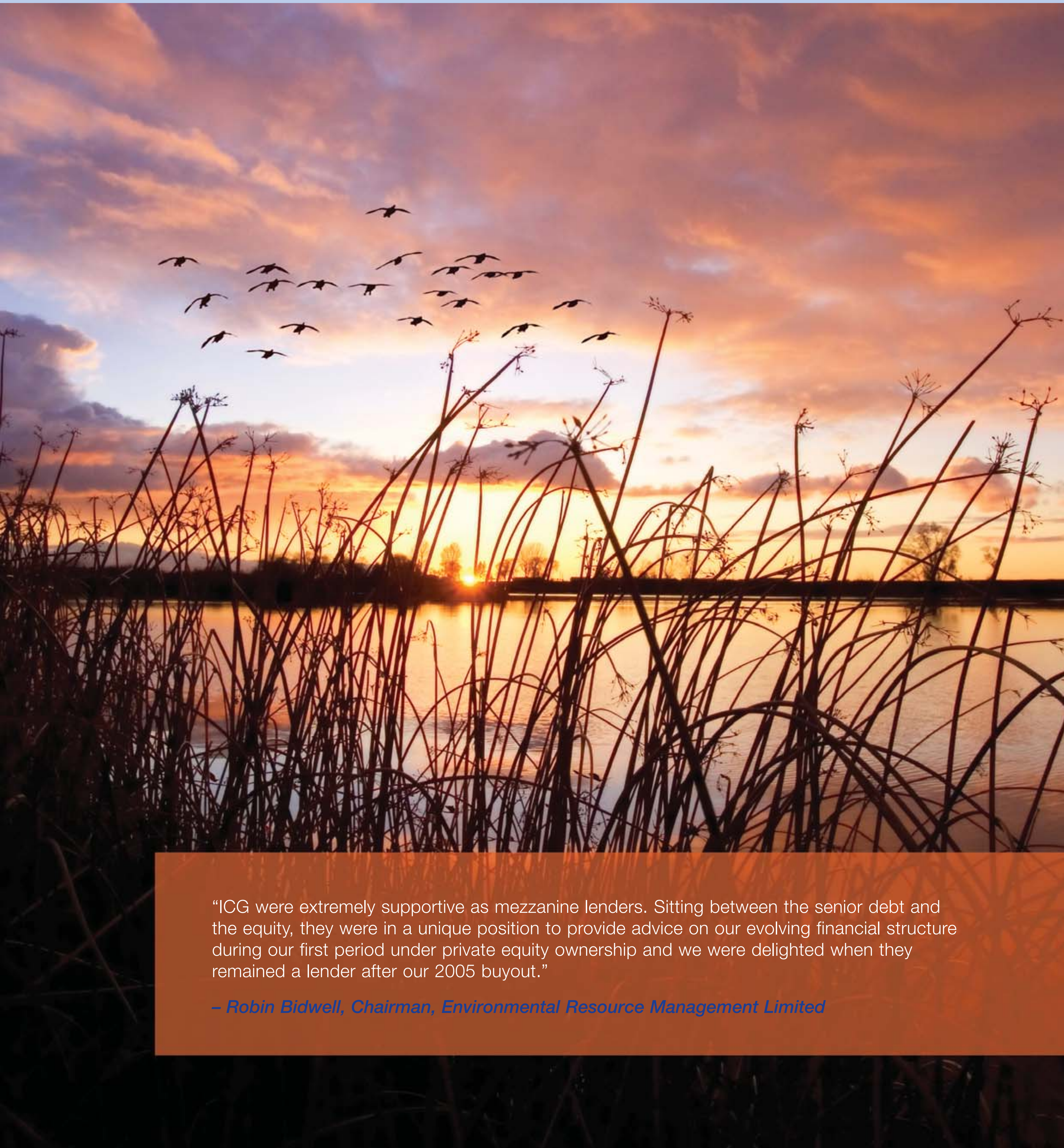
### International expansion

ICG is growing, and in 2006 we opened offices in Tokyo and Sydney, staffed by experienced and dedicated investment professionals. We are already seeing more deals coming from these regions. These moves follow a pattern of identifying markets where our clients are investing, where we trust the legal and corporate frameworks and where we have identified outstanding individuals or teams. In fact over the years we have found that there is no substitute for having local offices staffed by high quality teams making local investments.

### Direct investment

Direct Investment is where ICG takes investments to our own balance sheet. Our activities are very often in mid-market companies. We aim to invest in businesses that are respected in their markets and sufficiently resilient to withstand market challenges. When considering a transaction, we vet the management, conduct in-depth due diligence with the assistance of specialist professional advisors, and work with other investors to tailor a financial structure which we believe will help the company grow earnings. Usually ICG is an investor in the "mezzanine" layer of debt, but we also regularly make equity investments alongside or independently of these mezzanine investments. We have found that by sticking to our clearly defined processes and disciplined

**47 Investment Executives**
on the ground in local markets



"ICG were extremely supportive as mezzanine lenders. Sitting between the senior debt and the equity, they were in a unique position to provide advice on our evolving financial structure during our first period under private equity ownership and we were delighted when they remained a lender after our 2005 buyout."

*– Robin Bidwell, Chairman, Environmental Resource Management Limited*

# Our Asia Pacific team

"We have been using ICG as a funding partner for 3i lead buyouts for many years. The ICG regional network throughout Europe and Asia provides access to respected professionals in local markets who are imbued with the ICG attributes of high standards, tailored solutions and a partnership approach to investments."

***– Jonathan Russell, Managing Partner Buyouts, 3i***

# Managing Directors' business and market review continued

investment procedures we have been successful.

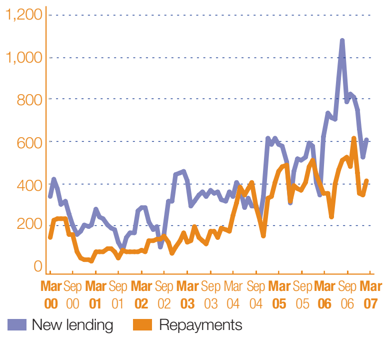
ICG is not a short-term investor, and nothing would please us more than keeping an investment in one of our best portfolio companies for the longer term. However, the pressures of the other investors and management often result in earlier repayment, as they seek a profitable exit. In many cases though we are able to remain invested through second, third and even fourth buyouts, continuing to support the companies we have grown to know so well.

**New lending and repayments**

New investment growth was strong in the year with loan and equity investments growing by 17%. In total we provided or underwrote £1,221m in 31 transactions of which £727m was held by ICG, £426m was taken by our mezzanine funds and £68m was held by third parties. The liquidity and activity in the market has led to a number of our investee companies achieving exits. This provides us with gains on these investments but also means our loans get repaid.

The graph below highlights one of our key performance indicators, tracking new lending against repayments, and demonstrates strong recent growth with new investments exceeding repayments.

**New lending vs. repayment**
(six month moving average)




*Source: S&P*

In the current market it can be challenging to find the same quality of replacement assets. We are prepared for limited loan book growth or even a decline during the new financial year. We will carry on focusing on our core markets and maintaining our investment discipline.

**Fund Management**

ICG's Fund Management business, operating through our subsidiary ICML, has grown fee income by 37% to £27m for the financial year. Fund Management has naturally evolved for ICG in that our funds benefit from ICG's expertise in the sub-investment grade credit markets, while shareholders benefit from the steady increase in Fund Management fees. Most importantly this aligns our interests with those of our investors and shareholders. We plan to continue growing the Fund Management business over the coming years, markets permitting.

**Mezzanine funds**

ICG launched its first mezzanine fund in 1998 with what now seems a small amount of equity, just €76m. We have since launched a further three European funds, the latest of which closed at the end of March 2007 with €1.25bn of equity commitments and €1.0bn of leverage. This new fund provides increased contractual management fee income, as well as helping us to arrange larger tranches of mezzanine.

We were particularly pleased that 78% of commitments in the new fund came from existing investors, an endorsement of their faith in our continuing ability to meet their investment performance expectations.

Our Mezzanine Funds made good progress in the year:

- The new ICG European Fund 2006 was closed with €1.25bn of equity and €1bn of debt arranged and committed. This fund has already invested a total of €133m in six new loans and investments;
- ICG Mezzanine Fund 2003 became fully invested and is now closed to new investment. In excess of 25% of the portfolio has now exited or repaid and, at 31 March, the fund remained invested in 63 assets;
- ICG Mezzanine Fund 2000 has already returned over 130% of investor commitments and the fund remains invested in 14 assets;
- ICG Mezzanine Fund 1998 benefited from further exits;
- Our US$500m Intermediate Capital Asia Pacific Fund, including US$200m committed by ICG, is now 39% invested;
- The amount invested on behalf of all our third party mezzanine funds increased during the year from €1.12bn to €1.43bn and total funds under management increased from €1.7bn to €3.9bn.

**Collateralised debt obligation funds and Institutional Mandates**

We were amongst the first European managers of CDOs, and continue to expand into related alternative asset classes, providing steady fee income and diversification for our shareholders.

In many situations the CDO team is provided with the opportunity to invest alongside the ICG balance sheet in Direct Investment opportunities, but they also invest in transactions where ICG has no Direct Investment involvement. With "buckets" to invest across a spectrum of debt layers, from senior secured to mezzanine, the CDO team has the ability to finance LBO transactions in all elements of the capital structure.

The CDO and Institutional Mandate funds under management grew by 80% from €2.5bn at the end of 2006 financial year to €4.5bn at the end of the 2007 financial year. These Funds generated fee income of £14.9m, up from £10m in the previous year:

- Promus I, an early CDO vehicle, was replaced with Eurocredit V, a more financially efficient vehicle investing primarily in leveraged loans. With existing and new investors, the Fund size was increased to €600m;
- Eurocredit VI, a new CDO, closed in December 2006 with commitments of €500m. This Fund is almost fully invested and its portfolio characteristics are similar to other ICML CDO's;
- In addition ICML has refinanced Promus II into a new, enhanced and enlarged CDO called Eurocredit VII;
- Following good investment performance the Eurocredit Opportunities Fund was reopened and attracted €610m of new funds, from a mix of new and existing investors, bringing its total funds under management to €1.10bn. Eurocredit Opportunities is a less leveraged and more flexible fund structure with underlying collateral comprising leveraged loans and high yield bonds as well as mezzanine, stressed and distressed loans;
- ICML also manages a growing portfolio of Institutional Funds, mainly on behalf of UK pension funds and these were also added to over the year.

Fees earned from new Fund Management mandates will materially impact core earnings starting in our 2008 financial year.

ICML's excellent record in managing CDO and Institutional Mandates attracted a significant number of new investors in 2006. We are experiencing high investor demand to tap existing funds and open up new funds but are only doing so as and when we feel there is a sufficient volume of attractive deals in which to invest. Above all we wish to retain our strong reputation in the marketplace, which derives from our rigorous credit culture and from the commitment and consistency with which we select our investments. Sitting on an investor's cash, or worse choosing uneconomic investments, is simply not in the interests of the Company or the investors.

Over the next few years we plan to expand this important part of the business into related areas where we already have clear demand from existing and new investors and where we can take advantage of our global network. We will continue to recruit experienced portfolio managers and credit analysts to aid the expansion of our Fund Management business.

## Corporate social responsibility

With an expanding global network of business activities and offices in 8 countries, contributing to society is important to us. ICG Group employees dedicated their efforts in our local communities and on social projects where our expertise can best be utilised. The Company believes that it is important for staff to not only give

Spitalfields City Farm Project

**Fees Earned**
from new Fund Management mandates will materially impact core earnings starting in our 2008 financial year

# Our Benelux German team

"As a leading pan-European mezzanine investor, ICG is a valued long term partner for GIC. With a proven investment strategy and team, the firm is well positioned to continue generating attractive risk-adjusted returns going forward."

*– Eng Seng Ang, Head of European Private Equity, GIC Special Investments*

# CDO and Institutional Mandate team

"In a highly competitive leveraged loan market with increasing numbers of new entrants, ICG is one of the longest established mezzanine lenders and CLO managers in Europe with a demonstrable track record and amongst the top with respect to access to collateral. I believe that ICG has the core competencies and resources in local markets to cope with changing credit cycles and will continue to outperform the market."

*– Mirja Wenski, Managing Director, ZAIS Group*

financial support but also their time to these projects, and to that end allows each employee to dedicate 2 days a year to work on charitable projects. We will invest more of our time and money into this area in the coming years.

## People

ICG continues to invest in people, and to build the long term scalable infrastructure for the Group. We have been successful in our retention of investment staff, and have made a number of new hires throughout the year. Our focus is on finding great people to do a great job. Over the past year we've made some notable hires in our UK and Asian Direct Investment business. We have also invested in finance and support operations both in terms of people and systems.

## Outlook: maintaining our momentum

ICG's strategic objective is to become amongst the world's most innovative and successful investors, doubling in size every five years by employing and motivating great people. In order to achieve this we will leverage our unique advantages, which are: the quality of the team; an innovative, long term approach; local networks and relationships; our existing portfolio and permanent capital.

We believe there will be further growth in the LBO markets, leading to strong deal flow in our European and Asian mid-market business. Rising liquidity and competition are likely to continue affecting leverage, pricing and repayment levels. We are confident that we can maintain the quality of our portfolio by continuing to focus on our rigorous investment process. Lower spreads may mean that our net interest income will grow more slowly next year and we will have to increase the size of the loan book just to compensate for the lower returns on new investments.

Over the next year, we will continue to explore the less mature and growing markets for direct investments, in particular Asia Pacific where, six years after sending our first Investment Director, we are now reaping the rewards of our long term commitment. In addition we have just opened our first office in New York.

Another area of opportunity is Minority Partner investing, where we can leverage our existing portfolio as well as our relationships in the wider market to access opportunities. This is something we have been doing for many years but as markets mature the opportunities for these types of investments increase. This business model particularly suits ICG because it requires local presence, permanent capital, minority equity investing and a long term approach.

We will also invest in activities where we can grow organically, including secondary mezzanine markets and fund management. We plan to launch new funds which leverage our broad experience in the sub-investment grade credit markets in Europe and further afield in Asia and other regions.

With our permanent capital, we believe ICG has the flexibility to take advantage of market volatility and, more importantly, to take long term decisions in support of the companies in which we invest and provide us with a satisfactory long term return.

To support these initiatives, ICG will invest in the necessary infrastructure, including new staff, training initiatives, IT and premises. We will remain focused on our strategy and true to our culture, continuing to be partnership-focused, ethical, innovative and dedicated to serving mid-market companies and their investors. Ours is a people business and our future success will depend on employing and motivating great people as we have in the past.

Tom Attwood

**Tom Attwood**
*Managing Director*
12 June 2007

# Financial review

This is our second year of reporting under IFRS and to a March year-end. We changed from a January to a March year-end in 2006. Therefore we have given annualised prior year comparisons rather than using the 14 month results for 2006, there being no seasonal influences on our businesses. Similarly all percentage changes are compared to 2006 results annualised taking twelve-fourteenths of the prior period as a base.

## Balance sheet

### Existing portfolio

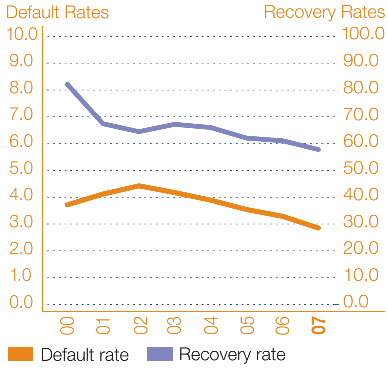
At the end of the year our portfolio was spread across 20 sectors and 13 countries in Europe and 3 in the Asia Pacific Region. A full breakdown of both geographical and industry sectors is shown on page 26.
Our strongest market continues to be Europe, representing 97% of the portfolio.

ICG's 20 largest investments total £839m which account for 48% of the portfolio. Details of our portfolio, including all new loans, equity and repayments, may be found on pages 22 to 28 of this report.

### Default and loss rate

ICG actively monitors its mezzanine and equity investments. An ICG Investment Executive sits as a member or observer on many of the Boards of our portfolio companies. This enables the Investment Executive to monitor the company, and to work closely with management teams, private equity sponsors and other lenders to build value in the business. Each quarter the Executive Committee undertakes a full review of the portfolio. All portfolio investments are discussed and rated for both risk and performance. Where a company's performance gives cause for concern it is placed on a "watch list" and is the focus of additional monitoring. Default (defined as non-payment or a restructuring which is adverse to ICG) statistics are also monitored on a regular basis. ICG's recent default history mirrors that of both the European sub-investment grade and mezzanine markets. The chart below shows the progress of ICG's annual mezzanine default rate, which at the year-end was at its lowest rate since 1993. The chart also shows the recovery rate on our defaulted assets which, while showing a small decline, remains satisfactory at circa 60%.

**Annualised default and recovery rates %**

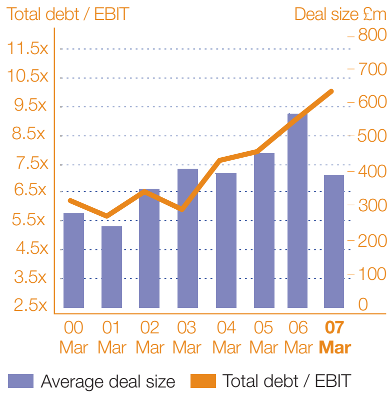



### Gearing level of portfolio

While we maintain an extremely strong credit discipline, the inherent risk to the portfolio is higher as a result of the increase in gearing experienced in the last few years. However in many cases this increased gearing is to companies and management teams we know well.

This is illustrated below.

**Leverage and deal size – at funding (weighted by ICG amount)**




*Source: ICG Data*

### New loans and investments

The financial year was a record for new investments, both in terms of number and value of deals. Several were re-investments with companies which were previously in our portfolio and therefore the business and management are well known to us. We invested steadily throughout the year; however we have increased the number of investments completed throughout Europe, primarily in medium sized deals, which is the heart of our business. In Asia Pacific, we completed our first transactions in Australia and New Zealand and committed to an investment in Taiwan.

The average size of new mezzanine loans held on ICG's balance sheet is £21m. This is an increase over the previous period of £7m.

During the year, we continued our practice of taking equity participations where we believe that the returns will be satisfactory. In the year, we invested £103m in such equity in 21 companies. At the end of the

**ICG's Annual Mezzanine Default Rate**
at the year-end was at its lowest rate since 1993

# Our UK team

"ICG provided us with a unique financing structure which worked perfectly for our business model. It was an off-market product specifically structured to meet our ongoing financing requirements and to support the future growth of the business. They have been a highly supportive partner and we enjoy our working relationship with them."

*– Najib Nathoo, Managing Director, 1st Credit*

year, the total amount of equity and warrants on our balance sheet amounted to £260m.

**Repayments**
Excluding the refinancing of existing deals, during the year £436m was repaid in respect of 35 companies. Of these repayments, 18 were as a result of refinancing of the mezzanine loans with cheaper debt. Importantly, the current buoyant debt market enabled the repayment of a number of loans that, in previous years, may not have been repaid.

**Impairment**
ICG provides against any loan where, in the judgement of the Board, there is evidence of an event that has had an impact on the estimated future cash flows. This evidence depends upon the specific investment, its country, its sector and other factors.

During the year, a small number of companies in the portfolio suffered from impairment events and, as a result, we made provisions against 5 of them, totalling £35m. In addition, £3m incremental provisions were made against the carrying value of a further 3 investments and we received £3m in recoveries on previously impaired assets. Gross provisions for the year totalled £38m (2006 – £35m). The net charge to the income statement amounted to £35m compared to £23m last year.

None of our portfolio companies defaulted on their loans during 2007. As outlined on page 10 the market as a whole is experiencing very low default rates due to faster repayments and looser covenant structures.

**Shares and warrants**
ICG holds quoted shares, unquoted shares and warrants in companies in which it invests. Where the value of these instruments can be reliably measured by reference to a substantial or forthcoming transaction in a similar instrument, the value is recognised in the balance sheet, with any movement in value being accounted for through either the income statement, in the case of warrants and quoted shares, or through reserves for the remaining assets. At the end of March 2007, there was £16m of such unrealised value included in the balance sheet, of which £9m had been taken through the profit and loss account. Shares and warrants whose value cannot be reliably measured are estimated and the value of such instruments over their cost for the financial year was within the range of £55m – £130m.

**Debt facilities**
During the year our debt increased from £995m to £1,152m which funded the growth in the loans and investments. Our major debt facilities consist of a banking facility, a private placement programme and an on-balance sheet securitisation.

In December 2006 we extended the bank facility in size and term and negotiated a lower interest spread. The facility now has capacity of £1.1bn and is provided by a syndicate of 25 banks.

Also during the year, we extended our Private Placement programme adding some UK investors to the predominantly US participants. We issued a further £179m of Private Placements with terms varying from 5 to 10 years.

