Intertek Group plc

Annual report and accounts 2003




Intertek is an international leader in testing, inspection and certification of products and commodities and the certification of systems.

We deliver our services with skill and integrity which enables our customers to meet quality, performance, regulatory and safety standards in respect of the products they sell and the services they perform.

CONTENTS

This Report together with the Annual Review constitutes the full financial statements of the Group.

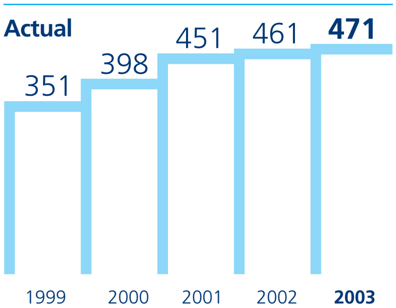
2003 — Financial highlights

Turnover	**£471.1m**	Up	2.2% at actual exchange rates
		Up	6.4% at constant exchange rates[1]
Operating profit[2]	**£76.2m**	Down	0.9% at actual exchange rates
		Up	5.2% at constant exchange rates[1]
Operating margin	**16.2%**	Down	from 16.4% at constant exchange rates
Operating cash flow[3]	**£62.4m**	Up	3.1%
Profit before tax	**£70.6m**	Up	31.0% (Up 7.8% pro-forma[4])
Earnings per share[5]	**29.7p**	Up	10.4% (Up 8.4% pro-forma[4])
Basic earnings per share	**31.3p**	Up	15.1% (Up 15.5% pro-forma[4])
Proposed final dividend per share	**5.9p**	Up	13.5%

1 Excluding disposal and acquisitions, turnover was up 7.2% and operating profit was up 6.5% at constant exchange rates
2 Before goodwill amortisation and exceptional items and including profits from associates
3 Before exceptional items and after capital expenditure
4 Pro-forma growth figures are to show the underlying growth, excluding the impact of the different capital structure in place in 2002 prior to the IPO in May 2002
5 Fully diluted underlying earnings per share before goodwill amortisation and exceptional items

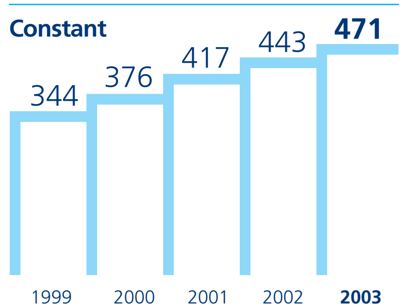
- 11,900 employees
- 100 countries
- 521 offices
- 273 laboratories

TURNOVER £M CAGR 7.6%



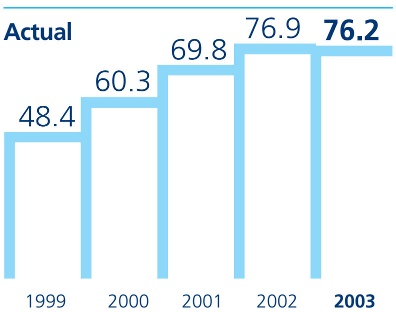
Continuing operations at actual exchange rates

TURNOVER £M CAGR 8.2%



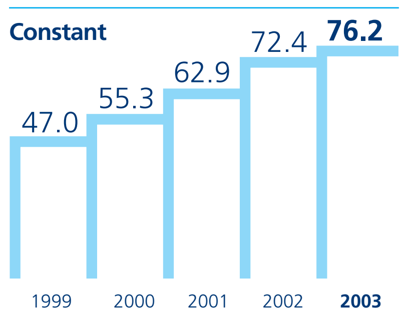
Continuing operations at constant exchange rates

OPERATING PROFIT[1] £M CAGR 12.0%



Continuing operations at actual exchange rates

OPERATING PROFIT[1] £M CAGR 12.8%



Continuing operations at constant exchange rates

1 Before goodwill amortisation and exceptional operating items and including profits from associates

Description of business

GENERAL

Intertek is a leading international testing, inspection and certification organisation which assesses products and commodities bought or sold by customers against a wide range of safety, regulatory, quality and performance standards. Customers include retailers, distributors, manufacturers, traders, industrial bodies, oil and chemical companies and government bodies. The products and commodities tested, inspected and certified include textiles, toys and other consumer goods, electrical and electronic goods, building and heating, ventilation and air conditioning products, crude oil, petroleum products, chemicals and agricultural produce. Products are tested against safety standards decreed by governmental or regulatory bodies or recognised standards authorities and also against quality and performance standards that are established by recognised standards bodies or customers themselves.

Testing, inspection and certification services are performed around the world near the points of manufacture, design and other forms of sourcing. Intertek has a broad range of accreditations, approvals and certifications to assist customers in qualifying their products and commodities for sale in the principal markets of the world.

Intertek also reviews and certifies the systems of customers in conformity with their requirements and the requirements of regulators.

Intertek operates in a large number of different market segments and the business is organised into four operating divisions, each involved in the testing, inspection and certification of particular goods or commodities.

GROUP STRATEGY

Intertek's businesses operate across a broad spectrum of consumer and industrial markets, and across a wide geographic spread. Its strategy is to be an industry leader in creating value for its customers and shareholders in its chosen markets.

GEOGRAPHIC FOCUS

Intertek operates a decentralised management structure with a small corporate head office in London. Operations are conducted through subsidiary companies located in 100 countries throughout the world. It is Intertek's policy to recruit local management whenever possible. An analysis of turnover, operating profit and net operating assets by geographic area is given in note 2 to the financial statements.

OPERATIONS

Intertek's four operating divisions are as follows:

LABTEST

Business overview and growth prospects

Labtest is a leading international service provider that tests and inspects textiles, toys and other consumer products. The Labtest brand name has been established since 1973.

The Labtest division tests and inspects products against applicable safety, regulatory, quality and performance standards which are either set by regulatory bodies such as standards bodies or are specified by retailers or importers.

Labtest provides a wide range of testing services near the points of product manufacture and design, and buying offices. Labtest has a broad range of accreditations from standards bodies which mean that it is able to test products to the safety and performance requirements of different markets around the world. This, together with quick turnaround times and Labtest's reputation for service excellence, ensures that performance and quality needs of retailers and other customers worldwide are met.

Demand for testing and inspection is driven by a number of factors. European and North American retailers and importers are increasingly sourcing products from less developed countries, especially China and other parts of Asia, and the countries on the Mediterranean rim. This increase in overseas sourcing in turn increases the need for testing and inspection in order to ensure that products sourced abroad are compliant with standards in the retailer's home market and also meet the retailer's own internal standards. There is also a growing demand for testing and inspection as customers become more quality conscious and retailers and manufacturers wish to improve or protect their reputations and reduce returns of sub-standard products to manufacturers. Shorter product life cycles, new fabrics, a greater number of designs and more "own brand" merchandise also increase the need for Labtest's services.

New safety standards help drive the demand for toys, hardline and textile testing. For example, the European Union established a new EU Directive restricting azocolourants (dyes) in textiles and leather effective from September 2003 and other safety standards were introduced on a variety of consumer goods including some juvenile products, bedding items and hardlines such as furniture and cookware.

Labtest divides its activities into the following sub-divisions for management purposes: Textile testing, Toys and Hardline testing, Inspection of consumer products, Systems Certification, RAM Consulting and Social Compliance Audit.

Textile testing is carried out to provide retailers and importers with confidence that they are buying merchandise that meets their requirements with respect to fibre composition, colourfastness, shrinkage, flammability and other performance, quality and legally required safety standards, and it also helps manufacturers to meet these standards. Labtest has the largest and most comprehensive network of textile testing laboratories located near retailer buying offices and manufacturers' premises.

Toy testing is carried out during both the design and manufacturing processes to evaluate toys against the mandatory safety standards of the countries in which they will be sold. Tests carried out include testing for sharp edges, choking hazards, toxicity of paint, flammability and electrical safety. Labtest has one of the largest networks of laboratories located near design centres and manufacturers and has the certifications and approvals needed for testing toys to meet relevant safety standards in all the major markets in the world.

Hardline testing is carried out on various products, such as ceramics, bicycles, cosmetic products, sporting goods, juvenile products, furniture, fireworks and other products against retailers' performance standards and, where applicable, mandatory safety standards.

Inspection of consumer products involves the inspection of goods, mainly the same type that it tests, carried out at manufacturers' plants in order to verify that the goods meet the buyers' specifications during manufacturing and when they are shipped. The goods are statistically inspected to check such matters as sizing, quantities, colours, packing and labelling. Labtest has built a network of inspectors in China and other Asian and developing countries, around the Mediterranean rim and in Latin America who are located close to the manufacturers and who have the skills necessary to carry out this inspection work.

Systems Certification involves the certification of a customer's processes and systems to external standards such as ISO 9000 and ISO 14000 or to customers' own standards. Certification involves Labtest checking that a company has properly defined and documented its business processes and standards of service. Companies receiving certifications are subject to regular audits over time as a condition of continuing certification.

RAM Consulting works with customers to assess and reduce the hazards associated with products before the products are produced. RAM has built injury databases containing details of more than four million injuries, including information on product characteristics, which it uses to develop safety processes that are implemented into the customer's business process. RAM's major customer is McDonalds and its suppliers of promotional items such as toys. However, as safety standards become more rigorous, RAM's client base is growing and the range of products it evaluates is widening to include such items as children's clothes. RAM services include safety training, supply chain management and total quality assurance within the manufacturing process.

Social Compliance Audit is the audit of the social and safety conditions of workers. It includes factory inspections, document review and employee interviews. Retailers and distributors mainly commission the audits and Labtest works closely with both manufacturers and retailers to outline problems that have been identified. The main focus of these audits is to detect the use of child labour, involuntary labour, coercion and harassment, health and safety breaches, excessive working hours, compensation and environmental protection abuses. The development of the business has resulted from consumers and pressure groups being increasingly concerned about the social conditions and safety of workers in factories.

Labtest's other services include Validation and Monitoring work which is undertaken in France and China for customers operating under ultra-clean or sterile manufacturing conditions in industries such as the pharmaceutical, biotech, cosmetic and electronics sectors and Equipment Services which includes the supply of specialist testing equipment, primarily in Hong Kong and China.

Divisional strategy
Labtest aims to capitalise on the continuing strong growth in its market by organic growth and by acquisitions, whilst maintaining its operating margins. Labtest intends to continue to build its network of laboratories, grow its inspection network to expand its international coverage and adapt its service range to meet customer needs.

Labtest also aims to continue strengthening its relationship with retailers, especially in North America and Europe, building trust and confidence in the excellence of its services. The relationships with manufacturers and retailers' local buying offices of consumer products are important both for the direct testing and inspection work they create and for the influence they exert over manufacturers and retailers for Labtest to be appointed. Labtest is well positioned to sell to these manufacturers and buying offices as it has strong local management in Asia and other developing countries which is constantly being strengthened and expanded.

Labtest expects Systems Certification to be an area of growth, particularly in Asia and believes that Intertek's strong position and extensive customer base in product testing will assist it to penetrate this market.

Operations
Labtest's principal testing facilities are located near the point of manufacture and design of a product or the buying offices of retailers. They range from the Hong Kong laboratory, the largest textile testing laboratory in the world, and major laboratories in Shanghai and Guangzhou in China, India and Turkey to small operations in territories such as Morocco and South Africa. Labtest employs highly skilled technicians and managers in a number of specialist fields such as textile analysis and toy testing.

Geographic coverage
Labtest operates in 30 countries and has 36 laboratories and 75 offices worldwide. The head office is located in Hong Kong.

Customers
Labtest's customers are retailers, based mainly in North America and Europe but who often have buying offices in Asia, and manufacturers, mainly in Asia. Labtest's top 10 global customers

Description of business

represented approximately 21% of its turnover in 2003 and the largest customer accounted for 5.6% of its turnover in the same period.

Market and competition

Labtest has approximately 45% of the textile testing market and is the market leader. It has about 27% of the toys and hardline testing market and about 32% of the inspection of consumer goods market. SGS and the Bureau Veritas group compete with Labtest in textile, toys and hardline testing, inspection, social compliance audit and systems certification.

Employees

At 31 December 2003, Labtest had a total of 3,948 employees, with 3,159 in Asia, 549 in Europe, and 240 in the Americas.

CALEB BRETT

Business overview and growth prospects

Caleb Brett was founded in 1885 and is a leading international service provider of testing and inspecting services, mainly for petroleum, refined products, chemicals, consumer products and agricultural products. Caleb Brett also performs analytical testing for oil and chemical companies on an outsourced basis.

Caleb Brett has a global reputation for reliability and confidentiality, both in certifying the quantity and quality of petroleum, chemical and agricultural product cargoes, and in carrying out the testing work outsourced to it.

Caleb Brett divides its activities into the following sub-divisions for management purposes: Laboratory services and outsourcing and Inspection services.

Laboratory services and outsourcing involves the provision of testing and laboratory analytical services to supplement or replace these activities carried out mainly by oil, chemical and healthcare companies. The division provides a wide range of analytical testing work for a diverse and growing range of companies.

Significant laboratory outsourcing projects were obtained and started in 2003, and 2004 promises to bring more projects as global companies continue to streamline operations and focus on their core activities. This trend is expected to continue.

Testing activities include the analysis and testing of crude oil and petroleum products, chemicals, consumer products, pharmaceuticals, food and other products. Laboratory outsourcing provides customers with access to an extensive global network of scientific expertise and technology available from Caleb Brett laboratories. Outsourcing offers customers a value-added service with enhanced quality, and at a lower total cost.

Caleb Brett continually extends the range of analytical services it offers clients. Developments in 2003 included Nuclear Magnetic Resonance and Scanning Electron Microscopy. Further advances are planned for 2004.

Inspection services help to safeguard the commercial interests of clients during the transfer of high value oil and chemical cargoes. Offices and laboratories are located in key locations around the world to determine the quantities of cargoes, sample them and then analyse the samples. In this way, Caleb Brett certifies the quantity and quality of shipments and both buyers and sellers rely on these certificates to complete transactions, and use Caleb Brett reports to assess the composition of cargoes, as well as their quality and compliance with commercial and regulatory standards.

Caleb Brett also performs agricultural cargo testing and surveying in major markets across the world. This involves the physical sampling, testing, quantification, inspection and certification of commodities such as cereals, vegetable oils and cotton for organisations and government agencies trading in them.

Divisional strategy

The main opportunity for growth continues to be the outsourcing of testing activities to Caleb Brett on a global scale. Significant opportunities exist in the oil, chemical, healthcare, food and pharmaceutical sectors. Caleb Brett has experienced project teams who work with clients on a global basis to implement laboratory outsourcing and create optimal service solutions.

The strategic acquisition of attractive independent laboratories serving key market and geographical niches is another avenue for growth. The market for cargo inspection and inspection related testing in geographic sectors such as Europe and the United States is not expected to grow significantly. Caleb Brett intends to maintain and expand its share of the global inspection business by continually improving its service to customers and further extending its network of inspection offices and laboratories into areas where there are long term strategic growth opportunities, including China, Eastern Europe and the Former Soviet Union.

Caleb Brett's share of the global agricultural commodity inspection and testing market is small and its strategy is to expand in niche segments both organically and through acquisitions.

Operations

Caleb Brett employs experienced chemists in its laboratories, many of whom hold Ph.D., MSc and BSc level qualifications. Professionally trained field and coordination personnel perform inspection, sampling and other operations seven days a week around the world.

Computerised laboratory information systems allow for enhanced reporting accuracy, reduced operating costs and faster turnaround times. Caleb Brett's testing facilities are ISO 9000 certified and a growing number are ISO 17025 accredited.

Geographic coverage

Caleb Brett offers its services in 117 countries through its network of 356 offices and 197 laboratories. The division has its headquarters in Houston, Texas and is organised into two geographic regions with headquarters located in the United Kingdom for Europe, the Middle East, Africa and Asia and in Houston, Texas for the Americas.

Customers

Caleb Brett has well established, long term relationships with customers including companies in the petroleum, chemical, food, healthcare and other industry sectors. Caleb Brett's top ten customers represented approximately 35% of turnover in 2003 and its largest customer accounted for 9.2% of turnover in the same period.

Market and competition

The outsourcing of analytical laboratories and testing work to independent companies such as Caleb Brett is still in its early stages. Caleb Brett is one of the first companies to have started a major strategic industry shift in how such laboratory services are provided.

The global market for traditional oil and chemical inspection and testing is estimated to be about £500m. Caleb Brett has approximately 25% of this market. Competition is expected to be relatively stable due to the high start up and fixed costs involved in maintaining a global network of facilities and the importance of a well-recognised brand name. Caleb Brett's in-house expertise, brand name recognition and solid reputation are competitive strengths in the marketplace.

Employees

At 31 December 2003, Caleb Brett had a total of 5,232 employees worldwide with 1,823 in Europe, the Middle East and Africa, 1,823 in the Americas and 1,586 in Asia.

ETL SEMKO

Business overview and growth prospects

ETL SEMKO tests, certifies and inspects electrical and electronic products, telecommunications equipment, heating, ventilation and air conditioning (HVAC) equipment, building products and other products, against safety and performance standards and then issues safety labels and certificates in respect of those products.

The ETL brand name is long established in the United States and Canada and can trace its origins back to 1896 from Thomas Edison's Electrical Testing Laboratories. SEMKO is the name of the former state owned certification body in Sweden that was acquired in 1994.

Manufacturing has increasingly migrated from Europe and North America to developing countries in Asia. ETL SEMKO is well positioned to take advantage of this migration due to its extensive Asian network of testing and inspection capabilities, especially in China. In addition, manufacturers are increasingly becoming global, exporting products to many markets, forcing them to comply with a wide range of varied regulations and having to test products to different country standards. Further, the demand for testing and certification is increasing in developed countries as they become more focused on safety and performance.

Retailers require performance testing of electrical and electronic products so that they can compare the products of different manufacturers, especially when they are sourcing own-brand domestic appliances from Asia. Performance testing is also used to verify data in advertisements. Retailers also want products they buy to be inspected during and after manufacture to ensure that the merchandise being shipped to them meets their specifications. A further growth opportunity arises in the United States, where retailers have typically preferred that consumer and home electronic products are safety labelled by Underwriters Laboratories (UL), a not-for-profit organisation in the United States, which both writes standards and provides testing and certification services. From a legal and regulatory standpoint the Intertek owned ETL label is equal to that of UL, and ETL SEMKO is using its increasing contact with retailers on performance and inspection business to gain acceptance of the ETL mark in the United States.

European legislation requires products with potential safety hazards to have a CE mark. This requires a self-declaration by the manufacturer that the product complies with all relevant European standards and directives. In order to confirm that this declaration has been properly made, retailers and buyers of products are increasingly demanding that manufacturers submit their products to independent laboratories such as ETL SEMKO. Despite the national mandatory marking schemes in member countries in many cases being replaced by the CE marking scheme, there still remains a significant demand for marks which are controlled by government authorities and which can only be applied by properly accredited independent laboratories.

