Annual Report & Accounts
For the year to 31 January 1998

INTERMEDIATE CAPITAL GROUP PLC

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

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

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

1998 Highlights

- Pre-tax profits up 12% to £22.6m (1997 – £20.2m)
- Earnings per share up 14%
- Core income up 13% to £15.3m (1997 – £13.5m)
- Proposed final dividend of 12.0p net per share making 17.4p per share for the year, a 13% increase
- A record £130m of new loans
- The loan book increased to £320m (1997 – £250m)
- Further growth in fund management activities

Right ICG has invested £600m in 96 companies in the UK and Continental Europe since the company started in 1989

Chairman's Statement

Results

I am pleased to be able to report yet another record year for ICG, with our profits up by 12% at £22.6m and the loan book growing by 28% to £320m. Net interest income and core income rose by 15% and 13% respectively to £15.1m and £15.3m respectively. Capital gains net of related expenses and provisions rose by 11% to £7.3m.

Dividends

The Board is recommending a final dividend of 12p net per share to be paid on 22 May 1998 which, with the interim dividend of 5.4p, brings the total for the year to 17.4p net per share. This dividend represents an increase of 13% over last year's dividend of 15.4p net per share.

In accordance with ICG's dividend policy the increase in the dividend is broadly in line with the increase in core income. Similarly, in accordance with our policy, most of core income net of tax, namely 77%, has been paid out by way of dividends.

Lending activity

Our last financial year saw our fourth successive record year for new lending, resulting in strong growth in ICG's loan book. New lending by ICG and funds under its management amounted to £159m compared with £135m in our previous financial year. This was made up of £130m invested on our own balance sheet and £29m on behalf of managed funds compared with £109m and £26m respectively in the previous year.

In our early years ICG's principal business was providing mezzanine in the UK MBO marketplace. In recent years particular emphasis has been placed on increased lending in Continental Europe and increased lending outside the MBO market in the UK. The results of the last financial year show the success of these marketing initiatives. Of the 17 loans we made, eight were to companies based in Continental Europe (three in France, two in the Netherlands and one each in Germany, Italy and Sweden) and six were to provide non-MBO financing in the UK, with the remaining three loans financing UK MBOs.

Taking into account new lending of £130m and £40m of loan repayments in the year, the loan book, net of provisions, increased by 28% from £250m to £320m at the year end. If sterling had remained at the same rate relative to Continental European currencies as at the beginning of the year, the value of both our loan book and indebtedness would have been £16m higher at the year end.

Fund management

Last year we entered into an agreement with a major American insurance company, Northwestern Mutual Life, which has resulted in their becoming one of our largest fund management clients. We remain keen to expand our fund management activities and this has been a particular focus of our attention during the second half of the year. After taking into account repayments, managed funds invested for clients by ICG amounted to £101m at the end of the year compared with £80m at the beginning of the year.

The European mezzanine market

The buyout markets in both the UK and Continental Europe, which represent our core markets for mezzanine, had a record year in 1997 with the value of transactions being the highest ever. This growth in activity was driven on the one hand by an increased number of divestments by large companies both in the UK and Continental Europe and on the other hand by an increasing supply of finance from both private equity investors and debt providers. The consequences of the increased supply of money were more large transactions being completed and higher prices being paid.

There was, in 1997, a considerable increase in the number of large buyouts, an area in which, traditionally, we have not been very active and where strong competition emerged from high yield subordinated bonds offered by investment banks. In medium sized buyouts there was increased competition from banks offering a total debt package including mezzanine. Overall, therefore, last year saw more competition in the mezzanine market but, because of increased activity levels, there were more opportunities.

In this more competitive market we have again succeeded in being one of the most active mezzanine investors in Europe by marketing our more flexible financing products and tailoring our products to meet market requirements. In terms of pricing, we have maintained at former levels the cash interest margin that we receive on our loans, but have seen some pressure on total return expectations on some larger deals. In this evolving market we have varied both the scale and make-up of our overall mezzanine return to reflect both the risk profile of the transaction and the different ways in which we have been structuring our products.

Directors, management and staff

Eric Kinder and James Odgers resigned as non-executive directors of the company on 18 March 1998. Eric Kinder joined the Board on ICG's listing in 1994. His wise counsel and extensive experience in industry have been most valuable to ICG. We thank him sincerely for his contribution. James Odgers was one of the four founding directors of ICG, and has been a non-executive since July 1996 when he resigned his executive role. His contribution as a non-executive director also will be much missed.

We were pleased to announce the appointment in January of two new non-executive directors. Eric Licoys is the chairman and chief executive of Havas, the French media and travel group, having previously been the President of the venture capital arm of Lazard Frères in France. Peter Stone is currently a director of Close Brothers Group, the successful British merchant banking and financial services group. We look forward to benefiting from the contribution which they will both bring to the Board.

In the last year two new recruits were made to the executive team – one French and one British. It is our plan to further increase the team in the new financial year to support the expected steady growth of the business. All management and staff have shown great commitment during the past 12 months, thus enabling ICG to achieve another record year. I would like to express my thanks to them all for their efforts on your behalf.

Prospects

In our new financial year, we continue to see a strong flow of mezzanine opportunities in the UK and Continental Europe and in the first two months of the financial year, ICG has made five new loans amounting to £33m.

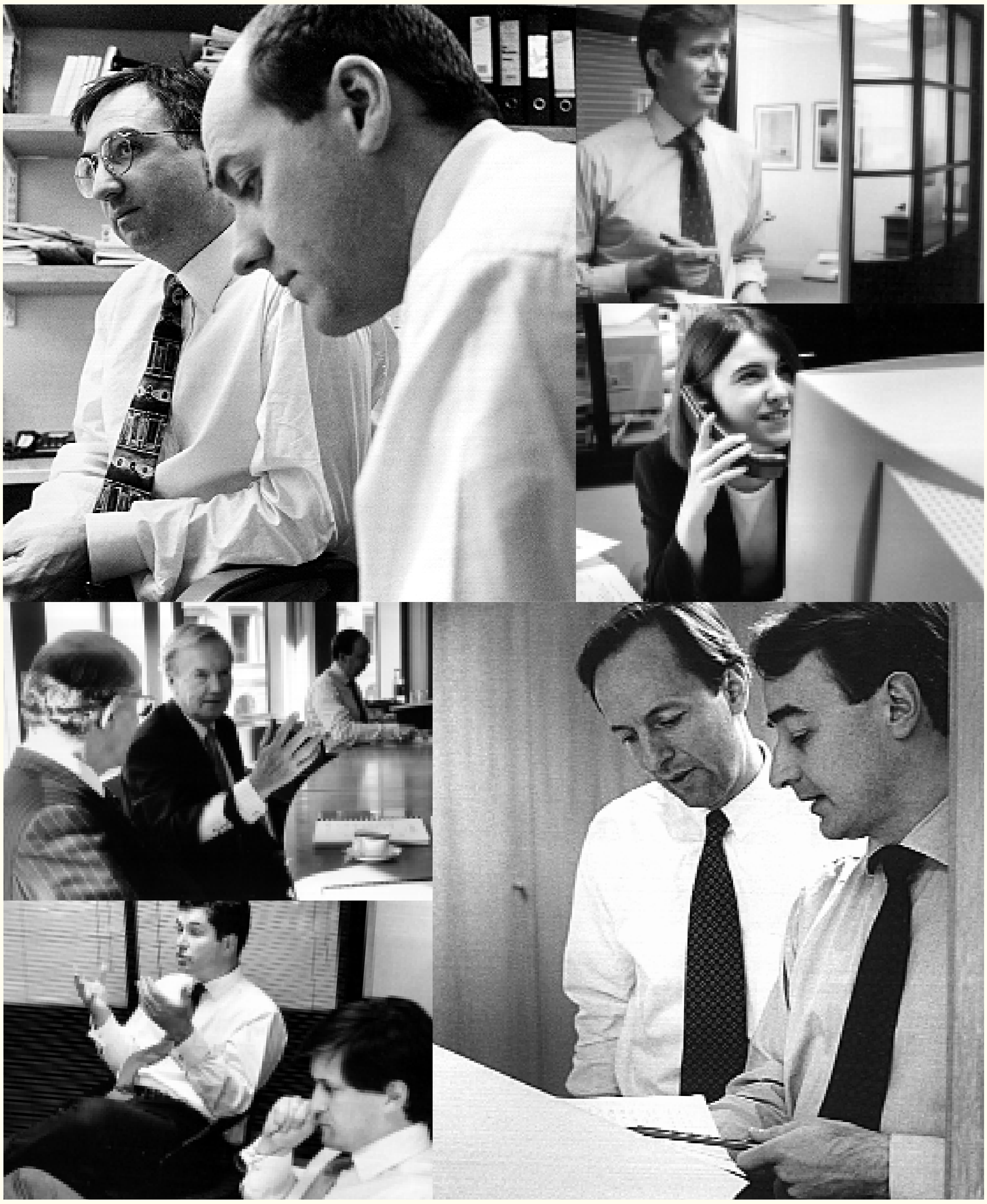
We expect the market for mezzanine finance in Europe to continue to grow and, while competition in this market is expected to be strong, we believe that by further active marketing of our flexible and innovative financing products across Europe for both buyout and other uses, we should be able to have another satisfactory year for new lending. We will, however, continue to turn down mezzanine opportunities which we believe to be incorrectly priced even if such action for a time reduces the amount of our new lending.

