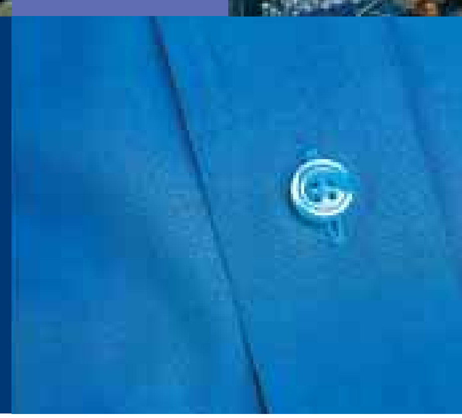
Intertek Testing Services plc



Annual Report and Accounts 2002

www.itsglobal.com

Intertek is an international leader in testing, inspection and certification. We help companies around the world to do business by adding value to their products.

We deliver our services with integrity and skill, which enables our customers to meet their quality, regulatory and safety standards so that people and organisations, wherever they are can trust in the products they use.

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

Financial highlights in 2002

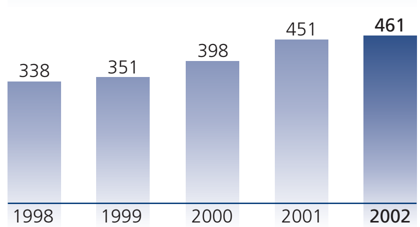
Turnover	£461.1m	**Up** 2.1% at actual exchange rates
		Up 6.1% at constant exchange rates
Operating profit[1]	£76.9m	**Up** 10.2% at actual exchange rates
		Up 15.3% at constant exchange rates
Operating margin	16.7%	**Up** from 15.5%
Operating cash flow[2]	£60.2m	**Up** 13.8%
Profit before tax[3]	£53.9m	
Earnings per share[4]	27.1p	
Proposed final dividend per share	5.2p	

1 before goodwill amortisation and exceptional operating items and includes profits from associates
2 before exceptional items and after capital expenditure
3 after exceptional items
4 basic earnings per share before exceptional items

- ➢ Listing on the London Stock Exchange in May 2002
- ➢ Repayment of all pre-flotation debt
- ➢ New multi-currency debt facility of £300m

Turnover £million

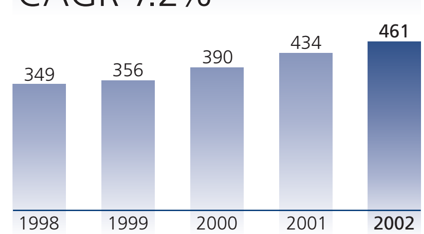
CAGR 8.1%



Continuing business at actual exchange rates

Turnover £million

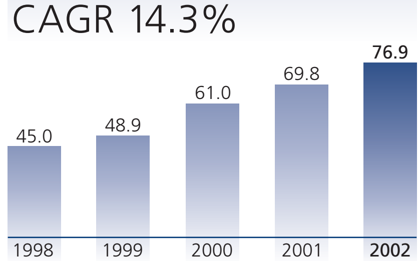
CAGR 7.2%



Continuing business at constant exchange rates

Operating profit[1] £million

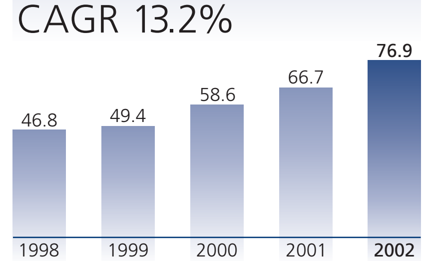
CAGR 14.3%



Continuing business at actual exchange rates

Operating profit[1] £million

CAGR 13.2%



Continuing business at constant exchange rates

1 before goodwill amortisation and exceptional operating items and includes 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 all 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. The key aspects of this strategy are to:

- Be the clear leader in independent testing, inspection and certification worldwide
- Focus on higher value added services
- Serve a wide range of markets including niche markets
- Maintain and develop long-term relationships with customers assessing their specific and specialised needs
- Innovate and use technology creatively to facilitate organic growth
- Invest in growth markets and build leading market positions
- Grow through organic growth supplemented by strategic, bolt-on acquisitions in chosen growth areas
- Pursue synergies across the Group
- Maintain rigorous ethical standards throughout the Group.

Geographic focus

Intertek's head office is in the UK but the operations are conducted in 99 countries throughout the world by locally managed subsidiary companies staffed almost entirely by nationals of the country concerned. Turnover and operating profit for 2002 was generated by companies located in the following regions:

	Turnover £m		Total operating profit[1] £m	
Americas	**166.0**	36%	**16.4**	21%
Europe, Middle East and Africa	**144.3**	31%	**12.1**	16%
Asia	**150.8**	33%	**48.4**	63%
Total	**461.1**	100%	**76.9**	100%

[1] total operating profit is stated before goodwill amortisation of £0.9 million (2001: £1.3 million) and exceptional income of £15.6 million (2001: exceptional costs of £23.1 million)

An analysis of total operating profit after goodwill amortisation and exceptional items is set out 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 manufacture and design, and buying offices. Labtest is able to provide testing services against appropriate standards to allow goods to be sold in all major markets in the world, as it has a broad range of accreditations required by standards bodies needed to meet the requirements of different retailers and other customers worldwide.

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 a retailer's home market and meet the retailer's 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 services.

New safety standards help drive the demand for toys, hardline and textile testing. For example, the European Union has established a new EU Directive restricting azocolourants (dyes) in textiles and leather which will be enforced from September 2003 and safety standards on 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 Services (SCS), Risk Analysis and Management (RAM) and Social Compliance Audit (SCA).

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 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' factories.

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 a wide range of consumer goods carried out at manufacturers' plants in order to confirm 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 Services (SCS) 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. In Europe, this activity is performed through the Group's associate companies, Dekra-ITS in Germany and SEMKO-Dekra in Sweden, in each of which the Group has a 49% holding. In China and Taiwan this activity is carried out in conjunction with British Standards Institute and in the rest of Asia and North America it is carried out within the Labtest division.

RAM Consulting works with customers to eliminate or minimise the hazards associated with products before the products are produced. RAM has built innovative injury databases containing details of more than four million injuries, including information on children, caregivers and product characteristics which it uses to develop safety processes that are implemented into every level of the customer's business process. RAM ensures products are designed for safety, enabling customers to become safety leaders, protect their brand reputation and integrity and help them to succeed in today's safety-critical market. 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 (SCA) involves audits of the social and safety conditions of workers in less developed countries. SCA work 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, and 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 (V&M) and Equipment services work. V&M 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. Equipment services work involves the purchase and resale of specialist testing equipment, primarily in Hong Kong and China.

Divisional strategy

Labtest aims to exploit the continuing strong growth in its market 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 laboratory presence and service range to meet customer needs. Local management continues to be recruited and trained to run and grow the operations.

Labtest also aims to continue strengthening its relationship with retailers, especially in North America and Europe. The relationships with manufacturers and retailers' local buying offices of consumer products are important both for the testing and inspection requirements they create and for the influence they can 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 and sales resources in Asia and other developing countries.

Labtest expects SCS 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. This activity was consolidated within the Labtest division in July 2002. Previously the North American and European SCS activities were in ETL SEMKO.

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, to small operations in territories such as Morocco. Labtest employs highly qualified 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 35 laboratories and 82 offices worldwide. The head office is located in Hong Kong.

Customers

Labtest's customers are retailers, based mainly in North America and Europe but often having buying offices in Asia, and manufacturers, mainly in Asia. Labtest's top 10 global customers represented approximately 22% of its turnover in 2002 and the largest customer, McDonalds accounted for 5.5% of its turnover in the same period.

Market and competition

Labtest has approximately 41% of the textile testing market, approximately 24% of the toys and hardline testing market and approximately 28% of the inspection of consumer goods market. Société Générale de Surveillance and the Bureau Veritas group compete with Labtest in textile, toys and hardline testing, inspection and social compliance audit.

Management and employees

At 31 December 2002, Labtest had a total of 3,463 employees, with 2,768 in Asia, 468 in Europe, and 227 in the Americas.

CALEB BRETT

Business overview and growth prospects

Caleb Brett was founded in 1885 and is a leading international service provider that tests and inspects petroleum and chemicals. Caleb Brett has an international reputation for reliability and confidentiality. Caleb Brett provides independent and internationally recognised certification of the quality and quantity of cargoes of crude oil, petroleum products, chemicals and agricultural produce and carries out a wide range of testing work for oil and chemical companies on an outsourced basis.

Petroleum and chemical companies and traders require independent testing services to verify the quality and quantity of petroleum and chemical cargoes at loading and discharge. This market has benefited from increasingly rigorous environmental regulations in North America and Europe, which require a greater amount of testing.

The main opportunity for growth within Caleb Brett is that multi-national oil and chemical companies are increasingly outsourcing their testing activities to companies such as Caleb Brett but they are currently outsourcing only a very small percentage of their testing work.

Description of business

Caleb Brett's activities in petroleum and chemical testing and inspection are divided into three sub-divisions: Inspection, Inspection-related testing and Outsourcing.

Inspection involves inspecting and sampling crude oil, petroleum and chemical cargoes on loading and discharge to verify the quantity and quality of the cargo. Caleb Brett's certificates are relied upon by buyers and sellers of these cargoes as a basis for the financial transaction between them. Caleb Brett has a worldwide network of offices and laboratories in ports dealing with crude oil, petroleum and chemical cargoes.

Inspection-related testing is the laboratory testing of samples of petroleum and chemical cargoes to assess and certify their composition, and whether they comply with legislation.

Outsourcing involves the provision of testing and analytical services to supplement or replace these activities carried out by oil and chemical companies. This may involve analysing and testing crude oil, petroleum products and chemicals. Outsourcing provides customers with access to the extensive technology and the wide geographical spread of all the Caleb Brett laboratories and offers them a value-added service at a lower cost than they can provide in-house.

Caleb Brett also performs agricultural inspection and testing and marine surveying. Agricultural inspection and testing is the physical sampling, quantification, inspection and testing of commodities, such as cereals, vegetable oils and cotton for organisations and government bodies trading in them. Marine surveying is reporting on cargo damage, primarily for insurance purposes.

Divisional strategy

The market for inspection and inspection-related testing in continental Europe and the United States is not expected to grow significantly. Caleb Brett intends to maintain and expand its share of this business by extending its network of inspection offices and laboratories into areas where there are growth opportunities such as the expanding petroleum market in Eastern Europe and the anticipated opening of the Chinese market.

Caleb Brett uses its on-line ordering and reporting system, "MyCaleb-Brett.com", which interfaces with customers' technology platforms, so they receive information in a format that interacts with their own internal systems. MyCaleb-Brett.com's system-to-system capabilities are helping to increase efficiency and reduce costs for Caleb Brett as well as its customers.

A number of oil and chemical companies have outsourced all or part of their analytical testing work to Caleb Brett laboratories. This is a key growth area for Caleb Brett. Depending on the volume and nature of testing required, Caleb Brett normally performs the customer's testing in one of its existing facilities but in special cases it establishes a facility in a location that suits the customer.

Caleb Brett currently has a small share of the market for agricultural inspection and testing but there are niche opportunities to expand in this area both organically and through small infill acquisitions.

Operations

All of Caleb Brett's facilities are staffed by employees capable of performing relevant inspection, sampling and testing operations. Field inspectors attend ships during loading or discharge, to sample the cargo and measure the cargo quantity. Testing is performed in the Caleb Brett laboratories by qualified analytical chemists using sophisticated equipment and laboratory information systems which allow it to enhance reporting accuracy and reduce operating costs and turn-around times. All of Caleb Brett's testing facilities are either ISO 9000 accredited or operating to that standard pending certification.

Geographic coverage

Caleb Brett operates in 116 countries with 360 offices and 196 laboratories worldwide. The division has its headquarters in the USA (Houston, Texas) and is organised into three geographic regions with headquarters located in Singapore for Asia, the United Kingdom for Europe, the Middle East and Africa and the United States for the Americas.

Customers

Caleb Brett's customers include oil and chemical companies and traders, with whom Caleb Brett has well established, long term relationships. Major global customers include Shell, Exxon Mobil and BP. The majority of Caleb Brett's oil company customers purchase services from Caleb Brett on a "job-by-job" basis.

Caleb Brett's top ten customers represent approximately 30% of turnover in 2002 and its largest customer accounted for 8.0% of turnover in the same period.

Market and competition

The worldwide market for Caleb Brett and its competitors' field of testing and inspection services total approximately £600 million. Caleb Brett has approximately 25% of the oil and chemical testing market. Multi-national oil companies typically split their inspection and testing work between two or more suppliers to sustain competition. Competition is expected to be relatively stable due to high start-up and fixed costs involved in maintaining a global network of facilities, as well as the importance of brand name recognition in work involving counterparties.

