# Annual Report and Accounts
For the year to 31 January 2000

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.

# Highlights

- Pre-tax profits up 31% to £35.1m (1999 – £26.7m)
- Core income up 32% to £23.4m (1999 – £17.7m)
- Proposed final dividend of 15.4p net per share making 22.2p per share for the year, a 12% increase
- A record £340m of new loans
- The loan book increased to £460m (1999 – £394m)
- Successful rights issue raised £55m of new equity
- Further growth in fund management activities
- €400m Collateralised Debt Obligation (CDO) high yield fund established – the first ever in Europe.

| | 2000 £m | 1999 £m | 2000 €m | 1999 €m |
|---|---|---|---|---|
| Net interest income | 20.5 | 16.7 | 34.0 | 24.2 |
| Core income | 23.4 | 17.7 | 38.8 | 25.6 |
| Profit before tax | 35.1 | 26.7 | 58.2 | 38.6 |
| Net capital gains | 11.7 | 9.0 | 19.4 | 13.0 |
| Loans and investments | 460.4 | 394.3 | 762.7 | 570.4 |
| Shareholders' funds | 159.6 | 92.1 | 264.4 | 133.2 |

# Chairman's Statement

**I am pleased to report another excellent year for ICG with profits increasing by over 30% and the loan book and funds under management both reaching record levels.**

ICG has shown strong growth since it was established in 1989 with its profits increasing in each of the last eleven years. In recent years ICG's rate of growth has accelerated with its loan book trebling since its flotation in 1994 and its core income and pre-tax profits increasing by over 50% in the last two years alone.

Last year saw a significant expansion of ICG's fund management business, with managed funds growing from £175m to nearly £500m. We have entered the European high yield fund management business through the establishment of the first ever European CDO – a €400m fund, which invests in European high yield bonds and other high yielding debt instruments. We see this as a first step in building a significant new business in European high yield fund management. In addition, ICG has continued to build its traditional mezzanine fund management business and has recently announced the launch of a new €400m mezzanine fund.

During our last financial year we raised £55m of new equity from a Rights Issue, thereby materially strengthening our Balance Sheet and enabling us to finance the planned further growth in our business.

The European LBO and high yield markets, in which ICG operates, are both fast growing and capable of further significant growth in the years ahead. In such an environment, we believe that ICG can continue its strong growth, both in its own specialist mezzanine finance business, where it continues to be the European market leader, and in its high yield and mezzanine fund management businesses.

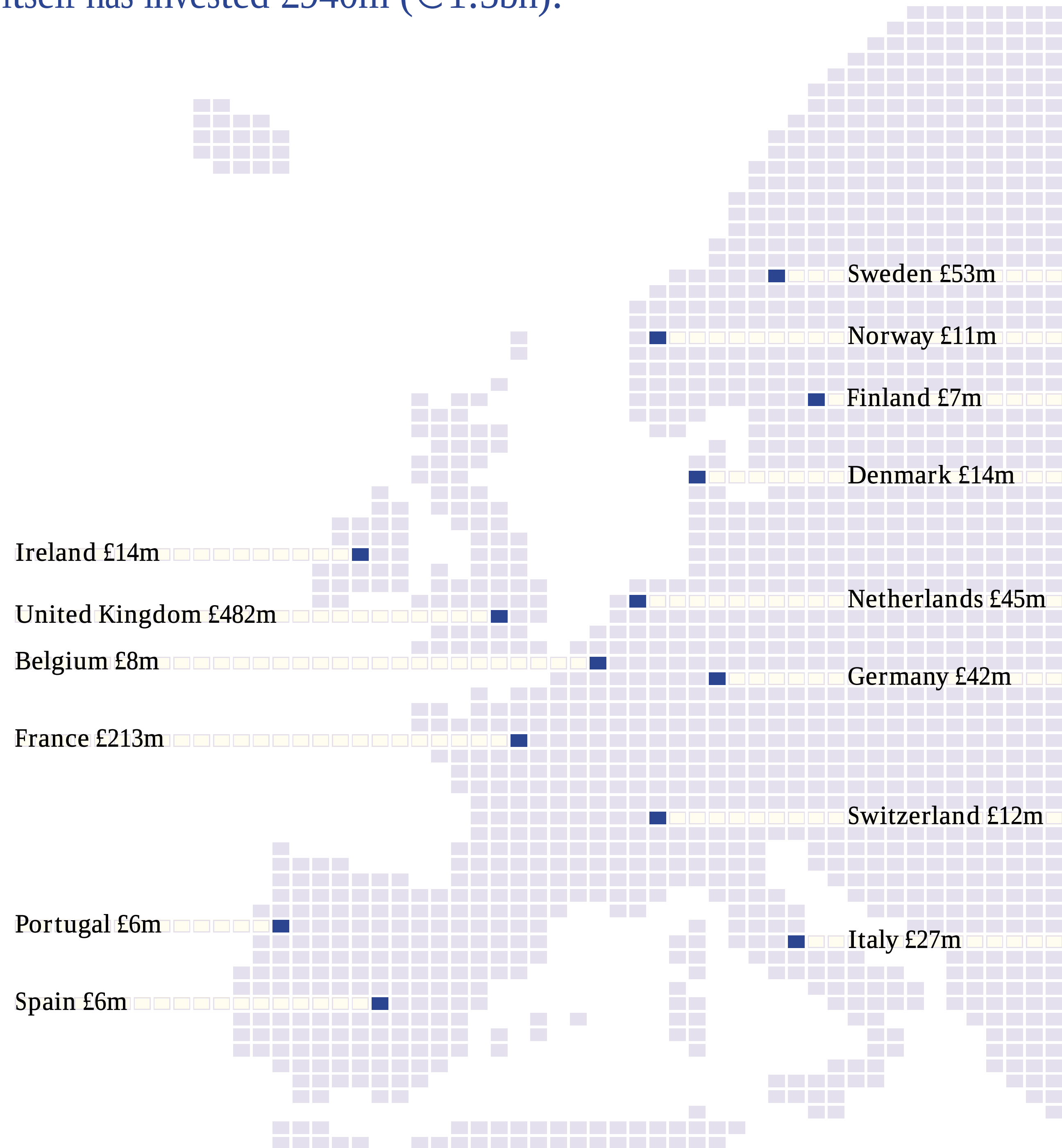
## Results

Last year ICG made record pre-tax profits of £35.1m, a 31% increase over the previous year. Net interest income and core income rose by 23% and 32% respectively to £20.5m and £23.4m. Our capital gains, net of provisions and the costs of the medium term incentive scheme, increased by 30% to £11.7m.

## Dividends

The Board is recommending a final dividend of 15.4p net per share to be paid on 26 May 2000 which, with the interim dividend of 6.8p, brings the total for the year to 22.2p net per share, an increase of 12% over last year's dividend. This final dividend is being paid to all shareholders including those who took up new

ICG has had yet another record year for new investments. £340m was arranged or provided in 22 transactions. This makes a total of £1.5bn (€2.5bn) in over 140 transactions over 11 years, of which ICG itself has invested £940m (€1.5bn).



ordinary shares at the time of the Rights Issue and consequently the total cost of the dividend has increased by 32% to £12.2m. The dividend is covered twice by post tax profits.

### Lending activity

We had another strong year in terms of new lending activity with the amounts of loans arranged and provided by ICG both reaching record levels. Last year ICG arranged a total of £340m of financing, of which £197m was invested on ICG's own Balance Sheet, £78m was invested on behalf of fund management clients with the balance of £65m being syndicated to third party investors.

ICG made 22 new loans during the year of which 12 were in the UK and 10 in Continental Europe. We were pleased that we were again successful in increasing the amount of mezzanine finance we provided for non-MBO financing purposes, making nine such loans to support either acquisitions or refinancings.

It is noteworthy that our strong lending activity of recent years has resulted in our nearly doubling the size of our loan book over the last three years, from £250m in 1997 to £460m in 2000, notwithstanding the fact that £219m of loans was repaid over this period.

### Funding

In October 1999 ICG successfully raised £54.5m by means of a one for four Rights Issue of new ordinary shares. This materially strengthened ICG's Balance Sheet giving us the capacity to increase our borrowings substantially over the next few years while maintaining good capital ratios and gearing levels. At the year-end shareholders' funds amounted to £160m and consequently our total debt of £337m represented gearing of only 212% (338%).

We expect to raise further debt facilities during the course of our new financial year and in this regard a further private placement of unsecured senior notes is at an advanced stage.

### Fund management

The highlight of last year was the establishment of a high yield and leveraged loan fund in the form of a €400m CDO. Similar funds represent a substantial market in the US and this is the first such fund established in Europe. At the year-end this Fund was over 60% invested. We regard European high yield debt as an asset class that we understand, with similar characteristics to mezzanine, and where we are able to apply our proven credit analysis skills. We see this new Fund as being a first step in the building of a significant high yield debt fund management business in a market which we believe has considerable growth potential.

Last year we continued to grow our mezzanine fund management business with the amounts invested on behalf of clients increasing from £175m to £235m. It continues to be an important objective for us to grow this activity and we have recently announced the launch of a new €400m mezzanine fund which we hope to close in the first half of the year.

As an indication of the increasing importance of ICG's fund management, the fee income from this activity, while still relatively small, last year amounted to £3.4m, which was nearly double the level of the previous year.

