Annual report and accounts: 2004

Intertek Group plc

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

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

We are committed to driving our business forward, capitalising on our strengths:

- Our extensive global network
- Our strong local presence
- Our unique range of accreditations, certifications and approvals
- Our teams of highly-skilled individuals
- Our cutting-edge solutions
- Our passion to exceed our customers' expectations

2004 Highlights

- Another year of very strong growth
- Excellent results from every division
- £28m spent on seven acquisitions
- Successfully managed CEO succession

TURNOVER
£499.6m
+6.0%[1] +14.5%[2] +11.6%[3]

OPERATING PROFIT[4]
£85.2m
+11.8%[1] +23.5%[2] +20.1%[3]

OPERATING MARGIN[4]
17.1%
up from 15.8%[2]

OPERATING CASHFLOW AFTER NET CAPEX
£73.9m
+31.0%

PROFIT BEFORE TAX
£75.8m
+7.4%

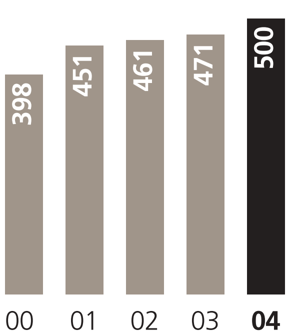
BASIC EARNINGS PER SHARE
34.1p
+8.9%

UNDERLYING EARNINGS PER SHARE[5]
36.3p
+22.2%

DIVIDEND PER SHARE
10.4p
+18.2%

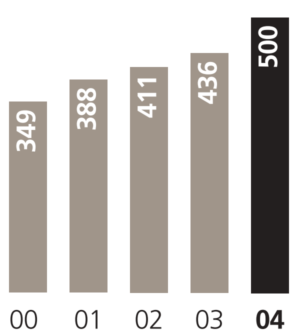
1. Growth at actual exchange rates
2. Growth at constant exchange rates
3. Growth at constant exchange rates excluding results of acquisitions and disposals
4. Before goodwill amortisation and exceptional items and including profit from associates
5. Fully diluted earnings per share before goodwill amortisation and exceptional items

TURNOVER £m CAGR 5.9%



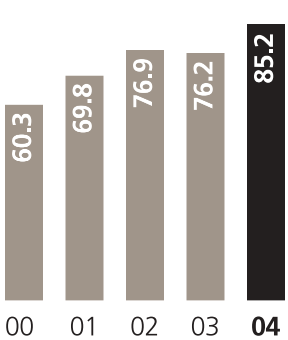
Continuing operations at actual exchange rates

TURNOVER £m CAGR 9.4%



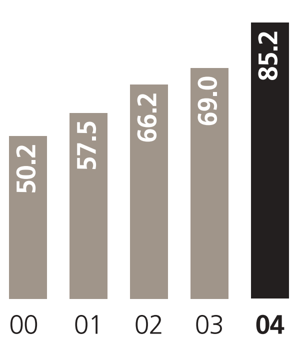
Continuing operations at constant exchange rates

OPERATING PROFIT[1] £m CAGR 9.0%



Continuing operations at actual exchange rates

OPERATING PROFIT[1] £m CAGR 14.1%



Continuing operations at constant exchange rates

1. Before goodwill amortisation and exceptional items and including profit from associates

GENERAL
Intertek is an international leader in testing, inspection and certification of products and commodities and the certification of systems. 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, automotive components, crude oil, petroleum products, chemicals, food 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, generally near the points of manufacture, design or other forms of sourcing. Intertek has a broad range of accreditations, approvals and certifications to assist customers in qualifying their products and commodities for sale in the principal markets of the world.

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

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

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

GEOGRAPHIC FOCUS
Intertek operates a decentralised management structure with a small corporate head office in London. Operations are conducted through subsidiary companies located in 102 countries throughout the world. It is Intertek's policy to recruit local management whenever possible. An analysis of turnover, operating profit and net operating assets by geographic area is given in note 2 to the Financial Statements.

OPERATIONS
Intertek's four main operating divisions are as follows:

LABTEST
Business overview and growth prospects
Labtest is a leading international provider of testing and inspection services for a range of consumer goods including textiles, footwear, toys and hardlines (such as ceramics, bicycles, cosmetic products, sporting goods, juvenile products and furniture). Labtest also provides services to certify customers' own operating standards, assess the security of customers' supply chains and undertake corporate social responsibility audits of suppliers. The Labtest brand name has been established since 1973.

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

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

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

The demand for testing and inspection is also driven by new safety standards and regulations. For example, two new EU directives, The Waste Electrical and Electronic Equipment (WEEE) directive and the Restriction of the Use of Certain Hazardous Substances in Electrical and Electronic Equipment (RoHS) directive, will require manufacturers, retailers, importers, exporters and consumers of electrical and electronic equipment (E&E) to play their part in the environmentally sound management of E&E waste. Labtest has the auditing knowledge and experience to advise customers whether they are in compliance with these directives.

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

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

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's extensive network of laboratories has the certifications and approvals needed for testing toys to meet relevant safety standards in all the major markets in the world.

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

Inspection of consumer products involves the inspection of goods, at manufacturers' plants in order to verify that they meet buyers' specifications during manufacturing and when they are shipped. The goods are statistically inspected to check such factors as sizing, quantities, colours, packing and labelling. Labtest has 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. Labtest, in partnership with Sandler & Travis Trade Advisory Services, provides security validation programmes for customers to assess whether their global supply chains comply with the C-TPAT security guidelines. C-TPAT (Customs Trade Partnership Against Terrorism) is an initiative between US businesses and the US government to protect global commerce from terrorism.

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

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

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

Labtest's other services include Validation and Monitoring work which is undertaken in France and China for customers operating under ultra-clean or sterile manufacturing conditions in the pharmaceutical, biotech, cosmetic and electronics industries.

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

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

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

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

Geographic coverage
Labtest operates in 32 countries and has 35 laboratories and 79 offices worldwide. The head office is located in Hong Kong.

Customers
Labtest's customers are mainly retailers based in North America and Europe but who have remote buying offices, often in Asia, and manufacturers, mostly based in Asia. Labtest's top 10 global customers represented approximately 21% of its turnover in 2004 and the largest customer accounted for 5.2% of its turnover in the same period.

Market and competition
Labtest has approximately 45% of the textile testing market and is the market leader. It has about 28% of the toys and hardline testing market and about 25% of the inspection of consumer goods market. SGS and the Bureau Veritas group compete with Labtest in textile, toys and hardline testing, inspection, social compliance audit and systems certification.

Employees
At 31 December 2004, Labtest had a total of 4,095 employees, with 3,234 in Asia, 570 in Europe, and 291 in the Americas.

CALEB BRETT

Business overview and growth prospects

Caleb Brett was founded in 1885 and is a leading international service provider of laboratory testing and commercial inspection services, mainly for petroleum, refined products, chemicals, consumer and agricultural products. Caleb Brett performs a rapidly growing number of large laboratory outsourcing projects, offering analytical testing for oil, chemical and other companies on a global basis.

Caleb Brett has earned a reputation for reliability and confidentiality, offering professional services to global standards.

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

Laboratory services and outsourcing involves the provision of testing and laboratory analytical services to supplement or replace the in-house testing activities carried out by customers. The division provides a wide range of analytical testing work for a diverse and growing range of industries and companies.

Testing activities include the analysis of crude oil and refined products, chemicals, consumer products, pharmaceuticals, metals, polymers and other products. Growing research capabilities in the Caleb Brett laboratory network have created new testing markets in nanotechnology, microelectronics and biotechnology. Laboratory outsourcing provides customers access to an extensive and growing global network of scientific expertise and technology available from Caleb Brett laboratories. Laboratory outsourcing offers the client a value-added service with enhanced quality at a lower total cost.

Inspection services help to safeguard the commercial interests of customers during the transfer of high value petroleum, chemical and agricultural cargoes. This involves the physical sampling, testing, quantification, inspection and certification of commodities such as petroleum, petrochemicals, grain, vegetable oils and other products for the companies, organisations and government agencies trading in them.

Caleb Brett provides field inspection and laboratory testing in order to assess the quantity and quality of bulk commodity shipments. These services are performed in major markets across the world, with offices and laboratories located in key locations to determine the quantities of cargoes, to sample them, and then analyse the samples. Caleb Brett certifies the quantity and quality of shipments, and both buyers and sellers rely on these certificates to complete transactions. Customers also use Caleb Brett reports to assess the composition of cargoes, as well as their quality and compliance with commercial and regulatory standards.

Divisional strategy

The main opportunity for growth continues to be the outsourcing of testing activities to Caleb Brett on a global scale. Several new contracts were gained in 2004, including business from Avecia, ChevronTexaco, ExxonMobil, BP and Shell.

Significant opportunities exist in the petroleum, chemical, life sciences, materials sciences, food and pharmaceutical sectors. Caleb Brett has experienced project teams who work with customers on a global basis to implement laboratory outsourcing and create optimal service solutions.

The strategic acquisition of attractive independent laboratories serving key market and geographical niches is another avenue for growth. The acquisition of Kelley Completion Services in 2004, enhanced Caleb Brett's service offerings and outsourcing capabilities for the upstream petroleum exploration and production market in the Gulf of Mexico.

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

Caleb Brett's share of the global agricultural commodity inspection and testing market is small and its strategy is to expand in niche segments both organically and through acquisitions. A centralised Agri centre in Geneva was established in 2004 in order to build the resources needed to drive expansion in the agricultural commodity inspection market. The recent expansion of the US food laboratory and the outsourcing of an agricultural inspection facility in Canada have extended the division's service offerings in this market.

Operations

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

Computerised laboratory information systems allow for enhanced reporting accuracy, reduced operating costs and faster turnaround times. Caleb Brett's testing facilities are ISO 9000 certified and a growing number are ISO 17025 accredited. Through its outsourcing agreement with Avecia, Caleb Brett has gained a significant laboratory research centre in the UK which is compliant with the Good Laboratory Practice (GLP) and the current Good Manufacturing Practice (cGMP) directives.

Geographic coverage

Caleb Brett offers its services to 118 countries through its network of 353 offices and 209 laboratories. The division has its headquarters in Houston, Texas and is organised into three geographic regions with headquarters located in the United Kingdom for Europe, the Middle East and Africa, in Singapore for Asia and in Houston, Texas for the Americas.

Customers

Caleb Brett has well established, long-term relationships with customers including companies in the petroleum, chemical, agricultural, consumer, pharmaceutical and other industry sectors. Caleb Brett's top ten customers represented approximately 32% of turnover in 2004 and its largest customer accounted for 9.5% of turnover in the same period.

Market and competition
At this relatively early phase in terms of market penetration, Caleb Brett has a growing track record of laboratory outsource project successes, and can be considered a world leader in providing this type of specialised service solution to industry. Caleb Brett is one of the first companies to have started a major strategic industry shift in how such laboratory services are provided.

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

Employees
At 31 December 2004, Caleb Brett had a total of 5,870 employees worldwide with 1,990 in Europe, the Middle East and Africa, 2,260 in the Americas and 1,620 in Asia.

ETL SEMKO
Business overview and growth prospects
ETL SEMKO tests, certifies and inspects a wide range of electrical and electronic products, including telecommunications, medical, consumer and industrial, heating, ventilation and air conditioning (HVAC) equipment, building products and other products, against safety and performance standards. Through the acquisition of Entela Inc. in May of 2004, ETL Entela tests automotive materials, components and systems. Additionally, Intertek Automotive Systems Certification provides automotive quality systems certification.

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. The SEMKO brand name is widely respected in the industry for safety and is the name of the former state owned certification body in Sweden that was acquired in 1994.

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

Retailers and manufacturers require performance testing of electrical and electronic products so that they can compare the products of different suppliers, especially when they are sourcing own-brand domestic appliances from Asia. Third party performance testing is also used to confirm suppliers' own claims and verify the claims of competitors. Retailers also want products they buy to be inspected during and after manufacture to ensure that the merchandise being shipped to them meets their specifications. The ETL mark is now confirmed by the major retailers as an acceptable mark for products sold in their stores with the same status as the UL mark.

European legislation requires all products placed on the EU market have a CE mark affixed. Suppliers to the marketplace are required to either make a self-declaration that the product complies with all relevant European standards and directives or have a mandatory third party assessment if the product group has this restriction, an example being Medical equipment. Where self declaration of products is acceptable there is an increasing demand from manufacturers and suppliers to gain third party verification of their products' compliance with the necessary directives prior to making that declaration. This verification affords a level of confidence that all safety requirements have been covered to minimise their risk profile.

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

Safety testing and certification of electrical and electronic products involves the testing of products in ETL SEMKO laboratories against internationally recognised safety, electro-magnetic compatibility (EMC), or telecom-specific standards. The laboratories are, in most cases, accredited or recognised by national government bodies, for example, UKAS (UK Accreditation Service) in the United Kingdom and OSHA (Occupational Safety and Health Administration) in the United States. The test results demonstrate conformity with the standards or requirements and can be used as part of the technical file for verifying conformity with regulations or 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. ETL SEMKO works closely with other third party certification bodies, who 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. In addition, ETL SEMKO is a major participator in the Global CB and Regional CCA and ENEC product certification schemes.

Performance testing of electrical and electronic products includes performance testing and verification of energy, capacity, acoustics, reliability, power, durability, usability and comparison evaluation on a wide range of products. Testing is carried out against international, national, industry association's or customer's specifications. These services are available to all clients in all regions and cover all industry sectors. Major third party testing programmes are operated for the Air Conditioning and Refrigeration Institute (ARI), Association of Home Appliance Manufacturers (AHAM), Gas Appliance Manufacturers Association (GAMA), Pool Heat Pump

Manufacturers Association (PHPMA), Safety Equipment Institute (SEI), US Department of Transportation (DOT) and the US Federal Aviation Administration (FAA).

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

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

Inspection of electrical and electronic goods is carried out at manufacturers' plants or at selected points in the supply chain in order to confirm that goods meet buyers' specifications. The goods are inspected to confirm a variety of requirements including quantities, electrical specifications, packing and labelling. ETL SEMKO has a global network of qualified inspectors, including a strong presence in China and other Asian and developing countries located close to the manufacturers.

Automotive testing and engineering was established through the acquisition of Entela Inc., a testing and engineering, product certification and systems certification firm, with over 80% of its business in the automotive industry. As automotive sector product development continues to expand in North America and Europe and manufacturing migrates to China and Eastern Europe, there are significant growth opportunities. The Entela acquisition provides a platform for the global growth of the Group's automotive business through a combination of organic growth, acquisitions and outsourcing.

Automotive System's Certification provides quality systems certification to the automotive supply base. Standards include ISO 9000, ISO 14000, QS 9000 and the mandated global automotive quality standard ISO/TS 16949.

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

ETL SEMKO's growth strategy includes increasing the level of business undertaken for retailers. This includes inspection work and developing the performance testing business for retailers in ETL SEMKO. The wider acceptance of the ETL safety mark by retailers in the United States will lead to an increased market share of the North American domestic appliance, consumer and home electronics safety markets for ETL SEMKO.

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

As more countries become focused on safety standards, there are opportunities to enter into co-operative arrangements with their standards bodies with a view to testing and certifying products to their standards and having them issue safety compliance certificates. ETL SEMKO has entered into more than 20 such arrangements in countries as diverse as Belarus, Brazil, Argentina, Singapore and Japan. These arrangements position Intertek strongly with respect to manufacturers wanting to gain access to these emerging markets.

Operations
ETL SEMKO has experienced engineers 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 16 countries and has 53 offices and 50 laboratories worldwide. The division has its headquarters in the United Kingdom and there are regional head offices in the UK for Europe, in Shanghai, China for Asia, and Chicago, Illinois for the Americas.

Customers
ETL SEMKO's customers include retailers, manufacturers, industry organisations and government departments. ETL SEMKO's top ten customers represented about 14% of its turnover in 2004 and the largest customer accounted for 3.8% of such turnover in the same period. ETL SEMKO also has long-standing relationships with various industry organisations including the Air Conditioning and Refrigeration Institute (ARI) in the United States, which has been a customer since 1956.