Murray Stuart

Loan repayments are expected to be higher than in the last financial year which may result in the overall growth in the loan book during the year being less than it was last year. Consequently, and because a number of particularly high yielding loans are expected to be repaid this year, it will be more difficult to grow net interest income in the coming year. However, we believe there are good prospects for increased fee income and the outlook for core income therefore remains satisfactory.

A considerable number of our portfolio companies are currently seeking realisations by means of either trade sale or flotation and the new financial year has begun well with the recently announced offer for Great Western Holdings which has produced a particularly large gain of over £10m. We believe the prospects for capital gains this year are good although, in future years, there may be volatility in the size and timing of capital gains and provisions. Overall, we continue to look forward to the future with confidence.

Murray Stuart
Chairman
3 April 1998



Clockwise from top left Paul Piper, Graeme Smith; Andrew Phillips; Kathryn Birch; Thomas Warnholtz, Martin Conder; Christophe Evain, François de Mitry; Robert Padgett, Eric Kinder, Peter Stone

The Western European mezzanine market for intermediate capital

1 The UK and Continental Europe buyout markets

1997 saw a continuation of the trend of large companies divesting non-core subsidiaries. While this has been taking place in the UK for some years, 1997 saw a noticeable increase in such activity in Continental Europe. The buyout opportunities that these disposals created were more than matched by the amounts of funding available to finance such buyouts. The amounts of private equity raised by UK and pan-European funds during 1997 ran into several billions of pounds, leaving private equity investors with far more money available for investment in the European buyout market than ever before. This money was coupled with the large amounts of funding available from banks and investment banks who provide the debt for buyouts.

As a consequence of these factors, 1997 was another record year for both UK and Continental Europe buyouts with their value being estimated at £7.4bn and £6.2bn respectively compared with £5.6bn and £3.7bn in 1996.

A further consequence of these much increased levels of finance available in the buyout marketplace was an increase in the competition between the private equity houses seeking to win buyout mandates which in some cases increased acquisition prices.

The UK saw the greatest levels of competition for buyouts and hence in some cases high prices being paid. There were a good number of mezzanine opportunities within the market but ICG was careful not to participate in overpriced and overleveraged transactions and to maintain the quality of its portfolio.

Within Continental Europe, France remains one of the two most active countries for buyouts and last year again saw good levels of activity. Last year saw an increase in activity levels in Germany with strong evidence of large companies making disposals of peripheral businesses. It remains to be seen whether this is the beginning of a material growth in the German buyout market, which everybody has been waiting for.

Elsewhere in Continental Europe there was good buyout activity in the Netherlands, Sweden and Italy, in each of which countries ICG made investments.

Overall, ICG considered Continental Europe to be a more attractive place than the UK to provide mezzanine for buyouts in 1997 as acquisition prices were often lower and many companies in Continental Europe are at a lower point in the economic and business cycle than in the UK.

Having put a considerable amount of resource into marketing our company and products in Continental Europe over the last few years, ICG believes it is well placed to benefit from the potential growth of the markets in those countries.

2 Competition in the European mezzanine market

1997 saw an increase in competitive pressures within the European mezzanine market. In the large buyouts, where mezzanine in excess of £50m was required, an increasing number of investment banks were offering to provide high yield debt which is often seen to be a cheaper form of finance than traditional mezzanine.

In the mid-sized buyouts requiring mezzanine of between £10m and £50m, which is ICG's traditional market place, there was more activity from banks offering 'one stop shops' through the underwriting of both senior debt and mezzanine as a total package. Whereas this sometimes represented direct competition to ICG's role as mezzanine arranger it also provided ICG with mezzanine investment opportunities given the banks' desire to sell down mezzanine.

In the smaller buyout area there was slightly more activity from banks offering mezzanine.

The greatest competition to mezzanine, however, continued to be either banks lending a larger proportion of the total financing requirement on senior debt terms or the private equity houses providing more of the financing for reduced returns thereby squeezing out the need to use mezzanine.

3 ICG's position in the European mezzanine market for buyouts

Within the marketplace there are a good quantity of attractive mezzanine opportunities and ICG remains one of the most active mezzanine investors in Europe. ICG believes its greatest strength in this growing but competitive market is the ability to be responsive, innovative and flexible in the way it structures its products. Last year ICG put particular emphasis on tailoring its mezzanine products to fit the demands of the marketplace, being prepared, for example, in selective cases, to provide more loosely structured mezzanine in return for a higher reward.

With the support of Bank of Scotland and Northwestern Mutual Life, ICG put together a mezzanine underwriting club which enables it to compete in the market for very large amounts of mezzanine.

By forming closer relationships with its fund management clients and other international investment institutions, ICG is giving itself the means to offer a broader range of mezzanine type products than in the past.

4 The use of mezzanine in non-buyout transactions

ICG has in recent years been making significant efforts to market the use of mezzanine beyond its traditional use in buyouts. In 1997 ICG was successful in handling a number of transactions in non-buyout areas in the UK. These included two off balance sheet financings, one refinancing of an existing buyout and three acquisition financings for existing investee companies. ICG continues to see good opportunities outside the buyout area including not only the types of transactions completed in 1997 but also financing for small public companies which do not currently have a strong following from stock market investors. In addition, ICG believes that acquisition finance and development capital for private companies in Continental Europe is a potentially large untapped marketplace.

5 The portfolio

At 31 January 1998, ICG's portfolio consisted of investments in 57 different companies, amounting to a total of £320m. This represented a 28% increase over the loans and investments of £250m at the beginning of the year. The sterling value of the loan portfolio would have been £16m higher if sterling had not appreciated against other European currencies during the year. This would have been offset by a similar increase in the level of our bank borrowings as our foreign currency assets are matched by our foreign currency liabilities.

ICG's portfolio was spread across eight countries, namely, the UK, France, Germany, Sweden, Italy, Denmark, the Netherlands and Switzerland with warrants being held in a Spanish company. Since its foundation in 1989, ICG has invested substantial amounts in Continental Europe and at the end of the year the proportion of loans by value made in Europe was 49%. This geographic spread of the portfolio ensures that ICG's exposure to European economic cycles is well distributed.

ICG has continued during the year to ensure that, as well as diversifying its risk on a geographical basis, it also diversifies its risks by investing in a wide range of industrial sectors, and at the year end had lent to 22 industrial sectors, with the largest sector contributing only 12% of its portfolio.

ICG continues to have a policy of normally lending from its own balance sheet between £3m and £15m to any one individual company so as to reduce the risk of being over-exposed to one particular entity. The average size of the loans in ICG's portfolio at 31 January 1998 was £6.3m.

New loans and investments

In the financial year ending 31 January 1998, the total amount of mezzanine provided by ICG and its fund management clients was £159m compared with £135m in the previous year. ICG made loans and investments amounting to £130m, once again the highest amount invested in any one year, and in addition, £29m was invested on behalf of fund management clients.

The 17 new loans made by ICG on behalf of itself and its funds under management were as follows:

Bercy Management is the third largest contract catering group in Europe, and specialises in both contract and concession catering. Finance was provided to allow the company to increase its shareholding in Générale de Restauration, France's largest catering group, to 100% and consolidate other group investments. ICG provided mezzanine of FFr100m.