ETL SEMKO divides its activities into the following sub-divisions for management purposes: Safety testing and certification of electrical and electronic products, Performance testing of electrical and electronic products, Testing and certification of building products and materials, Risk assessment and regulatory compliance testing and certification of semiconductor manufacturing equipment and Inspection of electrical and electronic goods.

Safety testing and certification of electrical and electronic products involves the testing of products in ETL SEMKO laboratories against internationally recognised safety, electro-magnetic compatibility (EMC), or telecom-specific standards. The laboratories are, in most cases, accredited or recognised by national government bodies, for example, UKAS (UK Accreditation Service) in the United Kingdom and OSHA (Occupational Safety and Health Administration) in the United States. The test results demonstrate

Description of business

conformity with the standards and are used either as part of the technical file for verifying conformity with regulations or used as the basis for a certificate to be issued to the manufacturer, which in turn means that the manufacturer may apply a "mark" to the product to demonstrate that the product meets the appropriate safety standards. In some cases certificates or marks are owned by and are unique to ETL SEMKO, for example, the "ETL" mark in the United States and the "S" mark in Europe. In other cases, ETL SEMKO may be one of a number of organisations authorised to act as an agent in issuing the certificate or mark on behalf of another body such as the "GS" mark on behalf of the German government. In still other cases, ETL SEMKO will work closely with a third party certification body, which will issue a certificate on the basis of the ETL SEMKO test results, such as BEAB (British Electro-technical Approvals Board) in the United Kingdom. Certification schemes may be mandatory or voluntary depending on product type and geography.

Performance testing of electrical and electronic products includes performance testing and verification of energy, capacity, acoustics, reliability, power, durability and usability parameters and comparison evaluation on a wide range of products. Testing is carried out against international, national, industry association's or customer's specifications. These services are provided to manufacturers, distributors, retailers and consumer associations of heating, ventilation and air conditioning equipment, domestic appliances, consumer electronic products, industrial machinery, components, personal protective equipment, lighting, power systems and equipment for use in explosive atmospheres. Major third party testing programmes are operated for the Air Conditioning and Refrigeration Institute (ARI), Association of Home Appliance Manufacturers (AHAM), Gas Appliance Manufacturers Association (GAMA), Pool Heat Pump Manufacturers Association (PHPMA), Safety Equipment Institute (SEI), US Department of Transportation (DOT) and the US Federal Aviation Administration (FAA). These activities are mainly conducted in the United States (Cortland, New York and Columbus, Ohio) and the United Kingdom (Milton Keynes).

Testing and certification of building products and materials includes testing for fire resistance, structural, mechanical, physical, and accelerated ageing of materials as well as electrical and gas testing. ETL SEMKO is the market leader in the testing of fire doors and it also tests other products such as hardware, hearth products, glazing, plumbing, roofing, manufactured wood, fenestration, gypsum board and insulation materials. ETL SEMKO owns the "Warnock Hersey" certification mark in North America which demonstrates product compliance to standards referenced in building codes.

Risk assessment and regulatory compliance testing and certification of semiconductor manufacturing equipment is carried out under the brand Global Semiconductor Safety Services (GS3) and involves the inspection of manufacturers' facilities to provide comprehensive evaluations of manufacturing equipment to semiconductor industry standards as well as product safety testing in order to comply with regulatory requirements in the United States and Europe. Based in California, these activities are conducted worldwide.

Inspection of electrical and electronic goods is carried out at manufacturers' plants in order to confirm that goods meet the buyers' specifications. The goods are inspected to check quantities, electrical specifications, packing and labelling. ETL SEMKO has a network of inspectors in China and other Asian and developing countries who are located close to the manufacturers and who have the skills needed to carry out this work.

Divisional strategy

ETL SEMKO's objective is to increase its market share and obtain a higher profit margin. It aims to achieve this by continuing to promote and provide manufacturers with local testing and give them global market access by testing and certifying their products to the standards of different countries. ETL SEMKO aims to help customers reduce the time it takes to bring their products to market by working with them through the design stage and achieving fast turnarounds. In particular, ETL SEMKO intends to continue to expand its presence in Asia, especially in China.

ETL SEMKO's growth strategy includes increasing the level of business undertaken for retailers. This includes inspection work and developing the performance testing business for retailers in ETL SEMKO. Strengthening the Group's relationship with key retailers should help to promote greater acceptance of the ETL safety mark in the United States which will lead to an increased market share of the North American domestic appliance, consumer and home electronics safety markets for ETL SEMKO.

In addition to the above initiatives, ETL SEMKO will broaden its geographic spread by making strategic bolt-on acquisitions, or opening laboratories in regions where there are growth opportunities. ETL SEMKO can add value to these developments by making available its safety labels and other accreditations and approvals for markets around the world and by transferring its testing and certification skills.

As more countries become focused on safety standards, there are opportunities to enter into co-operative arrangements with their standards bodies with a view to testing and certifying products to their standards and having them issue safety compliance certificates. ETL SEMKO has entered into such arrangements in countries such as Belarus, Brazil, Argentina and Singapore. These arrangements position Intertek strongly with respect to manufacturers wanting to gain access to these emerging markets.

Operations

ETL SEMKO has experienced technicians and extensive equipment and facilities to test and certify a wide range of products against a large number of performance and safety standards.

Geographic coverage
ETL SEMKO operates in 14 countries and has 43 offices and 40 laboratories worldwide. The division has its headquarters in the United Kingdom and there are regional head offices in the UK for Europe, in Shanghai, China for Asia, and Chicago, Illinois for the Americas.

Customers
ETL SEMKO's customers include manufacturers, retailers, industry organisations and government departments. ETL SEMKO's top ten customers represented about 10% of its turnover in 2003 and the largest customer accounted for 2.5% of such turnover in the same period. ETL SEMKO also has long-standing relationships with various industry organisations including the Air Conditioning and Refrigeration Institute (ARI) in the United States, which has been a customer since 1956.

Market and competition
Market information is difficult to obtain due to the non-public reporting of ETL SEMKO's main competitors. Based however on internally generated information, ETL SEMKO has about 10% market share in the United States, with a wide range of market share for individual segments. Market share in Europe varies, with over 80% in the Nordic countries, 30% in the UK and a small percentage elsewhere. In Asia, market share is estimated to be 30% in Hong Kong, 15-20% in Greater China and 8% in Taiwan.

ETL SEMKO has few direct competitors with a similar market profile. Underwriters Laboratories, which is primarily engaged in safety testing and certification, has the major share of the market in the United States, especially in domestic appliances, home and consumer electronic products, but a smaller presence in Europe. The German Technische Überwachungsvereine (TÜVs) have the major market share in Germany and smaller operations in the United States.

Employees
At 31 December 2003, ETL SEMKO had a total of 1,805 employees, with 464 in Europe, the Middle East and Africa, 641 in Asia and 700 in the Americas.

FOREIGN TRADE STANDARDS (FTS)

Business overview and growth prospects
The Foreign Trade Standards division works for the standards bodies of different countries helping to ensure that imports comply with national safety and other requirements and for Finance Ministries and Customs Departments providing services that ensure import duties are properly declared and paid. FTS also uses its inspection resources to provide services to major industrial and commercial clients to ensure that equipment and goods they buy meet all their specifications.

FTS divides its activities into the following sub-divisions for management purposes: Standards programmes, Pre Shipment Inspection (PSI) programmes and Technical inspection.

Standards programmes are contracted by the governments and standards bodies of client countries such as the Saudi Arabian Standards Organisation (SASO) and the government of Kuwait. FTS is appointed to ensure that imports are assessed for compliance with the safety and other standards of the importing country. The testing and inspection takes place in the country of export, and applies to a specified range of imported goods. Following a successful assessment, FTS issues a certificate which enables the goods to be cleared through customs.

Standards bodies appoint FTS to help ensure the safety of imports, and to support the implementation of security and ethical import policies and legislation. FTS also provides client standards bodies with support in the development of standards, training, and safety related information.

To deliver standards programmes, FTS makes extensive use of the laboratory facilities of other Intertek divisions.

Pre Shipment Inspection (PSI) programmes are provided by FTS to client governments to maximise import duty revenues. FTS inspects shipments destined for the client country, in the country of export. The service helps ensure that import duties are properly calculated and paid, and that goods being imported meet the legal requirements of the client country.

FTS inspections are used to confirm the quantity and quality of goods to be shipped. FTS assigns the correct tariff code for the goods, verifies the declared value and certifies the import duties payable. The FTS certificate is needed in order to clear the shipment through customs in the client country. By developing new products and services, the division has expanded the range of value added services provided to customs departments. These include training and consultancy, and software products for risk management and valuation. FTS can also provide client governments with local Customs Support Teams, to provide immediate valuation advice and on-the-job training support.

Exporters of goods to client countries may use FTS certificates as part of the documentation needed to draw down on letters of credit. The FTS certificate also provides importers with a degree of protection against exporters delivering goods which do not meet the importer's specifications or are of low quality.

Technical inspection services are provided to a wide range of industrial clients. The range of inspection, expediting and outsourced project management activities is usually focused on larger engineering plants and projects. The service covers the review of specifications sent to suppliers and technical inspection activities, including the witnessing of tests on finished products and materials.

Description of business

Divisional strategy
FTS focuses on increasing its market share while maintaining both a satisfactory operating margin and a rigorous compliance programme. The division has developed new products and services that can support client customs departments. These services mean that FTS can provide a more comprehensive customs support package to client governments. The division will also work to increase its turnover in standards programmes, building on the success of the Saudi Arabian and Kuwaiti programmes.

FTS is reducing operating costs and improving its service through a project to redevelop its core IT systems. The roll out of new web-based technology will be completed for all FTS offices worldwide during 2004.

Operations
Inspection requirements typically involve verification of shipment quantity, quality, product specification and value. As well as its own full time inspectors, FTS uses the services of sub-contractors around the world who operate on a pay-per-job basis, minimising the fixed cost of FTS' worldwide inspection capability.

Geographic coverage
FTS has 47 offices worldwide and its head office is located in the United Kingdom.

Customers
FTS' customers include the Saudi Arabian Standards Organisation and the governments of Bangladesh, Ecuador, Egypt, Iran, Kuwait, Malawi, Mexico, Mozambique, Nigeria, Rwanda, Venezuela and Uzbekistan. These customers represented about 87% of the division's turnover in 2003.

In any given year, approximately 50% of FTS' contracts (by number) are scheduled for renewal. FTS manages the renewal of contracts through its relationship managers for each major contract. The SASO contract is automatically renewed annually unless three months notice of termination is given by SASO each year. The contract with SASO is expected to continue in its present form until at least 31 August 2004. After that, the Saudi Arabian authorities have confirmed that a new contract is being planned which is expected to include more local testing in Saudi Arabia.

In 2003, the government of Kenya cancelled its contract with FTS. The Nigerian PSI programme was suspended towards the end of 2003, but restarted after a short period. The future of this contract, which is significant to the FTS division, is being discussed with the Nigerian authorities.

About 45% of FTS' turnover is generated by contracts where FTS is paid by the client government. FTS has in the past, and may in the future, experience delays in receiving payment for its services from certain governments. Where this occurs, FTS may seek to obtain payment from the exporter, who is then reimbursed once payment is received from the government concerned.

Market and competition
Four companies dominate the PSI market. The high cost of entry caused by the requirement to have an extensive worldwide inspection and pricing network creates a barrier to newcomers. Based on the number of programmes in existence and FTS' knowledge of the main competitors, FTS has approximately 16% of the PSI market with 70% held by three competitors.

There are currently four major standards programmes in the world, three in the Middle East and one in the Russian Federation. Intertek operates two of the contracts in the Middle East.

Employees
At 31 December 2003, FTS had 929 employees and approximately 1,200 sub-contractors.

CENTRAL FUNCTIONS
Intertek operates a decentralised structure where the majority of support functions are provided at the level of the individual divisions and are co-ordinated and monitored by the Group head office. The operating divisions have financial, human resources, information technology and compliance personnel who report to their respective divisional directors. In addition to providing central support to these specialist areas, the Group's head office is responsible for centralised functions such as group finance, treasury, tax, group information technology, compliance and company secretarial services.

The Company's corporate head office is in London, United Kingdom and consists of 34 people. In addition, there are a total of 6 head office employees based in the United States.

Operating and financial review

REVIEW OF RESULTS FOR 2003

Overview

Turnover for the Group was £471.1m, an increase of 6.4% over the previous year at constant exchange rates. Each of the four operating divisions reported increased turnover in the year. At actual exchange rates, the reported increase was 2.2%.

Total operating profit before goodwill amortisation and operating exceptional items, improved by £3.8m over the previous year to £76.2m which was 5.2% higher at constant exchange rates. At actual exchange rates, reported operating profit was 0.9% lower than last year. Labtest had an excellent year and delivered 17.9% growth in operating profit at constant rates. Caleb Brett and ETL SEMKO operating profits declined by 14.3% and 9.0% respectively. Market conditions were difficult in these sectors and both divisions have been restructured to improve effectiveness and reduce costs. Operating profits from FTS rose by 6.3%, the increase coming mainly from efficiency improvements and the release of bad debt provisions no longer required.

The Group made two small acquisitions in the UK towards the end of the year, which cost £7.6m in total. These did not have a significant effect on the results for the year but will benefit Labtest and ETL SEMKO going forward. In May 2003, the Group disposed of its interest in a Labtest company operating in China for a net consideration of £6.6m. This generated turnover of £1.9m and operating profit of £0.3m to the date of sale, compared to full year turnover of £5.6m and operating profit of £1.3m in 2002. Excluding these acquisitions and disposal, at constant exchange rates, turnover grew by 7.2% and operating profit grew by 6.5%. At actual exchange rates, turnover grew by 3.0% and operating profit increased by 0.4%.

About 80% of the Group's results are denominated in US dollars or currencies linked to the US dollar. The strength of sterling against the US dollar and related currencies during 2003, had a significant negative impact on the results of the Group. In order to give a like-for-like comparison of the Group's results for 2003 with 2002, the reported results for 2002 have been retranslated into sterling using the 2003 average exchange rates. The impact of this retranslation was to reduce 2002 turnover and operating profit by £18.5m and £4.5m respectively. The figures at constant exchange rates are shown in the table below and in the discussion that follows.

The Group's operating margin after central overheads declined slightly from 16.4% to 16.2%, with increases in Labtest and FTS offset by declines in Caleb Brett and ETL SEMKO. The performance of each of the divisions at constant exchange rates with an adjustment to actual exchange rates is shown below:

Financial performance at 2003 constant exchange rates

	Turnover			Total operating profit[2]		
	2003 £m	2002 Restated[3] £m	Change %	**2003 £m**	2002 Restated[3] £m	Change %
Labtest	**130.8**	111.1	17.7	**42.8**	36.3	17.9
Caleb Brett	**169.6**	166.5	1.9	**13.2**	15.4	(14.3)
ETL SEMKO	**111.6**	106.0	5.3	**14.2**	15.6	(9.0)
Foreign Trade Standards	**59.1**	59.0	0.2	**11.9**	11.2	6.3
Central overheads	**–**	–	–	**(5.9)**	(6.1)	3.3
Continuing operations at constant exchange rates[1]	**471.1**	442.6	6.4	**76.2**	72.4	5.2
Exchange rate adjustment	**–**	18.5		**–**	4.5	
As reported at actual average exchange rates	**471.1**	461.1	2.2	**76.2**	76.9	(0.9)

1. 2003 and 2002 figures are stated at average exchange rates for 2003.
2. Total operating profit is stated before goodwill amortisation and exceptional items – see note 2 to the financial statements.
3. In 2003, inspection of electronic and electrical goods was transferred from Labtest to ETL SEMKO. The 2002 figures have been restated to reflect this change. In 2003, at constant exchange rates, this business generated turnover of £6.7m (2002: £5.4m) and operating profit of £3.0m (2002: £2.3m).

Operating and financial review

REVIEW OF 2003 DIVISIONAL PERFORMANCE

Operating profit referred to in the discussion below is total operating profit before goodwill amortisation and operating exceptional items.

Labtest

Labtest continued to perform very strongly. At constant exchange rates, Labtest's turnover increased by 17.7% to £130.8m and operating profit increased by 17.9% to £42.8m. At actual exchange rates, reported turnover and operating profit growth was 10.8% and 9.5% respectively. 90% of the operating profits of the division are generated in Asia where the main drivers of the Labtest business continued to be strong. Textile testing, toy testing, inspection and social compliance audit continued to perform well. Retailers in the Americas and Europe increased their sourcing from Asia, particularly China, where turnover from ongoing businesses grew strongly and accounted for about 11% of the division's total turnover in 2003. In May 2003, the Group sold its 50% shareholding in a systems certification business operating in China, to the other 50% shareholder. In 2003 up to the date of disposal, this business contributed £1.9m to turnover (2002: £5.6m) and £0.3m to operating profit (2002: £1.3m). This disposal allows Labtest to develop its systems certification business within a wholly owned subsidiary of the Group. The division's operating margin at constant exchange rates, remained at 32.7%. Excluding the disposal and a small acquisition made towards the end of 2003, at constant exchange rates, Labtest's turnover grew by 21.6% and operating profit grew by 20.9%.

Caleb Brett

At constant exchange rates, turnover increased by 1.9% to £169.6m but operating profit declined by 14.3% to £13.2m. At actual exchange rates, reported turnover and operating profit declined 1.9% and 19.0% respectively. The traditional and slow growth cargo inspection and testing market, accounted for 75% of the turnover in 2003 (2002: 77%). This part of the business operated in a competitive market and some market share was lost to competitors. The oil and chemical markets were depressed with stocks at record lows.

The main growth opportunity continued to be outsourced testing. At constant exchange rates, turnover from outsourcing grew by 8.6% and several new contracts were won during the year which will benefit future turnover. This business accounted for approximately 25% of the division's total turnover, up from about 23% in 2002. Caleb Brett's operating margin at constant exchange rates, declined from 9.2% to 7.8%, mainly due to excessive costs in Europe and the United States in the cargo inspection business.

The structure and senior management of the division were changed during the year to reduce costs and facilitate the development of global outsourcing.

ETL SEMKO

At constant exchange rates, ETL SEMKO's turnover increased by 5.3% to £111.6m but operating profit decreased by 9.0% to £14.2m. At actual exchange rates, reported turnover increased by 1.0% and reported operating profit declined by 13.4%. Asia continued to perform strongly and accounted for 28% of the division's total turnover, up from 23% in 2002, and 56% of its operating profit, up from 38%. Growth was mainly due to increased safety testing of household appliances manufactured in Asia for export to North America and Europe and the extension of the range of products tested. The laboratory facilities in China were expanded, particularly in Guangzhou and Shanghai. Markets in Europe and the Americas showed little or no growth. Marketing the ETL mark to retailers in the United States did not have a positive impact on results in 2003, because the operating profit from the new business did not cover the extra promotional costs.

The division's operating margin at constant exchange rates decreased from 14.7% to 12.7%, mainly due to excessive overhead costs in Europe and the United States. These costs were reduced at the end of the year when the senior management of ETL SEMKO was combined with the FTS division to improve efficiency and further reduce overheads.