Market and competition
Market information is difficult to obtain due to the non-public reporting of ETL SEMKO's main competitors. Based however, on internally generated information, ETL SEMKO has about 11% market share in the United States (excluding automotive components), with a wide range of market share for individual segments. Market share in Europe varies from country to country but is estimated to be about 6% in total. In Asia, market share is estimated to be about 16%. ETL SEMKO has about 4% of the automotive component testing market in the United States.

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 and consumer electronic products. In Europe there are many

competitors, the largest being the German Technische Überwachungsvereine (TÜVs) who have the major market share in Germany and Asia.

Employees
At 31 December 2004, ETL SEMKO had a total of 2,486 employees, with 451 in Europe, the Middle East and Africa, 1,067 in Asia and 968 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; for Finance Ministries and Customs Departments providing services that ensure import duties are properly declared and paid; and for both Transport and Finance Ministries to implement cargo scanning solutions to protect trade security. FTS also uses its inspection resources to provide services to major industrial and commercial clients to ensure that equipment and goods they buy meet all their specifications.

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

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

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

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

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

FTS inspections are used to confirm the quantity and quality of goods to be shipped. FTS assigns the correct tariff code for the goods, verifies the declared value and certifies the import duties payable. The FTS certificate is needed in order to clear the shipment through customs in the client country.

By developing new products and services, the division has expanded the range of value added services provided to customs departments. These include training and consultancy, and software products for risk management and valuation. FTS can also provide client governments with local Customs Support Teams, to provide immediate valuation advice and on-the-job training support.

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

Cargo scanning services help client governments to implement and operate cargo scanning equipment to ensure better security of the supply chain, and to comply with the growing security requirements of the US and elsewhere. Cargo scanning equipment uses X-ray technology to inspect the contents of a shipping container without the need to open it. The results of the X-ray can then be compared with shipping documents and any deviations can then be subject to further investigation.

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

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

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

Geographic coverage
FTS has 45 offices worldwide and its head office is located in the United Kingdom.

Customers
FTS customers include the governments of Bangladesh, Ecuador, Iran, Kuwait, Malawi, Mexico, Mozambique, Nigeria, Saudi Arabia, Sierra Leone, Venezuela and Uzbekistan. These customers represented about 93% of the division's turnover in 2004.

In any given year, approximately 50% of FTS' contracts (by number) are scheduled for renewal. FTS manages the renewal of contracts through its relationship managers for each major contract. In 2004, the government of Rwanda cancelled its contract with FTS.

Market and competition
Four companies dominate the PSI and Standards 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 20% of the PSI and Standards Programme market with over 70% held by three competitors.

Employees
At 31 December 2004, FTS had 1,018 employees and approximately 1,200 sub-contractors.

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

The Company's head office is in London, United Kingdom and consists of 38 people. In addition, there are four head office employees based in the United States.

REVIEW OF RESULTS FOR 2004

Overview

In 2004, each of the divisions achieved excellent growth in turnover and operating profit at both constant and actual exchange rates. Group turnover was £499.6m, up 6% on the previous year at actual exchange rates and up 14.5% at constant exchange rates.

Total operating profit before goodwill amortisation and operating exceptional items, was £85.2m, up 11.8% on the previous year at actual exchange rates and up 23.5% at constant exchange rates. Labtest and Foreign Trade Standards continued to grow well and produce excellent results. Following the restructuring and management changes in 2003, ETL SEMKO and Caleb Brett markedly improved their results over last year, showing excellent growth in turnover and operating profit.

About 80% of the Group's results are denominated in US dollars or currencies linked to the US dollar. The strength of sterling against the US dollar and related currencies during 2004 had a negative impact on the results of the Group on translation into sterling. In order to compare the Group's results for 2004 with 2003, at constant exchange rates, the reported results for 2003 have been retranslated into sterling using the 2004 average exchange rates.

In 2004, the Group made seven acquisitions and two disposals for a net consideration of £27.6m. Excluding the results of the acquisitions and disposals made in 2003 and 2004, at constant exchange rates, turnover increased by 11.6% over the previous year and operating profit increased by 20.1%.

The Group's operating margin after central overheads improved from 15.8% to 17.1% with increases in every division.

The growth in each division is shown below at both constant and actual exchange rates. The figures at constant exchange rates are used in the explanation below of the performance of each division.

Financial performance by division

	Turnover				Total operating profit[2]			
	2004 £m	2003 £m	Growth at constant rates %	Growth at actual rates %	2004 £m	2003 £m	Growth at constant rate %	Growth at actual rates %
Labtest	**132.3**	119.0	**11.2**	**1.1**	**45.0**	38.5	**16.9**	**5.1**
Caleb Brett	**177.3**	157.9	**12.3**	**4.5**	**15.5**	11.9	**30.3**	**17.4**
ETL SEMKO	**122.4**	102.5	**19.4**	**9.7**	**17.5**	13.0	**34.6**	**23.2**
Foreign Trade Standards	**67.6**	56.8	**19.0**	**14.4**	**14.0**	11.4	**22.8**	**17.6**
Central overheads	**–**	–	**–**	**–**	**(6.8)**	(5.8)	**17.2**	**15.3**
Continuing operations at constant exchange rates[1]	**499.6**	436.2	**14.5**	**–**	**85.2**	69.0	**23.5**	**–**
Exchange rate adjustment	**–**	34.9	**–**	**–**	**–**	7.2	**–**	**–**
As reported at actual average exchange rates	**499.6**	471.1	**–**	**6.0**	**85.2**	76.2	**–**	**11.8**

1. 2004 and 2003 figures are stated at average annual exchange rates for 2004.
2. Total operating profit is stated before goodwill amortisation and exceptional items – see note 2 to the Financial Statements.

REVIEW OF 2004 DIVISIONAL PERFORMANCE

Operating profit referred to in the discussion below is total operating profit before goodwill amortisation and operating exceptional items. Growth rates are calculated using constant exchange rates.

Labtest

Labtest continued to perform very strongly and maintained its market leader position. Labtest's turnover increased by 11.2% to £132.3m and operating profit increased by 16.9% to £45.0m. Excluding the results of the acquisitions and disposals made in 2003 and 2004, turnover increased by 13.5% and operating profit increased by 16.6%. About 90% of the operating profits of the division are generated in Asia where the main drivers of the Labtest business continued to be strong: retailers increasing their sourcing of products from China and other parts of Asia, their need for reliable testing of quality and safety certification, shorter product life cycles and widening ranges of products, and manufacturers wanting technical support on quality. Textiles, toys and hardlines testing all performed well and there was growth in social compliance auditing. Inspection work declined slightly due to increased competition and pricing pressure. Our businesses in China and India grew particularly well, accounting for about 16% and 4%, respectively, of the division's total turnover in 2004. The division's operating margin increased from 32.4% in 2003 to 34.0% in 2004.

In September, the Group completed a transaction with Atlas LLC whereby two Labtest subsidiaries in the laboratory equipment sales business were sold to Allium LLC, a newly formed company, in return for a 40% interest in it. Atlas simultaneously sold its business to Allium in return for a 60% interest. This business generated turnover of £4.7m and an operating loss of £0.2m in 2004, up to the date of disposal. In March 2004, Labtest acquired a small business in Mauritius.

Caleb Brett

Caleb Brett reported strong growth in 2004. Turnover increased by 12.3% to £177.3m and operating profit increased by 30.3% to £15.5m. The cargo inspection market accounted for 70% of the turnover in 2004 (2003: 75%). Whilst market conditions improved compared to last year due to higher volumes of shipments, the main source of growth continued to be outsourced testing. This business grew by 34%, increasing its contribution to divisional turnover from 25% to 30%. Several new contracts were gained during the year, including business from Avecia, ChevronTexaco, ExxonMobil, BP and Shell. Caleb Brett's operating margin increased from 7.5% in 2003 to 8.7% in 2004, partly due to the reduced cost base which resulted from the restructuring in the first half of 2003 and partly due to the growth in outsourcing which has a higher margin than cargo inspection and testing. In April, Caleb Brett acquired the assets of Vestfold Telemark Metering, a consultancy company offering metering services in Norway, for £1.0m and in December it bought the assets of Kelley Completion Services, an offshore oil and gas measurement business operating in the Gulf of Mexico for £5.3m.

ETL SEMKO

Following the restructuring and management changes made in 2003, ETL SEMKO returned to a strong growth position. Turnover increased by 19.4% to £122.4m and operating profit increased by 34.6% to £17.5m. In May 2004, ETL SEMKO bought Entela Inc., a US automotive component testing business for £16.2m. The business has performed well and accounted for about half the turnover growth in the division. ETL SEMKO also made two other small acquisitions in the year. Excluding the results of these three acquisitions, turnover increased by 8.0% and operating income increased by 23.8%. Asia continued to perform strongly, particularly in the safety testing of household appliances manufactured in China for export to the West. The sales team in the United States has been successful in gaining acceptance for the ETL safety label from the major retailers. ETL SEMKO has traditionally had a very small share of the market in the United States for the safety testing and labelling of electrical products sold by retailers, but it is now starting to compete aggressively in this market although the main competitor still has a strongly entrenched position. The division's operating margin increased from 12.7% to 14.3%, due to the reduced cost base following the restructuring in the second half of 2003 and the growth in Asia, where the profit margin is higher than in the West.

Foreign Trade Standards

Turnover increased by 19.0% to £67.6m and operating profit increased by 22.8% to £14.0m. The operating margin increased from 20.1% to 20.7%. The growth was principally due to the pre-shipment inspection contract in Venezuela which started in the second half of 2003 and due to the other main contracts performing well.

Central overheads

Central overheads increased by 17.2% to £6.8m in the year, principally due to the strengthening of central IT resources and additional expenses on internal audit and compliance.

INTEREST

The Group's net interest charge before exceptional items for the year was £5.4m compared to £7.9m in 2003. The decrease was primarily due to the reduced level of net borrowings during the year.

In December 2004, the Group arranged a new £300m credit facility with its banks. Fees of £0.6m were incurred in connection with this arrangement. The new facility replaced the credit facilities put in place at the time of the Group's flotation in 2002. The fees associated with the previous credit arrangement were being amortised over five years but the balance of £2.1m was fully amortised in 2004. The total fee amortisation of £2.7m was reported as an exceptional finance charge in 2004.

PROFIT BEFORE TAX

Profit before tax was £75.8m compared to £70.6m in 2003, mainly due to the good trading performance in the year.

TAXATION

Tax on profit before exceptional items was £20.8m, £2.1m higher than last year but the effective tax rate before exceptional items reduced from 27.8% to 26.5%. The effective tax rate is expected to be sustainable at close to the current year level in the short to medium-term.

NET PROFIT

Net profit after tax and exceptional items but before minority interests was £55.5m compared to £51.8m last year.

MINORITY INTERESTS
Profit attributable to minority shareholders reduced from £3.7m in 2003 to £2.8m in 2004, mainly due to the reduction in minority shareholdings in certain of the Group's subsidiaries in China.

EARNINGS PER SHARE
As set out in note 10 to the Financial Statements, basic earnings per share in the year were 34.1p (2003: 31.3p), an increase of 8.9%. An adjusted earnings per share calculation is also shown which removes the impact of exceptional items and goodwill amortisation to give underlying basic earnings per share of 36.5p (2003: 29.8p).

DIVIDEND
An interim dividend of 3.4p per share (2003: 2.9p) was paid on 16 November 2004. A final dividend of 7.0p per share (2003: 5.9p) has been proposed, which subject to shareholder approval, will be paid on 17 June 2005, to shareholders on the Register at 3 June 2005. This makes a full year dividend of 10.4p per share, up 18.2% over last year.

SHAREHOLDERS' DEFICIT
The net profit after minority interests for 2004 of £52.7m (2003: £48.1m) was reduced by dividends of £16.1m (2003: £13.6m). Shareholders' deficit reduced by £39.5m in the year, mainly due to retained profits of £36.6m (2003: £34.5m) and favourable foreign exchange movements taken through reserves of £7.1m (2003: £10.2m), reduced by an actuarial loss on the pension funds of £6.6m (2003: £1.6m gain). At the end of 2004, shareholders' funds were in deficit by £3.6m compared to a deficit of £43.1m at 31 December 2003. The deficit arises principally from the write-off of goodwill in 1996 when the Group was purchased from its former owners. This amounted to £229.9m at 31 December 2004.

CASH AND LIQUIDITY
The Group's net debt at 31 December 2004, was £112.4m compared to £132.2m at the previous year end. The principal inflow arose from operating activities which generated £101.9m (2003: £80.0m). The principal outflows were £36.3m (2003: £6.8m) for net repayment of borrowings, £28.2m (2003: £24.4m) in respect of the purchase of fixed assets, £26.3m (2003: £7.8m) related to the cost of acquisitions, £18.5m (2003: £15.3m) related to dividends, £16.0m (2003: £13.7m) tax paid and £5.3m (2003: £7.3m) net interest paid.

Throughout the year there has continued to be a strong focus on cash management with an emphasis on working capital management.

ACQUISITIONS AND DISPOSALS
During 2004, the Group made seven acquisitions and two disposals for a net consideration of £27.6m (see note 25 to the Financial Statements). In April, Caleb Brett acquired the assets of Vestfold Telemark Metering, a consultancy company offering metering services in Norway, for £1.0m. In May, Avecia outsourced its Analytical Sciences Group to Caleb Brett in the UK, which involved the acquisition of assets for £4.4m. Also in May, ETL SEMKO bought Entela Inc., a US automotive component testing business for £16.2m. In September, the Group completed a transaction with Atlas LLC whereby two Labtest subsidiaries in the laboratory equipment sales business were sold to Allium LLC, a newly formed company in return for a 40% interest in it. Atlas simultaneously sold its business to Allium in return for a 60% interest. In December, Caleb Brett bought the assets of Kelley Completion Services, an offshore oil and gas measurement business operating in the Gulf of Mexico, for £5.3m. During the year, Labtest also bought a small business in Mauritius and ETL SEMKO bought a small business in the US.

ACCOUNTING POLICIES
During the year, the Group adopted UITF 38: Accounting for ESOP Trusts. As shown in note 1 to the Financial Statements the impact of this change was immaterial. Apart from this, the accounting policies of the Group remain unchanged from last year.

INTERNATIONAL ACCOUNTING STANDARDS
All European Union listed companies are required to adopt International Financial Reporting Standards (IFRS) for their financial statements from 2005, which will include comparative information for 2004. The Group is continuing its preparatory work to enable it to report under IFRS for the first time when the Group announces its interim results for 2005. The key areas of impact are as follows:

IFRS 2: Share Based Payments – for all employee share schemes, a fair value calculated using an option pricing model is required to be expensed.

IFRS 3: Business Combinations – the amortisation of goodwill is not permitted, and instead impairment tests are required at each balance sheet date.

IAS 19: Employment Benefits – the net position on the Group's defined benefit pension schemes based on market values will be included on the balance sheet. This is expected to be broadly in line with the FRS 17 amounts currently included in the Group's Financial Statements.

IAS 32 and IAS 39: Financial Instruments – currency and interest rate risk is managed by entering into forward foreign exchange rate contracts and interest rate swaps. Currently gains and losses on these derivatives are taken to the profit and loss account in the same period as the underlying transaction. IAS 39 requires all such instruments to be revalued to market values at the balance sheet date. For hedge accounting under IAS 39, the hedges need to be strictly designated against specific income or costs and the hedge effectiveness tested on a periodic basis. Hedge accounting permits the changes in the market value of the instruments to go to reserves. If hedge accounting is not designated or achieved, then the change in the market value of these instruments is taken directly to the profit and loss account. Therefore, the hedges not designated or those that do not qualify under the hedge accounting criteria of IAS 39, will increase the volatility in the profit and loss relating to the charges or credits resulting from the changes in the market value of the derivatives. In assessing the adoption of IAS 39, the Group has no plans to amend the underlying policy for the economic hedging of its exposures.
In accordance with the options on transition to IFRS, provided by IFRS 1 (first time adoption of IFRS), the Group will apply IAS 32 and

IAS 39 prospectively from 1 January 2005. Thus for the 2004 IFRS comparatives, financial instruments will be recorded on the existing UK GAAP basis.