### The European mezzanine market

In our last financial year we saw further strengthening of the LBO markets in both the UK and Continental Europe, continuing the trend we have seen for the last couple of years. This very active market place continues to be driven by a combination of a high level of merger and acquisition activity, in particular with large companies selling off subsidiaries across Europe, and high levels of finance available from both private equity investors and debt providers. It has led to strong demand for mezzanine. We have also been increasingly active in providing mezzanine for non-LBO related businesses. Consequently overall our deal flow has been greater than ever before.

Last year the greatest competition to ICG came from the banks and investment banks offering senior debt and mezzanine as a one-stop debt financing package. While the number of banks offering mezzanine has increased, it continues to be the case that, for the most part, banks do not want to be continuing large holders of mezzanine and therefore will often want to offer to ICG some of the mezzanine which they have underwritten.

The high yield debt market, as we expected, came to life again during our last financial year providing an alternative to mezzanine for the large transactions where there is a need for intermediate finance in excess of €100m. However, we continue to believe that for some larger financings, mezzanine can be as attractive a financing instrument as high yield debt.

In this competitive market ICG has again benefited from its independence and specialisation as well as its ability to be flexible and innovative. In addition, ICG has a larger number of professional staff dedicated to the European mezzanine market than any of its competitors and a "brand name" which we believe is unrivalled in our market place, both of which help to give us an excellent pan-European deal flow.

In terms of pricing we have maintained our cash interest margins at former levels and have, overall, been able to achieve satisfactory pricing on our new mezzanine loans. The financial structures of prospective transactions, in particular levels of gearing, remain of the greatest importance to ICG, and in the majority of transactions in the market we believe gearing has remained within acceptable levels.

## Management and staff

We have continued to grow our professional multinational team to support the growth of our traditional mezzanine business as well as our new high yield fund management activity.

The success of a company such as ICG derives primarily from the abilities of its executive team. I would therefore like, on your behalf, to thank them and all the staff for their efforts after a successful year.

## Prospects

The European buyout market, together with the demand for mezzanine, has been strong in the early months of our new financial year and we believe that this should continue as long as the economic and financial background remains stable. We have started the year with a particularly high level of activity, having arranged £165m of mezzanine and invested £70m on our Balance Sheet in seven transactions in the year to date. We, therefore, believe that we should have another strong year of mezzanine lending.

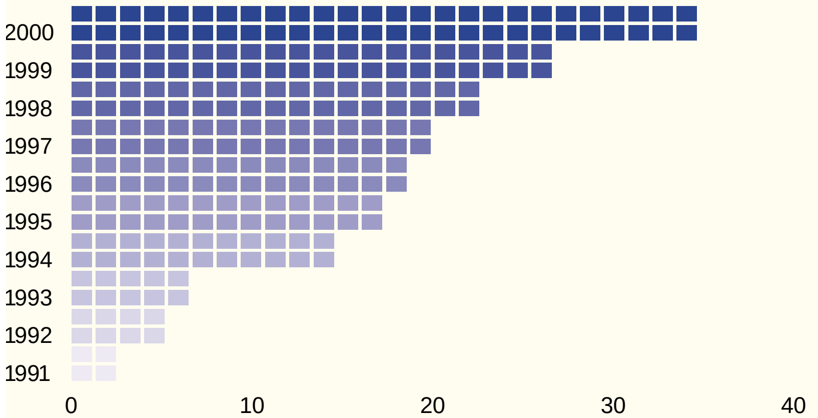
In the current market conditions, with our growing loan book and fund management activities, we believe that the outlook for interest and fee income is very good. We have already achieved good capital gains on five of our assets and the prospects for capital gains for the year are excellent.

We therefore look forward to another very good year.

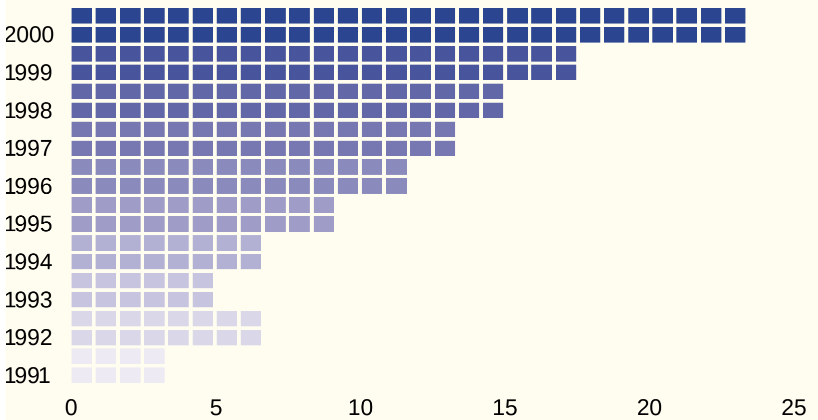
**Murray Stuart**
Chairman
10 April 2000

# Ten-Year Record

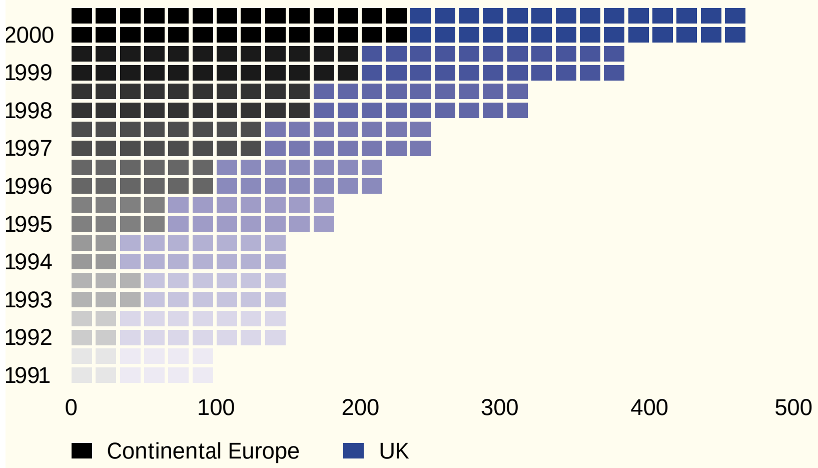
## Profit before tax £m




## Core income £m




## Loans and investments £m



# Business and Financial Review

### 1 The UK and Continental European buyout markets

1999 saw further significant growth in the UK and European buyout markets. This growth was driven by the same dynamics that have been evident in the market in recent years. Firstly, there was yet another record level of European merger and acquisition activity with the total value of deals approaching £1,000bn, nearly double the value of M&A activity in 1998. A significant part of this increase in activity arose in Continental Europe where the M&A culture is growing and now showing real signs of following the Anglo-American example and the pursuit of shareholder value. Secondly, we saw a further increase in the amount of money in the hands of the financial buyers. It is estimated that a further £20bn was raised by equity funds in 1999 and it was particularly noteworthy that during the year there was a materially increased level of activity by the larger US private equity funds in the European market place. In the more robust economic conditions seen in 1999, compared with the second half of 1998, there were again large amounts of debt available to help finance new potential buyouts. For the smaller transactions there was an abundant supply of debt finance from local bank providers. For the larger transactions there was an increased availability of debt, principally from the global investment banks and global commercial banks, who continued to devote a great deal of effort to building up their resources and their ability to underwrite and distribute large amounts of debt for buyouts.

As a consequence of the high number of companies for sale and the high level of money available to finance the purchases of such companies, 1999 was a record year for the value of buyouts both in the UK and Continental Europe. The total value of buyouts in the UK increased from £12.7bn in 1998 to £15.5bn in 1999 while the total value of buyouts in Continental Europe increased from £9.7bn in 1998 to £14.7bn.

Another notable feature in 1999 was the further increase in the number of large buyouts. During the year the aggregate value of the buyouts in excess of £250m amounted to £14bn. It was in this larger end of the market that we saw strong competition among rival financiers both on the equity side pushing up the total price being paid and on the debt side pushing up levels of gearing. In a few instances ICG believed that the total price being paid was such that prospects of making a good return were relatively limited. In some other situations ICG believed that the level of gearing was such as to make investments unattractive from a mezzanine point of view. Overall, however, ICG believes that the levels of gearing and the structures of most buyouts were acceptable, with banks for the most part retaining their credit disciplines.

The year 2000 has started with the same market characteristics as were evident in 1999 and therefore another strong year of buyout activity is anticipated.

### 2 ICG and the European mezzanine market

The use of mezzanine in the European buyout market continued in 1999. This was principally because both the market itself grew and also the arrangers of buyouts often found subordinated debt useful in making their offer more attractive in a competitive LBO environment.

Within the European subordinated debt market, ICG operates primarily in the middle range where the subordinated debt required is between £5m and £50m. In this part of the market, ICG has an excellent position and had a strong flow of mezzanine opportunities during the year. The principal competition continues to come from investment and commercial banks offering both senior debt and mezzanine debt as a one-stop shop. However, it remains the case that very few investment banks or commercial banks are interested in taking a significant amount of mezzanine onto their own books. Consequently, there continues to be a number of situations where the banks will want to syndicate to ICG the mezzanine that they have underwritten – as was the case in five of the loans made by ICG last year.

At the smaller end of the market ICG faces competition from domestic banks who are keen to provide mezzanine of under £10m.

The only significant change in ICG's competitive environment has been the recent announcement that some new larger mezzanine funds run by American institutions intend to enter the European market. While it would be wrong to suggest that these will not become a competitive threat, ICG's initial assessment is that they are likely to concentrate on the larger £50m plus tranches of mezzanine and will not be competing with ICG on price.

There continue to be attractive opportunities to provide mezzanine to finance non-buyout transactions. ICG has continued to market this use of mezzanine strongly and has been significantly more active in this segment of the market than any other mezzanine provider. Last year it provided acquisition finance for six companies and refinancing capital for a further three companies.

