ITS Intertek Testing Services

Interim Report 2002

Intertek Testing Services plc

Financial performance highlights

	Six months to 30 June 2002
Turnover up 3.5% to	**£229.6m**
Underlying operating profit[1] up 16.7% to	**£37.7m**
Operating profit[1] margin up from 14.5% to	**16.4%**
Profit before tax	**£23.3m**
Pro-forma EPS[2]	**13.1 pence**
Operating cash flow up 31.7% to	**£34.1m**

1. Before goodwill amortisation and exceptional items.
2. Pro-forma EPS is based on the pro-forma shareholders earnings before exceptional items divided by the actual number of shares in issue post flotation.

Important events

- Listing on the London Stock Exchange raised £245m[3]
- Repayment of all debt, debentures and preference shares in June and July
- New multi-currency debt facility of £300m[4]

3. Net of underwriting commission, before legal and other fees.
4. Before legal and other debt arrangement fees.

Intertek Testing Services plc

Chairman's Statement

This is my first report to you since your company's successful flotation in May 2002 and I am pleased to report strong results for the first six months to 30 June 2002.

Financial performance

Turnover increased by 3.5% to £229.6m and underlying operating profit before goodwill amortisation and exceptional items grew by 16.7% to £37.7m. Our underlying operating margin for the first six months of 2002 increased to 16.4% from 14.5% in the same period last year. We reported operating exceptional income of £6.7m in the period and an exceptional interest charge of £3.5m. Our profit before tax was £23.3m.

Dividends

As stated in our Listing Particulars, the Board intends to recommend payment only of a final dividend in respect of the current financial year ending 31 December 2002. This is expected to be paid in June 2003. In respect of future financial years, the Board intends to pay an interim dividend in November and a final dividend in June of the following year. The Directors intend to follow a progressive dividend policy and, in determining the level of future dividends, expect the dividend cover to be at least three times earnings.

Prospects

The Group's operations and management are in excellent shape. I warmly congratulate and thank all the many people in the Group throughout the world who have achieved these excellent results and worked exceptionally hard in the flotation. With our improved liquidity following our flotation, I am confident that we are well positioned for the future.

Vanni Treves
Chairman

30 August 2002

Intertek Testing Services plc

Chief Executive Officer's Review

Overview

We had a very successful first six months of the year during which we saw continuing turnover growth coupled with rising margins as we focused on profitable and expanding business areas. Each of our divisions performed to a high standard, winning customers and developing new capabilities. We listed on the London Stock Exchange on 29 May 2002 and put in place a major refinancing. The new share and debt structure has strengthened our balance sheet and given us greater financial resources to grow our business.

Operating review

Currency translation

We translate the results of our non-UK subsidiaries into pounds sterling using the average exchange rates for the period. About 50% of our turnover is generated by subsidiaries that report in US dollars or currencies that are pegged to the US dollar and a further significant proportion of our turnover is generated in subsidiaries whose currencies move in line with the US dollar when translated into pounds sterling. Movements in the US dollar exchange rate therefore have a material impact on our reported results. Our policy is not to hedge translation movements although we hedge some transaction exposure.

In order to compare the underlying results of the business without the impact of currency fluctuations, the following tables show the turnover and operating profit for each division at constant exchange rates. The turnover and operating profit figures for the six months to 30 June 2001 have been translated using the average exchange rates for the first six months of 2002.

Intertek Testing Services plc

Turnover by division

Six months to June	**2002 £m**	2001 £m	Change %
Labtest	**57.2**	51.0	12.2%
Caleb Brett	**85.6**	86.0	(0.5)%
ETL SEMKO	**56.1**	55.1	1.8%
Foreign Trade Standards	**30.7**	26.5	15.8%
Continuing operations at constant exchange rates[1]	**229.6**	218.6	5.0%
Exchange rate adjustment	**–**	3.2	
As reported at actual average exchange rates	**229.6**	221.8	3.5%

1. 2002 and 2001 figures are stated at average exchange rates for the six months to 30 June 2002

Turnover increased to £229.6m, up 5.0% over the same period last year (3.5% at actual exchange rates). The turnover growth was attributed mainly to the strong performance delivered by Labtest and FTS. ETL SEMKO increased its turnover from safety and performance testing but suffered a decline in telecommunications equipment testing and Caleb Brett increased its turnover from outsourcing but suffered a small decline overall due to a depressed oil and chemical market.

Operating profit by division[2]

Six months to June	**2002 £m**	2001 £m	Change %
Labtest	**19.0**	14.7	29.3%
Caleb Brett	**8.3**	8.5	(2.3)%
ETL SEMKO	**8.2**	8.0	2.5%
Foreign Trade Standards	**5.1**	2.9	75.9%
Central overheads	**(2.9)**	(2.4)	(20.8)%
Continuing operations at constant exchange rates[1]	**37.7**	31.7	18.9%
Exchange rate adjustment	**–**	0.6	
As reported at actual average exchange rates	**37.7**	32.3	16.7%

Operating margin[1]	**16.4%**	14.5%

1. 2002 and 2001 figures are stated at average exchange rates for the six months to 30 June 2002
2. Operating profit and operating margin by division are shown before goodwill amortisation and exceptional items.

Operating profit grew 18.9% to £37.7m from £31.7 in the same period last year (16.7% on an actual basis). This was mainly due to the strong performance of Labtest and FTS which more than countered the modest performances by Caleb Brett and ETL SEMKO and the small increase in central overheads. The increase in operating margin from 14.5% to 16.4% was mainly due to Labtest and FTS where revenues increased at a faster rate than operating costs.