Foreign Trade Standards

At constant exchange rates turnover increased by 0.2% to £59.1m and operating profit increased by 6.3% to £11.9m. At actual exchange rates, reported turnover declined by 1.2% and operating profit increased by 5.3%. The operating margin at constant exchange rates, increased from 19.0% to 20.1%. During the year FTS gained a standards contract with the government of Kuwait and pre shipment inspection (PSI) programmes with the governments of Venezuela and Malawi. The Kenyan government cancelled its PSI programme half way through the year and FTS was not appointed under the new programme. The Nigerian PSI programme was suspended towards the end of 2003, but restarted after a short period. The future of this contract, which is significant to the division, is being discussed with the Nigerian authorities. The contract with the Saudi Arabian Standards Organisation is expected to continue in its present form until at least 31 August 2004. After that, the Saudi Arabian authorities have confirmed that a new contract is being planned which is expected to include more local testing in Saudi Arabia. The division was restructured at the end of 2003 with the Chief Executive of FTS taking on additional responsibility for the ETL SEMKO division to maximize synergies between the two divisions and to reduce overheads.

Central overheads
Central overheads at constant exchange rates, reduced by 3.3% to £5.9m in the year.

OPERATING EXCEPTIONAL ITEMS
The Group reported a net exceptional operating charge of £1.1m in 2003 (2002 credit: £15.6m). The charge comprised costs of £6.5m incurred in connection with the restructuring of the Caleb Brett, ETL SEMKO and FTS divisions, offset by a credit of £2.8m for the release of FTS debt provisions and a credit of £2.6m for insurance recoveries related to the Environmental Testing division which was discontinued in 1998.

NON OPERATING EXCEPTIONAL ITEMS
The Group reported net non operating exceptional income of £4.5m (2002: £nil). This comprised a profit of £5.5m from the disposal of the Group's interest in a Labtest company in China and a loss of £1.0m on the disposal of a trade investment held by Caleb Brett.

INTEREST
The Group's net interest charge before exceptional items for the year was £7.9m compared to £22.5m in 2002. Last year's charge comprised six month's interest on pre-flotation debt and six month's interest on a lower level of post-flotation debt. The annual charge on the post-flotation debt for 2002 would have been approximately £10.5m. The charge for 2003 was reduced due to the part repayment of debt and lower interest rates.

The Group incurred an exceptional finance charge of £15.5m in 2002, which comprised bond redemption fees of £7.2m and accelerated fee amortisation of £8.3m.

PROFIT BEFORE TAX
Profit before tax was £70.6m compared to £53.9m in 2002, mainly due to lower interest costs in 2003.

TAXATION
Tax on profit before exceptional items was £18.7m, £2.7m higher than last year but the effective tax rate before exceptional items reduced from 29.7% to 27.8%. The main reason for the reduction in the effective tax rate was improved utilisation of the reduced interest expense which resulted from the reorganisation of the Group's capital structure following the IPO. The effective tax rate is expected to be sustainable at close to the current year level in the short to medium term.

The tax impact from the exceptional items was a net charge of £0.1m. This comprised a tax charge of £0.8m on income generated by the release of debt provisions and tax relief of £0.7m on restructuring costs.

NET PROFIT
Net profit after tax and exceptional items was £51.8m compared to £37.9m last year.

MINORITY INTERESTS
Profit attributable to minority shareholders reduced from £4.3m in 2002 to £3.7m in 2003, primarily due to the Group's disposal of its interest in a Labtest company in China.

EARNINGS PER SHARE
As set out in note 10 to the financial statements, basic earnings per share in the year were 31.3p (2002: 27.2p). An adjusted earnings per share calculation is also shown which removes the impact of exceptional items and goodwill amortisation to give underlying basic earnings per share of 29.8p (2002: 27.8p).

DIVIDEND
An interim dividend of 2.9p per share (2002: nil) was paid on 18 November 2003. A final dividend of 5.9p per share (2002: 5.2p) has been proposed, which subject to shareholder approval, will be paid on 18 June 2004, to shareholders on the Register at 4 June 2004. This makes a full year dividend of 8.8p per share. Last year only a final dividend of 5.2p was paid, being the first dividend since flotation. Based on a one third, two thirds dividend split for interim and final dividends respectively, this was equivalent to an annual dividend of 7.8p per share. On this basis the 2003 annual dividend is 12.8% higher than the equivalent annual dividend last year and is covered 3.3 times by earnings before exceptional items.

SHAREHOLDERS' DEFICIT
The net profit after minority interests for 2003 of £48.1m (2002: £33.6m) was reduced by dividends of £13.6m (2002: £8.0m). Shareholders' deficit reduced by £47.5m in the year, mainly due to retained profits of £34.5m (2002: £25.6m), favourable foreign exchange movements taken through reserves of £10.2m (2002: £6.5m) and an actuarial gain on the pension funds of £1.6m (2002: £6.5m deficit). At the end of 2003, shareholders' funds were in deficit by £43.0m compared to a deficit of £90.5m at 31 December 2002. The deficit arises principally from the write off of goodwill in 1996 when the Group was purchased from its former owners. This amounted to £244.1m at 31 December 2003. Excluding this historic goodwill write off, shareholders' funds would show a surplus of £201.1m at 31 December 2003.

CASH FLOW
Total operating cash inflow was £80.0m in the year, down £17.4m on last year. The decrease was due to exceptional cash outflow of £6.0m in 2003, compared to exceptional cash inflow of £13.6m in 2002. Excluding exceptional cash flows, cash generated by operations was £86.0m (2002: £83.8m).

The Group made some small acquisitions in 2003 for a net cash consideration of £7.5m and generated £6.6m from disposals.

Operating and financial review

ACCOUNTING POLICIES

The accounting policies of the Group remain unchanged from last year.

FUTURE UK ACCOUNTING DEVELOPMENTS

For reporting periods beginning on or after 1 January 2005, the consolidated accounts of the Group must comply with International Financial Reporting Standards (IFRS). The International Accounting Standards Board (IASB), which develops and issues IFRSs, has significant ongoing projects that could affect the differences between current UK GAAP and IFRS. The Group is considering the potential impacts on the consolidated financial statements of the adoption of IFRS but the actual impacts will depend on the standards applicable and the particular circumstances prevailing on adoption of IFRS on 1 January 2005.

TREASURY CONTROLS

Policy

The Group's treasury and funding activities are undertaken by a centralised treasury function. Its primary activities are to manage the Group's liquidity, funding and financial risk, principally arising from movements in interest rates and foreign currency exchange rates. The Group's policy is to ensure that adequate liquidity and financial resource is available to support the Group's growth and development while managing these risks. The Group's policy is not to engage in speculative transactions. Group Treasury operates as a service centre within clearly defined objectives and controls and is subject to periodic review by internal audit.

Foreign currency exposure

Translation exposure: the results of the Group's overseas activities are translated into sterling using the cumulative average exchange rates for the period concerned. The balance sheets of overseas subsidiaries are translated at closing exchange rates.

The Group's borrowings are principally denominated in US dollars and HK dollars.

Transaction exposure: the Group's policy requires overseas subsidiaries to hedge all significant transaction exposures with Group Treasury where they are managed centrally. Subsidiaries' transaction exposures include committed foreign currency sales and purchases together with the anticipated transactions reasonably expected to occur during future periods. The Group's policy is also to hedge transaction exposures arising from the remittance of overseas dividends and interest as soon as they are committed. Committed transaction exposures are hedged forward using forward currency contracts.

Interest rate risk and exposure

The Group's policy is to maintain an appropriate balance of fixed and variable rate debt to minimize interest expenses while managing interest rate exposure. This balance will be periodically adjusted on the basis of prevailing and anticipated market conditions and the Group's gearing and interest cover, which are monitored by Group Treasury. Approximately 40% of the Group's principal borrowings have been fixed for up to three years through interest rate swaps.

Liquidity risk

Group policy is to ensure that projected financing needs are supported by adequate committed facilities. In 2002, the Group arranged a five year £300m multi-currency senior debt facility with a syndicate of banks. £250m was drawn down to repay debt at the time of the IPO and short term liquidity requirements were secured with a £50m committed Revolving Credit Facility. At 31 December 2003, there was £216m of debt outstanding (2002: £241m), the reduction from last year being due to scheduled repayments and foreign exchange adjustments. Apart from £4.2m (2002: £4.9m) which was utilised to support letters of credit and guarantees, the £50m Revolving Credit Facility remained undrawn at 31 December 2003. These facilities are adequate to support the Group's medium term funding requirements. Surplus cash is placed on deposit with short term maturities providing liquidity when required.

Counterparty credit risk

The Group monitors the distribution of cash deposits, borrowings and hedging instruments which are assigned to each of the Group's counterparties and which are subject to periodic review.

LITIGATION

From time to time, the Group is involved in claims and lawsuits incidental to the ordinary course of business, including claims for damages, negligence and commercial disputes regarding inspection and testing and disputes with former employees. The Group is not currently party to any legal proceedings which, based on currently available information, are likely to have a material adverse effect on the financial position of the Group. The following procedures are adopted to minimise both the potential and actual cost to the Group:

- Rigorous compliance policies and procedures;
- A zero tolerance policy;
- Thorough investigation of all incidents which could potentially result in a claim.

Directors' report

The Directors of Intertek Group plc have pleasure in presenting their Annual Report and the audited Financial Statements for the year ended 31 December 2003.

PRINCIPAL ACTIVITIES AND REVIEW OF BUSINESS

The Group's principal activities are the testing, inspection and certification of products and commodities against a wide range of safety, regulatory, quality and performance standards. A review of the Company and its subsidiaries' businesses and likely future developments is given in the Description of business and the Operating and financial review.

On 15 May 2003, the Company changed its name from Intertek Testing Services plc to Intertek Group plc.

DIVIDENDS

An interim dividend of 2.9p (2002: nil) per ordinary share was paid on 18 November 2003. A final dividend of 5.9p (2002: 5.2p) per ordinary share has been proposed, which subject to shareholder approval, will be paid on 18 June 2004, to shareholders on the Register at 4 June 2004.

SHARE CAPITAL

The authorised and issued share capital of the Company, together with details of the movements in the Company's issued share capital during the year, are shown in note 19 to the financial statements.

PURCHASE OF OWN SHARES

The Company is, until the date of the forthcoming Annual General Meeting, generally and unconditionally authorised to buy back a proportion of its own ordinary shares. Although no such purchases have been made to date, pursuant to this authority, the Directors will seek to renew this authority for up to 10% of the Company's issued share capital at the Annual General Meeting to be held on 14 May 2004.

DIRECTORS

The Directors of the Company who served during the year are set out below. Short biographies are set out in the Annual Review.

VE Treves	Non-Executive Chairman
RC Nelson	Chief Executive Officer
W Spencer	Chief Financial Officer
DP Allvey	Non-Executive Director
W Hauser	Non-Executive Director
RE Sayers	Non-Executive Director

W Spencer, DP Allvey and RE Sayers retire by rotation and being eligible, offer themselves for re-election at the forthcoming Annual General Meeting.

Other than employment contracts, none of the Directors of the Company had a material interest in any contract with the Company or its subsidiary undertakings, other than W Hauser who has a consultancy agreement with the Group to provide support to assist the Group in its expansion within Europe. The terms of the Directors' service contracts and the Directors' interests in the shares and options of the Company are disclosed in the Remuneration report on pages 15 to 20.

EMPLOYMENT POLICY

The Group's employment policy is to ensure that all employees are assessed solely in terms of their ability irrespective of their race, religion, colour, age, disability, gender or sexual orientation.

In accordance with the Group's equal opportunities policy, people with disabilities are given the same consideration as others when they apply for jobs. Depending on their skills and abilities, they enjoy the same career prospects as other employees. Where employees become disabled, every effort will be made to retain them in their current role or to explore possibilities for retraining or redeployment within the Group. Where necessary, the Group aims to provide such employees with facilities, equipment and training to assist them in doing their jobs.

The Company is committed to offering its key employees the opportunity to align themselves more closely with the interests of shareholders and the Company's performance, through the ownership of the Company's shares. The Company operates two share option schemes for key employees and details are contained in the Remuneration report.

The health and safety of the Group's employees is a matter of primary concern. Accordingly, it is the Group's policy to manage its activities so as to avoid any unnecessary or unacceptable risks and to have in place procedures that conform to best practice in this area.

A small number of the Group's employees are members of trade unions and work councils, mostly in continental Europe. The Group communicates regularly with the union representatives and aims to maintain good labour relations with all its employees.

POLICY AND PRACTICE ON PAYMENT OF SUPPLIERS

The Group does not follow any code or standard on payment practice but has a variety of payment terms with its suppliers. Payment terms are agreed at the commencement of business with each supplier and it is the policy of the Group that payment is made accordingly, subject to the terms and conditions being met. The Company has no trade creditors.

Directors' report

SUBSTANTIAL SHAREHOLDINGS
As at 1 March 2004, the Company has been notified in accordance with sections 198 to 210 of the Companies Act 1985, that the following were interested in 3% or more of the Company's ordinary share capital:

	Number of shares	Percentage
Deutsche Bank AG	23,041,819	14.95%
FMR Corp. and Fidelity International Ltd	22,661,794	14.70%
Prudential plc	8,612,625	5.59%
Axa S.A.	8,514,218	5.52%
Lazard Asset Management	6,881,140	4.46%
Legal & General Group plc	5,401,647	3.50%

Save for the above, no other person has reported an interest, which is notifiable under the Companies Act 1985, being an interest of 3% or more in the Company's issued ordinary share capital.

CORPORATE GOVERNANCE
The Group's statement of corporate governance is set out on pages 21 to 24 of this Annual Report and Accounts.

CHARITABLE AND POLITICAL DONATIONS
The Group made no political or charitable donations during the year.

AUDITORS
The auditors, KPMG Audit Plc, have indicated their willingness to continue in office and a resolution that they be reappointed will be proposed at the forthcoming Annual General Meeting.

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 and of the profit or loss 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, subject to any material departures disclosed and explained in the financial statements; and
- 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 keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

ANNUAL GENERAL MEETING
The Notice of the Annual General Meeting to be held on Friday 14 May 2004, is enclosed with this Annual Report and Accounts. The Notice details the business to be conducted at the meeting.

By order of the Board

F EVANS
Group Company Secretary

8 March 2004
Registered Office
25 Savile Row
London
W1S 2ES

Registered Number: 4267576

Remuneration report

This report sets out the Group's policy and disclosures in relation to Directors' remuneration for the year ended 31 December 2003.

The Group has applied the Principles of Good Corporate Governance relating to the remuneration of its Directors and this report outlines how the Group has complied with the provisions of The Combined Code annexed to the Listing Rules.

REMUNERATION COMMITTEE

The Remuneration Committee determines, on behalf of the Board, the Company's policy on the remuneration of Executive Directors and senior management. The Committee determines their total remuneration packages, including any compensation on termination of office. The Committee also provides advice and consults with the Chief Executive Officer on major policy issues affecting the remuneration of senior executives. To ensure that the Group's remuneration practices are market competitive, the Remuneration Committee takes advice from various independent sources. The Committee met seven times during 2003.

The Remuneration Committee is comprised exclusively of the following independent Non-Executive Directors of the Company.

DP Allvey (Chairman)
RE Sayers
VE Treves

The Committee members have no personal financial interest, other than as shareholders, in the matters to be decided. No director plays a part in any discussion about his or her own remuneration. They give due regard to the interests of shareholders and the requirements of the Listing Rules and associated guidance. The Committee appointed and has taken independent advice from The Hay Group Management Ltd (Hay Group), a leading firm of remuneration consultants, to help achieve its objectives.

The Board, with the support of external professional advice, determines the remuneration of the Non-Executive Directors.

REMUNERATION POLICY

The Committee's policy is to attract, retain, motivate and reward high calibre individuals to ensure the future success of the business and to deliver shareholder value. It sets the terms of service contracts and any changes to the terms of employment of the Executive Directors. The Committee therefore has regard to the following objective:

The maintenance of a competitive package of pay and benefits, commensurate with comparable packages of pay and benefits provided by other companies of comparable size and complexity in the industry and services group of the FTSE 250 index. The base salary is targeted at the market median whilst for superior performance the total package of salary and bonus is aimed at the top quartile.

The Company anticipates that its policy for 2004 and for the foreseeable future will remain the same.

EXECUTIVE DIRECTORS

Base salary

The base salary for each Executive Director is set by the Remuneration Committee taking into account both the performance and experience of the individual and information from external advisors with respect to comparator components. Consideration is given to remuneration levels in the Group when determining Executive Directors' pay.

Performance bonuses

The Executive Directors and senior executives are eligible for annual incentive payments for the achievement of annual financial and strategic goals of the Group and its businesses. The financial targets are derived from the strategic planning process for the Group and its businesses which is the cornerstone of the Group's results culture. During 2003, bonus targets focused on profit growth, the delivery of cash, increasing shareholder return and the achievement of individual strategic objectives. For the Executive Directors these were based on the measure of achievement for Earnings before Interest, Tax and Amortisation (EBITA), cash flow to EBITA, and Group Earnings per Share (EPS). RC Nelson and W Spencer are entitled to receive bonus payments of up to 70% and 50% respectively of base salary. Targets are established and approved by the Remuneration Committee. Bonuses are not pensionable.

Pensions

W Spencer participates in the Company's UK final salary pension scheme on the same basis as other eligible employees. RC Nelson has a private pension scheme and contributions made to this scheme by the Group are governed by Inland Revenue contribution limits.

NON-EXECUTIVE DIRECTORS

The Board, with the assistance of Hay Group, determines the remuneration of the Non-Executive Directors of the Company. On the recommendation of Hay Group their remuneration increased with effect from 1 April 2003, as disclosed in the notes to the Directors' remuneration summary on page 17. Such remuneration is neither pensionable nor eligible for annual incentive payments. The Non-Executive Directors are not allowed to participate in the share option schemes. Other than VE Treves, who has the benefit of a company car, no other benefits in kind are provided.

Remuneration report

SERVICE CONTRACTS

Details of the service contracts currently in place for Directors who have served during the year are as follows:

Executive Directors

The service contracts of both Executive Directors are dated 24 May 2002, and are twelve month rolling contracts terminable by either party on twelve month's notice. Both contracts contain provisions by way of compensation for loss of office, limited to payment of salary over a twelve month period, pro-rated bonus, and benefits in lieu of notice.

Non-Executive Directors

The Non-Executive Directors do not have service contracts with the Company. The letter of engagement for each Non-Executive Director states that they are appointed for an initial period of three years. At the end of the initial period the contract may be renewed for a further period if the Company and the Director agree. W Hauser has a consultancy agreement with the Company, the details of which are disclosed in note 31 to the financial statements.

POLICY ON EXTERNAL APPOINTMENTS

The Company recognises that, during their employment with the Company, Executive Directors may be invited to become Non-Executive Directors of other companies and that such duties can broaden their experience and knowledge. Executive Directors may, with written consent of the Company, accept one such directorship outside the Company. At the date of this report, no such appointments have been made.