Taking all these features together ICG believes that there will be strong demand for mezzanine in the forthcoming year and continuing good opportunities for ICG with its flexibility, commitment and skills.

### 3 The portfolio

At 31 January 2000 ICG's portfolio consisted of loans to 64 different companies amounting to a total of £460m. This represented a 16% increase over the value of the loan book of £394m at the beginning of the year. The sterling value of the loan portfolio would have been £27m higher if sterling had not appreciated against the Euro during the year.

The portfolio was spread across 11 countries, namely the UK, France, Germany, Sweden, The Netherlands, Italy, Ireland, Belgium, Denmark, Norway and Finland. At the year-end the split of the portfolio by value was 48% in the UK and 52% in the remainder of Europe.

During the year ICG continued to ensure that as well as diversifying its risk on a geographical basis, it also diversified its risk by investing in a wide range of industrial sectors. At the year-end it had lent to 28 industrial sectors with the largest sector representing only 9% of the total portfolio.

Details of the portfolio, including new loans and repayments, may be found on pages 10 to 13.

**New loans and investments** In the financial year ended 31 January 2000 the total amount of mezzanine provided by ICG and its fund management clients was £275m. ICG made 22 loans and investments on its own Balance Sheet amounting to £197m, another record level, which compares with the £156m of new investments in the previous year.

**Repayments** In the last financial year, loans of £96m in respect of 10 companies were fully repaid or prepaid when the companies were either listed or sold or the mezzanine loan was refinanced with cheaper debt.

**Provisions** It is ICG's policy to make specific provisions against loans where, in the opinion of ICG's management, the value of the loan is impaired. In our last financial year we have made £9.4m of new provisions against loans to three UK companies and have released a £1.3m provision that we had made last year against another UK loan. As a result the net cost of the new provisions charged to the profit and loss account for the year amounts to £8.1m.

At the year-end, ICG's total provisions amounted to £26.4m in respect of six companies.

### 4 Mezzanine fund management

During the year ICG invested a further £78m of mezzanine on behalf of fund management clients. Taking into account the £18m of fund management loans repaid during the year, the amount invested on behalf of clients had risen at the year-end to £235m compared with £175m at the beginning of the year.

### 5 Borrowings and loan facilities

At 31 January 2000 ICG's total borrowings amounted to £337m compared to £313m at the beginning of the year. This increase was relatively modest because of ICG's Rights Issue in October, which was used to reduce borrowings.

During the year ICG raised a new £45m medium term facility. As a result of this ICG's total borrowing facilities at the year-end amounted to £410m.

### 6 Shareholders' funds

There was a very substantial increase in shareholders' funds during the year, rising from £92m to £160m. A large part of this increase was accounted for by the £54.7m raised as a result of ICG's one-for-four Rights Issue which was completed in October 1999.

Within the portfolio, the excess market value of quoted shares over cost amounts to £7.4m, compared to £1.8m at the beginning of the year. Furthermore, the directors' valuation of unquoted shares and warrants, whose value is not included in the Balance Sheet, amounted to £50m compared to £33m at the beginning of the year. If these items were included, ICG's equity base would increase to £216m, a rise of 71% over the level at the beginning of the year.

### 7 Results for the year

In the financial year to 31 January 2000, ICG's pretax profits rose to £35.1m compared to £26.7m in the previous year – an increase of 31%. The pretax return on shareholders' funds, which was adjusted to take into account the effect of the Rights Issue, amounted to 31%.

Net profit after tax amounted to £24.8m compared with £18.5m for the previous year. Undiluted earnings per share, adjusted to take into account the effect of the Rights Issue, amounted to 49.2p per share, a 27% increase over last year's earnings per share of 38.6p.

The constituent parts of ICG's profits are:

**Core income**. Core income, which is defined as net interest income plus fee income less related administrative expenses, increased by 32% to £23.4m compared to £17.7m the previous year.

**Net interest income**. Net interest and dividend income grew by 23% to £20.5m compared to £16.7m in the previous year. £0.8m of this increase resulted from the receipt of the Rights Issue proceeds at the end of October 1999. The remainder of the increase arose primarily from the substantial growth in the loan book compared with the previous year. It is estimated that net interest income would have been £0.8m higher if the Sterling/Euro exchange rate had remained at the same level as it was at the beginning of the year.

**Fee income**. Fee income rose by 39% from £6.6m in the previous year to £9.2m. It was a particularly good year for underwriting and arrangement fees which amounted to £5.2m, up 21% over what was regarded as being a high figure of £4.3m for the previous year. This is because once again ICG arranged a good number of larger mezzanine loans.

Fund management fees showed a very substantial increase, rising 87% from £1.8m last year to £3.4m this year. Of this amount, £2.7m related to mezzanine fund management fees which grew from £1.8m in the previous year as a result of the material increase in invested funds under management. Fund management fee income also included £0.7m which derived from managing the new CDO fund for the last five months of the year.

Agency fees which are recurring fees from monitoring loans and investments, increased from £0.5m last year to £0.6m this year.

**Expenses**. Operating expenses of £6.3m, represented a 14% increase over last year's figure of £5.6m. This arose primarily from increased staff costs. In particular, it should be noted that the costs directly attributed to our new CDO fund management operation for the year amounted to £0.4m.

**Capital gains (net of provisions and related expenses)**. ICG had an excellent year for capital gains with total gains amounting to £28.9m which, after deducting net provisions of £8.1m and the cost of the medium term incentive scheme of £9.1m, resulted in net capital gains of £11.7m compared with £9.0m in the previous year.

The capital gains were more widely spread last year, and arose from 10 different companies; four in the UK and six in Continental Europe. Three of the gains were achieved as a result of flotations, the rest being from trade sales or refinancings.

The costs of the medium term incentive scheme increased materially from £4.7m last year to £9.1m this year. This was because, for the first time, virtually all the year's capital gains, which were at record levels, related to investments which qualified for inclusion in the scheme. In addition, the amount of the payout increased because of the high level of compound EPS growth which has been achieved since flotation.

# The Portfolio

## New loans and investments

During the year ICG made new loans to and investments in 22 companies, these being as follows:

**Accord** is a provider of outsourcing services to local authorities in the UK. In June 1999 ICG arranged and provided a £4m mezzanine loan for development capital purposes.

**Adscene** is a publisher of a number of local newspapers and free sheets in different parts of the UK. In September 1999 ICG arranged and provided a £12.5m mezzanine loan to help finance the buyout of this company.

**Asco** is a leading provider of logistics services for the North Sea oil industry and is based in Scotland. In June 1999 ICG took a participation of £7.9m in the mezzanine loan which was provided to Asco to help finance its acquisition of a US based oil logistics service company.

**Charter** is a UK engineering company which manufactures railway sleeper fastenings and components for the defence industry. In January 2000 ICG took a participation of £7.2m in the mezzanine loan which was provided to help finance the buyout of this company.

**Coal Products** is the largest UK producer of solid smokeless fuel. In December 1999 ICG took a participation of £3.5m in the mezzanine loan provided to assist in the refinancing of this company.

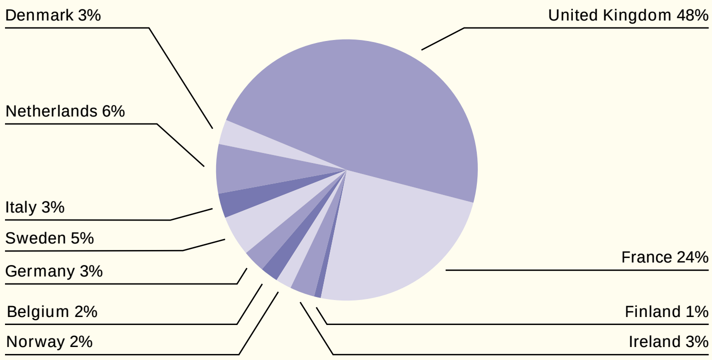
**Elior** is France's largest contract catering group. In May 1999 ICG arranged a FF300m mezzanine bond which was used for acquisition finance purposes.

**Eurogestion** is a French company which has a leading position in pest control for the housing and commercial building sector. In November 1999 ICG arranged and provided a FF55m mezzanine bond to help finance the buyout of this company.

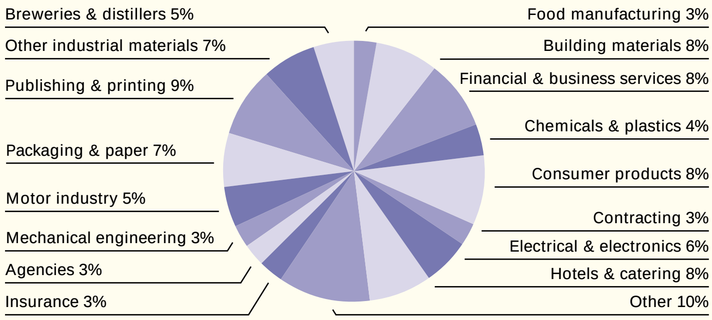
**Grands Vins de Gironde** is one of the leading French wine trading companies. In March 1999 ICG arranged and provided a FF90m mezzanine bond to help finance the buyout of the company.