Management and employees

At 31 December 2002, Caleb Brett had a total of 5,129 employees worldwide with 1,828 in Europe, the Middle East and Africa, 1,761 in the Americas and 1,540 in Asia.

ETL SEMKO

Business overview and growth prospects

ETL SEMKO tests and certifies 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.

The rate of electrical and electronic product development has increased and product life times have shortened continually over recent years. This has led to an increase in the demand for testing and certification because each new product must be tested against safety and performance standards.

Manufacturing has also increasingly migrated from Europe and North America to developing countries in Asia, especially China. ETL SEMKO is well positioned to take advantage of this migration of business due to its extensive Asian network of testing and inspection capabilities. 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 standards. Further, the demand for testing and certification is increasing in developed countries as they become more focused on safety and performance.

Another driver of growth relates to increasing demand from retailers for 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 used in advertisements. This leads to another growth area because in the

United States, retailers have typically preferred that consumer and home electronic products are safety labelled by Underwriters Laboratories (UL), a non-profit organisation in the United States, which both writes standards and provides testing and certification services. From a legal and regulatory standpoint the ETL label is equal to that of UL, and ETL SEMKO is using its increasing contact with retailers to gain acceptance of the ETL mark in the United States.

European legislation requires products with potential safety hazards to have a CE mark, which requires a self-declaration by the manufacturer of the product that all relevant European standards and directives pertaining to the product have been complied with. 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 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. Examples of these marks are the "S" mark in Sweden which is owned by ETL SEMKO and the "GS" mark in Germany which ETL SEMKO can issue.

ETL SEMKO's activities can be divided into the following four sub-divisions:

Safety testing and certification of electrical and electronic products. This involves the testing of products in ETL SEMKO laboratories against internationally recognised safety, electro-magnetic capability (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 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. These activities are conducted worldwide.

Performance testing of electrical and electronic products. These services include performance testing and verification of energy, capacity, acoustics, reliability, power, durability and usability parameters and comparison evaluation by testing multiple suppliers' 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 (HVAC), 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 in North America 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 U.S. 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. The services provided include testing for fire resistance, structural, mechanical, physical, and accelerated ageing of materials as well as electrical and gas testing. The main products that ETL SEMKO tests are fire doors, which accounted for 47% of turnover in the building products and materials sector in 2002. Other market segments include 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. Under the brand Global Semiconductor Safety Services (GS3), ETL SEMKO inspects 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 throughout the United States, Europe and Asia.

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.

Over 95% of the turnover in ETL SEMKO in 2002 was generated from equipment manufacturers and in the United States, equipment manufacturers' trade associations. About 80% of turnover was generated from safety testing and certification activities. Additional opportunities for growth arise in performance testing services for retailers and manufacturers and in increasing ETL SEMKO's share of the North American consumer and home electronics and domestic appliance safety testing and certification market, where it currently has a small market share. Intertek's growth strategy includes increasing the level of business undertaken for retailers. This includes the inspection work currently undertaken in Labtest 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 could potentially 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 geographical spread by making strategic bolt-on acquisitions, particularly in regions where there are growth opportunities. ETL SEMKO can add value to these acquisitions by making available to the acquired businesses its safety labels and other accreditations and approvals.

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 37 offices and 41 laboratories worldwide. The division has its headquarters in the UK and there are regional head offices in Sweden for Europe, China (Shanghai) for Asia, and the United States for the Americas.

Customers

ETL SEMKO's customers are diverse and vary by geographic location. They include manufacturers, retailers, industry organisations and government departments. ETL SEMKO's top ten customers represented about 12% of its turnover in 2002 and the largest customer accounted for 2.5% of such turnover in the same period. Long-standing relationships with various industry organisations include the Air Conditioning and Refrigeration Institute in the United States, which has been a customer since 1956.

Market and competition

The market for ETL SEMKO varies by geographical area and product type. For example, the market for safety testing in the United States is estimated to be approximately £600 million of which ETL SEMKO's share is approximately 10%. In Europe, this market is approximately £300 million with ETL SEMKO's share estimated to be approximately 8%. In Asia the market is approximately £250 million with ETL SEMKO's share about 10%. The market for performance testing in the United States is approximately £40 million and ETL SEMKO's share is about 25%. The market in the United States for building products is approximately £70 million and ETL SEMKO's share is about 20%. In total, ETL SEMKO is estimated to have about 8% of the global market.

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 and Asia.

Management and employees

At 31 December 2002, ETL SEMKO had a total of 1,740 employees, with 466 in Europe, the Middle East and Africa, 538 in Asia and 736 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.

Standards programmes are contracted by the Standards Bodies of client countries. 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. In most cases these services are paid for by the exporters.

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

Fiscal Good Governance 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 other 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 and certifies the import duties payable. The FTS certificate is needed in order to clear the shipment 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.

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 the importer with a degree of protection against exporters delivering goods which do not meet the importer's specifications or are of low quality.

Contracts fall into one of three categories:

- *Single Contracts* – A single organisation is selected by a government to inspect all inbound trade shipments.
- *Shared Contracts* – Two or more organisations are selected by a government to inspect inbound trade shipments and have responsibility of execution divided between them according to the location of the exporter. For example, one inspection organisation may cover imports from the Americas, a second imports from Europe and Africa and a third imports from Asia.
- *Competitive Contracts* – A number of organisations are authorised by a government to inspect inbound shipments. Importers or exporters then decide which organisation inspects and certifies their shipments as required. Competitive contracts are common in South America.

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

Divisional strategy

FTS intends to focus 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. This move has been enhanced by the establishment of a strategic alliance with Charles Kendall and Partners (CKP), a British organisation which provides customs consultancy services. The new products, and the strategic alliance, together mean that FTS can provide a fuller customs support package to client governments. The division will also work to increase its turnover in standards programmes, building on the recent success of the new contract with the Public Authority for Industry, the Standards Body of Kuwait.

FTS is reducing operating costs and improving its service through a project to redevelop its core IT systems. The roll out of the new web-based technology will be completed for all FTS offices worldwide during 2003. It is expected that efficiency gains, service improvements and cost reductions will be realised from 2004 and beyond.

FTS is important to the Intertek Group not only because of its own turnover and profits, but also because of the cross selling benefits to the Group. The Saudi Arabian Standards Organisation (SASO) and other Standards Body programmes increase the ETL SEMKO customer base because exporters seeking safety certification for Saudi Arabia are likely to also use ETL SEMKO for other testing and certification work.

Operations

Inspection requirements typically involve verification of shipment quantity, quality, product specification and value. The requirement for inspection work is normally first notified in the country of import. FTS logs the job in its worldwide information system and notifies one of its regional offices around the world located near the exporter. FTS' information system automatically generates notification to the exporter, informing it of the requirements for inspection and where appropriate, testing. 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.

Description of business

Geographic coverage
FTS has 51 offices worldwide and its head office is located in the United Kingdom.

Customers
FTS' customers include SASO and the governments of Bangladesh, Ecuador, Iran, Kenya, Mexico, Mozambique, Nigeria, Rwanda and Uzbekistan. The contracts with the government of Nigeria and SASO account for a substantial portion of FTS' business. In any given year, approximately 50% of FTS' contracts (by number) are scheduled for renewal.

Most of FTS' customer contracts may be cancelled at short notice and without cause. For example, in early 1999, the Nigerian government unexpectedly ended its programme and subsequently implemented a new programme later that year. The governments of Argentina, Georgia and Uganda all ended their pre-shipment inspection programmes in 2001. 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. FTS' top ten customers represented about 94% of its turnover in 2002.

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 by 29 May in each year. The Nigerian pre-shipment inspection contract was due to end on 30 June 2002 but has continued since then. The contract in Kenya was due to end on 31 January 2003 but there has been a change of government in Kenya and FTS have received a three month extension to the programme. FTS was awarded sole mandate of a new standards testing programme in Kuwait at the end of 2002. The programme is expected to start in the second quarter of 2003 but may be delayed by political events.

Market and competition
Four companies effectively dominate the FTS 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 14% of the market with 80% held by three competitors.

Management and employees
At 31 December 2002, FTS employed a total of 826 employees and used approximately 1,200 subcontractors.

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, group tax, compliance and company secretarial services.

The Company's head office is in London, United Kingdom and consists of 28 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 2002

Overview

Turnover for the Group was £461.1 million, an increase of 6.1% over the previous year at constant exchange rates. At actual exchange rates, the increase was 2.1%. Growth was strong in Asia and Europe but there was lower turnover in America where market conditions were weak in the oil and chemical sectors and in telecommunications testing, however, each of the four operating divisions reported increased turnover in the year, with Labtest delivering over 13% year on year growth at constant exchange rates.

Total operating profit before goodwill amortisation and exceptional items improved by £10.2 million to £76.9 million which was 15.3% at constant exchange rates. At actual exchange rates, the increase was 10.2%. Labtest, ETL SEMKO and FTS all delivered strong year on year growth while Caleb Brett reported a small decline due to depressed oil and chemical markets. The Group made some small acquisitions in the year, costing £0.4 million in total, which did not have a significant effect on the results. Group profit margins after central overheads increased by 1.3% to 16.7%.

The performance of each of the divisions at constant exchange rates with an adjustment to actual exchange rates is shown below:

	Turnover			Total operating profit[2]		
	2002 £m	2001 £m	Change %	**2002 £m**	2001 £m	Change %
Labtest	**123.8**	109.3	13.3	**41.5**	33.9	22.4
Caleb Brett	**172.8**	168.4	2.6	**16.3**	16.5	(1.2)
ETL SEMKO	**104.7**	99.9	4.8	**14.0**	12.4	12.9
Foreign Trade Standards	**59.8**	56.8	5.3	**11.3**	9.1	24.2
Central overheads	**–**	–	–	**(6.2)**	(5.2)	–
Continuing operations at constant exchange rates[1]	**461.1**	434.4	6.1	**76.9**	66.7	15.3
Exchange rate adjustment	**–**	17.0	–	**–**	3.1	–
As reported at actual average exchange rates	**461.1**	451.4	2.1	**76.9**	69.8	10.2

[1] 2002 and 2001 figures are stated at average exchange rates for 2002

[2] total operating profit is stated before goodwill amortisation and exceptional items - see note 2 to the financial statements

An analysis of total operating profit after goodwill amortisation and exceptional items is set out in note 2 to the financial statements.

Review of 2002 divisional performance

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

Labtest

Labtest continued to perform strongly. At constant exchange rates, Labtest's turnover increased by 13.3% to £123.8 million and operating profit increased by 22.4% to £41.5 million. At actual exchange rates, reported turnover and operating profit growth was 8.2% and 16.6% respectively. Most of the growth came from Asia where textile testing, toy testing, inspection and social compliance audit continued to perform well as a result of increasing demand for quality by consumers, more safety standards, growing numbers of product variants, shorter product life cycles and the continuing migration of manufacturing from developed countries to Asia. Turnover in China grew strongly in the established operations in Shanghai and Shenzhen, the new hardlines laboratory in Shanghai and the new textile testing facility in Guangzhou. The division's operating margin at constant exchange rates, increased from 31.0% to 33.5% principally due to continued improvement in operating procedures in Hong Kong and growth in China where operating costs are lower than in Hong Kong.

Operating and financial review

Caleb Brett

At constant exchange rates, turnover increased by 2.6% to £172.8 million but operating profit declined by 1.2% to £16.3 million. At actual exchange rates, reported turnover and operating profit declined 1.8% and 6.3% respectively. The cargo inspection and testing market accounted for 77% of the business. This part of the business operated in a competitive market. The oil market was slow with a decline in fuel oil shipments in the United States at the start of the year due to the relatively warm winter and reduced oil shipments to power stations during the year because of low natural gas prices. Oil shipments generally were low due to stock levels being kept at a minimum. Caleb Brett's operating margin at constant exchange rates reduced from 9.8% to 9.4%.

The decline in turnover in the traditional inspection business was more than offset by growth in the testing outsourced to Caleb Brett by oil and chemical companies. This segment showed modest growth, accounting for 23% of Caleb Brett's turnover. The number of customers interested in outsourcing continues to increase and the outlook for growth is positive.