TREASURY CONTROLS

Policy

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

Foreign currency exposure

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

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

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

Interest rate risk and exposure

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

Liquidity risk

Group policy is to ensure that projected financing needs are supported by adequate committed facilities. In December 2004, the Group refinanced its existing £300m Secured Facility Agreement with a new £300m non-secured Facility Agreement. This new facility expires on 15 December 2009 with an option to extend for a further two years. At 31 December 2004, there was £164.9m of debt outstanding (2003: £216.5m), the reduction from last year being due to repayments and foreign exchange adjustments. Apart from £5.0m (2003: £3.7m) which was utilised to support letters of credit and guarantees, the £135.1m (2003: £50m) Revolving Credit Facility remained undrawn at 31 December 2004. These facilities are adequate to support the Group's medium term funding requirements. Surplus cash is placed on deposit with short term maturities providing liquidity when required.

Counterparty credit risk

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

LITIGATION

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

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

Directors' report

The Directors of Intertek Group plc have pleasure in presenting their Annual Report and the audited Financial Statements for the year ended 31 December 2004.

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 Annual Review, Description of Business and the Operating and Financial Review.

DIVIDENDS
An interim dividend of 3.4p (2003: 2.9p) per ordinary share was paid on 16 November 2004. A final dividend of 7.0p (2003: 5.9p) per ordinary share has been proposed which, subject to shareholder approval, will be paid on 17 June 2005, to shareholders on the Register at 3 June 2005.

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

PURCHASE OF OWN SHARES
The Company is, until the date of the forthcoming Annual General Meeting, generally and unconditionally authorised to buy back a proportion of its own ordinary shares. Although no such purchases have been made to date, pursuant to this authority, the Directors will seek to renew this authority for up to 10% of the Company's issued share capital at the Annual General Meeting to be held on 6 May 2005.

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	Chairman
RC Nelson	Chief Executive Officer
W Spencer	Chief Financial Officer
DP Allvey	Non-Executive Director
W Hauser	Non-Executive Director
RE Sayers	Non-Executive Director
R Kong	Executive President China and Asia

RC Nelson and VE Treves retire by rotation and being eligible, offer themselves for re-election at the forthcoming Annual General Meeting. R Kong was appointed during the year and offers himself for election.

On 1 March 2005, W Hauser was appointed joint Chief Executive Officer. On 31 March 2005, RC Nelson will cease to be Chief Executive Officer and will be an Executive Director until 8 April 2005, when he becomes Non-Executive Deputy Chairman.

Other than employment contracts, none of the Directors of the Company had a material interest in any contract with the Company or its subsidiary undertakings, other than W Hauser, who until 1 March 2005, had a consultancy agreement with the Group to provide support to assist the Group in its expansion. The terms of the Directors' service contracts and the Directors' interests in the shares and options of the Company are disclosed in the Remuneration Report on pages 15 to 21.

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

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

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

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

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

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

SUBSTANTIAL SHAREHOLDINGS

As at 1 March 2005, the Company has been notified in accordance with sections 198 to 210 of the Companies Act 1985, that the following were interested in 3% or more of the Company's ordinary share capital:

	Number of shares	Percentage notified
FMR Corp/Fidelity International Ltd	20,012,625	12.93%
Lazard Asset Management	6,881,140	4.48%
Prudential plc	6,142,025	3.96%
Axa S.A.	5,973,574	3.86%
Legal & General Investments	5,401,647	3.50%
HBOS	4,661,649	3.02%

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

CORPORATE GOVERNANCE

The Group's statement of corporate governance is set out on pages 22 to 27 of this Annual Report and Accounts.

CHARITABLE AND POLITICAL DONATIONS

The Group made no political or charitable donations in 2004 (2003: £nil). In January 2005, the Group made a donation of USD 250,000 to the Tsunami Disaster Appeal fund.

AUDITORS

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

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

- Select suitable accounting policies and then apply them consistently;
- Make judgements and estimates that are reasonable and prudent;
- State whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- Prepare the financial statements on a going concern basis unless it is inappropriate to presume that the Group will continue in business.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

ANNUAL GENERAL MEETING

The Notice of the Annual General Meeting to be held on Friday 6 May 2005, is enclosed with this Annual Report and Accounts. The Notice details the business to be conducted at the meeting.

By order of the Board

F Evans
Group Company Secretary

7 March 2005
Registered Office
25 Savile Row
London
W1S 2ES

Registered Number: 4267576

This report sets out the Group's policy and disclosures in relation to Directors' remuneration for the year ended 31 December 2004 and, as required by schedule 7A to the Companies Act 1985 – The Directors' Remuneration Report Regulations 2002 (the Regulations) – will be subject to an advisory shareholder vote at the forthcoming Annual General Meeting (AGM). The report fully complies with the requirements of the Regulations and The Combined Code annexed to the Listing Rules (the Combined Code) and has been audited by KPMG Audit Plc to the extent required by the Regulations.

The Group has applied the Principles of Good Corporate Governance relating to the remuneration of its Directors and this report outlines how the Group has complied with the provisions of the Combined Code as well as some of the guidelines issued by institutional bodies.

REMUNERATION COMMITTEE (the Committee)

The Committee determines, on behalf of the Board, the Company's policy on the remuneration of Executive Directors and senior management. The Committee determines their total remuneration packages, including any compensation on termination of office. The Committee also provides advice and consults with the Chief Executive Officer on major policy issues affecting the remuneration of senior executives. To ensure that the Group's remuneration practices are market competitive, the Committee takes advice from various independent sources. The Committee met nine times during 2004.

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

DP Allvey (Chairman)
RE Sayers
VE Treves

The Committee members have no personal financial interest, other than as shareholders, in the matters to be decided. No Director plays a part in any discussion about his or her own remuneration. They give due regard to the interests of shareholders and the requirements of the Listing Rules and associated guidance. To help achieve its objectives, the Committee has appointed and taken independent advice from New Bridge Street Consultants LLP (New Bridge Street) and the Hay Group Management Ltd (Hay Group) remuneration consultants, in relation to remuneration matters and on share incentive arrangements. None of these consultants have any other connection with the Company.

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

REMUNERATION POLICY

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

The maintenance of a competitive package of pay and benefits, commensurate with comparable packages of pay and benefits provided by other companies of comparable size and complexity in the 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 2005 and for the foreseeable future will remain the same.

EXECUTIVE DIRECTORS

Base salary

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

Performance bonuses

The Executive Directors and senior executives are eligible for annual incentive payments for the achievement of annual financial and strategic goals of the Group and its businesses. The financial targets are derived from the strategic planning process for the Group and its businesses which is the cornerstone of the Group's results culture. During 2004, bonus targets focused on profit growth, the delivery of cash, increasing shareholder return and the achievement of individual strategic objectives. For the Executive Directors these were based on the measure of achievement for operating profit, operating cash flow to operating profit and Group Earnings per Share (EPS). RC Nelson is entitled to receive a bonus payment of up to 70% of base salary, whilst W Spencer and R Kong are each entitled to receive bonus payments of up to 50% of base salary. These amounts include a discretionary element payable in appropriate circumstances. Typical measures used for the Executive Directors are as follows:

Measure/percentage of salary	Notes	RC Nelson	W Spencer	R Kong*
EPS	1	25%	25%	–
Operating profit	2	23%	12%	25%
Operating cash flow/ operating profit		12%	6%	5%
Operating profit margin		–	–	5%
Working capital/turnover		–	–	5%
Return on operating assets	3	–	–	5%
Discretionary		10%	7%	5%
Total		70%	50%	50%

*All measures for R Kong are based on Labtest

1. Basic earnings per share excluding exceptional items.
2. Operating profit excluding goodwill amortisation and exceptional items, translated at constant exchange rates.
3. Return on Labtest's operating assets excluding goodwill.

For RC Nelson and W Spencer, the main target is growth in the Group's earnings per share compared to the previous year, with the maximum bonus opportunity for this target being 25% of salary for each person. The other major target is growth in Group operating profit compared to the previous year, with the bonus opportunity being 23% and 12% of salary respectively.

In addition, RC Nelson and W Spencer may earn a further 12% and 6% of salary, respectively, based on operating cash flow as a percentage of operating profit. In 2004, full bonus was payable on this element when the ratio of operating cash flow to operating profit for the Group (excluding FTS) exceeded 85%, and when the ratio of operating cash flow to operating profit in FTS exceeded 75%. In appropriate circumstances, the Committee may also award a discretionary bonus of up to 10% and 7% of salary, respectively.

For R Kong, the main target is operating profit growth in the Labtest division, compared to the previous year, with the maximum bonus opportunity for this target being 25% of salary. A further 5% of salary may also be earned based on each of the following: operating cash flow as a percentage of operating profit; operating profit margin; working capital to turnover and return on operating assets for the Labtest division. In 2004, full bonus was payable when the ratio of operating cash flow to operating profit for the Labtest division exceeded 90%. In appropriate circumstances, the Remuneration Committee may also award a discretionary bonus of up to 5% of salary.

All targets are established and approved by the Remuneration Committee and bonus is paid dependent on the achievement of appropriate thresholds for each relevant measure. Based on each of these, the total bonus accrued in 2004 for RC Nelson, W Spencer and R Kong equated to 70%, 50% and 45.6% of base salary respectively. Bonuses are not pensionable.

In conjunction with the introduction of the Intertek Deferred Bonus Plan (the Plan), described below, and with effect from the 2005 financial year, the maximum annual cash bonus potential of the Executive Directors and the two other most senior executives in the Company (being the members of the Company's Management Board) will decrease from 70% of salary in the case of the Chief Executive and 50% of salary in the case of the other members of the Management Board, to 50% and 40% respectively. The annual cash bonuses will continue to operate using a combination of the measures described above. The Plan is described in more detail in the accompanying Notice of AGM.

Pensions
RC Nelson has a private pension scheme and contributions made to this scheme by the Group are governed by Inland Revenue contribution limits. W Spencer participates in the Company's UK final salary pension scheme on the same basis as other eligible employees. R Kong participates in the "Intertek Hong Kong Retirement Scheme" on the same basis as other eligible local executive employees in Hong Kong. See page 20 for more information.

NON-EXECUTIVE DIRECTORS
The Board determines the remuneration of the Non-Executive Directors of the Company. Their fees have not increased this year and are disclosed in the notes to the Directors' remuneration summary on page 18. Such remuneration is neither pensionable nor eligible for annual incentive payments. The Non-Executive Directors are not allowed to participate in the Company's share incentive plans. Other than VE Treves, 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 RC Nelson and W Spencer are dated 24 May 2002, whilst the service contract of R Kong is dated 14 May 2002. All are 12-month rolling contracts terminable by either party on 12 month's notice and contain provisions by way of compensation for loss of office, limited to payment of salary over a 12-month period, pro-rated bonus, and benefits in lieu of notice. None of the Directors' service contracts contain provisions regarding a change of control.

Non-Executive Directors
The Non-Executive Directors do not have service contracts with the Company. The letter of engagement for each Non-Executive Director states that they are appointed for an initial period of three years. At the end of the initial period the contract may be renewed for a further period if the Company and the Director agree. W Hauser had a consultancy agreement with the Company until 1 March 2005, the details of which are disclosed in note 31 to the Financial Statements.

W Hauser is appointed Chief Executive Officer with effect from 1 March 2005. RC Nelson will remain in a non-executive role as Deputy Chairman, effective 8 April 2005. These new roles will carry terms and conditions broadly similar to the other executive and non-executive roles outlined above.

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

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

The 2002 Plan
Only Executive Directors or employees of the Group are eligible to participate in the 2002 Plan. The exercise price is determined by the average of the closing middle market quotations of an ordinary share in the Company on the five dealing days immediately prior to the date of grant and the options are exercisable between three and 10 years after the date of grant, provided the performance condition has been satisfied. The Remuneration Committee will decide whether the performance condition has been met at the appropriate time.

Options are granted annually and each tranche is based on approximately 1% of the Company's issued share capital. No individual can be granted options with a value of more than their annual base salary in each year. The options are subject to performance criteria unless there are regulatory or legal difficulties in jurisdictions where the employee is based. The performance condition requires that the growth in the Company's EPS outperforms the growth in the UK Retail Price Index (RPI) by a minimum of 5% per annum over a three year period. If the condition is met, 25% of the options become exercisable. If the growth rate is 8% then 66.6% of options become exercisable. 100% of the options would only become exercisable if the Company's growth in EPS outperformed the growth in the UK RPI by 11% per annum over a three year period. For growth rates between 5% and 8%, and 8% and 11%, the percentage of options exercisable is calculated on a sliding scale. In respect of options granted prior to 2005, if the performance targets are not met in full for the initial performance period of three years, the performance period may be extended by one further period of 12 months, to ascertain whether the balance of the unvested options can be exercised. The final grant of options in 2005 will not have a re-testing provision. The above performance criteria were selected to closely link improvement in performance with increase in shareholder value and targets are reviewed regularly to ensure that they remain stretching.

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

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

Subject to the approval of the new incentive arrangements described below, the Committee has decided that, after 2005, no further awards will be made under the 2002 Plan or the Approved Plan.

SHARE INCENTIVES – changes 2005/2006
During the year, the Committee has undertaken a comprehensive review of the Company's long-term incentive arrangements, in conjunction with New Bridge Street. This review concluded that the Company should adopt a new long-term incentive plan, linked to the existing cash bonus arrangement, to be called "the Intertek Deferred Bonus Plan" (the Plan). The Plan will operate from 2006 onwards, based on bonuses payable in respect of the financial year ending 31 December 2005. The Company is therefore seeking shareholder approval for adoption of this Plan at the AGM in May 2005 and the rationale for introducing the Plan, together with details of how it will operate, are described in more detail in the accompanying Notice of AGM.

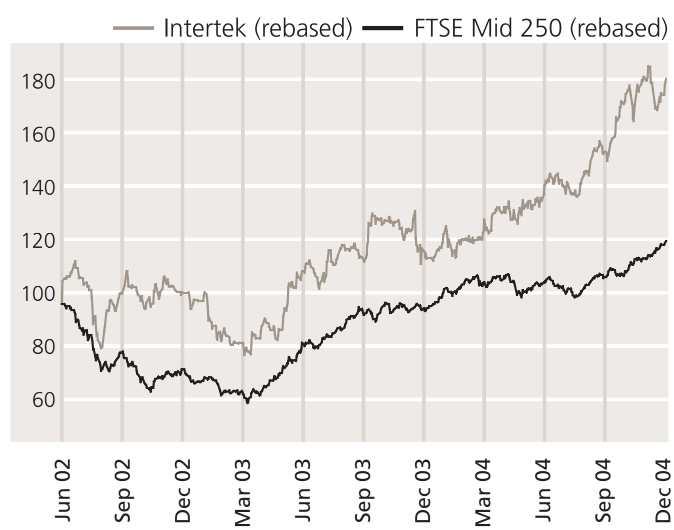
The Committee also proposes to introduce a shareholding retention requirement for the Management Board and other senior executives. Under these arrangements, the Management Board will be required, within five years, to build up a shareholding in the Company worth at least 100% of base salary and it is expected that, after allowing for tax and similar liabilities, 100% of the shares subject to each vested award under the Plan will be retained by the executive until the ownership target is attained.

The Company does not operate any long-term incentive plans other than those described above. Other than as stated above, no significant amendments are proposed to be made to the terms and conditions of any entitlement of a Director to share incentives.

PERFORMANCE GRAPH
Total Shareholder Return (TSR), comprising the changes in value of a share and dividends distributed can be represented by the value of a notional £100 invested at the beginning of a period and its change over that period.

The graph below shows TSR in respect of the Company since flotation on 24 May 2002. The TSR for the Company is compared with the TSR for the FTSE Mid 250 index. The FTSE Mid 250 index was selected, as it is a broad market index of which the Group is a member. In addition, the Group uses that group of companies, amongst others, for comparison of pay and benefit levels.

Total Shareholder Return



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

The table below summarises Directors' emoluments and pension contributions for 2004 and the prior year for comparison. No payments for loss of office were made during the year and no other awards were made to any Director.

