Intertek Group plc

Annual Report 2005

Contents

About Intertek

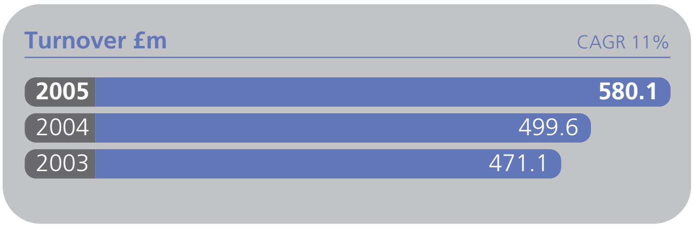
Intertek is a leading international provider of quality and safety services to a wide range of global and local industries. Partnership with Intertek brings increased value to customers' products, processes and ultimately supports their success in the global market place.

Intertek has the experience, expertise, resources and global reach to support their customers through their network of over 850 laboratories and offices and 15,500 people in more than 100 countries around the world.

Financial Highlights

Revenue	Underlying operating profit[1]	Underlying operating margin[2]	Operating profit	Operating cashflow
£580.1m	£92.9m	16.0%	£83.0m	£96.7m
+16.1%	+11.9% (organic +5.7%)	Down 0.6 bp	+1.7%[3]	Down 5.1%

Profit before taxation	Basic earnings per share	Underlying earnings per share[4]	Dividend per share[5]
£79.4m	36.8p	39.1p	12.0p
+6.7%	+9.2%	+14.0%	+15.4%



Continuing Operations at actual exchange rates

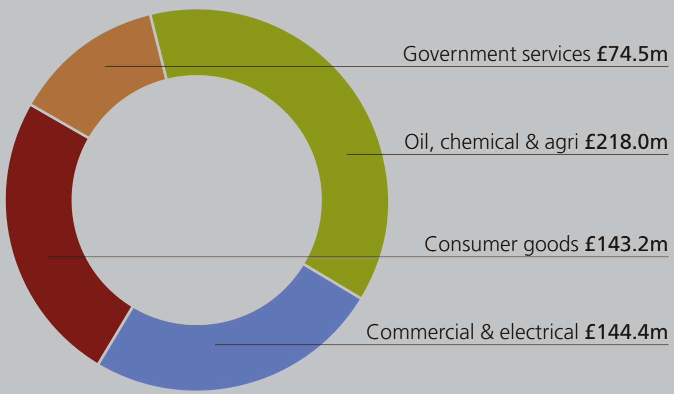
Continuing Operations at constant exchange rates

1. Before amortisation of intangible assets £2.1m (2004: £1.4m) and goodwill impairment £2.0m (2004: £nil) and after adjusting for non-recurring items £5.8m (2004: £nil). See page 8 for a detailed reconciliation of operating profit.
2. Based on revenue after adjusting for non-recurring items £1.8m (2004: £nil) and adjusted operating profit as defined in 1 above.
3. Operating profit for 2004 has been restated under Adopted IFRSs to include a share option charge of £1.0m and exclude income from associates of £1.2m.
4. Fully diluted earnings per share before amortisation of intangible assets and goodwill impairment (see note 8 of the financial statements).
5. Dividend per share is based on the interim dividend paid of 3.9p (2004: 3.4p) plus the proposed final dividend of 8.1p (2004: 7.0p).
6. Operating profit for 2003 is stated before goodwill amortisation £1.0m and non-recurring items £1.1m and has been adjusted to include a share option charge of £0.3m and exclude income from associates of £1.2m.

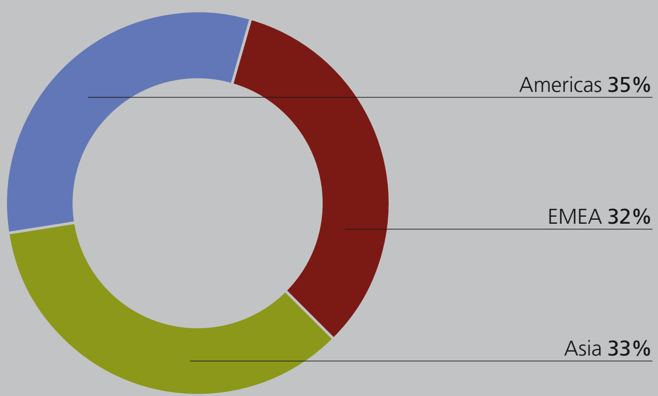
Group at a Glance

Our business units are focused on the broad range of industries we service: Oil, Chemical & Agri; Consumer Goods; Commercial & Electrical and Government Services. In each industry we have experts who live and breathe the needs of our clients. These experts combine our different services to provide solutions that meet our clients' needs.

Revenue by division



Revenue by region



Customer group

Division name

What we do

Revenue

Employees

Offices

Laboratories

oil, chemical & agri	consumer goods	commercial & electrical	government services
Caleb Brett	**Labtest**	**ETL SEMKO**	**FTS**
			
Mark Loughead Executive Vice President	**Raymond Kong** Executive President China & Asia, CEO Labtest	**Rob Dilworth** Executive Vice President	**Rob Dilworth** Executive Vice President
We offer inspection and analytical services to the oil, gas, chemical, agricultural, mineral and pharmaceutical industries.	We service industries producing products such as textiles, footwear, toys and hardlines in areas of design, quality, safety and corporate social responsibility.	We provide services to a wide range of industries including those in the electrical, electronic, medical, building, industrial and automotive components sectors.	We work with governments to check safety and quality of imports, verify duty collection and provide cargo security services. We also provide technical inspection services.
£218.0m	£143.2m	£144.4m	£74.5m
6,726	5,034	2,876	862
365	89	65	46
220	44	57	1

Chairman's Statement

Sustainable shareholder value

I am pleased to report another strong set of results for the year, with growth in every division.

Results

I am pleased to report another strong set of results for the year, with growth in every division.

Revenue for 2005 was £580.1m, an increase of 16.1% over 2004. Underlying operating profit, stated before the amortisation of intangible assets and the impairment of goodwill and after adjusting for the hurricanes and other non-recurring items, was £92.9m, 11.9% up on last year. Group operating profit was £83.0m, an increase of 1.7%. A reconciliation of the underlying figures to the statutory figures is set out on page 8 of the performance review.

Acquisitions and disposals

An important part of Intertek's strategy to add value to our customers, is to widen the range of services in the Group and extend the geographic coverage by acquiring complementary businesses which can be leveraged through the global network. During 2005, the Group made 12 acquisitions for a total consideration of £46.9m. Apart from Omega Point Laboratories, which was acquired in April 2005, the other acquisitions were made in the second half of 2005, so the full impact on trading results will not be realised until 2006.

The largest transaction was the acquisition of Automotive Research Laboratory (ARL) from PerkinElmer in November 2005, for consideration of £20.1m. ARL which is based in Texas, is a market leader in the provision of testing services on automotive fuels and oils. This fits well with the existing Caleb Brett business and complements the PARC business which was acquired in August 2005 and Entela, which was acquired in 2004.

Acquisitions are described in more detail in the performance review.

At the end of November, the Group sold its 49% shareholding in the German company, DEKRA Intertek Certification GmbH, to DEKRA AG for £2.7m and acquired the remaining 51% of the shares not already owned by Intertek in the Swedish company DEKRA-SEMKO Certification AB for £0.9m. This deal ended the joint venture between Intertek and DEKRA and enables both parties to focus on growing their certification businesses independently.

Accounting Standards

This is the first Annual Report prepared by the Group under Adopted International Financial Reporting Standards (IFRSs). Previously, the Group's accounts were prepared in compliance with UK Generally Accepted Accounting Principles (UK GAAP). The 2004 comparatives have been restated except where permitted by IFRS 1: First Time Adoption of International Financial Reporting Standards. The adoption of international standards has some impact on the presentation of our financial statements but does not fundamentally change our strategy, business and economic risks, financial position, or our cash flows. A reconciliation of the impact on the income statement and the balance sheet is given in note 29 to the financial statements.

Dividends

During the year, the Group paid total dividends of 10.9p per share (2004: 9.3p) comprising the final dividend for 2004 of 7.0p per share and the interim dividend for 2005 of 3.9p per share. Since the balance sheet date, the Directors proposed a final dividend of 8.1p per share (2004: 7.0p) which combined with the interim dividend of

An important part of Intertek's strategy to add value to our customers, is to widen the range of services in the Group and extend our geographical coverage.

3.9p (2004: 3.4p) makes a full year dividend of 12.0p per share (2004: 10.4p), an increase of 15.4% over last year. The final dividend, which is subject to shareholder approval, will be paid on 16 June 2006, to shareholders on the Register at 2 June 2006.

Board changes

2005 was a year of change on the Intertek Board. After leading the Group for more than 20 years, Richard Nelson retired as Chief Executive Officer in March. I would like to thank Richard on behalf of the Board for his outstanding personal contribution in building the Group and I am pleased that he has remained on the Board as Non-Executive Deputy Chairman. Wolfhart Hauser succeeded Richard as Chief Executive Officer; the transition was seamless and the Group has continued to perform well and grow under Wolfhart's leadership.

It is with much regret that I have to report the sudden death of Ross Sayers on 25 November 2005. Ross served as a Non-Executive Director of Intertek for the past three years and I speak for the Board and my colleagues at Intertek when I say that his good humour, friendship and valuable contribution to the Group will be sadly missed.

I am delighted to announce that Debra Rade joined the Intertek Board as a Non-Executive Director on 1 January 2006. Debra is currently a Partner in Katten Muchin Rosenman LLP a major national US law firm, based in Chicago. Debra's practice focuses primarily on corporate governance and compliance as well as product safety and certification. Until 2002, Debra was a senior officer of Underwriters Laboratories Inc. a provider of product safety and certification. Debra's extensive experience within the inspection and testing industry, as well as her legal and corporate governance background, will strengthen the Board.

Employees

One of Intertek's key strengths is the dedication and expertise of the Group's employees around the world. At the end of 2005, the Group employed over 15,500 people in 108 countries, an increase of 2,000 over last year. This increase was partly due to acquisitions made in the year and I would like to extend a warm welcome to all new Intertek colleagues. On behalf of the Board I would like to thank all of the Group's staff for their contribution during the year and congratulate them on another excellent performance.

Outlook

Intertek is very well positioned in many of its industries and the continued active marketing of our services should ensure we have another year of favourable results with good organic growth rates complemented by acquisition growth.

We strive to support and add value to our customers by continuing to align ourselves with them and offering bundled solutions to increase efficiency and reduce their costs while at the same time improving their products. By offering good value to our customers, we are confident that Intertek will continue to prosper in the years to come.

Vanni E Treves

Vanni Treves
Chairman

Q&A with the Chief Executive

Q What does Intertek do?

A We help our clients achieve success in the global market place. We do this by providing testing, inspection and certification services, but we also go further. We add value to our clients' businesses and their products – we become a vital part of their success.

Q How is Intertek helping customers achieve their goals?

A Our clients face many global challenges. Trading and manufacturing is continually shifting across borders. Customer demands in both developed and developing nations change on a regular basis. New legislation is constantly being introduced covering quality, safety, environmental and social compliance. At the same time, new products must be designed and introduced into these markets as quickly as possible.

We provide the support that keeps our clients ahead of the game. We take care of all the non-core activities related to their products and commodities. This frees them to focus on running their business and makes sure their brand image is protected when it comes to quality, safety and environmental issues.

Q How is Intertek structured?

A Our business units are focused on the broad range of industries we serve: Consumer Goods; Commercial & Electrical products; Oil, Chemical & Agri Services; and Government Services. In each industry we have experts who live and breathe the needs of our clients. These experts combine our different services to provide solutions that meet our clients' needs.

Q What are Intertek's main strengths?

A We are very strong on both a global and local level. Our local management are leaders in their industries. We enjoy solid relationships with our customers, be they a multi-national retailer or a local manufacturer with a single product line. And in many industries we are in a leading position. It's a position we've gained through providing quality, adding value and building long-term relationships.

Q Are there any weaknesses you are looking to address?

A If we have a weakness, it's that we are not always the leader in our industry sectors. I'd like to see Intertek being first or second in all our core service industries. And there are still regions where we are some way from being in the top two – in Japan for example. But I see this as an opportunity for growth.

Q Where do you see the main areas of expansion?