In January 2007 we redeemed our securitisation, Intermediate Finance PLC, in order to replace it with a successor vehicle. At year-end the assets were warehoused in a facility provided by RBS while the securitisation is being arranged. We expect around €480m of assets will be transferred to the new vehicle in July 2007 which has an initial capacity of €650m. In extending and rearranging our three major debt facilities, we are also taking advantage of lower interest spreads and have lifted some of the restrictions over the geographies in which we invest, as well as increasing our capacity to make more equity-like investments.

With unutilised capacity of £800m (2006 – £450m) we are in a good position to take advantage of investment opportunities in all of our chosen markets and all parts of the credit cycle.

## Income statement

Profit before tax increased by 37% to £224m (£163m in 2006). Of the £61m increase, £21m was due to the strong growth in core income, £54m was a result of an exceptional year for gains on investments reduced by £14m due to increased provisions and the effect of accounting for derivatives for hedging purposes. Gains on investment after MTIS of £155m (2006 – £101m) reflected a very strong buyout exit market and the quality of the investment decisions made in 2003 and 2004.

The pre-tax return on average shareholders' funds was 41% and earnings per share, on an undiluted basis, were 204.6p compared to 153.7p last year (on an annualised basis).

**Core income**
Core income is the underlying profit derived from our lending and Fund Management activities and therefore does not include the impact of gains on investment and provisions for impairment. Core income is analysed

**With Unutilised Debt Capacity of £800m**
we are in a good position to take advantage of investment opportunities

on page 59. Core income consists of net interest income and fund management fees, less related expenses. While gains on investments may fluctuate depending on the investment cycle, our core income provides a stable return on the loan book and managed funds, and as such it is a vital measure of profitability. During the year core income increased by 23% to £112m driven by a 17% growth in the loan book and a 93% growth in funds under management.

### Net interest income

Net interest income and expenses are measured using the effective interest rate ("EIR") method which allocates the interest income and interest expense over the relevant period. The EIR is the rate that discounts estimated future cash flows through the expected future life of the loan or debt and includes fees paid and received on loans such as agency and underwriting fees.

Interest income includes rolled-up interest where interest accrues on loans, loan stock or preference shares, on a compound basis, but is not paid until the loan is repaid to ICG.

Net interest income increased by 30% to £138m. Interest income was driven by the growth on the loan book of 17% and the increase in underlying interest rates. During the period EURIBOR and LIBOR increased by an average of 1%. As most of our loans are at floating rates, we also draw down our debt at floating rates so that we are hedged against changes in the underlying rates. In order to fund the increased investments, our interest expense grew by 47% driven by the same factors and a one-off foreign exchange loss of £6m due to certain unhedged positions at the half year. This loss related to net euro assets recognised at 31 March 2006 in accordance with the accounting policies adopted in respect of IFRS. During the year we have revised our treasury policy and updated our approach to hedging accrued but unrealised income.

### Fee income

Fee income is generated from underwriting mezzanine investments and managing our Mezzanine, CDO and Institutional Mandate funds. The fee income grew by 40% to £33m (2006 – £24m) due to the increase in funds under management. We now receive fees on the equity committed to our new European Fund. However these were offset by fundraising costs during the financial year 2007. We continue to receive fees on our earlier 2000 and 2003 Mezzanine Funds, however these are reduced as each fund makes repayments.

CDO and Institutional Mandate funds under management grew from €2.5bn (£1.7bn) to €4.5bn (£3.0bn) during the year, representing a rapidly growing base on which we are entitled to receive fees. This fee income on both the mezzanine and the CDO activities represents a solid income stream and is the result of outstanding performance and our reputation as managers of sub-investment grade debt.

### Expenses

Our expenses before the Medium Term Incentive Scheme increased from £28m to £47m. Of this increase £16m is due to salaries and bonuses. We have accelerated our recruiting as we continue to invest in new offices, more senior hires and improved infrastructure. During 2007 our headcount increased from 80 to 102. Additionally we operate in an increasingly competitive environment for staff and, as a consequence, reward our people appropriately in order to preserve our outstanding staff retention record.

Included in the salaries and benefits is an £9m provision for the CDO shadow share scheme. This scheme is contractual, the expense being based on the growth in the notional value of the CDO and Institutional Mandate Fund Management business. We would expect this cost to continue into the new financial year as the size of our CDO and Institutional Mandate Fund Management business grows and comparable businesses attract high multiples.

The cost of the Medium Term Incentive Scheme included in core income has increased by 13% as this represents the incentive payments resulting from exceeding the hurdle interest rate on our loans.

Non-payroll costs increased by 27% from £11m to £14m due to new office openings in Tokyo and Sydney and higher legal and professional expenses.

### Gains on investments and provisions

The gross level of gains on investment for the year increased from £124m to a new record of £197m. £188m of this was received in cash while the remainder represented the movement in fair value of warrants taken to profit. The cost of the performance related Medium Term Incentive Scheme generated by gains on investments increased from £23m to £42m.

As detailed on page 20 our net provisions increased from £23m to £35m during the year.

# The portfolio

**In the 12 months ended 31 March 2007, ICG and mezzanine funds advised by ICG invested in the following 31 companies:**

**Albingia** is a specialist French insurance company. In November 2006 ICG invested €20m in the mezzanine finance provided to assist in the buyout. ICG also invested €1m in the equity.

**Apem** is a French company and is one of the world's largest manufacturers of professional switches and keyboards. In December 2006 ICG invested €9.5m in the mezzanine finance provided to assist in the buyout. ICG also invested €1.5m in the equity.

**Attendo,** a Swedish company, is a leading provider of elderly and disabled care services. In January 2007 ICG co-arranged a SEK 460m mezzanine facility to assist in the secondary buyout. ICG also invested SEK 90m in the equity.

**BAA** is the leading U.K. airport operator and the largest international airport operator in the world. In August 2006 ICG took a participation of £35.5m in the perpetual 'Toggle' facility arranged to assist in financing the acquisition. ICG invested a further £22.2m in October 2006.

**Bodybell** is a Spanish retailer of cosmetics and perfumes. In December 2006 ICG arranged and provided mezzanine finance of €20m to assist recapitalisation. ICG also arranged the second lien facility.

**Care Management Group** is a UK operator of care homes for people with physical and learning disabilities. In August 2006 ICG invested £30m in junior mezzanine and equity to assist in a refinancing.

**Cerba** is a French speciality laboratory which performs clinical tests. In July 2006 ICG invested €30m of junior and senior mezzanine finance to assist in the secondary buyout. ICG also invested €9.4m in the equity.

**Easycash** is Germany's largest card payment network service provider. In November 2006 ICG arranged and provided mezzanine finance of €25m to assist in the buyout.

**Elior,** a French company, is a leading contract and concession caterer in Europe. In August 2006 ICG invested €16m in the equity required to take the company private. In October 2006 ICG also took a participation of €142m in the mezzanine finance.

**Euroloc** is a Spanish company that provides equipment and machinery for hire. In July 2006 ICG arranged and provided mezzanine finance of €30.5m to assist in a buyout. ICG also underwrote the senior debt and invested €6m in the equity.

**Fraikin** is France's largest independent truck rental company. In February 2007 ICG invested €66.4m in the mezzanine finance provided to assist the buyout. ICG also invested €9.7m in the equity.

**Gerflor** is a French company that holds the position as Europe's No.2 PVC flooring manufacturer. In November 2006 ICG invested €30m in the mezzanine finance provided to assist in the tertiary buyout. ICG also invested €5m in the equity.

**Groupe Moniteur** is a leading French magazine group. In June 2006 ICG invested €48m in the mezzanine finance provided to support the secondary buyout. ICG also made an equity investment of €10m.

**Link Group** are leading specialists in superannuation administration and share registry services in Australia. In January 2007 ICG arranged and provided mezzanine finance of AUD $70m to assist in the acquisition and refinance. ICG also invested AUD $15m in the equity.

**Loewenplay** is the second largest gaming arcade operator in Germany. In January 2007 ICG took a participation of €15m to assist in the secondary buyout.

**Loyalty Partners** is a German company and provides the leading multi-company loyalty card in that country. In April 2006 ICG took a participation of €23m in the mezzanine facilities arranged to assist in the buyout.

**Materis** is a French group of businesses in aluminates, mortars, paint, refractories and admixtures. In April 2006 ICG invested €85m in the mezzanine finance provided to assist in the secondary buyout.

**Mayborn** is a UK company that manufactures baby and household products. In October 2006 ICG took a participation of £12m in the mezzanine facility arranged to assist in the public to private acquisition.

**Medica** is the third largest provider of nursing homes in France. In August 2006 ICG took a participation of €61.3m in the mezzanine financing arranged to assist in the secondary buyout. ICG also invested €5m in the equity.

**Medi-Partenaires** is a leading player in the French acute care private hospital sector. In March 2007 ICG invested €140m in the senior and junior mezzanine finance provided in support of the secondary buyout.


"Open dialogue through mutual respect is what defines the relationship between ICG and Hi-mart."

*– Mr. Joon Ho Rhee, Chief Financial Officer, Hi-mart*

# The portfolio continued

**Mehilainen** is a Finnish company providing private healthcare. In May 2006 ICG arranged and provided a €20m mezzanine facility to assist in the add-on acquisition to Carema.

**Minimax,** a German company, is the third largest global supplier of fire protection systems and services. In August 2006 ICG took a participation of €45m in the mezzanine loan arranged to assist in the tertiary buyout. ICG also invested €10m in the equity.

**Motip Dupli,** a Dutch company, is the leading European manufacturer of aerosol paints, touch up pencils and technical aerosols. In April 2006 ICG arranged and provided mezzanine finance of €25m to assist in the secondary buyout. ICG also invested €13m in the equity.

**Orizonia** is the leading vertically integrated tour operator in Spain. In July 2006 ICG provided mezzanine finance of €100m to assist in the buyout. ICG also invested €10m in the equity.

**Sebia** is a French manufacturer of medical diagnosis equipment. In September 2006 ICG invested €60m in the mezzanine finance provided to assist in the secondary buyout. ICG also invested €30m in the equity.

**Select Service Partner,** a UK company, is the world-leading travel catering business. In July 2006 ICG co-arranged and took a participation of £40m in the mezzanine and PIK facilities provided to assist in the buyout. ICG also invested £8m in the equity.

**TDF** is the leading broadcasting operator in France. In January 2007 ICG invested €10m in the equity provided for the secondary buyout.

**Tegel** is the leading brand poultry producer in New Zealand. In April 2006 ICG arranged and provided subordinated notes and mezzanine preference notes totalling NZ$89.5m to assist in the buyout. ICG also invested NZ$5m in the equity.

**Viadom** is the leading French company in the home hairdressing market. In June 2006 ICG invested €22m in the mezzanine finance provided to assist in the secondary buyout. ICG also invested €3m in the equity.

**Visma,** a Norwegian company, provides business software and enterprise resource planning services in the Nordic region. In June 2006 ICG arranged and provided a PIK preference note of NOK 600m. ICG also took a participation of NOK 300m in the senior mezzanine and NOK 225m in the equity.

**Vivarte** is a leading French apparel and footwear retail specialist. In March 2007 ICG invested €10m in the equity provided for the secondary buyout.

**In the same period ICG and funds managed by ICG arranged/participated in refinancings for the following 4 companies:**

**Duni** refinanced in March 2007. ICG reduced its exposure by €11.4m.

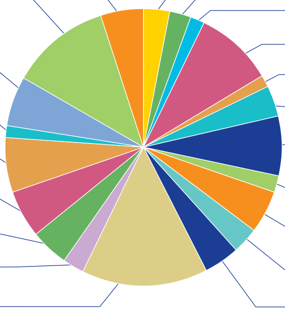
**Marken** refinanced in March 2007. ICG increased its exposure by £7.5m.

**Raet** refinanced in January 2007. ICG rolled over its exposure.

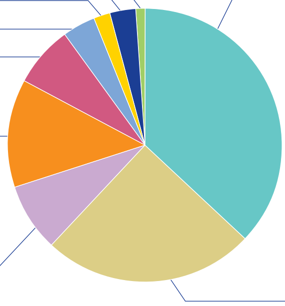
**Target** refinanced in September. ICG increased its exposure by £7.5m.

# The portfolio continued

## Sector analysis of ICG's portfolio




## Geographical analysis of ICG's portfolio




## Repayments

During the year, repayments of loans and investments amounted to £436m. Loans and/or investments to the following companies were repaid or prepaid:

| Name | Country | Form of realisation | Type of finance |
|---|---|---|---|
| Accantia | UK | Refinance | Loan/investment |
| Accord | UK | Trade sale | Investment |
| Aviagen | Germany | Refinance | Loan |
| Caradon | UK | Part refinance | Loan |
| Cerba | France | Secondary buyout | Investment |
| CIS | France | Trade sale | Investment |
| CPL Industries | UK | Refinance | Loan |
| Danish Timber | Denmark | Trade sale | Investment |
| DV Holdings | France | Secondary buyout | Investment |
| Eliokem | France | Secondary buyout | Investment |
| Famosa | Spain | Refinance | Loan |
| Gealan | Germany | Refinance | Loan |
| Gerflor | France | Tertiary buyout | Investment |
| Groupe Moniteur | France | Secondary buyout | Investment |
| Helly Hansen | Norway | Secondary buyout | Investment |
| Janton | Finland | Trade sale | Investment |
| Keolis | France | Trade sale | Investment |
| LWB Refractories | Belgium | Secondary buyout | High yield bond |
| Materis | France | Secondary buyout | Investment |
| Medica | France | Secondary buyout | Investment |
| Medi-Partenaires | France | Secondary buyout | Investment |
| Molnlycke | Sweden | Trade sale | Loan |
| Motip Dupli | Netherlands | Secondary buyout | Loan |
| Orefi | France | Secondary buyout | Investment |
| Petroplus | Netherlands | IPO | Investment |
| Picard | France | Refinance | Investment |
| Sebia | France | Secondary buyout | Investment |
| Springer | Germany | Refinance of part | Loan |
| SR Technics | Switzerland | Trade sale | Loan |
| Talbot | UK | Letter of credit release | Letter of credit |
| Target | UK | Trade sale | Loan |
| Tunstall | UK | Refinance | Loan |
| Vetco | UK | Trade sale | Loan |
| Via Location | France | Refinance | Investment |
| Viterra | Germany | Refinance | Loan |

## Current loan and investment portfolio

At 31 March 2007, in addition to the new loans and investments listed previously, ICG's loan and investment portfolio consisted of the following companies:

| Name | Country | Business | Type of finance |
|---|---|---|---|
| 1st Credit | UK | Provides debt purchase and outsourced debt collection services | Loan/investment |
| AA | UK | Provider of roadside breakdown services and insurance | Loan/investment |
| Accantia | UK | Health and beauty products | Investment |
| Acteon | France | Dental equipment and consumables | Investment |
| A-Katsastus | Denmark | Vehicle inspection services | Loan |
| Allflex | France | Animal identification tags | Loan/investment |
| Asco | UK | Provider of logistic services for the oil industry | Investment |
| Aster | Poland | Cable television, broadband internet and telephony services | Loan/investment |
| Aviapartner | Belgium | Airport ground handling services | Loan |
| AVR | Netherlands | Waste management | Loan/investment |
| Caradon | UK | Manufacturer of boilers and radiators | Loan |
| Carema | Sweden | Healthcare and care services provider | Loan |
| Ceva Sante | France | Developer and distributor of animal health products | Investment |
| Codere | Spain | Gaming company | Investment |
| Condor Ferries | UK | Operates ferry services to the Channel Islands | Loan/investment |
| Courtepaille | France | Chain of grill restaurants | Investment |
| Craegmoor | UK | Nursing homes | Investment |
| Dometic | Sweden | Supplier of appliances for recreational vehicles | Loan |
| DSV Environment | Denmark | Transportation and logistics | Loan |
| Duni | Sweden | Supplier of tabletop products | Loan |
| Edscha | Germany | Global automotive supplier | Loan/investment |
| Elis | France | Leader in textile rental and cleaning business | Investment |
| Eurodatacar | France | Services to complement traditional insurance policies covering vehicle theft | Investment |
| Eurofarad | France | Manufacturer of passive components | Investment |
| Famosa | Spain | Toy manufacturer | Investment |
| Fitness First | UK | Health club operator | Loan/investment |
| Focus | UK | DIY stores | Investment |
| Gala Coral Group | UK | Leading bingo, casino and licenced betting office operator | Loan/investment |
| Geoservice | France | Service provider in the upstream oil industry | Investment |
| Geoxia | France | House building | Investment |
| Global Garden Products | Sweden | Garden equipment | Loan |
| Himart | South Korea | Electronic speciality stores | Loan |
| Heath Lambert | UK | Insurance broking | Loan |
| HMY | France | Provider of shelving equipment, checkout counters and point of purchase items | Investment |
| Homann | Germany | Producer of chilled foods and salads | Investment |
| IPT | UK | Fabric manufacturers | Investment |
| Lariviere | France | Distributor of roofing materials | Investment |
| Lecta | Italy | Manufacturer of coated wood-free papers | Investment |
| Mach | Luxembourg | Global clearing house of roaming bill records for mobile network operators | Loan/investment |
| Marken | UK | Specialist global logistic services for clinical drug trials | Loan |
| Menissez | France | Industrial bread producer | Investment |
| Meyn | Netherlands | Manufacturer of poultry processing equipment | Loan/investment |
| Nocibe | France | Retailer of perfumes and cosmetics | Investment |
| Norcros | UK | Manufacturer and distributor of showers and tiles | Investment |
| NW Vending | Italy | Manufacturer of food and beverage vending machines | Loan/investment |
| Petroplus | Netherlands | Petroleum products | Investment |
| PHS | UK | Washroom cleaning and maintenance services | Loan |
| Porcelain and Fine China | UK | Manufacturer of china and porcelain | Loan/investment |
| Picard | France | Frozen food distributor and retailer | Investment |
| Protection One | France | Electronic surveillance services | Investment |
| Raet | Netherlands | Provider of payroll and H.R. services | Loan |

# The portfolio continued

| Name | Country | Business | Type of finance |
|---|---|---|---|
| Remeha | Netherlands | Boiler manufacturer | Loan |
| Retif | France | Wholesaler and retailer of display units | Investment |
| Saga | UK | Provides products and services to people aged 50 and over | Loan |
| Score | France | Contract catering | Investment |
| Sia | France | Designs, sources and distributes household products | Investment |
| Sogetrel | France | Design, installation and maintenance of communication networks | Investment |
| Souriau | France | Designs, manufactures and sells connectors to the commercial aircraft market | Investment |
| Sound Holdings | Denmark | Hearing aid component supplier | Investment |
| Servicetec | UK | Computer services and maintenance | Investment |
| Spring | UK | IT recruitment agency | Loan |
| Springer | Germany | Academic publishing company | Loan |
| Svenson | Spain | Specialised haircare group | Loan/investment |
| Takko | Germany | Apparel retailer | Investment |
| Talbot | UK | Underwriter of insurance at Lloyds | Investment |
| Team System | Italy | Provides software packages and related maintenance | Loan/investment |
| Terreal | France | Produces clay roofing tiles and bricks | Investment |
| Thornbury | UK | Provider of relief nursing staff | Loan/investment |
| Thule | Sweden | Global sports utility transportation company | Loan |
| TSL | UK | Publisher | Loan |
| Tunstall | UK | Manufactures and maintains social alarm systems | Loan |
| Vetco | UK | Supplier to upstream oil and gas companies | Investment |
| Via Location | France | Independent truck rental company | Investment |
| WZG Group | Netherlands | Distributor of mobility aids | Loan |

The top twenty companies, as valued on ICG's balance sheet, are as follows:

| Name | £m | Name | £m |
|---|---|---|---|
| Elior | 72.8 | Dometic | 37.8 |
| BAA | 63.0 | Materis | 37.0 |
| Gala Coral Group | 62.3 | Mach | 35.7 |
| Medi-Partenaires | 56.4 | Fraikin | 31.1 |
| AVR | 52.8 | Select Service Partner | 30.2 |
| Elis | 46.9 | Medica | 28.0 |
| AA | 43.9 | Springer | 27.5 |
| Saga | 42.7 | Marken | 27.0 |
| Orizonia | 40.3 | Menissez | 25.2 |
| Visma | 39.9 | | |
| Sebia | 38.2 | **Total** | **838.7** |

# Report and accounts

# Directors' report

The Directors present their annual report and the audited financial statements for the twelve months ended 31 March 2007.

**Principal activities and business review** The principal activities of the Group are those of providing mezzanine capital and equity to companies in Europe and the Asia Pacific Region, along with the management of third party funds. The Directors expect the Group to continue with these activities while exploring opportunities for future geographic expansion. The Group's profit before taxation was £224m (fourteen months ended 31 March 2006 – £190m). The Directors consider the state of the Company's affairs to be satisfactory. The review of the Group's business is contained in the business and market review and the financial review on pages 7 to 21.