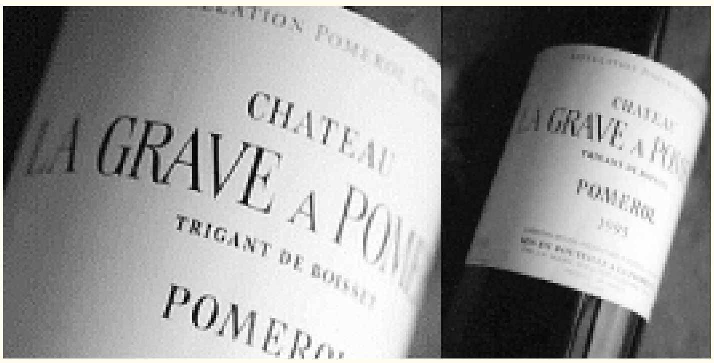
**Helly Hansen** is a leading Scandinavian producer of outdoor clothing. In May 1999 ICG arranged and provided a £17.7m mezzanine loan to support the rapid growth of the company.

### Portfolio spread by country




### Portfolio spread by industry




**HLF Insurance** is a group created by the merger of two UK based insurance brokers, Lambert Fenchurch and Heath Group. In December 1999 ICG arranged a £40m mezzanine loan to help finance the acquisition of Lambert Fenchurch by Heath.

**IBS Brocke** is a German manufacturer of plastic moulded components for the automotive industry. In July 1999 ICG arranged and provided a DM25m loan to help finance the buyout of this company.

**IPC** is a leading UK consumer magazine publisher. In August 1999 ICG arranged a £53m subordinated loan for this company for refinancing purposes.

**Latium Group** is a UK manufacturer and retailer of UPVC windows. In March 1999 ICG arranged and provided a £4m mezzanine loan to enable it to acquire the Everest business.

**Le Figaro** is a well known French newspaper publisher. In October 1999 ICG took a FF125m subscription in the mezzanine bond provided to help finance the buyout of this company.

**Maccess** is a UK wholesaler and distributor of car accessories. In August 1999 ICG arranged and provided a mezzanine loan of £10m to help finance the buyout of this company.

**Meyn** is a Dutch company and is the second largest manufacturer of poultry processing equipment in the world. In July 1999 ICG arranged and provided a NLG31m mezzanine loan to help finance the buyout of this company.

**Neste** is a major Finnish chemical company. In December 1999 ICG took a participation of €12m in the mezzanine loan which was provided to help finance the buyout of this company.

**Norcros** is a UK company involved principally in the manufacture and distribution of showers and tiles. In November 1999 ICG arranged a mezzanine loan of £20m to help finance the buyout of this company when it was taken private.

**Nycomed** is a Norwegian company which produces and distributes pharmaceuticals in different parts of Europe. In November 1999 ICG took a NOK150m participation in the mezzanine loan which was provided to help finance the buyout of this company.

**Oriflame** is a Swedish based company involved in the direct selling of cosmetic products throughout the world. In October 1999 ICG arranged the €53m mezzanine loan to support the buyout of this company.

**Pets at Home** is a UK chain of retail outlets selling products for the domestic pet market. In December 1999 ICG arranged a £24m mezzanine loan to support its acquisition of PetsMart – another retail chain in the same business.

**PHS** is the second-biggest provider of washroom services and plant rental in the UK. In September 1999 ICG took a £6m participation in the £25m mezzanine loan which was provided to help finance the buyout of the company.

## Repayments

During the year, loans and investments of £96m in respect of 10 companies were repaid or prepaid.

These companies were:

| Name | Country | Form of realisation |
|---|---|---|
| **Acom** | Sweden | Flotation |
| **Charles Vögele** | Switzerland | Flotation |
| **Coal Products** | UK | Repayment |
| **Future Publications** | UK | Flotation |
| **Hygiene Diffusion** | France | Trade sale |
| **Plastimo** | France | Trade sale |
| **SLD** | UK | Repayment |
| **The Stationery Office** | UK | Trade sale |
| **Tedco** | UK | Repayment |
| **Wightlink** | UK | Repayment |

In addition to the capital gains made on the exits above, during the year, we also made capital gains on shares in companies where our loan had been repaid in earlier years.

These companies were:

| | | |
|---|---|---|
| **Gerposa** | Spain | Trade sale |
| **Norden Pac** | Sweden | Trade sale |
| **Railpart** | UK | Sale to Joint Venture partner |
| **Thomson Directories** | UK | Trade sale |

## Current portfolio

At 31 January 2000, in addition to the new loans and investments listed above, ICG had loans outstanding to the following companies:

| Name | Country | Business |
|---|---|---|
| **Adco and Dixi** | Germany | Hirer of portable toilets |
| **Allflex** | France | Animal identification tags |
| **Automotive Products** | UK | Automotive clutch and brake manufacturer |
| **Bercy Management** | France | Contract and concession caterers |
| **Best** | UK | IT recruitment agency |
| **Blagden** | Belgium | Steel drum supplier |
| **Brunner Mond** | UK | Soda ash producer |
| **Cantrell & Cochrane** | Ireland | Manufacturer, wholesaler and distributor of drinks |
| **Cartiere del Garda** | Italy | Manufacturer of coated woodfree papers |
| **Centum Investments** | UK | Holding company for Raleigh bicycles and Royal Worcester / Spode |
| **Crompton** | UK | Specialist paper manufacturer |
| **County Hotels** | UK | Hotel operator |
| **Edrasco** | France | Manufacturer of educational equipment |
| **Electrokopper** | Sweden | Manufacturer of copper wire rod and winding wire |
| **Elis** | France | Textile rental and cleaning business |
| **Elmville** | UK | Hotel operator |
| **Empe** | Germany | Manufacturer of interior trim for automotives |
| **Focus** | UK | DIY stores |
| **Frans Bonhomme** | France | Distributor of pipes and couplings |
| **Healthcall** | UK | Deputising services for general practitioners |
| **Hermès Metal** | France | Supermarket & hypermarket equipment manufacturer |
| **Holding de Restauration** | France | Concession catering group |
| **Holding Sia** | France | Designer and wholesaler of interior gifts and decorations |
| **ie Group plc (SEC)** | UK | Financial services |
| **IPC** | UK | Magazine publisher |
| **Krings** | Germany | Rental of trench shoring systems |
| **Landal Greenparks** | Netherlands | Holiday park operator |
| **Marie Brizard** | France | Producer and distributor of wines and spirits |
| **Meneba** | Netherlands | Producer of flour, bakery and animal feed products |
| **MGE** | France | Manufacturer of uninterrupted power supplies for IT sector |
| **Microtronic** | Denmark | Hearing aid component manufacturer |
| **Nobia Byginterior** | Sweden | Door, window and kitchen manufacturer |
| **Orefi** | France | Wholesaler of industrial items |
| **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 |
| **Servicetec** | UK | Computer services and maintenance |
| **Sublistatic** | France | Manufacturer of textile printing paper transfers |
| **Tensar** | UK | Manufacturer of polymer nets and mesh products |
| **TGE Group** | UK | Fluid processing technology and control instrumentation |
| **Unipoly** | UK | Manufacturer of building products and other industrial composites |
| **William Cook** | UK | Manufacturer of steel castings |

## The Portfolio of warrants and unquoted shares

At 31 January 2000 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:

| | | |
|---|---|---|
| **Calvet** | France | Wholesale wine merchant |
| **Coal Products** | UK | Producer of smokeless fuel and foundry coke |
| **Convenience Food Systems** | Netherlands | Supplier of equipment for the preparation, processing and packaging of food |
| **Gifi** | France | Retailer of household accessories |
| **IPT** | UK | Textile fabrics |
| **MTL Trust** | UK | Bus and train operator |
| **SLD** | UK | Pump hire and other industrial companies |
| **The Stationery Office** | UK | Publication, printing and business services |
| **Wightlink** | UK | Ferry operator |

# Directors' Report

The directors present their annual report and the audited financial statements for the year ended 31 January 2000.

**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 £35.1m (1999 – £26.7m). 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 38. All of the directors shown on page 38 served throughout the year. In accordance with the Articles of Association, Mr C M Stuart and Mr T R Attwood retire by rotation and offer themselves for re-election. Mr. Attwood has a service contract under which the company is obliged to give 24 months' notice of termination of employment. 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 2000 were as follows:

| | 2000 Number of 20p ordinary shares | 1999 Number of 20p ordinary shares |
|---|---|---|
| T R Attwood | 10,000 | 5,000 |
| T H Bartlam | 834,106 | 884,921 |
| J-L de Gersigny | 676,675 | 660,672 |
| A D Jackson | 834,107 | 964,922 |
| E G Licoys | 1,800 | 1,800 |
| R A Padgett | – | – |
| P J Stone | 6,250 | 5,000 |
| C M Stuart | 10,000 | 5,000 |

No changes to the directors' interests in shares at 31 January 2000 as set out above had been notified up to 10 April 2000.

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 15.4 pence per share (1999 – 13.7 pence), which when added to the interim net dividend of 6.8 pence per share (1999 – 6.1 pence) gives a total net dividend for the year of 22.2 pence per share (1999 – 19.8 pence). This final dividend is being paid to all shareholders including those who took up new ordinary shares at the time of the Rights Issue and consequently the total cost of the dividend paid out in the year was £12.2m (1999 – £9.2m). After dividends, retained profits of £12.6m (1999 – £9.3m) have been transferred to retained earnings.