A Intertek is supporting global trade – which grows faster than GDP – so our underlying markets will continue to show good growth. We will also improve our competitive position in these markets. But the growth ultimately comes from persuading our clients that outsourcing their quality, safety and environmental services to us will make them more successful.

Q Are you concerned about the increasing competition?

A It has always been a competitive market and this will continue. We have to innovate and increase productivity to keep ahead of the competition – just like any other business. But for us it's more important to combine our services and, in this way, offer excellent value. We win most business not by taking market share from our competitors but by gaining additional business through existing customers.

Q What do you enjoy about being CEO of Intertek?

A Intertek is a very exciting company. I like the fact that we are creating so much value for our customers and, through that, for our investors and employees. I also like the variety – not many companies cover so many different industries. And of course as Chief Executive, you can get close to the customers and industries we serve and gain a very good understanding of every market. I enjoy the fact that we are involved in nearly every technical area and all areas in natural science – that's very challenging and interesting. Finally, as we are a people business, I enjoy nurturing the cultural identity and passion of our employees to succeed.

Strategic drivers

- unrivalled global resource
- key industry focus
- adding value through synergy

Q What's your management style?

A In a business with over 15,000 employees you have to be flexible and use a range of different management styles. For me, active listening and leading by example is very important. I always try to put myself in the shoes of our customers, managers and employees. I expect everyone at Intertek to follow this service-led mindset.

Q What have Intertek's biggest achievements been over the past year?

A We're now promoting Intertek as a single company. Our employees no longer see just their traditional divisions – they are proud of Intertek as a whole. It's been very important to develop this single brand and it's not just about a brand image, this 'one company' ethos has also helped us work together more effectively. One example of this is the RoHS Directive. This legislation, relating to the restriction of hazardous substances in electrical products, is covering numerous industries and our labs are set up to address that. We also made good progress by making acquisitions in the oil and chemical industry and the electro-technical industry.

Q Any downsides?

A The only downside has been that we lost two contracts in the Government Services division. These contracts provided excellent value for our clients, but unfortunately other considerations can play a part. However, I think we're in a good position to win new contracts, particularly in cargo scanning services.

Q What's your view on the future and the year ahead for Intertek?

A We are very well prepared for the year ahead. In Consumer Goods, we have the capacity to keep up with growth in developing countries. We have a very good approach to all different industries in the Commercial & Electrical sector and the success we have seen to date in executing our strategy in this area will continue. And in Oil, Chemical & Agri, we will continue to increase the breadth and depth of our analytical services and push to do more upstream work relating to the cargo side of the business.

Crucially, we will continue to offer our existing services but we will also do more. We will add more value, we will combine our services, and eventually become number one in more industries. Intertek is a business that strives to add value for our customers – and through that approach, we're adding value for our investors and shareholders.

Wolfhart Hauser
Chief Executive

Performance Review

Underlying Performance

	Revenue			Operating profit		
	2005 £m	Growth at actual rates %	Growth at constant rates[2] %	2005 £m	Growth at actual rates[1] %	Growth at constant rates[1,2] %
Underlying Total	**581.9**	**16.5**	**15.1**	**92.9**	**11.9**	**10.5**
Less non-recurring items:						
Hurricane impact	(1.8)			(1.2)		
Court Judgment	–			(2.6)		
Closure costs	–			(2.0)		
Adjusted total	**580.1**	**16.1**	**14.7**	**87.1**	**4.9**	**3.6**
Amortisation of intangible assets	–			(2.1)		
Impairment of goodwill	–			(2.0)		
Statutory total	**580.1**	**16.1**	**14.7**	**83.0**	**1.7**	**0.4**

1. Operating profit for 2004 has been restated under Adopted IFRSs to include a share option charge of £1.0m and to exclude income from associates of £1.2m.
2. Cumulative average exchange rates for the year ended 31 December 2005.

Cautionary statement

This Annual Report contains certain forward-looking statements with respect to the financial condition, results, operations and business of Intertek Group plc. These statements and forecasts involve risk and uncertainty because they relate to events and depend upon circumstances that will occur in the future. There are a number of factors that could cause actual results or developments to differ materially from those expressed or implied by these forward-looking statements and forecasts. Nothing in this Annual Report should be construed as a profit forecast.

Overview

In order to present a more meaningful comparison of the Group's revenue and operating profit in 2005 compared to 2004, the revenue and operating profit in this performance review have been adjusted for certain material, non-recurring items. In addition, throughout this discussion, operating profit is stated before the amortisation of intangible assets and the impairment of goodwill.

The underlying growth in revenue, which is after adjusting the 2005 revenue to include £1.8m of revenue lost due to the impact of the hurricanes in the US, was 16.5%. Our underlying growth in operating profit, which is stated before the amortisation of intangible assets of £2.1m (2004: £1.4m) and the impairment of goodwill of £2.0m (2004: £nil) and after adding back lost profit due to the hurricanes of £1.2m and other non-recurring costs of £4.6m, was 11.9%. Labtest maintained a good level of growth, despite challenging conditions in some of its markets, ETL SEMKO and Caleb Brett both performed very strongly and FTS had a good year but suffered contract losses which will affect its performance going forward.

A substantial portion of the Group's revenue is denominated in US dollars or currencies linked to the US dollar therefore, the Group's results when translated into sterling are exposed to changes in the value of the US dollar. In order to compare the Group's results for 2005 with 2004 at constant exchange rates, the reported results for 2004, have been retranslated into sterling using the 2005 average exchange rates. The table below shows growth in revenue and operating profit at both actual and constant exchange rates.

Revenue reported in the income statement for 2005 was £580.1m, 16.1% higher than 2004 and Group operating profit was £83.0m, an increase of 1.7%. A reconciliation of the underlying figures to the statutory figures is set out in the table above.

Underlying Financial Performance by division at constant rates[1]

	Revenue			Operating profit		
	2005 £m	Growth %	Organic growth %	2005 £m	Growth %	Organic growth %
By division:						
Labtest	143.2	7.1	8.7	44.9	2.3	0.9
ETL SEMKO	144.4	16.9	12.4	22.0	25.0	19.8
Caleb Brett	219.8	21.5	15.4	19.1	22.4	8.1
FTS	74.5	10.2	10.2	18.3	31.7	31.7
Sub total	**581.9**	**15.1**	**12.2**	**104.3**	**14.6**	**10.3**
Central overheads	–			(11.4)	(65.2)	(65.2)
Underlying total	**581.9**	**15.1**	**12.2**	**92.9**	**10.5**	**5.7**
Non-recurring items	(1.8)			(5.8)		
Adjusted total	**580.1**	**14.7**	**11.8**	**87.1**	**3.6**	**(1.3)**
Amortisation of intangible assets	–			(2.1)		
Impairment of goodwill	–			(2.0)		
Statutory total	**580.1**	**14.7**	**11.8**	**83.0**	**0.4**	**(4.7)**

1. Cumulative average exchange rates for the year ended 31 December 2005.

Non-recurring items

The results for 2005, were impacted by a number of events that were non-recurring and outside the normal course of trading. Firstly, the Gulf Coast in the United States was devastated by hurricanes Rita and Katrina and subsequent flooding in the New Orleans area in the second half of 2005, which caused Caleb Brett's operation in this region to lose revenue of approximately £1.8m and operating profit of £1.7m. The Group is seeking recovery of its losses from its insurers and an initial payment of £0.5m was received in February 2006. This amount was accrued in the accounts for 2005, so the net reduction of operating profit in the year was £1.2m. The Group will include any further insurance recoveries in 2006. Secondly, operating profit was reduced by costs of £2.6m following an unexpected adverse court judgment in connection with an old claim. The judgment has been appealed but the outcome is unknown at the current time. Thirdly, two major government contracts were terminated in the FTS division which resulted in closure costs of £2.0m.

Acquisitions and disposals

The Group made one acquisition in the first half of 2005, and 11 acquisitions and one disposal in the second half of the year. The Group includes the results of acquisitions from the date of acquisition and excludes the results of disposals from the date of disposal. At actual exchange rates, underlying organic revenue increased by 13.6% and underlying organic operating profit increased by 7.2%. At constant rates underlying organic revenue increased by 12.2% and underlying organic operating profit increased by 5.7%. A more detailed discussion of the acquisitions is given in the divisional review that follows.

Review of 2005 Performance by Division

The table above summarises the underlying results of each division for 2005 and growth over 2004 at constant exchange rates. Revenue for Caleb Brett has been adjusted to include £1.8m of revenue that was lost due to the hurricanes. Operating profit is stated before the amortisation of intangible assets of £2.1m (2004: £1.4m) and the impairment of goodwill of £2.0m (2004: £nil). Operating profit for Caleb Brett is stated after including £1.2m of profit lost due to the hurricanes and operating profit for FTS is stated before non-recurring closure costs of £2.0m. Central overheads, exclude a court judgment of £2.6m. Operating profit for 2004, has been restated under Adopted International Financial Reporting Standards (IFRSs) to include a share option charge and to exclude income from associates.

adding value through synergy

Strong growth in all industry sectors in China. Excellent growth in toys worldwide.

Labtest

Consumer goods

Labtest services consumer goods industries including those producing textiles, footwear, toys, food and hardlines in the areas of testing, inspection, auditing, training and certification for quality, safety, health, environmental and corporate social accountability. Its clients include the world's largest retail organisations, manufacturers and international traders.

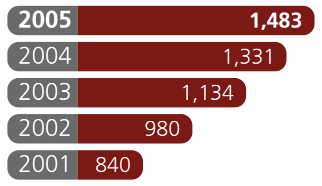
Labtest had a challenging year in 2005 but still achieved organic growth of 8.7% in revenue and 0.9% in operating profit, at constant exchange rates. In total, revenue increased 7.1% in 2005 over 2004 and operating profit increased 2.3%. Labtest's organic operating margin was 31.7% in 2005, compared to 34.2% in 2004. This was primarily due to lower than expected revenue and higher costs in certain countries, particularly in Europe and the Americas.

Performance in the division was mixed, with very strong growth in China (including Hong Kong), which accounts for more than half of Labtest revenue, tempered by challenging market conditions in many other countries. Changes to the World Trade Organisation's Agreement on Textiles and Clothing (ATC) ended more than 40 years of quota restrictions on textiles and clothing and resulted in turbulence in the global textile market in 2005, with increased revenue in China and a decline in revenue in the rest of Asia, Europe and the Americas. Toys, food and hardline testing performed well in all regions, mainly due to increased European Union (EU) regulations on safety and environmental factors which increased the requirements for testing for various hazardous substances. For example, companies manufacturing or shipping electronic products into the EU have been preparing to comply with the new Restriction of Hazardous Substances (RoHS) directive which becomes mandatory on 1 July 2006.

At the end of November, Labtest sold its 49% shareholding in the German company, DEKRA Intertek Certification GmbH to DEKRA AG for £2.7m and acquired the remaining 51% of the shares not already owned by Intertek in the Swedish company DEKRA-SEMKO Certification AB for £0.9m. This deal ends the joint venture between Intertek and DEKRA AG and enables both parties to focus on growing their certification businesses independently. From 1 January 2006, the systems certification business in Labtest will be aligned with the product certification business in ETL SEMKO, under the management of ETL SEMKO.

The key growth drivers in Labtest remain strong, principally the sourcing of products from China, the increasingly wide range of products being sold by retailers, shorter product lifecycles and the growth in demand from consumers and regulatory bodies for quality and safety. The growth strategy will be to concentrate on higher growth markets and to reposition in lower growth regions and strengthening marketing centres in major western countries. On 1 January 2006, Paul Yao was appointed Chief Operating Officer for Labtest, reporting to Raymond Kong, Executive President China and Asia and Chief Executive Labtest.

Labtest



Performance 2005

	Revenue 2005 £m	Revenue Growth at actual rates %	Revenue Growth at constant rates %	Underlying Operating Profit 2005 £m	Underlying Operating Profit Growth at actual rates %	Underlying Operating Profit Growth at constant rates %
Organic	140.0	9.9	8.7	44.4	1.8	0.9
Acquisitions and disposals	3.2			0.5		
Total	**143.2**	**8.2**	**7.1**	**44.9**	**3.2**	**2.3**

Performance Review
continued

key industry focus

Excellent growth across all industry sectors.