**Key Performance Indicators (KPI's)**
The Board reviews a range of financial and non-financial KPI's. The principle KPI's are listed below:

- Interest rate spreads on mezzanine loans, detailed in the Managing Directors' business and market review on page 8;
- Investments in warrants and equity, detailed in the Managing Directors' business and market review on page 8;
- Gearing level of portfolio, detailed in the Financial review on page 18;
- Default and loss rates, detailed in the Financial review on page 18;
- New lending and repayments, detailed in the Managing Directors' business and market review on page 13.

**Principal risks and uncertainties** ICG operates primarily in the European private equity market at the riskier end of the credit spectrum. The key risks to ICG as a business are firstly the inability to win new business, secondly incurring significant losses on the existing portfolio and thirdly, in the case of the Fund Management business, regulatory risk.

**Loss of staff** ICG is a people business and therefore susceptible to the loss of key executives or teams of executives. The Company has in place a number of incentive schemes designed to attract and retain high calibre executives and is committed to provide competitive remuneration packages for such people.

**New business** The inability to win new mezzanine business or raise new funds could occur for a number of reasons.

**Competition** ICG operates in a market where there are always new entrants who are attracted by the yields and security package of mezzanine finance.

During periods when the supply of credit is readily available, competition increases, not only for mezzanine assets but also for all sub-investment grade debt. During these periods ICG will be selective as to new business and seek to maintain its credit discipline in spite of the risk of losing market share.

**Accelerated payments** Current liquidity in the leveraged loan market is leading to more aggressive debt packages being arranged by the investment banks. In some cases mezzanine finance is being replaced by larger and cheaper senior debt tranches. If this trend continues and ICG is unable to identify sufficient new investment opportunities that represent an appropriate balance between risk and reward, it is possible that the loan book will grow at a slower rate or even contract.

**Lack of funding** ICG currently funds its operations by way of equity and debt, with a maximum ratio of one part equity to four parts debt. ICG recognises that there may be times when the credit markets are closed and it would not be possible to raise finance for what might be attractive investment opportunities. It is therefore the Company's policy to maintain diverse sources of medium-term finance and to ensure that it always has sufficient committed but unutilised debt facilities.

**Loss of reputation** Were the Company to behave in an unprofessional manner, when either dealing with its fund management clients or the private equity market, it could jeopardise future business opportunities. To minimise this possibility, the Company employs high calibre staff who are trained to behave in a professional manner and deal with third parties accordingly.

**Existing business** Significant losses on the existing portfolio could arise from:

- An economic downturn
  A severe economic recession could have an adverse effect on the portfolio quality, which would impact interest income, gains on investments and the level of impairment provisions. In order to minimise the effects of any such downturn, ICG has a policy to diversify its portfolio in terms of geography, sector and size and has in place disciplined credit procedures both before and during the period of investment to protect its portfolio;

- Specific company factors
  There will be occasions when the Company incurs a loss for specific reasons. Such reasons may be industry specific, country specific or be due to fraud and/or poor management. In these cases, ICG relies on its investment procedures to minimise occurrences of such losses and also upon its long experience in dealing with such situations in the past;

- Regulatory risk
  The Fund Management business is the part of the business that is most exposed to regulatory risk. ICG is authorised and regulated by the Financial Services Authority ("FSA") and withdrawal of its approvals could result in the loss of its Fund Management activity. ICG has a full-time Compliance Officer whose role it is to ensure that the Company complies with all current FSA regulations and who ensures the quality of internal and external training. The Company also has in place thorough anti-money laundering and know-your-customer procedures to comply with current legislation.

**Financial risk management** The financial management of the Group is detailed in the Corporate Governance Report on pages 38 to 39. Detailed financial risk management policies and disclosures are disclosed in note 28 to the accounts.

**Directors** The present membership of the Board is as set out below. All the Directors shown below served throughout the year except for Mr Keller who was appointed on 28 September 2006 and Mr Camus who was appointed on 29 March 2007. Both offer themselves for election at the forthcoming AGM. Mr Licoys and Mr Stone will both retire at the AGM. In accordance with the articles of association and best practice, Messrs Bartlam, de Mitry, Nelson and Piper retire by rotation and offer themselves for re-election. The interests of the Directors of the Company and their immediate families as defined by the Companies Act in the shares of the Company as at 31 March 2007 are as follows:

| | **31 Mar 2007 Number of 20p ordinary shares** | 31 Mar 2006 Number of 20p ordinary shares |
|---|---|---|
| T R Attwood (Chief Executive Officer) | **161,197** | 161,197 |
| T H Bartlam | **311,065** | 311,065 |
| J D Camus (appointed 29 March 2007) | **–** | – |
| L J Dowley | **20,000** | 20,000 |
| C A Evain | **123,514** | 123,514 |
| E G Licoys | **2,076** | 2,076 |
| P H Keller | **–** | – |
| P J Manser (Chairman) | **34,300** | 25,151 |
| F de Mitry | **80,226** | 57,665 |
| J J Nelson | **7,306** | 7,306 |
| A C Phillips | **205,163** | 205,163 |
| P J Piper | **193,963** | 193,963 |
| P J Stone (Senior Independent Director) | **25,000** | 14,134 |

No changes to the Directors' interests in shares at 31 March 2007 as set out above had been notified up to 12 June 2007.

**Directors' share options** Details of Directors' share options are provided in the Report of the Remuneration Committee on page 45. The Directors had no interests in the shares of any subsidiary company. The Company issued 293,567 shares under its Executive Share Option Schemes during the year raising £1.2m of new equity. The number of 20p ordinary shares in issue at the year-end amounted to 70,242,959.

**Substantial shareholdings** According to the Company's share register at 16 May 2007, the following investment managers (through separately managed funds) had interests in aggregate amounting to over 3%.

| | | |
|---|---|---|
| Barclays Global Investors | 6,670,699 | 9.49% |
| Jupiter Asset Management | 5,730,183 | 8.16% |
| JP Morgan Asset Management | 3,893,399 | 5.54% |
| Schroder Investment Management | 3,376,796 | 4.81% |
| Deutsche Bank AG | 3,359,883 | 4.78% |
| Legal & General Investment Management | 2,823,441 | 4.02% |
| Threadneedle Asset Management | 2,495,031 | 3.55% |
| AXA Framlington Investment Management | 2,403,044 | 3.42% |
| M&G Investment Management | 2,380,641 | 3.39% |
| Fidelity | 2,342,727 | 3.33% |

On 23 May 2007, the Company received notification from Deutsche Bank AG that they are interested in 5.06% of the ordinary share capital of the Company. On 7 June 2007 the Company received notice from Jupiter Asset Management that they are interested in 8.10% of the Company.

**Dividend** The Directors recommend a final net dividend payment in respect of the ordinary shares of the Company at a rate of 41.5p per share (31 March 2006 – 42.0p), which when added to the interim net dividend of 16.5p per share (2006 – 14.0p) gives a total net dividend for the year of 58.0p per share (fourteen months ended 31 March 2006 – 56.0p). The amount of dividend paid in the year was £40.9m (fourteen months ended 31 March 2006 – £29.4m).

**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 32 (2006 – 27).

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

**Disclosure of information to auditors** Each of the persons who is a Director at the date of approval of this report confirms that:

- so far as the Director is aware, there is no relevant audit information of which the Company's auditors are unaware; and
- the Director has taken all the steps that he ought to have taken as a Director in order to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s234ZA of the Companies Act 1985.

**Executive Committee** The Executive Committee comprises the six Managing Directors of ICG, each of whom has a specific area of responsibility. The Executive Committee has general responsibility for ICG's resources, determining strategy, approving all investments, financial and operational control and managing the business worldwide.

**Investment process** Investments are primarily sourced from private equity sponsors, banks, corporations and local professional advisors. Initially ICG assesses whether the opportunity meets ICG's investment criteria. The deal team will present to the Investment Committee details of pricing, leverage and structure together with the commercial background to the company. The Investment Committee will guide the team regarding the focus for due diligence, structure and pricing. Extensive due diligence will then be undertaken either by advisors retained by the equity sponsor or appointed directly by ICG. This covers the management, the market, financial and legal review and environmental and corporate social responsibility issues. The due diligence is focussed on ensuring the safety of principal and interest and assessing the future value of the equity. At the conclusion of the due diligence process a further Investment Committee meeting is held to discuss final structure and pricing at which a unanimous approval is required before an investment is made.

All investments are reviewed by the Investment Committee which is made up of the six Managing Directors plus other Investment Executives depending upon their geography and sector.

**Annual General Meeting** A number of resolutions will be proposed at the Annual General Meeting as ordinary and special business.

**Ordinary business**

Annual Report and Accounts – Resolution 1

The Directors are required to present to shareholders at the AGM the Annual Report and Accounts for the year ended 31 March 2007.

Report of the Remuneration Committee – Resolution 2

The Directors are required to seek approval of the shareholders for the Report of the Remuneration Committee. The resolution is an advisory vote, as permitted by law, and no entitlement to remuneration is made conditional on the resolution being passed. The Report of the Remuneration Committee is on pages 41 to 46.

Dividend – Resolution 3

The Directors recommend a dividend of 41.5p per share. The final dividend cannot exceed the amount recommended by the Directors. If approved by shareholders, the final dividend will be paid on 27 July 2007 to those shareholders on the register as at 6 July 2007.

The Auditors – Resolutions 4 and 5

The shareholders are asked every year to approve the appointment of the auditors, Deloitte & Touche, LLP, and agree that the Directors may approve their remuneration.

Election of Directors – Resolution 6

Philip Keller and Jean-Daniel Camus are standing for election for the first time following their appointment to the Board on 28 September 2006 and 29 March 2007 respectively. Short biographies of Philip and Jean-Daniel appear on pages 2 and 3.

Re-election of Directors – Resolution 7

Thomas Bartlam, Francois de Mitry, James Nelson and Paul Piper are retiring by rotation under the Articles of Association of the Company and will be standing for re-election. Biographies of all the Directors appear on pages 2 and 3.

**Special business**
Resolutions 8, 9, 10, and 11 will be proposed as special resolutions.

To pass special resolutions 75% or more of the votes cast must be in favour.

Authority to allot shares – Resolutions 8 and 9
The Company's Articles of Association give the Directors general authority to allot (or issue) unissued shares. The Companies Act 1985 limits that power by requiring shareholders to give specific prior approval. At the 2006 AGM, the Directors were given authority to allot ordinary shares and Resolution 8 seeks to renew this authority for a period until the date of the AGM to be held in July 2008. The authority is limited to a maximum of 23,414,000 shares being approximately one third of the ordinary issued share capital as at 31 March 2007. There is no current intention to use the authority other than in connection with employee share and incentive schemes.

If the Directors wish to allot unissued shares for cash, the Companies Act 1985 requires that these shares are offered first to existing shareholders in proportion to their existing holdings. This is known as shareholders' pre-emption rights. There may be occasions, however, when, in order to act in the best interests of the Company, the Directors need flexibility to finance business opportunities as they arise without offering securities on a pre-emptive basis. Resolution 9 asks shareholders to renew the Directors' authority to allot shares for cash up to an aggregate nominal value of £702,430 (otherwise than in connection with a rights issue or share scheme) equivalent to approximately 5 per cent of the ordinary issued share capital as at 31 March 2007 without the shares being offered first to existing shareholders.

Resolution 10
The Company may buy its own shares with the authority of shareholders. Resolution 10 seeks to renew the current authority given at the 2006 AGM. The resolution specifies the maximum number of shares that may be purchased (approximately 15%) of the Company's issued share capital and the highest and lowest prices at which they may be bought. Any shares purchased under this authority will either be treated as cancelled or held as treasury shares. Listed companies, with authorisation from shareholders, may buy and hold their own shares instead of cancelling them immediately. Shares held as treasury shares can in the future be cancelled, re-sold or used to provide shares for employee share schemes.

For information, as at 31 March 2007, there were 2,872,565 options outstanding over the Company's shares representing 4.1% of the issued share capital. If the full authority to buy shares is used, these options will represent 4.2% of the then issued share capital of the Company. The authority given at the last AGM expires at the conclusion of the forthcoming AGM.

Resolution 11
Certain provisions of the Companies Act 2006 came into force on 1 January, 20 January and 6 April 2007 respectively which updated and, in some instances amended, current companies legislation. This resolution provides, broadly, for the necessary amendments to be made to the Company's Articles so as to permit the Company to communicate with shareholders electronically via its website, unless a shareholder wishes to receive documents or other information in hard copy, in accordance with the provisions of the Companies Act 2006, which it is hoped will cut the costs of producing and posting bulky paper documents.

In addition, this resolution seeks to amend the Company's Articles so as to bring the provisions relating to the indemnification of Directors in line with corresponding statutory provisions set out in the Companies Act 1985. In particular, it seeks to introduce a new power for the Company to fund any expenditure incurred by a Director in defending proceedings in accordance with section 337A of the Companies Act 1985.

This resolution also seeks to amend the Company's Articles by updating references to certificated securities in accordance with the Uncertificated Securities Regulations 2001 (the "Regulations"). Although there are currently no references to uncertificated shares in the articles, the Company is permitted to trade in uncertificated shares by virtue of the Regulations, however, the inclusion of this wording in the articles will formalise the Company's use of these provisions.

Finally this resolution will enable the Company to pay out, in aggregate, up to £600,000 per annum to its non-executive Directors by way of fees. The current level of £400,000, which was approved by the shareholders in May 2004, is sufficient for this year to 31 March 2007. However the Company needs to be able to attract additional and maintain the current high quality of non-executive Directors in order to retain the appropriate balance on its Board and would be unable to do so within the existing limits. Authority is therefore being sought to increase the limit in aggregate to £600,000 per annum.

**Charitable and political contributions** During the year the Group made charitable donations of £7,000 (2006 – £8,000) principally to local charities serving the communities in which the Group operates. The Group also allows employees to take 2 days paid leave a year to devote to charitable causes supported by the Group further to its Corporate Social Responsibility programme. No contributions were made during the year (2006 – nil) for political purposes.

**Directors' indemnity** The Company has Directors and Officers Insurance for all Directors and executives that covers all employment related activities. Resolution 11, if passed, will extend the Directors' indemnity to encompass the new provisions under the Companies Act.

By Order of the Board

C. Reilly

**C Reilly**
Company Secretary
12 June 2007

# Corporate governance

The Group recognises, and is committed to, high standards of corporate governance. The Board has kept its corporate governance practices under review throughout the year. During the year the Board has referred to the Higgs Report on the role and effectiveness of non-executive Directors, the Smith Report on audit committees in January 2003 and the resultant revised Combined Code on Corporate Governance ("the Code") published in July 2003 to maintain these high standards.

An explanation of how the principles of good governance, set out in Section 1 of the Code, which is appended to the Listing Rules of the Financial Services Authority, have been applied is contained in this report and in the Report of the Remuneration Committee. Throughout the year ended 31 March 2007, the Company has been compliant with the Code Provisions set out in Section 1 of the Code. In addition, the Company has complied with the provisions set out in the Code except in relation to Board composition. However, in view of the number of Executive Directors on the Board, it is currently not considered appropriate to have a majority of independent non-executive Directors as this would create a Board which is too large to be effective. The composition of the Board is kept under regular review by the Nomination Committee.

**Statement of compliance with the principles of the combined code**

**Board of Directors** As at 31 March 2007, including Mr Keller and Mr Camus, the Board comprised six Executive Directors, an independent non-executive Chairman and six non-executive Directors of whom five are independent. Mr Licoys and Mr Stone will retire at the forthcoming AGM. Mr Attwood has been designated as Chief Executive since 6 April 2005. Each of the six Executive Directors has specific areas of responsibility and all collectively form the Executive Committee, with no one Director being able to significantly affect the running of the Company without consulting his colleagues. With the retirement of Mr Stone, Mr Dowley has been identified as the senior independent Director going forward. The non-executive Directors are as follows:

**P J Manser** was appointed a non-executive Director in January 2001 and non-executive Chairman in May 2001.

**T H Bartlam** was appointed a non-executive Director in April 2005.

**J D Camus** was appointed a non-executive Director in March 2007 (for election at the AGM).

**L J Dowley** was appointed a non-executive Director in February 2006.

**E G Licoys** was appointed a non-executive Director in January 1998.

**J J Nelson** was appointed a non-executive Director in May 2001.

**P J Stone** was appointed a non-executive Director in January 1998.

The Company's Board of Directors meets at least six times a year to discuss the performance of the Company and to discuss matters which it has reserved to itself for decision as well as any other matters that are referred to it. It is their responsibility to present a balanced and understandable assessment of the Company's position and prospects to the shareholders and this is done through the Chairman's statement, the business and market review, the financial review and the financial statements. The Board is supplied in a timely manner with the appropriate quality of information to enable it to discharge its duties. Further information is obtained by the Board from the Executive Directors and other relevant members of senior management, as the Board, particularly its non-executive Directors, considers appropriate.

The annual performance evaluation of the Board and its Committees was undertaken in July 2006.

At least one-third of the Directors retire by rotation each year in accordance with the Articles of Association and all Directors are re-elected at least once every three years. Any Director appointed during the year must offer himself for election at the next Annual General Meeting. Details of Directors for re-election at the forthcoming Annual General Meeting are shown on page 33. The terms and conditions of appointment of the Directors and terms of reference for the Committees are available for inspection at the Company's registered office during normal business hours, until the close of the Annual General Meeting.

The Board recommends that Messrs Bartlam, de Mitry, Nelson and Piper should be re-elected to the Board because, based upon a formal performance evaluation during the year, their performance continues to be effective. In accordance with the Articles of Association, Mr Camus and Mr Keller offer themselves for election as they were appointed to the Board during the year.

All Directors have access to the advice and services of the Company Secretary and may take independent professional advice at the Company's expense in the furtherance of their duties.

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

**Audit Committee** The Audit Committee consists of four (2006 – five) independent non-executive Directors, these being Messrs, Dowley, Licoys, Nelson and Stone under the chairmanship of Mr Dowley. Mr Manser resigned as Chairman on 18 May 2006 and Mr Dowley was appointed in his place. One non-executive Director, Mr Bartlam, is not a member of the Audit Committee but is invited to attend the meetings. The Executive Directors are not members of the Audit Committee but are invited to attend. Deloitte & Touche LLP, the Company's auditors, are also invited to attend and have direct access to Committee members.

The Committee meets regularly, at least twice a year and is responsible for:

- Selecting and recommending the appointment of the external auditors to the Board, approving their terms of reference and fees.
- Reviewing the performance of the external auditors and ensuring appropriate rotation of audit partner.
- Acting as a forum for discussion of internal control issues and giving input to the Board's review of the Company's internal control and risk management systems and procedures.
- Reviewing the independence of the external auditors and the relationship between audit and non-audit work performed by the external auditors. Procedures are in place to ensure that all significant non-audit work performed by the auditors is approved in advance by the Committee and they assess whether such appointments impair, or appear to impair the auditors' judgement or independence. The Audit Committee also undertakes an annual evaluation to assess the independence and objectivity of the external auditors and the effectiveness of the audit process, taking into consideration relevant professional and regulatory requirements. The results of the evaluation were last reported to the Board in May 2006. An analysis of fees paid to Deloitte & Touche LLP is shown in note 10 on page 62.
- Reviewing the annual and interim accounts before being presented to the Board, in particular any significant issues arising from the audit; accounting policies and clarity of disclosures; compliance with applicable, accounting and legal standards; issues regarding a significant element of judgement; and the statements on internal controls and business risk assessment.
- Reviewing the provisioning policy for the investment portfolio on a six-monthly basis.
- Reviewing and approving the Company's whistleblowing policy.

**Remuneration Committee** The Committee consists of five (2006 – four) independent non-executive Directors, these being Messrs Camus, Dowley, Licoys, Nelson and Stone under the chairmanship of Mr Nelson. Further details regarding remuneration policy and payments made can be found in the Report of the Remuneration Committee.

**Nomination Committee** The Committee consists of six (2006 – five) independent non-executive Directors, these being Messrs Camus, Dowley, Manser, Licoys, Nelson and Stone under the chairmanship of Mr Manser. Appointments of executive and non-executive Directors are made as necessary as a result of discussions by the Committee and are subject to full Board approval. This process was followed for the appointments of Mr Camus and Mr Keller to the Board during the year.

**Attendance at Board/Committee meetings** The table below shows the number of Board and Committee meetings held during the year and the attendance record of individual Directors.

| | Board meetings | Audit Committee meetings | Remuneration Committee meetings | Nomination Committee meetings |
|---|---|---|---|---|
| T R Attwood | 6 | – | – | – |
| T H Bartlam | 6 | – | – | – |
| J D Camus | 1 | – | 1 | – |
| L J Dowley | 6 | 2 | 2 | 2 |
| C A Evain | 5 | – | – | – |
| P H Keller | 4 | – | – | – |
| E G Licoys | 6 | 2 | 2 | 2 |
| P J Manser | 6 | 2** | 2* | 2 |
| F de Mitry | 6 | – | – | – |
| J J Nelson | 6 | 2 | 2 | 2 |
| A C Phillips | 5 | – | – | – |
| P J Piper | 6 | – | – | – |
| P J Stone | 6 | 2 | 2 | 1 |

*Mr Manser attended these meetings but he is not on the Committee.
**Mr Manser attended one of these meetings when he was not on the Committee.