Calvet is a French wholesale wine merchant involved in the bottling, blending and international distribution of various regional wines. The company was acquired

Clockwise from top left Martin Conder, Simon Morrell; Debbie Ballard; Denis Viet-Jacobsen; Tom Bartlam, John Curtis, Jean-Loup de Gersigny; Jean-Loup de Gersigny, Andrew Jackson; Murray Stuart, Tom Attwood from Allied Domecq through a management buy-in in July 1997. ICG arranged and provided the mezzanine loan of FFr40m.

Cartiere del Garda is the second largest manufacturer in Italy of coated woodfree papers. The business was sold by Bertelsmann, the German media and publishing group, through an MBO in October 1997. ICG arranged the mezzanine loan of LIT80bn and provided LIT44bn.

Coal Products is the largest UK producer of solid smokeless fuels, ICG is an existing lender to the original MBO. ICG provided additional mezzanine finance of £2m to assist in the acquisition of Heptagon Limited, the holding company for British Fuels, a distributor of solid fuels, oil and gas.

Convenience Food Systems is a leading international supplier of equipment for the preparation, processing and packaging of meat, poultry and seafood products with headquarters in the Netherlands. ICG arranged the mezzanine finance totalling CHF65m in the MBO from Tetra Laval completed in February 1997, and provided CHF43m.

Electrokoppar is a leading manufacturer of copper wire rod and winding wire in the Nordic and German markets. The company was sold by ABB Group via an MBO in January 1998. ICG invested SEK75m in the mezzanine loan.

Elmville is a joint venture vehicle with Regal Hotels, a publicly quoted company, set up to acquire a number of hotels on an off balance sheet basis. Initial acquisitions have resulted in mezzanine and equity finance by ICG of £1.6m. Further acquisitions are anticipated.

Great Western Holdings is the franchisee for the Great Western Rail network, one of the first passenger franchises to be privatised. The company acquired a further franchise for Regional Railways North West in February 1997. ICG jointly arranged the £14m mezzanine loan used to finance the acquisition and provided £3.5m.

Holding de Restauration (HRC) is France's largest concession catering group operating in the motorway, airport, railway station, museum and exhibition centre markets. HRC was acquired by Bercy Management, France's largest contract catering group and a financial institution in December 1997. ICG has provided mezzanine finance of FFr100m.

Meneba is the leading producer of flour, bakery and animal feed products in The Netherlands. The company was sold by Goodman Fielder through an MBO in April 1997. ICG arranged the mezzanine loan of NLG70m and provided NLG59m.

Merseyside Transport Limited is the UK's sixth largest bus operator with operations in the North West and London. The company also took over the Merseyside Electrics rail franchise in January 1997. In February 1997 the company acquired the Regional Railways North East franchise and of the total of £16m capital required ICG arranged and provided mezzanine facilities of £13m.

NWG Group is a leading German company in contract cleaning for the healthcare, commercial, office and public administration sectors. In October 1997 ICG took a participation of DEM4m in the mezzanine loan.

TGE Group comprises six companies in the area of fluid processing technology and control instrumentation. TGE was formed in 1995 through an MBO from Meggit plc. In June 1997 ICG provided £7m of mezzanine finance to refinance preference shares owned by Schroder Ventures.

Thomson Directories publishes the well known Thomson Local, number two local business telephone directory to BT's Yellow Pages. It was purchased as a buyout from US West Inc. in June 1997. ICG arranged and provided the mezzanine finance of £10m and invested an additional £1m in the equity.

Unipart Rail Holdings is a materials management and logistics service company for spares in the maintenance and repair of rolling stock in the rail industry. The company was acquired from British Rail in March 1997 and ICG arranged and provided the mezzanine facility of £14m.

Unipoly is a group of companies sold by BTR, in January 1998, comprising conveyor belting, fluid handling, building products, EMI coatings and industrial composites. ICG provided £5m of mezzanine and £2m of equity in the buyout.

William Cook is a manufacturer of steel castings which was taken private in March 1997. ICG arranged the mezzanine loan of £17m and provided £13m.

6 Realisations

In the last financial year, £29m in respect of seven different companies was fully repaid or prepaid. These companies were:

Addison Design is the UK's foremost annual report and corporate literature company. In August 1997, the company was purchased by WPP resulting in the redemption of £2.2m of preference shares held by ICG.

Buffetti is the largest retail supplier of office stationery and equipment in Italy. The LIT21bn loan was prepaid in December 1997 and ICG continues to hold warrants in the company.

Entrelec is France's leading manufacturer and distributor of electrical and electronic connections. In June 1997, the company floated on the Paris stock market enabling the company to prepay its FFr39.5m loan to ICG.

MCD is the largest wholesaler of carpets and floor coverings to the independent retail and contract sectors in the UK. In September 1997, ICG's outstanding loan of £4m was repaid on the sale of the company.

Neopost is a French company which is the largest European manufacturer and distributor of mail room and postage equipment. In October 1997, the company was purchased by a private equity investor, enabling it to repay its loan of FFr35m to ICG.

Northern Feather is a UK manufacturer of natural and synthetic duvets, pillows and other bed linen. In August 1997, the company was sold at a price sufficient to repay the written down value of ICG's loan.

USM Texon is the world's largest manufacturer of shoe making machinery and a leading manufacturer of materials used in footwear production. As a result of a refinancing in January 1998, the mezzanine loan of £5m was prepaid in full.

In addition to the repayments above a number of loans were partially prepaid, including £1.8m, representing 50% of the loan to Calvet, £3.8m received from The Stationery Office and £2.7m from Merseyside Transport.

7 Provisions

It is ICG's provisioning policy to make specific provisions against loans where, in the opinion of management, the value of the loan is presently impaired. There are currently provisions totalling £14.4m made against loans to three companies. The figure for provisions has increased by a net £2.4m since last year. Additional provisions were required against two of these companies as a result of continuing difficult trading conditions and a new 50% provision was made against one of our smaller investments in a company which has underperformed. A provision which existed at the end of last year against Northern Feather was released during the year; the company was sold at a figure sufficient to cover the written down amount at which is was held in ICG's books. The provisions made against the three loans now represent approximately 57% of the total of ICG's exposure to these companies.

8 Funding and loan facilities

Fund management During the year ICG completed an agreement with a major American insurance company, Northwestern Mutual Life (NML), which will in the future result in a substantial increase in funds under ICG's management as a result of NML's desire to invest in European mezzanine.

Fund management continues to be important to ICG as it provides additional quality income for the company and an extra underwriting capability on large transactions. ICG's clients are attracted by the opportunity to quickly build up a diversified mezzanine portfolio and the opportunity to make significant co-investments on the larger deals.

At 31 January 1997, ICG had invested £80m on behalf of its fund management clients and by the end of the year this had increased to £101m. New funds amounting to £29m were invested during the year and £8m of loans were repaid.

ICG hopes the marketing effort that it is currently carrying out will result in an increase in funds under management. This is intended to provide ICG with the opportunity to continue to increase funds under management and thereby to increase the fee income which it receives from this activity.

Borrowing and loan facilities At 31 January 1998, ICG's total borrowing amounted to £247m compared with £181m at the beginning of the year. This figure comprised £46m raised in 1995 from a US private placement of senior unsecured notes and £201m under ICG's multi-currency revolving credit bank facility.

At the year end, the ratio of debt to shareholders' funds stood at 299% leaving ICG comfortably geared.

During the year, the amount available under the revolving credit facility increased by £25m to £275m. ICG will continue to seek to increase its debt funding in the current year to finance growth in its loan book.

At the end of the year, ICG had unutilised debt facilities of £74m.

Shareholders' funds Shareholders' funds increased from £75m at the beginning of the year to £83m at the end of the year after taking into account the dividend of £8m.

Within the portfolio, the sale of some of our remaining quoted ordinary shares, together with the transfer of the remainder to current assets pending their imminent disposal, reduced the excess market value down to zero (1997 – £4m), while the directors' valuation of unquoted shares and warrants whose value is not included in the balance sheet, increased to £32m (1997 – £20m).