**Substantial shareholdings** The company has received notifications from Prudential Portfolio Managers, Standard Life, The BT Pension Scheme and The Post Office Staff Superannuation Fund, that each is interested in more than 3% of the ordinary share capital of the company. According to the company's share register at 10 April 2000, these, and the following investment managers (through separately managed funds), had interests in aggregate amounting to over 3%.

| | Number of ordinary shares | Percentage of issued share capital |
|---|---|---|
| Prudential Portfolio Managers Ltd | 5,765,581 | 9.9 |
| Standard Life | 4,543,528 | 7.8 |
| The BT Pension Scheme | 4,002,943 | 6.8 |
| Perpetual Investment Management Limited | 3,106,650 | 5.3 |
| Schroder Investment Management Limited | 2,999,323 | 5.1 |
| The Post Office Staff Superannuation Fund | 2,701,176 | 4.6 |
| F & C Nominees Limited | 2,512,500 | 4.3 |
| Edinburgh Fund Managers PLC | 2,497,488 | 4.3 |
| Framlington Investment Management Ltd | 2,332,500 | 4.0 |
| CGU Investment Management | 2,244,986 | 3.8 |
| Royal & Sun Alliance | 1,843,894 | 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

10 April 2000

# Corporate Governance

A summary of the system of Corporate Governance adopted by the company is set out below. Throughout the year ended 31 January 2000, the company has been compliant with the Code Provisions set out in Section 1 on the Combined Code of Corporate Governance issued by the London Stock Exchange with the exception of the areas highlighted below.

As permitted by the London Stock Exchange, the company has complied with Code Provision D.2.1 on internal control by reporting on internal financial control in accordance with the guidance for directors on internal control and financial reporting that was issued in December 1994.

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 below appropriately reflect the company's compliance with the other paragraphs of the Combined Code specified for their review by Listing Rule 12.43(a).

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

**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. It is their responsibility to present a balanced and understandable assessment of the company's position and prospects and this is done through the Chairman's Statement, Business and Financial Review and the financial statements. Regular reports and presentations to the Board ensure that it is supplied with the quality information that it needs, in a timely manner. During the year, the non-executive directors could obtain access to appropriate independent professional advice, having first consulted the Chairman, although no formal procedure was in place. This procedure was formalised on 15 March 2000.

The Board comprises four executive directors, an independent non-executive chairman and three further independent non-executive directors. The company has never had a designated chief executive. Each of the four 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. P J Stone has been identified as the senior independent director. 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 Board has established a number of committees consisting of certain directors, including an Audit Committee and a Remuneration and Nomination Committee whose membership and functions are defined below.

**Audit Committee** The Audit Committee meets regularly to review the Annual and Interim Accounts, the procedures and controls of the company and to ensure compliance with Accounting Standards and regulatory requirements. The Committee consists of four (1999 – four) independent non-executive directors, these being Messrs Stuart, Licoys, Padgett and Stone under the the chairmanship of Mr Stuart. 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 and Nomination Committee** The Committee consists of three (1999 – three) independent non-executive directors, these being Messrs Stuart, Licoys and Stone. It recommends the terms and conditions of employment of the executive directors. Levels of remuneration are considered sufficient, but not excessive to attract and retain the directors needed to run the company successfully. A significant proportion of directors' remuneration is linked to corporate performance. Although the Code recommends that executive directors have one year rolling contracts, executive directors have two year rolling service contracts which are judged appropriate for the investment and fund management nature of the company's business, given the level of continuity required. Further details regarding remuneration policy and payments made can be found in the Report to Shareholders on Directors' Remuneration and in the Notes to the Accounts.

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. One-third of the directors offer themselves for re-election every year. Any director appointed during the year must offer himself or herself for re-election at the next AGM. Details of directors up for re-election at the forthcoming AGM are shown on page 37.

**Relationships with shareholders** The company is always willing to enter into dialogue with shareholders, based on mutual understanding of objectives. Investors are encouraged to attend the AGM.

**Internal control** The group has adopted the transitional approach for the internal control aspects of the Combined Code as set out in the letter from the London Stock Exchange dated 27 September 1999.

**Wider aspects of internal control** The Board confirms that it will have established by 31 January 2001 the procedures necessary to implement the guidance Internal Control: Guidance for Directors on the Combined Code. The Board has considered the need for internal audit, 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.

**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 effectiveness of 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 and Nomination Committee

for the year ended 31 January 2000

**Remuneration and Nomination Committee** The Committee consists solely of three non-executive directors, Messrs Stuart, Licoys and Stone, under the chairmanship of Mr. Stuart. None of the Committee members has any personal financial interests (other than as shareholders), conflicts of interest arising from 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 Committee. This policy has been formulated having given full consideration to Section B of the Best Practices Provisions annexed to the London Stock Exchange Listing Rules.

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

- basic annual salary;
- 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 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.

**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 of the current bonus incentive scheme is as follows:

- 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 gains. No payment is made if the cumulative growth in RPI is less than RPI plus 5% per annum. The amounts payable rise proportionately with increasing growth in earnings per share. The extension and appropriateness of the scheme is considered by the 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. Details of options granted to directors are shown in note 9 to the accounts.

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. Details of options granted to directors are shown in note 9 to the acccounts.

**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 managed funds raised since 21 January 1998 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 Stuart and Mr Attwood are due to retire by rotation and offer themselves 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 £25,000. Included in these amounts are fees for additional work performed for the company in respect of time spent working on the Remuneration and Nomination 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.

**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.

The Remuneration and Nomination Committee
10 April 2000

# 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 36 which have been prepared under the historical cost convention and the accounting policies set out on pages 25 and 26.

**Respective responsibilities of directors and auditors** The directors are responsible for preparing the Annual Report, including as described on page 20 the financial statements. Our responsibilities, as independent auditors, are established by statute, the Auditing Practices Board, the Listing Rules of the London Stock Exchange, and by our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if 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 or the Listing Rules regarding directors' remuneration and transactions with the company and other members of the group is not disclosed.

We review whether the statement on pages 16 and 17 reflects the compliance with the seven provisions of the combined code specified for our review by the Stock Exchange, 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, including the corporate governance statement, 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.

**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 2000 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

10 April 2000

# Consolidated Profit and Loss Account

for the year ended 31 January 2000

| | Note | 2000 £m | 1999 £m |
|---|---|---|---|
| Interest and dividend income | | 36.0 | 34.8 |
| Capital gains | | 28.9 | 21.6 |
| Fee and other operating income | | 9.2 | 6.6 |
| | 4 | 74.1 | 63.0 |
| Interest payable and similar charges | 5 | (15.5) | (18.1) |
| Provisions against loans and investments | 6 | (8.1) | (7.9) |
| Administrative expenses | 7 | (15.4) | (10.3) |
| **Profit on ordinary activities before taxation** | 3 | 35.1 | 26.7 |
| Tax on profit on ordinary activities | 8 | (10.3) | (8.2) |
| Profit on ordinary activities after taxation | | 24.8 | 18.5 |
| Dividends paid and proposed – ordinary | 11 | (12.2) | (9.2) |
| **Retained profit transferred to reserves** | | 12.6 | 9.3 |
| **Earnings per share** | 12 | 49.2p | 38.6p |
| **Diluted earnings per share** | 12 | 48.8p | 38.3p |

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 2000

| | Note | Group 2000 £m | Group 1999 £m | Company 2000 £m | Company 1999 £m |
|---|---|---|---|---|---|
| **Fixed assets** | | | | | |
| Tangible assets | 13 | 0.3 | 0.2 | 0.3 | 0.2 |
| **Loans** | 14 | 409.5 | 363.3 | 404.1 | 357.9 |
| **Investments** | 15 | 50.9 | 31.0 | 33.0 | 35.3 |
| **Current assets** | | | | | |
| Debtors | 16 | 24.1 | 9.4 | 21.2 | 8.4 |
| Loans and investments | 17 | 27.3 | 19.1 | 27.3 | 19.1 |
| Cash at bank | | 0.1 | 2.9 | 0.1 | 2.9 |
| | | 51.5 | 31.4 | 48.6 | 30.4 |
| **Total assets** | | 512.2 | 425.9 | 486.0 | 423.8 |
| **Capital and reserves** | | | | | |
| Called up share capital | 18 | 11.7 | 9.3 | 11.7 | 9.3 |
| Share premium account | 19 | 84.7 | 32.2 | 84.7 | 32.2 |
| Capital redemption reserve | 19 | 1.4 | 1.4 | 1.4 | 1.4 |
| Profit and loss account | 19 | 61.8 | 49.2 | 29.1 | 18.5 |
| **Equity shareholders' funds** | | 159.6 | 92.1 | 126.9 | 61.4 |
| **Provisions for liabilities and charges** | 20 | 0.1 | 0.1 | – | – |
| **Creditors: amounts falling due after more than one year** | 21 | 324.9 | 311.0 | 324.3 | 311.0 |
| **Creditors: amounts falling due within one year** | 22 | 27.6 | 22.7 | 34.8 | 51.4 |
| **Total capital and liabilities** | | 512.2 | 425.9 | 486.0 | 423.8 |

These financial statements were approved by the Board of Directors on 10 April 2000
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 2000

| | Note | 2000 £m | 1999 £m |
|---|---|---|---|
| **Operating activities** | | | |
| Interest and dividends received | | 30.5 | 35.8 |
| Gain on disposals | | 28.9 | 21.0 |
| Fee and other operating income | | 9.6 | 7.3 |
| Administrative expenses | | (11.5) | (7.7) |
| | | 57.5 | 56.4 |
| Interest paid | | (14.8) | (19.0) |
| **Net cash inflow from operating activities** | 23 | 42.7 | 37.4 |
| **Taxation paid** | | (9.9) | (5.8) |
| **Capital expenditure and financial investment** | | | |
| Loans and investments made | | (196.7) | (159.1) |
| Realisations of loans and investments | | 96.3 | 86.9 |
| Loans for syndication | | (7.7) | (12.3) |
| | | (108.1) | (84.5) |
| Debtors relating to investments | | (16.2) | – |
| Purchase of tangible fixed assets | | (0.3) | (0.1) |
| | | (124.6) | (84.6) |
| **Equity dividends paid** | | (9.6) | (8.4) |
| **Net cash outflow before financing** | | (101.4) | (61.4) |
| **Financing** | | | |
| Increase in share capital | | 54.9 | – |
| Increase in debt | | 43.7 | 61.8 |
| **(Decrease)/increase in cash** | 25 | (2.8) | 0.4 |

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 expected 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.