SHARE OPTIONS

The Company believes that share ownership by employees is an integral part of its programme to incentivise, reward and retain employees as it strengthens the link between the employee's personal interest and that of the shareholders and enables them to benefit in the growth of the Company. In order to encourage share ownership, the Company established a share option scheme for senior management in March 1997. The 1997 scheme has now been discontinued and replaced by the Intertek Group plc 2002 Share Option Plan (the 2002 Plan) and the Intertek Group plc 2002 Approved Share Option Plan (the Approved Plan) on 9 May 2002. Options are granted by either the Board or the Employee Share Ownership Trust on the recommendation of the Remuneration Committee. Such awards are discretionary.

The 2002 Plan

Only Executive Directors or employees of the Group are eligible to participate in the 2002 Plan. The exercise price is determined by the average of the closing middle market quotations of an ordinary share in the Company on the five dealing days immediately prior to the date of grant and the options are exercisable between three and ten years after the date of grant, provided the performance condition has been satisfied. The Remuneration Committee will decide whether the performance condition has been met at the appropriate time.

Options are granted annually and each tranche is based on approximately 1% of the Company's issued share capital. Individuals are limited each year from being granted options with a value of not more than their annual base salary. The options are subject to performance criteria unless there are regulatory or legal difficulties in jurisdictions where the employee is based. The performance condition requires that the growth in the Company's EPS outperforms the growth in the UK Retail Prices Index (RPI) by a minimum of 5% per annum over a three year period. If the condition is met, 25% of the options become exercisable. If the growth rate is 8% then 66 2/3% of options become exercisable. 100% of the options would only become exercisable if the Company's growth in EPS outperformed the growth in the UK Retail Prices Index by 11% per annum over a three year period. For growth rates between 5% and 8%, and 8% and 11%, the percentage of options exercisable is calculated on a sliding scale. If the performance targets are not met in full for the initial performance period of three years, the performance period is extended by one further period of twelve months, to ascertain whether the balance of the unvested options can be exercised. The above performance criteria were selected to closely link improvement in performance with increase in shareholder value.

Senior executives are required to retain up to 25% of their shares acquired upon the exercise of their options (ignoring shares sold to meet any tax liability, financing cost on exercise or in the case of hardship), for a period of up to two years following exercise, in order to demonstrate their commitment to the Group.

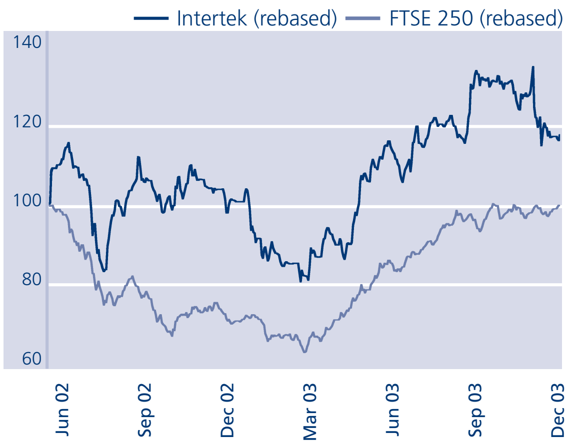
The Approved Plan

The key features of the Approved Plan (which has been approved by the Inland Revenue) are broadly the same as for the 2002 Plan except that options are granted subject to the requirement that the aggregate exercise price of all the subsisting options granted to an employee under the Approved Plan must not exceed £30,000.

The Company does not operate any long term incentive schemes other than the share option schemes described above. No significant amendments are proposed to be made to the terms and conditions of any entitlement of a Director to share options.

PERFORMANCE GRAPH

Intertek share price and FTSE 250 share price index (rebased to 100 at 24 May 2002).



The graph (opposite), shows the movement in share price since the Company's flotation on 24 May 2002, as compared with the performance of the FTSE 250 index. The FTSE 250 index was selected as it is a broad market index of which the Group is a member. In addition, the Group uses that group of companies, amongst others, for comparison of pay and benefit levels.

The auditors are required to report on the information contained in this section of the Remuneration report.

The table below summarises Directors' emoluments and pension contributions for the full year 2003 and from the date of their appointment as Directors of Intertek Group plc (formerly Intertek Testing Services plc) to the end of 2002. To provide a comparison with 2003, the 2002 figures have also been stated on a pro-forma basis, as if the Directors had been Directors of Intertek Group plc throughout the same period as they were Directors of the previous parent company, Intertek Testing Services Limited.

No payments for loss of office were made during the year and no other awards were made to any Director.

DIRECTORS' REMUNERATION SUMMARY

		2003						2002			2002 Pro-forma		
		Base salary and fees £000	**Bonuses £000**	**Benefits in kind £000**	**Total emolu-ments £000**	**Pension contri-butions £000**	**Total £000**	Total emolu-ments £000	Pension contri-butions £000	Total £000	Total emolu-ments £000	Pension contri-butions £000	Total £000
Executive Directors													
RC Nelson		**342.5**	**178.9**	**88.3**[5]	**609.7**	**162.0**	**771.7**	414.9	86.4	501.3	562.7	269.2	831.9
W Spencer		**180.0**	**72.0**	**14.0**	**266.0**	**11.3**	**277.3**	164.0	7.3	171.3	221.6	9.1	230.7
Non-Executive Directors													
VE Treves	1	**75.0**	**–**	**11.9**	**86.9**	**–**	**86.9**	49.3	–	49.3	75.5	–	75.5
DP Allvey	2	**27.5**	**–**	**–**	**27.5**	**–**	**27.5**	12.8	–	12.8	20.0	–	20.0
RE Sayers	3	**25.6**	**–**	**–**	**25.6**	**–**	**25.6**	15.0	–	15.0	15.0	–	15.0
W Hauser	4	**25.0**	**–**	**–**	**25.0**	**–**	**25.0**	4.2	–	4.2	4.2	–	4.2
Total		**675.6**	**250.9**	**114.2**	**1,040.7**	**173.3**	**1,214.0**	660.2	93.7	753.9	899.0	278.3	1,177.3

1 From 1 April 2003, VE Treves' fees increased from £60,000 to £80,000 per annum plus car allowance.
2 From 1 April 2003, DP Allvey's fees increased from £20,000 to £25,000 per annum plus £5,000 per annum for chairing the Audit and Remuneration Committees.
3 From 1 April 2003, RE Sayers' fees increased from £20,000 to £25,000 per annum plus £2,500 per annum for serving on the Audit and Remuneration Committees.
4 In addition to his Directors' fees, W Hauser received £77,000 (2002: £16,000) under a consultancy agreement with the Group.
5 Benefits in kind for RC Nelson included £50,800 life assurance premium for the policy described on page 18.

BENEFITS IN KIND
The principal benefits in kind for Executive Directors are a company car, private medical and permanent health insurance, life assurance and personal accident insurance. In addition, for the purposes of business entertaining, RC Nelson is provided with club membership and an air ticket for his wife to accompany him on one long distance business trip each year. Benefits in kind for VE Treves comprise a company car.

PENSIONS
The details of the Executive Directors' pension arrangements are detailed below.

RC Nelson
RC Nelson is not a member of a Group company pension scheme. The Group pays contributions directly into his private pension arrangement. The Group contributes to this private pension plan at the greater of:

- Inland Revenue contribution limits allowed under retirement annuity contracts, currently 22.5% of relevant earnings (base salary plus bonus) rising to 27.5% of relevant earnings from age 61; or

- Inland Revenue contribution limits allowed under personal pension schemes (currently 35% of relevant earnings rising to 40% of relevant earnings from age 61) on the maximum earnings on which contributions attract relief, currently £99,000 for 2003/2004 plus 40% of the excess to base salary.

During 2003 the Company made contributions of £162,000 (2002: £269,168) to his pension scheme.

RC Nelson is entitled to a death in service benefit comprising a lump sum payment equivalent to four times his base annual salary. There is also another life assurance policy for £1,000,000 to be maintained for the whole of his life and payable to his beneficiaries on his death.

W Spencer
W Spencer is a member of the Intertek UK Company Pension Scheme. This is a defined benefit occupational pension scheme approved by the Inland Revenue. The main features are:

Normal retirement age	65
Annual pension at normal retirement age	1/60 of final pensionable salary (highest base salary in any twelve month period preceding retirement date) for each year of service. Part can be taken in cash subject to certain limits.
Spouse's or dependent's pension payable on death of member	Half of member's pension.
Early retirement	From age 50 onwards with the consent of the Company and the Trustees, based on accrued entitlement reduced by 4% for each year of retirement prior to age 65.
Pension increases in payment or deferment	The lower of 5% or the increase in the UK Retail Prices Index.
Employee contributions	As determined by the Company and the Trustees: 8% of base salary (excluding incentive payments) from 1 April 2003 and 6% prior to that, up to the earnings cap.
Employer's contributions	As determined by the Company and the Trustees: 12% of base salary (excluding incentive payments) from 1 April 2003 and 10% prior to that, up to the earnings cap.
Ill health or incapacity	In the case of ill health, the pension is calculated as for early retirement but without the 4% reduction. In the case of incapacity the pension is calculated as if pensionable service had continued to normal retirement date.
Death in service	Lump sum of four times pensionable salary.

Details of the accrued pension to which W Spencer is entitled on leaving service, and the changes during the year are shown in the table below:

Name	Age at 31 December 2003	Contributions made during the year £	Increase in accrued entitlement during the year £	Accrued entitlement[1] 2003 £	Transfer value[2] 2002 £	Transfer value[2] 2003 £	Increase in transfer value in year £
W Spencer	44	11,340	1,990	20,350	91,951	128,469	36,518

1 The accrued pension entitlement is the amount that would be paid each year on retirement at 65 based on service to 31 December 2003, excluding the effect of inflation. Transfer values have been calculated in a manner consistent with "Retirement Benefit Schemes – Transfer Values (GN11)" published by the Institute of Actuaries and the Faculty of Actuaries dated 6 April 2001.
2 The transfer values disclosed above do not represent a sum paid or payable to the individual Director. Instead they represent a potential liability of the pension scheme.

TRANSACTIONS WITH DIRECTORS

These are disclosed in note 31 to the financial statements.

DIRECTORS' INTERESTS IN SHARE OPTIONS

Non-Executive Directors are not allowed to participate in the share option schemes. No options were granted to the Executive Directors under the 1997 Plan. Options granted to the Executive Directors under the Approved Plan and the 2002 Plan are shown below:

	31 December 2002 number	Price £	**Options granted during 2003 number**	Price £	**31 December 2003 number**	Date option becomes exercisable	Date option expires
RC Nelson							
Approved Plan	6,864	4.37			**6,864**	May 2005	May 2012
2002 Plan	55,379	4.37			**55,379**	May 2005	May 2012
2002 Plan			**57,939**	3.59	**57,939**	April 2006	April 2013
Total	62,243		**57,939**		**120,182**		
W Spencer							
Approved Plan	6,864	4.37			**6,864**	May 2005	May 2012
2002 Plan	15,466	4.37			**15,466**	May 2005	May 2012
2002 Plan			**21,357**	3.59	**21,357**	April 2006	April 2013
Total	22,330		**21,357**		**43,687**		

Grants of options will be phased, so far as possible, over the ten year life of each of the plans. No Director was eligible to exercise any share options during 2003 and therefore no aggregate gain was made (2002: £nil).

On 31 December 2003, the closing market price of Intertek ordinary shares was 461p. The highest and lowest prices of the shares during the year were 527p and 325.5p respectively.

Remuneration report

DIRECTORS' INTERESTS IN ORDINARY SHARES

The interests of the Directors in the shares of the Company are set out below:

Number of ordinary shares of 1p	31 December 2002	Acquired	Sold	**31 December 2003**
VE Treves	100,000	–	–	**100,000**
DP Allvey	100,000	–	–	**100,000**
RC Nelson	3,632,514	–	1,900,000	**1,732,514**
W Spencer	993,201	–	481,201	**512,000**
RE Sayers	–	1,500	–	**1,500**

Save as stated above, during the course of the year, no Director, nor any member of his immediate family, had any other interest in the ordinary share capital of the Company or any of its subsidiaries. No changes in the above Directors' interests have taken place between 31 December 2003, and the date of this Report.

Approved by the Board on 8 March 2004

DP ALLVEY
Chairman, Remuneration Committee

Corporate governance

The Group is committed to high standards of corporate governance and has throughout the year ended 31 December 2003 complied with The Combined Code annexed to the Listing Rules (the Code). The Board is accountable to the Company's shareholders for good corporate governance and this statement describes how the relevant principles of governance have been applied to the Company.

THE BOARD

An effective Board is in place, which provides entrepreneurial leadership and controls the Group. The Board comprises the independent Non-Executive Chairman VE Treves, the Chief Executive Officer RC Nelson, one other Executive Director, two independent Non-Executive Directors and one other Non-Executive Director. The senior independent Director is DP Allvey. The Directors' biographies appear in the Annual Review on page 18.

The Board is responsible to shareholders for the proper management of the Group. A statement of the Directors' responsibilities in respect of the Annual Report and Accounts is set out on page 14. All Directors have a wide range of experience, bringing independent judgement to bear in the interests of the Company on issues of strategy, performance, resources and standards of conduct, and the Board has the appropriate range of skills, which is vital to the success of the Group.

The Non-Executive Directors have a particular responsibility to ensure that the strategies proposed by the Executive Directors are fully discussed and critically examined, not only in the best long term interests of shareholders, but also to ensure that they take proper account of the interests of employees, customers and suppliers.

To enable them to do this, all Directors have full and timely access to all relevant information. The Board papers are circulated a week before the Board meetings to ensure that Directors have the necessary time to read and review the papers. The Group has identified a number of key areas that are subject to regular reporting to the Board and this enables the performance of management to be reviewed and monitored. There were ten board meetings in 2003 and in between meetings, there is frequent contact to develop the Company's business. During 2003, all Directors were present at every Board meeting. A Board matrix is in place which formally outlines the matters specifically requiring the consent of the full Board and includes, inter alia, the approval of Group strategy, the annual budget, the Annual Report and Accounts, the Interim Report and related announcements, major capital expenditure, the recommendation of dividends and the approval of treasury and risk management policies.

The Board matrix also identifies areas where management can give approval subject to certain financial limits. Where any of the activities involve amounts greater than the limits laid down for management approval they are referred to the full Board.

The authorities in the Board matrix are reviewed regularly and any changes are approved by the Board. The Board matrix is communicated to all senior management to ensure that throughout the Group it is known when Board approval is required.

There is a clear division of responsibilities between the Chairman and the Chief Executive Officer and they have been set out in writing and approved by the Board.

The Board considers VE Treves, DP Allvey and RE Sayers to be independent Non-Executive Directors. W Hauser is not considered to be independent under the provisions of the Code as he has a consultancy agreement with the Company, but the Board believes that nonetheless W Hauser brings valuable expertise to the Board and exercises independent judgement in all decisions.

To ensure that each Director increases his knowledge and becomes more familiar with the Group, every year a conference is held, attended by the Board and senior management from each division and geographic area, to discuss policy and strategy. In 2003, the Board also visited Hong Kong and China to tour some of the Group's facilities and meet local management.

All Directors have access to the advice and services of the Company Secretary who will assist in arranging any additional training as required.

All Directors are entitled to obtain independent professional advice, at the Company's expense, in the performance of their duties as Directors. No such advice was sought during the year.

A new annual performance evaluation process has been established for each Director, Committee and the Board as a whole. The first evaluation is due to take place towards the end of 2004.

The Non-Executive Directors fulfill a vital role in corporate accountability. The memberships of the three relevant Board Committees are set out below.

THE AUDIT COMMITTEE

This Committee comprises three independent Non-Executive Directors, DP Allvey (Chairman), RE Sayers and VE Treves. DP Allvey has recent and relevant financial experience as detailed in his biography on page 18 of the Annual Review.

The Committee has responsibility for, amongst other things, the planning and review of the Group's Annual Report and Accounts and the Interim Report and the involvement of the Group's auditors in that process, focusing particularly on compliance with legal requirements, accounting standards and the rules of the UK Listing Authority and ensuring that an effective system of internal and risk management controls is maintained.

Corporate governance

The Group's auditors, Chief Executive Officer, Chief Financial Officer, Vice President Financial Control, Vice President Compliance and the Head of Internal Audit, usually attend Committee meetings. The Group's auditors meet with the members of the Audit Committee alone at least once a year. The Audit Committee seeks to ensure the continued independence and objectivity of the Group's auditors and in this regard, monitors the level of non audit work undertaken for the Group. A breakdown of the audit and non audit fees paid to the Group's auditors during the year is set out in note 3 to the financial statements.

The ultimate responsibility for reviewing and approving the Annual Report and Accounts and the Interim Report remains with the Board. During 2003, the Audit Committee met four times and all members were present at every meeting.

THE REMUNERATION COMMITTEE

This Committee comprises three independent Non-Executive Directors, DP Allvey (Chairman), RE Sayers and VE Treves. The Committee has responsibility for making recommendations to the Board on the Group's policy for the remuneration of the Executive Directors and senior executives and for the determination, within agreed terms of reference, of additional benefits for each of the Executive Directors, including pension rights and any compensation for loss of office. The Committee is also responsible for the implementation and operation of employee share schemes. During 2003, the Remuneration Committee met seven times and all members were present at every meeting.

THE NOMINATION COMMITTEE

This Committee comprises three independent Non-Executive Directors, VE Treves (Chairman), DP Allvey and RE Sayers. This Committee, which normally meets at least once a year, nominates candidates to fill board vacancies, reviews succession planning and makes recommendations to the Board on the balance and composition of the Board. The Committee will appoint an external search firm when considering new possible candidates to act as Directors to ensure a formal, rigorous and transparent appointment process.

A job description is prepared for any new Board position and when a Non–Executive Director is appointed, the Committee will ensure that he or she has confirmed that they have sufficient time to fulfill the commitments of the role. A formal induction programme has been established for new Directors and this will be tailored to suit the individual. All new Directors are subject to election by shareholders at the first annual general meeting after their appointment and then are subject to re-election by shareholders once every three years.

The policy on Directors' service contracts is set out in the Remuneration report.

All the above Committees operate in accordance with the relevant terms of reference as approved by the Board. Copies of the terms of reference for each of these Committees are available on request from the Secretariat Department at the registered office or can be downloaded from **www.intertek.com**.

INTERNAL CONTROL

The Directors are ultimately responsible for establishing and maintaining the Group's system of internal control and for reviewing its effectiveness. However, such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable assurance against material mis-statement or loss.

The Board can confirm that there is an ongoing process for identifying, evaluating and managing the significant risks to the Group's short and long term value, including those arising from social, environmental and ethical matters. This process has been in place for the year under review and up to the date of approval of the Annual Report and Accounts, and is regularly reviewed by the Board and accords with the Turnbull Guidance. No material breaches of any such policies were identified during the year. In carrying out the risk review the Board is satisfied that it received adequate information from operations around the world. Training is provided to Directors on these matters where necessary.