9 Results for the year

In the financial year to 31 January 1998, ICG's pre-tax profits rose to £22.6m from £20.2m in the previous year, an increase of 12%. The pre-tax return on shareholders' funds amounted to 29%.

The net profit amounts to £15.4m compared with £13.6m for last year and earnings per share have risen from 29.1p per share in 1997 to 33.1p per share. The Board is recommending a final dividend of 12.0p per share which, when added to the interim dividend, represents an increase of 13% over last year.

The constituent parts of ICG's profit are:

Core income Core income, which ICG defines as net interest income plus fees less related administrative expenses, is the most important element of ICG's income as it forms a more reliable and better quality source of income than capital gains. Core income increased by 13% to £15.3m from £13.5m for the previous year, which figure has been adjusted to be on a similar basis to 1997/98.

a Net interest income Net interest and dividend income grew by 15% to £15.1m for the year, compared to £13.1m for the previous year. It benefited from the increase in shareholder funds, the increase in the loan book over the year and from some higher yielding loans which were made during the year. However, it has suffered as a result of the appreciation of sterling throughout the year. If sterling had remained at the same exchange rate as at the beginning of the year net interest income would have been £0.8m higher which would have represented a 21% increase over the previous year.

b Fee income Fee income rose by 5% from £4.8m in the previous year to £5.0m in the year to 31 January 1998. Fund management fees increased from £1.4m in the previous year to £1.9m in the current year as a result of ICG continuing to increase the amounts invested on behalf of its fund management clients.

Underwriting and transaction fees decreased from £3.0m to £2.7m as, although ICG invested a higher amount than ever before, it also invested in more deals led by others than in the previous years, where lower fees are earned.

Agency fees, which are recurring fees for monitoring loans, remained at £0.4m.

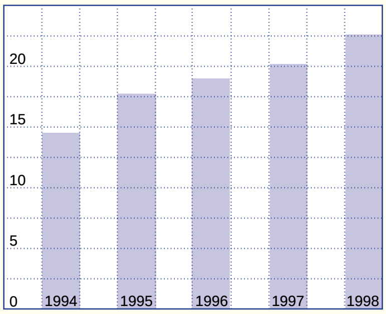
Clockwise from top left Tony Payne, Tom Bartlam, Tom Attwood, John Curtis; Tom Attwood; Graeme Smith, Thomas Warnholtz; Christophe Evain, Jean-Loup de Gersigny, François de Mitry; Andrew Jackson

c Expenses Operating expenses of £4.8m represented an increase of 11% over last year's figure of £4.3m. This increase arose primarily from increased staff costs and from increased marketing efforts in Europe along with a number of one-off professional fees. The ratio of expenses to total revenue of 12% compares to 11% last year and remains low by the standards of financial service companies. Operating expenses, for the purpose of calculating core income, no longer include the cost of ICG's medium term incentive scheme of £1.2m (1996/97 – £0.4m) which is instead shown as a deduction from capital gains, to which it relates.

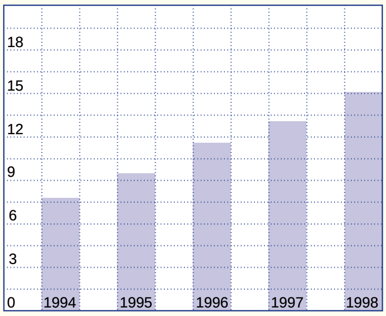
Capital gains (net of provisions and related expenses) Capital gains for the year amounted to £13.8m which, after provisions of £5.3m and the costs of the medium term incentive scheme of £1.2m, gave net capital gains of £7.3m for the year, compared to £6.6m in the previous year. Gross capital gains of £13.8m compared to £12.1m in the previous year. The gains were achieved from the flotations of Entrelec and Nutreco, and from the trade sales of Sitex and Neopost. The remaining gain arose from the sale of shares from our listed share portfolio and profits of £3.7m arising from the revaluation at market value of our remaining listed ordinary shares held at the year end which were classified in accordance with our accounting policy as current assets due to their impending disposal.

The costs of the medium term incentive scheme were £1.2m (1996/97 – £0.4m) and specific provisions for the year amounted to £5.3m compared to £5.0m for the previous year.

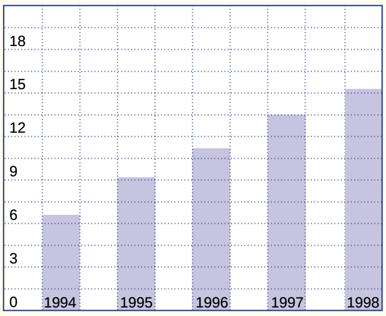
Profits before tax £m



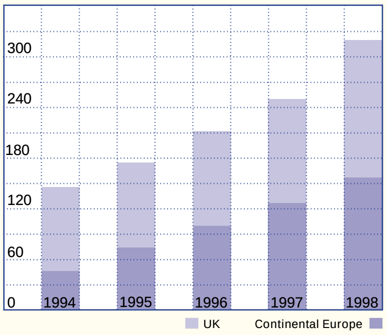
Net interest and dividend income £m



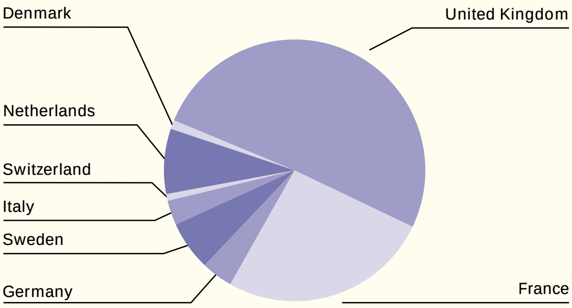
Core income £m



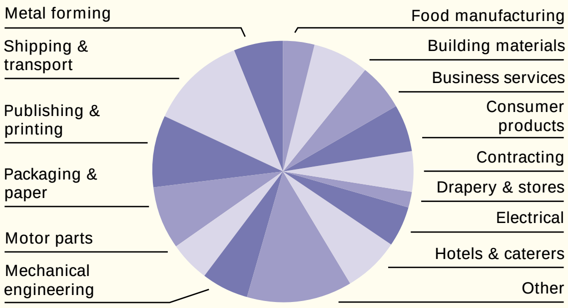
Loans and investments £m



Portfolio spread by country



Portfolio spread by industry



The Portfolio

At 31 January 1998, in addition to the 17 new loans and investments made in the last financial year referred to above, ICG had loans outstanding to the following companies:

Name	Country	Business
Adco and Dixi	Germany	Hirer of construction site accommodation
Addum Industries	Sweden	Construction equipment
Automotive Products	UK	Automotive clutch and brake manufacturer
Centum Investments	UK	Holding company for Raleigh bicycles and Royal Worcester/Spode
Coal Products	UK	Producer of smokeless fuel and foundry coke
Crompton	UK	Specialist paper manufacturer
Edrasco	France	Manufacturer of educational equipment
Elis	France	Textile rental and cleaning business
Empe	Germany	Manufacturer of automotive door panels
Flying Colours	UK	Tour operator
Frans Bonhomme	France	Distributor of pipes and couplings
Gifi	France	Retailer of household accessories
Great Western Holdings	UK	Railway operator
Hermès Metal	France	Supermarket & hypermarket equipment manufacturer
Krings	Germany	Manufacturer of trench shoring systems
Landal Greenparks	Netherlands	Holiday park operator
LLP	UK	Publisher of specialist insurance/marine journals
Marie Brizard	France	Producer and distributor of wines and spirits
Meccano	France	Manufacturer of construction toys
MGE	France	Manufacturer of uninterrupted power supplies for IT sector
Microtronic	Denmark	Hearing aid component manufacturer
MTL Trust	UK	Bus and train operator
Nobia Byginterior	Sweden	Door, window and kitchen manufacturer
Norden Pac	Sweden	Manufacturer of tube filling machines and packaging
Pisten Bully	Germany	Manufacturer of snow grooming equipment
Plastimo	France	Manufacturer of marine equipment
Porcelain & Fine China Companies	UK	Manufacturer of china and porcelain
Portman Travel	UK	Travel agent
Premier Oilfield Services	UK	Hirer of North Sea oilfield equipment
Presspart	UK	Manufacturer of anodised aluminium
Regal Hotels	UK	Hotel operator
SBE	Switzerland	Manufacturer of electromechanical equipment
Servicetec	UK	Computer maintenance
SLD	UK	Pump hire and other industrial companies
Sublistatic	France	Manufacturer of textile printing paper transfers
Tensar	UK	Manufacturer of polymer nets and mesh products
The Stationery Office	UK	Publication, printing and business services
Wightlink	UK	Ferry operator

The Portfolio of warrants and unquoted shares

At 31 January 1998 ICG had unquoted shares and warrants in most of the unquoted companies in its loan portfolio, as well as in the following companies which have prepaid ICG's loan in full:

Name	Country	Business
Buffetti	Italy	Office stationery distributor
Gerposa	Spain	Transportation of car parts
Gerflor	France	Floor covering manufacturer
Hygiène Diffusion	France	Diaper manufacturer
IPT	UK	Textile fabrics

Directors and Management

Non-executive Chairman

Murray Stuart, CBE, aged 64, is a graduate of Glasgow University and qualified both as a solicitor and a Chartered Accountant. He is Chairman of Scottish Power PLC and the Hammersmith Hospitals NHS Trust. He is a non-executive director of The Royal Bank of Scotland Group PLC and CMG plc.