ETL SEMKO

At constant exchange rates, ETL SEMKO's turnover increased by 4.8% to £104.7 million and operating profit increased by 12.9% to £14.0 million. At actual exchange rates, reported turnover and operating profit increased by 1.6% and 9.4% respectively. Growth was mainly due to there being more safety testing of household appliances manufactured in Asia for export to North America and Europe, increased safety and electrical testing in Sweden and increased testing of building products and HVAC equipment in North America. Telecom testing in the US and Europe, which together represented some 8% of the division's turnover, declined due to the lack of product development and therefore testing. This trend started in mid 2001 and continued for the rest of that year but which stabilised mid 2002. The division's operating margin at constant exchange rates, increased from 12.4% to 13.4%, mainly due to cost reductions in 2002 in the United States.

Foreign Trade Standards

FTS had a good year with strong growth in operating profit and improved margins. At constant exchange rates, turnover increased by 5.3% to £59.8 million and operating profit increased by 24.2% to £11.3 million. At actual exchange rates, reported turnover and operating profit increased by 3.3% and 18.9% respectively. The operating margin at constant exchange rates, increased from 16.0% to 18.9%. The increase in operating profit was primarily driven by the expansion of the pre-shipment inspection programme in Nigeria in the latter part of 2001. The Nigerian programme in its present form was due to terminate in June 2002 but has been extended. Turnover from the standards testing programme in Saudi Arabia grew due to the addition of new products to the programme, but there were increased operating costs. On 29 May 2002, the Group announced that it had received notification from SASO that the programme may cease at the end of August 2002, but this proved not to be the case. The programme is well established and contractually it runs until at least August 2003. The pre-shipment inspection programmes in Kenya, Iran and Uzbekistan generated growth in operating profit but closure costs were incurred in connection with discontinued programmes in Uganda and Argentina.

Central overheads

Central overheads at constant exchange rates, increased by 19.2% to £6.2 million in the year, primarily due to additional costs involved in strengthening compliance and increased rent at the Group's head office in London.

Operating exceptional items

The Group reported an exceptional operating credit of £15.6 million in 2002 compared to exceptional costs of £23.1 million in 2001. The credit comprised cash received from Inchcape plc in connection with indemnified claims arising on the sale of Inchcape Testing Services in 1996, cash received from the Group's insurers in respect of costs provided in earlier years relating to litigation in respect of the discontinued Environmental Testing division and the recovery of certain FTS government debts previously provided against.

Interest

The Group's net interest charge before exceptional items for the year was £22.5 million compared to £39.2 million a year ago. The pre-flotation debt was repaid and new banking facilities were put in place in June and July 2002 which reduced the Group's interest charge in the second half of the year. Had this refinancing occurred on 1 January 2002 the interest charge for the year would have been approximately £10.5 million.

The Group incurred an exceptional finance charge of £15.5 million in 2002. This comprised bond redemption fees of £7.3 million and accelerated fee amortisation on repaid loans and share warrants of £8.2 million.

Profit before tax

Profit before tax was £53.9 million compared to £6.4 million in 2001.

Taxation

Tax on profit before exceptional items was £16.0 million, £0.7 million lower than last year and the effective tax rate before exceptional items reduced from 56.6% to 29.7%. The main reason for the reduction in the effective tax rate was 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 remain close to 30% in the foreseeable future.

There was no tax impact from the exceptional items. The exceptional income is either permanently non taxable, or is offset by brought forward losses. The exceptional expense is generally deductible but is not absorbed by current year taxable income.

Net profit

Net profit after tax and exceptional items was £37.9 million compared to a loss last year of £10.3 million.

Earnings per share

As set out in note 9 to the financial statements, basic earnings per share in the year before exceptional items were 27.1p. After exceptional items this increased to 27.2p. An underlying earnings per share calculation is also shown which removes the impact of exceptional items and goodwill amortisation to give an underlying earnings per share of 27.8p. The Group's new capital and debt structure was put in place part way through the year which impacted the interest and tax charges and the weighted average number of shares in issue. If the new capital and debt structure had been in place for the whole year, the pro-forma basic earnings per share would have been 27.1p. This provides a more reliable comparison of the underlying results of the Group when comparing with future periods.

Dividend

No interim dividend was paid for the six months to 30 June 2002. A final dividend of 5.2p per share has been proposed, which subject to shareholder approval will be paid on 18 June 2003, to shareholders on the register at 6 June 2003. Going forward, the Group expects to recommend to shareholders, the payment of both an interim and a final dividend.

Shareholders' funds

The net profit after minority interests for 2002 of £33.6 million was reduced by a provision for the final dividend of £8.0 million and an actuarial loss on the Group's defined benefit pension schemes of £6.5 million, and was increased by foreign exchange movements of £6.5 million to reduce shareholders' deficit by £25.6 million. The issue of new shares in the year increased shareholders' funds by £232.3 million. Preference shares of £105.5 million were redeemed during the year. At the end of 2002, shareholders' funds were in deficit by £90.5 million compared to a deficit of £242.9 million at 31 December 2001. The deficit arises principally from the write-off of goodwill in 1996 when the Group was purchased from its former owners. This amounted to £264.7 million at 31 December 2002. Excluding this historic goodwill write-off, shareholders' funds would show a surplus of £174.2 million at 31 December 2002.

Cash flow

Total operating cash inflow was £97.4 million in the year, up £27.4 million on last year. The increase is impacted by exceptional cash inflow in 2002 and exceptional cash outflow in 2001. The cash inflow in the year included exceptional net cash inflow of £13.6 million relating to income from the settlement of claims against the Group's former parent, insurance refunds and debts collected from foreign governments which had previously been written off offset by restructuring costs, legal fees and other costs. In 2001, there was exceptional net cash outflow of £8.7 million related to fines and legal costs, net of insurance recoveries, and restructuring costs. Excluding exceptional cash flows, cash generated by operations was £83.8 million (2001: £78.7 million).

In May 2002, the Group raised £232.7 million, net of issue costs, from shareholders by floating on the London Stock Exchange. Shortly afterwards, new banking facilities were made available and existing debt, debentures and preference shares were repaid.

Accounting policies

The accounting policies of the Group remain unchanged from last year. The Group elected to adopt FRS 17: Retirement benefits and FRS 19: Deferred tax in its 2001 accounts, ahead of the mandatory deadlines. There were net actuarial losses of £6.5 million on the Group's defined benefit pension schemes in the year and the net liabilities increased to £7.4 million. The actuarial pension losses are charged to shareholders' funds through the statement of recognised gains and losses and the pension liabilities are included in the Group balance sheet.

Treasury controls

Policy

The Group's treasury and funding activities are undertaken by a centralized 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 finance 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 held in US dollars. Exposures arising from the translation of balance sheet net assets in foreign currencies are mainly matched using currency borrowings.

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 31% 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. The Group has £300 million committed multi-currency facilities available to it extending to June 2007. At 31 December 2002, drawings under these committed facilities totalled £250 million (excluding the impact of foreign exchange adjustments), providing the Group with adequate facility head-room 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 the business, including claims for damages, negligence and commercial disputes regarding inspection and testing and disputes from former employees. The following procedures are adopted to minimise both the potential and actual cost to the Group as follows:

- rigorous compliance policies and procedures;
- a zero tolerance policy;
- thorough investigation of all claims;
- adequate insurance policies are maintained to cover certain claims from customers should any claims be successful.

Directors' report

The Directors of Intertek Testing Services plc have pleasure in presenting their Annual Report and the audited Financial Statements for the year ended 31 December 2002.

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 Business description and the Operating and financial review.

The Group was created by a group reconstruction whereby, on 24 May 2002, the shareholders exchanged the whole of the issued share capital of Intertek Testing Services Holdings Limited (ITSHL), (formerly Intertek Testing Services Limited), 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 and Schedule 4A to the Companies Act 1985. By adopting this accounting treatment the consolidated financial information of Intertek Testing Services plc included in these accounts has been presented to show the results of the reconstructed group as though the reconstruction had occurred prior to 1 January 2001.

Intertek Testing Services plc was incorporated on 9 August 2001 as Alnery No.2218 Limited. At 31 December 2001 the Company had an issued share capital of 1 ordinary share of £1. On 10 April 2002, the Company made an exchange offer for all the issued share capital of Intertek Testing Services Limited (until then the parent company of the Group) for a consideration satisfied by the issue of one new share in the Company for each corresponding share in Intertek Testing Services Limited. On 24 May 2002, the Company was re-registered as a public limited company and changed its name to Intertek Testing Services plc.

The Board has concluded that it would be in the best interests of the Group to refocus the Group's brand on the name "Intertek". Accordingly the Board has decided that it should seek the approval of the shareholders to rename the Company, Intertek Group plc. That proposal will be treated as Special Business at the forthcoming Annual General Meeting of the Company.

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 18 to the financial statements.

Dividends

No interim dividend was paid for the six months to 30 June 2002. A final dividend of 5.2p per share has been proposed, which subject to shareholder approval will be paid on 18 June 2003, to shareholders on the register at 6 June 2003. Going forward, the Group expects to recommend to shareholders, the payment of both an interim and a final dividend.

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	Appointed 9 May 2002
RC Nelson	Chief Executive Officer	Appointed 9 April 2002
W Spencer	Chief Financial Officer	Appointed 9 April 2002
DP Allvey	Non-Executive Director	Appointed 9 May 2002
W Hauser	Non-Executive Director	Appointed 1 November 2002
RE Sayers	Non-Executive Director	Appointed 9 May 2002
Alnery Incorporations No 1 Limited	Director on incorporation	Resigned 9 April 2002
Alnery Incorporations No 2 Limited	Director on incorporation	Resigned 9 April 2002

VE Treves and RC Nelson retire by rotation and W Hauser, a Director appointed during the year, being eligible, offer themselves for re-election.

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 entered into 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 21 to 27.

Employee policies

The Group's employment policy is to ensure that all employees are measured 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 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 enhance their personal wealth, while at the same time aligning themselves more closely with the Company's performance, through ownership of the Company's shares. The Company operates two share option schemes for key employees and these are detailed 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 works councils, mostly in continental Europe and in Korea. 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 creditors

The Group does not follow any code or standard on payment practice but instead the Group 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 in accordance with those terms subject to the terms and conditions being met by the supplier. The Company has no trade creditors.

Substantial shareholdings

At 3 March 2003, the Company has been notified in accordance with sections 198 to 205 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	21,197,283	13.81%
Charterhouse Capital Limited	12,498,064	8.14%
FMR Corp. and Fidelity International Limited	10,947,772	7.13%
Axa S.A.	8,514,218	5.55%
Lazard Asset Management	6,881,140	4.48%
The Prudential Group of Companies	6,354,312	4.14%
Legal and General Group plc	4,603,517	3.00%

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.

Directors' report

Corporate governance

The Group's statement of corporate governance is set out on pages 28 to 31 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 AGM.

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 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 the going concern basis unless it is inappropriate to presume that the Group will continue in business.

The Directors confirm that they have complied with the above requirements in preparing the Financial Statements.

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.

Going concern

The operation of the Group's control procedures gives the Directors 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 accounts.

Annual general meeting

The Notice of the Annual General Meeting to be held on Thursday 15 May 2003 is enclosed with this Annual Report and Accounts. The Notice details the business to be considered at the meeting, including a proposal to change the Company's name to Intertek Group plc.

By order of the Board

Martin Black
Company Secretary
10 March 2003

Registered Office: 25 Savile Row, London W1S 2ES
Registered Number: 4267576

Remuneration report

This report sets out the Company's policy and disclosures in relation to Directors' remuneration.

The Company has applied the Principles of Good Governance relating to the remuneration of its Directors and has complied with the provisions of the Code of Best Practice as set out below and as disclosed in Corporate Governance Statements.

Remuneration Committee

The Remuneration Committee determines, on behalf of the Board, the Company's policy on the remuneration of executive Directors. The Committee determines their total remuneration packages including any compensation on termination of office. The Committee also provides advice to the Chief Executive Officer on major policy issues affecting the remuneration of senior executives. To ensure that Intertek's remuneration practices are market competitive, the Remuneration Committee takes advice from various independent sources. The Committee met five times during 2002.

The Remuneration Committee is comprised exclusively of independent Non-Executive Directors of the Company. The members of the Remuneration Committee are:

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. 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 it 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 determines 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 2003 and for the foreseeable future will remain the same, targeted as it is on the market median.

Executive Directors

Basic salary

The basic 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.

Performance bonuses
The Executive Directors and senior executives are eligible for annual incentive payments for the achievement of annual financial and tactical goals of the Intertek Group and its businesses. The financial targets are derived from the strategic planning process for the Intertek Group and its businesses which is the cornerstone of Intertek's results culture. During 2002, bonus targets focused on profit growth, the delivery of cash and the achievement of individual strategic objectives. Targets are established and approved by the Remuneration Committee. Such incentives are not pensionable.