ETL SEMKO
Commercial & electrical
ETL SEMKO provides services to a wide range of industries including those in the electrical, electronic, medical, building, industrial and automotive component sectors. ETL SEMKO had an excellent year in 2005, with organic growth of 12.4% in revenue and 19.8% in operating profit, at constant exchange rates. In total, revenue increased 16.9% in 2005 over 2004 and operating profit increased 25.0%. ETL SEMKO's organic operating margin was 15.2% in 2005, compared to 14.3% in 2004. The margin increase was due to operational efficiencies and the turnaround of underperforming areas.

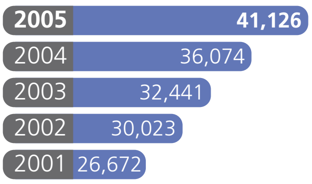
China continued to report excellent organic growth driven by the increase in exports of consumer and commercial goods, North America also performed well with the implementation of a more focused business development strategy and improvements in efficiency, leading to organic growth in all service sectors. A new automotive component testing laboratory was opened in Shanghai at the end of the year and is already generating revenue.

In line with the Group's strategy of expanding services to clients, ETL SEMKO made two infill acquisitions in the US in 2005. Omega Point Laboratories (OPL) was acquired in April for £2.9m. OPL provides building products services in Texas, US and extends the territory covered by the Group's existing services. International Approvals Laboratory based in Colorado, which provides electromagnetic compatibility (EMC) testing, was acquired in December for £0.6m.

At the end of 2005, Intertek acquired KPMG's systems certification businesses in India and the Middle East for consideration of £4.6m. As explained earlier, from 1 January 2006, all Intertek's systems certification business will be amalgamated within ETL SEMKO. This acquisition provides Intertek with entry into the systems certification market in key territories from which other Intertek services can be offered.

The outlook for ETL SEMKO is good, with the growth trend in China expected to continue and further development of key industry sectors and country markets where Intertek is currently under represented. On 22 February 2006, Intertek acquired the EMC business of AKZO NOBEL in Japan for £9.0m. The business enjoys a strong local market position and will give ETL SEMKO more coverage in a key target country and market.

ETL SEMKO Number of listed products



Performance 2005

	Revenue			Underlying Operating Profit		
	2005 £m	Growth at actual rates %	Growth at constant rates %	2005 £m	Growth at actual rates %	Growth at constant rates %
Organic	127.7	13.5	12.4	19.4	22.0	19.8
Acquisitions	16.7			2.6		
Total	**144.4**	**18.0**	**16.9**	**22.0**	**27.2**	**25.0**

Performance Review
continued

unrivalled global resource

Strong underlying growth.

Caleb Brett
Oil, chemical & agri
Caleb Brett offers inspection and analytical services to the oil, gas, chemical, agricultural, mineral and pharmaceutical industries.

Caleb Brett performed strongly, with underlying organic growth of 15.4% in revenue and 8.1% in operating profit, at constant exchange rates. The underlying organic margin was 7.9%, compared to 8.4% in 2004. The main reason for the decline in operating margin was increased investment in marketing for global agri services and the Eastern European region. Revenue from analytical services (including outsourcing agreements), which accounted for about 36% (2004: 31%) of Caleb Brett's revenue in 2005, increased by 41.2% in 2005 over 2004.

Favourable market conditions helped to drive a very strong performance in the Americas. Property damage was suffered as a result of the hurricanes and the subsequent flooding of the New Orleans area, the closure of oil refineries and the disruption to transport, communications and accessibility, meant that Caleb Brett and its clients could not operate from the affected areas. It is estimated that revenue was reduced by £1.8m and operating profit was reduced by £1.7m. Recovery is being sought from the Group's insurers and an initial payment of £0.5m was received in February 2006. Apart from the £0.5m, no recovery of costs has been included in the above figures.

Asia and Europe also performed well in many areas, particularly analytical services. In 2005, new outsourcing contracts were gained with Rolls-Royce in the UK and Kodak in the UK and France.

Caleb Brett made seven acquisitions in 2005 costing £33.9m in total. The largest acquisition was Automotive Research Laboratories (ARL) in the US which was acquired in November for £20.1m. ARL is one of only two international market leaders providing independent testing services for automotive fuels and lubricants for regulatory and performance standards. ARL complements the existing downstream oil and chemical business in Caleb Brett by extending its range of support testing services from the refinery into the automotive industry.

PARC Technical Services business was acquired in August for £4.1m. PARC operates pilot plants that simulate oil refineries, chemical plants and automotive test engines. Its world class expertise and equipment strongly supplements the current downstream testing and inspection services provided by Caleb Brett, extending significantly the reach of Caleb Brett into this industry and further up the value chain of supply.

Caleb Brett acquired the Westport Technology Center from Halliburton in October for £5.4m. Westport, based in Texas, provides high end exploration production laboratory services to Halliburton and the upstream oil industry, including consulting and project management. This acquisition follows Intertek's outsourcing strategy of operating customers' analytical laboratories which are critical but not core to the customers' business. As well as widening Caleb Brett's upstream analytical services, Westport also brings new and unique analytical technology into the Group, which can be developed internationally.

In November, Caleb Brett acquired Lintec Testing Services Ltd in the UK for consideration of £3.3m. Lintec performs marine fuel and lubricant testing for the shipping industry and complements Caleb Brett's existing marine business.

In addition to the above, Caleb Brett made three other infill acquisitions in the US and Europe for consideration of £1.0m.

The outlook for Caleb Brett is positive with organic growth expected from underlying growth in the market, new regulations such as the EU RoHS directive and the Ultra Low Sulphur regulations in the US and increased operational efficiencies. The results in 2006, will benefit from the inclusion of a full year's results from the acquisitions made in 2005 and the new outsourcing contracts. The pipeline of potential outsourcing projects remains strong and the strategy of supplementing organic growth with acquisitions will continue.

Caleb Brett Total number of laboratories	
2005	**220**
2004	209
2003	197
2002	196
2001	184

Performance 2005

	Revenue			Underlying Operating Profit		
	2005 £m	Growth at actual rates %	Growth at constant rates %	2005 £m	Growth at actual rates %	Growth at constant rates %
Underlying organic total	**204.5**	**17.7**	**15.4**	**16.1**	**10.3**	**8.1**
Acquisitions	15.3			3.0		
Underlying total	219.8	24.0	21.5	19.1	24.8	22.4
Less: hurricane impact	(1.8)			(1.2)		
Total	**218.0**	**23.0**	**20.5**	**17.9**	**17.0**	**14.7**

Performance Review
continued

confidence and success

Good results in the year.

FTS
Government services
FTS works with governments to check the safety and quality of imports, verify duty collection and provide cargo security services. FTS also provides technical inspection services.

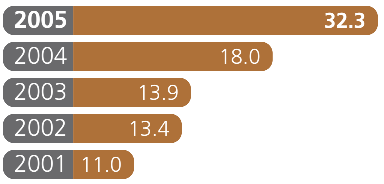
FTS reported excellent growth in 2005 over 2004, with 10.2% growth in revenues and 31.7% growth in underlying operating profit, at constant rates. The underlying margin was 24.6%, up from 20.6% in 2004.

The pre-shipment inspection (PSI) contracts in Venezuela and Nigeria, which accounted for 37% of FTS revenue in 2005, terminated in the year. The Venezuelan contract ended on 31 August 2005 and the Nigerian contract ended on 31 December 2005, resulting in closure costs of approximately £2.0m. Excluding these costs, operating profit increased 31.7% at constant exchange rates.

New contracts gained in the year were a cargo scanning contract in Guinea and standards contracts in Nigeria and Kenya. These did not have a material impact on 2005 results. Pre-shipment inspection contracts with the governments of Bangladesh, Ecuador, Malawi and Mozambique were renewed.

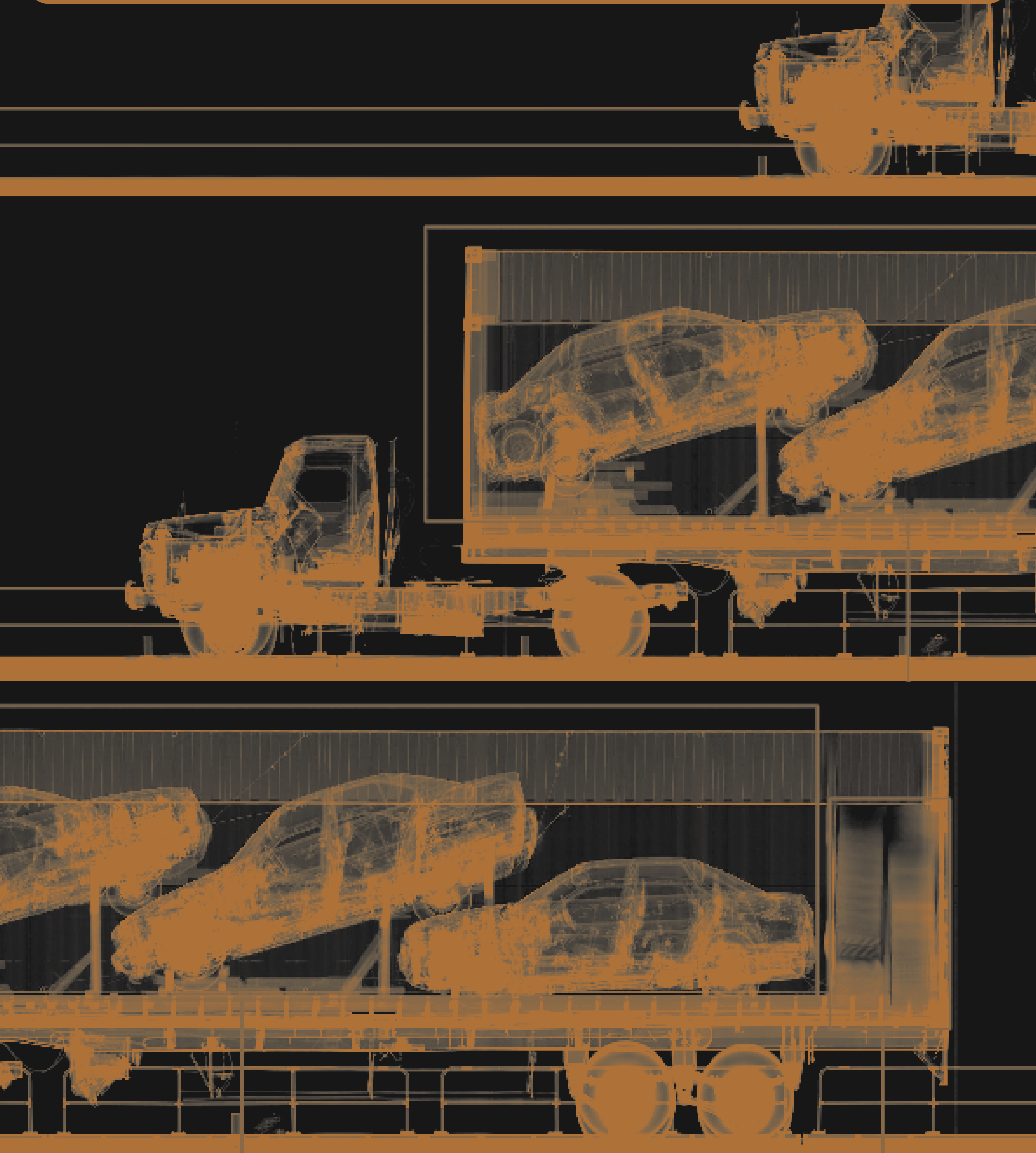
The loss of the Nigeria and Venezuela contracts will significantly impact the results of FTS in 2006. PSI contracts provide a valuable service to client governments and they are expected to continue in the future, albeit in a variety of forms. The Group's strategy is to continue providing these services and to develop new and existing PSI and standards contracts, implementing cargo scanning solutions for clients, developing new customs services and expanding technical inspection services.

FTS FOB value of imports inspected (US$ billion)



Performance 2005

	Revenue			Underlying Operating Profit		
	2005 £m	Growth at actual rates %	Growth at constant rates %	2005 £m	Growth at actual rates %	Growth at constant rates %
Underlying	74.5	10.2	10.2	18.3	32.6	31.7
Less: closure costs	–			(2.0)		
Total	74.5	10.2	10.2	16.3	18.1	17.3



Performance Review
continued

Central overheads
Central overheads, comprise the costs of head office functions such as the Board, Group finance, treasury and tax, investor relations, Company Secretariat, business development, Group IT, internal audit, claims management and central compliance.

	2005 £m	Growth* %
Underlying central costs	**(11.4)**	**(65.2)**
Less: Court Judgment	(2.6)	
Total	**(14.0)**	**(102.9)**

* growth at actual and constant exchange rates is the same.