Executive Directors

Tom Attwood, aged 45, is a graduate of the University of Manchester. Prior to joining ICG in April 1996, he was a director of James Capel & Co where he worked for eight years.

Jean-Loup de Gersigny, aged 44, is a Fellow of the Chartered Insurance Institute and has an MBA from the London Business School. Prior to founding ICG in 1989, he worked for Chemical Bank in London for seven years.

Tom Bartlam, aged 50, is a graduate of Cambridge University and qualified as a Chartered Accountant with Price Waterhouse. Prior to founding ICG in 1989, he worked for fourteen years for Charterhouse Bank in London.

Andrew Jackson, aged 49, is a graduate of Cambridge University and has an MBA from the London Business School. Prior to founding ICG in 1989, he worked at Chemical Bank for sixteen years in London and Switzerland.

Non-executive Directors

Eric Licoys, aged 59, is a graduate of l'Institut d'études politiques de Paris. He is the chairman and chief executive of Havas, the French media and travel group, having previously been President of the venture capital arm of Lazard Frères in France.

Robert Padgett, aged 54, is a graduate of Oxford University, is a Chartered Accountant and has an MBA from the Wharton School of the University of Pennsylvania. He is the Head of Corporate Finance at Hermes Investment Management Limited.

Peter Stone, aged 51, is a graduate of Cambridge University and is a qualified solicitor. He is a director of Close Brothers Group plc.

Executives

Martin Conder
François de Mitry
Christophe Evain
Simon Morrell
Andrew Phillips
Paul Piper (member of investment committee)
Graeme Smith
Denis Viet-Jacobsen
Thomas Warnholtz

Secretary and Financial Controller

John Curtis

Directors' Report

The directors present their annual report and the audited financial statements for the year ended 31 January 1998.

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

The group's profit before taxation was £22,592,000 (1997 – £20,160,000). The directors consider the state of the company's affairs to be satisfactory.

Directors The present membership of the Board is as set out on page 14. All of the directors shown on page 14 served throughout the year with the exception of Mr Licoys and Mr Stone who were appointed as non-executive directors on 21 January 1998 and who retire and offer themselves for re-election in accordance with the Articles of Association. On 18 March 1998, Mr Kinder and Mr Odgers, both of whom served throughout the year, resigned from the Board. In accordance with the Articles of Association, Mr Bartlam and Mr Padgett retire by rotation and offer themselves for re-election. Mr Bartlam has a service contract under which the company is obliged to give 24 months' notice of termination of employment to him. The interests of the directors of the company and their immediate families, as defined by the Companies Act, in the shares of the company at 31 January 1998 were as follows:

	1998 Number of 20p ordinary shares	1997 Number of 20p ordinary shares
T R Attwood	5,000	5,000
T H Bartlam	884,921	974,921
J-L de Gersigny	660,672	885,672
A D Jackson	964,922	964,922
C M Stuart	5,000	5,000
E Kinder (resigned 18 March 1998)	5,000	5,000
J R B Odgers (resigned 18 March 1998)	141,052	499,922

No changes to the directors' interests in shares at 31 January 1998 as set out above had been notified up to 3 April 1998.

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

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

Dividend The directors recommend a final net dividend payment in respect of the ordinary shares of the company at a rate of 12.0p per share (1997 – 10.6p), which when added to the interim net dividend of 5.4p per share (1997 – 4.8p) gives a total net dividend for the year of 17.4p per share (1997 – 15.4p). After dividends, retained profits of £7,326,000 (1997 – £6,409,000) have been transferred to retained earnings.

Substantial shareholdings As at 3 April 1998, the following interests in 3% or more of the issued ordinary share capital had been notified to the company.

	Number of ordinary shares	Percentage of issued share capital
The BT Pension Scheme	3,424,986	7.3
Standard Life	3,247,346	7.0
The Post Office Staff Superannuation Fund	2,343,000	5.0
General Accident Fire & Life Assurance	1,760,440	3.8
F & C Nominees Limited	1,450,000	3.1

In addition, according to the company's share register, the following companies' managed funds whose interests in aggregate amounted to 3% or more of the issued ordinary share capital.

	Number of ordinary shares	Percentage of issued share capital
Prudential Portfolio Managers Ltd	2,947,656	6.3
M & G Investment Management Limited	2,650,000	5.7
Schroder Investment Management Limited	2,531,000	5.4
Perpetual Investment Management Limited	2,334,770	5.0
Framlington Investment Management Ltd	2,144,000	4.6
UBS Phillips & Drew Fund Management Ltd	1,528,525	3.3
Gartmore Investment Management Ltd	1,497,111	3.2
Barclays Global Investors Ltd	1,473,474	3.2

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

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

Trade creditors It is group policy to agree and clearly communicate terms of payment as part of the commercial arrangements negotiated with suppliers and then to pay according to those terms, based upon the timely receipt of an accurate invoice. The group does not follow any code regarding terms of payment, and the average number of creditor days throughout the year was 25.

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

By Order of the Board
J E Curtis
Secretary

3 April 1998

Corporate Governance

A summary of the system of Corporate Governance adopted by the company is set out below. The company has taken the necessary steps to conform with the recommendations of the Code of Best Practice recommended by the Cadbury Committee and with Section A of the Best Practices Provisions annexed to the Stock Exchange Listing Rules and has complied with all of their current provisions throughout the accounting period.

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

Board of Directors The company's Board of Directors meets regularly to discuss the performance of the company and to discuss matters which it has reserved to itself for decision as well as any other matters that are referred to it. The Board comprises four executive directors, a non-executive chairman and three further non-executive directors. The non-executive directors are as follows:

Murray Stuart was appointed non-executive chairman of the company in September 1993.
Eric Licoys was appointed a non-executive director in January 1998.
Robert Padgett was appointed a non-executive director in January 1994.
Peter Stone was appointed a non-executive director in January 1998.

The following also served as non-executive directors of the company throughout the year, but have since resigned:

Eric Kinder was appointed a non-executive director in May 1994 and resigned in March 1998.
James Odgers was appointed a non-executive director in July 1996, having been an executive director and a founder of the company. He resigned in March 1998.

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

Audit Committee The Audit Committee meets regularly to oversee the production of the annual and interim accounts, compliance with Accounting Standards and regulatory requirements and to keep the procedures and controls of the company continually under review. The Committee consists of four (1997 – three) non-executive directors, these being Messrs Stuart, Licoys, Padgett and Stone. The executive directors are not members of the Audit Committee but are invited to attend along with the Financial Controller. Deloitte & Touche, the company's auditors, are also invited to attend and have direct access to Committee members.

Remuneration Committee The Remuneration Committee, which consists of three (1997 – two) non-executive directors, decides the terms and conditions of employment of the executive directors.

Internal financial control The directors acknowledge their ultimate responsibility for ensuring that the group has in place a system of internal financial controls that is appropriate to the business environment in which it operates. The directors have reviewed the system of internal financial control and believe that such a system of controls 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. These controls concentrate on the procedures for making and monitoring loans and investments and for the safeguarding of assets against unauthorised disposition.