Pensions
Executive Directors (excluding RC Nelson) participate in the Company's UK final salary pension scheme on the same basis as other eligible employees. RC Nelson's pension entitlement was established at a level which reflected the valuable contribution he has made in the development of the Group. That policy as well as the amounts paid into his pension fund, were agreed with the institutional shareholders of Intertek Testing Services Limited, the Group's former parent company.

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 will increase with effect from 1 April 2003 to the amounts disclosed in the notes below the summary of pro-forma emoluments and compensation on page 25. Such remuneration is neither pensionable nor eligible for annual incentive payments. The Non-Executive Directors are not allowed to participate in share option schemes. Other than VE Treves, the Non-Executive Chairman of the Company who has the benefit of a company car, no other benefits in kind are provided.

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, which are terminable by either party on twelve months notice. Both contracts contain provisions for payment of salary over a twelve month period, subject to mitigation, 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 a period of three years. The Board (excluding Non-Executives) determines the remuneration of the Non-Executive Directors. As noted in this Remuneration report under Transactions with Directors, W Hauser has a consultancy agreement with the Company.

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 a single 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. In order to encourage share ownership the Company established a share option scheme for senior management in March 1997. That scheme has now been discontinued and replaced by The Intertek Testing Services 2002 Share Option Plan (the 2002 Plan) and the Intertek Testing Services 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 Intertek 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 conditions have been satisfied. The Remuneration Committee will make that determination at the appropriate time.

Options are granted subject to performance criteria unless there are regulatory or legal difficulties in jurisdictions in which the employee is based. The performance condition requires that the growth in the Company's earnings per share (EPS) out-performs the growth in the retail prices index 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 retail prices index by 11% per annum over a three year period. For growth rates between 5% and 8% and 8% and 11%, the exercisable percentage of options 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 a further 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 acquisition, in order to demonstrate their commitment to the Company.

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 Plan must not exceed £30,000.

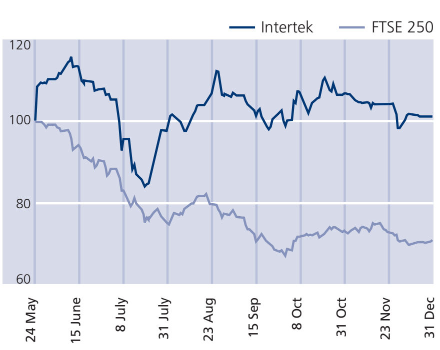
Period of exercise

Under both the 2002 Plan and the Approved Plan, the period during which options can be exercised is as follows:

Date of grant	Date first exercisable	Date last exercisable
30 May 2002	30 May 2005	29 May 2012

Performance graph

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



This graph shows the movement in share price since the Company's flotation on 24 May 2002, as compared to the movement in the FTSE 250 share price index. That index has been selected as the most appropriate measure of the performance in the Company's share price as there are too few direct competitors in the Support Services sector to enable a meaningful comparison to be made.

At the time of flotation, the share price was 400p per share and at 31 December 2002 the share price was 404.5p. The highest price was 462.5p and the lowest was 334.5p during that period.

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

Directors' remuneration summary

	2002						2001		
	Base salary and fees £000	Performance bonuses £000	Benefits in kind £000	Total emoluments £000	Pension contributions £000	Total £000	Total before pensions £000	Pension contributions £000	Total £000
Executive Directors									
RC Nelson	232.0	162.4	20.5	414.9	86.4	501.3	–	–	–
W Spencer	101.1	50.5	12.4	164.0	7.3	171.3	–	–	–
Alnery Incorporation No 1 Ltd	–	–	–	–	–	–	–	–	–
Alnery Incorporation No 2 Ltd	–	–	–	–	–	–	–	–	–
Non-Executive Directors									
VE Treves	38.5	–	10.8	49.3	–	49.3	–	–	–
DP Allvey	12.8	–	–	12.8	–	12.8	–	–	–
RE Sayers	15.0	–	–	15.0	–	15.0	–	–	–
W Hauser	4.2	–	–	4.2	–	4.2	–	–	–
Total	403.6	212.9	43.7	660.2	93.7	753.9	–	–	–

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

The above table shows the remuneration of Directors for the year or since their date of appointment for services to the Company and its subsidiary undertakings.

For ease of comparison and to understand the Directors' overall remuneration between 2002 and 2001, the following pro-forma details of individual emoluments and compensation have been provided. The pro-forma amounts represent the emoluments and compensation that would have existed if the trading subsidiaries had been the subsidiaries throughout 2002 and 2001 and as if the Directors had been Directors on Intertek Testing Services plc throughout the same period as they were Directors of the previous parent company, Intertek Testing Services Limited.

Pro-forma details of individual emoluments and compensation

	Notes	2002 Base salary and fees £000	2002 Performance bonuses £000	2002 Benefits in kind £000	2002 Total emoluments £000	2002 Pension contributions £000	2002 Total £000	2001 Total before pensions £000	2001 Pension contributions £000	2001 Total £000
Executive Directors										
RC Nelson		315.0	220.5	27.2	562.7	269.2	831.9	510.1	113.7	623.8
W Spencer		136.8	68.4	16.4	221.6	9.1	230.7	203.6	7.1	210.7
Non-Executive Directors										
VE Treves	1	60.0	–	15.5	75.5	–	75.5	71.3	–	71.3
DP Allvey	2	20.0	–	–	20.0	–	20.0	13.3	–	13.3
RE Sayers	3	15.0	–	–	15.0	–	15.0	–	–	–
W Hauser	4	4.2	–	–	4.2	–	4.2	–	–	–
Total		551.0	288.9	59.1	899.0	278.3	1,177.3	798.3	120.8	919.1

[1] from 1 April 2003 VE Treves Director's fees are £80,000 per annum plus car allowance
[2] DP Allvey was appointed in May 2001. From 1 April 2003 his annual Director's fee is £25,000 per annum plus £5,000 per annum for chairing the Audit and Remuneration Committees
[3] RE Sayers was appointed in May 2002. His annual fee for 2002/03 was £20,000 per annum. From 1 April 2003 his annual Director's fee is £25,000 per annum plus £2,500 per annum for serving on the Audit and Remuneration Committees
[4] W Hauser was appointed in November 2002. His annual Director's fee is £25,000 per annum

Benefits in kind

The principal benefits in kind for Executive Directors include a company car, private medical and permanent health insurance, life assurance and personal accident insurance. 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 £95,400 for 2001/2002 plus 40% of the excess to basic salary.

During 2002 the Company made contributions of £269,168 (2001: £113,700) to his pension scheme, made up of a one-off special contribution of £153,938 as well as the normal contribution of £115,230 calculated as above.

RC Nelson is entitled to a death in service benefit comprising a lump sum payment equal to four times his basic 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 basic 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: 6% of basic salary (excluding incentive payments) from 1 April 2002 and 5% prior to that.
Employer's contributions	As determined by the Company and the Trustees: 10% of basic salary (excluding incentive payments) from 1 April 2002 and 7.5% prior to that.
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 since date of appointment are shown in the table below:

Name	Age at 31 December 2002	Contributions made since date of appointment £	Increase in accrued entitlement since date of appointment [1] 2002 £	Accrued entitlement [2] 2001 £	Transfer value [3] 2001 £	Transfer value 2002 £	Decrease in transfer value since date of appointment £
W Spencer	43	4,056	1,406	25,284	101,443	91,951	(9,492)

1 pro-rata of full year increase of £1,930
2 includes transfer from another fund of £6,924
3 in the absence of a transfer value calculation at 9 April 2002, this figure has been calculated based on a pro-rata of decrease in transfer value for the year of £13,026. The accrued pension entitlement is the amount that would be paid each year on retirement at 60 based on service to 31 December 2002, 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

Transactions with Directors

W Hauser, a Non-Executive Director of the Company, has entered into a consultancy agreement with the Group 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% payable on the satisfactory completion of the tasks assigned to him. It is anticipated that he will be requested to work at least 50 days in any one year. In 2002 the amount paid under this consultancy agreement was £16,000. No other related party transactions have been entered into.

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:

	Number at date of appointment	Options granted since date of appointment Number	Price	Number at 31 December 2002	Date first exercisable	Name of plan
RC Nelson	–	6,864	437p	6,864	May 2005	Approved
	–	55,379	437p	55,379	May 2005	2002 Plan
W Spencer	–	6,864	437p	6,864	May 2005	Approved
	–	15,466	437p	15,466	May 2005	2002 Plan

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 option since their date of appointment and therefore no aggregate gain was made (2001: £nil).

Directors' interests in ordinary shares

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

Ordinary shares of 1p*	Date of appointment and 31 December 2002 Number
VE Treves	100,000
DP Allvey	100,000
RC Nelson	3,632,514
W Spencer	993,201

* represents the number of shares held in Intertek Testing Services Limited at that date. At the time of the IPO in May 2002 such shares were exchanged for new shares in the Company on a one for one basis, in line with all other shareholders

On 7 January 2003 RE Sayers acquired 1,500 shares in his wife's name.

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 2002 and the date of this Report.

Approved by the Board on 10 March 2003.

DP Allvey
Chairman, Remuneration Committee

Corporate governance

The Intertek Group is committed to high standards of corporate governance. The Board is accountable to the Company's shareholders for good governance and this statement describes how the relevant principles of governance are applied to the Company.

Prior to the IPO the Company's predecessor in the business, Intertek Testing Services Limited was compliant with all aspects of the Combined Code, other than;

- having a majority of the Non-Executive Directors who were independent of management.
- providing Terms of Reference to the Audit, Nominations and Remuneration Committees.
- formalising procedures whereby Directors could obtain independent legal advice.
- as an unlisted Company, there was no requirement to re-appoint Directors.

Since 29 May 2002, when the Company's shares were first quoted on the London Stock Exchange, the Company has been fully in compliance with all the provisions set out in the Combined Code for Corporate Governance appended to the Listing Rules of the UK Listing Authority.

Directors

The Board currently comprises the Non-Executive Chairman, the Chief Executive Officer, 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.

The four Non-Executive Directors have a range of experience bringing judgement on issues of strategy, performance, resources and standards of conduct, which is vital to the success of the Group.

The Board is responsible to shareholders for the proper management of the Group. A statement of the Directors' responsibilities in respect of the accounts is set out in the Directors' Report. 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 against the best long term interests of shareholders, but also to ensure that they take proper account of the interests of employees, customers and suppliers. 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.

To enable them to do this all Directors have full and timely access to all relevant information. The Group has identified a number of key areas that are subject to regular reporting to the Board. In addition the Audit Committee controls the authority limits of various levels of the senior management team, including requiring that certain matters be subject to prior Board approval. The Board meets at least eight times a year and there is frequent contact between meetings to develop the Company's business. A detailed annual review of Group strategy takes place at which senior management from each Division and geographical area make presentations to the Board.

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

The Audit Committee, which met four times during the year, comprises three independent Non-Executive Directors, currently DP Allvey (Chairman), RE Sayers and VE Treves. The Committee has responsibility for, among other things, the planning and review of the Group's annual report and accounts and half-yearly reports 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 financial control is maintained. The ultimate responsibility for reviewing and approving the Annual Report and Accounts and the interim report remains with the Board.

The Remuneration Committee

The Remuneration Committee comprises three independent Non-Executive Directors, currently DP Allvey (Chairman), RE Sayers and VE Treves. The Committee has responsibility for making recommendations to the Board on the Group's policy on the remuneration of the Executive Directors and of senior executives and for the determination, within agreed terms of reference, of specific remuneration packages for each of the Executive Directors, including pension rights and any compensation payments and implementation of employee share schemes. The committee met five times in 2002.

The Nomination Committee

The Nomination Committee comprises three independent Non-Executive Directors, currently VE Treves (Chairman), DP Allvey and RE Sayers. This Committee, which normally meets at least once a year, nominates candidates to fill Board vacancies and makes recommendations to the Board on the balance and composition of the Board. The policy on Directors' service contracts is set out in the Remuneration report on page 22.

All the above committees operate in accordance with the relevant terms of reference as approved by the Board.

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 misstatement 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. It seeks to enhance value that may arise from an appropriate response to such issues. In carrying out that review the Board is satisfied that it received adequate information from its operations around the world. Training is provided to Directors in 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. The Group operates a Zero Tolerance Policy in regard to breach 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 which may include dismissal of the employee concerned. To support Group policies there is an independent telephone hotline so that staff may report anonymously any inaccurate or unethical working practices.

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, in association with the Risk Management Committee (described on page 30), is responsible for the identification and evaluation of significant risk 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 in information systems, competition, natural catastrophe and regulatory requirements.