Divisional review

Labtest

Six months to June[1]	**2002 £m**	2001 £m	Change %
Turnover	**57.2**	51.0	12.2%
Operating profit[2]	**19.0**	14.7	29.3%
Operating margin[2]	**33.2%**	28.8%	

1. 2002 and 2001 figures are stated at average exchange rates for the six months to 30 June 2002.
2. Operating profit and operating margin by division are shown before goodwill amortisation and exceptional items.

Labtest is a leading global provider of testing and inspection services for a range of consumer goods including textiles, footwear, toys, hardlines (such as ceramics, bicycles, cosmetic products, sporting goods, juvenile products and furniture) and systems certification. Its clients include some of the world's largest retail organisations, manufacturers, international traders and brands.

Labtest's turnover and operating profit grew 12.2% and 29.3% respectively, with most of the growth coming from Asia where textile testing, toy testing, inspection and code of conduct activities continued to perform well as a result of increasingly stringent quality and safety standards, more product variants, shorter product life cycles and the continuing migration of manufacturing from developed countries to Asia. Turnover in China grew strongly in both the established operations in Shanghai and Shenzhen and the new hardlines laboratory in Shanghai, and the new textile testing facilities in Guangzhou and Tianjin. The division's profit margin increased from 28.8% to 33.2% principally due to continued improvement in operating procedures in Hong Kong and growth in China where operating costs are lower than in Hong Kong.

Caleb Brett

Six months to June[1]	**2002 £m**	2001 £m	Change %
Turnover	**85.6**	86.0	(0.5)%
Operating profit[2]	**8.3**	8.5	(2.3)%
Operating margin[2]	**9.7%**	9.9%	

1. 2002 and 2001 figures are stated at average exchange rates for the six months to 30 June 2002.
2. Operating profit and operating margin by division are shown before goodwill amortisation and exceptional items.

Caleb Brett is a leading global provider of inspection, testing and outsourcing of analytical services for the petroleum, chemical and agricultural industries. It provides independent verification and globally recognised certification of the quality and quantity of those products.

Caleb Brett's turnover and operating profit decreased by 0.5% and 2.3% respectively, reflecting a decline in fuel oil shipments in the US as a result of the relatively warm winter and low natural gas prices which led to reduced oil shipments to power stations. Other contributory factors included a reduction in chemical work due to chemical industry restructuring and a competitive market environment which has led to pressure on prices and lower margins.

Turnover in the outsourcing segment of Caleb Brett increased from 21% of the division's business to 23%. The operating profit from outsourcing grew but the growth was restricted due to oil company cutbacks and the costs associated with bidding for new work. The number of prospective outsourcing contracts that we are actively pursuing continued to increase.

In March 2002, the Group paid £1.1m for a 17% investment in Neolytica Inc., a web-enabled, single point of contact for outsourcing analytical testing services. This is expected to generate new outsourcing opportunities for Caleb Brett.

ETL SEMKO

Six months to June[1]	**2002** £m	2001 £m	Change %
Turnover	**56.1**	55.1	1.8%
Operating profit[2]	**8.2**	8.0	2.5%
Operating margin[2]	**14.6%**	14.5%	

1. 2002 and 2001 figures are stated at average exchange rates for the six months to 30 June 2002.
2. Operating profit and operating margin by division are shown before goodwill amortisation and exceptional items.

ETL SEMKO provides manufacturers, manufacturers' associations and retailers worldwide with a complete range of safety and performance testing and certification services in the electrical, electronic, telecommunications equipment, building products and heating, ventilation and air conditioning equipment sectors.

ETL SEMKO's turnover and operating profit grew 1.8% and 2.5% respectively. This was attributable to growth in the market for the safety testing of household appliances manufactured in Asia for export to North America and Europe, increased safety and electrical testing in Sweden and increased testing of building products and heating, ventilation and air conditioning equipment in North America. Telecom testing in the US and Europe (which represents some 10% of the division's turnover) declined due to the depression in that sector which started in mid 2001 and continued for the rest of that year until it stabilised at a lower level. The restructuring of this division at the end of 2001 reduced the cost base in 2002 and led to a more focused marketing programme and better utilisation of our global laboratory network.

In April 2002 the Consumers' Association Research and Testing Centre in the UK outsourced its testing work to ETL SEMKO. This increased turnover by £0.6m and made a small contribution to operating profit in the period.

Foreign Trade Standards

Six months to June[1]	**2002 £m**	2001 £m	Change %
Turnover	**30.7**	26.5	15.8%
Operating profit[2]	**5.1**	2.9	75.9%
Operating margin[2]	**16.6%**	10.9%	

1. 2002 and 2001 figures are stated at average exchange rates for the six months to 30 June 2002.
2. Operating profit and operating margin by division are shown before goodwill amortisation and exceptional items.

FTS assists governments, standards bodies and customs departments to check that import duty is properly declared and paid and that imports comply with their safety and other standards.

FTS' turnover and operating profit grew 15.8% and 75.9% respectively. The increase in operating profit was primarily driven by the expansion of the pre-shipment inspection programme in Nigeria in the latter part of last year. The Nigerian programme in its present form was due to terminate in June 2002 but has been extended. Turnover from the standards testing programme in Saudi Arabia grew due to the addition of new products to the programme, but there were increased operating costs. On 29 May 2002 we announced that we had received notification from the Saudi Arabian Standards Organisation that the programme may not be renewed. However, we have a relationship with SASO of over six years and we believe that the programme will be extended until at least August next year and there is no sign at this stage of it being cancelled.