Underlying central costs increased by 65.2% to £11.4m in 2005. Central costs increased by about 25% due to increased headcount in human resources and the business development and website development teams, a donation to the Tsunami appeal and costs associated with the installation of a new global consolidation system. The balance was due to a high level of legal costs in the defence of ongoing claims which are described as contingent liabilities in note 27 to the financial statements. The Group's policy is to charge costs incurred in connection with claims which arise from discontinued business and from events prior to the Group's flotation in 2002, to central overheads. Costs for claims arising in subsequent years and for continuing business are charged to the operating division concerned.

The adjustment of £2.6m relates to an old claim dating back to 1996, which was contested in court and unexpectedly resulted in an adverse judgment. The judgment has been appealed and is scheduled to be heard in May 2006.

Net financing costs
As set out in note 6 to the financial statements, the Group reported finance income in 2005 of £3.5m (2004: £4.2m). This comprised the expected return on pension assets, interest on bank balances and a gain on the re-measurement of interest rate swaps to fair value.

The Group's finance expense for 2005 was £9.4m compared to £12.1m in 2004. The charge comprised interest on borrowings, pension interest costs and other financing fees. The decrease was primarily due to the non-recurring amortisation of debt issuance costs in 2004 of £3.4m following the refinancing that took place in December 2004.

Profit before taxation
Profit before tax was £79.4m compared to £74.4m in 2004, mainly due to the good trading performance in the year and a profit of £1.6m on the disposal of the Group's interest in an associate company.

Taxation
As set out in note 7 to the financial statements income tax expense for 2005, was £18.7m (2004: £19.6m), comprising a current tax charge of £24.1m (2004: £19.5m) less a deferred tax credit of £5.4m (2004: charge £0.1m). The effective tax rate was 23.6%, down 2.7% from 2004. The main reason for the reduction in the effective tax rate was the recognition of deferred tax assets due to improved taxable income in certain jurisdictions. The effective tax rate is expected to be sustainable at close to current year levels for the short to medium-term.

Profit for the year
Profit for the year after tax was £60.7m (2004: £54.8m) of which £57.1m (2004: £52.0m) was attributable to equity holders of the Company.

Minority interests
As set out in note 20 to the financial statements, profit attributable to minority shareholders was £3.6m in 2005 (2004: £2.8m). The increase was mainly due to the strong growth in the Group's non-wholly owned subsidiaries in China.

Earnings per share
As set out in note 8 to the financial statements, basic earnings per share in the year were 36.8p (2004: 33.7p), an increase of 9.2%. An underlying earnings per share calculation is also shown which removes the impact of amortisation of intangibles and impairment of goodwill to give basic underlying earnings per share of 39.5p (2004: 34.6p), an increase of 14.2%.

Dividend
During the year, the Group paid total dividends of £16.9m (2004: £14.4m), which comprised £10.8m in respect of the final dividend paid on 6 May 2005, at the rate of 7.0p per share and £6.1m being the interim dividend in respect of the year ended 31 December 2005, paid on 15 November 2005 at a rate of 3.9p per share. These amounts were charged to retained earnings (see note 19 to the financial statements). Since the balance sheet date, the Directors proposed a final dividend in respect of the year ended 31 December 2005, of 8.1p per share (2004: 7.0p) making a full year dividend of 12.0p per share (2004: 10.4p), an increase of 15.4% over last year.

Cash and liquidity
Cash generated from operations was £96.7m for 2005, compared to £101.9m for 2004. The decline of 5.1% was mainly due to an increase in trade and other receivables of £23.7m. In February 2006, the Group received £4.5m from the Government of Nigeria which reduced FTS debtors and £0.5m from the Group's insurers in connection with the hurricane claim. Cash outflows from investing activities in 2005 were £71.0m (2004: £52.2m), up 36.0%. The main outflows were £44.5m (2004: £26.6m) for the acquisition of subsidiaries and £31.3m (2004: £28.2m) for the acquisition of property, plant and equipment. The Group received £2.7m (2004: £nil) for the disposal of its interest in an associate. Net cash outflows from financing activities were £6.3m (2004: £53.7m), which comprised proceeds from the issue of share capital following the exercise of employee share options of £3.8m (2004: £1.1m) and the draw down debt of £62.8m (2004: £165.7m), less the repayment of borrowings £53.1m (2004: £202.0m), dividends paid to minorities £2.9m, (2004: £4.1m) and dividend paid to Group shareholders £16.9m (2004: £14.4m).

As set out in note 15 to the financial statements, interest bearing loans and borrowings were £190.7m at 31 December 2005, an increase of 15.6% over 2004. The increase comprised cash out flow of £9.7m which was mainly used to finance acquisitions and exchange adjustments of £16.1m principally due to the retranslation into sterling of borrowings denominated in US dollars and HK dollars. Cash and cash equivalents at 31 December 2005, were £50.8m, a decrease of 3.2% over 2004.

Acquisitions and disposals

As described earlier, during 2005 the Group made 12 acquisitions and one disposal. The net cash outflow was £44.5m (2004: £26.6m) for the acquisition of subsidiaries and the Group received £2.7m (2004: £nil) for the disposal of its interest in an associate. Additional deferred consideration of £1.1m has been accrued, which may be payable if performance targets are met by certain of the acquired companies.

Impact of IFRSs as adopted by EU

Operating profit for 2004, previously reported under UK GAAP, has been restated under Adopted IFRSs. The table below shows the impact of the restatement together with the equivalent 2005 figures for comparative purposes. The UK GAAP figures reflect the adoption of FRS 17.

	2005 £m	2004 £m	Change %
Total operating profit before amortisation and impairment under UK GAAP	**90.2**	85.2	5.9
Less share of operating profits of associates	**(1.2)**	(1.2)	
IFRSs share option charge	**(1.9)**	(1.0)	
Group operating profit under IFRSs before amortisation, impairment and profit from associates	**87.1**	83.0	4.9
Amortisation of intangible assets	**(2.1)**	(1.4)	
Impairment of goodwill	**(2.0)**	–	
Group operating profit under IFRSs	**83.0**	81.6	1.7

A detailed reconciliation of the impact on the income statement is given in note 29 to the financial statements. The key areas of impact are described below:

Share-based payments

A charge is made to the income statement for share options issued post November 2002. The charge is based on the fair value of options at the grant date, with the fair value being determined by an option pricing model. The charge was £1.9m in 2005 for options issued in 2003, 2004 and 2005 and £1.0m in 2004 for options issued in 2003 and 2004.

Business combinations/intangible assets

As permitted by IFRSs 1, business combinations that took place prior to 1 January 2004, have not been restated. Goodwill is no longer amortised and instead is subject to annual impairment reviews. Goodwill amortisation of £1.5m charged to the income statement in 2004 was reversed. In 2005, an impairment charge of £2.0m was recognised due to a decline in the carrying value of an acquisition made in 2003.

As required by Adopted IFRSs, goodwill on acquisitions from 1 January 2004, was re-examined and analysed into separately identifiable intangible assets which are amortised over their estimated useful lives and capitalised goodwill which is unamortised. This review for 2004, identified intangible assets such as covenants not to compete, know how and customer relationships with a value of £4.9m, therefore capitalised goodwill was reduced by this amount. In 2005, 12 businesses were acquired generating goodwill of £21.7m and intangible assets of £10.7m. An analysis of the intangibles is set out in note 10 to the financial statements. The income statements for 2005 and 2004 were charged with £2.1m and £1.4m, respectively, for the amortisation of intangible assets.

Financial instruments

As permitted by IFRSs 1, comparatives for IAS 32 and IAS 39 have not been restated and therefore these standards were adopted in full from 1 January 2005. A charge of £1.0m was made to the hedging reserve in shareholders' funds to reflect the fair value of the derivative financial instruments at 1 January 2005 (see note 19 to the financial statements). Derivative financial instruments are brought onto the balance sheet at their fair value. At 31 December 2005, the fair value of the derivative financial instruments was £1.7m. This was included within current assets on the balance sheet.

Hedge accounting has been adopted for four financial derivatives which qualify as cash flow hedges under IAS 39. These financial derivatives hedge the variable interest rate on the Group's external borrowings. The effective portions of the movement in the fair value of the financial derivatives that are hedge accounted were recognised directly in the hedging reserve. As shown in note 19 to the financial statements, this movement in 2005 was £2.6m. The ineffective portion of the movement in the fair value of the financial derivatives was taken to the income statement which in 2005, resulted in a credit of £0.1m to finance income (see note 6 to the financial statements).

Hedge accounting has also been adopted for the foreign currency external borrowings which hedge the Group's net investment in its foreign subsidiaries. The effective portion of the gain or loss on the hedging instruments that are hedge accounted is recognised directly in the translation reserve.

The foreign exchange contracts undertaken by the Group to hedge foreign currency transaction exposures were not hedge accounted under IAS 39. This is because the fair value movements are expected to be immaterial. The fair value movements on these foreign exchange contracts are therefore charged or credited to the income statement.

Tax

Adjustments arising from Adopted IFRSs have been tax effected as appropriate. Under UK GAAP, the pension fund deficit was disclosed net of deferred tax. Under Adopted IFRSs, the pension deficit is disclosed gross of tax and the tax is shown as a deferred tax asset.

Performance Review
continued

Dividends
Dividends are presented as a deduction in shareholders' equity when they have been declared or ratified by shareholders rather than as a deduction in the income statement when they have been proposed. The income statement for 2004 has been restated to remove the dividends of £16.1m.

Segment analysis
The Group's primary basis of segmentation is by business and its secondary basis is by geography.

Impairment of goodwill
The carrying value of capitalised goodwill was reviewed for impairment and a charge of £2.0m was made to operating profit in 2005 (2004: £nil) to reduce the goodwill to its fair value. The impairment related to an acquisition made in 2003 by Labtest in the UK.

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 policy is not to hedge this translation exposure which can therefore create volatility in the results when they are translated at actual 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 expense 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.

Liquidity risk
The multi-currency senior debt facility that was placed in December 2004, has substantially reduced the interest margin in 2005. The margins currently paid on borrowings are about 0.4% over LIBOR. The facility was extended at the end of 2005 for another year, so there are still five years left to run.

At 31 December 2005, there was £190.7m of debt outstanding (2004: £165.4m), the increase was partly due to exchange losses resulting from a stronger US dollar and partly due to increased expenditure on acquisitions in 2005. At 31 December 2005, the undrawn committed borrowing facilities, which mature in 2010, were £95.5m (2004: £135.1m) of which £5.8m (2004: £5.0m) was utilised for letters of credit and guarantees. These facilities are expected to be 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 other than ordinary litigation incidental to the conduct of business.

As set out in note 17 to the financial statements, at 31 December 2005, the Group had provisions against future claims of £8.0m (2004: £4.8m). The amount provided for claims and litigation relies on management's informed judgment of the circumstances surrounding the claim, the costs likely to be incurred in defending the claim and advice from legal experts.

The majority of claims made against Intertek's subsidiary companies fall within the Caleb Brett division. While commercial disputes are often settled, occasionally Caleb Brett will enter into a trial process. In November 2005, one claim in Caleb Brett, dating back to 1996, was contested in court and unexpectedly resulted in an adverse judgment. This decision is being appealed but in the meantime, costs of £2.6m were incurred in 2005, by way of judgment and legal fees.

In 1999, Caleb Brett Canada (now called Intertek Testing Services Canada) entered into Collateral Management Agreements (CMA) with two trading companies. The agreements provided for Caleb Brett India to manage the storage and release of vegetable oil from warehouses in India. As a result of the actions of a former rogue employee of Caleb Brett India, various quantities of oil were released without authorisation, leading to the commencement of recovery actions against Caleb Brett in Singapore and London. The Singapore proceedings were resolved by an out of court settlement with the involvement of insurers. However, the London proceedings, which comprise subrogated claims by Marine Cargo Underwriters against Intertek Testing Services (ITS) Canada Ltd and Caleb Brett India Pvt Ltd, claiming reimbursement of US$6.9m, have not resulted in a settlement and a trial is scheduled to commence on 20 March 2006. Caleb Brett believes that it had adequate insurance in place to cover the CMA work and has a strong legal defence against these claims.