Mr Keller was appointed to the Board on 28 September 2006. Although the Company undertook an extensive search using a head hunter specialising in senior financial appointments, Mr Keller was known to ICG as the Finance Director of one of its Portfolio companies, ERM Holdings Ltd ("ERM"). During the six years that Mr Keller was Finance Director at ERM, he was instrumental in developing the infrastructure of a global business and was involved in two leveraged buyouts. ICG were investors in both buyouts and had observer status on ERM's board from 2001 to 2005. The Nominations Committee therefore had a good insight of the skills and experience that Mr Keller would be able to contribute to ICG. Prior to joining ERM, Mr Keller held a number of financial directorships at Glaxo Smithkline and Johnson & Johnson and is qualified as a Chartered Accountant.

Mr Camus was appointed to the Board on 29 March 2007. His appointment has not been subject to external search consultancy or open advertising. Mr Camus has been active in the private equity markets for 20 years, including founding Orium, a proprietary investment firm in 1996. Previously, he was a founding partner of LBO France. The Nomination Committee considers that Mr Camus is a highly experienced private equity specialist, with senior experience across a number of countries and sectors as well as holding a highly admirable track record in the market. The Board believes Mr Camus can make a serious contribution based on his financial skills, acumen and experience.

Mr Licoys and Mr Stone will retire at the AGM. Mr Dowley has been identified as the senior independent Director going forward.

**Relationships with shareholders** The Company recognises the importance of communication with its shareholders, which it achieves through interim and annual reports and the Annual General Meeting. The Company is always willing to enter into dialogue with shareholders, based on mutual understanding of objectives, and meetings are regularly held with major shareholders. Investors are encouraged to attend the Annual General Meeting.

The Board as a whole is kept fully informed of the views and concerns of the major shareholders. When requested to do so, non-executive Directors will attend meetings with major shareholders.

**Internal control** Under the terms of the Code, the Directors are responsible for ensuring that the Group has in place a system of internal control that is appropriate to the business environment in which it operates. The Directors have reviewed the effectiveness of the system of internal control and believe that such a system of control is in place to give reasonable, but not absolute, assurance that assets are safeguarded, transactions are authorised and recorded properly and that material errors and irregularities are prevented or would be detected within a timely period.

The rationale for the system of internal control is to maximise effectiveness for the commercial management of the business and to provide the Board with regular and effective reporting on the identified significant risk factors. The Board is responsible for determining strategies and policies for risk control and management is responsible for implementing such strategies and policies.

The Board confirms that an ongoing process for identifying, evaluating and managing the Group's significant risks has operated throughout the year and up to the date of approval of the Directors' report and accounts. This process has been subject to regular review by the Board and accords with the Turnbull Committee guidelines "Internal Control: Guidance for Directors on the Combined Code". The key elements of this process are:

- Strategic risks are considered by both the Board and the Executive Committee in the context of an agreed strategic framework. A strategy paper and plan are produced annually to address the strategic challenges of the Group and these are approved by the Board. A detailed financial plan is developed for the year ahead and monthly reports covering actual and planned performance are provided to the Board by the Group's finance function;

- Financial risks (primarily loan losses and associated risks) are considered on behalf of the Board by the Executive Committee. The minutes of the Executive Committee are reviewed by the Board on a regular basis. These controls concentrate on the procedures for making and monitoring loans and investments and for the safeguarding of assets against unauthorised disposition;

- Operational risks (including compliance with the Financial Services and Markets Act 2000) are considered on behalf of the Board by the Executive Committee.

The Board has established practices for reviewing the system of internal control by way of reports it receives from the Executive Committee. The Board has considered the need for an internal audit function, but has decided that because of the nature of the current internal control system and size of the Company it cannot be justified at present. The Board will review this decision next year. The Board undertook a formal annual assessment of the risk management and control arrangements in July 2006 in order to form a view on the overall effectiveness of the system of internal control.

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

# Corporate social responsibility

ICG is an international business operating in eight countries, with investments in a further nine countries. It employs 102 people of whom 72 are located at its main office in London and aims to conduct its business in a socially responsible manner. ICG believes that it needs to act in a commercial and professional manner, while at the same time respecting the requirements of the companies and individuals with which it deals. This includes shareholders, staff, suppliers and the businesses in which it invests.

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

**People** ICG recognises that its employees are fundamental to the success of its business. The Company therefore promotes a business environment that is based on meritocracy in which all employees are encouraged to develop to their full potential, irrespective of their age, race, gender, marital status, disability, religious belief or sexual orientation. The Company encourages involvement through a process of employee communications, briefings by senior executives and social events.

The Company's Employee Handbook sets out, among other matters, the Company's approach to the working environment and Group policies for:

- Employee pay and benefits
- Working hours, leave and absence from work
- Health and safety
- Performance management and development
- Discipline and grievance
- Diversity and inclusiveness
- Compliance regulations and business standards

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

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

**Charity and community** The Company has a corporate Give As You Earn scheme and also manages a separate scheme for its staff. During the year donations were made to a variety of charities as well as the donation of surplus office equipment. The Company employs the part-time services of a Community Relations specialist and during the year has again involved itself in a number of community projects. These include a number of projects with the homeless, a building project at the London City Community Farm and a tree planting scheme in a deprived area of London. The Company believes that it is important for staff to not only give financial support to these projects but also their time and to this end allows each employee to dedicate two days a year to such schemes.

**Health and safety** The Directors are committed to developing and maintaining a management culture that ensures the health, safety and welfare of employees and others while on Company premises. During the year, no reportable accidents or incidents occurred either under UK Health and Safety regulations or similar regulations outside the UK.

**Investments** The Company currently invests in approximately 90 companies throughout Europe and Asia. The Company recognises that the most significant risk to its long term value and reputation arising from environmental, ethical and social matters arises from its investment business. Therefore, when making an investment decision on a new company, ICG takes account of social, environmental and ethical issues and aims to invest in companies that respect human rights and comply with industry standards and local regulations. Part of ICG's due diligence process includes, where appropriate, the production of an environmental report by third party experts.

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

# Report of the remuneration committee

This report has been prepared in accordance with Schedule 7A of the Companies Act 1985. The report also meets the relevant requirements of the Listing Rules of the Financial Services Authority and describes how the Board has applied the principles of good governance relating to Directors' remuneration. As required by the Regulations, a resolution to approve the report will be proposed at the Annual General Meeting of the Company at which the financial statements will be approved.

The Regulations require the auditors to report to the Company's members on certain parts of the Directors' remuneration report and to state whether, in their opinion, that part of the report has been properly prepared in accordance with the Companies Act 1985 (as amended by the Regulations).

**Remuneration Committee** The Committee consists solely of five non-executive Directors, Messrs Camus, Dowley, Licoys, Nelson and Stone, under the chairmanship of Mr Nelson. Mr Nelson is a non-executive partner in Graphite Capital, one of whose funds has an investment in the ICG Mezzanine Fund 2000. Other than this, none of the Committee members have any personal financial interests (other than as shareholders), conflicts of interest arising from cross-directorships or day-to-day involvement in running the business. Two non-executive Directors, Mr Bartlam and Mr Manser, who are not members of the Committee, attend the meeting by invitation. Two Executive Directors attend the meetings by invitation and the Committee consults the Executive Directors about its proposals and has access to professional advice from outside the Company. The Head of Human Resources also attends the meetings by invitation.

The Committee meets at least twice a year and more frequently if necessary.

**Remuneration policy on Executive Directors' remuneration** Executive remuneration packages are designed to attract, motivate and retain Directors of the high calibre needed to maintain the Company's position as a market leader and to reward them for enhancing value to shareholders. In arriving at the Executive Directors' remuneration packages, the Committee relies on objective research from McLagan Partners, which contains up to date information from a comparative group of companies. The performance measurement of the Executive Directors and the determination of their annual remuneration package is undertaken by the Committee. This policy has been formulated having given full consideration to Schedule A annexed to the Code.

Whilst it is intended that the policy statement set out in this report should continue for future years, it is not certain that this policy will continue without amendment in subsequent financial years. This is because the Committee considers that an effective remuneration policy needs to be sufficiently flexible to take into account changes in the Group's business environment and remuneration practices.

The main elements of the remuneration package for Executive Directors are as follows:

- basic annual salary;
- bonus payments;
- share option incentives, including a Key Employee Retention Share Plan ("KERSP") scheme; and
- carried interest arrangements.

The Company's policy is that a substantial proportion of the remuneration of the Executive Directors should be performance related. As described below, the majority of the expected value of their pay comes from bonus payments and carried interest arrangements, as well as from the benefits of participation in share option schemes.

**Basic salary** An Executive Director's basic salary is determined by the Committee at the beginning of each year.

In deciding appropriate levels the Committee can rely on objective research, which gives up to date information on a comparator group of companies (which comprises companies engaged in private equity investment and related functions within investment banking). Executive Directors' contracts of service which include details of remuneration will be available for inspection at the Annual General Meeting. The Company also provides all Executive Directors, along with all other employees, with healthcare and prolonged disability and life assurance cover.

**Bonus payments** In setting appropriate bonus parameters the Committee refers to the objective research on comparator Groups of companies as noted above. The Committee believes that any incentive compensation awarded should be tied to the interests of the Company's shareholders and that the principal measure of those interests is shareholder value. The key element is the Medium Term Incentive Scheme, reapproved by the shareholders in 2003, the payout of which is related to the cumulative growth in earnings per share and calculated by reference to the amount of realised gains on investments and rolled-up interest. No payment currently is made if the cumulative growth in EPS is less than 5% per annum.

The amounts payable rise on a straight line basis from 4% of realised gains to a maximum of 20% of realised gains when cumulative growth in earnings per share reaches 10% per annum. The extension and appropriateness of the scheme is considered by the Committee on an annual basis.

In the current year the amounts payable under the Medium Term Incentive Scheme were based on the maximum percentage of 20% of gains on investment and rolled-up interest.

**General remuneration policy** The Company also operates a short-term bonus scheme under which bonuses are paid to individuals who do not participate or whose share in the Medium Term Incentive Scheme is not, in management's opinion, sufficient to retain, reward or incentivise such individuals. These bonuses are also paid to executives who are not yet participating fully in the Medium Term Incentive Scheme and may be paid to newly appointed Directors at the discretion of the Committee.

**Share options** There are a number of share option schemes currently operated by the Company; all schemes are, in so far as Executive Directors are concerned, administered by the Committee. The schemes are:

- The ICG 2001 Approved Executive Share Option Scheme, which was adopted on 21 May 2001 and approved by the Inland Revenue on 22 May 2001. The granting of options, the exercise price of which is based on the previous five days closing share price, are phased and may be exercised between three and ten years after the date of grant only if performance targets are met. It is intended that options will not be exercisable unless, during a period of three consecutive years from the date of grant, the Company's earnings per share (since 1 February 2005, core income) increases.

  i) in the case of executives: – by an average of at least 4% per annum above the Retail Price Index
  ii) in the case of Directors: – by an average of at least 3% per annum above the Retail Price Index in which case one third of options may be exercised
  – by an average of at least 4% per annum above the Retail Price Index in which
  – case two thirds of the options may be exercised
  – by an average of at least 5% per annum above the Retail Price Index in which
  – case all options may be exercised.

The value of individual grants of options are restricted to an upper limit equivalent of 200% of salary (400% for the first grant to an individual) based upon the exercise price.

- The ICG 2001 Unapproved Executive Share Option Scheme which was adopted on 21 May 2001 and whose provisions are substantially similar to those of the ICG 2001 Approved Executive Share Option Scheme.

- The Key Employee Retention Share Plan which was adopted on 23 May 2005, under which an amount, up to 15% of the value of the MTIS pool, may be distributed to key executives in the form of share options with an exercise price equal to nil. In order to exercise these options, the Company must achieve a growth in EPS of 5% per annum from the date of grant to the vesting date and the limit to any individual is 20% of the value of their monetary remuneration in the year.

**Carried interest arrangements** The Company has established for its executives, including the Executive Directors, carried interest arrangements whereby between 60% and 80% of the carried interest negotiated by the Company in respect of managed funds raised since 21 January 1998 is available for allocation to its executives. Although these arrangements are not a long term incentive scheme as the costs of these arrangements are borne by the investors in such funds, the Company sought, and obtained, approval from its shareholders for such arrangements at an Extraordinary General Meeting on 21 January 1998. Reconfirmation of the carried interest arrangements was obtained from shareholders at the Annual General Meeting held on 27 May 2003.

It is not possible to put a monetary value on these interests, as they are dependent upon the performance of such funds over the next few years, and amounts will not be payable until the investors in the funds have had their capital returned, plus a minimum return. However, the allocation of carried interest entitlements as at 31 March 2007 was as follows:

| | Mezzanine Fund 1998 | Mezzanine Fund 2000 | Mezzanine Fund 2003 | Asia Pacific Mezzanine Fund | European Fund 2006 |
|---|---|---|---|---|---|
| Executive Directors | 22.6% | 17.2% | 22.7% | 30.0% | 30.8% |
| Former Executive Directors | 18.3% | 11.7% | 2.3% | – | – |
| Other executives | 19.1% | 31.1% | 50.0% | 32.6% | 49.2% |
| ICG | 40.0% | 40.0% | 25.0% | 37.4% | 20.0% |
| Total | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% |

**Executive Directors' pension arrangements** Under their service agreements, each Executive Director is paid an additional gross annual amount to be paid into any one or more pension plans of his choice up to a maximum annual amount equal to 15% of basic annual salary. There have been no changes in the terms of Executive Directors' pension entitlement during the year and there are no other arrangements in place concerning their pensions. In respect of all other employees either (a) an additional gross annual amount is paid to them which they use to contribute to any one or more pension plans of their choice or (b) the Company makes contributions into a designated Group pension plan.

**Executive Directors' contracts** Executive Directors have one year "rolling" contracts which are deemed appropriate for the nature of the Company's business. The Company is obliged to pay damages for wrongful termination. No other payments are made for compensation for loss of office.

**Non-executive Directors** The remuneration of the non-executive Directors is determined by the Board within the limits set out in the Articles of Association, which currently limits the total amount paid to non-executive Directors to £400,000. The annual fee paid to the current non-executive Chairman in the year was £127,500, the Chairman of the Audit Committee and the Chairman of the Remuneration Committee was £52,500, the non-independent non-executive Director was £40,000 and the annual fees paid to each other independent non-executive Director was £45,000. In arriving at these levels of fees, the Committee relies upon objective research from KPMG and Deloitte & Touche LLP which contains up to date relevant information.

Included in these amounts are fees for additional work performed for the Company in respect of time spent working on the Remuneration and Audit Committees, which amounted to £2,500 for each non-executive Director for each Committee, with the exception of the Chairman. 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 designated Group pension plan.

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

| Non-executive Directors | Date appointed | Last re-elected |
|---|---|---|
| P J Manser | Jan 2001 | July 2006 |
| T H Bartlam | April 2005 | May 2005 |
| J-D Camus | March 2007 | – |
| L J Dowley | Feb 2006 | July 2006 |
| E G Licoys | May 2001 | May 2004 |
| J J Nelson | May 2001 | May 2005 |
| P J Stone | Jan 1998 | May 2004 |

**Re-election of Directors** Messrs Licoys and Stone will retire at the AGM. Messrs Bartlam, de Mitry, Nelson and Piper are due to retire by rotation and offer themselves for re-election. Messers Camus and Keller were appointed to the Board on 29 March 2007 and 28 September 2006 respectively and offer themselves for election at the next AGM.

**Directors' remuneration** Details of Directors' remuneration for the year are as follows:

| Executive Directors | Basic salaries £000 | Employee benefit trust interests £000 | Short and medium term scheme £000 | Pension scheme contributions £000 | Benefits in kind £000 | **Total for year ending 31 Mar 2007 £000** | Total for 14 months ending 31 Mar 2006 £000 |
|---|---|---|---|---|---|---|---|
| T R Attwood | 290 | 4,500 | – | 43 | 4 | **4,837** | 3,216 |
| C A Evain | 272 | 4,000 | – | 39 | 4 | **4,315** | 2,811 |
| P Keller | 136 | 750 | 112 | 20 | 2 | **1,020** | – |
| F de Mitry | 272 | – | 4,000 | 41 | 4 | **4,317** | 2,811 |
| A C Phillips | 272 | 4,000 | – | 39 | 4 | **4,315** | 2,811 |
| P J Piper | 272 | 4,000 | – | 39 | 4 | **4,315** | 2,811 |
| Total | 1,514 | 17,250 | 4,112 | 221 | 22 | **23,119** | 14,460 |

The emoluments paid to the Executive Directors include an amount of £17.3m which was contributed by Intermediate Capital Group PLC to the Intermediate Capital Group Employee Benefit Trust ("the Trust") with the recommendation that it was appointed for the benefit of the above Directors and their families in the amounts shown. It is understood that the trustees of the Trust followed that recommendation.

The emoluments paid to former Executive Directors amounted to £7.1m and were contributed by Intermediate Capital Group PLC to the Intermediate Capital Group Employee Benefit Trust with the recommendation that it was appointed as follows: T H Bartlam £3,438,000 (2006 – £2,368,000), J L de Gersigny £2,179,000 (2006 – £2,341,000) and A D Jackson £1,495,000 (2006 – £2,154,000).

Fees paid to non-executive Directors, including the appropriate irrecoverable vat or employer national insurance costs are:

| Non-executive Directors | **Total year 2007 £000** | Total fourteen months 2006 £000 |
|---|---|---|
| P J Manser | **144** | 99 |
| T H Bartlam | **45** | 32 |
| L J Dowley | **48** | 6 |
| M Kohlhaussen | **–** | 24 |
| E Licoys | **45** | 41 |
| J J Nelson | **59** | 52 |
| P J Stone | **49** | 41 |
| Total | **390** | 295 |

**Share option scheme** At 31 March 2007, 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 | Unapproved | April 2001 | 47,099 | 733p | April 2004 | April 2011 |
| | Unapproved | April 2002 | 35,785 | 830p | April 2005 | April 2012 |
| | Unapproved | April 2003 | 43,429 | 846p | June 2006 | April 2013 |
| | Unapproved | April 2004 | 41,209 | 1205p | June 2007 | April 2014 |
| | Unapproved | April 2005 | 49,460 | 1092p | June 2008 | April 2015 |
| | Unapproved | June 2006 | 43,760 | 1234p | June 2009 | June 2016 |
| C A Evain | Unapproved | April 2001 | 30,205 | 733p | April 2004 | April 2011 |
| | Unapproved | April 2002 | 28,930 | 830p | April 2005 | April 2012 |
| | Unapproved | April 2003 | 30,134 | 846p | April 2006 | April 2013 |
| | Unapproved | April 2004 | 29,041 | 1205p | April 2007 | April 2014 |
| | Unapproved | April 2005 | 43,964 | 1092p | April 2008 | April 2015 |
| | Unapproved | June 2006 | 38,897 | 1234p | June 2009 | June 2016 |
| P H Keller | Approved | Dec 2006 | 1,960 | 1530p | Dec 2009 | Dec 2016 |
| | Unapproved | Dec 2006 | 69,263 | 1530p | Dec 2009 | Dec 2016 |
| F E L de Mitry | Unapproved | April 2002 | 22,601 | 830p | April 2005 | April 2012 |
| | Unapproved | April 2003 | 33,089 | 846p | April 2006 | April 2013 |
| | Unapproved | April 2004 | 27,381 | 1205p | April 2007 | April 2014 |
| | Unapproved | April 2005 | 43,964 | 1092p | April 2008 | April 2015 |
| | Unapproved | June 2006 | 38,897 | 1234p | June 2009 | June 2016 |
| A C Phillips | Unapproved | April 2001 | 25,085 | 733p | April 2004 | April 2011 |
| | Unapproved | April 2002 | 23,355 | 830p | April 2005 | April 2012 |
| | Unapproved | April 2003 | 28,362 | 846p | April 2006 | April 2013 |
| | Unapproved | April 2004 | 41,209 | 1205p | April 2007 | April 2014 |
| | Unapproved | April 2005 | 43,964 | 1092p | April 2008 | April 2015 |
| | Unapproved | April 2006 | 38,897 | 1234p | June 2009 | June 2016 |
| P J Piper | Unapproved | April 2001 | 28,584 | 733p | April 2004 | April 2011 |
| | Unapproved | April 2002 | 26,368 | 830p | April 2005 | April 2012 |
| | Unapproved | April 2003 | 31,907 | 846p | April 2006 | April 2013 |
| | Unapproved | April 2004 | 31,530 | 1205p | April 2007 | April 2014 |
| | Unapproved | April 2005 | 43,964 | 1092p | April 2008 | April 2015 |
| | Unapproved | April 2006 | 38,897 | 1234p | June 2009 | June 2016 |

**KERSP Option scheme** At 31 March 2007, the following Directors had share options in the Company under the KERSP scheme, 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 | May 2006 | 23,974 | Nil | May 2010 | May 2026 |
| C A Evain | May 2006 | 21,029 | Nil | May 2010 | May 2026 |
| F E L de Mitry | May 2006 | 21,029 | Nil | May 2010 | May 2026 |
| A C Phillips | May 2006 | 21,029 | Nil | May 2010 | May 2026 |
| P J Piper | May 2006 | 21,029 | Nil | May 2010 | May 2026 |

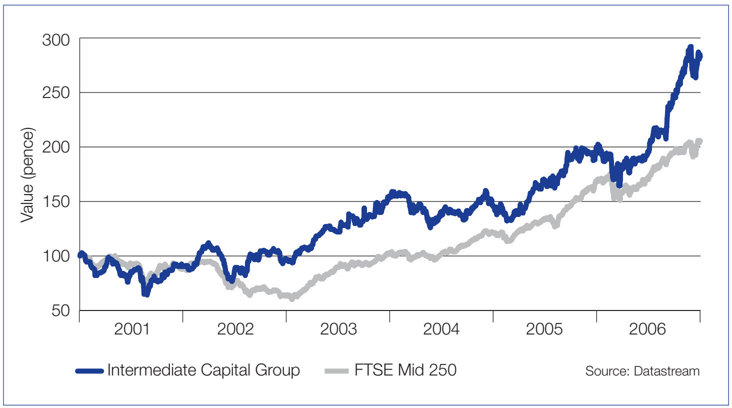
20% of these options vest in May 2010 and 20% every subsequent year thereafter until May 2014.