The pre-shipment inspection programmes in Mozambique, Kenya and Iran generated growth in operating profit but closure costs were incurred in connection with discontinued programmes in Uganda and Argentina.

Central overheads

Central overheads increased by 20.8% to £2.9m in the first six months of 2002, primarily due to increased rent at the Group's head office in London and additional compliance costs.

Intertek Testing Services plc

Outlook

The global demand for safety performance and quality standards continues to increase. The migration of manufacturing from developed countries to Asia and other developing areas, shorter product life cycles and wider product ranges create additional demand for testing, inspection and certification. The increasing trend of companies to outsource their laboratory testing also provides us with opportunities for growth.

In light of these trends, with our worldwide network of laboratories and offices and our well-established client base, we remain confident in our prospects for the year and for the future.

Richard Nelson

Richard Nelson
Chief Executive Officer

30 August 2002

Chief Financial Officer's Review

New capital structure

In May 2002, we raised new equity from the flotation of the company on the London Stock Exchange and put in place new banking facilities. These new funds were used to repay debt, debentures and preference shares that had been in place since our management buyout from Inchcape plc in 1996. At 30 June 2002, this restructuring of our balance sheet was only partially complete. In July 2002 we completed this restructuring which will be fully reflected in our financial statements for the full year.

Profitability

Operating profit before exceptional items, after goodwill amortisation and including income from associates for the first six months of 2002 was £37.2m, up 17.7% on the same period last year. In earlier accounting periods, we made provisions against certain debtors in the FTS division and in respect of fines payable by our discontinued Environmental Testing division. In the six months to 30 June 2002, we recovered £6.7m against these provisions which was reported as exceptional income in the period. The net interest cost before exceptional charges for the six months to 30 June 2002 was £17.1m. This reflects the pre-flotation capital structure of the group. Exceptional non-cash interest of £3.5m was charged to profit and loss for the accelerated amortisation of fees relating to the pre-flotation capital structure. The tax charge for the first six months of 2002 was £6.3m based on an effective tax rate, before exceptional items, of 31.3% for the full year. The effective tax rate takes into account the lower interest charge resulting from the new capital structure. Retained profit of £15.3m for the first six months of 2002 was significantly higher than the £4.6m retained in the same period last year, due to improved operating performance, exceptional income and a lower tax charge.

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Pro-forma earnings per share

The earnings per share shown in note 6 of our interim report do not reflect the new capital structure. In order to show the effect of the new capital structure on our earnings per share the following table shows our estimated pro-forma earnings per share, based on the number of shares in issue after the flotation.

	Six months to 30 June 2002 £m
Operating profit before exceptional items	37.2
Pro-forma interest[1]	(5.5)
Pro-forma profit before tax	31.7
Pro-forma taxation at 31.3%[2]	(9.9)
Less minority interests	(1.7)
Pro-forma underlying shareholders' earnings	20.1
Actual number of shares in issue post flotation in millions	153.4
Pro-forma underlying earnings per ordinary share in pence	13.1

1. The pro-forma interest charge assumed that £250m of the new loan facility was in place from 1 January 2002 and that all pre-flotation debt had been repaid.
2. The pro-forma tax charge was calculated by applying the effective tax rate for the year to the pro-forma profit before tax.

Cash generation

Total operating cash flow was £34.1m for the first six months of 2002, up 31.7% over the same period last year. Capital expenditure in the six months to 30 June 2002 was down £2.1m to £8.6m. This was mainly due to the investment made last year in a new computer system in ETL SEMKO. Acquisitions and disposals of £3.9m comprised £1.1m paid for our investment in Neolytica Inc. and £2.8m for the balance of outstanding fees incurred in connection with our acquisition from Inchcape plc in 1996. We made interest payments of £16.8m, including arrangement fees for the new bank facilities of £4.2m and paid tax of £6.1m. After capital investment, acquisitions, interest and taxation, net cash outflow was £1.3m in the six months to 30 June 2002 compared to an outflow of £4.5m in the same period last year.

Financing

In May 2002 we received proceeds of £245.0m, net of underwriting fees, from the issue of new shares. In the first six months of 2002 we paid £4.0m of legal, accounting and other fees giving a net figure of £241.0m raised from the share issue. In May 2002, we also repaid the senior term loans by drawing down a matching amount from our new bank facilities.

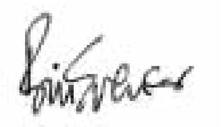
Intertek Testing Services plc

Balance sheet

The cash balance at 30 June 2002 was £261.6m. In July, the majority of this cash was used to repay debt, debentures and preference shares. After taking account of these repayments we estimate that the underlying cash balance was approximately £34.0m.

As shown in note 7 to the interim report, borrowings at 30 June 2002 were £341.2m. This included £106.7m of new bank facilities that had been drawn down at the balance sheet date. The Senior Subordinated Notes and the PIK debentures were repaid in July. The new bank facility is a five-year multi-currency facility of £300m. In July we made further drawings bringing the drawn facility to the sterling equivalent of £250m before fees. The remaining £50m is a revolving credit facility which has not been used to date.

Shareholders' funds were £9.0m at 30 June 2002. Since the balance sheet date, the preference shares have been repaid. We continue to carry a large negative profit and loss reserve in the consolidated group accounts. This is mainly due to goodwill of £279.2m that was written off to reserves before 1998 in accordance with the accounting standard applicable at that time. This goodwill arose primarily from the acquisition of Intertek Testing Services Limited from Inchcape plc in 1996. The negative consolidated reserves do not impact the ability of the Company to pay dividends in the future.