## 1 Accounting policies continued

**l Financial instruments** Derivative instruments utilised by the group are interest rate swaps and forward exchange contracts. The group does not enter into speculative derivative contracts. All such instruments are used for hedging purposes to alter the risk profile of an existing underlying exposure of the group in line with the group's risk management policies. Amounts payable or receivable in respect of interest rate swaps are recognised as adjustments to interest expense over the period of the contracts.

Termination payments made or received are spread over the life of the underlying exposure in cases where the underlying exposure continues to exist. In other cases termination payments are taken to the profit and loss account.

## 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 £10.6m (1999 – £1.1m).

## 3 Analysis of profit before tax

| | Core income | | Capital gains | |
|---|---|---|---|---|
| | 2000 £m | 1999 £m | 2000 £m | 1999 £m |
| Income: | | | | |
| Interest and dividend income | 36.0 | 34.8 | – | – |
| Gain on disposals | – | – | 28.9 | 21.6 |
| Fee and other operating income | 9.2 | 6.6 | – | – |
| | 45.2 | 41.4 | 28.9 | 21.6 |
| Less: | | | | |
| Interest payable and similar charges | (15.5) | (18.1) | – | – |
| Provisions against loans and investments | – | – | (8.1) | (7.9) |
| Administrative expenses | (6.3) | (5.6) | (9.1) | (4.7) |
| | 23.4 | 17.7 | 11.7 | 9.0 |

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

| | 2000 £m | 1999 £m |
|---|---|---|
| Gross income received from: | | |
| United Kingdom | 40.9 | 37.2 |
| Continental Europe | 33.2 | 25.8 |
| | 74.1 | 63.0 |

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 £0.1m (1999 – £0.1m) of dividend income from listed investments.

## 5 Interest payable and similar charges

| | 2000 £m | 1999 £m |
|---|---|---|
| Bank loans and overdrafts | 9.9 | 12.9 |
| Private placements | 5.6 | 5.2 |
| | 15.5 | 18.1 |

## 6 Provisions

| | 2000 £m | 1999 £m |
|---|---|---|
| Provisions against loans and investments: | | |
| Specific provision charged in year | 9.4 | 10.0 |
| Written back in respect of prior years | (1.3) | (2.1) |
| | 8.1 | 7.9 |

## 7 Administrative expenses

| | 2000 £m | 1999 £m |
|---|---|---|
| Administrative expenses include: | | |
| Amounts due under medium term incentive scheme | 9.1 | 4.7 |
| Directors' remuneration, of which £3.9m (1999 – £2.0m) is included under the medium term incentive scheme above | 5.6 | 3.5 |
| Depreciation | 0.2 | 0.1 |
| Auditors' remuneration: | | |
| Audit | 0.1 | 0.1 |
| Other services | 0.1 | 0.1 |

## 8 Tax on profit on ordinary activities

| | 2000 £m | 1999 £m |
|---|---|---|
| Corporation tax on the profits for the year at 30.17% (1999 – 31%) | 10.2 | 9.1 |
| Tax on franked investment income | 0.1 | 0.2 |
| Deferred taxation | – | (1.1) |
| | 10.3 | 8.2 |

## 9 Information regarding directors and employees

| | 2000 £m | 1999 £m |
|---|---|---|
| Directors' emoluments: | | |
| Fees | 0.1 | 0.1 |
| Other emoluments | 5.6 | 3.5 |
| | 5.7 | 3.6 |
| Employee costs during the year, including directors: | | |
| Wages and salaries | 11.1 | 6.6 |
| Social security costs | 1.2 | 0.6 |
| Pension costs | 0.3 | 0.2 |
| | 12.6 | 7.4 |

| | No | No |
|---|---|---|
| Average number of employees | 30 | 23 |

The performance related element included in wages and salaries is £9.1m (1999 – £4.7m), which is derived as a result of the Management Incentive Scheme.

## 9 Information regarding directors and employees continued

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

| | Basic salaries £000 | Medium term scheme £000 | Pension scheme contributions £000 | Benefits in kind £000 | **Total 2000 £000** | Total 1999 £000 |
|---|---|---|---|---|---|---|
| Executive directors: | | | | | | |
| T R Attwood | 223 | 800 | 34 | 2 | 1,059 | 521 |
| T H Bartlam | 223 | 1,050 | 34 | 2 | 1,309 | 889 |
| J-L de Gersigny | 223 | 1,050 | 34 | 2 | 1,309 | 889 |
| A D Jackson | 223 | 1,050 | 34 | 2 | 1,309 | 889 |

| | Fees £000 | **Total 2000 £000** | Total 1999 £000 |
|---|---|---|---|
| Non-executive directors: | | | |
| C M Stuart | 65 | 65 | 65 |
| E Licoys | 23 | 23 | 23 |
| R A Padgett | 10 | 10 | 10 |
| P J Stone | 25 | 25 | 25 |

Under the terms of the company's incentive scheme, J R B Odgers, a former executive director, is due an amount of £396,000 (1999 – £552,000).

At 31 January 2000, 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 | | | | | |
| Approved | April 1996 | 8,670 | 346p | 31 Jan 2000 | April 2006 |
| Approved | April 1996 | 221,940 | 347p | 31 Jan 2000 | April 2003 |
| Unapproved | April 1997 | 71,827 | 342p | 31 Jan 2001 | April 2004 |
| T H Bartlam | | | | | |
| Approved | April 1998 | 5,700 | 526.25p | 31 Jan 2002 | April 2005 |
| Unapproved | April 1998 | 71,259 | 526.25p | 31 Jan 2002 | April 2005 |
| J-L de Gersigny | | | | | |
| Approved | April 1998 | 5,700 | 526.25p | 31 Jan 2002 | April 2005 |
| Unapproved | April 1998 | 92,806 | 526.25p | 31 Jan 2002 | April 2005 |
| A D Jackson | | | | | |
| Approved | April 1998 | 5,700 | 526.25p | 31 Jan 2002 | April 2005 |
| Unapproved | April 1998 | 71,259 | 526.25p | 31 Jan 2002 | April 2005 |

The earliest exercise date is the announcement date of the results in respect of the year then ended. The market price of the shares at 31 January 2000 was 536.5p 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 generally can be realised by the group only 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 £50m (1999 – £33m) before tax. This valuation is based on the borrowers' current pro forma 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

| | 2000 Per share pence | 2000 £m | 1999 Per share pence | 1999 £m |
|---|---|---|---|---|
| Ordinary dividend: | | | | |
| Interim paid | 6.8 | 3.2 | 6.1 | 2.8 |
| Proposed final | 15.4 | 9.0 | 13.7 | 6.4 |
| | 22.2 | 12.2 | 19.8 | 9.2 |

## 12 Earnings per share

The calculation of earnings per share is based on earnings of £24.8m (1998 – £18.5m) and an average number of shares in issue throughout the period of 50,468,473 (1999 – 47,950,068 as adjusted for the rights issue). The diluted earnings per share, as adjusted for the rights issue, is calculated after taking into account options issued to executives in respect of 1,676,847 (1999 – 1,585,589) ordinary shares and is calculated on an average number of shares of 50,855,608 (1999 – 48,337,203).

## 13 Tangible fixed assets

| | Furniture and equipment £m | Short leasehold premises £m | Total £m |
|---|---|---|---|
| Group and Company | | | |
| **Cost** | | | |
| At 1 February 1999 | 0.4 | 0.2 | 0.6 |
| Additions | 0.2 | 0.1 | 0.3 |
| At 31 January 2000 | 0.6 | 0.3 | 0.9 |
| **Depreciation** | | | |
| At 1 February 1999 | 0.2 | 0.2 | 0.4 |
| Charge for the year | 0.2 | – | 0.2 |
| At 31 January 2000 | 0.4 | 0.2 | 0.6 |
| **Net book value** | | | |
| At 31 January 2000 | 0.2 | 0.1 | 0.3 |
| At 31 January 1999 | 0.2 | 0.0 | 0.2 |

## 14 Loans

| | Group 2000 £m | Group 1999 £m | Company 2000 £m | Company 1999 £m |
|---|---|---|---|---|
| Other loans: | | | | |
| Loans | 429.6 | 378.6 | 423.1 | 372.3 |
| Less: Specific provisions | (20.1) | (15.3) | (19.0) | (14.4) |
| | 409.5 | 363.3 | 404.1 | 357.9 |