The market price of each share at 31 March 2007 was £19.54 per share (31 March 2006 – £14.27.)

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

| Name of Director | Scheme | Number of options | Exercise price £ | Market price at date of exercise £ | Gains on exercise £ |
|---|---|---|---|---|---|
| F de Mitry | ICG Unapproved Executive Share Option Scheme 2001 | 22,601 | 8.296 | 16.65 | 188,809 |

**Performance graph** The graph below shows a comparison between the Company's total shareholder return performance and the companies in the FTSE 250 index. The graph compares the value, at 31 March 2007, of £100 invested in Intermediate Capital Group PLC on 1 February 2001 with the value of £100 invested in the FTSE 250 over the subsequent six years. The FTSE 250 Group has been chosen to give a comparison with the average returns that shareholders could have received by investing in a range of other major UK companies.




**Audited information** The sections relating to Directors' remuneration, Share option scheme and KERSP option scheme are required to be, and have been, audited by the Company's auditors, Deloitte & Touche LLP.

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

This report was approved by the Board of Directors on 12 June 2007.

Signed on behalf of the Board of Directors by:

**J J Nelson**
Chairman of the Remuneration Committee

12 June 2007

# Financial statements

for the year ended 31 March 2007









# Statement of Directors' responsibilities

The Directors are responsible for preparing the Annual Report and the financial statements. The Directors are required to prepare financial statements for the Group in accordance with International Financial Reporting Standards (IFRS) and have also elected to prepare financial statements for the Company in accordance with IFRS. Company law requires the Directors to prepare such financial statements in accordance with IFRS, the Companies Act 1985 and Article 4 of the IAS Regulation.

International Accounting Standard 1 requires that financial statements present fairly for each financial year the Company's financial position, financial performance and cash flows. This requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the International Accounting Standards Board's 'Framework for the preparation and Presentation of Financial Statements'. In virtually all circumstances, a fair presentation will be achieved by compliance with all applicable International Financial Reporting Standards. Directors are also required to:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRS is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- prepare the accounts on a going concern basis unless, having assessed the ability of the Company to continue as a going concern, management either intends to liquidate the entity or to cease trading, or have no realistic alternative but to do so.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company, for safeguarding the assets, for taking reasonable steps for the prevention and detection of fraud and other irregularities and for the preparation of a Directors' report and Directors' remuneration report which comply with the requirements of the Companies Act 1985.

The Directors are responsible for the maintenance and integrity of the Company website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements differs from legislation in other jurisdictions.

# Independent auditors' report

## to the members of Intermediate Capital Group PLC

We have audited the Group and Company financial statements (the ''financial statements") of Intermediate Capital Group Plc for the year ended 31 March 2007 which comprise the Consolidated Income Statement, the Consolidated and Company Statements of Recognised Income and Expense, the Consolidated and Company Balance Sheets, the Consolidated and Company Cash Flow Statements, and the related notes 1 to 28. These financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the Directors' Remuneration Report that is described as having been audited.

This report is made solely to the Company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

**Respective responsibilities of Directors and auditors**

The Directors' responsibilities for preparing the Annual Report, the Directors' Remuneration Report and the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements and the part of the Directors' Remuneration Report to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985 and, as regards the consolidated financial statements, Article 4 of the IAS Regulation. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements. The information given in the Directors' Report includes that specific information presented in the Business and Market Review and Financial Review that is cross referred from the Business Review section of the Directors' Report.

In addition we report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' remuneration and other transactions is not disclosed.

We review whether the Corporate Governance Statement reflects the Company's compliance with the nine provisions of the 2003 Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read the other information contained in the Annual Report as described in the contents section 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. Our responsibilities do not extend to any further information outside the Annual Report.

### Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the part of the Directors' Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgments made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's and Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements and the part of the Directors' Remuneration Report to be audited are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the Directors' Remuneration Report to be audited.

### Opinion

In our opinion:

- the Group financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the Group's affairs as at 31 March 2007 and of its profit for the year then ended;

- the parent company financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union as applied in accordance with the provisions of the Companies Act 1985, of the state of the Company's affairs as at 31 March 2007;

- the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985 and, as regards the Group financial statements, Article 4 of the IAS Regulation; and

- the information given in the Directors' Report is consistent with the financial statements.

Deloitte & Touche LLP.

**Deloitte & Touche LLP**
Chartered Accountants and Registered Auditors
London
United Kingdom

12 June 2007

# Consolidated income statement

## for the year ended 31 March 2007

| | Notes | Year ended 31 Mar 2007 £m | 14 month period ended 31 Mar 2006 (annualised unaudited) £m | 14 month period ended 31 Mar 2006 £m |
|---|---|---|---|---|
| Interest and dividend income | 6 | **196.8** | 146.3 | 170.7 |
| Gains on investments | 8 | **197.0** | 124.2 | 144.9 |
| Fee and other operating income | | **33.3** | 23.8 | 27.8 |
| | | **427.1** | 294.3 | 343.4 |
| Interest payable and other related financing costs | 7 | **(66.6)** | (45.2) | (52.7) |
| Provisions for impairment of assets | 9 | **(34.8)** | (23.4) | (27.3) |
| Administrative expenses | 10 | **(101.7)** | (62.8) | (73.3) |
| **Profit before tax** | 4 | **224.0** | 162.9 | 190.1 |
| Tax expense | 11 | **(80.6)** | (55.7) | (65.0) |
| **Profit for the period attributable to the equity holders of the parent** | | **143.4** | 107.2 | 125.1 |
| **Earnings per share** | 14 | **204.6p** | 153.7p | 179.3p |
| **Diluted earnings per share** | 14 | **202.3p** | 152.3p | 178.3p |

All activities represent continuing operations.

For ease of comparison in the financial statements, the prior period results have been presented on an annualised basis by taking twelve-fourteenths of the prior period results.

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

# Statements of recognised income and expense for the year ended 31 March 2007

| Group | Year ended 31 Mar 2007 £m | 14 month period ended 31 Mar 2006 (annualised unaudited) £m | 14 month period ended 31 Mar 2006 £m |
|---|---|---|---|
| Available for sale investments: | | | |
| Valuation gains taken to equity | **56.9** | 20.1 | 23.5 |
| Transferred to profit or loss on sale/disposal | **(53.4)** | (26.8) | (31.3) |
| Tax on items taken directly to or transferred from equity | **(0.4)** | 1.9 | 2.2 |
| Net income/(cost) recognised directly in equity | **3.1** | (4.8) | (5.6) |
| Profit for the year | **143.4** | 107.2 | 125.1 |
| Total recognised income and expense for the year attributable to the equity holders of the parent | **146.5** | 102.4 | 119.5 |

| Company | Year ended 31 Mar 2007 £m | 14 month period ended 31 Mar 2006 (annualised unaudited) £m | 14 month period ended 31 Mar 2006 £m |
|---|---|---|---|
| Available for sale investments: | | | |
| Valuation gains/(losses) taken to equity | **4.0** | (1.3) | (1.5) |
| Transferred to profit or loss on sale/disposal | **–** | 1.9 | 2.2 |
| Tax on items taken directly to or transferred from equity | **–** | (0.2) | (0.2) |
| Net income recognised directly in equity | **4.0** | 0.4 | 0.5 |
| Profit for the year | **101.1** | 84.2 | 98.2 |
| Total recognised income and expense for the year attributable to the equity holders of the Company | **105.1** | 84.6 | 98.7 |

# Balance sheets

31 March 2007

| | Notes | 31 Mar 2007 Group £m | 31 Mar 2007 Company £m | 31 Mar 2006 Group £m | 31 Mar 2006 Company £m |
|---|---|---|---|---|---|
| **Non-current assets** | | | | | |
| Property, plant and equipment | 15 | **2.9** | **2.1** | 1.1 | 0.9 |
| Financial assets: loans, investments and warrants | 16 | **1,749.9** | **1,347.7** | 1,493.9 | 1,009.0 |
| other derivatives | 16 | **15.3** | **15.3** | 20.8 | 20.8 |
| | | **1,768.1** | **1,365.1** | 1,515.8 | 1,030.7 |
| **Current assets** | | | | | |
| Trade and other receivables | 17 | **13.3** | **111.5** | 10.9 | 144.4 |
| Financial assets: loans and investments | 18 | **14.0** | **12.5** | 70.6 | 66.0 |
| Cash and cash equivalents | | **172.0** | **21.7** | 52.4 | 24.1 |
| | | **199.3** | **145.7** | 133.9 | 234.5 |
| **Total assets** | | **1,967.4** | **1,510.8** | 1,649.7 | 1,265.2 |
| **Equity and reserves** | | | | | |
| Called up share capital | 19 | **14.0** | **14.0** | 14.0 | 14.0 |
| Share premium account | 20 | **175.7** | **175.7** | 174.5 | 174.5 |
| Capital redemption reserve | 20 | **1.4** | **1.4** | 1.4 | 1.4 |
| Other reserves | 20 | **11.0** | **6.9** | 6.4 | 1.4 |
| Retained earnings | 20 | **399.5** | **263.9** | 297.0 | 203.7 |
| **Equity shareholders' funds** | | **601.6** | **461.9** | 493.3 | 395.0 |
| **Non current liabilities** | | | | | |
| Financial liabilities | 21 | **1,137.0** | **858.2** | 719.0 | 700.1 |
| Deferred tax liabilities | 23 | **7.4** | **3.3** | 16.8 | 6.7 |
| | | **1,144.4** | **861.5** | 735.8 | 706.8 |
| **Current liabilities** | | | | | |
| Trade and other payables | 22 | **112.7** | **111.1** | 69.4 | 99.0 |
| Financial liabilities | 21 | **73.6** | **73.6** | 331.6 | 61.5 |
| Liabilities for current tax | 22 | **35.1** | **2.7** | 19.6 | 2.9 |
| | | **221.4** | **187.4** | 420.6 | 163.4 |
| **Total liabilities** | | **1,365.8** | **1,048.9** | 1,156.4 | 870.2 |
| **Total equity and liabilities** | | **1,967.4** | **1,510.8** | 1,649.7 | 1,265.2 |

These financial statements were approved and authorised for issue by the Board of Directors on 12 June 2007.

Signed on behalf of the Board of Directors by:

**P J Manser** Director

**P H Keller** Director

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

# Cash flow statements

for the year ended 31 March 2007

| | Notes | Group | | | Company | | |
|---|---|---|---|---|---|---|---|
| | | Year ended 31 Mar 2007 £m | 14 month period ended 31 Mar 2006 (annualised unaudited) £m | 14 month period ended 31 Mar 2006 £m | Year ended 31 Mar 2007 £m | 14 month period ended 31 Mar 2006 (annualised unaudited) £m | 14 month period ended 31 Mar 2006 £m |
| **Net cash from operating activities** | | | | | | | |
| Interest and fee receipts | | **180.2** | 135.4 | 158.0 | **104.4** | 98.1 | 114.4 |
| Dividends received | 6 | **6.7** | 6.1 | 7.1 | **6.3** | 5.4 | 6.3 |
| Gain on disposals | | **206.5** | 118.4 | 138.1 | **–** | – | – |
| Interest payments | | **(48.8)** | (34.8) | (40.6) | **(39.9)** | (26.2) | (30.6) |
| Cash payments to suppliers and employees | | **(59.9)** | (41.8) | (48.8) | **(53.5)** | (38.1) | (44.4) |
| Proceeds from sale/(purchase) of current financial assets | | **54.5** | (25.0) | (29.2) | **51.9** | (25.0) | (29.2) |
| Purchase of loans and investments | | **(732.1)** | (563.4) | (657.3) | **(646.8)** | (391.0) | (456.2) |
| Proceeds from sale of loans and investments | | **435.9** | 349.6 | 407.9 | **375.6** | 232.5 | 271.2 |
| Cash generated by/(used in) by operations | | **43.0** | (55.5) | (64.8) | **(202.0)** | (144.3) | (168.5) |
| Taxes paid | | **(74.0)** | (51.6) | (60.2) | **(71.9)** | (14.7) | (17.1) |
| **Net cash (used in)/from operating activities** | | **(31.0)** | (107.1) | (125.0) | **(273.9)** | (159.0) | (185.6) |
| **Investing activities** | | | | | | | |
| Proceeds from subsidiary undertakings | | **–** | – | – | **116.2** | 54.9 | 64.0 |
| Purchase of property, plant and equipment | 15 | **(2.2)** | (0.5) | (0.6) | **(1.7)** | (0.5) | (0.6) |
| **Net cash (used in)/from investing activities** | | **(2.2)** | (0.5) | (0.6) | **114.5** | 54.4 | 63.4 |
| **Financing activities** | | | | | | | |
| Dividends paid | 13 | **(40.9)** | (25.2) | (29.4) | **(40.9)** | (25.2) | (29.4) |
| Increase in long term borrowings | | **207.2** | 126.2 | 147.2 | **211.4** | 126.5 | 147.6 |
| (Decrease)/increase in bank overdrafts | | **(14.7)** | 2.1 | 2.5 | **(14.7)** | 2.1 | 2.5 |
| Proceeds on issue of shares | | **1.2** | 1.8 | 2.1 | **1.2** | 1.8 | 2.1 |
| **Net cash from financing activities** | | **152.8** | 104.9 | 122.4 | **157.0** | 105.2 | 122.8 |
| **Net increase/(decrease) in cash** | | **119.6** | (2.7) | (3.2) | **(2.4)** | 0.6 | 0.6 |
| **Cash and cash equivalents at beginning of year** | | **52.4** | 55.6 | 55.6 | **24.1** | 23.5 | 23.5 |
| **Cash and cash equivalents at end of year** | | **172.0** | | 52.4 | **21.7** | | 24.1 |

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

# Notes to the accounts

for the year ended 31 March 2007

## 1 General information

Intermediate Capital Group PLC is a company incorporated in the United Kingdom under the Companies Act 1985 with Companies registration number 2234775. The address of the registered office is on page 84. The nature of the Group's operations and its principal activities are set out in the Director's report on page 30.

At the date of authorisation of these financial statements, the following Standards and interpretations, which have not been applied in these financial statements were in issue but not yet effective:

| | | Accounting periods commencing after |
|---|---|---|
| **International Financial Reporting Standards (IAS/IFRSs)** | | |
| IFRS 7 | Financial Instruments: Disclosures | 1 January 07 |
| IFRS 8 | Operating Segments | 1 January 09 |
| Amendment to IAS 1 | Capital Disclosures (IFRS 7) and SORIE (Amendments to IAS 19) | 1 January 07 |
| IAS 23 (revised March 2007) | Borrowing Costs | 1 January 09 |
| **International Financial Reporting Interpretations Committee (IFRIC)** | | |
| IFRIC 8 | Scope of IFRS 2 | 1 May 06 |
| IFRIC 9 | Reassessment of Embedded Derivatives | 1 June 06 |
| IFRIC 10 | Interim Financial Reporting and Impairment | 1 November 06 |
| IFRIC 11 | IFRS 2: Group and Treasury Share Transactions | 1 March 07 |
| IFRIC 12 | Service Concession Arrangements | 1 January 08 |

## 2 Significant accounting policies

**(a) Basis of accounting** The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS). The financial statements have also been prepared in accordance with IFRSs adopted for use in the European Union and therefore comply with Article 4 of the EU IAS Regulation.

The financial statements have been prepared on the historical cost basis as modified to include the fair valuation of certain financial instruments.

The principal accounting policies are set out below.

**(b) Basis of consolidation** The consolidated financial statements incorporate the financial statements of the Company and its principal subsidiaries made up to 31 March.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies into line with those used by the Group.

All intra-Group transactions, balances, income and expenses are eliminated on consolidation.

**(c) Investment in subsidiaries** Investments in subsidiaries are recorded in the Company balance sheet at cost less provision for impairments.

**(d) Investment in associates** An associate is an entity over which the Group has significant influence but not control, through participation in the financial and operating policy decisions. The results, assets and liabilities of associates are incorporated in the financial statements using the equity method of accounting. A presumption of significant influence is made when the Group holds 20% or more of the voting rights of an investee. However, the Group reviews each investment and if it is concluded that the Group does not have significant influence, then the equity investment is held as an available for sale asset.

## 2 Significant accounting policies continued

(e) **Interest income and expense** Interest income and expense on financial assets and liabilities held at amortised cost are measured using the effective interest rate method, which allocates the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument. The expected life of an instrument is estimated by the relevant Investment Executive using knowledge gained from the close monitoring of the investment and their presence on the board.

(f) **Fee income and expense** Fees and commissions are generally recognised on an accruals basis when the service has been provided and include fund management fees and arrangement fees. Fees integral to the loan yield, including underwriting and agency fees, are included within interest income as part of the effective interest rate calculation.

Fees payable on the arrangement of balance sheet funding are included within interest expense as part of the effective interest rate calculation. Other fees are generally expensed as incurred.

(g) **Dividend income** Dividend income from investments is recognised when the shareholders' rights to receive payment have been established.

(h) **Share-based payments** The Group has applied the requirements of IFRS 2 Share-based payment.

The Group issues equity-settled share options to certain employees. These are measured at fair value at the date of grant using a Black-Scholes option pricing model. The fair value is expensed on a straight line basis over the vesting period, based on an estimate of the number of shares that will ultimately vest.

(i) **Pension costs** Pension liabilities are provided for by payments to insurance companies or to individuals for employees' private pension plans. The amount charged to the income statement represents a percentage of the current payroll cost paid to defined contribution schemes.

(j) **Value added tax** Irrecoverable VAT is written off on items of expenditure relating to the income statement. VAT on tangible fixed assets is capitalised and written off over a similar period to the asset to which it relates.

(k) **Foreign currencies** The individual financial statements of each Group company are presented in the currency of the primary economic environment in which it operates. For the purpose of the consolidated financial statements, the results and financial position of each Group company are expressed in pounds sterling which is the presentation currency for the consolidated financial statements. The assets and liabilities of the Group's foreign operations are translated using the exchange rates prevailing on the balance sheet date. The income and expense items are translated using the exchange rates at the date of the transactions.

Foreign currency monetary transactions are translated into sterling using the exchange rates prevailing at the dates of the transactions. At each balance sheet date, foreign currency monetary assets and liabilities are translated at the rates prevailing on the balance sheet date. Exchange differences on the translation of monetary items are recognised in the income statement for the period.

In order to hedge its exposure to certain foreign exchange risks, the Group enters into forward contracts. The treasury policies of the Group are described in more detail in note 28.

**(l) Taxation** Provision is made for taxation at the currently enacted rates on taxable profits, arising in income or in equity, taking into account relief for overseas taxation where appropriate. Deferred taxation is accounted for in full for all temporary differences between the carrying amount of an asset or liability for accounting purposes and its carrying amount for tax purposes. Deferred tax assets are only recognised to the extent that it is probable that they will be recovered.