Bill Spencer
Chief Financial Officer

30 August 2002

Intertek Testing Services plc

Consolidated profit and loss account
for the six months to 30 June 2002

	Notes	**Six months to 30 June 2002 (Unaudited) £m**	Six months to 30 June 2001 (Unaudited and restated) £m	Year to 31 December 2001 (Audited) £m
Turnover – continuing operations	2	**229.6**	221.8	451.4
Cost of sales		**(178.3)**	(176.3)	(354.9)
Gross profit		**51.3**	45.5	96.5
Net operating expenses including exceptional items		**(7.9)**	(14.4)	(52.1)
Group operating profit		**43.4**	31.1	44.4
Operating profit from interests in associated undertakings		**0.5**	0.5	1.0
Total operating profit	2	**43.9**	31.6	45.4
Operating profit before exceptional items				
Operating profit before goodwill amortisation		**37.7**	32.3	69.8
Goodwill amortisation		**(0.5)**	(0.7)	(1.3)
Continuing operations including associates		**37.2**	31.6	68.5
Operating exceptional items				
Continuing operations		**3.3**	–	(10.7)
Discontinued operations		**3.4**	–	(12.4)
	3	**6.7**	–	(23.1)
Operating profit after exceptional items				
Continuing operations		**40.5**	31.6	57.8
Discontinued operations		**3.4**	–	(12.4)
Profit on ordinary activities before interest		**43.9**	31.6	45.4
Interest and similar charges				
Net interest before exceptional charges	4a	**(17.1)**	(18.7)	(39.0)
Exceptional charges	4b	**(3.5)**	–	–
		(20.6)	(18.7)	(39.0)
Profit on ordinary activities before taxation		**23.3**	12.9	6.4
Taxation on profit on ordinary activities	5	**(6.3)**	(6.3)	(16.7)
Profit/(loss) on ordinary activities after taxation		**17.0**	6.6	(10.3)
Minority interests		**(1.7)**	(2.0)	(4.4)
Retained profit/(loss) attributable to equity shareholders		**15.3**	4.6	(14.7)
Basic earnings/(loss) per share	6	**16.4p**	5.7p	(18.2)p
Diluted earnings/(loss) per share	6	**15.1p**	5.1p	(18.2)p

There is no material difference between the profit before taxation and retained profit/(loss) for the financial period as stated above and their historical cost equivalents.

Intertek Testing Services plc

Consolidated balance sheet
As at 30 June 2002

	Notes	**As at 30 June 2002 (Unaudited) £m**	As at 30 June 2001 (Unaudited and restated) £m	As at 31 December 2001 (Audited) £m
Fixed assets				
Intangible assets: goodwill		**12.3**	16.3	12.1
Tangible fixed assets		**74.6**	72.3	75.6
Investments		**2.4**	1.2	0.9
		89.3	89.8	88.6
Current assets				
Stocks		**1.7**	1.8	1.8
Debtors		**109.9**	110.6	104.7
Cash at bank and in hand		**261.6**	21.2	23.7
		373.2	133.6	130.2
Creditors: amounts falling due within one year				
Borrowings	*7*	**(240.5)**	(33.8)	(37.1)
Other		**(96.2)**	(88.4)	(97.2)
Net current assets/(liabilities)		**36.5**	11.4	(4.1)
Total assets less current liabilities		**125.8**	101.2	84.5
Creditors: amounts falling due after more than one year				
Borrowings	*7*	**(100.7)**	(311.3)	(304.0)
Other		**(3.5)**	–	(5.5)
		(104.2)	(311.3)	(309.5)
Provisions for liabilities and charges	*8*	**(5.9)**	(9.3)	(9.1)
Net assets/(liabilities) before pension assets/(liabilities)		**15.7**	(219.4)	(234.1)
Pension assets/(liabilities)				
Schemes with net assets	*13*	**0.8**	1.4	0.1
Schemes with net liabilities	*13*	**(1.2)**	(0.8)	(1.7)
Net assets/(liabilities)		**15.3**	(218.8)	(235.7)
Capital and reserves				
Called up share capital	*11*	**107.0**	106.3	106.3
Shares to be issued	*12*	**–**	2.8	2.8
Share premium	*12*	**231.4**	–	–
Merger reserve	*12*	**3.6**	3.6	3.6
Other reserve	*12*	**2.8**	–	–
Profit and loss account	*12*	**(335.8)**	(338.5)	(355.6)
Shareholders' funds/(deficit)		**9.0**	(225.8)	(242.9)
Equity minority interests		**6.3**	7.0	7.2
Capital employed		**15.3**	(218.8)	(235.7)