The Audit Committee has reviewed the effectiveness of the system of internal control. In particular, it has reviewed and continues to seek to improve the process for identifying and evaluating the significant risks affecting the business and the policies and procedures by which these risks are managed. This has been reinforced by the adoption of a Code of Ethical Business Conduct, approved by the Board, which provides practical guidance and instruction for staff. A copy of this Code is available on **www.intertek.com**. The Group operates a zero tolerance policy in regard to breaches of ethics and employees are required to sign a certificate confirming their understanding that any breaches of the Group's code of ethics will result in disciplinary action that may include dismissal of the employee concerned. To support Group policies there is an independent e-mail and telephone hotline so that staff may report anonymously any inaccurate or unethical working practices. The telephone hotline is managed by an independent third party.

In carrying out its review, the Audit Committee endeavours to ensure that the Group has in place the most appropriate and effective controls, checks, systems and risk management techniques so as to be in line with best practice on such matters.

Each operating division is responsible for the identification and evaluation of significant risks applicable to that area of business together with the design and operation of suitable internal controls. These risks are assessed on a continual basis and may be associated with a variety of internal or external sources including control breakdowns, disruption of information systems, competition, natural catastrophe and regulatory requirements.

A process of control self-assessment and hierarchical reporting has been established which provides a documented trail of accountability. These procedures are applied across Group operations and provide for continuing assurances to be given at increasingly higher levels of management and finally, to the Board. This process is facilitated by Internal Audit which also provides a degree of assurance as to the operation and validity of the system of internal control. Planned corrective actions are independently monitored for timely completion.

Each division reports annually to the Audit Committee via the Vice President Compliance on its review of risks and how they are managed. The Audit Committee's main role is to review, on behalf of the Board, the key risks inherent in the business and the system of controls necessary to ensure such risks are properly managed.

The Vice President Compliance heads a central compliance team, which co-ordinates the quality assurance function, internal audit and claims management. Quality assurance audits are carried out by the divisions and the findings reported to divisional management and to centrally controlled compliance officers who report to the Vice President Compliance. Each division has at least one dedicated compliance officer who undertakes investigations of issues that arise either from quality assurance audits or by other means such as the employee hotline. Reports of significant findings are presented to the Audit Committee. Each geographic region has an internal auditor who is independent of the divisions. The main reporting sites are reviewed annually. The other sites are all reviewed regularly on a schedule based on materiality and risk. Reports of significant findings are presented to the Audit Committee and it monitors and reviews the effectiveness of the internal audit function. The international internal audit department has been awarded ISO 9001: 2000 accreditation, one of the few internal audit teams in the UK to have achieved this standard.

The Group has implemented internal audit systems to facilitate compliance with applicable requirements of the US Foreign Corrupt Practices Act (FCPA), the Office of Foreign Assets Control (OFAC) and the Organisation for Economic Co-operation and Development (OECD) and similar laws and regulations affecting conduct of its business.

The Audit Committee reviews the assurance procedures, ensuring that an appropriate mix of techniques is used to obtain the level of assurance required by the Board.

The Chief Executive Officer also reports to the Board on significant changes in the business and the external environment, which could impact on risk. The Chief Financial Officer provides the Board with monthly financial information, which includes the comparison of the key performance figures against budget and forecasts, risk indicators and compliance with covenants. Where areas for improvement in the system are identified, the Board considers the recommendations made by management and the Audit Committee. The Board approves the treasury policy and that department's activities are also subject to internal audit.

RELATIONS WITH SHAREHOLDERS

Communications with shareholders are given a high priority. The Company produces an Annual Review which is sent to shareholders together with the Annual Report and Accounts. At the half year, an Interim Report is published. The Company also has a website **www.intertek.com** which contains up to date information on the Group's activities and published financial results. Shareholders can subscribe via the Investor Relations section of **www.intertek.com** to receive e-mail alerts of important announcements made by the company.

There is regular dialogue with institutional shareholders including presentations after the Company's Preliminary Announcement of the year end results and at the half year. Any feedback from the institutional shareholders is provided to the Board. The Chairman, Senior Independent Director and other Non-Executive Directors have also attended meetings with institutional shareholders during the year.

The Board views the Annual General Meeting as a valuable opportunity to communicate with private and institutional investors and welcomes their participation. All Board members attend the Annual General Meeting and in particular, the Chairmen of the Audit, Nomination and Remuneration Committees are available to answer questions.

GOING CONCERN

After making enquiries, the Directors have a reasonable expectation that the Group has adequate resources to continue in operation for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the Group's Accounts.

CORPORATE SOCIAL RESPONSIBILITY

The Board recognises that the Group has a responsibility to act ethically in relation to the physical and social environment in which it operates and that failure to do so could adversely impact on the Group's long and short term value, as a result of financial penalty and loss of customer support. It takes such responsibilities seriously paying due regard to international and local laws in all its dealings. The Group provides equal opportunity for its entire staff irrespective of their ethnic or religious background, age, sex, sexual orientation or disability.

Appropriate health and safety measures have been established and are operated throughout the Group. Local compliance officers keep the operation of such measures under regular review. Any incidents are investigated by a central team of specialists, which makes recommendations to avoid a repetition.

The Group actively seeks to provide good employment opportunities and conditions for all staff and it is part of the corporate culture to hire, train and develop employees and managers from local communities.

No use is made of live animals in any of the tests carried out by the Group.

ENVIRONMENTAL MATTERS

There can be the potential for an environmental impact associated with various parts of the business. The Group, however, is committed to preventing any adverse impact on the environment as a result of its operations. The Group's worldwide risk management team is tasked with identifying all such potential risks and introducing procedures to prevent such an occurrence. Use is also made of a third party to carry out a triennial global environmental survey of all group operations to determine whether procedures are being properly implemented and to advise on further precautionary measures. A policy of zero tolerance for non-compliance with such procedures is enforced and regular checks are carried out to ensure compliance.

In certain cases the Group occupies facilities where pollution occurred prior to the Group's use of the site. In each case the Group has implemented remedial works, on the advice of third party specialists, to minimise further damage to the environment.

NEW COMBINED CODE ON CORPORATE GOVERNANCE

The Higgs Report was published in January 2003, which led to the new Combined Code on Corporate Governance (the Revised Code) issued in July 2003. The Revised Code will apply for reporting years beginning on or after 1 November 2003. The Board has reviewed the Revised Code and believes that most of the principles and provisions of good corporate governance contained therein have already been adopted by the Company and are reflected in this statement. The Company will report formally its compliance with the Revised Code in its Annual Report and Accounts for the year ending 31 December 2004.

Group profit and loss account

for the year ended 31 December 2003

	Notes	Pre-exceptional items 2003 £m	Exceptional items 2003 (notes 4&5) £m	Total 2003 £m	Pre-exceptional items 2002 £m	Exceptional items 2002 (notes 4&7) £m	Total 2002 £m
Turnover – continuing operations	2	**471.1**	**–**	**471.1**	461.1	–	461.1
Cost of sales		**(364.2)**	**–**	**(364.2)**	(356.3)	–	(356.3)
Gross profit		**106.9**	**–**	**106.9**	104.8	–	104.8
Administrative expenses		**(31.9)**	**(1.1)**	**(33.0)**	(28.8)	15.6	(13.2)
Goodwill amortisation		**(1.0)**	**–**	**(1.0)**	(0.9)	–	(0.9)
Total administrative expenses		**(32.9)**	**(1.1)**	**(34.0)**	(29.7)	15.6	(14.1)
Group operating profit/(loss)		**74.0**	**(1.1)**	**72.9**	75.1	15.6	90.7
Share of operating profits of associates		**1.2**	**–**	**1.2**	0.9	–	0.9
Total operating profit/(loss)	2	**75.2**	**(1.1)**	**74.1**	76.0	15.6	91.6
Continuing operations		**75.2**	**(3.7)**	**71.5**	76.0	5.9	81.9
Discontinued operations		**–**	**2.6**	**2.6**	–	9.7	9.7
Non operating exceptional items:							
Net profit on disposal of businesses – continuing		**–**	**4.5**	**4.5**	–	–	–
Profit on ordinary activities before interest		**75.2**	**3.4**	**78.6**	76.0	15.6	91.6
Net interest and similar charges	7a	**(7.9)**	**–**	**(7.9)**	(22.5)	(15.5)	(38.0)
Other finance (expense)/income	7b	**(0.1)**	**–**	**(0.1)**	0.3	–	0.3
Profit on ordinary activities before taxation	3	**67.2**	**3.4**	**70.6**	53.8	0.1	53.9
Taxation on profit on ordinary activities	8	**(18.7)**	**(0.1)**	**(18.8)**	(16.0)	–	(16.0)
Profit on ordinary activities after taxation		**48.5**	**3.3**	**51.8**	37.8	0.1	37.9
Attributable to minorities – equity interests		**(3.7)**	**–**	**(3.7)**	(4.3)	–	(4.3)
Profit for the financial year		**44.8**	**3.3**	**48.1**	33.5	0.1	33.6
Dividends	9	**(13.6)**	**–**	**(13.6)**	(8.0)	–	(8.0)
Retained profit for the year		**31.2**	**3.3**	**34.5**	25.5	0.1	25.6
Earnings per share	10						
Basic		**29.1p**	**2.2p**	**31.3p**	27.1p	0.1p	27.2p
Diluted		**29.0p**	**2.1p**	**31.1p**	26.0p	0.2p	26.2p

Balance sheets
at 31 December 2003

	Notes	Group 2003 £m	Group 2002 £m	Company 2003 £m	Company 2002 £m
Fixed assets					
Intangible assets – goodwill	11	**17.8**	12.1	**–**	–
Tangible assets	12	**77.8**	76.7	**–**	–
Investments					
Subsidiaries	13	**–**	–	**263.2**	263.2
Associates	13	**1.2**	0.9	**–**	–
Other	13	**0.1**	1.1	**–**	–
		96.9	90.8	**263.2**	263.2
Current assets					
Stocks	14	**1.4**	1.5	**–**	–
Debtors	15	**105.3**	101.0	**3.7**	0.3
Cash at bank and in hand		**81.5**	70.6	**23.8**	26.2
		188.2	173.1	**27.5**	26.5
Creditors due within one year					
Borrowings	16	**(17.5)**	(15.0)	**–**	–
Other creditors	16	**(92.1)**	(89.6)	**(10.1)**	(8.8)
		(109.6)	(104.6)	**(10.1)**	(8.8)
Net current assets		**78.6**	68.5	**17.4**	17.7
Total assets less current liabilities		**175.5**	159.3	**280.6**	280.9
Creditors due after more than one year					
Borrowings	17	**(196.2)**	(222.5)	**–**	–
Other creditors	17	**(1.4)**	(4.1)	**(23.9)**	(18.8)
		(197.6)	(226.6)	**(23.9)**	(18.8)
Provisions for liabilities and charges	18	**(8.6)**	(8.7)	**–**	–
Net (liabilities)/assets excluding pension liabilities		**(30.7)**	(76.0)	**256.7**	262.1
Pension liabilities	23	**(5.1)**	(7.4)	**–**	–
Net (liabilities)/assets		**(35.8)**	(83.4)	**256.7**	262.1
Capital and reserves					
Called up share capital	19	**1.5**	1.5	**1.5**	1.5
Share premium	20	**232.1**	231.6	**232.1**	231.6
Merger reserve	20	**3.6**	3.6	**–**	–
Other reserves	20	**2.8**	2.8	**–**	–
Profit and loss account	20	**(283.0)**	(330.0)	**23.1**	29.0
Shareholders' (deficit)/funds		**(43.0)**	(90.5)	**256.7**	262.1
Minority shareholders' equity interest	21	**7.2**	7.1	**–**	–
Capital employed - equity		**(35.8)**	(83.4)	**256.7**	262.1

The financial statements on pages 25 to 55 were approved by the Board on 8 March 2004 and were signed on its behalf by:

RC Nelson
Director

W Spencer
Director

Statement of group cash flow

for the year ended 31 December 2003

	Notes	2003 £m	2002 £m
Net cash inflow from operating activities	24	**80.0**	97.4
Dividends received from associated undertakings		**0.7**	0.5
Returns on investments and servicing of finance	25	**(10.1)**	(34.4)
Taxation		**(13.7)**	(12.7)
Capital expenditure and financial investment	25	**(23.6)**	(23.3)
Acquisitions and disposals:			
Cash outflow from acquisitions	25	**(7.8)**	(4.3)
Exceptional cash inflow from disposals	25	**6.6**	–
Equity dividends paid		**(12.5)**	–
Cash inflow before financing		**19.6**	23.2
Financing:	25		
Net issue of shares		**(0.1)**	127.2
Decrease in debt		**(6.8)**	(97.1)
Increase in cash in the year		**12.7**	53.3

Reconciliation of net cash flow to movement in net debt

	Notes	2003 £m	2002 £m
Increase in cash in the year	26	**12.7**	53.3
Decrease in debt	26	**6.8**	97.1
Decrease in net debt resulting from cash flows	26	**19.5**	150.4
Debt issued in lieu of interest payments		**–**	(6.1)
Acquisitions and disposals	26	**0.5**	–
Other non cash movements	26	**(1.0)**	(5.4)
Exchange adjustments	26	**15.7**	11.6
Decrease in net debt in the year		**34.7**	150.5
Net debt at the start of the year		**(166.9)**	(317.4)
Net debt at the end of the year	26	**(132.2)**	(166.9)

Statement of total group recognised gains and losses

	2003 £m	2002 £m
Net profit from group companies	**47.3**	33.0
Net profit from associates	**0.8**	0.6
Profit for the financial year	**48.1**	33.6
Actuarial pension gain/(loss)*	**1.6**	(6.5)
Exchange adjustments	**10.2**	6.5
Total recognised gains and losses relating to the year	**59.9**	33.6

*actuarial pension gain/(loss) is stated net of deferred tax

Reconciliation of movements in shareholders' (deficit)/funds

	Group 2003 £m	Group 2002 £m	Company 2003 £m	Company 2002 £m
Opening shareholders' (deficit)/funds	**(90.5)**	(242.9)	**262.1**	–
Issue of ordinary shares	**0.5**	232.3	**0.5**	338.6
Redemption of preference shares	**–**	(105.5)	**–**	(105.5)
Profit for the financial year	**48.1**	33.6	**7.7**	40.2
Dividends	**(13.6)**	(8.0)	**(13.6)**	(8.0)
Goodwill on disposals	**0.7**	–	**–**	–
Actuarial pension gain/(loss)*	**1.6**	(6.5)	**–**	–
Exchange adjustments	**10.2**	6.5	**–**	(3.2)
Closing shareholders' (deficit)/funds	**(43.0)**	(90.5)	**256.7**	262.1

*actuarial pension gain/(loss) is stated net of deferred tax

Historical cost profits and losses

A note of consolidated historical cost profits and losses is not presented as there is no material difference in either year between the profits of the Group as shown in these accounts and those shown on a historical cost basis.

Notes to the financial statements
for the year ended 31 December 2003

1. ACCOUNTING POLICIES

Basis of preparation

The financial statements have been prepared in accordance with applicable United Kingdom accounting standards and under the historical cost accounting rules.

The Group was created by a group reconstruction whereby, on 24 May 2002, the shareholders in Intertek Testing Services Holdings Limited (ITSHL), formerly Intertek Testing Services Limited, exchanged the whole of their shareholdings in ITSHL in return for shares in a newly formed holding company, Intertek Testing Services plc. The acquisition of ITSHL by Intertek Testing Services plc was accounted for in accordance with the principles of merger accounting as set out in FRS 6: Acquisitions and Mergers and Schedule 4A to the Companies Act 1985. By adopting this accounting treatment the consolidated financial information included in these accounts has been shown as though the parent company had always been the parent company of the Group.

Parent company

Under section 230(4) of the Companies Act 1985 the Company is exempt from the requirement to present its own profit and loss account.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries together with the Group's share of net assets and results of associates, made up to 31 December 2003. New subsidiaries are included from their respective dates of acquisition during the period except where they have been merger accounted. The results of subsidiaries disposed of during the period are included up to the date of disposal.

An associate interest is one in which the Group has a long term interest, usually from 20% to 50% of the equity voting rights, and over which it actually exercises significant influence. The Group's share of the profits less losses of associates is included in the consolidated profit and loss account on the equity accounting basis and the holding value of associates in the Group balance sheet is calculated by reference to the Group's equity in the net assets of such undertakings.

In the Company's financial statements, investments in subsidiaries are stated at cost less provisions for impairment.

Foreign currencies

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction or, if hedged forward, at the rate of exchange under the related forward currency contract. Monetary assets and liabilities of group companies which are denominated in foreign currencies are translated using the contracted rate or the rate of exchange ruling at the balance sheet date and the gains or losses on translation are included in the profit and loss account.

The assets and liabilities of overseas subsidiary undertakings and associated undertakings are translated at the closing exchange rates. Profit and loss accounts of such undertakings are consolidated at the average rates of exchange during the year. Gains and losses arising on these translations are taken to reserves, net of exchange differences arising on related foreign currency borrowings.

Tangible fixed assets and depreciation

Tangible fixed assets are stated at cost less depreciation, which is provided, except for freehold land, on a straight line basis over the estimated useful lives of the assets down to their expected residual value, mainly at the following annual rates:

Freehold buildings and long leasehold land and buildings	2%
Short leasehold land and buildings	term of lease
Plant and machinery	10% to 33.3%

Notes to the financial statements
for the year ended 31 December 2003

1. ACCOUNTING POLICIES CONTINUED

Leases
Assets held under finance leases are treated as if they had been purchased at the present value of the minimum lease payments. This cost is included in tangible fixed assets and depreciation is provided over the shorter of the lease term or the estimated useful life. The corresponding obligations under these leases are included within borrowings. The finance charge element of rentals payable is charged to the profit and loss account to produce a constant rate of interest. Operating lease rentals are charged to the profit and loss account on a straight line basis over the period of the lease.

Stocks
Stocks and work in progress are stated at the lower of cost and net realisable value. Cost comprises expenditure incurred in the normal course of business in bringing stocks and work in progress to their present condition and location.

Turnover
Turnover represents the total amount receivable for services provided and goods sold, excluding sales related taxes and intra group transactions. Turnover is recognised when the relevant service is completed or goods delivered.

Deferred tax
Deferred taxation is recognised, without discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date, except as otherwise required by FRS 19: Deferred Tax. Deferred tax assets in respect of timing differences are only recognised to the extent that it is more likely than not that there will be suitable taxable profits to offset the future reversal of these timing differences.

Pension benefits
Contributions payable under defined contribution schemes are charged to the profit and loss account as they fall due.

The Group has a number of defined benefit pension schemes. Following the implementation in 2001 of FRS 17: Retirement Benefits, the defined benefit schemes' assets are valued at market value and the schemes' liabilities are discounted to present values using high quality corporate bond rates. The resultant pension scheme surpluses, to the extent that they are considered recoverable, or deficits, are recognised in full on the face of the balance sheet, net of deferred taxation. The increase in the present value of the liabilities expected to arise from the employees' services in the accounting period is charged to profits. The expected return on the schemes' assets less the interest on the present value of the schemes' liabilities during the accounting period is shown as 'Other finance income'. Actuarial gains and losses, net of deferred tax, are recognised in the consolidated statement of total recognised gains and losses.