**(m) Property, plant and equipment and depreciation** Depreciation is provided at rates calculated to write off the cost, less estimated residual value, of each asset on a straight line basis over its expected useful life as follows:

Furniture and equipment – 20% – 33% per annum
Leasehold improvements – 20% per annum

**(n) Financial assets** Financial assets are classified into the following categories, as determined at initial recognition:

(i) *Financial assets at fair value through profit or loss*
Derivatives, which includes warrants and other derivatives held for risk management purposes, are categorised as 'at fair value through profit or loss'. They are initially recognised at fair value on the date on which the derivative contract is entered into and are subsequently remeasured at their fair value. Changes in fair value are immediately recognised in the income statement.

(ii) *Loans and receivables*
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They include loans made as part of the Group's operating activities as well as trade and other receivables, cash and cash equivalents.

(iii) *Available-for-sale*
Available-for-sale assets are financial assets not classified in (i) or (ii) above and include listed bonds and listed and unlisted shares, see note 2(p) below.

Financial assets at fair value through profit or loss are initially recognised and subsequently measured at fair value with gains or losses arising from changes in fair value recognised in the income statement.

Available-for-sale assets are initially recognised at fair value including direct and incremental transaction costs. They are subsequently measured at fair value with gains and losses arising from changes in fair value included as a separate component of equity until the sale or impairment, at which time the cumulative gain or loss previously recognised in equity is recognised in the income statement. Translation differences on monetary items are recognised in the income statement.

Loans and receivables are initially recognised at fair value including direct and incremental transaction costs and subsequently valued at amortised cost using the effective interest rate method, see note 2(e) above.

**(o) Impairment of financial assets** A financial asset is impaired and impairment losses are incurred if, and only if, there is objective evidence of a fall in value of that asset as a result of events that occurred after the initial recognition of the asset and that loss event has an impact on the estimated future cash flows.

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has occurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's effective interest rate.

If there is objective evidence of impairment for financial assets classified as available for sale, the loss is removed from equity and recognised in the income statement.

## 2 Significant accounting policies continued

(p) **Shares and warrants** Shares and warrants are initially recognised at the fair value of the consideration given and held at this value until it is appropriate to measure fair value on a different basis, applying the valuation policies of ICG.

(q) **Financial liabilities** All financial liabilities, except for derivatives, are initially recognised at fair value less transaction costs and subsequently measured at amortised cost using the effective interest rate method. Derivative liabilities are categorised as at fair value through profit or loss unless they are designated as hedges, see note 2(r) below.

(r) **Derivative financial instruments and hedge accounting** Derivatives, including embedded derivatives which are not considered to be closely related to the host contract, are initially recognised at fair value on the date on which a derivative contract is entered into, and are subsequently remeasured at their fair value.

Derivatives can be designated as either cash flow or fair value hedges.

(i) *Cash flow hedges*
A cash flow hedge is used to hedge exposures to variability in cash flows, such as variable rate financial assets and liabilities. The effective portion of changes in the derivative fair value is recognised in equity, and recycled to the income statement in the periods when the hedged item will effect profit or loss. The fair value gain or loss relating to the ineffective portion is recognised immediately in the income statement.

(ii) *Fair value hedges*
A fair value hedge is used to hedge exposures to variability in the fair value of financial assets and liabilities, such as fixed rate loans. Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of the hedged item is amortised to the income statement over the period to maturity.

If derivatives are not designated as hedges then changes in fair values are recognised immediately in the income statement.

(s) **Significant estimates/uncertainties** The significant accounting estimates in these financial statements are considered to relate to the valuations of impaired assets, share based payment and the effective interest rate calculations.

The methodology for valuing impaired assets is as detailed in note 16 on page 66, for valuing share based payment is as detailed in note 24 on page 71 and for deciding upon the maturity date for the effective interest rate on loans and investments in note 2(e) on page 56.

## 3 Profit of parent company

As permitted by Section 230 of the Companies Act 1985, the income statement of the parent company is not presented as part of these financial statements. The parent company's profit for the year amounted to £101.1m (period ended 31 March 2006 – £98.2m).

| 4 Analysis of profit before tax | Year ended 31 Mar 2007 £m | 14 month period ended 31 Mar 2006 (annualised unaudited) £m | 14 month period ended 31 Mar 2006 £m |
|---|---|---|---|
| **Income:** | | | |
| Interest and dividend income | **196.8** | 146.3 | 170.7 |
| Fee and other operating income | **33.3** | 23.8 | 27.8 |
| | **230.1** | 170.1 | 198.5 |
| **Less: related expenses** | | | |
| Interest payable and other related financing costs | **(66.6)** | (45.2) | (52.7) |
| Add back: net losses on derivatives held for hedging purposes | **8.2** | 5.6 | 6.5 |
| Administrative expenses – salaries and benefits | **(32.8)** | (17.0) | (19.8) |
| Operating expenses | **(14.1)** | (11.1) | (13.0) |
| Medium Term Incentive Scheme | **(12.8)** | (11.3) | (13.2) |
| **Core income** | **112.0** | 91.1 | 106.3 |
| Gains on investments | **197.0** | 124.2 | 144.9 |
| Medium Term Incentive Scheme | **(42.0)** | (23.4) | (27.3) |
| **Net gains on investments** | **155.0** | 100.8 | 117.6 |
| **Provisions against loans and investments** | **(34.8)** | (23.4) | (27.3) |
| **Net losses on derivatives held for hedging purposes*** | **(8.2)** | (5.6) | (6.5) |
| **Profit on ordinary activities before taxation** | **224.0** | 162.9 | 190.1 |

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

*Net losses relating to the fair value of derivatives used to economically hedge certain liabilities of the Group excluding any interest accruals and spot F/X-translation movements on these derivatives, are not considered part of core income.

## 5 Business and geographical segments

For management purposes, the Group is currently organised into two distinct business Groups. One of these being the provision of mezzanine finance and the other being fund management.

These divisions are the basis on which the Group reports its primary segment information.

Segment information about these businesses is presented below:

### (a) Business segments

| For the year ended 31 March 2007 | Mezzanine finance £m | Fund management £m | Total £m |
|---|---|---|---|
| Revenue – external | **400.5** | **26.6** | **427.1** |
| Depreciation on segment property, plant & equipment | **0.3** | **0.1** | **0.4** |
| Segment result | **213.7** | **10.3** | **224.0** |
| Segment property, plant & equipment acquisitions | **1.6** | **0.6** | **2.2** |
| **Balance sheet as at 31 March 2007** | | | |
| Segment assets | **1,922.4** | **45.0** | **1,967.4** |
| Segment liabilities | **1,311.3** | **12.0** | **1,323.3** |

## 5 Business and geographical segments continued

### (a) Business segments continued

| For the 14 month period ended 31 March 2006 (annualised unaudited) | Mezzanine finance £m | Fund management £m | Total £m |
|---|---|---|---|
| Revenue – external | 275.0 | 19.3 | 294.3 |
| Depreciation on segment property, plant & equipment | 0.5 | 0.2 | 0.7 |
| Segment result | 148.1 | 14.8 | 162.9 |
| Segment property, plant & equipment acquisitions | 0.3 | 0.2 | 0.5 |

| For the 14 month period ended 31 March 2006 | Mezzanine finance £m | Fund management £m | Total £m |
|---|---|---|---|
| Revenue – external | 320.8 | 22.6 | 343.4 |
| Depreciation on segment property, plant & equipment | 0.6 | 0.2 | 0.8 |
| Segment result | 172.8 | 17.3 | 190.1 |
| Segment property, plant & equipment acquisitions | 0.4 | 0.2 | 0.6 |
| **Balance sheet as at 31 March 2006** | | | |
| Segment assets | 1,616.2 | 33.5 | 1,649.7 |
| Segment liabilities | 1,117.5 | 2.5 | 1,120.0 |

### (b) Geographical segments

| For the year ended 31 March 2007 | **Asia** | **Europe** | **Total** |
|---|---|---|---|
| Revenue – external | **4.7** | **422.4** | **427.1** |
| Segment assets | **34.5** | **1,932.9** | **1,967.4** |
| Segment property, plant & equipment acquisitions | **0.2** | **2.0** | **2.2** |

| For the 14 month period ended 31 March 2006 (annualised unaudited) | Asia | Europe | Total |
|---|---|---|---|
| Revenue – external | 8.3 | 286.0 | 294.3 |

| For the 14 month period ended 31 March 2006 | Asia | Europe | Total |
|---|---|---|---|
| Revenue – external | 9.7 | 333.7 | 343.4 |
| Segment assets | 2.5 | 1,647.2 | 1,649.7 |
| Segment property, plant & equipment acquisitions | – | 0.6 | 0.6 |

## 6 Interest and dividend income

| | **Year ended 31 Mar 2007 £m** | 14 month period ended 31 Mar 2006 (annualised unaudited) £m | 14 month period ended 31 Mar 2006 £m |
|---|---|---|---|
| Interest income on interest bearing loans and investments | **187.4** | 138.3 | 161.4 |
| Dividend income from equity investments | **6.7** | 6.1 | 7.1 |
| Interest on bank deposits | **2.7** | 1.9 | 2.2 |
| | **196.8** | 146.3 | 170.7 |

Interest income includes £1.2m (2006 – £1.7m) accrued on impaired loans and investments.

| 7 Interest payable and other related financing costs include: | Year ended 31 Mar 2007 £m | 14 month period ended 31 Mar 2006 (annualised unaudited) £m | 14 month period ended 31 Mar 2006 £m |
|---|---|---|---|
| Interest expense recognised under EIR method | **51.8** | 37.1 | 43.3 |
| Fair value movements on other derivatives | **3.3** | 9.8 | 11.4 |
| Other related financing costs | **11.5** | (1.7) | (2.0) |
| | **66.6** | 45.2 | 52.7 |

| 8 Gains on investments | Year ended 31 Mar 2007 £m | 14 month period ended 31 Mar 2006 (annualised unaudited) £m | 14 month period ended 31 Mar 2006 £m |
|---|---|---|---|
| Fair value movements in warrants | **144.0** | 91.1 | 106.3 |
| Gains recycled from equity reserves on available for sale assets | **53.0** | 33.1 | 38.6 |
| | **197.0** | 124.2 | 144.9 |

| 9 Impairment of assets | Year ended 31 Mar 2007 £m | 14 month period ended 31 Mar 2006 (annualised unaudited) £m | 14 month period ended 31 Mar 2006 £m |
|---|---|---|---|
| Impairment on loans and receivables: | | | |
| New and increased | **35.4** | 24.0 | 28.0 |
| Recoveries | **(3.1)** | (6.9) | (8.0) |
| Total impairment on loans and receivables | **32.3** | 17.1 | 20.0 |
| Impairment on available for sale investments | **2.5** | 6.3 | 7.3 |
| | **34.8** | 23.4 | 27.3 |

All impairments arose on assets in our mezzanine finance business. Interest income of £1.2m has been recognised from impaired assets.

| 10 Administrative expenses | Year ended 31 Mar 2007 £m | 14 month period ended 31 Mar 2006 (annualised unaudited) £m | 14 month period ended 31 Mar 2006 £m |
|---|---|---|---|
| Administrative expenses include: | | | |
| Amounts due under Medium Term Incentive Scheme | **54.8** | 34.7 | 40.5 |
| Directors' remuneration | **23.5** | 12.6 | 14.7 |
| Depreciation | **0.4** | 0.7 | 0.8 |
| Auditors' remuneration | **1.2** | 0.5 | 0.6 |

# Notes to the accounts continued

### 10 Administrative expenses continued

The fees for audit and other services payable to the Company's auditor, Deloitte & Touche LLP, are analysed as follows:

| | **Year ended 31 Mar 2007 £m** | 14 month period ended 31 Mar 2006 (annualised unaudited) £m | 14 month period ended 31 Mar 2006 £m |
|---|---|---|---|
| **Audit fees:** | | | |
| Fees payable to the Company's auditor for the audit of the Group's annual accounts | **0.2** | 0.1 | 0.1 |
| Fees payable to the Company's auditor and its associates for the audit of the Company's subsidiaries pursuant to legislation | **0.2** | 0.1 | 0.1 |
| Total audit fees | **0.4** | 0.2 | 0.2 |
| **Non-audit fees:** | | | |
| – Tax services | **0.3** | 0.2 | 0.3 |
| – Recruitment and remuneration services | **0.4** | – | – |
| – All other services | **0.1** | 0.1 | 0.1 |
| Total non-audit fees | **0.8** | 0.3 | 0.4 |

### 11 Tax expense

| **Analysis of tax on ordinary activities** | **Year ended 31 Mar 2007 £m** | 14 month period ended 31 Mar 2006 (annualised unaudited) £m | 14 month period ended 31 Mar 2006 £m |
|---|---|---|---|
| United Kingdom corporation tax at 30% (2006 – 30%) based on the profit for the year | **85.1** | 52.5 | 61.3 |
| Prior year adjustment | **3.1** | 0.5 | 0.6 |
| | **88.2** | 53.0 | 61.9 |
| Deferred taxation: | | | |
| Current year | **(7.6)** | 2.7 | 3.1 |
| Tax on profit on ordinary activities | **80.6** | 55.7 | 65.0 |

| | **Year ended 31 Mar 2007 £m** | 14 month period ended 31 Mar 2006 (annualised unaudited) £m | 14 month period ended 31 Mar 2006 £m |
|---|---|---|---|
| Profit on ordinary activities before tax | **224.0** | 162.9 | 190.1 |
| Tax at 30% thereon | **67.2** | 48.9 | 57.0 |
| Effects of: | | | |
| Utilisation of prior year losses | **–** | (1.6) | (1.8) |
| Tax on options exercised | **–** | (0.9) | (1.0) |
| Non-taxable income | **(3.7)** | – | – |
| Non-deductible expenditure | **14.4** | 9.3 | 10.8 |
| Withholding tax | **(0.4)** | – | – |
| Prior year adjustment | **3.1** | – | – |
| Tax charge for the year | **80.6** | 55.7 | 65.0 |

Deferred tax has been accounted for at the current corporation tax rate of 30%. If the rate of 28% announced in April 2007 had been applied the current tax charge would be reduced to £80m.

| 12 Information regarding Directors and employees | Year ended 31 Mar 2007 £m | 14 month period ended 31 Mar 2006 (annualised unaudited) £m | 14 month period ended 31 Mar 2006 £m |
|---|---|---|---|
| Directors' remuneration: | | | |
| Emoluments and benefits | **23.5** | 12.6 | 14.7 |
| | **23.5** | 12.6 | 14.7 |
| Employee costs during the year, including Directors: | | | |
| Wages and salaries | **84.7** | 49.5 | 57.7 |
| Social security costs | **2.3** | 1.7 | 2.0 |
| Pension costs | **0.6** | 0.5 | 0.6 |
| | **87.6** | 51.7 | 60.3 |

The average number of employees (including Executive Directors) employed by ICG was:

| | Year ended 31 Mar 2007 No. | 14 month period ended 31 Mar 2006 No. |
|---|---|---|
| Investment Executives | **44** | 34 |
| Support staff | **42** | 37 |
| Directors | **5** | 5 |
| | **91** | 76 |

The performance related element included in wages and salaries is £54.8m (2006 – £40.5m), which is derived as a result of the management incentive scheme and contributions to the Company's Employee Benefit Trust.

| 13 Dividends paid and proposed | **2007** | | 2006 | |
|---|---|---|---|---|
| | **Per share pence** | **£m** | Per share pence | £m |
| Ordinary dividend: | | | | |
| Final dividend for the years ended 31 March 2006/ 31 January 2005 | **42.0** | 29.4 | 28.2 | 19.6 |
| Interim dividend for the periods to 30 September 2006/2005 | **16.5** | 11.5 | 14.0 | 9.8 |
| | **58.5** | 40.9 | 42.2 | 29.4 |

The proposed final dividend for the year ended 31 March 2007 is 41.5p per share (2006 – 42p per share) which will amount to £29m (2006 – £29.4m).

The proposed final dividend is subject to approval by shareholders at the Annual General Meeting and has not been included as a liability in these financial statements.

## 14 Earnings per share

| Earnings | Year ended 31 Mar 2007 £m | 14 month period ended 31 Mar 2006 (annualised unaudited) £m | 14 month period ended 31 Mar 2006 £m |
|---|---|---|---|
| Earnings for the purposes of basic earnings per share being net profit attributable to equity holders of the parent | **143.4** | 107.2 | 125.1 |

| Number of shares | 2007 | 2006 | 2006 |
|---|---|---|---|
| Weighted average number of ordinary shares for the purposes of basic earnings per share | **70,079,998** | 69,757,796 | 69,757,796 |
| Effect of dilutive potential ordinary shares | | | |
| Share options | **817,856** | * | 403,632 |
| Weighted average number of ordinary shares for the purposes of diluted earnings per share | **70,897,854** | * | 70,161,428 |

*The annualised diluted earnings per share have been calculated by taking twelve-fourteenths of the result for the fourteen month period.

## 15 Property, plant and equipment

| Year ended 31 March 2007 | Furniture and equipment £m | Short leasehold premises £m | Total £m |
|---|---|---|---|
| **Group** | | | |
| **Cost** | | | |
| At 31 March 2006 | 1.8 | 1.3 | 3.1 |
| Additions | 1.5 | 0.7 | 2.2 |
| At 31 March 2007 | **3.3** | **2.0** | **5.3** |
| **Depreciation** | | | |
| At 31 March 2006 | 1.0 | 1.0 | 2.0 |
| Charge for the year | 0.3 | 0.1 | 0.4 |
| At 31 March 2007 | **1.3** | **1.1** | **2.4** |
| **Net book value** | | | |
| At 31 March 2007 | **2.0** | **0.9** | **2.9** |
| At 31 March 2006 | 0.8 | 0.3 | 1.1 |
| **Company** | | | |
| **Cost** | | | |
| At 31 March 2006 | 1.4 | 1.1 | 2.5 |
| Additions | 0.9 | 0.8 | 1.7 |
| At 31 March 2007 | **2.3** | **1.9** | **4.2** |
| **Depreciation** | | | |
| At 31 March 2006 | 0.7 | 0.9 | 1.6 |
| Charge for the year | 0.3 | 0.2 | 0.5 |
| At 31 March 2007 | **1.0** | **1.1** | **2.1** |
| **Net book value** | | | |
| At 31 March 2007 | **1.3** | **0.8** | **2.1** |
| At 31 March 2006 | 0.7 | 0.2 | 0.9 |

## 15 Property, plant and equipment continued

| 14 month period ended 31 March 2006 | Furniture and equipment £m | Short leasehold premises £m | Total £m |
|---|---|---|---|
| **Group** | | | |
| **Cost** | | | |
| At 31 January 2005 | 1.2 | 1.3 | 2.5 |
| Additions | 0.6 | – | 0.6 |
| At 31 March 2006 | 1.8 | 1.3 | 3.1 |
| **Depreciation** | | | |
| At 31 January 2005 | 0.8 | 0.4 | 1.2 |
| Charge for the period | 0.2 | 0.6 | 0.8 |
| At 31 March 2006 | 1.0 | 1.0 | 2.0 |
| **Net book value** | | | |
| At 31 March 2006 | 0.8 | 0.3 | 1.1 |
| At 31 January 2005 | 0.4 | 0.9 | 1.3 |
| **Company** | | | |
| **Cost** | | | |
| At 31 January 2005 | 0.8 | 1.1 | 1.9 |
| Additions | 0.6 | – | 0.6 |
| At 31 March 2006 | 1.4 | 1.1 | 2.5 |
| **Depreciation** | | | |
| At 31 January 2005 | 0.6 | 0.3 | 0.9 |
| Charge for the period | 0.1 | 0.6 | 0.7 |
| At 31 March 2006 | 0.7 | 0.9 | 1.6 |
| **Net book value** | | | |
| At 31 March 2006 | 0.7 | 0.2 | 0.9 |
| At 31 January 2005 | 0.2 | 0.8 | 1.0 |

## 16 Financial assets

| | Group | | Company | |
|---|---|---|---|---|
| | **2007 £m** | 2006 £m | **2007 £m** | 2006 £m |
| Loans and receivables – non current | **1,634.9** | 1,372.1 | **1,227.3** | 964.6 |
| Investment in subsidiaries | **–** | – | **87.1** | 10.4 |
| Available for sale assets | **107.4** | 100.7 | **33.3** | 34.0 |
| Warrants | **7.6** | 21.1 | **–** | – |
| Other derivatives | **15.3** | 20.8 | **15.3** | 20.8 |
| | **1,765.2** | 1,514.7 | **1,363.0** | 1,029.8 |

The available for sale investments include investments in unlisted equity securities that present the Group with the opportunity for return through dividend income and uplift in value on sale. As these instruments are all held in private companies with no ready market, the events to crystallise such a valuation include the sale of shares by a substantial shareholder or the approach of an exit to the transaction, either by way of a float or a sale. Therefore, the fair valuing of such unquoted shares has been restricted to those instruments whose value may be reliably measured for example by one of the above events. These instruments are otherwise held at cost.