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

Report of the Remuneration Committee

for the year ended 31 January 1998

Remuneration Committee The Committee consists solely of three non-executive directors, Messrs C M Stuart, E G Licoys and P J Stone, under the chairmanship of Mr Stuart. Messrs Licoys and Stone were appointed to the Committee on 21 January 1998, and Mr Kinder, who has served on the Committee since 1994, resigned on 18 March 1998. None of the Committee members has any personal financial interests (other than as shareholders), conflicts of interest arising from cross-directorships or day-to-day involvement in running the business. The Committee consults the executive directors about its proposals and has access to professional advice from outside the company.

Remuneration policy on executive directors' remuneration Executive remuneration packages are designed to attract, motivate and retain directors of the high calibre needed to maintain the company's position as a market leader and to reward them for enhancing value to shareholders. The performance measurement of the executive directors and the determination of their annual remuneration package is undertaken by the Remuneration Committee. This policy has been formulated having given full consideration to Section B of the Best Practices Provisions annexed to the Stock Exchange Listing Rules.

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

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

Executive directors are entitled to accept appointments outside the company in connection with the company's activities and otherwise, providing the Chairman's permission is sought.

Basic salary An executive director's basic salary is determined by the Remuneration Committee at the beginning of each year. In deciding appropriate levels the Committee can rely on objective research which gives up-to-date information on a comparator group of companies (which comprises development capital companies engaged in private equity investment). Executive directors' contracts of service which include details of remuneration will be available for inspection at the Annual General Meeting.

Annual bonus payments In setting appropriate bonus parameters the Committee refers to the objective research on comparator groups of companies as noted above. The Committee believes that any incentive compensation awarded should be tied to the interests of the company's shareholders and that the principal measure of those interests is shareholder value. The key elements of the current bonus incentive scheme are as follows:

- an annual cash bonus scheme for executive directors and executives related to growth in core income. The Remuneration Committee determines bonus allocations for the executive directors. Bonus payments in respect of the executive directors for the year to 31 January 1998 are set out in Note 9.
- a medium term incentive scheme, implemented in 1994, related to the cumulative growth in earnings per share in excess of RPI and calculated by reference to the amount of realised capital gains. The first amounts in respect of the scheme were paid in the financial year ending 31 January 1997. The amounts payable rise proportionately with increasing growth in earnings per share. The extension and appropriateness of the scheme is considered by the Remuneration Committee on an annual basis.

Share options There is in existence a share option scheme which the company adopted on 18 May 1994 and which was approved by the Inland Revenue on 2 June 1994. The principal features of this option scheme are laid out in the Placing and Intermediaries Offer document dated 19 May 1994. This option scheme is, so far as executive directors are concerned, administered by the Remuneration Committee. 224,742 options under this scheme have, to date, been granted to one executive director, Mr Attwood.

The company adopted a further unapproved option scheme on 19 May 1997. The principal features of this scheme are substantially the same as those of the scheme dated 18 May 1994 and the scheme is, so far as executive directors are concerned, administered by the Remuneration Committee. 70,000 options under this scheme have, to date, been granted to one executive director, Mr Attwood.

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

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

Executive directors' pension arrangements Under their Service Agreements, each executive director is paid an additional gross annual amount to be paid into any one or more pension plans of his choice by him up to a maximum annual amount equal to 15% of basic annual salary. There have been no changes in the terms of executive directors' pension entitlement during the year and there are no other arrangements in place concerning their pensions.

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

Mr Bartlam is due to retire by rotation and offers himself for re-election.

Non-executive directors The remuneration of the non-executive directors is determined by the Board within the limits set out in the Articles of Association. The fee paid to the non-executive Chairman in the year was £65,000 and the fees paid to other non-executive directors varied between £10,000 and £33,000. The non-executive directors receive no further fees for additional work performed for the company in respect of time spent working on Remuneration and Audit Committees. Non-executive directors cannot participate in any of the company's share option schemes. Non-executive directors do not have a contract of service and are not eligible to join the company's pension scheme.

Mr Padgett is due to retire by rotation and offers himself for re-election. Messrs Licoys and Stone, having been appointed in the year, retire and offer themselves for re-election.

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

By order of the Remuneration Committee

3 April 1998

Statement of Directors' Responsibilities

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and the group as at the end of the financial year and of the profit or loss of the group for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed;
- prepare the financial statements on a going concern basis unless it is inappropriate to presume that the group will continue in business.

The directors are responsible for ensuring that proper accounting records are kept which disclose with reasonable accuracy at any time the financial position of the company and the group and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the group and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Auditors' Report

to the Members of Intermediate Capital Group PLC

We have audited the financial statements on pages 22 to 34 which have been prepared under the accounting policies set out on page 25.

Respective responsibilities of directors and auditors As described on page 20, the company's directors are responsible for the preparation of the financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

Basis of opinion We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the company and the group, consistently applied and adequately disclosed.

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

Opinion In our opinion the financial statements give a true and fair view of the state of affairs of the company and the group as at 31 January 1998 and of the profit of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

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

6 April 1998

Consolidated Profit and Loss Account

for the year ended 31 January 1998

	Note	1998 £000	1997 £000
Interest and dividend income		31,018	25,205
Capital gains		13,760	12,071
Fee and other operating income		5,005	4,786
	4	49,783	42,062
Interest payable and similar charges	5	(15,926)	(12,117)
Provisions against loans and investments	6	(5,266)	(5,000)
Administrative expenses	7	(5,999)	(4,785)
Profit on ordinary activities before taxation	3	22,592	20,160
Tax on profit on ordinary activities	8	(7,146)	(6,564)
Profit on ordinary activities after taxation		15,446	13,596
Dividends paid and proposed – ordinary	11	(8,120)	(7,187)
Retained profit transferred to reserves		7,326	6,409
Earnings per share	12	33.1p	29.1p

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

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

Balance Sheets

31 January 1998

	Note	Group 1998 £000	Group 1997 £000	Company 1998 £000	Company 1997 £000
Fixed assets					
Tangible assets	13	232	267	232	267
Loans	14	300,692	237,359	295,451	225,302
Investments	15	19,295	12,318	26,422	20,666
Current assets					
Debtors	16	9,378	8,456	9,288	8,089
Loans and investments	17	4,732	4,615	1,007	4,615
Cash at bank		4	564	4	566
		14,114	13,635	10,299	13,270
Total assets		334,333	263,579	332,404	259,505
Capital and reserves					
Called up share capital	18	9,333	9,333	9,333	9,333
Share premium account		32,221	32,221	32,221	32,221
Capital redemption reserve		1,389	1,389	1,389	1,389
Profit and loss account	19	39,883	32,557	17,416	16,482
Equity shareholders' funds		82,826	75,500	60,359	59,425
Provisions for liabilities and charge	20	1,187	318	–	–
Creditors: amounts falling due after more than one year	21	238,656	175,739	239,080	176,173
Creditors: amounts falling due within one year	22	11,664	12,022	32,965	23,907
Total capital and liabilities		334,333	263,579	332,404	259,505

These financial statements were approved by the Board of Directors on 3 April 1998

Signed on behalf of the Board of Directors by:

C M Stuart Director

T H Bartlam Director

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

Consolidated Cash Flow Statement

for the year ended 31 January 1998

	Note	1998 £000	1997 £000
Operating activities			
Interest and dividends received		30,961	28,899
Gain on disposals		11,232	11,738
Fee and other operating income		5,054	4,790
Administrative expenses		(6,443)	(3,966)
		40,804	41,461
Interest paid		(13,895)	(12,581)
Net cash inflow from operating activities	23	26,909	28,880
Taxation paid		(9,533)	(6,361)
Capital expenditure and financial investment			
Loans and investments made		(130,379)	(109,956)
Realisations of loans and investments		35,462	45,865
Loans for syndication		3,690	(6,184)
		(91,227)	(70,275)
Purchase of tangible fixed assets		(93)	(29)
		(91,320)	(70,304)
Equity dividends paid		(7,467)	(6,486)
Net cash outflow before financing		(81,411)	(54,271)
Financing			
Increase in debt		78,547	53,615
Decrease in cash	25	(2,864)	(656)

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

1 Accounting policies

The financial statements have been prepared in accordance with applicable accounting standards. The particular accounting policies adopted are described below.

a Basis of accounting The financial statements are prepared under the historical cost convention as modified by the revaluation of certain assets as described below.

b Basis of consolidation The group financial statements incorporate the financial statements of the company and its principal subsidiary.

c Revenues and expenses Underwriting fees and other arrangement fees are included in the profit and loss account on the date at which they are receivable. Amounts receivable at the repayment of a loan which exceed the original cost are taken to profit and loss account over the full life of the loan. Such amounts, less tax, are considered to be non-distributable until such time as repayment occurs. Recurring fees, interest income, interest expense and overheads are accounted for on the accruals basis. Gains or losses arising on the early termination of financial instruments used for hedging purposes are shown as part of interest expense.