Between 1992 and 2001, the Puerto Rico Electric Power Authority (PREPA) contracted Caleb Brett to perform independent testing services. In August 2002, PREPA filed a lawsuit against Caleb Brett in the federal district court of Puerto Rico. PREPA is seeking unspecified damages, alleging that Caleb Brett falsified test results and engaged in a conspiracy with fuel suppliers to provide off-specification fuel for on-specification prices during the 1992-2000 period.

Caleb Brett has filed a motion to dismiss PREPA's complaint, on the grounds that the claims are time barred by the applicable statute of limitations. Caleb Brett believes that it has substantial defences to the plaintiff's claims and continues to defend itself vigorously. At this point in the litigation however, it is impossible to predict the outcome with any degree of certainty. A process of fact and expert discovery began in earnest in the second half of 2005. The court has set a deadline of 30 June 2006, for the conclusion of this discovery. No trial date has been set.

In May 2004, Caleb Brett filed a petition in Texas state court against Certain Underwriters at Lloyd's of London and other underwriters seeking a declaration that certain policies issued by the Underwriters are in full force and effect, and that the insurers subscribing thereto must indemnify and defend Caleb Brett in the case of PREPA v Caleb Brett USA Inc in federal court in Puerto Rico. At this time, only limited discovery has taken place and it is impossible to predict the outcome with any degree of certainty.

The outcome of the litigation to which Intertek Group companies are party to, cannot be readily foreseen. Based on information currently available, the directors consider that the cost to the Group of an unfavourable outcome arising from such litigation is unlikely to have a materially adverse effect on the financial position of the Group in the foreseeable future.

Board of Directors

a b c

1 Audit Committee Chairman
2 Audit Committee member
3 Nomination Committee Chairman
4 Nomination Committee member
5 Remuneration Committee Chairman
6 Remuneration Committee member

Vanni Treves (65) d
Chairman[2,3,6]
Appointed to the Board in January 2001*. He became Chairman in April 2001. He is a solicitor, specialising in corporate law and governance. For 30 years he was a Partner (for 12 of them Senior Partner) of Macfarlanes, a major law firm in the City of London. He has been Chairman of three listed companies and Channel Four Television. Currently he is Chairman of Equitable Life Assurance Society, Korn/Ferry UK and the London Business School. He is also a Governor of Sadler's Wells, a Trustee of the J Paul Getty Charitable Trust, Solicitor to the Royal Academy and Chair of the National College for School Leadership.

Wolfhart Hauser (56) b
Chief Executive Officer
Appointed to the Board as a Non-Executive Director in November 2002. He became Joint Chief Executive Officer of the Group on 1 March 2005 and Chief Executive Officer on 31 March 2005. He started his career as a scientist in pharmacology and ergonomics. He then joined the service industry establishing and leading a broad range of successful international service businesses over the past 24 years. For 10 years he was Chief Executive Officer of TÜV Product Service growing the testing and certification business to a leading international position. From 1998 to 2002 he was Chief Executive Officer and President of TÜV Süddeutschland AG the largest testing, inspection and certification company in Germany.

Richard Nelson (63) e
Non-Executive Deputy Chairman
Appointed Chief Executive Officer of the Group upon acquisition from Inchcape plc in 1996, stepping down on 31 March 2005, and appointed Non-Executive Deputy Chairman on 8 April 2005. Prior to the acquisition, he was President and Chief Executive Officer of Inchcape Testing Services Ltd from 1987. Before that he was Chief Executive Officer of Transcontinental Services Ltd which was bought by Inchcape plc in 1985. He is also Chairman of Wogen plc. He is a Chartered Accountant with a Master of Science degree from the London Business School.

d e f g

Bill Spencer (46) a
Chief Financial Officer
Appointed to the Board as a Director in 1996*. He has been Chief Financial Officer of the Group since its acquisition from Inchcape plc in 1996. Prior to the acquisition he was Finance Director of Inchcape Testing Services Ltd after serving as Chief Financial Officer of Caleb Brett for Europe, Middle East and Asia since 1992. Previously he had worked for Olivetti UK Ltd, Rexam PLC and Centrica plc in various financial positions. He has a Bachelor of Science degree in Management Sciences and is a Fellow of the Chartered Institute of Management Accountants and a member of the Association of Corporate Treasurers.

David Allvey (60) f
The Senior Independent Non-Executive Director [1,4,5]
Appointed to the Board as a Non-Executive Director in May 2001*. He started his career in civil engineering and then qualified as a Chartered Accountant and has worked in retailing, financial services, cosmetics, paper, pulp and plastics for major international businesses. He was the Group Finance Director for BAT Industries and Barclays Bank plc and was Chief Operating Officer for Zurich Financial Services.
He is currently a Non-Executive Director of Resolution Group Plc, Costain Group plc, William Hill plc and MyTravel Group Plc. He was a Board member of the UK Accounting Standards Board for 10 years until 2004.

Debra Rade (52) g
Non-Executive Director
Appointed to the Board as a Non-Executive Director on 1 January 2006. Between 1987 and 2002, she worked for Underwriters Laboratories Inc., a provider of product safety testing and certification and held various positions there, becoming in 2001, Senior Vice President – External Affairs and Chief Administrative Officer. She is currently a Partner in Katten Muchin Rosenmann LLP, a major national US law firm.

Raymond Kong (58) c
Executive President China and Asia and CEO Labtest
Appointed to the Board as a Director in May 2004. He has been a member of the Executive Management Team since January 1998. Based in Hong Kong, he is Executive Vice President of China and Asia and Chief Executive of Labtest. He was one of the founders of the Labtest division and has been with Intertek for over 30 years. He was responsible for creating the global Labtest network and service diversification. He also serves on a number of advisory committees for The Government of The Hong Kong Special Administrative Region.

* Appointed to the Board of Intertek Testing Services Ltd which was the previous parent Company prior to the Group reorganisation and appointed to the Board of Intertek Group plc in April/May 2002.

Directors' Report

The Directors of Intertek Group plc have the pleasure in presenting their Annual Report and the audited financial statements (Annual Report) for the year ended 31 December 2005.

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 Performance Review. This includes, where appropriate, details of financial instruments, financial risk management, significant events since year end, as well as any research and development activities.

Dividends

During the year, the Group paid total dividends of 10.9p per share (2004: 9.3p), comprising the final dividend for 2004 of 7.0p per share and the interim dividend for 2005 of 3.9p per share. The Directors now propose a final dividend of 8.1p per share (2004: 7.0p) making a full year dividend of 12.0p per share (2004: 10.4p), an increase of 15.4% over last year. The final dividend, which is subject to shareholder approval, will be paid on 16 June 2006, to shareholders on the Register at 2 June 2006.

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 18 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 12 May 2006.

Directors

The Directors of the Company who served during the year are set out below. In addition, D Rade was appointed on 1 January 2006. Short biographies are set out on pages 22 and 23.

VE Treves	Chairman
RC Nelson	Non-Executive Deputy Chairman
WG Hauser	Chief Executive Officer
R Kong	Executive President China and Asia and CEO Labtest
W Spencer	Chief Financial Officer
DP Allvey	Senior Independent Non-Executive Director
RE Sayers	Non-Executive Director (until 25 November 2005)
D Rade	Non-Executive Director (appointed 1 January 2006)

On 1 March 2005, WG Hauser was appointed joint Chief Executive Officer. On 31 March 2005, RC Nelson ceased to be joint Chief Executive Officer, remaining an Executive Director until 8 April 2005 when he became Non-Executive Deputy Chairman. As reported earlier, sadly RE Sayers died on 25 November 2005.

D Rade has been appointed since the last Annual General Meeting and therefore offers herself for election. WG Hauser retires by rotation and, being eligible, offers himself for re-election at the forthcoming Annual General Meeting.

Other than employment contracts, none of the Directors of the Company had a material interest in any contract with the Company or its subsidiary undertakings, other than WG 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.

Directors' indemnities

The Companies (Audit, Investigations and Community Enterprise) Act 2004, which came into force on 6 April 2005, changes the provisions of section 310 of the Companies Act 1985, and gives companies the power to extend indemnities to Directors against liability to third parties (excluding criminal and regulatory penalties) and also to pay Directors' legal costs in advance, provided that these are reimbursed to the Company should the individual Director be convicted or, in an action brought by the Company, where judgment is given against the Director. The Company currently has a Directors' and Officers' Insurance policy in place, which provides this cover.

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 share 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 2006, the Company has been notified in accordance with sections 198 to 210 of the Companies Act 1985, or is otherwise aware by way of its brokers, that the following were interested in 3% or more of the Company's ordinary share capital:

	Number of shares	Percentage notified
Insight (including HBOS notifiable holding)	11,822,013	7.61%
FMR Corp/Fidelity International Ltd	10,718,970	6.90%
Lazard Asset Management	6,881,140	4.48%
Prudential PLC	6,142,025	3.96%
Axa S.A.	5,496,347	3.54%
Legal & General Investments	5,401,647	3.50%

Save for the above, no other person has reported or is known to have 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 34 to 37 of this Annual Report.

Financial instruments

Information in respect of financial instruments is set out in note 26 to the financial statements and also in the Performance Review.

Charitable and political donations

The Group made a donation of US$ 250,000 to the Tsunami Disaster Appeal fund in January 2005 (2004: £nil).

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 in respect of the Annual Report and the financial statements

The Directors are responsible for preparing the Annual Report and the Group and parent Company financial statements, in accordance with applicable law and regulations.

Company law requires the Directors to prepare Group and parent Company financial statements for each financial year. Under that law the Directors are required to prepare the Group financial statements in accordance with IFRSs as adopted by the EU and have elected to prepare the parent Company financial statements in accordance with UK Accounting Standards.

The Group financial statements are required by law and IFRSs as adopted by the EU to present fairly the financial position and performance of the group; the Companies Act 1985 provides in relation to such financial statements that references in the relevant part of that Act to financial statements giving a true and fair view are references to their achieving a fair presentation.

The parent Company financial statements are required by law to give a true and fair view of the state of affairs of the parent Company. In preparing each of the Group and parent Company financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- for the Group financial statements, state whether they have been prepared in accordance with IFRSs as adopted by the EU;
- for the parent Company financial statements, state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the parent Company financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the parent Company will continue in business.

The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its 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.

Under applicable law and regulations, the Directors are also responsible for preparing a Directors' Report, Directors' Remuneration Report and Corporate Governance Statement that comply with that law and those regulations.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Annual General Meeting

The Notice of the Annual General Meeting to be held on Friday 12 May 2006, is enclosed with this Annual Report. The Notice details the business to be conducted at the meeting.

By order of the Board

F Evans
Group Company Secretary
6 March 2006
Registered Office
25 Savile Row
London W1S 2ES

Registered Number: 4267576

Remuneration Report

This report sets out the Group's policy and disclosures in relation to Directors' remuneration for the year ended 31 December 2005 and, as required by schedule 7A to the Companies Act 1985, The Directors' Remuneration Report Regulations 2002 (the Regulations), will be subject to shareholder vote at the forthcoming Annual General Meeting (AGM). The report fully complies with the requirements of the Regulations and the Combined Code (the 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 six times during 2005.

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

DP Allvey (Chairman)
RE Sayers (until 25 November 2005)
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), remuneration consultants, in relation to remuneration matters and on share incentive arrangements. New Bridge Street do not 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 principal objective is to attract, retain, motivate and reward high calibre individuals to ensure the future success of the business and to deliver both short and long-term shareholder value. The objective is to maintain 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. For overseas executives, the objective is to provide a competitive package that is commensurate with comparable packages paid to employees of other overseas organisations doing a similar sized job in that region.

Through use of bonus incentives, the policy provides the opportunity to earn upper quartile remuneration in return for exceptional performance; median remuneration in return for median performance; whilst poor performance will result in remuneration significantly below the pay comparator group median. This strong alignment with performance is demonstrably in the interests of shareholders and provides the senior executives with unambiguous signals about the importance of delivering success to the Company's shareholders in both the short and long-term.

The Company anticipates that its policy for 2006 and for the foreseeable future will remain the same.

Executive Directors

Base salary

The base salary is set by the Remuneration Committee and is targeted at the market median and annual increases are linked to:

- Annual market movement
- Demonstrable efforts and results in team building and leadership; and
- Demonstrable efforts and results in contributing to the building of Intertek Group efficiency, synergy and strategy.