DIRECTORS' REMUNERATION SUMMARY

		2004						2003		
	Notes	Base salary and fees £000	Bonuses £000	Benefits in kind £000	Total emolu-ments £000	Pension contri-butions £000	Total £000	Total emolu-ments £000	Pension contri-tions £000	Total £000
Executive Directors										
RC Nelson	1	**372.5**	**266.0**	**87.5**	**726.0**	**173.7**	**899.7**	609.7	162.0	771.7
W Spencer		**195.0**	**100.0**	**14.6**	**309.6**	**12.2**	**321.8**	266.0	11.3	277.3
R Kong	2	**162.0**	**73.9**	**29.7**	**265.6**	**18.5**	**284.1**	n/a	n/a	n/a
Non-Executive Directors										
VE Treves		**80.0**	**–**	**12.5**	**92.5**	**–**	**92.5**	86.9	–	86.9
DP Allvey		**30.0**	**–**	**–**	**30.0**	**–**	**30.0**	27.5	–	27.5
RE Sayers		**27.5**	**–**	**–**	**27.5**	**–**	**27.5**	25.6	–	25.6
W Hauser	3	**25.0**	**–**	**–**	**25.0**	**–**	**25.0**	25.0	–	25.0
Total		**892.0**	**439.9**	**144.3**	**1,476.2**	**204.4**	**1,680.6**	1,040.7	173.3	1,214.0

1. Benefits in kind for RC Nelson included £50,880 (2003: £50,800) in respect of life assurance premium for the £1,000,000 policy described below.
2. Appointed on 14 May 2004, therefore remuneration reported pro rata from date of appointment. R Kong is paid in Hong Kong dollars and the figures shown above are translated into sterling using the average exchange rate 2004.
3. In addition to his Director's fees, W Hauser received £36,700 (2003: £77,000) under a consultancy agreement with the Group.

BENEFITS IN KIND
The principal benefits in kind for Executive Directors are a company car, private medical and permanent health insurance, life assurance and personal accident insurance. In addition, for the purposes of business entertaining, RC Nelson is provided with club membership and an air ticket for his spouse to accompany him on one long distance business trip each year. R Kong is provided with a housing allowance, club membership and an air ticket between London and Hong Kong for himself and his spouse every two years. VE Treves is provided with a company car.

PENSIONS
The details of the Executive Directors' pension arrangements are shown below. The Group is keeping under review current changes in UK pensions legislation; however, as the majority of the Group's employees are non-UK, these changes should only impact a small number of individuals.

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 27.5% of relevant earnings (base salary plus bonus); or
- Inland Revenue contribution limits allowed under personal pension schemes (currently 40% of relevant earnings) on the maximum earnings on which contributions attract relief, currently £102,000 for 2004/2005 plus 40% of the excess to base salary.

During 2004, the Company made contributions of £173,737 (2003: £162,000) to his pension scheme.

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

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

Normal retirement age	65
Annual pension at normal retirement age	1/60 of final pensionable salary (highest base salary in any 12 month period preceding retirement date) for each year of service. Member may exchange part of their pension for a tax-free cash sum. This will reduce their pension but not that of their spouse.
Spouse's or dependant'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	Increases in deferment – revaluation is in two parts: i) The part that represents the Guaranteed Minimum Pension (GMP) will be increased at the rate of 4.5% for each complete tax year between date of leaving and State Pension Age. ii) The balance of the pension will increase at the rate of 5% per annum or in line with the Retail Price Index if lower for each completed year between the date of leaving and the Normal Retirement Date. Increases in retirement (or payment): i) Pre 1997 excess pension benefits will increase at the rate of 3% per annum. ii) Post 1997 excess pension benefits will increase at the rate of the lower of 5% pa or the increases in Retail Price Index. iii) Pre 1988 GMP 0% increase. iv) Post 1988 GMP 3% or increase in the Retail Price Index, if lower.
Employee contributions	As determined by the Company and the Trustees: currently 8% of base salary (excluding incentive payments) up to the earnings cap.
Employer contributions	As determined by the Company and the Trustees: currently 12% of base salary (excluding incentive payments) up to the earnings cap.
Ill health or incapacity	In the case of ill health, the pension is calculated as for early retirement but without the 4% reduction. In the case of incapacity the pension is calculated as if pensionable service had continued to normal retirement date.
Death in service	Lump sum of four times pensionable salary.

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

Name	Age at 31 December 2004	Contribitions made during the year £	Increase in accrued entitlement during the year[1] £	Accrued entitlement[1] 2004 £	Transfer value[2] 2003 £	Transfer value[2] 2004 £	Increase in transfer value in year £
W Spencer	45	12,150	2,317	22,667	128,469	137,191	8,722

1. The accrued pension entitlement is the amount that would be paid each year on retirement at 65 based on service to 31 December 2004, excluding the effect of inflation. Including inflation, the increase was £2,376 during the year. Transfer values have been calculated in a manner consistent with "Retirement Benefit Schemes – Transfer Values (GN11)" published by the Institute of Actuaries and the Faculty of Actuaries dated 6 April 2001.
2. The transfer value disclosed above does not represent a sum paid or payable to the individual Director, instead it represents a potential liability of the Pension Scheme.

R Kong

R Kong is a member of the Intertek Hong Kong Retirement Scheme (the ORSO Scheme). This is a hybrid scheme (combination of defined benefit and defined contribution benefit structure) registered under the Occupational Retirement Schemes Ordinance (ORSO) in Hong Kong. The main features are:

Normal retirement age	60
Early retirement	From age 55 onwards, having completed 25 years of employment and with Company consent.
Retirement benefit (at either normal retirement date or early retirement date)	A lump sum benefit equal to a sum as calculated in accordance with the retirement scheme.
Employee contributions	Not required to contribute.
Employer contributions	10%* of Monthly Base Salary (excluding allowances, bonus and other fluctuating income). *Actual contribution rate is to be determined by the Company and the Trustees: 11.4% of monthly base salary (excluding allowances and incentive payments) from 1 March 2004 and 15.9% prior to that in 2004.
Leaving Service Benefit (prior to retirement date)	V%* x Company Balance (total value of regular contributions made for the employee by the company plus interest theron) plus Transfer Balance (if any). * V% varies according to length of service and is equal to 100% for completing 10 years of scheme service.
Total Permanent Incapacity Benefit	The greatest of: (i) 48 x Last Scheme Salary (basic monthly salary excluding bonus, allowances and overtime immediately prior to incapacity) (ii) Company Balance plus Transfer Balance (if any); or (iii) HK$500,000
Death in service	The greatest of: (i) 48 x Last Scheme Salary (ii) Company Balance plus Transfer Balance (if any); or (iii) HK$500,000
Prior Scheme Guarantee	Members transferred from other schemes may have guaranteed benefits.

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

Name	Age at 31 December 2004	Contribitions made since date of appointment £	Increase in accrued entitlement since date of appointment[1] £	Accrued entitlement[2] 2004 £	Transfer value[3] 2003 £	Transfer value 2004 £	Increase in transfer value since date of appointment[1] £
R Kong	57	18,500	85,775	1,051,911	876,832	960,465	102,833

1. Based on pro rata of full year increases of £128,663 (accrued entitlement) and £154,250 (transfer value).
2. The accrued entitlement refers to the lump sum payable to R Kong if he retired at age 60, based on his service to 31 December 2004. Since R Kong is covered by a retirement scheme in Hong Kong, the above calculation has taken into account the economic conditions in Hong Kong.
3. The transfer value disclosed above is 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. To be consistent with the GN11, the transfer value has been determined to be the past service liability based on the ORSO funding method and assumptions.

TRANSACTIONS WITH DIRECTORS

These are disclosed in note 31 to the Financial Statements.

DIRECTORS' INTERESTS IN SHARE OPTIONS

Non-Executive Directors are not allowed to participate in the Company's share incentive plans. No options were granted to the Executive Directors under the 1997 Plan. Options granted to the Executive Directors under the Approved Plan and the 2002 Plan are shown below:

	31 December 2003[1] Number of shares	Options granted during 2004 Number of shares	Price £	31 December 2004 Number of shares	Date option becomes exercisable	Date option expires
RC Nelson						
Approved Plan	6,864	–	4.37	6,864	May 2005	May 2012
2002 Plan	55,379	–	4.37	55,379	May 2005	May 2012
2002 Plan	57,939	–	3.59	57,939	April 2006	April 2013
2002 Plan	–	53,486	5.235	53,486	April 2007	April 2014
Total	**120,182**	**53,486**		**173,668**		
W Spencer						
Approved Plan	6,864	–	4.37	6,864	May 2005	May 2012
2002 Plan	15,466	–	4.37	15,466	May 2005	May 2012
2002 Plan	21,357	–	3.59	21,357	April 2006	April 2013
2002 Plan	–	24,069	5.235	24,069	April 2007	April 2014
Total	**43,687**	**24,069**		**67,756**		
R Kong						
2002 Plan	42,526	–	4.37	42,526	May 2005	May 2012
2002 Plan	37,266	–	3.59	37,266	April 2006	April 2013
2002 Plan	–	40,600	5.235	40,600	April 2007	April 2014
Total	**79,792**	**40,600**		**120,392**		

1. At his date of appointment R Kong also held the 40,600 options granted during 2004.

Grants of options have been phased, so far as possible, over the 10 year life of each of the plans. No Director was eligible to exercise any share options during 2004 and therefore no aggregate gain was made (2003: £nil).

On 31 December 2004, the closing market price of Intertek ordinary shares was 705p. The highest and lowest prices of the shares during the year were 723p and 460.25p respectively.

DIRECTORS' INTERESTS IN ORDINARY SHARES

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

Number of ordinary shares of 1p	31 December 2003[1]	Acquired	Sold	31 December 2004
VE Treves	100,000	–	50,000	50,000
DP Allvey	100,000	270	95,000	5,270
R Kong	500,000	–	300,000	200,000
RC Nelson	1,732,514	–	1,232,514	500,000
RE Sayers	1,500	–	–	1,500
W Spencer	512,000	–	133,000	379,000

1. Or as at date of appointment.

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 2004, and the date of this Report.

Approved by the Board on 7 March 2005.

DP Allvey
Chairman, Remuneration Committee

The Group is committed to high standards of corporate governance and this report outlines where the Company has complied with the provisions of the revised Combined Code on Corporate Governance issued by the Financial Reporting Council in July 2003, which applies to listed companies with a financial year ending on or after 1 November 2003 (the Code). During 2004, the Company has not complied with some of the provisions of the Code and the areas of non-compliance are described in this report. The Board is accountable to the Company's shareholders for good corporate governance and this statement describes how the relevant principles of governance have been applied to the Company.

THE BOARD

An effective Board is in place, which provides entrepreneurial leadership and controls the Group. The Board's main roles are to create value to shareholders, to provide entrepreneurial leadership of the Group, to approve the Group's strategic objectives and to ensure that the necessary financial and other resources are made available to enable them to meet those objectives. The Board is responsible to shareholders for the proper management of the Group. A statement of the Directors' responsibilities in respect of the Annual Report and Accounts is set out on page 14. All Directors have a wide range of experience, bringing independent judgement to bear in the interests of the Company on issues of strategy, performance, resources and standards of conduct, and the Board has the appropriate wide range of skills, which is vital to the success of the Group.

There were eight scheduled Board meetings held in 2004 and, outside of these, there was frequent contact between the Directors to discuss the Company's affairs and develop its business. During 2004, all Directors were present at every Board meeting. Also during the year, the Chairman held meetings with the Non-Executive Directors without the Executive Directors being present.

The Group has identified a number of key areas that are subject to regular reporting to the Board and this enables the performance of management to be reviewed and monitored by the Board. A Board matrix is in place which formally outlines the matters specifically requiring the consent of the full Board and includes, inter alia, the approval of Group strategy and operating plans, the annual budget, the Annual Report and Accounts, the Interim Report and related announcements, major divestments and capital expenditure, large acquisitions and disposals, the recommendation of dividends and the approval of treasury and risk management policies.

The Board matrix also identifies areas where executive management can give approval subject to certain financial limits. Where any of the activities involve amounts greater than the limits laid down for management approval they are referred to the full Board. The authorities in the Board matrix are reviewed regularly and any changes are approved by the Board. The Board matrix is communicated to all senior management to ensure that throughout the Group it is known when Board approval is required.

The Board consists of the Chairman VE Treves, the Chief Executive Officer RC Nelson, two Executive Directors, two independent Non-Executive Directors and one other Non-Executive Director. The Senior Independent Director is DP Allvey. The Directors' biographies appear in the Annual Review on pages 16 and 17.

Each Director will ensure that if he has any concerns which cannot be resolved about the Company or a proposed action, that his concern is recorded in the Board minutes. Appropriate insurance cover is in place in respect of legal action against the Directors.

There is a clear division of responsibilities between the Chairman and the Chief Executive Officer and they have been set out in writing and approved by the Board. The Chairman met the independence criteria set out in the Code on appointment to the Board in May 2002.

The Chairman leads the Board in the determination of its strategy and in the achievement of its objectives. The Chairman is responsible for organising the business of the Board, ensuring its effectiveness and setting its agenda. The Chairman has no involvement in the day-to-day business of the Group. The Chairman facilitates the effective contribution of the Non-Executive Directors, and constructive relations between Executive and Non-Executive Directors ensures Directors receive accurate, timely and clear information and effective communication with shareholders. The Chief Executive Officer has direct charge of the Group on a day-to-day basis and is accountable to the Board for the financial and operational performance of the Group.

The Board comprises a balance of Executive and Non-Executive Directors who bring a wide range of skills and experience to the deliberations of the board. The Non-Executive Directors fulfil a vital role in corporate accountability.

The Non-Executive Directors have a particular responsibility to ensure that the strategies proposed by the Executive Directors are fully discussed and critically examined, not only in the best long-term interests of shareholders, but also to ensure that they take proper account of the interests of employees, customers and suppliers. The Non-Executive Directors are all experienced and influential individuals and through their mix of skills and business experience they contribute significantly to the effective functioning of the Board and its committees, ensuring that matters are fully debated and that no one individual or group dominates the decision making process.

The Board considers DP Allvey and RE Sayers to be independent Non-Executive Directors. W Hauser is not considered to be independent under the provisions of the Code as he has a consultancy agreement with the Company. However, the Board believes that during the year ended 31 December 2004, W Hauser brought valuable expertise to the Board and exercised independent judgement in all decisions. With effect from 1 March 2005, Wolfhart Hauser is appointed Chief Executive Officer.

The Board, excluding the Chairman, does not comprise at least half independent Non-Executive Directors, as set out in the Code, but believes that during 2004, its composition, taking into account the balance of skills, knowledge and experience, resulted in an efficient and effective board operation and that the balance between Executive and Non-Executive Directors remained satisfactory. It was felt to be inappropriate to recruit a new Non-Executive Director whilst the search for a new Chief Executive Officer was also being undertaken, though a further review of the Board's composition and balance will be undertaken during 2005.

To enable all the Directors to discharge their duties, they have full and timely access to all relevant information. The Board papers are circulated in plenty of time before the Board meetings to ensure that Directors have the necessary time to read and review the papers. The Non-Executive Directors receive monthly management accounts and regular management reports and information which enable them to scrutinise the Group's and management's performance against agreed objectives.

A formal induction programme has been established for new Directors and this is tailored to suit the individual to ensure that it is appropriate for their level of previous experience.

All Directors have access to the advice and services of the Company Secretary who will assist in arranging any additional training as required. The appointment and removal of the Company Secretary is a matter for the Board as a whole.

Each year a conference is held, attended by the Board and senior management from each division and geographic area, in order to discuss strategy and policy. In 2004, the Board also visited the USA to tour some of the Group's facilities and meet local management. These meetings help to ensure that the Directors continue to develop their knowledge of the business of the Group and get to know the senior management in the Group.

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

A new annual performance evaluation process led by the Chairman, has been established for each Director, Committee and the Board as a whole. A series of questionnaires has been designed and these forms provide a framework for the evaluation process, and provide the Chairman with a means of making year-on-year comparisons. There are five questionnaires in total, one for each of the following: the Board; each individual Director; the Remuneration Committee; the Nomination Committee; and the Audit Committee.