Intertek Testing Services plc

Consolidated cash flow statement

for the six months to 30 June 2002

	Notes	**Six months to 30 June 2002 (Unaudited) £m**	Six months to 30 June 2001 (Unaudited) £m	Year to 31 December 2001 (Audited) £m
Reconciliation of net cash inflow from operating activities to increase in cash in the period				
Net cash inflow from operating activities	9	**34.1**	25.9	70.0
Dividends from associated undertakings		**–**	0.2	0.4
Returns on investments and servicing of finance		**(16.8)***	(13.2)	(28.4)
Taxation		**(6.1)**	(6.2)	(13.6)
Capital expenditure and financial investment		**(8.6)**	(10.7)	(25.5)
Acquisitions and disposals		**(3.9)**	(0.5)	(1.5)
Net cash (outflow)/inflow before financing		**(1.3)**	(4.5)	1.4
Financing		**242.9**	4.8	1.8
Increase in cash in the period		**241.6**	0.3	3.2
Financing				
Issue of shares (net of fees paid)		**241.0**	–	–
Issue of short term debt		**1.6**	11.0	12.9
Issue of Senior Term Loan		**108.7**	–	–
Repayment of Senior Loans		**(108.2)**	(6.2)	(11.1)
Repayment of other loans		**(0.2)**	–	–
		242.9	4.8	1.8
Reconciliation of net cash flow to movement in net debt				
Increase in cash in the period		**241.6**	0.3	3.2
Cash inflow/(outflow) from (increase)/decrease in debt		**2.3***	(4.8)	(1.8)
Decrease/(increase) in net debt resulting from cash flows		**243.9**	(4.5)	1.4
Debt issued in lieu of interest payments		**(6.3)**	(5.6)	(11.7)
Acquisitions and disposals		**–**	–	0.1
Other non-cash movements		**(4.4)**	(1.1)	(2.2)
Exchange adjustments		**4.6**	(11.6)	(3.9)
Movement in net debt		**237.8**	(22.8)	(16.3)
Opening net debt	10	**(317.4)**	(301.1)	(301.1)
Closing net debt	10	**(79.6)**	(323.9)	(317.4)

*Includes £4.2m fees paid for the arrangement of the new Senior Term Loan.

Intertek Testing Services plc

Consolidated statement of total recognised gains and losses
for the six months to 30 June 2002

	Six months to 30 June 2002 (Unaudited) £m	Six months to 30 June 2001 (Unaudited and restated) £m	Year to 31 December 2001 (Audited) £m
Net profit/(loss) from group companies	**14.9**	4.3	(15.3)
Net profit from associates	**0.4**	0.3	0.6
Net profit/(loss) attributable to equity shareholders	**15.3**	4.6	(14.7)
Actuarial pension gains/(losses)*	**1.1**	(1.1)	(3.3)
Exchange adjustments	**3.4**	(9.3)	(4.9)
Total gains and losses relating to the period	**19.8**	(5.8)	(22.9)
Prior year adjustment	**–**	(1.9)	(1.9)
	19.8	(7.7)	(24.8)

Reconciliation of movements in shareholders' funds/(deficit)
for the six months to 30 June 2002

	Six months to 30 June 2002 (Unaudited) £m	Six months to 30 June 2001 (Unaudited and restated) £m	Year to 31 December 2001 (Audited) £m
Opening shareholder's deficit	**(242.9)**	(220.0)	(220.0)
Issue of shares	**232.1**	–	–
Profit/(loss) for the period	**15.3**	4.6	(14.7)
Actuarial pension gains/(losses)*	**1.1**	(1.1)	(3.3)
Exchange adjustments	**3.4**	(9.3)	(4.9)
Closing shareholders' funds/(deficit)	**9.0**	(225.8)	(242.9)

*Actuarial pension gains/(losses) are stated net of deferred tax.

Included in shareholders' funds/(deficit) is £279.2m (30 June 2001: £294.1m, 31 December 2001: £286.1m) relating to goodwill written off to reserves in relation to the acquisition of subsidiaries prior to 1 January 1998.

Notes to Interim Report
For the six months to 30 June 2002

1. Basis of preparation of interim financial information

The Group was created by a group reconstruction whereby, on 24 May 2002, the shareholders exchanged the whole of the issued share capital of Intertek Testing Services Holdings Limited ("ITSHL") (formerly Intertek Testing Services Limited) to a newly formed holding company, Intertek Testing Services plc in return for shares in Intertek Testing Services plc. The acquisition of ITSHL was accounted for in accordance with the principles of merger accounting as set out in FRS 6 and Schedule 4A to the Companies Act 1985. By adopting this accounting treatment the consolidated financial information of Intertek Testing Services plc included in the Interim Report for the six months to 30 June 2002 have been presented to show the results of the reconstructed group as though the reconstruction had occurred prior to 1 January 2001.

These unaudited interim financial statements do not constitute statutory accounts as defined in section 240 of the Companies Act 1985 and have been prepared on the basis of the accounting policies set out in the statutory accounts of ITSHL for the year to 31 December 2001. The results for the six months to 30 June 2002 and 30 June 2001 have not been audited but have been reviewed by KPMG Audit Plc, the company's auditors.

The financial information as at and for the six months to 30 June 2001 has been restated from that previously published to reflect the adoption of new accounting standards FRS 17: Pensions and retirement benefits and FRS 19: Deferred tax adopted in the accounts of ITSHL for the year to 31 December 2001. The implementation of these standards had no material impact on retained profit for the period for the six months to 30 June 2001. The net pension asset reduced by £0.3m at 30 June 2001.

The results for the year to 31 December 2001 have been abridged from ITSHL's financial statements, which have been reported on by ITSHL's auditors and filed with the Registrar of Companies. The report of the auditors was unqualified and did not contain a statement under section 237 (2) or (3) of the Companies Act 1985.