## 14 Loans continued

| | Group £m | Company £m |
|---|---|---|
| Additional information in respect of movements during the year is as follows: | | |
| Other loans at cost: | | |
| Balance at 1 February 1999 | 378.6 | 372.3 |
| Net additions | 178.2 | 178.2 |
| Realisations | (90.3) | (90.3) |
| Loans written off | (3.1) | (3.1) |
| Transfer to investments | (8.3) | (8.3) |
| Amortised discount and capitalised interest | 0.9 | 0.5 |
| Currency movement on foreign loans | (26.4) | (26.2) |
| Balance at 31 January 2000 | 429.6 | 423.1 |

| | Group £m | Company £m |
|---|---|---|
| Specific provisions: | | |
| Balance at 1 February 1999 | 15.3 | 14.4 |
| Provisions made during the year | 9.4 | 9.4 |
| Transfers from accrued interest | 0.3 | – |
| Loans written off | (3.1) | (3.1) |
| Currency movement on foreign loans | (1.8) | (1.7) |
| Balance at 31 January 2000 | 20.1 | 19.0 |

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

| Company | Interest | Main activity |
|---|---|---|
| IBG Industrie Beteiligungs GmbH | 73.8% | Rental 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 2000 £m | Group 1999 £m | Company 2000 £m | Company 1999 £m |
|---|---|---|---|---|
| Shares in group companies at cost | – | – | 9.4 | 9.0 |
| Other investments at cost: | | | | |
| Redeemable preference shares (unlisted) | 19.6 | 18.8 | 6.5 | 16.5 |
| Redeemable preference shares (listed) | 2.4 | 2.4 | – | 2.4 |
| Equity shares (unlisted) | 32.8 | 15.2 | 23.4 | 15.1 |
| Equity shares (listed) | 2.4 | 2.3 | – | – |
| | 57.2 | 38.7 | 29.9 | 34.0 |
| Less: Specific provisions | (6.3) | (7.7) | (6.3) | (7.7) |
| | 50.9 | 31.0 | 23.6 | 26.3 |
| | 50.9 | 31.0 | 33.0 | 35.3 |

The listed equity shares are listed on the London and Milan Stock Exchanges and at 31 January 2000 had a market value of £9.8m (1999 – £1.8m).

## 15 Investments continued

| | Group £m | Company £m |
|---|---|---|
| Additional information in respect of investments for which there have been movements during the year is as follows: | | |
| Other investments at cost: | | |
| Balance at 1 February 1999 | 38.7 | 34.0 |
| Net additions | 18.4 | 9.9 |
| Transfer from loans | 8.3 | 8.3 |
| Realisations | (6.0) | (20.9) |
| Currency movement on foreign loans | (2.2) | (1.4) |
| Balance at 31 January 2000 | 57.2 | 29.9 |
| Specific provisions: | | |
| Balance at 1 February 1999 | 7.7 | 7.7 |
| Provisions made during the year | (1.3) | (1.3) |
| Currency movement on foreign loans | (0.1) | (0.1) |
| Balance at 31 January 2000 | 6.3 | 6.3 |

## 16 Debtors

| | Group 2000 £m | Group 1999 £m | Company 2000 £m | Company 1999 £m |
|---|---|---|---|---|
| Other debtors | 13.0 | 2.4 | 11.8 | 2.3 |
| Prepayments and accrued income | 11.1 | 7.0 | 9.4 | 6.1 |
| | 24.1 | 9.4 | 21.2 | 8.4 |

Prepayments and accrued income include £2.8m (1999 – £3.2m) 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 2000 £m | Group 1999 £m | Company 2000 £m | Company 1999 £m |
|---|---|---|---|---|
| Loans held for syndication | 27.3 | 19.1 | 27.3 | 19.1 |

## 18 Called up share capital

| | 2000 £m | 1999 £m |
|---|---|---|
| Authorised: | | |
| 77,500,000 (1999 – 62,000,000) ordinary shares of 20 pence | 15.5 | 12.4 |
| Allotted, called up and fully paid: | | |
| 58,479,112 (1999 – 46,666,680) ordinary shares of 20 pence | 11.7 | 9.3 |

During the year, the company allotted 116,666 shares under its Executive Share Option Scheme and 11,695,766 shares under a rights issue.

## 19 Reconciliation of shareholders' funds and movement on reserves

| | Share capital £m | Share premium £m | Capital redemption reserve fund £m | Profit and loss account £m | Total £m |
|---|---|---|---|---|---|
| **Group** | | | | | |
| Balance at 1 February 1999 | 9.3 | 32.2 | 1.4 | 49.2 | 92.1 |
| Exercise of option | – | 0.2 | – | – | 0.2 |
| Proceeds from rights issue | 2.4 | 52.3 | – | – | 54.7 |
| Profit for the year | – | – | – | 24.8 | 24.8 |
| Dividends paid and proposed | – | – | – | (12.2) | (12.2) |
| Balance at 31 January 2000 | 11.7 | 84.7 | 1.4 | 61.8 | 159.6 |

£1.9m (1999 – £1.2m) of the retained earnings of the group is currently regarded as non-distributable.

| | Share capital £m | Share premium £m | Capital redemption reserve fund £m | Profit and loss account £m | Total £m |
|---|---|---|---|---|---|
| **Company** | | | | | |
| Balance at 1 February 1999 | 9.3 | 32.2 | 1.4 | 18.5 | 61.4 |
| Exercise of options | – | 0.2 | – | – | 0.2 |
| Proceeds from rights issue | 2.4 | 52.3 | – | – | 54.7 |
| Profit for the year | – | – | – | 22.8 | 22.8 |
| Dividends paid and proposed | – | – | – | (12.2) | (12.2) |
| Balance at 31 January 2000 | 11.7 | 84.7 | 1.4 | 29.1 | 126.9 |

## 20 Provisions for liabilities and charges

| | Group 2000 £m | Group 1999 £m | Company 2000 £m | Company 1999 £m |
|---|---|---|---|---|
| Deferred taxation: | | | | |
| On accrued income | 0.1 | 0.1 | – | – |
| Balance at 1 February 1999 | 0.1 | | – | |
| Current year release | – | | – | |
| Balance 31 January 2000 | 0.1 | | – | |

Full provision is made for deferred tax.

## 21 Creditors: amounts falling due after one year

| | Group 2000 £m | Group 1999 £m | Company 2000 £m | Company 1999 £m |
|---|---|---|---|---|
| Private placements | 92.5 | 91.3 | 92.5 | 91.3 |
| Bank loans | 240.2 | 219.2 | 240.2 | 219.2 |
| Bank overdraft | 4.4 | 2.7 | 3.8 | 2.7 |
| Other | (11.2) | (1.3) | (11.2) | (1.3) |
| | 325.9 | 311.9 | 325.3 | 311.9 |
| Prepaid expenses | (1.0) | (0.9) | (1.0) | (0.9) |
| | 324.9 | 311.0 | 324.3 | 311.0 |

The bank loans and overdraft are unsecured and are repayable within two to five years. The US$75m private placement issued in December 1995, which is denominated in US dollars and swapped into floating rate European currencies, is unsecured and is repayable in three equal instalments, one of US$25m within two to five years and two of US$25m each within five to ten years. The US$75m private placement issued in July 1998, which is denominated in US dollars and swapped into floating rate European currencies, is unsecured and is repayable in two instalments within five to ten years.

## 22 Creditors: amounts falling due within one year

| | Group 2000 £m | Group 1999 £m | Company 2000 £m | Company 1999 £m |
|---|---|---|---|---|
| Trade creditors | 0.1 | 0.1 | 0.1 | 0.1 |
| Accruals | 13.2 | 11.9 | 12.8 | 11.4 |
| Amounts owed to group companies | – | – | 32.0 | 47.6 |
| Dividends proposed | 9.0 | 6.4 | 9.0 | 6.4 |
| Taxation – corporation tax | 4.2 | 3.8 | (20.2) | (14.6) |
| Taxation – social security | 1.1 | 0.5 | 1.1 | 0.5 |
| | 27.6 | 22.7 | 34.8 | 51.4 |

## 23 Reconciliation of operating profits to operating cash flow

| | 2000 £m | 1999 £m |
|---|---|---|
| Income before provisions and taxation | 43.2 | 34.6 |
| Increase / (decrease) in accrued income | (4.9) | 1.6 |
| Increase / (decrease) in accrued interest expenses | 0.7 | (0.8) |
| Increase / (decrease) in other net current liabilities | 4.3 | 2.5 |
| Amortisation of deep discount securities (net) | (0.1) | – |
| Capitalisation of interest receivable (net) | (0.5) | (0.5) |
| | 42.7 | 37.4 |

## 24 Analysis of net debt

| | As at 1 Feb 99 £m | Cash flow £m | Exchange movement £m | As at 31 Jan 00 £m |
|---|---|---|---|---|
| Cash in hand and at bank | 2.9 | (2.8) | – | 0.1 |
| Debt due between two and five years | | | | |
| Bank debt | (219.2) | (42.0) | 21.0 | (240.2) |
| US private placement | (15.2) | – | (0.2) | (15.4) |
| Overdrafts | (2.7) | (1.7) | – | (4.4) |
| | (234.2) | (46.5) | 20.8 | (259.9) |
| Debt due after five years | | | | |
| US Private Placement | (76.1) | – | (1.0) | (77.1) |
| Total | (310.3) | (46.5) | 19.8 | (337.0) |

The group has available undrawn facilities amounting to £75m under its revolving credit facilities, due between two and five years.

## 25 Reconciliation of net cash flow to movement in net debt

| | 2000 £m | 1999 £m |
|---|---|---|
| Decrease / (increase) in cash in the period | 2.8 | (0.4) |
| Cash inflow from increase in debt | 43.7 | 61.8 |
| Change in net debt arising from cash flows | 46.5 | 61.4 |
| Translation difference | (19.8) | 1.6 |
| Movement in net debt | 26.7 | 63.0 |
| Net debt at beginning of the year | 310.3 | 247.3 |
| Net debt at end of the year | 337.0 | 310.3 |

## 26 Financial commitments

At 31 January 2000, the group estimated that it had no contractual obligations to provide further funding (1999 – £nil).