A process of control self-assessment and hierarchical reporting has been established which provides for a documented trail of accountability. These procedures are relevant 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 who also provide 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 their 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 financial 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 findings are presented to the Audit Committee. Each geographic region has its own internal financial auditor who is independent of the divisions. Each reporting site is visited at least every eighteen months. Reports of findings are presented to the Audit Committee.

The Group has implemented internal audit systems to facilitate compliance with applicable requirements of the FCPA, the OFAC and 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 key performance 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, the Risk Management Committee and the Audit Committee. The Board approves treasury policy and that department's activities are also subject to internal and external audit.

The Risk Management Committee comprises the Chairman of the Audit Committee, currently DP Allvey, the Chief Executive Officer, the Chief Financial Officer and the Vice President Compliance. It meets regularly and reviews the annual assessment of group risk management and control process and considers the:

- authority, resources and co-ordination of those involved in the identification, assessment and management of significant risks faced by the Group including social, environmental and ethical matters;
- controls for the significant risks which have been identified by management and others; and
- maintenance of a control environment directed towards the proper management of risk.

Additionally, the Risk Management Committee monitors all changes made to procedures and follows up on areas that require improvement. It reports to the Audit Committee annually or more frequently should the need arise.

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.itsglobal.com) which contains up to date information on the Group's activities and published financial results.

There is a regular dialogue with institutional shareholders including presentations after the Company's Preliminary Announcement of the year end results and at the half year.

The Board proposes to use the AGM as a valuable opportunity to communicate with private and institutional investors and welcomes their participation.

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 a 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 all its staff irrespective of their ethnic or religious background, sex, sexual orientation or disability.

Appropriate health and safety measures have been established and are operated throughout the Group. The operation of such measures are kept under regular review by local compliance officers. 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.

On behalf of certain customers, the Group monitors manufacturers of goods from developing countries to ensure that work practices and factory conditions are legal, humane and ethical, including ensuring that no enforced or child labour is used.

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

Environmental matters

The Group is committed to preventing any adverse impact on the environment as a result of its operations. There can be the potential for an environmental impact associated with various parts of its business. 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.

Group profit and loss account

for the year ended 31 December 2002

	Notes	Pre exceptional items 2002 £m	Exceptional items 2002 (note 4) £m	Total 2002 £m	Pre exceptional items 2001 £m	Exceptional items 2001 (note 4) £m	Total 2001 £m
Turnover – continuing operations	2	461.1	–	461.1	451.4	–	451.4
Cost of sales		(356.3)	–	(356.3)	(354.9)	–	(354.9)
Gross profit		104.8	–	104.8	96.5	–	96.5
Administrative expenses		(28.8)	15.6	(13.2)	(27.7)	(20.0)	(47.7)
Goodwill amortisation		(0.9)	–	(0.9)	(1.3)	(3.1)	(4.4)
Total administrative expenses		(29.7)	15.6	(14.1)	(29.0)	(23.1)	(52.1)
Group operating profit/(loss)		75.1	15.6	90.7	67.5	(23.1)	44.4
Share of operating profits of associates		0.9	–	0.9	1.0	–	1.0
Total operating profit/(loss)	2	76.0	15.6	91.6	68.5	(23.1)	45.4
Continuing operations		76.0	5.9	81.9	68.5	(10.7)	57.8
Discontinued operations		–	9.7	9.7	–	(12.4)	(12.4)
Profit/(loss) on ordinary activities before interest		76.0	15.6	91.6	68.5	(23.1)	45.4
Net interest and similar charges	6a	(22.5)	(15.5)	(38.0)	(39.2)	–	(39.2)
Other finance income	6b	0.3	–	0.3	0.2	–	0.2
Profit/(loss) on ordinary activities before taxation	3	53.8	0.1	53.9	29.5	(23.1)	6.4
Taxation on profit/(loss) on ordinary activities	7	(16.0)	–	(16.0)	(16.7)	–	(16.7)
Profit/(loss) on ordinary activities after taxation		37.8	0.1	37.9	12.8	(23.1)	(10.3)
Attributable to minorities		(4.3)	–	(4.3)	(4.4)	–	(4.4)
Profit/(loss) for the financial year		33.5	0.1	33.6	8.4	(23.1)	(14.7)
Dividends	8	(8.0)	–	(8.0)	–	–	–
Retained profit/(loss) for the year		25.5	0.1	25.6	8.4	(23.1)	(14.7)
Earnings/(loss) per share	9						
Basic		27.1p	0.1p	27.2p	10.4p	(28.6)p	(18.2)p
Diluted		26.0p	0.2p	26.2p	10.4p	(28.6)p	(18.2)p

Balance sheets
at 31 December 2002

	Notes	Group 2002 £m	Group 2001 £m	Company 2002 £m	Company 2001 £m
Fixed assets					
Intangible assets – goodwill	10	12.1	12.1	–	–
Tangible assets	11	76.7	75.6	–	–
Investments					
Subsidiaries	12	–	–	263.2	–
Associates	12	0.9	0.8	–	–
Other	12	1.1	0.1	–	–
		90.8	88.6	263.2	–
Current assets					
Stocks	13	1.5	1.8	–	–
Debtors	14	101.0	104.7	0.3	–
Cash		70.6	23.7	26.2	–
		173.1	130.2	26.5	–
Creditors due within one year	15				
Borrowings		(15.0)	(37.1)	–	–
Other creditors		(89.6)	(97.2)	(8.8)	–
		(104.6)	(134.3)	(8.8)	–
Net current assets/(liabilities)		68.5	(4.1)	17.7	–
Total assets less current liabilities		159.3	84.5	280.9	–
Creditors due after more than one year	16				
Borrowings		(222.5)	(304.0)	–	–
Other creditors		(4.1)	(5.5)	(18.8)	–
		(226.6)	(309.5)	(18.8)	–
Provisions for liabilities and charges	17	(8.7)	(9.1)	–	–
Net (liabilities)/assets excluding pension schemes		(76.0)	(234.1)	262.1	–
Pension assets/(liabilities)					
Schemes with net assets	22	–	0.1	–	–
Schemes with net liabilities	22	(7.4)	(1.7)	–	–
Net (liabilities)/assets		(83.4)	(235.7)	262.1	–
Capital and reserves					
Called up share capital	18	1.5	106.3	1.5	–
Shares to be issued	19	–	2.8	–	–
Share premium	19	231.6	–	231.6	–
Merger reserve	19	3.6	3.6	–	–
Other reserves	19	2.8	–	–	–
Profit and loss account	19	(330.0)	(355.6)	29.0	–
Shareholders' (deficit)/funds		(90.5)	(242.9)	262.1	–
Minority shareholders' equity interest	20	7.1	7.2	–	–
Capital employed		(83.4)	(235.7)	262.1	–
Equity		(83.4)	(341.2)	262.1	–
Non-equity		–	105.5	–	–
Shareholders' (deficit)/funds		(83.4)	(235.7)	262.1	–

The financial statements on pages 32 to 62 were approved by the Board on 10 March 2003 and were signed on its behalf by:

RC Nelson
Director

W Spencer
Director

Statement of group cash flow

for the year ended 31 December 2002

	Notes	2002 £m	2001 £m
Net cash inflow from operating activities	23	**97.4**	70.0
Dividends received from associated undertakings		**0.5**	0.4
Returns on investments and servicing of finance	24	**(34.4)**	(28.4)
Taxation		**(12.7)**	(13.6)
Capital expenditure and financial investment	24	**(23.3)**	(25.5)
Acquisitions and disposals	24	**(4.3)**	(1.5)
Cash inflow before financing		**23.2**	1.4
Financing	24		
Net issue of shares		**127.2**	–
(Decrease)/increase in debt		**(97.1)**	1.8
Increase in cash in the year		**53.3**	3.2

Reconciliation of net cash flow to movement in net debt

	Notes	2002 £m	2001 £m
Increase in cash in the period		**53.3**	3.2
Cash inflow/(outflow) from decrease/(increase) in debt	25	**97.1**	(1.8)
Decrease in net debt resulting from cash flows	25	**150.4**	1.4
Debt issued in lieu of interest payments	25	**(6.1)**	(11.7)
Acquisitions and disposals		**–**	0.1
Other non-cash movements	25	**(5.4)**	(2.2)
Exchange adjustments	25	**11.6**	(3.9)
Decrease/(increase) in net debt in the year		**150.5**	(16.3)
Net debt at the start of the year		**(317.4)**	(301.1)
Net debt at the end of the year	25	**(166.9)**	(317.4)

Statement of total group recognised gains and losses

	2002 £m	2001 £m
Net profit/(loss) from Group companies	**33.0**	(15.3)
Net profit from associates	**0.6**	0.6
Profit/(loss) for the financial year	**33.6**	(14.7)
Actuarial pension loss*	**(6.5)**	(3.3)
Exchange adjustments	**6.5**	(4.9)
Total recognised gains and losses relating to the year	**33.6**	(22.9)

Reconciliation of movements in shareholders' (deficit)/funds

	Group		Company	
	2002 £m	2001 £m	2002 £m	2001 £m
Opening shareholders' deficit	**(242.9)**	(220.0)	**–**	–
Issue of ordinary shares	**232.3**	–	**345.0**	–
Redemption of preference shares	**(105.5)**	–	**(105.5)**	–
Profit/(loss) for the financial year	**33.6**	(14.7)	**40.2**	–
Dividend proposed	**(8.0)**	–	**(8.0)**	–
Actuarial pension loss*	**(6.5)**	(3.3)	**–**	–
Exchange adjustments	**6.5**	(4.9)	**(3.2)**	–
Closing shareholders' (deficit)/funds	**(90.5)**	(242.9)	**268.5**	–

*actuarial pension 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

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 reconstruction had occurred prior to 1 January 2001.

Parent company

Intertek Testing Services plc was incorporated on 9 August 2001 as Alnery No.2218 Limited. At 31 December 2001 the Company had an issued share capital of 1 ordinary share of £1. On 10 April 2002 the Company made an exchange offer for all the issued share capital of Intertek Testing Services Limited (until then the parent company of the Group) for a consideration satisfied by the issue of one new share in the Company for each corresponding share in Intertek Testing Services Limited. On 24 May 2002 the Company was re-registered as a public limited company and changed its name to Intertek Testing Services plc.

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 2002. 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 amounts written-off.

Foreign currencies

The results of operations and cash flows of foreign subsidiaries and associated undertakings are translated into sterling at the average of the month end rates of exchange for the year. Assets and liabilities in foreign currencies are translated into sterling at closing rates of exchange except where rates are fixed under contractual arrangements.

The difference between the net profit translated at average and at closing rates of exchange is included in the statement of total recognised gains and losses as a movement in shareholders' equity. Exchange differences arising from the retranslation to closing rates of exchange of opening shareholders' equity, long term foreign currency borrowings used to finance foreign currency investments, and foreign currency borrowings that provide a hedge against shareholders' equity are also reflected as movements in shareholders' equity. All other exchange differences are dealt with in the profit and loss account.

1 Accounting policies (continued)

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 its 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, machinery and equipment	10% to 33.3%

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 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.

1 Accounting policies (continued)

Goodwill (continued)

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 and 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.

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.

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 Fiscal Good Governance programmes to standards bodies and governments. Central overheads comprise the costs of the corporate head office and non-operating holding companies.

Business analysis	2002 Turnover £m	2002 Total operating profit £m	2002 Net operating assets £m	2001 Turnover £m	2001 Total operating profit £m	2001 Net operating assets £m
By activity						
Labtest	**123.8**	**41.5**	**21.7**	114.4	35.6	20.5
Caleb Brett	**172.8**	**16.3**	**42.4**	176.0	17.4	39.2
ETL SEMKO	**104.7**	**14.0**	**37.9**	103.1	12.8	43.3
Foreign Trade Standards	**59.8**	**11.3**	**5.8**	57.9	9.5	0.4
Central overheads	**–**	**(6.2)**	**0.7**	–	(5.5)	(1.2)
	461.1	**76.9**	**108.5**	451.4	69.8	102.2
Operating exceptional items	**–**	**5.9**	**–**	–	(10.7)	–
Goodwill amortisation	**–**	**(0.9)**	**–**	–	(1.3)	–
Continuing operations	**461.1**	**81.9**	**108.5**	451.4	57.8	102.2
Discontinued operations – exceptional items	**–**	**9.7**	**–**	–	(12.4)	–
Total	**461.1**	**91.6**	**108.5**	451.4	45.4	102.2
By geographical origin						
Americas	**166.0**	**16.4**	**50.8**	177.8	13.9	53.8
Europe, Middle East and Africa	**144.3**	**12.1**	**32.7**	136.4	11.8	20.4
Asia	**150.8**	**48.4**	**25.0**	137.2	44.1	28.0
Continuing operations	**461.1**	**76.9**	**108.5**	451.4	69.8	102.2

*the operating profit shown by geographical origin is before goodwill amortisation and exceptional items

2 Segmental information (continued)

In 2002, Systems Certification Services was transferred from ETL SEMKO to Labtest. The 2001 figures for turnover and operating profit have been restated to show a true comparison. Labtest turnover increased by £5.9m and operating profit increased by £1.4m from the figures previously reported. ETL SEMKO turnover and operating profit reduced by the same amounts.