The first evaluation took place in 2004, when the performance of each individual Director and the functioning and constitution of the Board and each Committee was assessed. The Chairman assessed the individual performance of each Director, in consultation with the other Directors. The Senior Independent Director, taking into account the views of the Executive Directors, had discussions with the other Non-Executive Directors without the Chairman being present in order to appraise the Chairman's performance during the year. The results of the assessments concluded that the performance of the Board, each Committee and each Director is effective and that all Directors demonstrate full commitment in their respective roles to the Company.

It is the Board's intention to continue to review annually its performance and that of its Committees and individual Directors.

BOARD COMMITTEES

The Board has established several Committees, each with clearly defined terms of reference, procedures and powers. All these Committees operate in accordance with the relevant terms of reference as approved by the Board. Copies of the terms of reference for each of these Committees are available on request from the Secretariat Department at the registered office or can be downloaded from www.intertek.com. The number of full Board meetings and Committee meetings attended by each Director during the year was as follows:

Name	Position	Scheduled Board meetings	Audit Committee meetings	Nomination Committee meetings	Remuneration Committee meetings
VE Treves	Chairman	8 (8)	4 (4)	3 (3)	7 (9)
RC Nelson	Chief Executive Officer	8 (8)	N/A	N/A	N/A
W Spencer	Chief Financial Officer	8 (8)	N/A	N/A	N/A
R Kong	Executive Director	3 (3)	N/A	N/A	N/A
DP Allvey	Senior Independent Director	8 (8)	4 (4)	3 (3)	8 (9)
W Hauser	Non-Executive Director	8 (8)	N/A	N/A	N/A
RE Sayers	Independent Non-Executive Director	8 (8)	4 (4)	3 (3)	9 (9)

Figures in brackets indicate the maximum number of meetings in the period during which the relevant individual was a Director or Committee member.

Membership of the three relevant Board Committees is set out below.

THE REMUNERATION COMMITTEE
This Committee comprises three Non-Executive Directors, DP Allvey (Chairman), RE Sayers and VE Treves. Under the Code, as Chairman of the Company, VE Treves is not viewed as independent. Therefore the Company is not in full compliance with the Code, which requires the Remuneration Committee to have at least three independent Non-Executive Directors. However, during 2004, the Remuneration Committee was evaluated and the Board agreed that the current membership of the Committee was appropriate and effective and deemed that VE Treves exercised independent judgement on all remuneration matters referred to that Committee.

The Committee has responsibility for making recommendations to the Board on the Group's policy for the remuneration of the Executive Directors and senior executives and for the determination, within agreed terms of reference, of additional benefits for each of the Executive Directors, including pension rights and any compensation for loss of office. The Committee is also responsible for the implementation and operation of employee share incentive arrangements. During 2004, the Remuneration Committee met nine times.

THE NOMINATION COMMITTEE
This Committee comprises three Non-Executive Directors, VE Treves (Chairman), DP Allvey and RE Sayers. This Committee, which met three times during the year, nominates candidates to fill board vacancies, reviews succession planning and makes recommendations to the Board on the balance and composition of the Board in order to ensure that the Board is effective in discharging its responsibilities.

Bearing in mind the balance of skills, knowledge and experience on the Board, a job description is prepared for any new Board position and when a Non–Executive Director is appointed, the Committee will ensure that he or she has confirmed that they have sufficient time to fulfil the commitments of the role. The terms and conditions of appointment of Non-Executive Directors are available for inspection by any person at the Company's registered office during normal business hours and at the Annual General Meeting (for 15 minutes prior to the meeting and during the meeting). All new Directors are subject to election by shareholders at the first Annual General Meeting after their appointment and then are subject to re-election by shareholders once every three years.

During the year the Committee appointed Whitehead Mann, an external search firm, to ensure a formal, rigorous and transparent process in the appointment of the new Chief Executive Officer.

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

THE AUDIT COMMITTEE
This Committee comprises three Non-Executive Directors, DP Allvey (Chairman), RE Sayers and VE Treves. Under the Code, VE Treves is not viewed as independent as he is Chairman of the Company. Therefore the Company is not in full compliance with the Code, which requires an Audit Committee to have at least three independent Non-Executive Directors. However, during 2004, the Audit Committee was evaluated and the Board agreed that the current membership of the Committee was appropriate and effective and also deemed that VE Treves exercised independent judgement on all issues presented to that Committee. DP Allvey has recent and relevant financial experience as detailed in his biography on page 16 of the Annual Review.

The Audit Committee monitors the integrity of the Group's Financial Statements and any formal announcements relating to the Group's performance. The Committee is responsible for monitoring the effectiveness of the external audit process and making recommendations to the Board in relation to the appointment, re-appointment and remuneration of the external auditor. It is responsible for ensuring that an appropriate relationship between the Group and the external auditors is maintained. It also reviews annually the Group's systems of internal control and the processes for monitoring and evaluating the risks facing the Group. The Committee reviews the effectiveness of the internal audit function and is responsible for approving, upon the recommendation of the Chief Executive, the appointment and termination of the head of that function. The Committee meets with the Vice President Compliance at least once a year without management present.

The Group's auditors, Chief Executive Officer, Chief Financial Officer, Vice President Financial Control, Vice President Compliance and the Head of Internal Audit, usually attend Committee meetings. The Group's auditors meet with the members of the Audit Committee alone at least once a year.

The Audit Committee seeks to ensure the continued independence and objectivity of the Group's auditors and in this regard, monitors the level of non-audit work undertaken for the Group. During 2004, a policy on the provision of non-audit work by the external auditor was approved by the Board to ensure that auditor objectivity and independence is safeguarded. The policy highlights those areas where the external auditor cannot provide services to the Group and they include inter alia, the provision of Group management functions, internal audit outsourcing, provision of legal advice and recruitment and remuneration advice. A breakdown of the audit and non-audit fees paid to the Group's auditors during the year is set out in note 3 to the Financial Statements.

The ultimate responsibility for reviewing and approving the Annual Report and Accounts and the Interim Report remains with the Board. During 2004, the Audit Committee met four times. The Chairman and other Committee members when available, also attend meetings held twice a year with the external auditor and management to discuss any accounting issues associated with the full-year audit and half-year review.

INTERNAL CONTROL

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

The Board can confirm that there is an ongoing process for identifying, evaluating and managing the significant risks to the Group's short and long-term value, including those arising from social, environmental and ethical matters. This process has been in place for the year under review and up to the date of approval of the Annual Report and Accounts, and is regularly reviewed by the Board, and accords with the Turnbull Guidance. During 2004, an independent third party review of internal controls was undertaken and any suggested improvements have been implemented. No material breaches of any internal controls were identified during the year. In carrying out the risk review the Board is satisfied that it received adequate information from the operations around the world. Training is provided to Directors on these matters where necessary.

The Audit Committee has reviewed the effectiveness of the system of financial and non-financial internal control. In particular, it has reviewed and continues to seek to improve the process for identifying and evaluating the significant risks affecting the business and the policies and procedures by which these risks are managed. This has been reinforced by the adoption of a Code of Ethical Business Conduct, approved by the Board, which provides practical guidance and instruction for staff. A copy of this Code is available on www.intertek.com.

The Group operates a zero tolerance policy in regard to breaches of ethics and employees are required to sign a certificate confirming their understanding that any breaches of the Group's code of ethics will result in disciplinary action that may include dismissal of the employee concerned. To support Group policies and raise concerns about possible improprieties in matters of financial reporting and other matters there is an independent e-mail and telephone hotline so that staff may report anonymously any inaccurate or unethical working practices. The telephone hotline is managed by an independent third party.

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

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

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

Each division reports annually to the Audit Committee via the Vice President Compliance on its review of risks and how they are managed. Each year senior managers throughout the Group confirm the adequacy of their systems of internal controls, compliance with Group policies, local laws and regulations and report any control weaknesses identified in the past year. The Audit Committee's main role is to review, on behalf of the Board, the key risks inherent in the business and the system of controls necessary to ensure such risks are properly managed.

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

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

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

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

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

There is regular dialogue with institutional shareholders including presentations after the Company's Preliminary Announcement of the year end results and at the half year. The Chairman ensures that any feedback from the institutional shareholders is communicated directly to the Board and all the analysts' and brokers' reports on the Group are e-mailed directly to each Director. The Chairman, Senior Independent Director and other Non-Executive Directors have also attended meetings with institutional shareholders during the year.

The Board views the Annual General Meeting as a valuable opportunity to communicate with private and institutional investors and welcomes their participation. All Board members attend the Annual General Meeting and in particular, the Chairmen of the Audit, Nomination and Remuneration Committees are available to answer questions. At General Meetings, a schedule of the proxy votes cast is made available to all shareholders. The Company proposes a resolution on each substantially separate issue and does not bundle together resolutions inappropriately.

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

CORPORATE SOCIAL RESPONSIBILITY
The Board recognises that the Group has a responsibility to act ethically in relation to the physical and social environment in which it operates and that failure to do so could adversely impact on the Group's long and short-term value, as a result of financial penalty and loss of customer support. It takes such responsibilities seriously paying due regard to international and local laws in all its dealings. The Group provides equal opportunity for its entire staff irrespective of their ethnic or religious background, sex, sexual orientation or disability as disclosed in the Directors' Report on page 13.

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

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

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

ENVIRONMENTAL MATTERS
The Group is committed to preventing any adverse impact on the environment as a result of its operations. The Group's worldwide risk management team is tasked with identifying all potential risks and introducing procedures to prevent such an occurrence. The policy on the audit of environmental risks has recently been revised. In future, the Vice President Compliance will choose 10 to 15 sites per annum for review to determine whether procedures are being properly implemented, and to advise on further precautionary measures. The internal audit team will check the process for the disposal of samples. 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. Environmental due diligence is carried out before the acquisition of any new sites.

Group profit and loss account

for the year ended 31 December 2004

	Notes	Pre-exceptional items 2004 £m	Exceptional items 2004 £m	Total 2004 £m	Pre-exceptional items 2003 £m	Exceptional items 2003 £m	Total 2003 £m
Turnover – continuing operations	2	**499.6**	**–**	**499.6**	471.1	–	471.1
Cost of sales		**(385.0)**	**–**	**(385.0)**	(364.2)	–	(364.2)
Gross profit		**114.6**	**–**	**114.6**	106.9	–	106.9
Administrative expenses		**(30.6)**	**–**	**(30.6)**	(31.9)	(1.1)	(33.0)
Goodwill amortisation		**(1.5)**	**–**	**(1.5)**	(1.0)	–	(1.0)
Total administrative expenses		**(32.1)**	**–**	**(32.1)**	(32.9)	(1.1)	(34.0)
Group operating profit		**82.5**	**–**	**82.5**	74.0	(1.1)	72.9
Share of operating profit of associates		**1.2**	**–**	**1.2**	1.2	–	1.2
Total operating profit	2	**83.7**	**–**	**83.7**	75.2	(1.1)	74.1
Continuing operations		**83.7**	**–**	**83.7**	75.2	(3.7)	71.5
Discontinued operations		**–**	**–**	**–**	–	2.6	2.6
Non-operating exceptional items							
Net profit on disposal of businesses – continuing	5	**–**	**–**	**–**	–	4.5	4.5
Profit on ordinary activities before interest		**83.7**	**–**	**83.7**	75.2	3.4	78.6
Net interest and similar charges	7a	**(5.4)**	**(2.7)**	**(8.1)**	(7.9)	–	(7.9)
Other net finance income/(expense)	7b	**0.2**	**–**	**0.2**	(0.1)	–	(0.1)
Profit on ordinary activities before taxation	3	**78.5**	**(2.7)**	**75.8**	67.2	3.4	70.6
Taxation on profit on ordinary activities	8	**(20.8)**	**0.5**	**(20.3)**	(18.7)	(0.1)	(18.8)
Profit on ordinary activities after taxation		**57.7**	**(2.2)**	**55.5**	48.5	3.3	51.8
Attributable to minorities – equity interests		**(2.8)**	**–**	**(2.8)**	(3.7)	–	(3.7)
Profit for the financial year		**54.9**	**(2.2)**	**52.7**	44.8	3.3	48.1
Dividends	9	**(16.1)**	**–**	**(16.1)**	(13.6)	–	(13.6)
Retained profit for the year		**38.8**	**(2.2)**	**36.6**	31.2	3.3	34.5
Earnings per share	10						
Basic		**35.6p**	**(1.5)p**	**34.1p**	29.1p	2.2p	31.3p
Diluted		**35.3p**	**(1.4)p**	**33.9p**	29.0p	2.1p	31.1p

Balance sheets
at 31 December 2004

	Notes	Group 2004 £m	Group 2003 £m	Company 2004 £m	Company 2003 £m
Fixed assets					
Intangible assets – goodwill	11	**36.9**	17.8	**–**	–
Tangible assets	12	**88.5**	77.8	**–**	–
Investments:					
Subsidiaries	13	**–**	–	**271.2**	263.2
Associates	13	**1.8**	1.2	**–**	–
		127.2	96.8	**271.2**	263.2
Current assets					
Stocks	14	**1.5**	1.4	**–**	–
Debtors	15	**109.8**	105.3	**0.9**	3.7
Cash at bank and in hand		**52.5**	81.5	**1.2**	23.8
		163.8	188.2	**2.1**	27.5
Creditors due within one year					
Borrowings	16	**(14.0)**	(17.5)	**–**	–
Other creditors	16	**(106.2)**	(92.1)	**(11.9)**	(10.1)
		(120.2)	(109.6)	**(11.9)**	(10.1)
Net current assets		**43.6**	78.6	**(9.8)**	17.4
Total assets less current liabilities		**170.8**	175.4	**261.4**	280.6
Creditors due after more than one year					
Borrowings	17	**(150.9)**	(196.2)	**–**	–
Other creditors	17	**(0.5)**	(1.4)	**(7.7)**	(23.9)
		(151.4)	(197.6)	**(7.7)**	(23.9)
Provisions for liabilities and charges	18	**(6.0)**	(8.6)	**–**	–
Net assets/(liabilities) excluding pension liabilities		**13.4**	(30.8)	**253.7**	256.7
Pension liabilities	23	**(11.3)**	(5.1)	**–**	–
Net assets/(liabilities)		**2.1**	(35.9)	**253.7**	256.7
Capital and reserves					
Called up share capital	19	**1.5**	1.5	**1.5**	1.5
Share premium	20	**234.5**	232.1	**234.5**	232.1
Merger reserve	20	**3.6**	3.6	**–**	–
Other reserves	20	**2.8**	2.8	**–**	–
Profit and loss account	20	**(246.0)**	(283.1)	**17.7**	23.1
Shareholders' (deficit)/funds		**(3.6)**	(43.1)	**253.7**	256.7
Minority shareholders' equity interest	21	**5.7**	7.2	**–**	–
Capital employed – equity		**2.1**	(35.9)	**253.7**	256.7

The Financial Statements on pages 27 to 54 were approved by the Board on 7 March 2005 and were signed on its behalf by:

RC Nelson
Director

W Spencer
Director

Statement of group cash flow
for the year ended 31 December 2004

	Notes	2004 £m	2003 £m
Net cash inflow from operating activities	24	**101.9**	80.0
Dividends received from associated undertakings		**0.8**	0.7
Returns on investments and servicing of finance	25	**(9.4)**	(10.1)
Taxation		**(16.0)**	(13.7)
Capital expenditure and financial investment	25	**(28.0)**	(23.6)
Acquisitions and disposals:			
Cash outflow from acquisitions	25	**(26.3)**	(7.8)
Cash inflow from disposal	25	**–**	6.6
Equity dividends paid		**(14.4)**	(12.5)
Cash inflow before financing		**8.6**	19.6
Financing:	25		
Net issue of shares		**1.1**	(0.1)
Decrease in debt		**(36.3)**	(6.8)
(Decrease)/increase in cash in the year		**(26.6)**	12.7

Reconciliation of net cash flow to movement in net debt
for the year ended 31 December 2004

	Notes	2004 £m	2003 £m
(Decrease)/increase in cash in the year	26	**(26.6)**	12.7
Decrease in debt	26	**36.3**	6.8
Decrease in net debt resulting from cash flows	26	**9.7**	19.5
Acquisitions and disposals	26	**(0.3)**	0.5
Other non-cash movements	26	**(2.8)**	(1.0)
Exchange adjustments	26	**13.2**	15.7
Decrease in net debt in the year		**19.8**	34.7
Net debt at the start of the year		**(132.2)**	(166.9)
Net debt at the end of the year	26	**(112.4)**	(132.2)

Statement of total group recognised gains and losses

for the year ended 31 December 2004

	2004 £m	2003 £m
Net profit from group companies	**52.0**	47.3
Net profit from associates	**0.7**	0.8
Profit for the financial year	**52.7**	48.1
Actuarial pension (loss)/gain*	**(6.6)**	1.6
Exchange adjustments	**7.1**	10.2
Total recognised gains and losses relating to the year	**53.2**	59.9

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

Reconciliation of movements in shareholders' (deficit)/funds

	Group 2004 £m	Group 2003 £m	Company 2004 £m	Company 2003 £m
Opening shareholders' (deficit)/funds	**(43.0)**	(90.5)	**256.7**	262.1
Restatement (see note below)*	**(0.1)**	(0.1)	**–**	–
Restated at 1 January 2004	**(43.1)**	(90.6)	**256.7**	262.1
Issue of ordinary shares	**2.4**	0.5	**2.4**	0.5
Profit for the financial year	**52.7**	48.1	**10.7**	7.7
Dividends	**(16.1)**	(13.6)	**(16.1)**	(13.6)
Goodwill on disposals	**–**	0.7	**–**	–
Actuarial pension (loss)/gain **	**(6.6)**	1.6	**–**	–
Exchange adjustments	**7.1**	10.2	**–**	–
Closing shareholders' (deficit)/funds	**(3.6)**	(43.1)	**253.7**	256.7

* In accordance with UITF 38, own shares of £0.1m held by the ESOT have been reclassified from investments.
** Actuarial pension (loss)/gain is stated net of deferred tax.