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. All Executive Directors and senior executives' bonus criteria contain Group performance elements. This typically accounts for between 20% and 90% of the total bonus achievable, although for Executive Vice Presidents, it is proposed to increase the Group performance element to 25% in 2006 and 30% in 2007. During 2005, the Group performance bonus targets focused on increasing Group Earnings per Share (EPS), operating profit growth, operating cash flow as a percentage of operating profit and return on tangible business assets, as compared to the previous year. In conjunction with the introduction of the Intertek Deferred Bonus Plan (the Plan), the maximum annual cash bonus potential of the Executive Directors decreased from 70% to 50% of salary in the case of the Chief Executive and from 50% to 40% of salary in the case of the two remaining Executive Directors. These amounts include a modest discretionary element, payable in appropriate circumstances, subject to Committee approval.

The Group bonus for all Executive Directors and senior management is apportioned as follows:

Measure	Notes	Percentage of group bonus
EPS	1	50%
Operating profit growth	2	25%
Operating cash flow/operating profit		15%
Return on tangible business assets	3	10%
Total		**100%**

For the Executive Directors, the total percentage bonus is split as follows:

	WG Hauser	W Spencer	R Kong
Group bonus	90%	90%	20%
Divisional bonus	–	–	70%
Discretionary	10%	10%	10%
Total	**100%**	**100%**	**100%**

The Divisional bonus for R Kong is apportioned as follows:

Measure	Notes	Percentage of divisional bonus
Labtest profit growth	2	60%
Labtest operating profit margin		12%
Labtest operating cash flow/ operating profit		16%
Return on tangible business assets	3	12%
Total		**100%**

1 Basic earnings per share.

2 Operating profit excluding amortisation of intangible assets and goodwill impairment, translated at constant exchange rates.

3 Return on operating assets excluding goodwill (based on Labtest division for R Kong).

All targets are established and approved by the Committee and the bonus paid is dependant on the achievement of appropriate thresholds for each relevant measure. Based on the above measures, for 2005 bonuses of 27.3%, 21.9% and 10.4% of salary were accrued for WG Hauser, W Spencer and R Kong, respectively. Bonuses are not pensionable.

Pensions

WG Hauser has a personal pension arrangement, to which the Company contributes 20% of his base salary. RC Nelson also had a private pension arrangement, to which the Company ceased making contributions on 8 April 2005. Contributions for WG Hauser and RC Nelson were within Inland Revenue 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 30 to 32 for more information.

Non-Executive Directors

The Board determines the remuneration of the Non-Executive Directors of the Company. Following a review by New Bridge Street, fees increased during the year, as disclosed in the notes to the Directors' remuneration summary on page 29. 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, and RC Nelson, for whom the Group maintains a life insurance policy, 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

RC Nelson ceased to be Chief Executive Officer on 31 March 2005. WG Hauser was appointed Chief Executive Officer with effect from 1 March 2005 and has a service contract from that date, whilst W Spencer has a service contract dated 24 May 2002. 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 and bonus over a 12-month period, and benefits in lieu of notice. None of the Directors' service contracts contain provisions regarding a change of control.

Non-Executive Directors

RC Nelson was appointed Non-Executive Deputy Chairman, effective 8 April 2005 and a further Non-Executive Director, D Rade, was appointed on 1 January 2006. 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. WG Hauser had a consultancy agreement with the Company until 1 March 2005, the details of which are disclosed in note 28 to the financial statements.

Policy on external appointments

The Company recognises that, during their employment with the Company, Executive Directors may be invited to become Non-Executive Directors of other companies and that such duties can broaden their experience and knowledge. Executive Directors may, with written consent of the Company, accept one such appointment outside the Company. WG Hauser is Chairman of an advisory consultancy board of Dragenopharm GmbH & Co KG.

Share incentives

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 were granted by either the Board or the Employee Share Ownership Trust on the recommendation of the Remuneration Committee. All awards were discretionary.

During 2005, the Committee undertook 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, 'the Intertek Deferred Bonus Plan' (the Plan). Shareholders approved the adoption of this Plan at the AGM in May 2005. The Plan will operate from 2006 onwards, based on bonuses payable in respect of the financial year ending 31 December 2005.

Remuneration Report
continued

The Deferred Bonus Plan (the Plan)
The Plan has two elements:
- Deferred Shares will be awarded to executives based on their annual bonus out-turn. Executives will therefore be rewarded for the achievement of performance which is directly within their sphere of influence and the Remuneration Committee believes that this will provide a simple and well-targeted form of reward.
- Matching Shares will be awarded to the most senior executives in the Company. Awards of Matching Shares will be linked to awards of Deferred Shares and will vest depending on the Company's relative total shareholder return measured against the FTSE Mid 250, in conjunction with an underlying increase in EPS. This measure of performance is considered relevant to the most senior executives in the Company.

The annual maximum value of Deferred Shares will be the amount of the annual cash bonus to which it is linked or, 50% of basic salary, whichever is the lower. In certain exceptional circumstances, such as recruitment or retention, the Remuneration Committee will have discretion to make an award of Deferred Shares which is not linked to the out-turn of the annual bonus but the same maximum salary limit will apply. For executives who are not members of the Company's Management Board it is intended that in most cases the limit for the first grant of Deferred Shares will be up to 10% of salary, based on the annual bonus out-turn.

The maximum number of Matching Shares which may be awarded to an individual will be up to twice the number of their corresponding Deferred Shares (i.e. a 2:1 match). It is currently intended that this level of Matching Shares will be awarded to members of the Company's Management Board while for other participants the level will be 1:1.

The first awards of Deferred Shares will be made around April 2006, and will be based on bonuses for the year ended 31 December 2005.

In conjunction with the introduction of the Plan 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) has decreased from 70% of salary in the case of the Chief Executive Officer and 50% of salary in the case of the other members of the Management Board, to 50% and 40% respectively.

The Committee also introduced a shareholding retention requirement for the Management Board and other senior executives. They are now expected, within five years, to build up a shareholding in the Company over shares worth at least 100% of base salary for the members of the Management Board and 35% of base salary for other senior executives. To assist in the building of this holding, 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 2002 Plan
Only Executive Directors or employees of the Group were eligible to participate in the 2002 Plan. The exercise price is determined by the average of the closing middle market quotations of an ordinary share in the Company on the five dealing days immediately prior to the date of grant and the options are exercisable between three and ten years after the date of grant, provided the performance condition has been satisfied. The Remuneration Committee will decide whether the performance condition has been met at the appropriate time.

Options have been granted annually, with each tranche equating to approximately 1% of the Company's issued share capital. No individual has been 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 Retail Price Index by 11% per annum over a three year period. For growth rates between 5% and 8%, and 8% and 11%, the percentage of options exercisable is calculated on a sliding scale. 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 grant of options in 2005 did not have a re-testing provision. The above performance criteria were selected to closely link improvement in performance with increase in shareholder value.

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.

No further awards are to be made under the 2002 Plan or the Approved Plan.

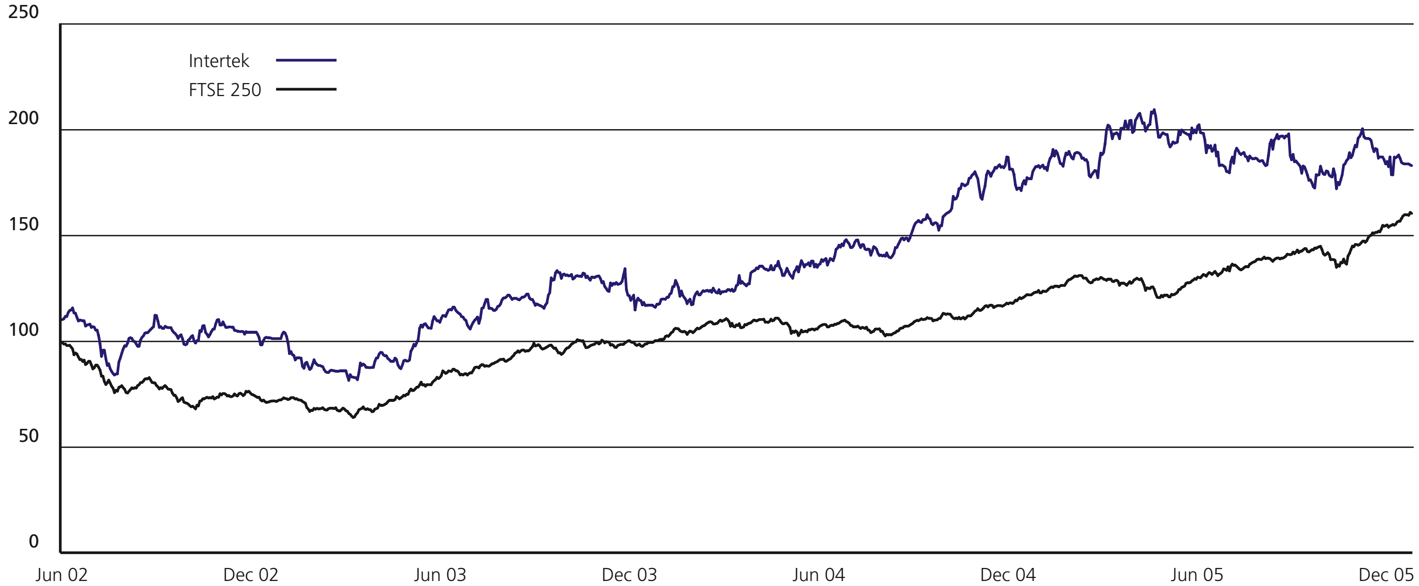
The Committee regularly reviews the appropriateness of the Company's share incentive arrangements and targets to ensure that they remain stretching. It considers that the existing performance conditions and vesting schedules remain appropriate and in line with the Company's current circumstances, business outlook and strategy. In addition, the Committee can confirm that a consistent approach to performance measurement has been adopted, following the implementation of Adopted International Financial Reporting Standards.

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 FTSE Mid 250 index. The FTSE Mid 250 index was selected, as it is a broad market index of which the Company is a member. In addition, the Company uses that group of companies, amongst others, for comparison of pay and benefit levels.



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

The table below summarises Directors' emoluments and pension contributions for 2005 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

		2005						2004		
	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 contribu-tions £000	Total £000
Executive Directors										
WG Hauser	1	337.5	109.2	112.4	**559.1**	66.7	**625.8**	25.0	–	25.0
W Spencer		222.5	50.4	14.6	**287.5**	15.7	**303.2**	309.6	12.2	321.8
R Kong	2	271.0	28.2	46.4	**345.6**	29.3	**374.9**	265.6	18.5	284.1
Non-Executive Directors										
VE Treves		80.0	–	12.7	**92.7**	–	**92.7**	92.5	–	92.5
RC Nelson	3	139.7	–	60.3	**200.0**	44.4	**244.4**	726.0	173.7	899.7
DP Allvey		38.3	–	–	**38.3**	–	**38.3**	30.0	–	30.0
RE Sayers	4	33.8	–	–	**33.8**	–	**33.8**	27.5	–	27.5
Total		**1,122.8**	**187.8**	**246.4**	**1,557.0**	**156.1**	**1,713.1**	1,476.2	204.4	1,680.6

1 In addition to his Director's fees, WG Hauser received £19,700 (2004: £36,700) under a consultancy agreement with the Group, which terminated on 1 March 2005, when he was appointed CEO. Benefits in kind for WG Hauser amounted to £112,407 and are described in more detail on page 30.

2 R Kong is paid in Hong Kong dollars and the figures shown above are translated into sterling using the average exchange rate for each year. Benefits in kind include a housing allowance supplement of £32,100.

3 Benefits in kind for RC Nelson included £50,880 (2004 £50,880) in respect of the life assurance policy described below. Contributions to his private pension arrangement were £44,413 (2004 £173,737). The Company ceased making pension contributions on 8 April 2005.

4 Remuneration reported pro rata until date of death on 25 November 2005.

Remuneration Report
continued

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, WG Hauser received payments for a limited time in respect of relocation, housing allowance and flights for himself and his family, as well as payment in lieu of a company car. 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. There is also a life assurance policy for £1,000,000 on behalf of RC Nelson to be maintained for the whole of his life and payable to his beneficiaries on his death.

Pensions
Details of the Executive Directors' pension arrangements are shown below. In order to ensure that there is no adverse impact on liabilities, the Group plans to make certain modifications to its UK pension schemes as a result of changes in UK pensions' legislation, which take effect from April 2006. The majority of the Group's employees are non-UK and are therefore unaffected. Further details of the Group's pension schemes, including the funding position, are disclosed in note 22 to the financial statements.