Goodwill
Purchased goodwill, being the difference between the fair value of consideration payable and the fair value of separable net assets acquired, in respect of acquisitions since 1 January 1998, is capitalised in accordance with the requirements of FRS 10: Goodwill and Intangible Assets, and is amortised on a straight line basis over the Directors' estimate of useful life, which is up to 20 years.

Purchased goodwill in respect of acquisitions before 1 January 1998, was written off to reserves in the year of acquisition, in accordance with the accounting standard then in force. When a subsequent disposal occurs any goodwill previously written off to reserves is written back through the profit and loss account. In respect of acquisitions since 1 January 1998, the profit or loss on disposal is calculated after charging the unamortised amount of any related goodwill. Impairment of goodwill is recorded when it becomes clear that the carrying value of goodwill in relation to a specific business may not be recoverable.

Fair value accounting adjustments are made in respect of acquisitions and these may be made on provisional estimates. Amendments may be made to these adjustments in the subsequent accounting period with corresponding adjustment to goodwill in the light of post acquisition experience.

1. ACCOUNTING POLICIES CONTINUED

Financial instruments

These instruments are used to manage the Group's exposure to fluctuations in interest rates and foreign currency exchange rates. Instruments accounted for as hedges are designated as a hedge at the inception of contracts. Interest differentials on derivative instruments and amounts receivable and payable on interest rate instruments are recognised as adjustments to interest expense over the period of the contracts. Gains and losses on foreign currency hedges are recognised on maturity of the underlying transaction. Gains and losses arising on hedging instruments which are cancelled due to the termination of the underlying exposure are taken to the profit and loss account immediately.

Capitalisation of debt issuance costs

Debt issuance costs incurred in connection with term borrowings are deferred and amortised over the life of the debt. Borrowings are presented net of unamortised debt issuance costs.

2. SEGMENTAL INFORMATION

The Group comprises four operating divisions which are organised as follows: Labtest, which tests and inspects textiles, toys and other consumer products; Caleb Brett, which tests and inspects oil, chemicals and agricultural produce; ETL SEMKO, which tests and certifies electrical and electronic products, telecommunication equipment, building products and heating, ventilation and air conditioning equipment and Foreign Trade Standards, which provides standards programmes and pre shipment inspection programmes to standards bodies and governments. Central overheads comprise the costs of the corporate head office and non-operating holding companies. In 2003, inspection of electrical and electronic goods was transferred from Labtest to ETL SEMKO. Turnover in 2003 was £6.7m (2002: £5.8m) and operating profit was £3.0m (2002: £2.4m). The 2002 business analysis figures have been restated to reflect this change.

		2003			2002 (Restated)		
Business analysis	Notes	**Turnover £m**	**Profit before interest and tax £m**	**Net operating assets £m**	Turnover £m	Profit before interest and tax £m	Net operating assets £m
By activity							
Labtest		**130.8**	**42.8**	**23.4**	118.0	39.1	21.7
Caleb Brett		**169.6**	**13.2**	**48.7**	172.8	16.3	42.4
ETL SEMKO		**111.6**	**14.2**	**32.6**	110.5	16.4	37.9
Foreign Trade Standards		**59.1**	**11.9**	**13.7**	59.8	11.3	5.8
Central overheads		**–**	**(5.9)**	**(3.5)**	–	(6.2)	0.7
Total continuing operations		**471.1**	**76.2**	**114.9**	461.1	76.9	108.5
Goodwill amortisation		**–**	**(1.0)**	**–**	–	(0.9)	–
Total before operating exceptional items		**471.1**	**75.2**	**114.9**	461.1	76.0	108.5
Operating exceptional items – continuing	4	**–**	**(3.7)**	**–**	–	5.9	–
Continuing operations		**471.1**	**71.5**	**114.9**	461.1	81.9	108.5
Operating exceptional items – discontinued	4	**–**	**2.6**	**–**	–	9.7	–
Non operating exceptional items	5	**–**	**4.5**	**–**	–	–	–
Total		**471.1**	**78.6**	**114.9**	461.1	91.6	108.5

Turnover and profit before interest and tax include the results of two small acquisitions which were acquired in the latter part of 2003. The results of these acquisitions were not significant to the Group.

A reconciliation of net liabilities as reported on the Group balance sheets to the net operating assets shown above, is set out on page 33.

2. SEGMENTAL INFORMATION CONTINUED

The following table shows turnover, operating profit before goodwill amortisation and exceptional items, and net operating assets by significant countries.

	2003			2002		
By significant country	**Turnover £m**	**Operating profit* £m**	**Net operating assets £m**	Turnover £m	Operating profit* £m	Net operating assets £m
United States	**124.0**	**6.7**	**37.5**	132.9	10.8	40.8
Hong Kong	**70.4**	**25.5**	**6.8**	61.8	24.1	6.4
United Kingdom	**63.5**	**0.8**	**19.2**	66.9	(0.6)	13.0
China	**25.9**	**11.0**	**6.5**	23.8	8.7	6.6
Other (each under 10% of total)	**187.3**	**32.2**	**44.9**	175.7	33.9	41.7
Continuing operations	**471.1**	**76.2**	**114.9**	461.1	76.9	108.5

* Operating profit is stated before goodwill amortisation and operating exceptional items

	2003			2002		
By geographic origin	**Turnover £m**	**Operating profit* £m**	**Net operating assets £m**	Turnover £m	Operating profit* £m	Net operating assets £m
Americas	**157.3**	**12.0**	**47.0**	166.0	16.4	50.8
Europe, Middle East and Africa	**149.6**	**11.0**	**38.3**	144.3	12.1	32.7
Asia	**164.2**	**53.2**	**29.6**	150.8	48.4	25.0
Continuing operations	**471.1**	**76.2**	**114.9**	461.1	76.9	108.5

* Operating profit is stated before goodwill amortisation and operating exceptional items

The above table shows the turnover analysed by geographic origin. The turnover of continuing operations by geographic destination was Americas £161.1m (2002: £168.6m), Europe, Middle East and Africa £142.1m (2002: £137.5m) and Asia £167.9m (2002: £155.0m).

In order to facilitate comparison of the underlying performance, profit on continuing operations by activity shown above, is stated before exceptional operating items and before allocating goodwill amortisation to the divisions. After allocating these costs, the divisional profitability was: Labtest £42.7m (2002: £39.1m), Caleb Brett £9.6m (2002: £17.7m), ETL SEMKO £12.3m (2002: £16.2m), FTS £12.8m (2002: £15.1m) and Central overheads £(5.9) m (2002: £(6.2) m) and geographically was: Americas £10.2m (2002: £18.2m), Europe, Middle East and Africa £8.6m (2002: £15.3m) and Asia £52.7m (2002: £48.4m).

2. SEGMENTAL INFORMATION CONTINUED

Net operating assets reconciliation	2003 £m	2002 £m
Net liabilities as reported on the Balance Sheets	**(35.8)**	(83.4)
Goodwill	**(17.8)**	(12.1)
Investments and associates	**(1.3)**	(2.0)
Provisions for liabilities and charges	**8.6**	8.7
Tax payable	**16.6**	11.0
Net debt	**132.2**	166.9
Non operating assets, liabilities and provisions	**(1.8)**	4.0
Net deficit on pension funds	**5.1**	7.4
Proposed final dividend	**9.1**	8.0
Net operating assets (excluding goodwill)	**114.9**	108.5
Analysed as:		
Fixed assets	**77.8**	76.7
Stocks	**1.4**	1.5
Operating debtors	**103.8**	100.9
Operating creditors and provisions	**(68.1)**	(70.6)
Net operating assets (excluding goodwill)	**114.9**	108.5

3. PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

	2003 £m	2002 £m
Profit on ordinary activities before taxation is stated after charging:		
Auditors' remuneration:		
Group - audit	**0.9**	0.8
Group - non audit work	**0.3**	0.2
Company - audit	**0.1**	–
Depreciation	**18.6**	17.6
Amortisation of goodwill	**1.0**	0.9
Property rentals	**17.1**	16.5
Lease and hire charges – plant and machinery	**4.4**	4.4

The fees of £0.3m (2002: £0.2m) for non audit work were primarily for tax compliance work, the review of the Interim Report and advice on the share option schemes.

In addition to the fees disclosed above, KPMG received £57,000 in respect of work performed in connection with the acquisition of Fastech Limited (note 27).

4. OPERATING EXCEPTIONAL ITEMS

	Notes	**2003 £m**	2002 £m
Caleb Brett	(a)	**(3.0)**	2.0
ETL SEMKO	(b)	**(1.7)**	–
FTS	(c)	**(1.8)**	–
FTS – government contracts	(d)	**2.8**	3.9
Total continuing operations		**(3.7)**	5.9
Discontinued operations - recoveries	(e)	**2.6**	9.7
Total operating exceptional items		**(1.1)**	**15.6**
By geographic region:			
Americas		**0.8**	12.7
Europe, Middle East and Africa		**(1.5)**	2.9
Asia		**(0.4)**	–
		(1.1)	15.6

(a) Caleb Brett
The charge of £3.0m in 2003, related to the restructuring of the Caleb Brett division and comprised severance payments, lease terminations and fixed asset write offs. There was tax relief of £0.4m attributable to these items. The credit of £2.0m in 2002 related to a recovery of £3.1m from the Group's former parent company offset by legal costs. The tax effect was £nil.

(b) ETL SEMKO
The charge of £1.7m in 2003, related to the restructuring of the ETL SEMKO division and comprised severance payments, lease terminations and fixed asset write offs. There was tax relief of £0.3m attributable to these items.

(c) FTS
The charge of £1.8m in 2003, related to the restructuring of the FTS division and comprised severance payments and lease terminations. There was no tax relief attributable to these items.

(d) FTS – government contracts
The credit of £2.8m in 2003, represented the release of a debt provision relating to Nigeria. The tax effect of this exceptional item was a charge of £0.8m. The credit of £3.9m in 2002 related to payments received in connection with debts previously written off. The tax effect was £nil.

(e) Environmental Testing
The credit of £2.6m in 2003, related to insurance refunds in connection with the remaining instalments of a civil fine levied by the Environmental Protection Agency in the United States in respect of its investigation into the discontinued Environmental Testing division. £1.4m was received in 2003, £0.8m was received in February 2004 and £0.4m is due in August 2004. The tax effect of these exceptional items was £nil. The credit of £9.7m in 2002 related to costs recovered from the Group's former parent company and from insurers in connection with the aforementioned investigation. The tax effect of these exceptional items was £nil.

5. NON OPERATING EXCEPTIONAL ITEMS

	Notes	2003 £m	2002 £m
Labtest (Asia)	(a)	**5.5**	–
Caleb Brett (Americas)	(b)	**(1.0)**	–
Total continuing operations		**4.5**	–

(a) In May 2003, the Group disposed of its 50% share of a company operating in China in the Labtest division, for a net cash consideration of £6.6m. After deducting the Group's share of net assets of £0.4m and goodwill of £0.7m, which was previously written off to reserves, the profit on disposal was £5.5m. There is no tax payable on this profit.

(b) The charge of £1.0m related to a loss incurred in respect of the disposal of a trade investment for a nominal sum. There is no tax relief for this loss.

6. EMPLOYEES

Staff costs	2003 £m	2002 £m
Wages and salaries	**176.7**	178.7
Social security costs	**17.6**	17.4
Pension costs	**8.3**	8.1
	202.6	204.2

Details of the remuneration of the Directors are set out in the Remuneration report on page 17.

Average number of employees by activity	2003	2002
Labtest	**3,670**	3,150
Caleb Brett	**5,181**	5,015
ETL SEMKO	**1,773**	1,740
Foreign Trade Standards	**878**	822
Central	**38**	35
	11,540	10,762

7. a) NET INTEREST AND SIMILAR CHARGES

	2003 £m	2002 £m
Interest payable:		
Senior Subordinated Notes	**–**	7.3
Parent Subordinated PIK Debentures	**–**	6.5
Senior Term Loans	**8.2**	8.0
Senior Revolver	**–**	0.5
Other	**0.4**	0.7
Amortisation of debt issuance costs	**1.0**	1.3
	9.6	24.3
Interest receivable:		
On bank balances	**(1.7)**	(1.8)
Net interest payable	**7.9**	22.5

7. a) NET INTEREST AND SIMILAR CHARGES CONTINUED

EXCEPTIONAL FINANCE CHARGES

	2003 £m	2002 £m
Unamortised costs in connection with:		
Warrants converted into shares	–	2.2
Repaid Senior Term Loans	–	6.1
Premium on redemption of Senior Subordinated Notes	–	7.2
	–	15.5
Total net interest and similar charges	**7.9**	38.0

7. b) OTHER FINANCE (EXPENSE)/INCOME

Expected return on pension assets	**2.2**	2.6
Pension interest cost	**(2.3)**	(2.3)
Net finance (expense)/income	**(0.1)**	0.3

8. TAXATION

	2003 £m	2002 £m
UK corporation tax at 30% (2002: 30%)	**1.8**	12.3
Double taxation relief	**(1.1)**	(12.3)
	0.7	–
Overseas taxation	**18.4**	14.4
Adjustments relating to prior year liabilities	–	1.0
Share of associated undertakings' tax	**0.4**	0.3
Current tax	**19.5**	15.7
Deferred tax – origination and reversal of timing differences	**(0.7)**	0.3
	18.8	16.0

The tax charge of £18.8m includes £0.1m relating to exceptional items (2002: £nil).

Reconciliation of the notional tax charge at UK standard rate to the actual current tax charge:

	2003 £m	2002 £m
Profit before taxation	**70.6**	53.9
Notional tax charge at UK standard rate 30% (2002: 30%)	**21.2**	16.2
Differences in overseas tax rates	**(5.9)**	(3.1)
Tax on dividends	**0.9**	0.9
Permanent differences – disallowables	**4.6**	4.7
Permanent differences – untaxed income	**(2.3)**	(5.6)
Losses not recognised	**0.8**	2.7
Accelerated capital allowances and other provisions	**0.1**	–
Other	**0.1**	(0.1)
	19.5	15.7

The effective tax rate before exceptional items was 27.8% (2002: 29.7%). The main reason for the reduction in the effective tax rate was the improved utilisation of the reduced interest expense which resulted from the reorganisation of the Group's capital structure following the IPO. The effective tax rate is expected to be sustainable at close to current year levels for the short to medium term.

9. DIVIDENDS

	2003 £m	2002 £m
Interim paid 4 November 2003 2.9p per share (2002: nil)	**4.5**	–
Final proposed 5.9p (2002: 5.2p per share)	**9.1**	8.0
	13.6	8.0

10. EARNINGS PER ORDINARY SHARE

The calculation of earnings per ordinary share is based on earnings after tax and minority interests and the weighted average number of ordinary shares in issue during the year. In addition to the earnings per share required by FRS 14: Earnings Per Share, an underlying earnings per share has also been calculated and is based on earnings excluding the effect of the exceptional items and goodwill amortisation. It has been calculated to allow shareholders to gain a clearer understanding of the trading performance of the Group. Details of the underlying earnings per share are set out below:

Based on the profit for the year:	Notes	2003 £m	2002 £m
Underlying profit before tax		**68.2**	54.7
Taxation on underlying profit		**(18.7)**	(16.0)
Minority interest in underlying profit		**(3.7)**	(4.3)
Underlying earnings		**45.8**	34.4
Goodwill amortisation		**(1.0)**	(0.9)
Exceptional operating items	4	**(1.1)**	15.6
Exceptional non operating items	5	**4.5**	–
Exceptional finance charges	7a	**–**	(15.5)
Taxation on operating exceptional items	4	**(0.1)**	–
Basic earnings		**48.1**	33.6
Number of shares (millions):			
Basic weighted average number of shares		**153.7**	123.7
Potentially dilutive share options		**0.7**	1.5
Potentially dilutive share warrants		**–**	2.9
Diluted weighted average number of shares		**154.4**	128.1
Basic underlying earnings per share		**29.8p**	27.8p
Options		**(0.1)p**	(0.3)p
Warrants		**–**	(0.6)p
Diluted underlying earnings per share		**29.7p**	26.9p
Basic earnings per share		**31.3p**	27.2p
Options		**(0.2)p**	(0.4)p
Warrants		**–**	(0.6)p
Diluted earnings per share		**31.1p**	26.2p

The weighted average number of shares used in the calculation of the diluted earnings per share for the year to 31 December 2003, excludes 1,220,962 potential shares (2002: 1,378,500) as these were not dilutive in accordance with FRS 14: Earnings Per Share.

Notes to the financial statements
for the year ended 31 December 2003

11. INTANGIBLE ASSETS

Group	Goodwill £m
Cost	
At beginning of year	19.9
Additions	6.8
Exchange adjustments	0.2
At end of year	**26.9**
Amortisation	
At beginning of year	7.8
Charged in year	1.0
Exchange adjustments	0.3
At end of year	**9.1**
Net book value	
At 31 December 2003	**17.8**
At 31 December 2002	12.1

Details of additions to goodwill are shown in note 27.

12. TANGIBLE ASSETS

Group	Land and buildings £m	Plant and machinery £m	Total £m
Cost			
At beginning of year	9.4	117.2	126.6
Exchange adjustments	0.6	(8.7)	(8.1)
Additions	0.2	24.2	24.4
Subsidiaries acquired	0.5	0.2	0.7
Subsidiaries disposed	–	(0.4)	(0.4)
Disposals	(0.1)	(11.3)	(11.4)
At end of year	**10.6**	**121.2**	**131.8**
Depreciation			
At beginning of year	1.5	48.4	49.9
Charge for year	0.3	18.3	18.6
Exchange adjustments	–	(4.3)	(4.3)
Subsidiaries disposed	–	(0.1)	(0.1)
Disposals	–	(10.1)	(10.1)
At end of year	**1.8**	**52.2**	**54.0**
Net book value			
At 31 December 2003	**8.8**	**69.0**	**77.8**
At 31 December 2002	7.9	68.8	76.7

12. TANGIBLE ASSETS CONTINUED

The net book value of land and buildings comprised:

Group	2003 £m	2002 £m
Freehold	**7.7**	7.1
Long leasehold	**0.3**	0.3
Short leasehold	**0.8**	0.5
	8.8	7.9

13. INVESTMENTS

	Group Associates £m	Group Other £m	Company Subsidiaries £m
Cost			
At beginning of year	0.6	1.1	263.2
Exchange adjustment	0.2	–	–
Disposals	–	(1.0)	–
At end of year	**0.8**	**0.1**	**263.2**
Share of post acquisition reserves			
At beginning of year	0.3	–	–
Share of net profit for the year	0.8	–	–
Dividends received	(0.7)	–	–
At end of year	**0.4**	**–**	**–**
Net book value			
At 31 December 2003	**1.2**	**0.1**	**263.2**
At 31 December 2002	0.9	1.1	263.2

Other investments comprised an interest in own shares of £0.1m (2002: £0.1m). This is held in an Employee Share Ownership Trust (ESOT), which is managed and controlled by an independent offshore trustee. The assets, liabilities, income and costs of the ESOT have been incorporated into the Group's financial statements. At 31 December 2003, the ESOT held 87,000 (2002: 87,000) ordinary shares purchased at 140p. The market value of the shares at 31 December 2003 was 461p (2002: 405p). The ESOT has waived the right to receive dividends on its shareholding. The ESOT is used to acquire shares which will, at a later date, be allocated to employees following exercises through the 2002 Share Option Plan. The total ESOT costs charged to the Group profits for 2003 were £16,000 (2002: £12,000) of which £6,000 (2002: £6,000) was interest expense.