The above table shows the turnover analysed by geographical origin. The turnover of continuing operations by geographical destination was Americas £168.6m (2001: £183.6m), Europe, Middle East and Africa £137.5m (2001: £127.2m) and Asia £155.0m (2001: £140.6m).

In order to facilitate comparison of the underlying performance, profit on continuing operations by activity has been shown before exceptional operating items and before allocating goodwill amortisation to the divisions. After allocating these costs, the divisional profitability was: Labtest £41.5m (2001: £35.6m), Caleb Brett £17.7m (2001: £12.2m), ETL SEMKO £13.8m (2001: £10.2m), FTS £15.1m (2001: £5.3m) and central overheads £(6.2)m (2001: £(5.5)m) and geographically was: Americas £18.2m (2001: £11.1m), Europe, Middle East and Africa £15.3m (2001: £2.7m) and Asia £48.4m (2001: £44.0m).

Discontinued operations relate to the Environmental Testing business.

Net operating assets reconciliation	2002 £m	2001 £m
Net liabilities	(83.4)	(235.7)
Goodwill	(12.1)	(12.1)
Investments and associates	(2.0)	(0.9)
Provisions for liabilities and charges	8.7	9.1
Tax payable	11.0	8.5
Net debt	166.9	317.4
Non-operating assets and liabilities	4.0	14.3
Net deficit on pension funds	7.4	1.6
Proposed final dividend	8.0	–
Net operating assets (excluding goodwill)	**108.5**	**102.2**
Analysed as:		
Fixed assets	76.7	75.6
Stocks	1.5	1.8
Operating debtors	100.9	101.5
Operating creditors	(70.6)	(76.7)
Net operating assets (excluding goodwill)	**108.5**	**102.2**

3 Profit on ordinary activities before taxation

		2002 £m	2001 £m
Profit on ordinary activities before taxation is stated after charging:			
Auditors' remuneration:			
Group	– audit	0.7	0.6
Group	– non-audit work	0.2	0.3
Company	– audit	–	–
Depreciation		17.6	15.7
Amortisation of goodwill		0.9	1.3
Impairment of goodwill		–	3.1
Property rentals		16.5	16.1
Lease and hire charges – plant and machinery		4.4	5.2

In addition to the fees disclosed above, KPMG received £5.1m in respect of work done in connection with the flotation. These fees have been charged to the share premium account.

4 Exceptional items

Operating exceptional items		2002 £m	2001 £m
Caleb Brett – EPA	(a)	2.0	(1.2)
Caleb Brett – goodwill impairment	(b)	–	(3.1)
ETL SEMKO – restructuring	(c)	–	(2.3)
Foreign Trade Standards – government contracts	(d)	3.9	(4.1)
Total continuing operations		5.9	(10.7)
Environmental Testing:			
Legal costs and fines		–	(15.8)
Recoveries		9.7	3.4
Total discontinued operations	(e)	9.7	(12.4)
Total operating exceptional items		15.6	(23.1)
By geographic region:			
Americas		12.7	(19.1)
Europe, Middle East and Africa		2.9	(4.0)
Asia		–	–
		15.6	(23.1)

(a) Caleb Brett – EPA

The exceptional credit of £2.0m in 2002 related to investigations by the Environmental Protection Agency in Puerto Rico and Linden, New Jersey. The credit comprised a recovery of £3.1m from Inchcape plc, the Group's former parent company, offset by legal costs incurred in 2002 of £1.1m. The exceptional charge of £1.2m in 2001 related to legal costs. The tax effect of these exceptional items was £nil (2001: £nil).

(b) Caleb Brett – goodwill impairment

The exceptional charge of £3.1m in 2001 related to the impairment of goodwill in a company in Belgium which was acquired in 1998. The tax effect of this exceptional charge was £nil.

4 Exceptional items (continued)

(c) ETL SEMKO – restructuring

The exceptional charge of £2.3m in 2001 related to restructuring in North America and Europe. The tax effect of this exceptional charge was £nil.

(d) Foreign Trade Standards – government contracts

The exceptional credit of £3.9m in 2002 related to payments received from the governments of Nigeria and Argentina in respect of debts which had previously been written-off. The tax effect of the exceptional credit was £nil. The exceptional charge of £4.1m in 2001 related to making a full provision against the debt due from Argentina.

(e) Environmental Testing

Until March 2002, a subsidiary of Environmental Testing, which was discontinued in 1998, was party to an investigation by the Environmental Protection Agency in the USA. The exceptional credit of £9.7m in 2002 related to costs recovered from Inchcape plc, the Group's former parent company, and from the Group's insurers. The exceptional charge of £15.8m in 2001 related to fines and costs incurred to settle the matter. The credit of £3.4m related to a refund received from the Group's insurers. The tax effect of these exceptional items was £nil (2001: £nil).

5 Employees

Staff costs	2002 £m	2001 £m
Wages and salaries	**178.7**	177.7
Social security costs	**17.4**	17.7
Pension costs	**8.1**	8.6
	204.2	204.0

Details of the remuneration of the Directors are set out in the Remuneration report on pages 24 and 25.

Average number of employees by activity	2002	2001
Labtest	**3,150**	2,739
Caleb Brett	**5,015**	4,744
ETL SEMKO	**1,740**	1,667
Foreign Trade Standards	**822**	783
Central	**35**	34
Total continuing operations	**10,762**	9,967

6 a) Net interest and similar charges

	2002 £m	2001 £m
Interest payable:		
Senior Subordinated Notes	7.3	14.5
Parent Subordinated PIK Debentures	6.5	12.2
Senior Term Loans	8.0	7.7
Senior Revolver	0.5	1.3
Other	0.7	2.0
Amortisation of debt issuance costs	1.3	1.9
	24.3	39.6
Interest receivable:		
On bank balances	(1.8)	(0.4)
Net interest payable	22.5	39.2
Exceptional finance charges		
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	38.0	39.2

6 b) Other finance income

Expected return on pension assets	2.6	2.2
Pension interest cost	(2.3)	(2.0)
	0.3	0.2

7 Taxation

	2002 £m	2001 £m
U.K. corporation tax at 30% (2001: 30%)	12.3	0.7
Double taxation relief	(12.3)	(0.7)
	–	–
Overseas taxation	14.4	13.0
Adjustments relating to prior year liabilities	1.0	3.0
Share of associated undertakings' tax	0.3	0.4
Current tax	15.7	16.4
Deferred tax	0.3	0.3
	16.0	16.7

7 Taxation (continued)

Reconciliation of the notional tax charge at U.K. standard rate to the actual current tax charge:

	2002 £m	2001 £m
Profit before taxation	53.9	6.4
Notional tax charge at U.K. standard rate 30% (2001: 30%)	16.2	1.9
Differences in overseas tax rates	(3.1)	(5.3)
Tax on dividends	0.9	0.9
Permanent differences – disallowables	4.7	9.9
Permanent differences – untaxed income	(5.6)	(0.7)
Deferred tax not recognised	2.7	7.5
Other	(0.1)	2.2
	15.7	16.4

8 Dividends

	2002 £m	2001 £m
Final proposed 5.2p per share	8.0	–

9 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 period:	2002 £m	2001 £m
Underlying profit before tax	**54.7**	30.8
Taxation on underlying profit	**(16.0)**	(16.7)
Minority interest in underlying profit	**(4.3)**	(4.4)
Underlying earnings	**34.4**	9.7
Goodwill amortisation	**(0.9)**	(1.3)
Exceptional operating items – note 4	**15.6**	(23.1)
Exceptional finance charges – note 6a	**(15.5)**	–
Basic earnings	**33.6**	(14.7)
Number of shares (millions):		
Basic weighted average number of shares	**123.7**	80.8
Potentially dilutive share options	**1.5**	n/a
Potentially dilutive share warrants	**2.9**	n/a
Diluted weighted average number of shares	**128.1**	80.8
Basic underlying earnings/(loss) per share	**27.8p**	12.0p
Options	**(0.3)p**	n/a
Warrants	**(0.6)p**	n/a
Diluted underlying earnings per share	**26.9p**	12.0p
Basic earnings/(loss) per share	**27.2p**	(18.2)p
Options	**(0.4)p**	n/a
Warrants	**(0.6)p**	n/a
Diluted earnings/(loss) per share	**26.2p**	(18.2)p

The weighted average number of shares used in the calculation of the diluted earnings per share for the year to 31 December 2002 excludes 1,378,500 potential shares (2001: 9,303,809) as these were not dilutive in accordance with FRS 14: Earnings per share.

9 Earnings per ordinary share (continued)

The table below of pro-forma earnings is given in order to show the impact of the post flotation capital structure of the Group.

	Actual 2002 £m	Pro-forma 2002 £m
Profit on ordinary activities before interest and exceptional items	**76.0**	**76.0**
Net interest and similar charges	(22.2)	(10.5)
Taxation	(16.0)	(19.6)
Attributable to minorities	(4.3)	(4.3)
Profit for the financial year before exceptional items	**33.5**	**41.6**
Exceptional operating items	15.6	–
Exceptional finance charges	(15.5)	–
Basic earnings	**33.6**	**41.6**
Basic weighted average number of shares in issue (millions)	123.7	153.4
Basic earnings per share before exceptional items	**27.1p**	**27.1p**
Basic earnings per share	**27.2p**	**27.1p**

Pro-forma basic earnings per share represents the earnings per share based on the post flotation capital structure of the Group. This assumed that all pre-flotation debt was replaced on 31 December 2001 with the £300m new loan facility of which £250m was drawn. The pro-forma weighted average number of shares in issue was the actual number of shares in issue post flotation.

10 Fixed intangible assets – goodwill

	Group £m
Cost	
At beginning of year	18.7
Additions	0.4
Exchange adjustments	0.8
At end of year	**19.9**
Amortisation	
At beginning of year	6.6
Charged in year	0.9
Exchange adjustments	0.3
At end of year	**7.8**
Net book value	
At 31 December 2002	**12.1**
At 31 December 2001	12.1

Notes to the financial statements

11 Tangible assets

	Land and buildings £m	Plant and machinery £m	Total £m
Cost			
At beginning of year	8.8	113.5	122.3
Exchange adjustments	0.4	(9.5)	(9.1)
Additions	–	23.6	23.6
Reclassifications and transfers to current assets	0.2	(0.3)	(0.1)
Disposals	–	(10.1)	(10.1)
At end of year	**9.4**	**117.2**	**126.6**
Depreciation			
At beginning of year	1.1	45.6	46.7
Charge for year	0.3	17.3	17.6
Exchange adjustments	0.1	(4.8)	(4.7)
Disposals	–	(9.7)	(9.7)
At end of year	**1.5**	**48.4**	**49.9**
Net book value			
At 31 December 2002	**7.9**	**68.8**	**76.7**
At 31 December 2001	7.7	67.9	75.6

The net book value of land and buildings comprises:

	Group 2002 £m	Group 2001 £m
Freehold	**7.1**	6.9
Long leasehold	**0.3**	0.7
Short leasehold	**0.5**	0.1
	7.9	7.7

12 Investments

	Group Associates £m	Group Other £m	Company Subsidiaries £m
Cost			
At beginning of year	0.6	0.1	–
Additions	–	1.0	263.2
At end of year	**0.6**	**1.1**	**263.2**
Share of post acquisition reserves			
At beginning of year	0.2	–	–
Share of net profit for the year	0.6	–	–
Dividends received	(0.5)	–	–
At end of year	**0.3**	**–**	**–**
Net book value			
At 31 December 2002	**0.9**	**1.1**	**263.2**
At 31 December 2001	0.8	0.1	–

12 Investments (continued)

Other investments comprised an unlisted investment of £1.0m (2001: £nil) and an interest in own shares of £0.1m (2001: £0.1m).

The interest in own shares 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 2002 the ESOT held 87,000 (2001: 91,000) shares purchased at £1.40. The market value of the shares at 31 December 2002 was £4.05. Of these shares, 87,000 (2001: 87,000) are subject to share options described in note 26. At 31 December 2002 the ESOT had borrowings of £127,400 (2001: £127,400). The Trust has waived the right to receive dividends. The total ESOT costs charged to the Group profits for 2002 was £12,000 (2001: £12,000) of which £6,000 (2001: £3,000) was interest expense.