WG Hauser
WG Hauser is not a member of a Group company pension scheme. Instead, the Group contributes 20% of his base salary in respect of a personal pension arrangement. During 2005, this amounted to £66,667 (2004: £nil). WG Hauser is entitled to a death in service benefit comprising a lump sum payment equivalent to four times his base salary.

RC Nelson
Until 8 April 2005, the Group made contributions into a private pension arrangement on behalf of RC Nelson. Total contributions were £44,413 (2004: £173,737), contributions being based on 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 £105,600 for 2005/2006 plus 40% of the excess to base salary.

A death in service benefit comprising a lump sum payment equivalent to four times base annual salary, was also provided to RC Nelson until 8 April 2005.

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 during the five years immediately preceding retirement date) for each year of service. Members 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 2.5% 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) 1997 to 2005, excess pension benefits will increase at the rate of the lower of 5% per annum or the increases in Retail Price Index. iii) Post 2005 excess pension benefits will increase at the rate of the lower of 2.5% per annum or the increases in Retail Price Index. iv) Pre 1988 GMP 0% increase. v) Post 1988 GMP 3% or increase in the Retail Price Index, if lower.
Employee contributions	As determined by the Company and the Trustees: currently 8.5% of base salary (excluding incentive payments) up to the earnings cap.
Employer contributions	As determined by the Company and the Trustees: currently 16% 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 2005	Contributions made during the year £	Increase in accrued entitlement during the year[1] £	Accrued entitlement[1] 2005 £	Transfer value[2] 2004 £	Transfer value[2] 2005 £	Increase in transfer value in year £
W Spencer	46	15,732	1,948	25,227	137,191	160,663	23,472

1 The accrued pension entitlement is the amount that would be paid each year on retirement at 65 based on service to 31 December 2005, excluding the effect of inflation. Including inflation, the increase was £2,560 during the year. Transfer values have been calculated in a manner consistent with "Retirement Benefit Schemes – Transfer Values (GN11)" last revised by the Institute of Actuaries and the Faculty of Actuaries on 1 March 2004.

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.

Remuneration Report
continued

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
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.
Early retirement	From age 55 onwards, having completed 25 years of employment and with Company consent.
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: 10.9% of monthly base salary (excluding allowances and incentive payments) from 1 March 2005 and 11.4% prior to that in 2005.
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 thereon) 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 benefit to which R Kong is entitled on leaving service and the changes during the year are shown in the table below. The figures are translated from Hong Kong Dollars into sterling using the exchange rates applicable to each period.

Name	Age at 31 December 2005	Contritbutions made during the year £	Increase in accrued entitlement during the year[1] £	Accrued entitlement[3] 2005 £	Transfer value[4] 2004 £	Transfer value[4] 2005 £	Increase in transfer value in year[2] £
R Kong	58	29,331	244,160	1,296,071	960,465	1,231,247	270,782

1. Includes foreign exchange currency translation difference of £124,873.
2. Includes foreign exchange currency translation difference of £116,713.
3. 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 2005. 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.
4. 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 28 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 opposite:

	31 December 2004[1]	Options granted during 2005		31 December 2005		
	Number of shares	Number of shares	Price £	Number of shares	Date option becomes exercisable	Date option expires
WG Hauser						
Approved Plan	–	3,856	7.78	3,856	April 2008	April 2015
2002 Plan	–	47,558	7.78	47,558	April 2008	April 2015
Total	**–**	**51,414**		**51,414**		
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
2002 Plan	–	29,563	7.78	29,563	April 2008	April 2015
Total	**67,756**	**29,563**		**97,319**		
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
2002 Plan	–	34,829	7.78	34,829	April 2008	April 2015
Total	**120,392**	**34,829**		**155,221**		
RC Nelson[1]						
Approved Plan	6,864	–	4.37	–		
2002 Plan	55,379	–	4.37	–		
2002 Plan	57,939	–	3.59	–		
2002 Plan	53,486	–	5.235	–		
Total	**173,668**	**–**		**–**		

1 RC Nelson exercised all share options on 8 April 2005. At exercise, all 173,668 shares were sold at an average market price of 753.3572p per share.

Grants of options have been phased, so far as possible, over the ten year life of each of the plans. Directors were eligible to exercise share options during 2005. On 30 December 2005, the closing market price of Intertek ordinary shares was 697p. The highest and lowest prices of the shares during the year were 809p and 659p 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 2004	Acquired	Sold	**31 December 2005**
VE Treves	50,000	–	–	**50,000**
DP Allvey	5,270	–	–	**5,270**
R Kong	200,000	–	–	**200,000**
RC Nelson[1]	500,000	173,668	173,668	**500,000**
RE Sayers[2]	1,500	–	–	**1,500**
W Spencer	379,000	–	121,000	**258,000**

1 RC Nelson sold all 173,668 shares at an average market price of 753.3572p per share, following the exercise of share options.
2 Holding as at date of death on 25 November 2005.

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 2005, and the date of this Report.

Approved by the Board on 6 March 2006.

DP Allvey
Chairman, Remuneration Committee

Corporate Governance

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 (the Code). During 2005, the Company complied with almost all the provisions of the Code. Those 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 for shareholders, to lead 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 financial statements (Annual Report) is set out on page 25. All Directors have a wide range of experience, bringing independent judgment 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 nine scheduled Board meetings held in 2005. Outside these, there was frequent contact between Directors to discuss the Company's affairs and develop its business. Directors' attendance at Board meetings is shown in the table on page 35. Also, on more than one occasion, the Chairman met 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, 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 grant approval subject to certain financial limits. Where any of the activities involve amounts greater than the limits laid down for executive management approval they are referred to the 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.

During the year, the Board consisted of the Chairman VE Treves, the Non-Executive Deputy Chairman RC Nelson, the Chief Executive Officer WG Hauser, two Executive Directors, W Spencer and R Kong, and, following the death of RE Sayers on 25 November 2005, one independent Non-Executive Director, DP Allvey, who is also the Senior Independent Director. A further independent Non-Executive Director, D Rade, was appointed on 1 January 2006. The Directors' biographies appear on pages 22 and 23.

Each Director will ensure that if he/she has any concerns which cannot be resolved about the Company or a proposed action, that such concerns are 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 customers and employees. 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 D Rade to be independent Non-Executive Directors. With effect from 1 March 2005, WG Hauser was appointed Chief Executive Officer, whilst RC Nelson was appointed Non-Executive Deputy Chairman on 8 April 2005. Under the provisions of the Code, RC Nelson is not considered to be independent because of his previous service as an executive. However, the Board believes that during the year ended 31 December 2005, RC Nelson continued to bring valuable expertise to the Board through his extensive knowledge of the business and was also instrumental in ensuring a smooth transition during the change in Chief Executive Officer.

D Rade was appointed on 1 January 2006, following a review of the Board's composition, and after consulting with advisors as to suitable candidates. Despite this appointment, the Board, excluding the Chairman, does not meet the requirements of the Code, which requires the Board to comprise at least half independent Non-Executive Directors. However, the Board believes that its current composition, taking into account the overall balance of skills, knowledge and experience, still resulted in an efficient and effective board operation, whilst maintaining an appropriate balance between Executive and Non-Executive Directors.

To enable all the Directors to discharge their duties, they have full and timely access to all relevant information. The Board papers are circulated well 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 and prior performance.

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 information 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 2005, the Board also visited Manchester, UK and Shanghai, China 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 Group's business and get to know its senior management.

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.

During 2004, a performance evaluation process led by the Chairman, was established for each Director, Committee and the Board as a whole. This comprised a series of questionnaires which 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.

This annual evaluation process ensures that the performance of each individual Director and the functioning and constitution of the Board and each Committee are properly measured. 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. These assessments concluded that the performance of the Board, each Committee and each Director was and is effective and that all Directors demonstrate full commitment in their respective roles to the Company. The Board will continue to develop this process as necessary in order to ensure that it can properly review, on an annual basis, 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 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	9(9)	5(5)	1(1)	6(6)
RC Nelson	Non-Executive Deputy Chairman	9(9)	n/a	n/a	n/a
WG Hauser	Chief Executive Officer	9(9)	n/a	n/a	n/a
W Spencer	Chief Financial Officer	9(9)	n/a	n/a	n/a
R Kong	Executive Director	8(9)	n/a	n/a	n/a
DP Allvey	Senior Independent Director	9(9)	5(5)	1(1)	6(6)
RE Sayers	Independent Non-Executive Director	8(8)	4(4)	1(1)	6(6)

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. As reported earlier, sadly RE Sayers, who was a member of all Board Committees, died on 25 November 2005.

The Remuneration Committee

This Committee currently comprises two Non-Executive Directors, DP Allvey (Chairman) and VE Treves. Prior to his death on 25 November 2005, RE Sayers was also a member of the Committee. Under the Code, VE Treves is not viewed as independent as he is Chairman of the Company, therefore the Company was not in full compliance with the Code, which requires the Remuneration Committee to have at least three independent Non-Executive Directors. The composition of this Committee is being reviewed following the death of RE Sayers, however, during 2005, the Remuneration Committee was evaluated and the Board agreed that membership of the Committee was appropriate and effective and also deemed that VE Treves exercised independent judgment 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 2005, the Remuneration Committee met six times.

Corporate Governance
continued

The Nomination Committee
This Committee currently comprises two Non-Executive Directors, VE Treves (Chairman) and DP Allvey. Prior to his death on 25 November 2005, RE Sayers was also a member of the Committee. Under the Code, VE Treves is not viewed as independent as he is Chairman of the Company, therefore after 25 November 2005, the Company was not in full compliance with the Code, which requires a Nomination Committee to have a majority of independent Non-Executive Directors. The composition of this Committee is being reviewed following the death of RE Sayers, however, during 2005, this Committee was evaluated and the Board agreed that membership of the Committee was appropriate and effective and also deemed that VE Treves exercised independent judgment on the issues presented to that Committee.

This Committee, which met once 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 can devote 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 AGM after their appointment and then are subject to re-election by shareholders once every three years.

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

The Audit Committee
This Committee currently comprises two Non-Executive Directors, DP Allvey (Chairman) and VE Treves. Prior to his death on 25 November 2005, RE Sayers was also a member of the Committee. Under the Code, VE Treves is not viewed as independent as he is Chairman of the Company, therefore the Company was not in full compliance with the Code, which requires an Audit Committee to have at least three independent Non-Executive Directors. The composition of this Committee is being reviewed following the death of RE Sayers, however, during 2005, the Audit Committee was evaluated and the Board agreed that membership of the Committee was appropriate and effective and also deemed that VE Treves exercised independent judgment on all issues presented to that Committee. DP Allvey has recent and relevant financial experience as detailed in his biography on page 23.

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 the appointment and termination of the head of that function. The Committee meets with Senior Compliance and Internal Audit members 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. In 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 4 to the financial statements.

The ultimate responsibility for reviewing and approving the Annual Report and the Interim Report remains with the Board. During 2005, the Audit Committee met five times. The Chairman and other Committee members when available, also attend meetings held with the external auditor and management to discuss any accounting issues associated with the full-year audit and half-year review.

Internal Control
Many of Intertek's primary business objectives relate to compliance: we ensure that we conform to local, national and international laws and we require our employees to show integrity and honesty in all business dealings. Risk management and internal controls are therefore embedded in the running of each division, assuring the accuracy and validity of reports and certificates that we provide to customers. Although the Directors are ultimately responsible for establishing and maintaining the Group's system of internal control and for reviewing its effectiveness, 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 is regularly reviewed by the Board, and accords with the Turnbull Guidance. 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 Chief Financial Officer 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 Chief Financial Officer heads a central compliance team, which co-ordinates the quality assurance function 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 Chief Financial Officer. 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 was awarded ISO 9001: 2000 accreditation in 2004, 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 Group will, from time to time, be required by its customers to operate in countries where there is potential political and economic risk. In doing so, the Group maintains a policy of facilitating international trade inspection and audit services that help to prevent corruption and assist with humanitarian aid. Where there are no laws in place that prohibit business dealings in certain countries, the Group will consider operating in those countries, but only in strict accordance with its stringent Code of Ethics and Compliance.

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
Full details are disclosed in the Corporate Social Responsibility Report.

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 Responsibilty
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. Further details are disclosed in the Corporate Social Responsibility Report.

Environmental Matters
Full details are disclosed in the Corporate Social Responsibility Report.