Details of the disposal of £1.0m are set out in note 5(b).

Details of principal operating subsidiaries and associated companies are set out in note 32.

14. STOCKS

Group	2003 £m	2002 £m
Raw materials and consumables	**0.3**	0.4
Work in progress	**0.5**	0.4
Finished goods	**0.6**	0.7
	1.4	1.5

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15. DEBTORS

	Group 2003 £m	Group 2002 £m	Company 2003 £m	Company 2002 £m
Trade debtors	**87.3**	85.7	**–**	–
Amounts owed by group undertakings	**–**	–	**3.6**	0.2
Assets held for resale	**–**	0.1	**–**	–
Other debtors	**7.6**	6.5	**–**	–
Prepayments and accrued income	**10.4**	8.7	**0.1**	0.1
	105.3	101.0	**3.7**	0.3

Other debtors included £1.6m (2002: £1.6m) due after more than one year.

16. CREDITORS DUE WITHIN ONE YEAR

	Group 2003 £m	Group 2002 £m	Company 2003 £m	Company 2002 £m
Borrowings:				
Senior Term Loans	**18.4**	15.5	**–**	–
Other borrowings	**–**	0.4	**–**	–
	18.4	15.9	**–**	–
Debt issuance costs	**(0.9)**	(0.9)	**–**	–
Total net borrowings	**17.5**	15.0	**–**	–
Trade creditors	**22.0**	25.5	**–**	–
Corporation tax	**16.6**	11.0	**–**	–
Other taxation and social security	**5.9**	5.0	**–**	–
Other creditors	**2.4**	2.5	**0.1**	0.4
Accruals and deferred income	**36.1**	37.6	**0.2**	0.2
Dividends payable	**9.1**	8.0	**9.1**	8.0
Amounts owed to group undertakings	**–**	–	**0.7**	0.2
	109.6	104.6	**10.1**	8.8

17. CREDITORS DUE AFTER ONE YEAR

	Group 2003 £m	Group 2002 £m	Company 2003 £m	Company 2002 £m
Borrowings:				
Senior Term Loans	**198.1**	225.4	**–**	–
Debt issuance costs	**(1.9)**	(2.9)	**–**	–
Total net borrowings	**196.2**	222.5	**–**	–
Other creditors	**1.4**	4.1	**–**	–
Amounts owed to group undertakings	**–**	–	**23.9**	18.8
	197.6	226.6	**23.9**	18.8

17. CREDITORS DUE AFTER ONE YEAR CONTINUED

Maturity of financial liabilities	2003 Borrowings £m	2003 Other financial liabilities* £m	2003 Total financial liabilities £m	2002 Borrowings £m	2002 Other financial liabilities* £m	2002 Total financial liabilities £m
Debt falling due:						
In one year or less	**18.4**	**–**	**18.4**	15.9	–	15.9
Between one and two years	**27.6**	**1.4**	**29.0**	19.2	2.6	21.8
Between two and five years	**170.5**	**–**	**170.5**	206.2	1.5	207.7
Total gross borrowings	**216.5**	**1.4**	**217.9**	241.3	4.1	245.4
Debt issuance costs	**(2.8)**	**–**	**(2.8)**	(3.8)	–	(3.8)
Total net borrowings	**213.7**	**1.4**	**215.1**	237.5	4.1	241.6

* Other financial liabilities exclude amounts payable within one year (as permitted by FRS 13) and pension deficits, full details of which are given in note 23.

Description of borrowings

In May 2002, the Group entered into a £300m Secured Facilities Agreement comprising a £250m multi-currency Facility A and a £50m multi-currency Revolving Credit Facility B. The Facility A amortises over five years with the final repayment on 15 June 2007. Any drawings under Facility B commitment have to be repaid on 15 June 2007. Borrowings under the Secured Facilities Agreement are secured substantially over all the assets of the Group.

Advances under Facility A initially bear interest at a rate equal to LIBOR (as adjusted) plus 1.5%. The margin over LIBOR may be reduced to 1.25%, 1% and then to 0.75% in accordance with a Net Debt to EBITDA ratio test. There have been no drawings under Facility B. As at 31 December 2003, the margin was 0.75%.

The undrawn committed borrowing facilities, which mature in June 2007, amounted to £50.0m (2002: £50.0m) of which £4.2m (2002: £4.9m) has been utilised for letters of credit and guarantees.

18. PROVISIONS FOR LIABILITIES AND CHARGES

Group	Deferred tax £m	Restructuring £m	Claims £m	Total £m
At beginning of year	1.1	–	7.6	8.7
Exchange adjustments	(0.1)	–	(0.2)	(0.3)
Provided in the year	–	6.0	2.9	8.9
Released during the year	(0.7)	–	(1.2)	(1.9)
Utilised during the year	–	(3.0)	(3.8)	(6.8)
At end of year	**0.3**	**3.0**	**5.3**	**8.6**

Details of the restructuring provision are set out in note 4.

The provision for claims includes claims from customers, former employees, other plaintiffs and environmental agencies and associated legal costs and environmental reinstatement liabilities. The provision for legal costs and claims is expected to be utilised in one to two years. The provision for environmental reinstatement is expected to be utilised in one to ten years. Details of contingent liabilities in respect of claims are set out in note 30.

18. PROVISIONS FOR LIABILITIES AND CHARGES CONTINUED

The amounts provided and amounts not recognised for deferred taxation at 31 December 2003, are set out below:

Group	2003 Provided £m	2003 Not recognised £m	2002 Provided £m	2002 Not recognised £m
Accelerated depreciation/(capital allowances)	**(0.1)**	**(0.4)**	0.4	(0.8)
Losses carried forward	**–**	**(23.6)**	–	(20.3)
Other timing differences	**0.4**	**(22.9)**	0.7	(20.4)
Deferred tax liability/(asset)	**0.3**	**(46.9)**	1.1	(41.5)

A deferred tax asset arises in certain territories which is not recognised in the accounts because the Directors believe that suitable taxable profits from which the future reversal of timing differences can be deducted, cannot be predicted with a reasonable degree of certainty.

At 31 December 2003, the Company had an unprovided deferred tax asset of £3.6m (2002: £nil) arising on losses and other timing differences.

19. CALLED UP SHARE CAPITAL

Group and Company	Notes	2003 Number	2003 £m	2002 £m
Authorised				
Ordinary shares of 1p each		**200,000,000**	**2.0**	2.0
Non equity:				
Zero coupon redeemable preference shares of £1 each			**105.5**	105.5
			107.5	107.5
Allotted, called up and fully paid				
Ordinary shares of 1p each at start of year		**153,479,824**	**1.5**	1.5
Issued in connection with the acquisition of Fastech	27	**28,131**	**–**	–
Employee share option schemes – options exercised	28	**452,167**	**–**	–
Ordinary shares of 1p each at end of year		**153,960,122**	**1.5**	1.5

None of the zero coupon redeemable preference shares were allotted at 31 December 2003 or 31 December 2002.

20. SHAREHOLDERS' FUNDS/(DEFICIT)

Group	Share capital £m	Share premium £m	Merger reserve £m	Other reserve £m	Profit and loss £m	Total £m
At beginning of year	1.5	231.6	3.6	2.8	(330.0)	(90.5)
Retained profit for the year	–	–	–	–	34.5	34.5
Exchange adjustments	–	–	–	–	10.2	10.2
Actuarial pension gain	–	–	–	–	1.6	1.6
Goodwill on disposals	–	–	–	–	0.7	0.7
Shares issued	–	0.3	–	–	–	0.3
Adjustment to share issue expenses	–	0.2	–	–	–	0.2
At end of year	**1.5**	**232.1**	**3.6**	***2.8**	****(283.0)**	**(43.0)**

* The 'other' reserve arose on the conversion of share warrants into share capital.

** After charging £244.1m (2002: £264.7m) for goodwill written off to reserves in relation to subsidiaries acquired prior to 31 December 1997.

20. SHAREHOLDERS' FUNDS/(DEFICIT) CONTINUED

The profit and loss reserve of the Group is analysed as follows:

Group	**2003 £m**	2002 £m
Profit and loss reserve deficit excluding pension liabilities	**(277.9)**	(322.6)
Pension liabilities	**(5.1)**	(7.4)
Profit and loss reserve deficit including net pension liability	**(283.0)**	(330.0)

Company	Share capital £m	Share premium £m	Profit and loss £m	Total £m
At beginning of year	1.5	231.6	29.0	262.1
Retained loss for the year	–	–	(5.9)	(5.9)
Shares issued	–	0.3	–	0.3
Adjustment to share issue expenses	–	0.2	–	0.2
At end of year	**1.5**	**232.1**	**23.1**	**256.7**

Details of share options are set out in note 28.

A profit and loss account for Intertek Group plc has not been presented as permitted by Section 230(4) of the Companies Act 1985. The profit for the financial year, before dividends of £13.6m, was £7.7m, which was mainly in respect of dividends received from subsidiaries.

21. MINORITY INTERESTS

Group	**2003 £m**	2002 £m
At beginning of year	**7.1**	7.2
Share of profit for the year	**3.7**	4.3
Disposal	**(0.4)**	–
Dividends	**(2.8)**	(4.0)
Exchange adjustments	**(0.4)**	(0.4)
At end of year	**7.2**	7.1

22. COMMITMENTS

At 31 December, the Group had annual unprovided commitments under non-cancellable operating leases which expire as follows:

	2003			2002		
Group	**Land and buildings £m**	**Other £m**	**Total £m**	Land and buildings £m	Other £m	Total £m
Within one year	**2.0**	**0.8**	**2.8**	2.8	0.6	3.4
In the second to fifth years inclusive	**7.0**	**2.3**	**9.3**	6.4	2.6	9.0
Over five years	**4.4**	**–**	**4.4**	3.7	–	3.7
	13.4	**3.1**	**16.5**	12.9	3.2	16.1

Contracts for capital expenditure which are not provided in these accounts amounted to £0.9m (2002: £0.5m).

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23. PENSION SCHEMES

The Group operates a number of pension plans throughout the world. In most locations, these are defined contribution arrangements. However, there are significant defined benefit plans in the United Kingdom, United States, Hong Kong and Taiwan. These are all funded plans, with assets held in separate trustee administered funds. Other defined benefit plans in certain countries are not considered to be material and are therefore accounted for as if they were defined contribution plans. The schemes in Hong Kong and in the United Kingdom were closed to new entrants with effect from 1 December 2001 and 1 April 2002, respectively.

a) The total pension cost for the Group was:

	2003 £m	2002 £m
Defined contribution schemes	**6.2**	5.6
Defined benefit schemes - current service cost	**2.1**	2.5
	8.3	8.1

The pension cost for the defined contribution plans is the contributions payable by the Group during the year. At 31 December 2003, there were outstanding contributions of £2.5m (2002: £2.3m).

There were no past service costs during the year in respect of the defined benefit plans. For closed schemes, under the projected unit method (as required by FRS 17), the current service cost as a percentage of relevant defined benefit pensionable payroll will increase as the members of the scheme approach retirement.

b) The pension cost for the defined benefit plans was assessed in accordance with the advice of qualified actuaries. The last full triennial actuarial valuation of the UK pension scheme was carried out on 31 March 2001.

The major assumptions used in each country as at 31 December, were:

	United Kingdom			Hong Kong			Taiwan		
	2003	2002	2001	**2003**	2002	2001	**2003**	2002	2001
Discount rate	**5.4%**	5.6%	6.0%	**5.0%**	6.0%	7.0%	**3.5%**	3.8%	5.0%
Expected return on assets	**7.1%**	6.9%	7.5%	**7.1%**	7.6%	8.1%	**3.5%**	3.8%	5.0%
Rate of increase in pensionable salaries	**3.0%**	3.0%	3.0%	**4.0%**	4.0%	5.0%	**3.0%**	3.0%	5.0%
Rate of increase in pensions in payment	**2.6%**	2.3%	2.5%	**See below**	See below	See below	**See below**	See below	See below
Inflation assumption	**2.6%**	2.3%	2.5%	**2.6%**	2.3%	2.5%	**2.6%**	2.3%	2.5%

In the plan in the United States, the benefits are frozen. The discount rate applied for that plan was 6.0%. The Hong Kong and Taiwan plans provide for a lump sum upon retirement based on a multiple of final salary.

Weighted average assumptions used at year end:	**2003**	2002	2001
Discount rate	**5.3%**	5.6%	6.3%
Expected return on assets	**6.9%**	6.9%	7.5%
Compensation increase	**3.2%**	3.3%	3.7%

23. PENSION SCHEMES CONTINUED

c) The net pension liability included in the Group's balance sheet is made up as follows:

	2003 £m	2002 £m
Pension assets, being fair value of schemes' assets	**36.4**	30.6
Pension liabilities, being the discounted present values	**(43.9)**	(40.6)
Deferred tax asset	**2.4**	2.6
Pension liability net of deferred tax	**(5.1)**	(7.4)
Shown on the balance sheet as follows:		
Schemes with liabilities	**(5.1)**	(7.4)

d) The net pension liabilities of each scheme at 31 December 2003, are as follows:

	United Kingdom £m	United States £m	Hong Kong £m	Taiwan £m	Total £m
Pension assets, being fair value of schemes' assets	23.6	1.3	10.1	1.4	36.4
Pension liabilities, being the discounted present values	(30.7)	(1.3)	(10.3)	(1.6)	(43.9)
Pension deficit	(7.1)	–	(0.2)	(0.2)	(7.5)
Deferred tax asset	2.2	–	0.1	0.1	2.4
Pension liability net of deferred tax	**(4.9)**	**–**	**(0.1)**	**(0.1)**	**(5.1)**

Deferred tax movements are netted against the actuarial gains and losses shown in the statement of recognised gains and losses.

e) The assets in the main schemes and the expected rates of return were:

	United Kingdom		Hong Kong	
At 31 December 2003	Long term rate of return	Value £m	Long term rate of return	Value £m
Equities	7.5%	18.8	8.0%	7.0
Bonds	5.5%	4.2	5.0%	3.1
Cash and other	5.0%	0.6	4.5%	–
Total fair value of assets		23.6		10.1
Present value of scheme liabilities		(30.7)		(10.3)
Deficit in the scheme		**(7.1)**		**(0.2)**

	United Kingdom		Hong Kong	
At 31 December 2002	Long term rate of return	Value £m	Long term rate of return	Value £m
Equities	7.5%	13.5	8.5%	4.8
Bonds	5.5%	3.4	6.5%	3.2
Cash and other	5.0%	2.2	5.5%	0.6
Total fair value of assets		19.1		8.6
Present value of scheme liabilities		(26.3)		(11.3)
Deficit in the scheme		**(7.2)**		**(2.7)**

23. PENSION SCHEMES CONTINUED

At 31 December 2001	United Kingdom Long term rate of return	United Kingdom Value £m	Hong Kong Long term rate of return	Hong Kong Value £m
Equities	8.0%	18.2	9.0%	5.0
Bonds	5.5%	3.1	7.0%	2.6
Cash and other	4.5%	1.1	6.0%	0.9
Total fair value of assets		22.4		8.5
Present value of scheme liabilities		(22.3)		(10.0)
Surplus/(deficit) in the scheme		**0.1**		**(1.5)**

f) Movement in deficit during the year:

	2003 £m	2002 £m
Deficit at the beginning of the year	**(10.0)**	(2.0)
Deferred tax thereon	**2.6**	0.4
Deficit at the beginning of the year, net of deferred tax	**(7.4)**	(1.6)
Movement in the year:		
Current service cost	**(2.1)**	(2.5)
Contributions	**2.9**	2.9
Other finance (charge)/income	**(0.1)**	0.3
Actuarial gains/(losses)	**1.8**	(8.7)
Deferred tax	**(0.2)**	2.2
Deficit at end of the year, net of deferred tax	**(5.1)**	(7.4)

g) The employer has paid contributions at the following rates expressed as a percentage of pensionable payroll:

United Kingdom	10.0% until 31 March 2003, and 12% thereafter.
United States	Not applicable as the scheme is closed and member's benefits are frozen.
Hong Kong	Average of 13.1% across all sections.
Taiwan	Caleb Brett: 15.6% combining retirement benefit and leaving service benefit; Labtest: 8.4% combining retirement benefit and leaving service benefit.

h) History of experience of gains and losses:

	2003 £m	2002 £m	2001 £m	2000 £m	1999 £m
Difference between the actual return and expected return on scheme assets	**2.7**	(7.6)	(5.0)	1.7	0.6
Percentage of scheme assets	**7.4%**	24.8%	14.7%	4.9%	2.3%
Gains and losses on scheme liabilities	**(0.9)**	0.7	–	(0.7)	(2.3)
Percentage of present value of scheme liabilities	**1.8%**	1.7%	–	2.1%	8.2%
Amount recognised in the statement of total recognised gains and losses	**1.6**	(6.5)	(3.3)	3.4	(1.4)
Percentage of present value of scheme liabilities	**3.6%**	16.0%	9.2%	10.2%	5.0%

23. PENSION SCHEMES CONTINUED

i) Analysis of amount recognised in the statement of total recognised gains and losses:

	2003 £m	2002 £m	2001 £m	2000 £m	1999 £m
Actual return less expected return on pension scheme assets	**2.7**	(7.6)	(5.0)	1.7	0.6
Gains and losses arising on scheme liabilities	**(0.9)**	0.7	–	(0.7)	(2.3)
Changes in assumption underlying the present value of scheme liabilities	**–**	(1.8)	1.5	2.4	0.3
Deferred tax	**(0.2)**	2.2	0.2	–	(0.1)
Actuarial gain/(loss) recognised in the statement of total recognised gains and losses	**1.6**	(6.5)	(3.3)	3.4	(1.5)

24. RECONCILIATION OF OPERATING PROFIT TO OPERATING CASH FLOWS

	2003 £m	2002 £m
Group operating profit after exceptional items	**72.9**	90.7
Depreciation charge	**18.6**	17.6
Goodwill amortisation	**1.0**	0.9
Loss on disposal of fixed assets	**0.5**	0.1
Decrease in stocks	**0.1**	0.3
Increase in debtors	**(10.5)**	(2.6)
Decrease in creditors	**(3.3)**	(8.9)
Increase/(decrease) in provisions	**0.7**	(0.7)
Total operating cash inflow	**80.0**	97.4
Operating cash inflow before exceptional items	**86.0**	83.8
Exceptional operating cash (outflow)/inflow	**(6.0)**	13.6
Total operating cash inflow	**80.0**	97.4

25. ANALYSIS OF CASH FLOWS

	2003 £m	2002 £m
Returns on investments and servicing of finance		
Net interest, refinancing and redemption fees paid	**(7.3)**	(30.4)
Dividends paid to minorities	**(2.8)**	(4.0)
	(10.1)	(34.4)
Capital expenditure and financial investment		
Purchase of tangible fixed assets	**(24.4)**	(23.6)
Sale of plant and machinery	**0.8**	0.3
	(23.6)	(23.3)
Acquisitions and disposals		
Investments	**–**	(1.0)
Purchase of subsidiary undertakings	**(7.5)**	(0.4)
Net deferred consideration paid on past acquisitions	**(0.3)**	(2.9)
Sale of subsidiary undertakings	**6.6**	–
	(1.2)	(4.3)
Financing		
Issue of ordinary shares, net of issue expenses	**(0.1)**	232.7
Redemption of preference shares	**–**	(105.5)
Repayment of short term debt	**(6.5)**	–
Repayment of other loans	**(0.3)**	(97.1)
	(6.9)	30.1

Net cash outflow on purchase of subsidiaries		
Fair value of consideration	**7.6**	0.4
Amount satisfied by issue of shares	**(0.1)**	–
Consideration paid in cash	**7.5**	0.4
Net deferred consideration paid on past acquisitions	**0.3**	2.9
Net cash outflow in respect of acquisitions made during the year and on prior period acquisitions	**7.8**	3.3

26. ANALYSIS OF NET DEBT

	At beginning of year £m	Cash flow £m	Other non-cash changes £m	Acquisitions and disposals £m	Exchange adjustments £m	At end of year £m
Cash	70.6	12.7	–	0.5	(2.3)	81.5
Borrowings	(237.5)	6.8	(1.0)	–	18.0	(213.7)
Total net debt	**(166.9)**	**19.5**	**(1.0)**	**0.5**	**15.7**	**(132.2)**

The cash movement of £0.5m relating to acquisitions and disposals comprises £0.7m acquired on acquisitions less £0.2m relinquished on disposals. The non-cash charge of £1.0m relates to the amortisation of debt issuance costs.