## 16 Financial assets continued

Other derivatives include interest rate swaps and forward foreign exchange contracts used to economically hedge the net exposure of the Group.

| Available for sale assets | Group 2007 £m | Group 2006 £m | Company 2007 £m | Company 2006 £m |
|---|---|---|---|---|
| **Additional information in respect of movements during the year is as follows:** | | | | |
| Balance at 1 April 2006 and 1 February 2005 | **100.7** | 90.6 | **34.0** | 23.0 |
| Additions | **46.2** | 61.0 | **9.5** | 23.0 |
| Change in fair value | **53.4** | 23.5 | **3.6** | (1.5) |
| Realisations | **(89.6)** | (75.0) | **(13.6)** | (11.1) |
| Currency movement on non sterling denominated loans | **(3.3)** | 0.6 | **(0.2)** | 0.6 |
| Balance at 31 March | **107.4** | 100.7 | **33.3** | 34.0 |

| Impairment | Group 2007 £m | Group 2006 £m | Company 2007 £m | Company 2006 £m |
|---|---|---|---|---|
| **Additional information in respect of movements during the year is as follows:** | | | | |
| Balance at 1 April 2006 and 1 February 2005 | **64.9** | 64.2 | **45.6** | 48.3 |
| Impact of adopting IAS 32/IAS 39 | **–** | 0.5 | **–** | 0.1 |
| Charged to income statement | **34.8** | 27.3 | **20.7** | 15.9 |
| Amounts written-off | **–** | (28.0) | **–** | (19.2) |
| Currency translation and other adjustments | **(1.3)** | 0.9 | **(1.1)** | 0.5 |
| Balance at 31 March | **98.4** | 64.9 | **65.2** | 45.6 |

Impairment losses are recognised as the difference between the carrying value of the loan and the discounted value of management's best estimates of future cash proceeds. These estimates take into account the level and quality of the customers earnings, the amount and sources of cash flows, the industry in which the customer operates and the likelihood of cash recovery. Estimating the quantum and timing of these future proceeds involves significant judgement. The actual amount of future cash flows and the date they are received may differ from these estimates and consequently actual losses incurred may differ from those recognised in the financial statements.

## 17 Trade and other receivables

| | Group 2007 £m | Group 2006 £m | Company 2007 £m | Company 2006 £m |
|---|---|---|---|---|
| Other receivables | **12.3** | 9.7 | **5.5** | 9.5 |
| Amount owed by Group companies | **–** | – | **105.0** | 134.1 |
| Prepayments | **1.0** | 1.2 | **1.0** | 0.8 |
| | **13.3** | 10.9 | **111.5** | 144.4 |

The Directors consider that the carrying amount of trade and other receivables approximates their fair value.

| 18 Loans and investments held as current assets | Group 2007 £m | Group 2006 £m | Company 2007 £m | Company 2006 £m |
|---|---|---|---|---|
| Loans and investments | **14.0** | 70.6 | **12.5** | 66.0 |

The Directors consider that the carrying amount of trade and other receivables approximates their fair value.

| 19 Called up share capital | 2007 £m | 2006 £m |
|---|---|---|
| Authorised:<br>90,000,000 (2006 – 90,000,000) ordinary shares of 20p | **18.0** | 18.0 |
| Allotted, called up and fully paid:<br>70,242,959 (2006 – 69,949,392) ordinary shares of 20p | **14.0** | 14.0 |

During the year, the Company allotted 293,567 shares under its Unapproved Executive Share Option Scheme 1997, its Executive Share Option Scheme 1994, and its Approved and Unapproved Executive Share Option Schemes 2001, realising a total consideration of £1.2m.

## 20 Equity shareholders' funds

| Year ending 31 March 2007 | Share capital £m | Share premium £m | Capital redemption reserve fund £m | Reserve for share based payments £m | Available for sale or reserve £m | Retained earnings £m | Total £m |
|---|---|---|---|---|---|---|---|
| **Group** | | | | | | | |
| Balance at 31 March 2006 | 14.0 | 174.5 | 1.4 | 1.4 | 5.0 | 297.0 | 493.3 |
| Exercise of share options | – | 1.2 | – | – | – | – | 1.2 |
| Credit for share based payments | – | – | – | 1.5 | – | – | 1.5 |
| Revaluation of available for sale investments | – | – | – | – | 3.1 | – | 3.1 |
| Profit for the year | – | – | – | – | – | 143.4 | 143.4 |
| Dividends paid | – | – | – | – | – | (40.9) | (40.9) |
| Balance at 31 March 2007 | **14.0** | **175.7** | **1.4** | **2.9** | **8.1** | **399.5** | **601.6** |
| **Company** | | | | | | | |
| Balance at 31 March 2006 | 14.0 | 174.5 | 1.4 | 1.4 | – | 203.7 | 395.0 |
| Exercise of share options | – | 1.2 | – | – | – | – | 1.2 |
| Credit for share based payments | – | – | – | 1.5 | – | – | 1.5 |
| Revaluation of available for sale investments | – | – | – | – | 4.0 | – | 4.0 |
| Profit for the year | – | – | – | – | – | 101.1 | 101.1 |
| Dividends paid | – | – | – | – | – | (40.9) | (40.9) |
| Balance at 31 March 2007 | **14.0** | **175.7** | **1.4** | **2.9** | **4.0** | **263.9** | **461.9** |

## 20 Equity shareholders' funds continued

| 14 month period to 31 March 2006 | Share capital £m | Share premium £m | Capital redemption reserve fund £m | Reserve for share based payments £m | Available for sale or reserve £m | Retained earnings £m | Total £m |
|---|---|---|---|---|---|---|---|
| **Group** | | | | | | | |
| Balance at 31 January 2005 | 13.9 | 172.5 | 1.4 | 0.5 | – | 191.6 | 379.9 |
| Adoption of IAS 32 and 39 | – | – | – | – | 10.6 | 9.7 | 20.3 |
| Exercise of share options | 0.1 | 2.0 | – | – | – | – | 2.1 |
| Credit for share based payments | – | – | – | 0.9 | – | – | 0.9 |
| Revaluation of available for sale investments | – | – | – | – | (5.6) | – | (5.6) |
| Profit for the period | – | – | – | – | – | 125.1 | 125.1 |
| Dividends paid | – | – | – | – | – | (29.4) | (29.4) |
| Balance at 31 March 2006 | 14.0 | 174.5 | 1.4 | 1.4 | 5.0 | 297.0 | 493.3 |
| **Company** | | | | | | | |
| Balance at 31 January 2005 | 13.9 | 172.5 | 1.4 | 0.5 | – | 114.0 | 302.3 |
| Adoption of IAS 32 and 39 | – | – | – | – | (0.5) | 20.9 | 20.4 |
| Exercise of share options | 0.1 | 2.0 | – | – | – | – | 2.1 |
| Credit for share based payments | – | – | – | 0.9 | – | – | 0.9 |
| Revaluation of available for sale investments | – | – | – | – | 0.5 | – | 0.5 |
| Profit for the period | – | – | – | – | – | 98.2 | 98.2 |
| Dividends paid | – | – | – | – | – | (29.4) | (29.4) |
| Balance at 31 March 2006 | 14.0 | 174.5 | 1.4 | 1.4 | – | 203.7 | 395.0 |

## 21 Financial liabilities

| Group | **2007 Current £m** | **2007 Non-current £m** | 2006 Current £m | 2006 Non-current £m |
|---|---|---|---|---|
| Liabilities held at amortised cost | | | | |
| Private placement | **30.9** | **411.4** | 48.3 | 289.5 |
| Bridge facility | **–** | **263.1** | – | – |
| Revolving credit facility | **–** | **441.2** | – | 368.9 |
| Bank overdraft | **–** | **5.6** | – | 20.3 |
| Floating rate secured notes | **–** | **–** | 268.1 | – |
| Derivatives | **42.7** | **15.7** | 15.2 | 40.3 |
| | **73.6** | **1,137.0** | 331.6 | 719.0 |

| Company | **2007 Current £m** | **2007 Non-current £m** | 2006 Current £m | 2006 Non-current £m |
|---|---|---|---|---|
| Liabilities held at amortised cost | | | | |
| Private placement | **30.9** | **411.4** | 48.3 | 289.5 |
| Revolving credit facility | **–** | **441.2** | – | 368.9 |
| Bank overdraft | **–** | **5.6** | – | 20.3 |
| Derivatives | **42.7** | **–** | 13.2 | 21.4 |
| | **73.6** | **858.2** | 61.5 | 700.1 |

## 21 Financial liabilities continued

The maturity of the funding liabilities are shown below:

| As at 31 March 2007 | Contractual maturity analysis Less than one year | One to two years | Two to five years | More than five years | Total |
|---|---|---|---|---|---|
| $75m private placement | 26.0 | – | – | – | 26.0 |
| $95m private placement | 1.8 | 10.9 | 11.8 | – | 24.5 |
| £25m private placement | – | – | 26.8 | – | 26.8 |
| $110m private placement | – | – | 35.0 | – | 35.0 |
| £25 private placement | – | – | 21.1 | – | 21.1 |
| $200m private placement | 3.1 | 39.9 | 20.9 | 36.3 | 100.2 |
| £30m private placement | – | 20.0 | – | 10.0 | 30.0 |
| $240m private placement | – | – | 17.8 | 104.5 | 122.3 |
| €39m private placement | – | – | 26.4 | – | 26.4 |
| £30m private placement | – | – | – | 30.0 | 30.0 |
| €385m bridge facility | – | – | 263.1 | – | 263.1 |
| £1,042m revolving credit facility | – | – | 441.2 | – | 441.2 |
| £25m overdraft | – | – | 5.6 | – | 5.6 |
| | 30.9 | 70.8 | 869.7 | 180.8 | 1,152.2 |

The bridging facility is provided by the Royal Bank of Scotland.

| As at 31 March 2006 | Contractual maturity analysis Less than one year | One to two years | Two to five years | More than five years | Total |
|---|---|---|---|---|---|
| $75m private placement | 14.7 | 30.0 | – | – | 44.7 |
| $95m private placement | 2.0 | 2.0 | 26.4 | – | 30.4 |
| £25m private placement | – | – | 27.2 | – | 27.2 |
| $110m private placement | 26.5 | – | 15.2 | 24.7 | 66.4 |
| £25m private placement | 5.1 | – | – | 21.3 | 26.4 |
| $200m private placement | – | 2.2 | 69.5 | 41.0 | 112.7 |
| £30m private placement | – | – | 20.0 | 10.0 | 30.0 |
| €228m class A secured notes | 158.9 | – | – | – | 158.9 |
| €73.5m class B secured notes | 51.2 | – | – | – | 51.2 |
| €73.5m class C secured notes | 51.3 | – | – | – | 51.3 |
| €9.5m class D secured notes | 6.7 | – | – | – | 6.7 |
| £825m revolving credit facility | – | – | 368.9 | – | 368.9 |
| £20m overdraft facility | – | – | 20.3 | – | 20.3 |
| | 316.4 | 34.2 | 547.5 | 97.0 | 995.1 |

## 22 Trade, other payables and liabilities for current tax

| | Group | | Company | |
|---|---|---|---|---|
| | 2007 £m | 2006 £m | 2007 £m | 2006 £m |
| Trade payables | **2.3** | 0.8 | **0.6** | 0.8 |
| Accruals | **110.2** | 67.8 | **91.3** | 63.1 |
| Amounts owed to Group companies | **–** | – | **19.0** | 34.3 |
| Taxation – corporation tax | **35.1** | 19.6 | **2.7** | 2.9 |
| Taxation – social security | **0.2** | 0.8 | **0.2** | 0.8 |
| | **147.8** | 89.0 | **113.8** | 101.9 |

The Directors consider that the carrying amount of trade and other payables approximates to their fair value.

## 23 Deferred tax

The following are the major deferred tax liabilities and assets recognised by the Group and movements thereon during the current and prior reporting period.

| | Share based payment £m | Other derivatives £m | Warrants and investments £m | Other temporary differences £m | Total £m |
|---|---|---|---|---|---|
| At 1 February 2005 | (0.8) | 6.9 | 9.5 | 0.4 | 16.0 |
| Charge to income | – | (0.7) | 2.8 | 1.0 | 3.1 |
| Charge to equity | (0.1) | – | (2.2) | – | (2.3) |
| At 31 March 2006 | (0.9) | 6.2 | 10.1 | 1.4 | 16.8 |
| Charge to income | – | (1.7) | (4.4) | (1.5) | (7.6) |
| Charge to equity | (2.2) | – | 0.4 | – | (1.8) |
| At 31 March 2007 | **(3.1)** | **4.5** | **6.1** | **(0.1)** | **7.4** |

Deferred tax has been accounted for at the current corporation tax rate of 30%. If the rate of 28% announced in April 2007 had been applied the closing deferred tax liability would be £6.9m.

## 24 Share based payment

### Equity settled share option schemes

**Intermediate Capital Group PLC 2001 Approved and Unapproved Executive Share Option Scheme**

The Company has a number of share option schemes for certain employees of the Group. The terms of the Intermediate Capital Group PLC 2001 Approved Executive Share Option Scheme and the Intermediate Capital Group PLC 2001 Unapproved Executive Share Option Scheme are shown on page 42.

Analysis of movements in the number and weighted average exercise price of options is set out below:

| | Number | | Weighted average exercise price (£) | |
|---|---|---|---|---|
| | 2007 | 2006 | 2007 | 2006 |
| Outstanding at 1 April 2006 and 1 February 2005 | **2,420,199** | 2,398,966 | **10.0** | 8.6 |
| Granted | **909,190** | 798,996 | **12.8** | 10.9 |
| Forfeited | **(42,690)** | (213,571) | **11.6** | 10.6 |
| Exercised* | **(414,134)** | (564,192) | **7.8** | 5.9 |
| Outstanding at 31 March | **2,872,565** | 2,420,199 | **10.93** | 10.1 |
| Of which are currently exercisable: | **771,388** | 668,090 | | |

*120,567 were issued on a net basis.

## 24 Share based payments continued

The weighted average share price at the date of exercise for share options exercised in the period was £15.77 (2006 – £11.7). The options outstanding at 31 March 2007 have a range of exercise prices between £5.1 and £15.3 (2006 – £4.8 and £12.1) as detailed below, and a weighted average remaining contractual life of 7.5 years (2006 – 7.4 years).

| Exercise price | **2007 Number** | 2006 Number |
|---|---|---|
| £12.3 | **703,858** | – |
| £10.9 | **630,741** | 713,173 |
| £12.1 | **511,202** | 530,576 |
| £8.5 | **389,391** | 504,696 |
| £8.3 | **191,434** | 325,988 |
| £7.3 | **170,563** | 260,904 |
| £15.3 | **123,496** | – |
| £10.5 | **65,946** | – |
| £12.9 | **65,934** | – |
| £5.1 | **20,000** | 75,000 |
| £4.8 | **–** | 6,198 |

In the year to 31 March 2007, 785,694 options were granted on 1 June 2006 and 123,496 were granted on 5 December 2006 (14 months to 31 March 2006 – 798,996 on 30 April 2005). The aggregate of estimated fair values of the options granted on these dates are £1.6m (2006 – £1.4m).

The inputs into the Black Scholes model are as follows:

| For options granted | 5 December 2006 | 1 June 2006 | 30 April 2005 |
|---|---|---|---|
| Exercise price | £15.30 | £12.34 | £10.918 |
| Expected volatility | 18.51% | 18.51% | 19.42% |
| Expected life | 5.14 years | 5.14 years | 5.27 years |
| Risk free rate | 4.38% | 4.38% | 4.43% |
| Dividend yield | 3.80% | 3.80% | 3.6% |

Expected volatility was determined by calculating the historical volatility of the Group's share price over the previous two years. The expected life used in the model has been calculated using actual exercise periods over the previous five years.

**Key Employee Retention Share Plan ("KERSP")**

202,322 options were granted in the year under the KERSP plan with a nil exercise price. All options granted were outstanding at the year-end. None of these options are exercisable until May 2010.

The aggregate of the estimated fair values of these options is £2m.

The inputs for the Black Scholes model are as follows:

| | |
|---|---|
| Exercise price | nil |
| Expected volatility | 18.51% |
| Expected life | 6.0 years |
| Risk free rate | 4.38% |
| Dividend yield | 3.80% |

Expected volatility was determined by calculating the historical volatility of the Group's share price over the previous two years. 20% of the options under the KERSP vest each year between May 2010 and May 2014. The expected life has thus been calculated by assuming that options are exercised as soon as they vest there being no exercise cost.

The Group recognised total expenses of £1.5m and £0.9m related to equity-settled share based payment transactions in 2007 and 2006 respectively.

## 25 Financial commitments

At 31 March 2007, the Group estimated that it had no contractual obligations to provide further funding apart from an obligation to lend a further £111.0m (2006 – £19.5m) on six existing investments.

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.

## 26 Related party transactions

All transactions between the parent company and its subsidiary undertakings are classified as related party transactions. All significant Company balances with subsidiary undertakings are disclosed in notes 16, 17 and 22. Aggregated significant transactions with subsidiary undertakings are as follows:

| | **Year ended 31 March 2007 £m** | Period ended 31 March 2006 £m |
|---|---|---|
| Management fees received | **1.0** | 1.2 |
| Service charges paid | **4.0** | 4.7 |
| Dividends received | **110.0** | 100.0 |

Management consider key management personnel to be the Board of Directors and all related party transactions are disclosed in the remuneration report.

## 27 Principal subsidiary companies

| Principal Subsidiary | Percentage owned | Country of incorporation | Registered in | Principal activity |
|---|---|---|---|---|
| Intermediate Capital Investments Ltd | 100% | United Kingdom | England and Wales | Investment company |
| Intermediate Capital Managers Ltd | 100% | United Kingdom | England and Wales | Advisory company |
| Mezzanine Finance (Guernsey) Ltd | 100% | Guernsey | Guernsey | Holding company for loans and investments |
| Intermediate Capital Asia Pacific Ltd | 100% | Hong Kong | Hong Kong | Provider of mezzanine finance to companies in the Asia Pacific Region |
| Intermediate Capital Ltd | 100% | United Kingdom | England and Wales | General Partner in a number of Partnerships |
| Intermediate Capital Group SAS | 100% | France | France | Advisory company |
| Intermediate Capital Group Espana SL | 100% | Spain | Spain | Advisory company |
| Intermediate Capital Nordic AB | 100% | Sweden | Sweden | Advisory company |
| Intermediate Capital Group Beratungsgesellschaft | 100% | Germany | Germany | Advisory company |

## 27 Principal subsidiary companies continued

| Principal Subsidiary | Percentage owned | Country of incorporation | Registered in | Principal activity |
|---|---|---|---|---|
| Intermediate Capital GP Ltd | 100% | Jersey | Jersey | General Partner in a number of Partnerships |
| Intermediate Capital GP 2003 Ltd | 100% | Jersey | Jersey | General Partner in a number of Partnerships |
| Intermediate Capital GP 2006 Ltd | 100% | Jersey | Jersey | General Partner in a number of Partnerships |
| JOG Partners Limited | 100% | United Kingdom | England and Wales | Investment company |
| Intermediate Finance II PLC | 100% | United Kingdom | England and Wales | Provider of mezzanine finance |
| Intermediate Capital Japan K.K | 100% | Japan | Japan | Advisory company |
| Intermediate Capital Australia Pty Ltd | 100% | Australia | Australia | Advisory company |

All companies listed above have a reporting date of 31 March.

## 28 Financial assets and liabilities

### (a) Treasury and hedging policies

The Group's treasury policies seek to manage the following risks. The Board has reviewed and agreed the changes in the policies during the year ended 31 March 2007.

### (b) Interest rate risk

The Group provides mezzanine finance to its borrowers at both fixed and floating rates. The Group finances its operations by a mixture of retained profits, bank borrowings, private placements and floating rate notes. It seeks to match the interest profiles of assets and liabilities in order to reduce interest rate risk. The Group uses financial derivatives to achieve this. As a result, the Group does not have material financial exposure to interest rate movements.

The following tables provide a summary of the interest rate repricing profile of the Group's and the Company's assets and liabilities as at 31 March 2007 and 2006. Assets and liabilities have been allocated to time bands by reference to the earlier of the next interest reset date and the contractual maturity date. The table includes the effect of derivatives which alter the interest basis of assets and liabilities.