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

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

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

Furniture and Equipment – 20% per annum
Leasehold Premises – Over the term of the lease

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

f Loans and investments held as current assets Listed investments which are held as current assets, due to their impending sale, are held at their market value, with any resulting gain or loss being taken to the profit and loss account. Loans and non-listed investments held as current assets are carried at the lower of cost and net realisable value.

g Taxation Corporation tax is provided on the taxable profits of the company at the current rate.

h Deferred taxation Deferred taxation is provided at the anticipated tax rates on timing differences arising from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in the financial statements to the extent that it is probable that a liability or asset will crystallise in the future.

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

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

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

k Value added tax It is the company's policy to write off irrecoverable VAT on items of expenditure relating to the profit and loss account. VAT on tangible fixed assets is capitalised and written off over a similar period to the asset to which it relates.

2 Profit of parent company

As permitted by Section 230 of the Companies Act 1985, the profit and loss account of the parent company is not presented as part of these financial statements. The parent company's retained profit for the financial year amounted to £934,000 (1997 – £873,000).

3 Analysis of profit before tax

	Core income		Capital gains	
	1998 £000	1997 £000	1998 £000	1997 £000
Income:				
Interest and dividend income	31,018	25,205	–	–
Gain on disposals	–	–	13,760	12,071
Fee and other operating income	5,005	4,786	–	–
	36,023	29,991	13,760	12,071
Less:				
Interest payable and similar charges	(15,926)	(12,117)	–	–
Provisions against loans and investments	–	–	(5,266)	(5,000)
Administrative expenses	(4,825)	(4,337)	(1,174)	(448)
	15,272	13,537	7,320	6,623

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

4 Analysis of gross income

	1998 £000	1997 £000
Gross income received from:-		
United Kingdom	25,492	28,139
Continental Europe	24,291	13,923
	49,783	42,062

Virtually all of the company's costs and liabilities were derived from the United Kingdom and therefore no meaningful geographical split of net assets and profit before tax can be made.

Gross income includes £157,000 (1997 – £427,000) of dividend income from listed investments.

5 Interest payable and similar charges

	1998 £000	1997 £000
Bank loans and overdrafts repayable within five years	12,362	8,603
US private placement within five to ten years	3,564	3,514
	15,926	12,117

6 Provisions

	1998 £000	1997 £000
Provisions against loans and investments:		
Specific provision charged in year	5,285	5,000
Written back in respect of past years	(19)	–
	5,266	5,000

7 Administrative expenses

	1998 £000	1997 £000
Administrative expenses include:		
Amounts due under medium term incentive scheme	1,174	448
Directors' remuneration, of which £684,000 (1997 – £264,000) is included under the medium term incentive scheme above	2,019	1,728
Depreciation	100	76
Auditors' remuneration:		
Audit	73	70
Other services	56	50

8 Tax on profit on ordinary activities

	1998 £000	1997 £000
Corporation tax on the profits for the year at 31.333% (1997 – 33%)	6,038	6,755
Tax on franked investment income	239	281
Deferred taxation	869	(472)
	7,146	6,564

9 Information regarding directors and employees

	1998 £000	1997 £000
Directors' emoluments:		
Fees	130	103
Other emoluments	1,889	1,625
	2,019	1,728
Employee costs during the year, including directors:		
Wages and salaries	3,471	2,706
Social security costs	347	276
Pension costs	237	195
	4,055	3,177
	No	No
Average number of employees	21	19

The performance related element included in wages and salaries is £1,351,000 (1997 – £890,000), which is derived as a result of the medium term incentive scheme.

9 Information regarding directors and employees continued

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

	Basic salaries £000	Annual bonuses £000	Medium term scheme £000	Pension scheme contributions £000	Benefits in kind £000	**Total 1998 £000**	Total 1997 £000
Executive directors:							
T R Attwood	210	70	–	33	1	314	283
T H Bartlam	210	–	171	33	1	415	331
J-L de Gersigny	210	–	171	33	1	415	331
A D Jackson	210	–	171	33	1	415	331

	Fees £000	**Total 1998 £000**	Total 1997 £000
Non-executive directors:			
C M Stuart	65	65	50
E Kinder	33	33	33
E Licoys	1	1	–
J R B Odgers	20	20	10
R A Padgett	10	10	10
P J Stone	1	1	–

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

At 31 January 1998, only one director, Mr Attwood, had share options in the company which had not been exercised. He held options over 8,450 (1997 – 8,450) shares at 355p per share and 216,292 (1997 – 216,292) shares at 356p per share under the approved option scheme. These options may not be exercised until the announcement of the results for the year ended 31 January 2000 and will expire in April 2006 and April 2003 respectively. During the year, he was granted options over 70,000 shares at 351p per share in the unapproved option scheme. These options may not be exercised until the announcement of the results for the year ended 31 January 2001 and will expire in April 2004. The market price of the shares at 31 January 1998 was 398.5p per share.

10 Valuation of warrants and unlisted shares

The group has warrants to subscribe for shares in a number of borrowers. These warrants are not marketable instruments and can generally only be realised by the group when the investment is realised. These warrants, along with unlisted equity shares, are held in the financial statements at nominal cost. The directors consider that a reasonable valuation of these shares and warrants, representing the group's interests in the equity value of those companies realisable over a period of time, would currently amount to £32,000,000 (1997 – £20,000,000) before tax. This valuation is based on the borrowers' current proforma earnings multiplied by the appropriate price/earnings ratio, to which an appropriate discount has been applied by reference to the guidelines of the British Venture Capital Association (BVCA).

11 Dividends paid and proposed	1998 Per share pence	1998 £000	1997 Per share pence	1997 £000
Ordinary dividend:				
Interim paid	5.40	2,520	4.80	2,240
Proposed final	12.00	5,600	10.60	4,947
	17.40	8,120	15.40	7,187

12 Earnings per share

The calculation of earnings per share is based on earnings of £15,446,000 (1997 – £13,596,000) and an average number of shares in issue throughout the period of 46,666,680 (1997 – 46,666,680).

13 Tangible fixed assets	Furniture and equipment £000	Short leasehold premises £000	Total £000
Group and Company			
Cost			
At 1 February 1997	400	204	604
Additions	61	4	65
Disposals	(70)	–	(70)
At 31 January 1998	391	208	599
Depreciation			
At 1 February 1997	224	113	337
Charge for the year	56	44	100
Disposals	(70)	–	(70)
At 31 January 1998	210	157	367
Net book value			
At 31 January 1998	181	51	232
At 31 January 1997	176	91	267

14 Loans

	Group 1998 £000	Group 1997 £000	Company 1998 £000	Company 1997 £000
Other loans:				
Loans	308,724	243,938	302,970	231,581
Less: Specific provisions	(8,032)	(6,579)	(7,519)	(6,279)
	300,692	237,359	295,451	225,302

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

	Group £000	Company £000
Other loans at cost:		
Balance at 1 February 1997	243,938	231,581
Net additions	120,622	119,474
Realisations	(37,663)	(29,099)
Transfer to investments	(2,905)	(2,905)
Amortised discount and capitalised interest	1,090	229
Currency movement on foreign loans	(16,358)	(16,310)
Balance at 31 January 1998	308,724	302,970

	Group £000	Company £000
Specific provisions:		
Balance at 1 February 1997	6,579	6,279
Provisions made during the year	2,002	2,002
Transfers from accrued interest	248	–
Currency movement on foreign loans	(797)	(762)
Balance at 31 January 1998	8,032	7,519

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

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

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

15 Investments

	Group 1998 £000	Group 1997 £000	Company 1998 £000	Company 1997 £000
Shares in group companies at cost	–	–	9,014	9,014
Other investments at cost:				
Redeemable preference shares (unlisted)	17,772	10,950	16,927	10,950
Redeemable preference shares (listed)	2,375	2,375	2,375	2,375
Equity shares (unlisted)	5,562	4,440	4,520	3,777
Equity shares (listed)	–	3	–	–
	25,709	17,768	23,822	17,102
Less: Specific provisions	(6,414)	(5,450)	(6,414)	(5,450)
	19,295	12,318	17,408	11,652
	19,295	12,318	26,422	20,666

The listed equity shares are listed on the London Stock Exchange and at 31 January 1998 had a market value of nil (1997 – £3,820,000).