Details of principal operating subsidiaries and associated companies are set out in note 30.

13 Stocks

	Group 2002 £m	Group 2001 £m
Raw materials and consumables	**0.4**	0.5
Work in progress	**0.4**	0.4
Finished goods	**0.7**	0.9
	1.5	1.8

14 Debtors

	Group 2002 £m	Group 2001 £m	Company 2002 £m	Company 2001 £m
Trade debtors	**85.7**	85.5	**–**	–
Amounts owed by Group undertakings	**–**	–	**0.2**	–
Assets held for resale	**0.1**	0.4	**–**	–
Other debtors	**6.5**	9.2	**–**	–
Prepayments and accrued income	**8.7**	9.6	**0.1**	–
	101.0	104.7	**0.3**	–

Group prepayments and accrued income included £1.6m (2001: £1.5m) due after more than one year.

15 Creditors due within one year

	Group 2002 £m	Group 2001 £m	Company 2002 £m	Company 2001 £m
Borrowings:				
Senior Term Loans	15.5	15.4	–	–
Senior Revolver	–	22.4	–	–
Other borrowings	0.4	1.0	–	–
	15.9	38.8	–	–
Debt issuance costs	(0.9)	(1.7)	–	–
	15.0	37.1	–	–
Trade creditors	25.5	28.6	–	–
Corporation tax	11.0	8.5	–	–
Other taxation and social security	5.0	5.0	–	–
Other creditors	2.5	9.9	0.4	–
Accruals and deferred income	37.6	45.2	0.2	–
Dividends payable	8.0	–	8.0	–
Amounts owed to Group undertakings	–	–	0.2	
	104.6	134.3	8.8	–

16 Creditors due after one year

	Group 2002 £m	Group 2001 £m	Company 2002 £m	Company 2001 £m
Borrowings:				
Senior Term Loans	225.4	68.5	–	–
Senior Subordinated Notes	–	140.0	–	–
Parent Subordinated PIK Debentures	–	100.7	–	–
	225.4	309.2	–	–
Debt issuance costs	(2.9)	(5.2)	–	–
	222.5	304.0	–	–
Other creditors	4.1	5.5	–	–
Amounts owed to Group undertakings	–	–	18.8	–
	226.6	309.5	18.8	–

16 Creditors due after one year (continued)
Maturity of financial liabilities

	2002 Borrowings £m	2002 Other financial liabilities* £m	2002 Total financial liabilities £m	2001 Borrowings £m	2001 Other financial liabilities* £m	2001 Total financial liabilities £m
Debt falling due:						
In one year or less	15.9	–	15.9	38.8	–	38.8
Between one and two years	19.2	2.6	21.8	32.0	1.9	33.9
Between two and five years	206.2	1.5	207.7	176.5	3.6	180.1
Over five years	–	–	–	100.7	–	100.7
	241.3	4.1	245.4	348.0	5.5	353.5
Debt issuance costs	(3.8)	–	(3.8)	(6.9)	–	(6.9)
	237.5	4.1	241.6	341.1	5.5	346.6

* 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 22

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.

The undrawn committed borrowing facilities, which mature in June 2007, amounted to £50m (2001: £49.4m) of which £4.9m (2001: £5.5m) has been utilised for letters of credit.

17 Provisions for liabilities and charges

Group	Deferred tax £m	Restructuring £m	Claims £m	Total £m
At beginning of year	0.8	1.3	7.0	9.1
Exchange adjustments	–	–	(0.1)	(0.1)
Provided in the year	0.3	–	0.7	1.0
Settlement received to meet future claims	–	–	3.8	3.8
Released during the year	–	–	(1.2)	(1.2)
Utilised during the year	–	(1.3)	(2.6)	(3.9)
At end of year	1.1	–	7.6	8.7

The provision for claims includes notified claims from customers, legal costs likely to be incurred in defending claims from customers, former employees, other plaintiffs and environmental agencies and for 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 28.

17 Provisions for liabilities and charges (continued)

The amounts provided and unprovided for deferred taxation at 31 December 2002 are set out below:

	2002 Provided £m	2002 Unprovided £m	2001 Provided £m	2001 Unprovided £m
Accelerated capital allowances	0.4	(0.8)	0.8	0.8
Losses carried forward	–	(20.3)	–	(19.5)
Other timing differences	0.7	(20.4)	–	(22.4)
Deferred tax liability/(asset)	1.1	(41.5)	0.8	(41.1)

The Company did not have any provided or unprovided deferred taxation at 31 December 2002 (2001: £nil).

18 Called up share capital

Group

	Number	2002 Authorised £m	2002 Allotted, called up and fully paid £m	2001 Authorised £m	2001 Allotted, called up and fully paid £m
Authorised Ordinary shares of 1p each	200,000,000	2.0	–	–	–
Issued Ordinary shares of 1p each	153,479,824	–	1.5	–	–
Ordinary 'A' shares of 1p each	69,172,061	–	–	0.7	0.7
Ordinary 'B' shares of 1p each	11,578,635	–	–	0.1	0.1
Ordinary 'C' shares of 1p each	2,951,417	–	–	–	–
Ordinary 'D' shares of 1p each	7,110,713	–	–	0.1	–
		2.0	1.5	0.9	0.8
Non equity:					
Zero coupon redeemable preference shares of £1 each		105.5	–	105.5	105.5
		107.5	1.5	106.4	106.3

On 18 May 2002, the A, B, C and D Ordinary shares were re-designated as Ordinary shares of 1p each. The Zero coupon redeemable preference shares, issued by Intertek Testing Services Limited, the former parent, were redeemed at par on 4 July 2002.

Company

	Number	2002 Authorised £m	2002 Allotted, called up and fully paid £m	2001 Authorised £m	2001 Allotted, called up and fully paid £m
Authorised Ordinary shares of 1p each	200,000,000	2.0	–	–	–
Authorised Ordinary shares of £1 each	1	–	–	–	–
Issued Ordinary shares of 1p each	153,479,824	–	1.5	–	–
Issued Ordinary shares of £1 each	1	–	–	–	–
		2.0	1.5	–	–
Non equity:					
Zero coupon redeemable preference shares of £1 each		105.5	–	–	–
		107.5	1.5	–	–

On 10 April 2002, the Company made an exchange offer for all the issued share capital, outstanding share options and warrants of Intertek Testing Services Limited (until then the parent company of the Group) for a consideration satisfied by the issue of one new share, share option and warrant respectively, in the Company for each corresponding share, share option and warrant in Intertek Testing Services plc. On 24 May 2002, the Company issued 64,010,990 Ordinary shares of 1p each for a consideration of £256.0m.

19 Shareholders' deficit

Group

	Share capital £m	Shares to be issued £m	Share premium £m	Merger reserve £m	Other reserve £m	Profit and loss account £m	Total £m
At 1 January 2002	106.3*	2.8*	–	3.6	–	(355.6)	(242.9)
Retained profit for the year	–	–	–	–	–	25.6	25.6
Exchange adjustments	–	–	–	–	–	6.5	6.5
Actuarial pension loss	–	–	–	–	–	(6.5)	(6.5)
Shares issued	0.7	(2.8)	–	–	2.8	–	0.7
Preference shares redeemed	(105.5)	–	–		–	–	(105.5)
Premium on share issue	–	–	244.0	–	–	–	244.0
Costs of share issue	–	–	(12.4)	–	–	–	(12.4)
At 31 December 2002	**1.5**	**–**	**231.6**	**3.6**	**2.8**	**(330.0)****	**(90.5)**

* represents the share capital of the then Parent Company, Intertek Testing Services Limited, as at 31 December 2001
** after charging £264.7m (2001: £286.1m) for goodwill written-off to reserves in relation to subsidiaries acquired prior to 31 December 1997
The 'other' reserve arose on the conversion of the share warrant into share capital

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

	2002 £m	2001 £m
Profit and loss reserve deficit excluding net pension liability	(322.6)	(354.0)
Net pension liability	(7.4)	(1.6)
Profit and loss reserve deficit including net pension liability	(330.0)	(355.6)

Shareholders' funds

Company

	Share capital £m	Share premium £m	Profit and loss account £m	Total £m
At 1 January 2002	–*	–	–	–
Retained profit for the year	–	–	32.2	32.2
Shares issued	107.0	–	–	107.0
Preference shares redeemed	(105.5)	–	–	(105.5)
Premium on share issue	–	244.0	–	244.0
Costs of share issue	–	(12.4)	–	(12.4)
Exchange adjustments	–	–	(3.2)	(3.2)
At 31 December 2002	**1.5**	**231.6**	**29.0**	**262.1**

* the share capital at 1 January 2002 comprised 1 Ordinary share of £1 each

Details of share options are set out in note 26.

A profit and loss account for Intertek Testing Services plc has not been presented as permitted by Section 230 of the Companies Act 1985. The profit for the financial year, before dividend proposed of £8m, was £40.2m, which was mainly dividends received from subsidiaries (2001: £nil).

20 Minority interests

	Group 2002 £m	Group 2001 £m
At beginning of year	7.2	6.3
Share of profit for the year	4.3	4.4
Dividends paid to minorities	(4.0)	(3.5)
Exchange adjustments	(0.4)	(0.2)
Transfers	–	0.2
At end of year	7.1	7.2

21 Commitments

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

	2002			2001		
	Land and buildings £m	Other £m	Total £m	Land and buildings £m	Other £m	Total £m
Within one year	2.8	0.6	3.4	1.7	1.0	2.7
In the second to fifth years inclusive	6.4	2.6	9.0	7.7	2.5	10.2
Over five years	3.7	–	3.7	3.0	0.1	3.1
	12.9	3.2	16.1	12.4	3.6	16.0

Contracts for capital expenditure which are not provided in these accounts amounted to £0.5m (2001: £0.6m).

22 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:

	2002 £m	2001 £m
Defined contribution schemes	5.6	5.9
Defined benefit schemes - current service cost	2.5	2.7
	8.1	8.6

The pension cost for the defined contribution plans is the contribution payable by the Group during the year.

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.

22 Pension schemes (continued)

b) The pension cost for the defined benefit plans was assessed in accordance with the advice of qualified actuaries.

The major assumptions used in each country as at 31 December 2002 were:

	United Kingdom	Hong Kong	Taiwan
Discount rate	5.6%	6.0%	3.75%
Expected return on assets	6.9%	7.6%	3.75%
Rate of increase in pensionable salaries	3.0%	4.0%	3.0%
Rate of increase in pensions in payment	2.3%	See below	See below
Inflation assumption	2.3%	2.3%	2.3%

In the plan in the United States, the benefits are frozen. The discount rate applied for that plan was 6.5%. 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 (%):	2002	2001
Discount rate	**5.6%**	6.3%
Expected return on assets	**6.9%**	7.5%
Compensation increase	**3.3%**	3.7%

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

	2002 £m	2001 £m
Pension assets, being fair value of schemes' assets	**30.6**	33.9
Pension liabilities being the discounted present values	**(40.6)**	(35.9)
Deferred tax asset	**2.6**	0.4
Pension liability net of deferred tax	**(7.4)**	(1.6)
Shown on the balance sheet as follows:		
Schemes with net assets	**–**	0.1
Schemes with net liabilities	**(7.4)**	(1.7)
	(7.4)	(1.6)

d) The pension asset/(liability) of each scheme at 31 December 2002 is as follows:

	United Kingdom £m	United States £m	Hong Kong £m	Taiwan £m	Total £m
Pension assets, being fair value of schemes' assets	19.1	1.2	8.6	1.7	30.6
Pension liabilities being the discounted present values	(26.3)	(1.2)	(11.3)	(1.8)	(40.6)
Pension deficit	(7.2)	–	(2.7)	(0.1)	(10.0)
Deferred tax asset	2.2	–	0.4	–	2.6
Pension liability net of deferred tax	**(5.0)**	**–**	**(2.3)**	**(0.1)**	**(7.4)**

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

22 Pension schemes (continued)

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

At 31 December 2002	United Kingdom Long term rate of return	United Kingdom Value £m	Hong Kong Long term rate of return	Hong Kong 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)**

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:

	2002 £m	2001 £m
(Deficit)/surplus at the beginning of the year	**(2.0)**	1.6
Deferred tax thereon	**0.4**	0.2
(Deficit)/surplus at the beginning of the year, net of deferred tax	**(1.6)**	1.8
Movement in the year:		
Current service cost	**(2.5)**	(2.7)
Contributions	**2.9**	2.4
Other finance income	**0.3**	0.2
Actuarial losses	**(8.7)**	(3.5)
Deferred tax	**2.2**	0.2
Deficit at end of the year, net of deferred tax	**(7.4)**	(1.6)

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

United Kingdom	7.5% until 31 March 2002 and 10% from 1 April 2002. The cost of life assurance benefits are included in these contribution rates.
United States	Not applicable as the scheme is closed and members benefits are frozen.
Hong Kong	14.0% for executive members and 9.5% for other staff members' until February 2002 and increased to 15.9% and 12.7% respectively from March 2002.
Taiwan	Caleb Brett: 15.6% combining retirement benefit and leaving service benefit; Labtest: 8.4% combining retirement benefit and leaving service benefit. BSI Pacific: 9.8% combining retirement benefit and leaving service benefit.