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.

## 27 Contracts with substantial shareholders

The company has intermediate capital fund management contracts to manage funds totalling £60m provided by the BT Pension Scheme and the Post Office Staff Superannuation Scheme, whose investments are managed by Hermes Investment Management Limited. The amount outstanding under these contracts at 31 January 2000 was £32.8m (1999 – £28.7m). Mr R A Padgett, the Head of Private Equity of Hermes Investment Management Limited, is a non-executive director of the company. No other director has any material interests in contracts of significance.

## 28 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.

## 29 Principal subsidiary company

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

## 30 Financial assets and liabilities

### Treasury and hedging policies

The group's financial instruments, other than derivatives, comprise borrowings in the form of bank debt and private placements, and various items, such as accrued interest, debtors, trade creditors etc, that arise directly from its operations. The main purpose of these financial instruments is to raise finance for the group's operations.

The group also enters into derivatives transactions (principally interest rate swaps and forward foreign currency contracts). The purpose of such transactions is to manage the interest rate and currency risks arising from the group's operations and its sources of finance.

The main risks arising from the group's financial instruments are interest rate risk, liquidity risk and foreign currency risk. It is the group's policy to match foreign currency loans and related net interest income, wherever possible, through either borrowing in the same foreign currency or entering into equivalent forward foreign exchange contracts. The group's policy is to manage its exposure to interest rate movements present or future, actual or contingent so as to protect its net interest income over time. It is, and has been throughout the period under review, the group's policy that no trading in financial instruments shall be undertaken.

The Board reviews and agrees policies for managing each of these risks and they are summarised below. These policies have remained unchanged since the company's flotation in 1994.

## 30 Financial assets and liabilities continued

### Interests and currency exposures

**Interest rate risk** The group's main activity is to provide mezzanine finance to its borrowers at both fixed and floating rates in any freely traded European currency. The group finances its operations by a mixture of retained profits, bank borrowings and private placements. The group borrows in currencies at both fixed and floating rates of interest and then uses interest rate swaps in order to match the interest profile of its assets and to manage the group's exposure to interest rate fluctuations. In order to protect the levels of interest income for the foreseeable future as its fixed rate assets mature, the company has entered into a series of delayed interest rate swaps which mature in between two and six years under which it receives a fixed rate. The average rate achieved on these swaps is 6.2%. As a result, the group does not have material financial exposure to interest rate movements.

**Liquidity risk** As regards liquidity, the group's policy has throughout the year been to ensure continuity of funding. Due to the long term nature of the group's assets, the group's 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 seven and 10 years and by short term borrowings under a five year extendible, multi-currency bank facility. During the year, the group entered into a £45m multi-currency revolving credit facility with a term of five years.

The maturity profile of the group's financial liabilities, other than short term creditors, is shown in the net debt analysis in note 24 and the analysis of creditors over one year is shown in note 21.

**Foreign currency risk** The group has over one-half of its book of loans and investments denominated in European currencies which gives rise to revenues in those currencies. In order to protect the group's sterling balance sheet from the movements in these currencies and the sterling exchange rate, the group finances its loans and investments by means of borrowings in the respective currency and by way of forward foreign exchange contracts. As a result, the group does not have material financial exposure to foreign exchange gains or losses.

After taking into account the various interest rate swaps entered into by the group to hedge its future income, the interest rate profile of the group's financial assets at 31 January 2000 was as follows:

| | Financial assets | | | Financial liabilities | | |
|---|---|---|---|---|---|---|
| Currency | Total £m | Floating rate financial assets £m | Fixed rate financial assets £m | Total £m | Floating rate financial liabilities £m | Fixed rate financial liabilities £m |
| Sterling | 253 | 110 | 143 | 88 | 88 | – |
| Euro | 209 | 190 | 19 | 209 | 209 | – |
| Other currencies | 27 | 27 | – | 27 | 27 | – |
| | 489 | 327 | 162 | 324 | 324 | – |

The group's financial assets consist of long term loans and investments. These usually have a term of between five and ten years, but are often prepaid prior to their contractual maturity. The interest rate for each fixed rate asset is set at the commencement of the loan. Interest rates for both floating rate assets and liabilities are based upon LIBOR plus the relevant margin.

### Hedging

**Interest rates** As stated in the group's accounting policies, the amounts payable or receivable in respect of interest rate swaps are recognised as adjustments to interest expense over the period of the contracts. In respect of the year to 31 January 2000, interest expense was reduced by £2.5m (1999 – £0.2m) in order to reflect the amounts receivable for interest rate swaps. These interest rate swaps are primarily used to hedge the group's private placements, thereby lowering the higher costs of borrowing fixed rate US Dollars by converting into floating rate Sterling and Euros.

## 30 Financial assets and liabilities continued

**Currency exposure** Forward foreign exchange contracts 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. In the year to 31 January 2000, interest expense was reduced by £9.9m (1999 – £6.1m increase) in order to reflect the translation of forward currency contracts. However, because the group does not have any material financial currency exposure, this reduction in interest expense was offset by a corresponding increase arising from the translation of other monetary assets and liabilities, primarily its loans and investments, its bank borrowings and its private placements.

### Fair value of financial assets and liabilities

The carrying amounts and the estimated fair value of the group's outstanding financial instruments is set out below:

| | 2000 Net carrying amount £m | 2000 Estimated fair value £m | 1999 Net carrying amount £m | 1999 Estimated fair value £m |
|---|---|---|---|---|
| Long term loans and investments | 460.3 | 517.7 | 394.3 | 429.0 |
| Loans held for syndication | 27.3 | 27.3 | 19.1 | 19.1 |
| Cash at bank | 0.1 | 0.1 | 2.9 | 2.9 |
| Borrowings: | | | | |
| Bank debt (including overdraft) | 244.6 | 244.6 | 221.9 | 221.9 |
| Private placements | 92.5 | 92.5 | 91.3 | 91.3 |
| Derivatives and financial instruments: | | | | |
| Interest rate | – | (4.2) | – | 9.1 |
| Foreign currency | 11.2 | 11.2 | 1.3 | 1.3 |

The following methods and assumptions were used to estimate the fair values shown below:

**Long term loans and investments** The estimate of the fair value of long term loans and investments is based on their cost, which is shown in the balance sheet at £460.3m, and the value of its warrants and unlisted equity shares. The fair value of the loans and investments does not include an adjustment to reflect interest rate movements since the date of the transaction as such loans are not readily marketable. The valuation of the warrants is based on the borrowers' current pro forma 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).

**Private placements** These are fixed rate US Dollar liabilities whose market value may be different to the carrying value. However, because the associated interest rate swaps provide a complete hedge to, and are considered part of, the transaction, any difference between the carrying value and fair value of the private placement will be offset by the difference on the associated interest rate swaps.

**Foreign exchange contracts and interest rate swaps** Foreign exchange contracts are revalued into sterling and shown in the balance sheet at their revalued amount. The fair value will therefore equate to the carrying value. The fair value of interest rate swaps (with the exception of those swaps taken out as part of the private placement) was estimated by discounting the future cash flows to net present values using appropriate market interest rates prevailing at the year end.

# 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, 15 May 2000 at 12 noon for the following purposes:

1 To receive and adopt the financial statements for the year ended 31 January 2000 together with the reports of the directors and auditors thereon.

2 To declare a final dividend of 15.4p per ordinary share.

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

4 To re-elect as directors:
C M Stuart
T R Attwood

5 To transact any other ordinary business of the company.

By Order of the Board
**J E Curtis**
Secretary

10 April 2000

**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.

# Directors and Management

## Non-executive Chairman


1

**1 Murray Stuart**, CBE, aged 66, is a graduate of Glasgow University and qualified both as a solicitor and a Chartered Accountant. He is Chairman of the Hammersmith Hospitals NHS Trust. He is a non-executive director of The Royal Bank of Scotland Group PLC, National Westminster Bank plc, CMG plc and Old Mutual plc and was formerly Chairman of Scottish Power PLC and Chief Executive of Metal Box plc.

## Executive directors


2

**2 Tom Attwood**, aged 47, 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.


3


4

**3 Tom Bartlam**, aged 52, 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.

**4 Jean-Loup de Gersigny**, aged 46, 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.


5

**5 Andrew Jackson**, aged 51, 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


6


7

**6 Eric Licoys**, aged 61, is a graduate of l'Institut d'études politiques de Paris. He is the Président Directeur Général of Havas, the French media and communications group and Directeur Général of Vivendi, the telecoms and utilities group, having previously been President of the venture capital arm of Lazard Frères in France.

**7 Robert Padgett**, aged 56, 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 Private Equity at Hermes Investment Management Limited.


8

**8 Peter Stone**, aged 53, is a graduate of Cambridge University and is a qualified solicitor. He is a non-executive director of various businesses and was previously a director of Close Brothers Group plc.

## Company secretary and financial controller

1 John Curtis

## Executives

2 Carola Babcock
3 Katharine Belsham
4 Martin Conder
5 James Davis
6 Christophe Evain
7 Sara Halbard
8 Robin Jenner
9 Piers Millar
10 François de Mitry
11 Simon Morrell
12 Frédéric Nadal
13 Rolf Nuijens
14 Andrew Phillips
15 Paul Piper (member of investment committee)
16 Graeme Smith
17 Denis Viet-Jacobsen
18 Thomas Warnholtz

**Not pictured**

Richard Samuel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