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

	Group £000	Company £000
Other investments at cost:		
Balance at 1 February 1997	17,768	17,102
Net additions	10,485	8,771
Transfer from loans	2,905	2,905
Realisations	(5,367)	(4,953)
Currency movement on foreign loans	(82)	(3)
Balance at 31 January 1998	25,709	23,822

	Group £000	Company £000
Specific provisions:		
Balance at 1 February 1997	5,450	5,450
Disposal of investments	(2,300)	(2,300)
Provisions made during the year	3,264	3,264
Balance at 31 January 1998	6,414	6,414

16 Debtors

	Group 1998 £000	Group 1997 £000	Company 1998 £000	Company 1997 £000
Advance corporation tax recoverable	–	–	–	1,237
Other debtors	1,064	1,710	1,024	581
Prepayments and accrued income	8,314	6,746	8,264	6,271
	9,378	8,456	9,288	8,089

Other debtors include £nil (1997 – £1,128,000) in respect of realisations completed in the year, but for which proceeds were not received until the following year. Prepayments and accrued income include £2,558,000 (1997 – £1,711,000) which is receivable after more than one year. Advance corporation tax is recoverable after one year.

17 Loans and investments held as current assets

	Group 1998 £000	Group 1997 £000	Company 1998 £000	Company 1997 £000
Loans held for syndication	1,007	4,615	1,007	4,615
Listed investments held for disposal	3,725	–	–	–
	4,732	4,615	1,007	4,615

18 Called up share capital

	1998 £000	1997 £000
Authorised:		
62,000,000 ordinary shares of 20 pence	12,400	12,400
Allotted, called up and fully paid:		
46,666,680 ordinary shares of 20 pence	9,333	9,333

19 Reconciliation of shareholders' funds and movement on reserves

	Share capital £000	Share premium £000	Capital redemption reserve fund £000	Profit and loss account £000	Total £000
Group					
Balance at 1 February 1997	9,333	32,221	1,389	32,557	75,500
Profit for the year	–	–	–	15,446	15,446
Dividends paid and proposed	–	–	–	(8,120)	(8,120)
Balance at 31 January 1998	9,333	32,221	1,389	39,883	82,826

£2,825,000 (1997 – £2,230,000) of the retained earnings of the group is currently regarded as non-distributable.

	Share capital £000	Share premium £000	Capital redemption reserve fund £000	Profit and loss account £000	Total £000
Company					
Balance at 1 February 1997	9,333	32,221	1,389	16,482	59,425
Profit for the year	–	–	–	9,054	9,054
Dividends paid and proposed	–	–	–	(8,120)	(8,120)
Balance at 31 January 1998	9,333	32,221	1,389	17,416	60,359

20 Provisions for liabilities and charges

	Group 1998 £000	Group 1997 £000	Company 1998 £000	Company 1997 £000
Deferred taxation:				
On accrued income	1,187	318	–	–
Balance at 1 February 1997	318		–	
Current year charge	869			
Balance 31 January 1998	1,187		–	–

Full provision is made for deferred tax.

21 Creditors: amounts falling due after one year

	Group 1998 £000	Group 1997 £000	Company 1998 £000	Company 1997 £000
US private placement	45,871	46,802	45,871	46,802
Bank loans	198,367	131,145	198,367	131,145
Bank overdraft	3,035	3,132	3,460	3,566
Other	(7,429)	(4,019)	(7,430)	(4,019)
	239,844	177,060	240,268	177,494
Prepaid expenses	(1,188)	(1,321)	(1,188)	(1,321)
	238,656	175,739	239,080	176,173

The bank loans and overdraft are unsecured and are repayable in between two and five years. The US private placement, which is denominated in US Dollars and swapped into floating rate European currencies, is unsecured and is repayable in three equal instalments in between five and ten years.

22 Creditors: amounts falling due within one year

	Group 1998 £000	Group 1997 £000	Company 1998 £000	Company 1997 £000
Trade creditors	103	24	103	24
Accruals	5,544	3,428	4,699	3,030
Amounts owed to group companies	–	–	32,492	18,040
Dividends proposed	5,600	4,947	5,600	4,947
Taxation – corporation tax	339	3,543	(10,007)	(2,214)
Taxation – social security	78	80	78	80
	11,664	12,022	32,965	23,907

23 Reconciliation of operating profits to operating cash flow

	1998 £000	1997 £000
Income before provisions and taxation	27,858	25,160
Increase in accrued income	(58)	(1,226)
Increase / (decrease) in accrued interest expenses	1,620	(423)
(Decrease) / increase in other net current liabilities	(3,601)	448
Amortisation of deep discount securities (net)	358	792
Capitalisation of interest receivable (net)	732	4,129
	26,909	28,880

24 Analysis of net debt

	As at 1 Feb 97 £000	Cash flow £000	Exchange movement £000	As at 31 Jan 98 £000
Cash in hand and at bank	564	(560)	–	4
Overdrafts	(3,132)	(2,304)	2,401	(3,035)
	(2,568)	(2,864)	2,401	(3,031)
Debt due after one year:				
Bank debt	(131,145)	(78,547)	11,325	(198,367)
US private placement	(46,802)	–	931	(45,871)
Total	(180,515)	(81,411)	14,657	(247,269)

25 Reconciliation of net cash flow to movement in net debt

	1998 £000	1997 £000
Decrease in cash in the period	2,864	656
Cash inflow from increase in debt	78,547	53,615
Change in net debt arising from cash flows	81,411	54,271
Translation difference	(14,657)	(14,132)
Movement in net debt	66,754	40,139
Net debt at beginning of the year	180,515	140,376
Net debt at end of the year	247,269	180,515

26 Contingent liabilities

The company has guaranteed a total of £nil (1997 – £3,148,000) in respect of liabilities incurred by its investee companies.

27 Financial commitments

At 31 January 1998, the group estimated that it had contractual obligations to provide further funding of £nil (1997 – £3,185,000).

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.

28 Contracts with substantial shareholders

The company has intermediate capital fund management contracts to manage funds totalling £50 million provided by the BT Pension Scheme and the Post Office Staff Superannuation Fund, whose investments are managed by Hermes Investment Management Limited. Mr R A Padgett, the Director of Corporate Finance of Hermes Investment Management Limited, is a non-executive director of the company. No other director has any material interests in contracts of significance.

29 Related party transactions

The company takes advantage of the exemption under FRS8 and does not report transactions or balances between group entities that have been eliminated on consolidation. There are no other related party transactions requiring disclosure under FRS8.

30 Principal subsidiary company

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

Notice of Meeting

Notice is hereby given that the Annual General Meeting of Intermediate Capital Group PLC will be held at 62-63 Threadneedle Street, London EC2R 8HE on Monday, 18 May 1998 at 12 noon for the following purposes:

1 To receive and adopt the financial statements for the year ended 31 January 1998 together with the reports of the directors and auditors thereon.

2 To declare a final dividend of 12.0p per ordinary share.

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

4 To re-elect as directors:
T H Bartlam
E G Licoys
R A Padgett
P J Stone

5 To transact any other ordinary business of the company.

By Order of the Board
J E Curtis
Secretary

3 April 1998

Notes:

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

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

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Stockbrokers
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12 Tokenhouse Yard
London EC2R 7AN

HSBC Securities
Thames Exchange
10 Queen Street Place
London EC4R 1BL

Bankers
National Westminster Bank Plc
1 Princes Street
London EC2R 8PH

Registered office
62-63 Threadneedle Street
London EC2R 8HE

Auditors
Deloitte & Touche
Chartered Accountants and
Registered Auditors
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Designed and produced by Addison. Printed in England by SynRG. Photography by Dodd Miller.

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