Notes to Interim Report
For the six months to 30 June 2002

2(a). Segmental analysis by activity

Turnover

	Six months to 30 June 2002 £m	Six months to 30 June 2001 £m	Year to 31 December 2001 £m
Labtest	**57.2**	52.0	108.5
Caleb Brett	**85.6**	87.5	176.0
ETL SEMKO	**56.1**	55.5	109.0
Foreign Trade Standards	**30.7**	26.8	57.9
	229.6	221.8	451.4

Operating profit

	Six months to 30 June 2002 £m	Six months to 30 June 2001 £m	Year to 31 December 2001 £m
Labtest	**19.0**	15.1	34.2
Caleb Brett	**8.3**	8.6	17.5
ETL SEMKO	**8.2**	8.1	14.3
Foreign Trade Standards	**5.1**	2.9	9.4
Central overheads	**(2.9)**	(2.4)	(5.6)
	37.7	32.3	69.8
Goodwill amortisation	**(0.5)**	(0.7)	(1.3)
Exceptional items (Note 3)	**6.7**	–	(23.1)
	43.9	31.6	45.4
The Company and its subsidiaries	**43.4**	31.1	44.4
Associates	**0.5**	0.5	1.0
	43.9	31.6	45.4

Goodwill amortisation

	Six months to 30 June 2002 £m	Six months to 30 June 2001 £m	Year to 31 December 2001 £m
Caleb Brett	**0.3**	0.4	0.9
ETL SEMKO	**0.1**	0.2	0.3
Foreign Trade Standards	**0.1**	0.1	0.1
	0.5	0.7	1.3

Notes to Interim Report
For the six months to 30 June 2002

2(b). Segmental analysis by geographical region

Turnover

	Six months to 30 June 2002 £m	Six months to 30 June 2001 £m	Year to 31 December 2001 £m
Americas	**84.8**	91.2	177.8
Europe, Africa and Middle East	**71.4**	65.9	136.4
Asia and Far East	**73.4**	64.7	137.2
	229.6	221.8	451.4

Operating profit

Americas	**8.7**	8.0	14.6
Europe, Africa and Middle East	**6.0**	4.9	11.1
Asia and Far East	**23.0**	19.4	44.1
	37.7	32.3	69.8
Goodwill amortisation	**(0.5)**	(0.7)	(1.3)
Exceptional items (Note 3)	**6.7**	–	(23.1)
	43.9	31.6	45.4

Goodwill amortisation

Americas	**0.1**	0.1	0.9
Europe, Africa and Middle East	**0.3**	0.5	0.2
Asia and Far East	**0.1**	0.1	0.2
	0.5	0.7	1.3

Notes to Interim Report
For the six months to 30 June 2002

3. Operating exceptional items

		Six months to 30 June 2002 £m	Six months to 30 June 2001 £m	Year to 31 December 2001 £m
Caleb Brett:				
EPA fine and costs		**–**	–	(1.2)
Goodwill impairment		**–**	–	(3.1)
ETL SEMKO:				
Restructuring		**–**	–	(2.3)
Foreign Trade Standards:				
Provision against Argentina debt		**–**	–	(4.1)
Receipts from Nigeria and Argentina	(a)	**3.3**	–	–
Total continuing		**3.3**	–	(10.7)
Environmental Testing:				
Fines		**–**	–	(12.3)
Legal costs		**–**	–	(3.5)
Insurance recoveries	(b)	**3.4**	–	3.4
Total discontinued		**3.4**	–	(12.4)
Total operating exceptional items		**6.7**	–	(23.1)
Americas		**3.9**	–	(19.1)
Europe, Africa and Middle East		**2.8**	–	(4.0)
Asia and Far East		**–**	–	–
Total operating exceptional items		**6.7**	–	(23.1)

(a) In the first six months of 2002, £2.8m was received from the government of Nigeria and £0.5m from the government of Argentina in respect of FTS debts which had previously been fully provided against.

(b) In May 2002, an insurance refund of £3.4m was received in reimbursement of the first instalment of the civil fine levied by the Environmental Protection Agency in the USA in respect of its investigation into the discontinued Environmental Testing division.

Notes to Interim Report
For the six months to 30 June 2002

4. Interest and similar charges

	Six months to 30 June 2002 £m	Six months to 30 June 2001 £m	Year to 31 December 2001 £m
4(a). Net interest before exceptional charges			
Senior Subordinated Notes	**7.2**	7.2	14.5
Parent Subordinated PIK Debentures	**6.5**	5.7	12.2
Senior Term Loan A	**1.4**	2.4	4.6
Senior Term Loan B	**1.1**	1.5	3.0
Senior Term Loan C	**0.1**	–	0.1
Senior Revolver	**0.5**	0.5	1.3
Other	**0.4**	1.5	3.5
	17.2	18.8	39.2
Other finance income			
Pension interest cost	**0.5**	0.5	2.4
Expected return on pension assets	**(0.6)**	(0.6)	(2.6)
	(0.1)	(0.1)	(0.2)
Net interest charge before exceptional charges	**17.1**	18.7	39.0
4(b). Exceptional charges			
Unamortised costs in connection with:			
Warrants converted into shares	**2.2**	–	–
Debt issuance costs on repaid Senior Loans	**1.3**	–	–
	3.5	–	–

5. Taxation

The tax charge for the six months to 30 June 2002 was based on the estimated effective rate for the full year before exceptional items of 31.3%. There is no tax attributed to exceptional items.

The effective rate before exceptional items was 48.5% in the six months to 30 June 2001. The decrease in the effective rate principally related to the change in the capital structure of the Group following the refinancing. This has the effect of reducing the full year interest charge. In the prior year, the interest charge was not fully relieved in the tax charge.