## 28 Financial assets and liabilities continued

### (b) Interest rate continued

**As at 31 March 2007**

| Group | Less than 3 months | 3 to 6 months | 6 to 12 months | 1 to 2 years | 2 to 5 years | Over 5 years | Non-interest bearing | Total |
|---|---|---|---|---|---|---|---|---|
| **Assets** | | | | | | | | |
| Loans and receivables | 728.0 | 571.5 | 218.8 | 32.4 | 84.2 | – | – | 1,634.9 |
| Available for sale assets | – | – | – | – | – | – | 107.4 | 107.4 |
| Warrants | – | – | – | – | – | – | 7.6 | 7.6 |
| Other derivatives | – | – | – | – | – | – | 15.3 | 15.3 |
| Cash at bank | 172.0 | – | – | – | – | – | – | 172.0 |
| Other financial assets | 14.0 | – | – | – | – | – | 13.3 | 27.3 |
| Non-financial assets | – | – | – | – | – | – | 2.9 | 2.9 |
| **Total assets** | **914.0** | **571.5** | **218.8** | **32.4** | **84.2** | **–** | **146.5** | **1,967.4** |
| **Liabilities** | | | | | | | | |
| Bank overdraft | 5.6 | – | – | – | – | – | – | 5.6 |
| Revolving credit facilities | 441.2 | – | – | – | – | – | – | 441.2 |
| Private placements | 2.6 | 26.0 | 1.0 | 70.9 | 160.9 | 180.9 | – | 442.3 |
| Bridging facility | 263.1 | – | – | – | – | – | – | 263.1 |
| Derivative liabilities | – | – | – | – | – | – | 58.4 | 58.4 |
| Other financial liabilities | – | – | – | – | – | – | 147.8 | 147.8 |
| Non-financial liabilities | – | – | – | – | – | – | 7.4 | 7.4 |
| **Total liabilities** | **712.5** | **26.0** | **1.0** | **70.9** | **160.9** | **180.9** | **213.6** | **1,365.8** |
| Interest rate derivatives | 126.7 | 327.8 | (27.2) | (75.1) | (143.5) | (171.2) | (37.5) | |
| **Interest rate sensitivity gap** | **74.8** | **217.7** | **245.0** | **36.6** | **66.8** | **(9.7)** | **(29.6)** | |
| **Cumulative gap at 31 March 2007** | | **292.5** | **537.5** | **574.1** | **640.9** | **631.2** | **601.6** | |

## 28 Financial assets and liabilities continued

### (b) Interest rate continued

**As at 31 March 2006**

| Group | Less than 3 months | 3 to 6 months | 6 to 12 months | 1 to 2 years | 2 to 5 years | Over 5 years | Non-interest bearing | Total |
|---|---|---|---|---|---|---|---|---|
| **Assets** | | | | | | | | |
| Loans and receivables | 998.5 | 344.1 | 29.5 | – | – | – | – | 1,372.1 |
| Available for sale assets | – | – | – | – | – | – | 100.7 | 100.7 |
| Warrants | – | – | – | – | – | – | 21.1 | 21.1 |
| Other derivatives | – | – | – | – | – | – | 20.8 | 20.8 |
| Cash at bank | 52.4 | – | – | – | – | – | – | 52.4 |
| Other financial assets | 53.0 | 14.1 | 3.5 | 4.5 | – | – | 6.4 | 81.5 |
| Non-financial assets | – | – | – | – | – | – | 1.1 | 1.1 |
| **Total assets** | 1,103.9 | 358.2 | 33.0 | 4.5 | – | – | 150.1 | 1,649.7 |
| **Liabilities** | | | | | | | | |
| Bank overdraft | 20.3 | – | – | – | – | – | – | 20.3 |
| Revolving credit facilities | 368.9 | – | – | – | – | – | – | 368.9 |
| Private placements | 33.6 | – | 14.7 | 34.2 | 158.3 | 97.0 | – | 337.8 |
| Secured notes | – | 268.1 | – | – | – | – | – | 268.1 |
| Derivative liabilities | – | – | – | – | – | – | 55.5 | 55.5 |
| Other financial liabilities | – | – | – | – | – | – | 89.0 | 89.0 |
| Non-financial liabilities | – | – | – | – | – | – | 16.8 | 16.8 |
| **Total liabilities** | 422.8 | 268.1 | 14.7 | 34.2 | 158.3 | 97.0 | 161.3 | 1,156.4 |
| Interest rate derivatives | 136.8 | 170.8 | – | (34.5) | (155.9) | (84.4) | (32.8) | |
| **Interest rate sensitivity gap** | 544.3 | (80.7) | 18.3 | 4.8 | (2.4) | (12.6) | 21.6 | |
| **Cumulative gap at 31 March 2006** | | 463.6 | 481.9 | 486.7 | 484.3 | 471.7 | 493.3 | |

The Company's profile has not been included as it materially matches that of the Group.

## 28 Financial assets and liabilities continued

### (c) Foreign exchange risk

The Group is exposed to movements in exchange rates for the translation of net assets, foreign currency transactions and the translation of net asset and profit and loss accounts of foreign subsidiaries. The Group is exposed to a number of foreign currencies, the most significant being the Euro and the US Dollar.

The Group finances its loans and investments by means of borrowings or synthetic borrowings in the respective currency invested. In addition, derivative instruments are used to hedge a proportion of unrealised income recognised on a fair value basis.

Derivative instruments are used on a limited basis to reduce the Group's exposure to foreign currency movements on transactions.

The Group regards its interest in overseas subsidiaries as long term investments. Consequently it does not normally hedge the translation effect of exchange rate movements on the financial statements of these businesses.

| | **Financial assets 2007** | | | Financial assets 2006 | | |
|---|---|---|---|---|---|---|
| | **Floating £m** | **Fixed £m** | **Total £m** | Floating £m | Fixed £m | Total £m |
| Sterling | **322** | **106** | **428** | 302 | 24 | 326 |
| Euro | **1,082** | **222** | **1,304** | 889 | 93 | 982 |
| Other currencies | **115** | **102** | **217** | 140 | 46 | 186 |
| | **1,519** | **430** | **1,949** | 1,331 | 163 | 1,494 |

| | **Financial liabilities 2007** | | | Financial liabilities 2006 | | |
|---|---|---|---|---|---|---|
| | **Floating £m** | **Fixed £m** | **Total £m** | Floating £m | Fixed £m | Total £m |
| Sterling | **37** | **65** | **102** | 61 | 16 | 77 |
| Euro | **686** | **30** | **716** | 544 | 239 | 783 |
| Other currencies | **65** | **328** | **393** | 45 | 146 | 191 |
| | **788** | **423** | **1,211** | 650 | 401 | 1,051 |

The financial assets and liabilities by currency above are shown before the effect of derivative instruments.

### (d) Liquidity risk

The Group's policy has throughout the period been to ensure continuity of funding. Due to the long term nature of the Group's assets, the policy is that, wherever possible, the majority of its debt should mature in more than five years. This has been achieved by using a combination of private placements with maturities of between five and ten years, short-term borrowings under a five year extendible, multi-currency bank facility and by issuing floating rate notes.

The maturity profile of the Group's financial liabilities is shown within note 21.

### (e) Credit risk

The Group's policy is to diversify its portfolio in terms of geography, sector and size and has in place disciplined credit procedures both before and during the period of investment to protect its portfolio.

The carrying amount of financial assets before any impairments best represents both the Group and Company's maximum credit risk exposure at the balance sheet date.

Additional information on the concentrations of credit risk are provided by industry and country on page 26.

## 28 Financial assets and liabilities continued

### (f) Fair value

The carrying amount and estimated fair value of the Group's and Company's financial instruments is set out below:

| Group | 2007 Carrying amount | 2007 Fair value | 2006 Carrying amount | 2006 Fair value |
|---|---|---|---|---|
| **Financial assets** | | | | |
| Loans and receivables | **1,648.9** | **1,648.9** | 1,372.1 | 1,372.1 |
| Available for sale investments | **107.4** | **107.4** | 100.7 | 100.7 |
| Warrants | **7.6** | **7.6** | 21.1 | 21.1 |
| Other derivatives | **15.3** | **15.3** | 20.8 | 20.8 |
| Trade and other receivables | **13.3** | **13.3** | 10.9 | 10.9 |
| Cash at bank | **172.0** | **172.0** | 52.4 | 52.4 |
| **Financial liabilities** | | | | |
| Senior debt and bank overdraft | **446.8** | **446.8** | 389.2 | 389.2 |
| Private placements | **442.3** | **442.3** | 337.8 | 337.8 |
| Secured notes | **–** | **–** | 268.1 | 268.1 |
| Bridging facility | **263.1** | **263.1** | – | – |
| Derivatives | **58.4** | **58.4** | 55.5 | 55.5 |
| Trade and other payables | **147.8** | **147.8** | 89.0 | 89.0 |

| Company | 2007 Carrying amount | 2007 Fair value | 2006 Carrying amount | 2006 Fair value |
|---|---|---|---|---|
| **Financial assets** | | | | |
| Loans and receivables | **1,326.9** | **1,326.9** | 1,047.0 | 1,047.0 |
| Available for sale investments | **33.3** | **33.3** | 28.6 | 28.6 |
| Other derivatives | **15.3** | **15.3** | 20.8 | 20.8 |
| Trade and other receivables | **111.5** | **111.5** | 144.4 | 144.4 |
| Cash at bank | **21.7** | **21.7** | 24.1 | 24.1 |
| **Financial liabilities** | | | | |
| Senior debt and bank overdraft | **446.8** | **446.8** | 389.2 | 389.2 |
| Private placements | **442.3** | **442.3** | 337.8 | 337.8 |
| Derivatives | **42.7** | **42.7** | 34.6 | 34.6 |
| Trade and other payables | **113.8** | **113.8** | 101.9 | 101.9 |

The Group and Company hold a number of investments in unlisted shares and warrants which include some which are measured at cost because their fair value cannot be measured reliably for the reasons set out in note 16. The total carrying amount of these instruments is £107.4m (2006 – £100.7m).

The fair value of these warrants cannot be reliably measured. The range of estimates within which the aggregate fair value is highly likely to lie is £55m – £130m (2006 – £50m – £125m).

Apart from the unlisted shares and warrants, held at cost, the following methods and assumptions that were used to estimate the fair values are shown below:

**Loans and receivables** Floating rate loans are recorded in the balance sheet using the effective interest rate method, less provisions for impairment. This value is considered by the Directors to be a good approximation for fair value.

## 28 Financial assets and liabilities continued

**(f) Fair value** continued

**Available for sale investments and warrants** Fair value is based on quoted prices, where available. Where quoted prices are not available, the fair value is based on recent significant transactions or an earning based valuation technique. Where a reliable fair value cannot be established, these are held at cost.

**Other derivatives** The fair value of the over-the-counter derivatives is derived from pricing models which take account of the contract terms, including maturity, as well as quoted market parameters such as interest rates and volatilities.

**Revolving credit facility, private placements and secured notes** Floating rate loans are recorded in the balance sheet using the effective interest rate method. This value is considered by the Directors to be a good approximation for fair value. The fair value of fixed rate loans is calculated by discounting expected future cash flows on these instruments at current market interest rates.

**Other financial assets and liabilities** Due to their short term nature, the Directors consider the carrying value to be a good approximation of fair value.

**(g) Derivatives**

The Group utilises the following derivatives instruments for economic hedging purposes:

**As at 31 March 2007**

| | Group | | | Company | | |
|---|---|---|---|---|---|---|
| | Contract or underlying principal amount | Fair values Asset £m | Fair values Liability £m | Contract or underlying principal amount | Fair values Asset £m | Fair values Liability £m |
| Foreign exchange derivatives: | | | | | | |
| Forward foreign exchange contracts | 344.0 | – | 1.1 | 344.0 | – | 1.1 |
| Cross currency swaps | 384.0 | 15.8 | 56.1 | 164.9 | 15.8 | 40.4 |
| **Total** | 728.0 | 15.8 | 57.2 | 508.9 | 15.8 | 41.5 |
| Interest rate derivatives: | | | | | | |
| Interest rate swaps | 147.3 | – | 1.2 | 147.3 | – | 1.2 |
| **Total** | 147.3 | – | 1.2 | 147.3 | – | 1.2 |

**As at 31 March 2006**

| | Group | | | Company | | |
|---|---|---|---|---|---|---|
| | Contract or underlying principal amount | Fair values Asset £m | Fair values Liability £m | Contract or underlying principal amount | Fair values Asset £m | Fair values Liability £m |
| Foreign exchange derivatives: | | | | | | |
| Forward foreign exchange contracts | 130.0 | – | 0.5 | 130.0 | – | 0.5 |
| Cross currency swaps | 528.0 | 20.8 | 54.6 | 374.0 | 20.8 | 33.8 |
| **Total** | 658.0 | 20.8 | 55.1 | 504.0 | 20.8 | 34.3 |
| Interest rate derivatives: | | | | | | |
| Interest rate swaps | 117.3 | – | 0.4 | 117.3 | – | 0.4 |
| **Total** | 117.3 | – | 0.4 | 117.3 | – | 0.4 |

# Notice of meeting

# Notice of meeting

The 2007 Annual General Meeting (AGM) of Intermediate Capital Group PLC (the "Company") will be held at 20 Old Broad Street, London EC2N 1DP on 18 July 2007 at 12.00 a.m. to consider the following resolutions all of which are fully described in the Directors' report on pages 33 to 34.

## Ordinary business

**Resolution 1**
To receive the financial statements and reports of the Directors and auditors for the year ended 31 March 2007.

**Resolution 2**
To approve the Report of the Remuneration Committee for the year ended 31 March 2007.

**Resolution 3**
To declare a final divided of 41.5 pence per share.

**Resolution 4**
To re-appoint Deloitte & Touche LLP as the Company's auditors to hold office until the conclusion of the next AGM.

**Resolution 5**
To authorise the Directors to agree the auditors' remuneration.

**Resolution 6**
To elect as Directors:
(a) Philip Keller
(b) Jean-Daniel Camus

**Resolution 7**
To re-elect as Directors:
(a) Thomas Bartlam
(b) Francois de Mitry
(c) James Nelson
(d) Paul Piper

## Special business

Resolutions 8 and 12 will be proposed as ordinary resolutions and resolutions 9, 10 and 11 will be proposed as special resolutions.

**Resolution 8 – Directors' authority to allot shares**
To authorise the Directors, for the purposes of section 80 of the Companies Act 1985 (the "Act"), to exercise all powers to allot relevant securities (as defined in the Act) up to a maximum nominal amount of £ 4,682,864. This authority shall expire on the date of the AGM in 2008 unless it is cancelled or amended and the Company may agree before this authority ends to allot any of the relevant securities, even though the allotment may be carried out after this authority ends. All previous authorities under Section 80 of the Act shall cease to have effect.

**Resolution 9 – Directors' authority to disapply pre-emption rights**
That subject to Resolution 8 being passed by the Meeting the Directors be empowered subject to section 95 of the Act to allot equity securities (within the meaning of section 94(2) to section 94(3A) of the Act) wholly for cash pursuant to the authority conferred by Resolution 9 as if section 89(1) of the Act did not apply to any such allotment, provided that this power shall be limited to the allotment of equity securities:

(a) in connection with a rights issue; and
(b) otherwise than in connection with a rights issue up to an aggregate nominal amount of £702,430.

This authority shall expire on the date of the AGM in 2008 unless it is cancelled or amended and the Company may agree before this authority ends to allot any of the relevant securities, even though the allotment may be carried out after this authority ends.

**Resolution 10 – authority to make market purchases of the Company's shares**
To authorise the Company generally and unconditionally to make market purchases (within the meaning of Section 163(3) of the Act) of the Company's ordinary shares on such terms as the Directors see fit subject to the following conditions:

- the maximum aggregate number of shares which may be purchased is 10,529,420 shares;
- the minimum price which may be paid for each share is 5 pence;
- the maximum price which may be paid for each share is an amount not more than 5 per cent above the average middle market quotations of the Company's shares, as based on the Daily Official List published by the London Stock Exchange plc, for the five business days prior to the date the purchase is made; and
- this authority shall expire at the close of the AGM of the Company to be held in 2008, save that the Company may agree, before the expiry of this authority, to buy back shares even though the purchases may be completed after this authorisation ends.

**Resolution 11 – amendments to the Company's Articles of Association**
That the amendments to the Articles of Association of the Company in the form produced to the Meeting and, for the purpose of identification, initialled by the Chairman and as described in the Directors Report on page 34 be approved.

By order of the Board

C. Reilly

**C Reilly**
Company Secretary
12 June 2007

**Notes:**

(i) You may appoint one or more proxies of your own choice if you are unable to attend the meeting but would like to vote on a poll. A proxy need not be a member of the Company. If no name is entered on the form of proxy, the return of the form of proxy duly signed will appoint the Chairman of the meeting to act as your proxy. The completion and return of a form of proxy will not, however, preclude shareholders from attending and voting in person at the meeting or at any adjournment thereof, should they wish to do so.

(ii) In the case of a corporation, the form of proxy must be executed under its common seal or under the hand of a duly authorised officer or attorney.

(iii) The form of proxy (together with any power of attorney or other authority under which it is signed, or a certified copy of that power or authority) must be received by Computershare Investor Services Registrars not later than 12.00 a.m. on 16 July 2007 (or, if the Meeting is adjourned, not less than 48 hours before the time for holding the adjourned meeting).

(iv) If two or more persons are jointly entitled to a share conferring the right to vote, any one of them may vote at the meeting either in person or by proxy, but if more than one joint holder is present at the meeting either in person or by proxy, the one whose name stands first in the register of members in respect of the joint holding shall alone be entitled to vote in respect thereof. In any event, the names of all joint holders should be stated on the form of proxy.

(v) If the form of proxy is returned without any indication as to how the person(s) appointed shall vote on the resolution, such person(s) will exercise his/her/their discretion as to how to vote or whether to abstain from voting.

(vi) Unless instructed otherwise, the proxy may also vote or abstain from voting as he or she thinks fit on any other business which may properly come from the meeting (including amendments to the resolutions).

(vii) Only those shareholders registered in the Register of Members of the Company as at 5.00 p.m. on 16 July 2007 shall be entitled to attend or vote at the above mentioned meeting in respect of the number of Ordinary Shares registered in their name at that time. Changes to entries on the Register of Members after 5.00 p.m. on 16 July 2007 shall be disregarded in determining the rights of any person to attend or vote at the meeting.

(viii) The register of Directors' interests in the share capital of the Company, together with copies of Directors' service contracts and copies of the terms and conditions of appointment of non-executive Directors are available for inspection at the Company's registered office, 20 Old Broad Street, London EC2N 1DP during normal business hours, Monday to Friday (Bank holidays excepted), until the close of the Annual General Meeting, and at the place of the Annual General Meeting for at least fifteen minutes prior to and during the Annual General Meeting.

# Our Nordic and Spanish teams

# Shareholder information

## Timetable
The major timetable dates are as follows:

| | |
|---|---|
| Ex-dividend date | 4 July 2007 |
| Record date for 2006 final dividend | 6 July 2007 |
| Annual General Meeting | 18 July 2007 |
| Payment of final dividend | 27 July 2007 |
| Interim results announcement for the six months to 30 September 2007 | November 2007 |

## Registrars
The address of the Registrars is:

Computershare Investor
Services PLC
PO Box 92
The Pavillions
Bridgwater Road
Bristol
BS99 7NH

## Internet website
The Company's website address is www.icgplc.com. Copies of the Annual and Interim Reports and other information about the Company are available on this site.

# Company information

**Stockbrokers**
JP Morgan Cazenove
20 Moorgate
London
EC2R 6DA

HSBC Bank PLC
Corporate, Investment Banking
and Markets
8 Canada Square
London
E14 5HQ

**Bankers**
The Royal Bank of Scotland plc
135 Bishopsgate
London
EC2M 3UR

**Registered office**
20 Old Broad Street
London
EC2N 1DP

**Auditors**
Deloitte & Touche LLP
Chartered Accountants and
Registered Auditors
London

**Registrars**
Computershare Investor
Services PLC
PO Box 92
The Pavillions
Bridgwater Road
Bristol
BS99 7NH


Stockholm
London
Frankfurt
Paris
Madrid
Tokyo
Hong Kong
Sydney

**Intermediate Capital Group PLC**
20 Old Broad Street
**London**
EC2N 1DP
Telephone 020 7628 9898
Facsimile 020 7628 2268

**Overseas offices**
An der Welle 5
60322 **Frankfurt**
Telephone 00 49 69 254 976 50
Facsimile 00 49 69 254 976 99

3603-3604
Edinburgh Tower
15 Queen's Road Central
**Hong Kong**
Telephone 00 852 2297 3080
Facsimile 00 34 91 310 7201

Paseo de la Castellana 51
28046 **Madrid**
Telephone 00 34 91 310 7200
Facsimile 00 34 91 310 7201

38 Avenue Hoche
75008 **Paris**
Telephone 00 331 4495 8686
Facsimile 00 331 4495 8687

Mäster Samuelsgatan 1
111 44 **Stockholm**
Telephone 00 46 8 545 04 150
Facsimile 00 46 8 545 04 151

Level 31, 88 Phillip Street
**Sydney** NSW 2000
Telephone 00 61 2 9241 5525
Facsimile 00 61 2 9241 5526

Level 15, Tokyo Bankers Club
Building 1-3-1 Marunouchi
Chiyoda-ku **Tokyo** 100-0005
Telephone 00 81 3 3216 7333

Authorised and regulated by the Financial Services Authority
**www.icgplc.com**