27. ACQUISITIONS

a) On 30 September 2003, the Group acquired 100% of the share capital of Fastech Limited. The provisional analysis of net assets acquired and the fair value to the Group is set out below. The fair value accounting adjustments have been made on provisional estimates. Amendments may be made to these adjustments in the subsequent accounting period with corresponding adjustment to goodwill in the light of post acquisition experience. The resulting provisional goodwill of £5.3m has been capitalised and is being amortised over 20 years, being its estimated useful life. This acquisition has been accounted for using the acquisition method.

	Book value prior to acquisition £m	Accounting policy adjustment £m	Other fair value adjustments £m	Fair value to Group on acquisition £m
Property, plant and equipment	0.8	(0.1)	–	0.7
Debtors	0.5	–	–	0.5
Creditors	(0.2)	–	–	(0.2)
Taxation	(0.4)	–	(0.6)	(1.0)
Net assets acquired	**0.7**	**(0.1)**	**(0.6)**	**–**

The accounting policy adjustment relates to the alignment of depreciation policies and the fair value adjustment relates to a prudent provision for certain tax liabilities.

Fair value of consideration	£m
Cash consideration (including fees)	5.9
Cash acquired	(0.7)
Shares issued	0.1
Fair value of the consideration	5.3
Less fair value of assets acquired	–
Goodwill arising on acquisition	**5.3**

b) On 17 December 2003, the Group acquired 100% of the share capital of Amtac Certification Services (Holdings) Limited for a cash consideration, including fees of £1.6m. The net assets at the date of acquisition were £0.3m and there were £(0.2)m of fair value adjustments giving rise to goodwill of £1.5m, which is being amortised over 20 years.

28. SHARE OPTION SCHEMES

The Company established a share option scheme for senior management in March 1997. The maximum number of options that can be granted under the scheme have been allocated and that scheme has been discontinued. In May 2002, the Intertek Group plc 2002 Share Option Plan (the 2002 Plan) and the Intertek Group plc 2002 Approved Share Option Plan (the Approved Plan) were established for employees to be granted at the discretion of the Remuneration Committee.

a) Summary of movements in number of share options:

	1997 Plan (discontinued)	2002 Plan	Approved Plan	Total
At beginning of year	1,288,390	1,108,099	270,401	2,666,890
Granted	–	1,297,620	146,262	1,443,882
Exercised	(449,865)	–	(2,302)	(452,167)
Forfeited	(179,481)	(230,427)	(58,174)	(468,082)
At end of year	**659,044**	**2,175,292**	**356,187**	**3,190,523**

28. SHARE OPTION SCHEMES CONTINUED
b) The outstanding options at 31 December 2003, are exercisable as follows:

Option Scheme	Number of options outstanding	Subscription price per share	Exercisable between	
1997 Plan	39,584	10p	1 March 2000	1 March 2004
	23,612	10p	31 December 2000	31 December 2004
	5,903	10p	1 June 2001	1 June 2005
	23,612	10p	1 June 2002	1 June 2006
	259,730	140p	31 December 2003	31 December 2007
	188,894	140p	1 December 2004	1 December 2008
	117,709	400p	28 March 2005	28 March 2009
	659,044			
2002 Plan	942,390	437p	30 May 2005	30 May 2012
	23,352	380p	17 July 2005	17 July 2012
	4,000	421p	31 October 2005	31 October 2012
	1,143,757	359p	7 April 2006	7 April 2013
	61,793	462p	12 September 2006	12 September 2013
	2,175,292			
Approved Plan	208,852	437p	30 May 2005	30 May 2012
	14,457	380p	17 July 2005	17 July 2012
	124,951	359p	7 April 2006	7 April 2013
	7,927	462p	12 September 2006	12 September 2013
	356,187			
Total	**3,190,523**			

Details of the share option schemes are shown in the Remuneration report on page 16.

29. FINANCIAL INSTRUMENTS
Details of the Group's Treasury controls are set out in the Operating and financial review on page 12.

a) Derivative financial instruments
The Group uses derivative financial instruments to manage interest rate and foreign currency risks. Whilst these hedging instruments are subject to fluctuations in value, such fluctuations are offset by the value of the underlying exposures being hedged. The Group is not a party to any leverage derivatives and does not hold derivative financial instruments for trading purposes.

The notional amount of derivatives summarised in this note does not represent amounts exchanged by parties and, thus, is not a measure of the exposure of the Group through its use of derivatives. The amounts exchanged are calculated on the basis of the notional amount and the other terms of the derivatives, which relate to interest rates or exchange rates.

Counterparties to financial instruments expose the Group to credit related losses in the event of non-performance, but the Group does not expect any counterparties to fail to meet their obligations given their high credit ratings. The Group does not demand collateral when entering into derivative financial instruments. The credit exposure of interest rate and foreign currency contracts is represented by the fair value of contracts with a positive fair value at the end of each period.

The following numerical disclosures relate to the Group's financial assets and financial liabilities as defined in FRS 13: Derivatives and Other Financial Instruments. For all the numerical disclosures, short term debtors and creditors have been excluded as permitted under FRS 13.

29. FINANCIAL INSTRUMENTS CONTINUED

b) Foreign exchange risk management

A substantial portion of the Group's turnover is derived from customers located outside the United Kingdom. In addition, the net assets of foreign subsidiaries represent a significant portion of the Company's shareholders' funds. The Group's administrative operations are conducted in several countries outside of the United Kingdom and operating costs are incurred in currencies other than sterling. Because of the high proportion of international activity, the Group's income is exposed to exchange rate fluctuations. Two types of risk arise as a result: "transaction risk", that is, the risk that currency fluctuations will have a negative effect on the value of the Group's commercial cash flows in various currencies, and "translation risk", that is, the risk of adverse currency fluctuations in the translation of foreign currency operations and foreign assets and liabilities into sterling.

The Group enters into forward exchange contracts to hedge certain firm commitments denominated in foreign currencies. Some of the contracts involve the exchange of two foreign currencies, according to local needs in foreign subsidiaries. The term of the currency derivatives do not exceed one year.

The table below summarises by major currency the contractual amounts of the Group's forward exchange contracts in sterling. The "buy" amounts represent the sterling equivalent of commitments to purchase foreign currency, and the "sell" amounts represent the sterling equivalent of commitment to sell foreign currencies.

	2003		2002	
	Buy £m	**Sell £m**	Buy £m	Sell £m
US dollar	**–**	**10.5**	–	14.0
Euro	**1.7**	**–**	3.2	–

The following table presents information regarding the forward exchange contract amounts in sterling equivalents and the estimated fair value (net cost of closing the contracts) of the Group's forward contracts with a positive fair value (assets) and a negative fair value (liabilities):

	2003		2002	
	Contract amount £m	**Fair value £m**	Contract amount £m	Fair value £m
Assets	**1.7**	**–**	3.2	–
Liabilities	**(10.5)**	**–**	(14.0)	(0.1)
Net liabilities	**(8.8)**	**–**	(10.8)	(0.1)

c) The currency composition of net assets before borrowings is shown below:

	2003 £m	2002 £m
Sterling	**43.7**	18.2
US dollar	**71.9**	84.4
Euro	**10.8**	9.9
Chinese renminbi	**9.4**	6.0
Swedish kroner	**6.4**	5.0
Hong Kong dollar	**6.1**	5.1
Others	**22.4**	18.4
	170.7	147.0

In accordance with FRS 13, borrowings are excluded from the above table as they are used to finance foreign currency investments.

29. FINANCIAL INSTRUMENTS CONTINUED

d) Currency exposure of the Group's net monetary assets/(liabilities)

These exposures comprise the monetary assets and liabilities of the Group that are not denominated in the operating (or 'functional') currency of the operating units involved. In view of the hedges taken out by the Group, the currency exposure ie those transactional exposures that give rise to the net currency gains and losses recognised in the profit and loss account, of the Group's net monetary assets/(liabilities) are not material.

e) Interest rate risk management

The Group has a significant amount of borrowings bearing interest at variable rates. To reduce its exposure to interest rate fluctuations, the Group enters into interest rate swap agreements.

The interest rate swap agreements convert certain long term borrowing at floating rates (based on inter-bank borrowing rates in various countries) to fixed rates, that are lower than those available to the Group if the fixed rate borrowing were made directly.

Under the interest rate swap agreements, the Group agrees with other parties to exchange, at specified intervals, the difference between fixed rate and floating rate interest amounts calculated by reference to an agreed notional principal amount. The interest rate profile of the Group's financial assets and financial liabilities at 31 December 2003, is set out below:

Financial assets	At fixed interest rates £m	At floating interest rates* £m	Interest free £m	Total carrying value £m
Short term deposits and cash:				
Sterling	–	44.4	–	44.4
US dollar	–	12.3	3.0	15.3
Chinese renminbi	–	7.7	–	7.7
Hong Kong dollar	–	4.3	–	4.3
Euros	–	0.3	4.2	4.5
Other currencies	–	3.8	1.5	5.3
	–	72.8	8.7	81.5
Investments and debtors due after one year:				
Sterling	–	–	0.1	0.1
US dollar	–	–	1.6	1.6
Other currencies	–	–	1.2	1.2
	–	–	2.9	2.9
Total financial assets	**–**	**72.8**	**11.6**	**84.4**

*Short term deposits are overnight deposits bearing interest at rates fixed daily in advance.

The fair value of total financial assets approximates its carrying value.

Financial liabilities

The fair values, maturity, interest rate and exchange rate profiles of borrowings is shown in the table under the exchange rate sensitivity section below.

The maturity profile of other financial liabilities of £1.4m is shown in note 17. This liability is mainly US dollar denominated and is non interest bearing. The fair value approximates its carrying value of £1.4m.

29. FINANCIAL INSTRUMENTS CONTINUED

f) Fair value of financial instruments

The Group's on-balance sheet financial instruments, with the exception of borrowings, are generally short term in nature. Accordingly, the fair value of such instruments approximates their carrying value. The fair value of variable rate borrowings approximates their carrying value because such loans re-price at market rate periodically. The fair value and carrying value of long term borrowings, including the current portion, was £216.5m (2002: £241.3m) and £216.5m (2002: £241.3m) respectively.

The fair value of off-balance sheet financial instruments are as follows:

	2003 £m	2002 £m
Forward exchange contracts	**–**	(0.1)
Interest rate swaps	**(1.4)**	(1.8)

g) Exchange rate sensitivity

The table below provides information about the maturity and interest rate profile of the Group's borrowings.

Liabilities 2003	2004 £m	2005 £m	2006 £m	2007 £m	Carrying value £m	Fair value £m
Floating rate (USD)	9.6	14.4	16.8	71.8	112.6	112.6
Average interest rate	2.8%	3.4%	3.8%	4.2%		
Floating rate (HKD)	7.1	10.7	12.5	53.5	83.8	83.8
Average interest rate	2.5%	3.3%	3.9%	4.3%		
Floating rate (SEK)	1.1	1.6	1.9	8.0	12.6	12.6
Average interest rate	4.2%	4.7%	5.0%	5.2%		
Floating rate (EUR)	0.6	0.9	1.1	4.9	7.5	7.5
Average interest rate	3.3%	3.7%	4.0%	4.3%		
	18.4	**27.6**	**32.3**	**138.2**	**216.5**	**216.5**

h) Counterparty risk

All the foreign exchange contracts and interest rate swaps are governed by ISDA (International Swap Dealers Association Inc) agreements with the counterparties. Accordingly, the counterparty risk is reduced from the nominal to the fair value of the derivatives. Therefore, the Group's counterparty exposure under foreign exchange contracts was £nil (2002: £nil) and interest rate swaps was £nil (2002: £nil).

i) Unrecognised gains and losses

There were no material unrecognised gains or losses arising from the use of financial assets and financial liabilities as hedges.

30. CONTINGENT LIABILITIES

Group	2003 £m	2002 £m
Performance bonds	**2.5**	2.3
Other guarantees	**1.2**	1.2
	3.7	3.5

From time to time, the Group is involved in various claims and lawsuits incidental to the ordinary course of business, including claims for damages, negligence and commercial disputes regarding inspection and testing and disputes with former employees. The Group is not currently party to any legal proceedings other than ordinary litigation incidental to the conduct of business. On the basis of currently available information, the Directors consider that the cost to the Group of an unfavourable outcome, arising from any such ordinary litigation is unlikely to have a material adverse effect on the financial position of the Group in the foreseeable future.

The Group holds a professional indemnity insurance policy that provides coverage for certain claims from customers. The Directors consider this policy adequate for normal commercial purposes.

From time to time, in the normal course of business, the Company may give guarantees in respect of certain liabilities of subsidiary companies.

31. RELATED PARTY TRANSACTIONS

W Hauser, a Non-Executive Director of the Company, has a consultancy agreement to assist the Group in its expansion within Europe for which he received a fee of £1,000 per working day plus an annual bonus of up to 25% of the consultancy fees payable on the satisfactory completion of the tasks assigned to him. In 2003, the amount paid under this consultancy agreement including bonus, was £77,000 (2002: £16,000).

Apart from the above, neither the Company nor the Group has entered into any material transactions with related parties during the year as defined by FRS 8: Related Party Disclosures.

32. PRINCIPAL OPERATING SUBSIDIARIES AND ASSOCIATED COMPANIES

The Group comprises 156 subsidiary companies and two associated companies. As permitted by Section 231(5) of the Companies Act 1985, only the holding companies and the principal subsidiaries whose results or financial position, in the opinion of the Directors, principally affect the figures of the Group in 2003 and 2002 have been shown below. A full list of subsidiaries will be attached to the Company's Annual Return filed with the Registrar of Companies. All the subsidiaries were consolidated at 31 December 2003.

Company name	Country of incorporation	Principal activity by division	Percentage of ordinary shares held	
			Group	Company
Intertek Holdings Limited	England and Wales	Holding company	100	100
Intertek Testing Services UK Limited	England and Wales	Holding company	100	–
Intertek Finance plc	England and Wales	Finance	100	–
Intertek Testing Services Holdings Limited	England and Wales	Holding company	100	–
Intertek Testing Management Limited	England and Wales	Management company	100	–
Intertek International Limited	England and Wales	FTS	100	–
ITS Testing Services (UK) Limited	England and Wales	Caleb Brett	100	–
ITS Testing Holdings Canada Limited	Canada	Holding company	100	–
Testing Holdings France EURL	France	Holding company	100	–
Testing Holdings Germany GmbH	Germany	Holding company	100	–
ITS Hong Kong Limited	Hong Kong	Labtest & ETL SEMKO	100	–
Yickson Enterprises Limited	Hong Kong	Holding company	100	–
Kite Overseas Holdings BV	Netherlands	Holding company	100	–
Testing Holdings Sweden AB	Sweden	Holding company	100	–
Semko AB	Sweden	ETL SEMKO	100	–
ITS NA Inc	USA	ETL SEMKO	100	–
Caleb Brett USA Inc	USA	Caleb Brett	100	–
Testing Holdings USA Inc	USA	Holding company	100	–

Associates	Country of Incorporation	Principal activity by division	Percentage of shares held	
			Group	Company
DEKRA ITS Certification Services GmbH	Germany	Labtest	49	–
SEMKO-DEKRA Certification AB	Sweden	Labtest	49	–

Independent auditors' report to the members of Intertek Group plc

We have audited the financial statements on pages 25 to 55. We have also audited the information in the Directors' Remuneration report that is described as having been audited.

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

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Directors are responsible for preparing the Annual Report and the Directors' Remuneration report. As described on page 14, this includes responsibility for preparing the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board, the Listing Rules of the Financial Services Authority, 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 whether the financial statements and the part of the Directors' Remuneration report to be audited, have been properly prepared in accordance with the Companies Act 1985. 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 regarding Directors' remuneration and transactions with the Group is not disclosed.

We review whether the statement on pages 21 to 24 reflects the Company's compliance with the seven provisions of the Combined Code specified for our review by the Listing Rules, 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 the unaudited part of the Directors' Remuneration report, 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 AUDIT 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 and the part of the Directors' Remuneration report to be audited. 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 Group's circumstances, consistently applied and adequately disclosed.

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

OPINION

In our opinion:

- The financial statements give a true and fair view of the state of affairs of the Company and the Group as at 31 December 2003 and of the profit of the Group for the year then ended; and
- The financial statements and the part of the Directors' Remuneration report to be audited have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc
Chartered Accountants
Registered Auditor
8 Salisbury Square
London EC4Y 8BB
8 March 2004

Financial calendar

Financial year end	31 December 2003
Results announced	8 March 2004
Annual General Meeting	14 May 2004
Ex-dividend date for final dividend	2 June 2004
Record date for final dividend	4 June 2004
Final dividend payable	18 June 2004
Interim results announced	September 2004
Interim dividend payable	November 2004

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Intertek Group plc

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