22 Pension schemes (continued)

h) History of experience gains and losses

	2002 £m	2001 £m	2000 £m
Difference between the actual return and expected return on scheme assets	**(7.6)**	(5.0)	1.7
Percentage of scheme assets	**24.8%**	14.7%	4.9%
Gains and losses on scheme liabilities	**0.7**	–	(0.7)
Percentage of present value of scheme liabilities	**1.7%**	–	2.1%
Amount recognised in the statement of total recognised gains and losses	**(6.5)**	(3.3)	3.4
Percentage of present value of scheme liabilities	**16.0%**	9.2%	10.2%

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

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

23 Reconciliation of operating profit to operating cash flows

	Group 2002 £m	Group 2001 £m
Group operating profit after exceptional items	**90.7**	44.4
Depreciation charge	**17.6**	15.7
Goodwill amortisation	**0.9**	1.3
Goodwill impairment	**–**	3.1
Impairment of fixed assets	**–**	0.9
Loss on sale of fixed assets	**0.1**	0.1
Decrease/(increase) in stocks	**0.3**	(0.1)
Increase in debtors	**(2.6)**	(6.1)
(Decrease)/increase in creditors	**(8.9)**	16.1
Decrease in other provisions	**(0.7)**	(5.4)
Total operating cash inflow	**97.4**	70.0
Operating cash inflow before exceptional items	**83.8**	78.7
Exceptional cash inflow/(outflow)	**13.6**	(8.7)
Total operating cash inflow	**97.4**	70.0

24 Analysis of cash flows

	Group 2002 £m	Group 2001 £m
Returns on investments and servicing of finance		
Net interest, refinancing and redemption fees paid	(30.4)	(24.9)
Dividends paid to minorities	(4.0)	(3.5)
	(34.4)	(28.4)
Capital expenditure and financial investment		
Purchase of tangible fixed assets	(23.6)	(25.8)
Sale of plant and machinery	0.3	0.3
	(23.3)	(25.5)
Acquisitions and disposals		
Investments	(1.0)	(0.1)
Purchase of subsidiary undertakings	(0.4)	(0.2)
Net deferred consideration paid on past acquisitions	(2.9)	(1.5)
Sale of subsidiary undertakings	–	0.3
	(4.3)	(1.5)
Financing		
Issue of ordinary shares, net of issue expenses	232.7	–
Redemption of preference shares	(105.5)	–
Repayment of short term debt	–	12.9
Repayment of other loans	(97.1)	(11.1)
	30.1	1.8

Net cash outflow on purchase of subsidiaries and associates

	2002 £m	2001 £m
Fair value of consideration	0.4*	0.2
Net deferred consideration paid on past acquisitions	2.9	1.5
Net cash outflow in respect of acquisitions made during the year and on prior period acquisitions	3.3	1.7

* product Safety Assessment Ltd was acquired during the year for £400,000. The goodwill arising on the acquisition was £364,000. There were no fair value adjustments to the net assets of £36,000 acquired

25 Analysis of net debt

	At beginning of year £m	Cash flow £m	Debt issued in lieu of interest payment £m	Other non-cash changes £m	Exchange adjustments £m	At end of year £m
Cash	23.7	53.3	–	–	(6.4)	70.6
Borrowings	(341.1)	97.1	(6.1)	(5.4)	18.0	(237.5)
Total net debt	(317.4)	150.4	(6.1)	(5.4)	11.6	(166.9)

26 Share option scheme

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. In May 2002 another share option scheme was established for employees to be granted at the discretion of the Remuneration Committee.

a) Summary of movements in number of share options:

	1997 scheme	2002 scheme	Total	Weighted average exercise price £
At beginning of year	2,885,998	–	2,885,998	0.44
Granted	159,030	1,423,509	1,582,539	4.32
Exercised	(1,614,967)	–	(1,614,967)	0.12
Forfeited	(141,671)	(45,009)	(186,680)	0.85
At end of year	**1,288,390**	**1,378,500**	**2,666,890**	**2.85**

b) The outstanding options at 31 December 2002 are exercisable as follows:

Option Scheme	Number of options outstanding	Subscription price per share	Exercisable between	
1997	197,029	10p	1 March 2000	1 March 2004
	42,534	10p	31 December 2000	31 December 2004
	11,806	10p	1 June 2001	1 June 2005
	47,222	10p	31 December 2001	31 December 2005
	59,031	10p	1 June 2002	1 June 2006
	29,515	10p	31 December 2002	31 December 2006
	82,640	10p	31 March 2003	31 March 2007
	277,439	140p	31 December 2003	31 December 2007
	169,638	140p	1 November 2004	1 November 2008
	212,506	140p	1 December 2004	1 December 2008
	159,030	400p	28 March 2005	28 March 2009
2002	1,336,691	437p	30 May 2005	30 May 2012
	37,809	380p	17 July 2005	17 July 2012
	4,000	421p	31 October 2005	31 October 2012
	2,666,890			

Details of the share option scheme are shown in the Remuneration report on pages 22 and 23.

27 Financial instruments

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 footnote does not represent amounts exchanged by parties and, thus, are 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 rate or exchange rates.

27 Financial instruments (continued)

Counterparties to financial instruments expose the Group to credit-related losses in the event of non-performance, but it 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, which arise directly from the Group operations, apart from the disclosures, have been excluded as permitted under FRS 13.

b) Foreign exchange risk management

A substantial portion of the Group's sales 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 the pound sterling. Because of the high proportion of international activity, the Group's income is exposed to exchange rate fluctuations. Risk of two kinds arise as a result: a "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 a "translation risk", that is, the risk of adverse currency fluctuations in the translation of foreign currency operations and foreign assets and liabilities into pound 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 pound sterling. The "buy" amounts represent the pound sterling equivalent of commitments to purchase foreign currency, and the "sell" amounts represent the pound sterling equivalent of commitment to sell foreign currencies.

	2002		2001	
	Buy £m	Sell £m	Buy £m	Sell £m
United States Dollar	–	14.0	–	9.5
Euro	3.2	–	1.6	–

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

	2002		2001	
	Contract amount £m	Fair value £m	Contract amount £m	Fair value £m
Assets	3.2	–	11.1	0.2
Liabilities	(14.0)	(0.1)	–	–
Net (liabilities)/assets	**(10.8)**	**(0.1)**	11.1	0.2

27 Financial instruments (continued)

c) The currency composition of net assets/(liabilities) is shown below:

	2002			2001		
	Net assets before gross borrowings £m	Gross borrowings after swaps £m	Net assets/(liabilities) after gross borrowings £m	Net assets before gross borrowings £m	Gross borrowings after swaps £m	Net assets/(liabilities) after gross borrowings £m
Sterling	29.3	26.2	3.1	15.5	22.9	(7.4)
US dollar	40.4	167.5	(127.1)	36.2	276.1	(239.9)
Euro	9.9	7.3	2.6	11.0	7.1	3.9
Swedish kroner	6.5	18.9	(12.4)	6.6	17.6	(11.0)
Chinese yuan	9.3	–	9.3	7.9	0.8	7.1
Hong Kong dollar	12.6	21.4	(8.8)	9.4	23.5	(14.1)
Others	39.0	–	39.0	11.6	–	11.6
	147.0	241.3	(94.3)	98.2	348.0	(249.8)

Gross borrowings are stated before deduction of debt issuance costs of £3.8m (2001: £6.9m).

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 i.e. 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) is 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.

27 Financial instruments (continued)

The interest rate profile of the Group's financial assets and financial liabilities at 31 December 2002 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	–	37.5	0.3	37.8
US dollar	–	11.8	3.9	15.7
Hong Kong dollar	–	6.8	–	6.8
Euros	–	0.1	2.5	2.6
Chinese Yuan	–	2.4	0.2	2.6
Other currencies	–	2.4	2.7	5.1
		61.0	9.6	70.6
Investments and debtors due after one year:				
Sterling	–	–	0.1	0.1
US dollar	–	–	1.0	1.0
Other currencies	–	–	2.5	2.5
	–	–	3.6	3.6
Total financial assets	**–**	**61.0**	**13.2**	**74.2**

* 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 profile of borrowings is shown in the table under the exchange rate sensitivity section below.

The maturity profile of other financial liabilities of £4.1m is shown in note 16. This liability is mainly US dollar denominated and is non-interest bearing. The fair value approximates its carrying value of £4.1m.

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 carrying value because such loans reprice at market rate periodically. The fair value and carrying value of long term borrowings, including current portion, was £241.3m (2001: £366.9m) and £241.3m (2001: £348.0m) respectively.

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

	2002 £m	2001 £m
Forward exchange contracts	**(0.1)**	0.2
Interest rate swaps	**(1.8)**	(0.6)

27 Financial instruments (continued)

g) Exchange rate sensitivity

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

Liabilities 2002	Dec-03 £m	Dec-04 £m	Dec-05 £m	Dec-06 £m	Dec-07 £m	Carrying value £m	Fair value £m
Floating rate (USD)	11.1	13.3	20.0	23.3	99.8	167.5	167.5
Average interest rate	2.4%	3.1%	3.6%	4.1%	4.5%		
Floating rate (SEK)	1.1	1.5	2.3	2.6	11.4	18.9	18.9
Average interest rate	4.9%	5.1%	5.3%	5.5%	5.7%		
Floating rate (EUR)	0.4	0.6	0.9	1.0	4.4	7.3	7.3
Average interest rate	3.7%	3.9%	4.2%	4.5%	4.7%		
Floating rate (HKD)	1.3	1.7	2.6	3.0	12.8	21.4	21.4
Average interest rate	2.6%	3.1%	3.7%	4.1%	4.4%		
Fixed rate (GBP)	1.8	2.1	3.1	3.6	15.6	26.2	26.2
Average interest rate	5.0%	5.1%	5.3%	5.5%	5.5%		
						241.3	**241.3**

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 (2001: £0.2m) and interest rate swaps £nil (2001: £nil).

i) Unrecognised gains and losses

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

28 Contingent liabilities

	Group 2002 £m	Group 2001 £m
Performance bonds	2.3	3.5
Other guarantees	1.2	2.0
	3.5	5.5

28 Contingent liabilities (continued)

From time to time the Group is involved in various claims and lawsuits incidental to the ordinary course of our business, including claims for damages, negligence and commercial disputes regarding inspection and testing and disputes from 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.

29 Related party transactions

In connection with the acquisition from Inchcape plc, the Company was required to pay an acquisition advisory fee of £3.8m to Charterhouse Development Capital Holdings Limited, a majority shareholder. During the year £2.8m was paid (2001: £1m paid).

Transactions with Directors are disclosed in the Remuneration report on page 26.

Except as disclosed 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.

30 Principal operating subsidiaries and associated companies

The Group comprises 150 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 2002 and 2001 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 2002.

Company name	Country of incorporation	Principal activity by division	Percentage of shares held Group	Company
Intertek Testing 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	Holding Company	100	–
Intertek Testing Services Holdings Limited	England and Wales	Holding Company	100	–
Intertek Testing Services International Limited	England and Wales	FTS	100	–
ITS Testing Services (UK) Limited	England and Wales	Caleb Brett	100	–
Intertek Testing Services Holding 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 Ltd	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	–
Intertek Testing Services 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	Percentage of shares held Group	Company
DEKRA ITS Certification Services GmbH	Germany	ETL SEMKO	49	–
SEMKO-DEKRA Certification AB	Sweden	ETL SEMKO	49	–

Independent auditors' report to the members of Intertek Testing Services plc

We have audited the financial statements on pages 32 to 62. We have also audited the information in the Directors' remuneration report that is described as having been audited.

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

Respective responsibilities of Directors and auditors

The Directors are responsible for preparing the Annual Report and the Directors' remuneration report. As described on page 20, 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 28 to 31 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 2002 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
10 March 2003

Financial calendar

Financial year end	**31 December 2002**
Results announced	**10 March**
Ex-dividend date for final dividend	**4 June**
Record date for final dividend	**6 June**
Annual General Meeting	**15 May**
Final dividend payable	**18 June**
Interim results announced	**September**
Interim dividend payable	**November**

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