Historical cost profits and losses

A note of consolidation 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.

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 following principal accounting policies have been applied consistently, except for the presentation of ESOP shares referred to below, throughout the year and the preceding year in dealing with items which are considered material in relation to the Group's Financial Statements.

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 (now Intertek Group plc). The acquisition of ITSHL by Intertek Testing Services plc was accounted for in accordance with the principles of merger accounting as set out in FRS 6: Acquisitions and Mergers and Schedule 4A to the Companies Act 1985. By adopting this accounting treatment the consolidated financial information included in these accounts has been shown as though the parent company had always been the parent company of the Group.

During the year, the Group adopted the requirement of UITF 38: Accounting for ESOP Trusts, and therefore, the Group's investment in its own shares of £0.1m, which is held in an Employee Share Ownership Trust (ESOT), is reported as a deduction from shareholders' funds. Previously this was reported as an investment. The balance sheet at 31 December 2003 has been restated to reflect this change in presentation. The impact of this change is not material.

Parent company

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

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries together with the Group's share of net assets and results of associates, made up to 31 December 2004. 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 is a company in which the Group has a long term interest, usually from 20% to 50% of the equity voting rights, and over which it actually exercises significant influence. The Group's share of the profits less losses of associates is included in the consolidated profit and loss account on the equity accounting basis and the holding value of associates in the Group balance sheet is calculated by reference to the Group's equity in the net assets of such undertakings.

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

Foreign currencies

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

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

Tangible fixed assets and depreciation

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

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

1. Accounting policies continued

Leases

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

Stocks

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

Turnover

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

Deferred tax

Deferred taxation is recognised, without discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date except as otherwise required by FRS 19: Deferred tax. Deferred tax assets 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 Statement of Total Group Recognised Gains and Losses.

Goodwill

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

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

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

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, automotive components, building products and heating, ventilation and air conditioning equipment and Foreign Trade Standards, which provides standards programmes and pre-shipment inspection programmes to standards bodies and governments. Central overheads comprise the costs of the corporate head office and non-operating holding companies.

		2004			2003		
Business analysis	Notes	**Turnover £m**	**Profit before interest and tax £m**	**Net operating assets* £m**	Turnover £m	Profit before interest and tax £m	Net operating assets* £m
By activity							
Labtest		**132.3**	**45.0**	**23.7**	130.8	42.8	23.4
Caleb Brett		**177.3**	**15.5**	**53.7**	169.6	13.2	48.7
ETL SEMKO		**122.4**	**17.5**	**32.3**	111.6	14.2	32.6
Foreign Trade Standards		**67.6**	**14.0**	**8.5**	59.1	11.9	13.7
Central overheads		**–**	**(6.8)**	**1.2**	–	(5.9)	(3.5)
Total continuing operations		**499.6**	**85.2**	**119.4**	471.1	76.2	114.9
Goodwill amortisation		**–**	**(1.5)**	**–**	–	(1.0)	–
Total before operating exceptional items		**499.6**	**83.7**	**119.4**	471.1	75.2	114.9
Operating exceptional items – continuing	4	**–**	**–**	**–**	–	(3.7)	
Continuing operations		**499.6**	**83.7**	**119.4**	471.1	71.5	114.9
Operating exceptional items – discontinued	4	**–**	**–**	**–**	–	2.6	–
Non-operating exceptional items	5	**–**	**–**	**–**	–	4.5	–
Total		**499.6**	**83.7**	**119.4**	471.1	78.6	114.9

* See analysis below

Turnover and profit before interest and tax for 2004, includes £18.3m and £3.0m respectively, from acquisitions made during the year and £4.6m and £(0.1)m respectively, from businesses that were sold during the year.

A reconciliation of net assets as reported on the Group balance sheet to the net operating assets shown above, is set out on page 35.

2. Segmental information continued
The following table shows turnover, operating profit, and net operating assets by significant countries.

	2004			2003		
By significant country	**Turnover £m**	**Operating profit* £m**	**Net operating assets £m**	Turnover £m	Operating profit* £m	Net operating assets £m
United States	**132.1**	**11.8**	**38.5**	124.0	6.7	37.5
United Kingdom	**77.2**	**3.0**	**20.4**	63.5	0.8	19.2
Hong Kong	**64.6**	**25.1**	**5.4**	70.4	25.5	6.8
China	**33.0**	**14.3**	**7.1**	25.9	11.0	6.5
Other (each under 10% of total)	**192.7**	**31.0**	**48.0**	187.3	32.2	44.9
Continuing operations	**499.6**	**85.2**	**119.4**	471.1	76.2	114.9

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

	2004			2003		
By geographic origin	**Turnover £m**	**Operating profit* £m**	**Net operating assets £m**	Turnover £m	Operating profit* £m	Net operating assets £m
Americas	**169.0**	**17.6**	**47.9**	157.3	12.0	47.0
Europe, Middle East and Africa	**166.3**	**14.4**	**41.6**	149.6	11.0	38.3
Asia	**164.3**	**53.2**	**29.9**	164.2	53.2	29.6
Continuing operations	**499.6**	**85.2**	**119.4**	471.1	76.2	114.9

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

The above table shows the turnover analysed by geographic origin. The turnover of continuing operations by geographic destination was Americas £181.3m (2003: £161.1m), Europe, Middle East and Africa £149.0m (2003: £142.1m) and Asia £169.3m (2003: £167.9m).

In order to facilitate comparison of the underlying performance, profit on continuing operations by activity shown above, is stated before exceptional operating items and before allocating goodwill amortisation to the divisions. After allocating these costs, the divisional profitability was: Labtest £44.9m (2003: £42.7m), Caleb Brett £14.8m (2003: £9.6m), ETL SEMKO £16.8m (2003: £12.3m), FTS £14.0m (2003: £12.8m) and Central overheads £(6.8)m (2003: £(5.9)m) and geographically was: Americas £17.0m (2003: £10.2m), Europe, Middle East and Africa £13.6m (2003: £8.6m) and Asia £53.1m (2003: £52.7m).

2. Segmental information continued

Net operating assets reconciliation	2004 £m	2003 £m
Net assets/(liabilities) as reported on the balance sheet	**2.1**	(35.9)
Goodwill	**(36.9)**	(17.8)
Investments and associates	**(1.8)**	(1.2)
Provisions for liabilities and charges	**6.0**	8.6
Tax payable	**19.5**	16.6
Net debt	**112.4**	132.2
Non-operating assets, liabilities and provisions	**(4.0)**	(1.8)
Net deficit on pension funds	**11.3**	5.1
Proposed final dividend	**10.8**	9.1
Net operating assets	**119.4**	114.9
Analysed as:		
Fixed assets	**88.5**	77.8
Stocks	**1.5**	1.4
Operating debtors	**108.6**	103.8
Operating creditors and provisions	**(79.2)**	(68.1)
Net operating assets	**119.4**	114.9

3. Profit on ordinary activities before taxation

	2004 £m	2003 £m
Profit on ordinary activities before taxation is stated after charging:		
Auditors' remuneration:		
Group – audit	**0.9**	0.9
Group – non audit work	**0.3**	0.3
Company – audit	**0.1**	0.1
Depreciation	**18.4**	18.6
Amortisation of goodwill	**1.5**	1.0
Property rentals	**17.3**	17.1
Lease and hire charges – plant and machinery	**4.4**	4.4

The fees of £0.3m (2003: £0.3m) for non-audit work were primarily for tax advice, tax compliance work and the review of the Interim Report.

4. Operating exceptional items

	2004 £m	2003 £m
Caleb Brett	**–**	(3.0)
ETL SEMKO	**–**	(1.7)
FTS	**–**	(1.8)
FTS – government contracts	**–**	2.8
Total continuing operations	**–**	(3.7)
Discontinued operations – recoveries	**–**	2.6
Total operating exceptional items	**–**	(1.1)
By geographic region:		
Americas	**–**	0.8
Europe, Middle East and Africa	**–**	(1.5)
Asia	**–**	(0.4)
Total	**–**	(1.1)

The charge of £3.7m for continuing operations in 2003, comprised £6.5m in respect of restructuring and a credit of £2.8m in respect of a release of a debt provision relating to Nigeria. The credit of £2.6m for discontinued operations in 2003, was in respect of insurance refunds relating to the discontinued Environmental Testing division.

5. Non-operating exceptional items

	2004 £m	2003 £m
Labtest (Asia)	–	5.5
Caleb Brett (Americas)	–	(1.0)
Total continuing operations	–	4.5

The profit of £5.5m in 2003 related to the disposal of the 50% interest in a company operating in China. The loss of £1.0m was in respect of the disposal of a trade investment.

6. Employees

Staff costs	2004 £m	2003 £m
Wages and salaries	**182.0**	176.7
Social security costs	**18.4**	17.6
Pension costs	**9.0**	8.3
Total	**209.4**	202.6

Details of the remuneration of the Directors are set out in the Remuneration Report on page 18.

Average number of employees by activity	2004	2003
Labtest	**4,004**	3,670
Caleb Brett	**5,551**	5,181
ETL SEMKO	**2,146**	1,773
Foreign Trade Standards	**974**	878
Central	**42**	38
Total	**12,717**	11,540

7a) Net interest and similar charges

Pre-exceptional	2004 £m	2003 £m
Interest payable:		
Senior Term Loans	**5.9**	8.2
Other	**0.4**	0.4
Amortisation of debt issuance costs	**0.7**	1.0
	7.0	9.6
Interest receivable:		
On bank balances	**(1.6)**	(1.7)
Net interest payable	**5.4**	7.9

Exceptional	2004 £m	2003 £m
Unamortised costs in connection with:		
Repaid Senior Term Loans	**2.1**	–
Refinancing	**0.6**	–
Exceptional amortisation of debt issuance costs	**2.7**	–
Total net interest and similar charges	**8.1**	7.9

7b) Other net finance income/(expense)

Expected return on pension assets	**2.5**	2.2
Pension interest cost	**(2.3)**	(2.3)
Net finance income/(expense)	**0.2**	(0.1)

8. Taxation

	2004 £m	2003 £m
UK corporation tax at 30% (2003: 30%)	**1.2**	1.8
Double taxation relief	**(1.2)**	(1.1)
	–	0.7
Overseas taxation	**19.5**	18.4
Share of associated undertakings' tax	**0.5**	0.4
Current tax	**20.0**	19.5
Deferred tax – origination and reversal of timing differences	**0.3**	(0.7)
Total	**20.3**	18.8

The tax charge of £20.3m includes tax relief of £0.5m relating to exceptional items (2003: charge of £0.1m).

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

	2004 £m	2003 £m
Profit before taxation	**75.8**	70.6
Notional tax charge at UK standard rate 30% (2003: 30%)	**22.7**	21.2
Differences in overseas tax rates	**(4.8)**	(5.9)
Tax on dividends	**1.2**	0.9
Permanent differences – disallowables	**4.6**	4.6
Permanent differences – untaxed income	**(0.4)**	(2.3)
Losses (utilised)/not recognised	**(1.2)**	0.8
Accelerated capital allowances and other provisions	**(2.5)**	0.1
Other	**0.4**	0.1
Total current tax	**20.0**	19.5

The effective tax rate before exceptional items was 26.5% (2003: 27.8%). The main reason for the reduction in the effective tax rate was improved utilisation of losses and other previously unrecognised timing differences due to improved trading performance in particular jurisdictions. The effective tax rate is expected to be close to current year levels for the short to medium-term.

9. Dividends

	2004 £m	2003 £m
Interim paid 16 November 2004 3.4p per share (2003: 2.9p)	**5.3**	4.5
Final proposed 7.0p per share (2003: 5.9p)	**10.8**	9.1
Total dividends	**16.1**	13.6

10. Earnings per share

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

Based on the profit for the year:	2004 £m	2003 £m
Underlying profit before tax	**80.0**	68.2
Taxation on underlying profit	**(20.8)**	(18.7)
Minority interest in underlying profit	**(2.8)**	(3.7)
Underlying earnings	**56.4**	45.8
Goodwill amortisation	**(1.5)**	(1.0)
Exceptional operating items	**–**	(1.1)
Exceptional non-operating items	**–**	4.5
Exceptional finance charges	**(2.7)**	–
Taxation on exceptional items	**0.5**	(0.1)
Basic earnings	**52.7**	48.1
Number of shares (millions):		
Basic weighted average number of shares	**154.4**	153.7
Potentially dilutive share options	**1.1**	0.7
Diluted weighted average number of shares	**155.5**	154.4
Basic underlying earnings per share	**36.5p**	29.8p
Options	**(0.2)p**	(0.1)p
Diluted underlying earnings per share	**36.3p**	29.7p
Basic earnings per share	**34.1p**	31.3p
Options	**(0.2)p**	(0.2)p
Diluted earnings per share	**33.9p**	31.1p

The weighted average number of shares used in the calculation of the diluted earnings per share for the year to 31 December 2004, excludes 56,280 potential shares (2003: 1,220,962) as these were not dilutive in accordance with FRS 14: Earnings per share.

11. Intangible assets

Group	Goodwill £m
Cost	
At beginning of year	26.9
Additions	21.7
Exchange adjustments	(1.3)
At end of year	**47.3**
Amortisation	
At beginning of year	9.1
Charged in year	1.5
Exchange adjustments	(0.2)
At end of year	**10.4**
Net book value	
At 31 December 2004	**36.9**
At 31 December 2003	17.8

Details of additions to goodwill are shown in note 27.

12. Tangible assets

Group	Land and buildings £m	Plant and machinery £m	Total £m
Cost			
At beginning of year	10.6	121.2	131.8
Exchange adjustments	–	(7.9)	(7.9)
Additions	1.5	26.7	28.2
Subsidiaries acquired	0.1	5.0	5.1
Subsidiaries disposed	–	(0.6)	(0.6)
Disposals	–	(3.6)	(3.6)
At end of year	**12.2**	**140.8**	**153.0**
Depreciation			
At beginning of year	1.8	52.2	54.0
Exchange adjustments	–	(4.4)	(4.4)
Charge for the year	0.3	18.1	18.4
Subsidiaries disposed	–	(0.3)	(0.3)
Disposals	–	(3.2)	(3.2)
At end of year	**2.1**	**62.4**	**64.5**
Net book value			
At 31 December 2004	**10.1**	**78.4**	**88.5**
At 31 December 2003	8.8	69.0	77.8

Plant and machinery includes assets in the course of construction at 31 December 2004, of £8.1m (2003: £1.4m). These assets will not be depreciated until they are brought into use.