Notes to Interim Report
For the six months to 30 June 2002

6. Earnings per ordinary share

Based on the profit for the period:	**Six months to 30 June 2002 £m**	Six months to 30 June 2001 £m	Year to 31 December 2001 £m
Underlying profit before tax	**20.6**	13.6	30.8
Taxation on underlying profit	**(6.3)**	(6.3)	(16.7)
Minority interest in underlying profit	**(1.7)**	(2.0)	(4.4)
Underlying earnings	**12.6**	5.3	9.7
Goodwill amortisation	**(0.5)**	(0.7)	(1.3)
Exceptional items – Note 3	**6.7**	–	(23.1)
Exceptional interest – Note 4	**(3.5)**	–	–
Basic earnings	**15.3**	4.6	(14.7)
Number of shares (millions):			
Basic weighted average no. of shares	**93.6**	80.8	80.8
Options	**1.9**	2.0	n/a
Warrants	**5.8**	7.1	n/a
Diluted weighted average no. of shares	**101.3**	89.9	80.8
Basic underlying earnings/(loss) per share	**13.5p**	6.6p	12.0p
Options	**(0.3)p**	(0.2)p	n/a
Warrants	**(0.8)p**	(0.5)p	n/a
Diluted underlying earnings per share	**12.4p**	5.9p	12.0p
Basic earnings/(loss) per share	**16.4p**	5.7p	(18.2)p
Options	**(0.4)p**	(0.1)p	n/a
Warrants	**(0.9)p**	(0.5)p	n/a
Diluted earnings/(loss) per share	**15.1p**	5.1p	(18.2)p

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

Notes to Interim Report
For the six months to 30 June 2002

7. Borrowings

	As at 30 June 2002 £m	As at 30 June 2001 £m	As at 31 December 2001 £m
Due within one year:			
Senior Subordinated Notes	**135.3**	–	–
Parent Subordinated PIK Debentures	**105.6**	–	–
Senior Term Loan A	**4.3**	14.5	15.4
Senior Revolver	**–**	21.0	22.4
Other borrowings	**0.9**	0.3	1.0
	246.1	35.8	38.8
Debt issuance costs	**(5.6)**	(2.0)	(1.7)
	240.5	33.8	37.1
Due in more than one year:			
Senior Subordinated Notes	**–**	144.0	140.0
Parent Subordinated PIK Debentures	**–**	97.2	100.7
Senior Term Loan A	**104.1**	40.7	32.0
Senior Term Loan B	**–**	35.2	34.7
Senior Term Loan C	**–**	–	1.8
	104.1	317.1	309.2
Debt issuance costs	**(3.4)**	(5.8)	(5.2)
	100.7	311.3	304.0
Total borrowings	**341.2**	345.1	341.1

The Senior Subordinated Notes of £135.3m and Parent Subordinated PIK Debentures of £105.6m were repaid on 3 July 2002 and the debt issuance costs associated with these borrowings of £4.8m were fully amortised. An early redemption premium of £7.3m was paid in connection with the Senior Subordinated Notes.

8. Provisions for liabilities and charges

	Deferred tax £m	Restructuring £m	Claims £m	Total £m
At 1 January 2002	0.8	1.3	7.0	9.1
Exchange adjustment	–	–	(0.1)	(0.1)
Charged during the period	0.1	–	0.4	0.5
Released during the period	–	–	(0.6)	(0.6)
Utilised during the period	–	(1.0)	(2.0)	(3.0)
At 30 June 2002	**0.9**	**0.3**	**4.7**	**5.9**

9. Operating cash flow

	Six months to 30 June 2002 £m	Six months to 30 June 2001 £m	Year to 31 December 2001 £m
Group operating profit after exceptional items	**43.4**	31.1	44.4
Depreciation	**8.7**	7.6	15.7
Goodwill amortisation	**0.5**	0.7	1.3
Goodwill impairment	**–**	–	3.1
Impairment of fixed assets	**–**	–	0.9
Loss on disposal of fixed assets	**0.1**	–	0.1
Decrease/(increase) in stocks	**0.1**	–	(0.1)
Increase in debtors	**(8.3)**	(9.5)	(6.1)
(Decrease)/increase in creditors*	**(7.2)**	0.2	16.1
(Decrease)/increase in provisions	**(3.2)**	(4.2)	(5.4)
Total operating cash flow	**34.1**	25.9	70.0
Operating cash inflow before exceptional items	**35.9**	29.3	78.7
Exceptional cash outflow	**(1.8)**	(3.4)	(8.7)
Total operating cash flow	**34.1**	25.9	70.0

*The decrease in creditors in the six months to 30 June 2002 included £6.6m of fines paid to the Environmental Protection Agency in the USA in connection with the discontinued Environmental Testing division, which were accrued at 31 December 2001.

10. Movement in net debt

	At 1 January 2002 £m	Cash flow £m	Debt issued in lieu of interest £m	Other non cash changes £m	Exchange adjustments £m	**At 30 June 2002 £m**
Cash at bank and in hand	23.7	241.6	–	–	(3.7)	**261.6**
Borrowings	(341.1)	2.3	(6.3)	(4.4)	8.3	**(341.2)**
Total net debt	(317.4)	243.9	(6.3)	(4.4)	4.6	**(79.6)**

Intertek Testing Services plc

Notes to Interim Report
For the six months to 30 June 2002

11. Called up share capital

	At 30 June 2002		At 30 June 2001 and 31 December 2001	
	Authorised	**Allotted, called up and fully paid**	Authorised	Allotted, called up and fully paid
	£m	**£m**	£m	£m
Equity:				
Ordinary Shares of 200,000,000 of 1p each (issued: 153,379,478)	**2.0**	**1.5**	–	–
Ordinary 'A' shares of 69,172,061 of 1p each	**–**	**–**	0.7	0.7
Ordinary 'B' shares of 11,578,635 of 1p each	**–**	**–**	0.1	0.1
Ordinary 'C' shares of 2,951,417 of 1p each	**–**	**–**	–	–
Ordinary 'D' shares of 7,110,713 of 1p each	**–**	**–**	0.1	–
	2.0	**1.5**	0.9	0.8
Non equity:				
Zero coupon redeemable preference shares of 105,478,482 of £1 each	**105.5**	**105.5**	105.5	105.5
	107.5	**107.0**	106.4	106.3

On 18 May 2002, the A, B, C and D ordinary shares were re-designated as 'Ordinary shares' of 1p each. The Zero coupon redeemable preference shares were redeemed at par on 4 July 2002.

12. Shareholders' funds

	Share capital £m	Shares to be issued £m	Share premium £m	Merger reserve £m	Other reserve* £m	Profit and loss account £m	Total £m
At 1 January 2002	106.3	2.8	–	3.6	–	(355.6)	(242.9)
Retained profit for the period	–	–	–	–	–	15.3	15.3
Exchange adjustments	–	–	–	–	–	3.4	3.4
Actuarial pension gains	–	–	–	–	–	1.1	1.1
Shares issued	0.7	(2.8)	–	–	2.8	–	0.7
Premium on share issue	–	–	255.5	–	–	–	255.5
Costs of share issue	–	–	(24.1)	–	–	–	(24.1)
At 30 June 2002	**107.0**	**–**	**231.4**	**3.6**	**2.8**	**(335.8)**	**9.0**

Equity	(96.5)
Non-equity	105.5

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

Notes to Interim Report
For the six months to 30 June 2002

13. Pension schemes

The group operates a number of defined benefit and defined contribution schemes throughout the world. There are significant funded defined benefit schemes in the United Kingdom, United States, Hong Kong and Taiwan with assets held in separate trustee administered funds. Actuarial valuations of these schemes were performed by independent qualified actuaries at 30 September 2001 and were updated to 31 December 2001 and 31 March 2002. The schemes were not revalued at 30 June 2002 and the assets and liabilities of each scheme are stated at their 31 March 2002 values in the balance sheet as at 30 June 2002. The assets and liabilities as at 30 June 2001 are stated at their 31 March 2001 valuation.

Since the valuations were carried out at 31 March 2002, the value of equities has fallen and this may have an impact on the valuation of the schemes which will be carried out at 31 December 2002.

14. Contingent liabilities, claims and litigation

There have been no material developments concerning claims and litigation, which in the opinion of the Directors would give rise to a material adverse effect on the financial position of the Group in the foreseeable future.

15. Post balance sheet events

On 3 July 2002 the Group drew £143.3m, being the balance of its new Senior Term Loan A facility. Also on 3 July 2002, the Senior Subordinated Notes of £135.3m plus an early redemption premium of £7.3m were paid and the PIK Debentures of £105.6m were redeemed.

On 4 July 2002 the preference shares were redeemed at their par value of £105.5m.

16. Approval

The interim financial statements were approved by the Board on 30 August 2002.

Intertek Testing Services plc

Independent review report by KPMG Audit Plc to Intertek Testing Services plc

Introduction

We have been instructed by the company to review the financial information set out on pages 12 to 25 and we have read the other information contained in the interim report and considered whether it contains any apparent misstatements or material inconsistencies with the financial information.

Directors' responsibilities

The interim report, including the financial information contained therein, is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the interim report in accordance with the Listing Rules of the Financial Services Authority which require that the accounting policies and presentation applied to the interim figures should be consistent with those applied in preparing the preceding annual accounts except where they are to be changed in the next annual accounts in which case any changes, and the reasons for them, are to be disclosed.

Review work performed

We conducted our review in accordance with guidance contained in Bulletin 1999/4: Review of interim financial information, issued by the Auditing Practices Board for use in the United Kingdom. A review consists principally of making enquiries of group management and applying analytical procedures to the financial information and underlying financial data and, based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review is substantially less in scope than an audit performed in accordance with Auditing Standards and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the financial information.

Review conclusion

On the basis of our review we are not aware of any material modifications that should be made to the financial information as presented for the six months to 30 June 2002.

KPMG Audit Plc

KPMG Audit Plc
Chartered Accountants
London

30 August 2002

Intertek Testing Services plc

Directors and Advisors

Board of Directors	Vanni Treves *Chairman** Richard Nelson *Chief Executive Officer* William Spencer *Chief Financial Officer* David Allvey* Ross Sayers*
Company Secretary	Martin Black *Non-executive
Registered Office	Intertek Testing Services plc 25 Savile Row London W1S 2ES Telephone: +44 (0) 20 7396 3400 Fax: +44 (0) 20 7396 3480 Web: www.itsglobal.com
Registered Number	4267576
Registrars	Lloyds TSB Registrars The Causeway Worthing West Sussex BN99 6DA Telephone: +0870 600 3983 Telephone: +44 (0) 121 415 7059 (outside UK)
Brokers	Schroder Salomon Smith Barney Citigroup Centre 33 Canada Square Canary Wharf London E14 5LB Telephone: +44 (0) 20 7986 4000 Goldman Sachs International Peterborough Court 133 Fleet Street London EC4A 2BB Telephone: +44 (0) 20 7774 1000
Auditors	KPMG Audit Plc PO Box 486 8 Salisbury Square London EC4Y 8BB Telephone: +44 (0) 20 7311 1000
Legal advisors	Allen & Overy One New Change London EC4M 9QQ Telephone: +44 (0) 20 7330 3000