The net book value of land and buildings comprised:

Group	2004 £m	2003 £m
Freehold	**9.4**	8.0
Long leasehold	**0.7**	0.8
Total	**10.1**	8.8

13. Investments

	Notes	Group associates £m	Group other £m	Company subsidiaries £m
Cost				
At beginning of year		0.8	0.1	263.2
Restatement for own shares	a	–	(0.1)	–
Restated at beginning of year		**0.8**	**–**	**263.2**
Additions	b	0.7	–	8.0
At end of year		**1.5**	**–**	**271.2**
Share of post acquisition reserves				
At beginning of year		0.4	–	–
Share of net profit for the year		0.7	–	–
Dividends received		(0.8)	–	–
At end of year		**0.3**	**–**	**–**
Net book value				
At 31 December 2004		**1.8**	**–**	**271.2**
At 31 December 2003 (restated)		1.2	–	263.2

a) In accordance with UITF 38, investment in own shares of £0.1m held in an ESOT has now been reclassified and deducted from retained earnings (see note 20).

b) During the year the Group acquired a 40% interest in Allium LLC, a company incorporated in the USA, and the Company subscribed £8.0m into the share capital of a subsidiary.

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

14. Stocks

Group	2004 £m	2003 £m
Raw materials and consumables	**0.6**	0.3
Work in progress	**0.7**	0.5
Finished goods	**0.2**	0.6
Total	**1.5**	1.4

15. Debtors

	Group 2004 £m	Group 2003 £m	Company 2004 £m	Company 2003 £m
Trade debtors	**87.0**	87.3	**–**	–
Amounts owed by group undertakings	**–**	–	**–**	3.6
Other debtors	**9.8**	7.6	**0.7**	–
Prepayments and accrued income	**13.0**	10.4	**0.2**	0.1
Total	**109.8**	105.3	**0.9**	3.7

For the Group, other debtors included £2.0m (2003: £1.6m) due after more than one year.

16. Creditors due within one year

	Group 2004 £m	Group 2003 £m	Company 2004 £m	Company 2003 £m
Borrowings:				
Senior Term Loans	**14.0**	18.4	**–**	–
Debt issuance costs	**–**	(0.9)	**–**	–
Total net borrowings	**14.0**	17.5	**–**	–
Trade creditors	**23.8**	22.0	**–**	–
Corporation tax	**19.5**	16.6	**–**	–
Other taxation and social security	**6.4**	5.9	**–**	–
Other creditors	**1.1**	2.4	**–**	0.1
Accruals and deferred income	**44.6**	36.1	**0.1**	0.2
Dividends payable	**10.8**	9.1	**10.8**	9.1
Amounts owed to group undertakings	**–**	–	**1.0**	0.7
Total	**120.2**	109.6	**11.9**	10.1

17. Creditors due after more than one year

	Group 2004 £m	Group 2003 £m	Company 2004 £m	Company 2003 £m
Borrowings:				
Senior Term Loans	**150.9**	198.1	**–**	–
Debt issuance costs	**–**	(1.9)	**–**	–
Total net borrowings	**150.9**	196.2	**–**	–
Other creditors	**0.5**	1.4	**–**	–
Amounts owed to group undertakings	**–**	–	**7.7**	23.9
Total	**151.4**	197.6	**7.7**	23.9

17. Creditors due after more than one year continued

	2004			2003		
	Borrowings £m	Other financial liabilities* £m	Total financial liabilities £m	Borrowings £m	Other financial liabilities* £m	Total financial liabilities £m
Debt falling due:						
In one year or less	**14.0**	**–**	**14.0**	18.4	–	18.4
Between one and two years	**93.2**	**0.5**	**93.7**	27.6	1.4	29.0
Between two and five years	**57.7**	**–**	**57.7**	170.5	–	170.5
Total gross borrowings	**164.9**	**0.5**	**165.4**	216.5	1.4	217.9
Debt issuance costs	**–**	**–**	**–**	(2.8)	–	(2.8)
Total net borrowings	**164.9**	**0.5**	**165.4**	213.7	1.4	215.1

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

Description of borrowings

In December 2004, the Group refinanced its existing £300m secured facility with a £300m non-secured facility. The previous facility was due to expire on 15 June 2007. The new facility is for five years expiring on 15 December 2009, with the option to extend this for a further two years.

The facility comprises three tranches. Facility A is a £70m multi-currency term loan with equal bi-annual amortisations over five years. Facility B is a £150m multicurrency revolving credit, available up to 15 December 2009. Facility C is a 364 day, £80m multi-currency revolving credit facility, with the option to convert this into a one year loan by the end of the 364 day period.

Advances under Facilities A and B initially bear interest at a rate equal to LIBOR (as adjusted) plus a margin of 0.5%. The margin over LIBOR is in the range from 0.6% to 0.4% in accordance with a leverage grid. As at 31 December 2004, the margin was 0.5%. Advances under Facility C initially bear interest at a rate equal to LIBOR (as adjusted) plus a margin of 0.4%. The margin over LIBOR is in the range from 0.5% to 0.3% in accordance with a leveraged grid. As at 31 December 2004, the margin was 0.4%.

The undrawn committed borrowing facilities, which mature in 2009, amounted to £135.1m (2003: £50m) of which £5.0m (2003: £3.7m) has been utilised for letters of credit and guarantees.

18. Provisions for liabilities and charges

Group	Deferred tax £m	Restructuring £m	Claims £m	Total £m
At beginning of year	0.3	3.0	5.3	8.6
Exchange adjustments	–	–	(0.2)	(0.2)
Provided in the year	0.3	–	2.9	3.2
Released during the year	–	–	(0.3)	(0.3)
Utilised during the year	–	(2.4)	(2.9)	(5.3)
At end of year	**0.6**	**0.6**	**4.8**	**6.0**

The provision for claims includes claims from customers, former employees, other plaintiffs and environmental agencies including associated legal costs. The restructuring provision is expected to be utilised in 2005. The provision for claims and associated legal costs is expected to be utilised in one to two years. Details of contingent liabilities in respect of claims are set out in note 30.

18. Provisions for liabilities and charges continued

The amounts provided and amounts not recognised for deferred taxation at 31 December 2004, are set out below:

Group	2004 Provided £m	2004 Not recognised £m	2003 Provided £m	2003 Not recognised £m
Accelerated depreciation/(capital allowances)	**0.3**	**(0.1)**	(0.1)	(0.4)
Losses carried forward	**–**	**(20.9)**	–	(23.6)
Other timing differences	**0.3**	**(17.8)**	0.4	(22.9)
Deferred tax liability/(asset)	**0.6**	**(38.8)**	0.3	(46.9)

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

At 31 December 2004, the Company had an unprovided deferred tax asset of £3.6m (2003: £3.6m) arising on losses and other timing differences.

19. Called up share capital

Group and Company	Notes	2004 Number	2004 £m	2003 £m
Authorised				
Ordinary shares of 1p each		**200,000,000**	**2.0**	2.0
Non equity				
Zero coupon redeemable preference shares of £1 each		**–**	**105.5**	105.5
		200,000,000	**107.5**	107.5
Allotted, called up and fully paid				
Ordinary shares of 1p each at start of year		**153,960,122**	**1.5**	1.5
Issued in connection with the acquisition of Entela Inc.	27	**256,622**	**–**	–
Employee share option schemes – options exercised	28	**551,390**	**–**	–
Ordinary shares of 1p each at end of year		**154,768,134**	**1.5**	1.5

None of the zero coupon redeemable preference shares were allotted at 31 December 2004 or at 31 December 2003.

20. Shareholders' (deficit)/funds

Group	Share capital £m	Share premium £m	Merger reserve £m	Other reserve £m	Profit and loss £m	Total £m
At beginning of year	1.5	232.1	3.6	2.8	(283.0)	(43.0)
Restatement (note below)*	–	–	–	–	(0.1)	(0.1)
Restated at 1 January 2004	**1.5**	**232.1**	**3.6**	**2.8**	**(283.1)**	**(43.1)**
Retained profit for the year	–	–	–	–	36.6	36.6
Exchange adjustments	–	–	–	–	7.1	7.1
Actuarial pension loss	–	–	–	–	(6.6)	(6.6)
Shares issued	–	2.4	–	–	–	2.4
At end of year	**1.5**	**234.5**	**3.6**	****2.8**	*****(246.0)**	**(3.6)**

* In accordance with UITF 38, own shares of £0.1m held by the ESOT have been reclassified from investments.
** The 'other' reserve arose on the conversion of share warrants into share capital.
*** After charging £229.9m (2003: £244.1m) for goodwill written off to reserves in relation to subsidiaries acquired prior to 31 December 1997.

Own shares of £0.1m (2003: £0.1m) are 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 2004, the ESOT held 87,000 (2003: 87,000) ordinary shares purchased at 140p. The market value of the shares at 31 December 2004, was 705p (2003: 461p). The ESOT has waived the right to receive dividends on its shareholding. The ESOT is used to acquire shares which will, at a later date, be allocated to employees following exercises through the 2002 Share Option Plan. The total ESOT costs charged to the Group profits for 2004 were £15,000 (2003: £16,000) of which £6,000 (2003: £6,000) was interest expense.

20. Shareholders' (deficit)/funds continued

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

	2004 £m	2003 £m
Profit and loss reserve deficit excluding pension liabilities	(234.7)	(277.9)
Pension liabilities	(11.3)	(5.1)
Profit and loss reserve deficit including net pension liability	**(246.0)**	(283.0)

Company	Share capital £m	Share premium £m	Profit and loss £m	Total £m
At beginning of year	1.5	232.1	23.1	256.7
Retained loss for the year	–	–	(5.4)	(5.4)
Shares issued	–	2.4	–	2.4
At end of year	**1.5**	**234.5**	**17.7**	**253.7**

Details of share options are set out in note 28.

A profit and loss account for Intertek Group plc has not been presented as permitted by Section 230(4) of the Companies Act 1985. The profit for the financial year, before dividends payable of £16.1m, was £10.7m, which was mainly in respect of dividends received from subsidiaries.

21. Minority interests

Group	2004 £m	2003 £m
At beginning of year	7.2	7.1
Share of profit for the year	2.8	3.7
Additions	0.5	–
Disposals	(0.6)	(0.4)
Dividends	(4.1)	(2.8)
Exchange adjustments	(0.1)	(0.4)
At end of year	**5.7**	7.2

22. Commitments

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

	2004			2003		
Group	Land and buildings £m	Other £m	Total £m	Land and buildings £m	Other £m	Total £m
Within one year	2.1	0.9	3.0	2.0	0.8	2.8
In the second to fifth years inclusive	7.6	2.4	10.0	7.0	2.3	9.3
Over five years	4.3	–	4.3	4.4	–	4.4
Total	**14.0**	**3.3**	**17.3**	13.4	3.1	16.5

Contracts for capital expenditure which are not provided in these accounts amounted to £1.7m (2003: £0.9m).

23. Pension schemes

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

In 2005, around 45 former Avecia employees will have the option to transfer past service pension benefits to the UK Plan following an acquisition which took place on 13 May 2004. Approximate assets and liabilities in respect of this bulk transfer are included in the FRS 17 figures by assuming that all eligible employees elect to transfer.

a) The total pension cost for the Group was:

	2004 £m	2003 £m
Defined contribution schemes	7.0	6.2
Defined benefit schemes – current service cost	2.0	2.1
Pension cost included in operating profit	**9.0**	8.3

Included in other net finance (income)/expense:

	2004 £m	2003 £m
Defined benefit schemes – interest cost	2.3	2.3
Defined benefit schemes – expected return on assets	(2.5)	(2.2)
Other net finance (income)/expense	**(0.2)**	0.1

The pension cost for the defined contribution plans is the contributions payable by the Group during the year. At 31 December 2004, there were outstanding contributions of £2.7m (2003: £2.5m).

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

b) The pension cost for the defined benefit plans was assessed in accordance with the advice of qualified actuaries. The last full triennial actuarial valuation of the UK pension scheme was carried out as at 31 March 2004. The last full valuation of the Hong Kong plan was carried out with an effective date of 31 December 2004, for local accounting purposes.

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

	United Kingdom		Hong Kong		Taiwan	
	2004	2003	2004	2003	2004	2003
Discount rate	5.3%	5.4%	4.0%	5.0%	3.5%	3.5%
Expected return on assets	6.9%	7.1%	5.8%	7.1%	3.5%	3.5%
Rate of increase in pensionable salaries	3.0%	3.0%	4.0%	4.0%	3.0%	3.0%
Rate of increase in pensions in payment	2.7%	2.6%	n/a	n/a	n/a	n/a
Inflation assumption	2.7%	2.6%	2.5%	2.6%	2.6%	2.6%

In the plan in the United States, the benefits are frozen. The discount rate applied for that plan was 5.75%. The Hong Kong and Taiwan plans provide for a lump sum upon retirement based on a multiple of final salary.

23. Pension schemes continued

Weighted average assumptions used at year end:	**2004**	2003	2002
Discount rate	**5.0%**	5.3%	5.6%
Expected return on assets	**6.5%**	6.9%	6.9%
Compensation increase	**3.1%**	3.2%	3.3%

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

	2004 £m	2003 £m	2002 £m
Pension assets, being fair value of schemes' assets	**46.7**	36.4	30.6
Pension liabilities being the discounted present values	**(62.8)**	(43.9)	(40.6)
Deferred tax asset	**4.8**	2.4	2.6
Pension liability net of deferred tax	**(11.3)**	(5.1)	(7.4)
Shown on the balance sheet as follows:			
Schemes with liabilities	**(11.3)**	(5.1)	(7.4)

d) The net pension liabilities of each scheme at 31 December 2004, are as follows:

	United Kingdom £m	United States £m	Hong Kong £m	Taiwan £m	Total £m
Pension assets, being fair value of schemes' assets	33.0	1.0	11.2	1.5	46.7
Pension liabilities, being the discounted present values	(48.7)	(1.1)	(11.4)	(1.6)	(62.8)
Pension deficit	(15.7)	(0.1)	(0.2)	(0.1)	(16.1)
Deferred tax asset	4.7	–	0.1	–	4.8
Pension liability net of deferred tax	**(11.0)**	**(0.1)**	**(0.1)**	**(0.1)**	**(11.3)**

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

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

	United Kingdom		Hong Kong	
At 31 December 2004	Long-term rate of return	Value £m	Long-term rate of return	Value £m
Equities	7.5%	24.7	7.0%	6.9
Bonds	5.3%	6.3	4.0%	3.9
Cash and other	4.8%	2.0	3.5%	0.4
Total fair value of assets		33.0		11.2
Present value of scheme liabilities		(48.7)		(11.4)
Deficit in the scheme		**(15.7)**		**(0.2)**

23. Pension schemes continued

At 31 December 2003	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%	18.8	8.0%	7.0
Bonds	5.5%	4.2	5.0%	3.1
Cash and other	5.0%	0.6	4.5%	–
Total fair value of assets		23.6		10.1
Present value of scheme liabilities		(30.7)		(10.3)
Deficit in the scheme		**(7.1)**		**(0.2)**

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)**

f) Movement in deficit during the year:

	2004 £m	2003 £m
Deficit at the beginning of the year	**(7.5)**	(10.0)
Deferred tax thereon	**2.4**	2.6
Deficit at the beginning of the year, net of deferred tax	**(5.1)**	(7.4)
Movement in the year:		
Current service cost	**(2.0)**	(2.1)
Contributions	**2.2**	2.9
Other finance income/(charge)	**0.2**	(0.1)
Actuarial (losses)/ gains	**(9.0)**	1.8
Deferred tax	**2.4**	(0.2)
Deficit at end of the year, net of deferred tax	**(11.3)**	(5.1)

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

United Kingdom	12.0%
United States	Not applicable as the scheme is closed and members' benefits are frozen.
Hong Kong	Average of 9.8% across all sections.
Taiwan	Caleb Brett: 12.1% combining retirement benefit and leaving service benefit; Labtest: 7.4% combining retirement benefit and leaving service benefit.

h) History of experience of gains and losses:

	2004 £m	2003 £m	2002 £m	2001 £m	2000 £m
Actual return less expected return on scheme assets	**0.4**	2.7	(7.6)	(5.0)	1.7
Percentage of scheme assets	**0.9%**	7.4%	24.8%	14.7%	4.9%
Gains and losses on scheme liabilities	**(1.6)**	(0.9)	0.7	–	(0.7)
Percentage of present value of scheme liabilities	**2.5%**	1.8%	1.7%	–	2.1%
Amount recognised in STRGL	**(6.6)**	1.6	(6.5)	(3.3)	3.4
Percentage of present value of scheme liabilities	**10.5%**	3.6%	16.0%	9.2%	10.2%

23. Pension schemes continued
i) Analysis of amount recognised in the Statement of Total Recognised Gains and Losses (STRGL):

	2004 £m	2003 £m	2002 £m	2001 £m	2000 £m
Actual return less expected return on scheme assets	**0.4**	2.7	(7.6)	(5.0)	1.7
Experience (losses)/gains arising on scheme liabilities	**(1.6)**	(0.9)	0.7	–	(0.7)
Losses on acquisitions	**(0.2)**	–	–	–	–
Changes in assumptions	**(7.6)**	–	(1.8)	1.5	2.4
Deferred tax	**2.4**	(0.2)	2.2	0.2	–
Actuarial (loss)/gain recognised in STRGL	**(6.6)**	1.6	(6.5)	(3.3)	3.4

24. Reconciliation of operating profit to operating cash flows

	2004 £m	2003 £m
Group operating profit after exceptional items	**82.5**	72.9
Depreciation charge	**18.4**	18.6
Goodwill amortisation	**1.5**	1.0
Loss on disposal of fixed assets	**0.2**	0.5
(Increase)/decrease in stocks	**(0.8)**	0.1
Increase in debtors	**(8.9)**	(10.5)
Increase/(decrease) in creditors	**11.9**	(3.3)
(Decrease)/increase in provisions	**(2.9)**	0.7
Total operating cash inflow	**101.9**	80.0

25. Analysis of cash flows

	2004 £m	2003 £m
Returns on investments and servicing of finance		
Net interest, refinancing and redemption fees paid	**(5.3)**	(7.3)
Dividends paid to minorities	**(4.1)**	(2.8)
	(9.4)	(10.1)
Capital expenditure and financial investment		
Purchase of tangible fixed assets	**(28.2)**	(24.4)
Sale of plant and machinery	**0.2**	0.8
	(28.0)	(23.6)
Acquisitions and disposals		
Purchase of subsidiaries and businesses	**(26.3)**	(7.5)
Net deferred consideration paid on past acquisitions	**–**	(0.3)
Sale of subsidiary undertakings	**–**	6.6
	(26.3)	(1.2)
Financing		
Issue of ordinary shares, net of issue expenses	**1.1**	(0.1)
Issue of new debt	**165.7**	–
Repayment of old debt	**(202.0)**	(6.5)
Repayment of other loans	**–**	(0.3)
	(35.2)	(6.9)

Net cash outflow on purchase of businesses and subsidiaries

	2004 £m	2003 £m
Fair value of consideration	**27.6**	7.6
Amount satisfied by issue of shares	**(1.3)**	(0.1)
Consideration paid in cash	**26.3**	7.5
Net deferred consideration paid on past acquisitions	**–**	0.3
Net cash outflow in respect of acquisitions	**26.3**	7.8

26. Analysis of net debt

	At beginning of year £m	Cash flow £m	Other non-cash changes £m	Acquisitions and disposals £m	Exchange adjustments £m	At end of year £m
Cash	81.5	(26.6)	–	(0.3)	(2.1)	52.5
Borrowings	(213.7)	36.3	(2.8)	–	15.3	(164.9)
Total net debt	**(132.2)**	**9.7**	**(2.8)**	**(0.3)**	**13.2**	**(112.4)**

The movement of £0.3m relates to cash relinquished on disposals.
The non-cash change of £2.8m relates to the amortisation of debt issuance costs.

27. Purchase of subsidiaries and businesses

a) On 10 May 2004, the Group acquired 100% of the share capital of Entela Inc. The analysis of net assets acquired and the fair value to the Group is set out below. The fair value accounting adjustments have been made on a provisional basis, pending the quantification of certain environmental liabilities at the acquisition date. The goodwill of £12.8m has been capitalised and is being amortised over 20 years, being its estimated useful life. This acquisition has been accounted for using the acquisition method.

	Book value prior to acquisition £m	Fair value adjustments £m	Fair value to Group on acquisition £m
Property, plant and equipment	2.5	–	2.5
Stocks	0.2	(0.1)	0.1
Debtors	2.3	–	2.3
Creditors	(0.9)	(0.6)	(1.5)
Net assets acquired	**4.1**	**(0.7)**	**3.4**

The fair value adjustments relate to provision against the carrying value of stocks and additional accruals in respect of liabilities.

Fair value of consideration	£m
Cash consideration (including fees)	14.8
Net borrowings acquired	0.1
Shares issued (note 19)	1.3
Fair value of the consideration	**16.2**
Less fair value of assets acquired	(3.4)
Goodwill arising on acquisition	**12.8**

b) The table below sets out the fair value of net assets and consideration in respect of all other subsidiaries and businesses acquired. These included Analytical Sciences Group (UK), VTM AS (Norway) and Kelley Completion Services LLC (USA).

	Book value prior to acquisition £m	Fair value adjustments £m	Fair value to Group on acquisition £m
Property, plant and equipment	3.4	(0.8)	2.6
Cash consideration (including fees)			11.5
Goodwill arising on acquisition			**8.9**

The goodwill has been capitalised and is being amortised over 20 years.

28. Share option schemes

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

a) Summary of movements in number of share options:

	1997 Plan (discontinued)	2002 Plan	Approved Plan	Total
At beginning of year	659,044	2,175,292	356,187	3,190,523
Granted	–	1,376,816	121,911	1,498,727
Exercised	(516,469)	(22,429)	(12,492)	(551,390)
Forfeited	(11,806)	(195,487)	(47,417)	(254,710)
At end of year	**130,769**	**3,334,192**	**418,189**	**3,883,150**

b) The outstanding options at 31 December 2004, are exercisable as follows:

Option Scheme	Number of options outstanding	Subscription price per share	Exercisable between	
1997 Plan	5,903	10p	1-Jun-01	1-Jun-05
	18,612	10p	1-Jun-02	1-Jun-06
	47,224	140p	31-Dec-03	31-Dec-07
	41,321	140p	1-Dec-04	1-Dec-08
	17,709	400p	28-Mar-05	28-Mar-09
	130,769			
2002 Plan	867,137	437p	30-May-05	30-May-12
	23,352	380p	17-Jul-05	17-Jul-12
	4,000	421p	31-Oct-05	31-Oct-12
	1,061,281	359p	7-Apr-06	7-Apr-13
	55,293	462p	12-Sep-06	12-Sep-13
	1,274,271	523.5p	7-Apr-07	7-Apr-14
	48,858	607p	14-Sep-07	14-Sep-14
	3,334,192			
Approved Plan	183,272	437p	30-May-05	30-May-12
	7,894	380p	17-Jul-05	17-Jul-12
	104,241	359p	7-Apr-06	7-Apr-13
	6,082	462p	12-Sep-06	12-Sep-13
	109,278	523.5p	7-Apr-07	7-Apr-14
	7,422	607p	14-Sep-07	14-Sep-14
	418,189			
Total	**3,883,150**			

Details of the share option schemes are shown in the Remuneration Report on pages 16 and 17.

29. Financial instruments

Details of the Group's Treasury controls are set out in the Operating and Financial Review on page 12.

a) Derivative financial instruments

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

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

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

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

b) Foreign exchange risk management

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

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

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

	2004		2003	
	Buy £m	**Sell £m**	Buy £m	Sell £m
US dollar	**–**	**17.2**	–	10.5
Euro	**1.6**	**–**	1.7	–

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

	2004		2003	
	Contract amount £m	**Fair value £m**	Contract amount £m	Fair value £m
Assets	**1.6**	**0.1**	1.7	–
Liabilities	**(17.2)**	**(0.1)**	(10.5)	–
Net liabilities	**(15.6)**	**–**	(8.8)	–

29. Financial instruments continued

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

	2004 £m	2003 £m
Sterling	(1.9)	43.7
US dollar	92.2	71.9
Euro	12.9	10.8
Chinese renminbi	11.8	9.4
Swedish kroner	6.5	6.4
Hong Kong dollar	5.0	6.1
Others	34.8	22.4
Total	**161.3**	170.7

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

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) are not material.

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

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

Under the interest rate swap agreements, the Group agrees with other parties to exchange, at specified intervals, the difference between fixed rate and floating rate interest amounts calculated by reference to an agreed notional principal amount. The interest rate profile of the Group's financial assets and financial liabilities at 31 December 2004, is set out below:

Financial assets	At floating interest rates* £m	Interest free £m	Total carrying value £m
Short term deposits and cash:			
Sterling	8.0	–	8.0
US dollar	8.4	2.6	11.0
Chinese renminbi	8.8	–	8.8
Hong Kong dollar	2.6	–	2.6
Euros	0.3	3.1	3.4
Other currencies	16.6	2.1	18.7
	44.7	**7.8**	**52.5**
Investments and debtors due after one year:			
US dollar	–	0.6	0.6
Other currencies	–	3.2	3.2
	–	3.8	3.8
Total financial assets	**44.7**	**11.6**	**56.3**

*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.

29. Financial instruments continued

Financial liabilities

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

The maturity profile of other financial liabilities of £0.5m is shown in note 17. The fair value approximates its carrying value of £0.5m.

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 re-price at market rate periodically. The fair value and carrying value of long term borrowings, including the current portion, was £164.9m (2003: £216.5m) and £164.9m (2003: £216.5m) respectively.

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

	2004 £m	2003 £m
Forward exchange contracts	**–**	–
Interest rate swaps	**(1.0)**	(1.4)

g) Exchange rate sensitivity

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

Liabilities 2004	2005 £m	2006 £m	2007 £m	2008 £m	2009 £m	Carrying and fair value £m
Floating rate (USD)	–	64.4	–	–	15.6	80.0
Average interest rate	–	3.8%	–	–	4.4%	–
Floating rate (HKD)	11.7	26.5	11.7	11.7	11.7	73.3
Average interest rate	1.4%	1.9%	2.6%	3.1%	3.5%	–
Floating rate (SEK)	2.3	2.3	2.3	2.3	2.4	11.6
Average interest rate	2.7%	3.1%	3.4%	3.7%	4.0%	–
	14.0	**93.2**	**14.0**	**14.0**	**29.6**	**164.9**

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 (2003: £nil) and interest rate swaps was £nil (2003: £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.

30. Contingent liabilities

Group	**2004 £m**	2003 £m
Guarantees, letters of credit and performance bonds	**5.0**	3.7

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

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

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

31. Related party transactions
Until 1 March 2005, W Hauser, a Non-Executive Director of the Company, had a consultancy agreement to assist the Group in its expansion, for which he received a fee of £1,000 per working day plus an annual bonus of up to 25% of the consultancy fees payable on the satisfactory completion of the tasks assigned to him. In 2004, the amount paid under this consultancy agreement including bonus was £36,700 (2003: £77,000).

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

32. Principal operating subsidiaries and associated companies
The Group comprises 157 subsidiary companies and three 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 2004 and 2003 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 2004.

Company name	Country of incorporation	Principal activity by division	Percentage of ordinary shares held	
			Group	Company
Intertek Holdings Limited	England and Wales	Holding company	100	100
Intertek Testing Services UK Limited	England and Wales	Holding company	100	–
Intertek Finance plc	England and Wales	Finance	100	–
Interek Testing Services Holdings Limited	England and Wales	Holding company	100	–
Intertek Testing Management Limited	England and Wales	Management company	100	–
Intertek International Limited	England and Wales	FTS	100	–
ITS Testing Services (UK) Limited	England and Wales	Caleb Brett	100	–
ITS Testing Holdings Canada Limited	Canada	Holding company	100	–
Testing Holdings France EURL	France	Holding company	100	–
Testing Holdings Germany GmbH	Germany	Holding company	100	–
ITS Hong Kong Limited	Hong Kong	Labtest & ETL SEMKO	100	–
Yickson Enterprises Limited	Hong Kong	Holding company	100	–
Intertek Testing Services Limited Shanghai	China	Labtest & ETL SEMKO	85	–
Intertek Testing Services Taiwan Limited	Taiwan	Labtest & ETL SEMKO	100	–
Intertek Testing Services Shenzhen Limited	China	Labtest & ETL SEMKO	85	–
Kite Overseas Holdings BV	Netherlands	Holding company	100	–
Testing Holdings Sweden AB	Sweden	Holding company	100	–
SEMKO AB	Sweden	ETL SEMKO	100	–
ITS NA Inc	USA	ETL SEMKO	100	–
Entela Inc	USA	ETL SEMKO	100	–
Caleb Brett USA Inc	USA	Caleb Brett	100	–
Testing Holdings USA Inc	USA	Holding company	100	–

Associates	Country of incorporation	Principal activity by division	Percentage of ordinary shares held	
			Group	Company
DEKRA ITS Certification Services GmbH	Germany	Labtest	49	–
SEMKO-DEKRA Certification AB	Sweden	Labtest	49	–
Allium LLC	United States	Labtest	40	–

Independent auditors' report to the members of Intertek Group plc

We have audited the financial statements on pages 27 to 54. We have also audited the information in the Directors' remuneration report that is described as having been audited.

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

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Directors are responsible for preparing the Annual Report and the Directors' Remuneration Report. As described on page 14, this includes responsibility for preparing the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board, the Listing Rules of the Financial Services Authority, and by our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and whether the Financial Statements and the part of the Directors' Remuneration Report to be audited, have been properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' report is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' remuneration and transactions with the Group is not disclosed.

We review whether the Corporate Governance Statement on pages 22 to 26 reflects the Company's compliance with the nine provisions of the 2003 FRC 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 mis-statements 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 mis-statement, 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 2004 and of the profit of the Group for the year then ended; and
- The Financial Statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985.

KPMG AUDIT PLC
Chartered Accountants
Registered Auditor
8 Salisbury Square
London EC4Y 8BB
7 March 2005

Financial year end	31 December 2004
Results announced	7 March 2005
Annual General Meeting	6 May 2005
Ex-dividend date for final dividend	1 June 2005
Record date for final dividend	3 June 2005
Final dividend payable	17 June 2005
Interim results announced	September 2005
Interim dividend payable	November 2005

Shareholder Enquiries and Electronic Communications – www.shareview.co.uk
Any shareholders with enquiries relating to their shareholding should, in the first instance, contact Lloyds TSB Registrars.

Shareholders who would prefer to view documentation electronically can elect to receive automatic notification by e-mail each time the Company distributes documents, instead of receiving a paper version of such documents, by registering a request at the Lloyds TSB Registrars website, www.shareview.co.uk.

There is no fee for using this service and you will automatically receive confirmation that a request has been registered. Should you wish to change your mind or request a paper version of any document in the future, you may do so by contacting the Registrar by e-mail or by post.

To access www.shareview.co.uk, you will need to have your shareholder reference available when you first log in, which may be found on your dividend voucher, share certificate or form of proxy.

The facility also allows shareholders to view their holding details, find out how to register a change of name or what to do if a share certificate is lost, as well as download forms in respect of changes of address, dividend mandates and share transfers.

Share dealing service
A share dealing service for the purchase or sale of shares in Intertek is available through Cazenove & Co, whose details are as follows:

Cazenove & Co (postal service)
20 Moorgate,
London
EC2R 6DA
Telephone +44 20 7155 5155

ShareGift
The Orr Mackintosh Foundation operates a charity share donation scheme for shareholders with small parcels of shares whose value makes it uneconomic to sell them. Details of the scheme are available from:

ShareGift at www.sharegift.org
Telephone +44 20 7337 0501.

Share price information
Information on the Company's share price is available from the Investor Relations pages of www.intertek.com, and from the UK via the FT Cityline Service Telephone 0906 003 2361 (calls are charged at 60p per minute at all times).

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Company Secretary
Fiona Evans

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Symbol: ITRK

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Contact us for information on the office or laboratory that can best serve your business needs.
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