Corporate Social Responsibility Report

Introduction

At Intertek Group plc, we take our duty to behave responsibly in governance and ethics seriously. We will continue to build our corporate social responsibility commitments in the coming years, in addition to fulfilling national and international legal requirements. Our policy can be summarised as follows:

Governance

Intertek is committed to high standards of corporate governance as outlined in the Corporate Governance Report and the Board is accountable to the Company's shareholders for ensuring that principles of good governance are applied.

Ethics

At Intertek, and as individuals, we:

- Value trust and personal responsibility;
- Act with integrity, honesty and respect;
- Deliver excellent services that add value to our customers' business;
- Focus on continual growth and outstanding performance;
- Strive to create a safe work environment;
- Value each employee's contribution toward achieving our business objectives;
- Promote a culture where motivated customer-orientated employees can flourish, experience professional fulfilment and reach their highest potential; and
- Respect diverse perspectives, experiences and traditions as essential.

The foundation of the policy rests with the Group's employees, each of whom must sign a Code of Ethics, as detailed in the Corporate Governance Report.

Our Stakeholders

We aim to be as responsive as possible and to engage with a wide range of stakeholders.

- Shareholders

Communications with shareholders are given a high priority. The Company produces an Annual Report, which is sent to shareholders. 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/investors/subscribeto/ to receive e-mail alerts of important announcements made by the Company.

There is regular dialogue with institutional shareholders. This includes presentations after the Company has published its full year and half year results, as well as on specific issues during 2005, such as the review of share incentives and also on the change in Chief Executive Officer. 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 combine resolutions inappropriately.

- Customers

Intertek is built upon a strong ethos of customer service. Years of experience, detailed knowledge of testing and certification, local legislation, culture and market conditions, comprehensive training programmes and world class laboratories mean that clients receive the most professional service to give them a competitive edge. We conduct internal and external customer care surveys and regular client contact reports. Listening to our customers helps us understand what they expect from us and how we can meet and exceed their expectations.

- Employees

The Group provides equal opportunities for its staff as disclosed in the Directors' Report.

Employees have regular appraisals with their line managers in order to address any concerns and each division has a Human Resources Director who can be contacted in the event of dissatisfaction. There is also an externally managed telephone hotline, which employees can use to anonymously report any matters of concern.

Those employees affected by Hurricane Katrina were given access to counselling and the Group has donated the equivalent of £70,000 to affected employees and their families.

Diversity

Intertek has 15,500 employees in 108 countries and, together with our policy to recruit local people, this diversity is one of our biggest assets. Combined with pursuing practices that are sensitive to the needs and cultures of our staff, diversity allows us to be adaptable and more open to different ways of doing business, in line with local practices and customs.

The Group provides equal opportunities for its entire staff, irrespective of their ethnic or religious background, sex, sexual orientation or disability, as disclosed in the Directors' Report.

Intertek employs only the best people for their role irrespective of gender; nevertheless we are keen to see the ratio of women in senior positions improve and have recently appointed a female Non-Executive Director.

Community

Operating in many regions, we respect the rule of law within these jurisdictions and support appropriate internationally accepted human rights.

- No use of live animals is made in any of the tests carried out by the Group;
- We offer independent Social Compliance Monitoring to our customers through our Labtest division which monitors manufacturers within developing countries, ensuring that work practices and factory conditions are legal, humane and ethical, including ensuring that no enforced or child labour is used. Intertek is also a Social Accountability 8000 certification body, accredited by Social Accountability International in 1999, and was the first external monitor to receive accreditation to the Worldwide Responsible Apparel Production Certification Program (WRAP). Intertek has also been accredited in multiple countries by the Fair Labor Association (FLA) program, Außenhandelsvereinigung des Deutschen Enzelhandels (AVE) program, and the International Council of Toy Industries (ICTI) Code of Business Practices.
- Intertek aims to develop relationships with its suppliers that are based upon mutual trust. It undertakes to pay suppliers on time and according to agreed terms of trade. Our awareness of the importance of prompt payment especially to small businesses is demonstrated by this policy.

Environment

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. Following a review of policy on the audit of environmental risks, the Chief Financial Officer will choose, typically, 10 to 15 sites per annum for review to determine whether procedures are being properly implemented, and to advise on further precautionary measures. The procedure for the disposal of samples is audited to ensure compliance. 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.

Intertek's Head Office was awarded a certificate of achievement for office recycling, saving the equivalent in paper of 46 trees in 2005 and is expanding the range of products able to be recycled for 2006.

Health and Safety

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.

Consolidated income statement

for the year ended 31 December 2005

	Notes	2005 £m	2004 £m
Revenue	2,3	**580.1**	499.6
Cost of sales		**(447.6)**	(385.0)
Gross profit		**132.5**	114.6
Amortisation of intangible assets		**(2.1)**	(1.4)
Impairment of goodwill		**(2.0)**	–
Other administrative expenses		**(45.4)**	(31.6)
Total administrative expenses		**(49.5)**	(33.0)
Group operating profit	3	**83.0**	81.6
Finance income	6	**3.5**	4.2
Finance expense	6	**(9.4)**	(12.1)
Net financing costs		**(5.9)**	(7.9)
Share of profit of associates		**0.7**	0.7
Profit on sale of interest in associate	11	**1.6**	–
Profit before taxation		**79.4**	74.4
Income tax expense	7	**(18.7)**	(19.6)
Profit for the year		**60.7**	54.8
Attributable to:			
Equity holders of the Company		**57.1**	52.0
Minority interest		**3.6**	2.8
Profit for the year		**60.7**	54.8
Earnings per share	8		
Basic		**36.8p**	33.7p
Diluted		**36.5p**	33.4p

Consolidated balance sheet
As at 31 December 2005

	Notes	2005 £m	2004 £m
Assets			
Property, plant and equipment	9	**115.9**	88.5
Goodwill	10	**55.7**	33.5
Other intangible assets	10	**12.8**	3.5
Investments in associates	11	**0.7**	1.8
Deferred tax assets	12	**14.4**	5.5
Total non–current assets		**199.5**	132.8
Inventories	13	**3.1**	1.5
Trade and other receivables	14	**146.3**	109.8
Derivative financial instruments	26	**1.7**	–
Cash and cash equivalents		**50.8**	52.5
Total current assets		**201.9**	163.8
Total assets		**401.4**	296.6
Liabilities			
Interest bearing loans and borrowings	15	**(15.3)**	(14.0)
Current taxes payable		**(25.8)**	(19.5)
Trade and other payables	16	**(93.9)**	(75.9)
Provisions	17	**(8.9)**	(5.4)
Total current liabilities		**(143.9)**	(114.8)
Interest bearing loans and borrowings	15	**(175.4)**	(150.9)
Deferred tax liabilities	12	**(3.4)**	(0.6)
Net pension liabilities	22	**(17.8)**	(16.1)
Other payables	16	**(1.2)**	(0.5)
Total non-current liabilities		**(197.8)**	(168.1)
Total liabilities		**(341.7)**	(282.9)
Net assets		**59.7**	13.7
Equity			
Share capital	18	**1.6**	1.5
Share premium account	19	**238.2**	234.5
Other reserves	19	**13.4**	13.5
Retained earnings	19	**(201.3)**	(241.5)
Total equity attributable to equity holders of the Company		**51.9**	8.0
Minority interest	20	**7.8**	5.7
Total equity		**59.7**	13.7

The financial statements on pages 40 to 73 were approved by the Board on 6 March 2006 and were signed on its behalf by:

Wolfhart Hauser
Director

Bill Spencer
Director

Consolidated statement of cash flows
For the year ended 31 December 2005

	Notes	2005 £m	2004 £m
Operating activities			
Profit for the year	3	**60.7**	54.8
Adjustments for:			
Depreciation charge	9	**22.0**	18.4
Amortisation of intangibles	10	**2.1**	1.4
Impairment of goodwill	10	**2.0**	–
Share option expense	22	**1.9**	1.0
Share of profit of associates	11	**(0.7)**	(0.7)
Profit on sale of interest in associate	11	**(1.6)**	–
Net financing costs	6	**5.9**	7.9
Income tax expense	7	**18.7**	19.6
Loss on disposal of fixed assets	4	**0.1**	0.2
Operating profit before changes in working capital and provisions		**111.1**	102.6
Decrease/(increase) in inventories		**0.1**	(0.8)
Increase in trade and other receivables		**(23.7)**	(8.9)
Increase in trade and other payables		**5.9**	11.7
Increase/(decrease) in provisions		**3.3**	(2.7)
Cash generated from operations		**96.7**	101.9
Interest paid		**(6.5)**	(6.9)
Income taxes paid		**(17.8)**	(16.0)
Cash flows from operating activities		**72.4**	79.0
Investing activities			
Proceeds from sale of property, plant and equipment		**0.3**	0.2
Proceeds from disposal of interest in associate	11	**2.7**	–
Proceeds from disposal of own shares by ESOT	19	**0.4**	–
Interest received		**0.6**	1.6
Dividends received from associated undertakings	11	**0.8**	0.8
Acquisition of subsidiaries, net of cash acquired	24	**(44.5)**	(26.6)
Acquisition of property, plant and equipment	9	**(31.3)**	(28.2)
Cash flows from investing activities		**(71.0)**	(52.2)
Financing activities			
Proceeds from the issue of share capital	19	**3.8**	1.1
Drawdown of debt		**62.8**	165.7
Repayment of debt		**(53.1)**	(202.0)
Dividends paid to minorities	20	**(2.9)**	(4.1)
Dividends paid	19	**(16.9)**	(14.4)
Cash flows from financing activities		**(6.3)**	(53.7)
Net decrease in cash and cash equivalents		**(4.9)**	(26.9)
Cash and cash equivalents at 1 January		**52.5**	81.5
Effect of exchange rate fluctuations on cash held	23	**3.2**	(2.1)
Cash and cash equivalents at 31 December		**50.8**	52.5

Consolidated statement of recognised income and expense

For the year ended 31 December 2005

	Notes	2005 £m	2004 £m
Foreign exchange translation differences	19	**(1.7)**	7.1
Actuarial gains and losses on defined benefit pension schemes	22	**(3.7)**	(9.0)
Tax on income and expenses recognised directly in equity	19	**1.4**	2.8
Effective portion of changes in fair value of cash flow hedges	19	**2.6**	–
Net (expense)/income recognised directly in equity		**(1.4)**	0.9
Profit for the year		**60.7**	54.8
Total recognised income and expense for the year		**59.3**	55.7
Effect of change in accounting policy:			
Effect of adoption of IAS 32 and 39, net of tax, on 1 January 2005 (with 2004 not restated) on:			
Hedging reserve		**(1.0)**	–
		58.3	55.7

	2005 £m	2004 £m
Total recognised income and expense for the year attributable to:		
Equity holders of the Company	**55.7**	52.9
Minority interest	**3.6**	2.8
Total recognised income and expense	**59.3**	55.7

Notes to the financial statements

1 General

Intertek Group plc is a company incorporated in the UK. The Group financial statements consolidate those of the Company and its subsidiaries (together referred to as the Group) and equity account the Group's interest in associates. The parent company financial statements present information about the Company as a separate entity and not about its Group.

2 Significant accounting policies

(a) Statement of compliance

The Group financial statements have been prepared and approved by the Directors in accordance with International Financial Reporting Standards as adopted by the EU (Adopted IFRSs). The Company has elected to prepare its parent company financial statements in accordance with UK GAAP; these are presented on pages 72 to 73.

(b) Basis of preparation

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements and in preparing an opening IFRS balance sheet at 1 January 2004, for the purposes of the transition to Adopted IFRSs. The principal exception is that, as more fully explained below, financial instruments accounting is determined on different bases in 2005 and 2004 due to the transitional provisions of IAS 32 and IAS 39.

Judgments made by the Directors in the application of these accounting policies that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note (v) below.

Transition to Adopted IFRSs

The Group is preparing its financial statements in accordance with Adopted IFRSs for the first time and consequently has applied IFRS 1. An explanation of how the transition to Adopted IFRSs has affected the reported financial position and financial performance of the Group is provided in note 29.

In addition to exempting companies from the requirements to restate comparatives for IAS 32 and IAS 39, IFRS 1 grants certain exemptions from the full requirements of Adopted IFRSs in the transition period. The following exemptions have been taken in these financial statements:

- Business combinations that took place prior to 1 January 2004, have not been restated.

- Cumulative translation differences for all foreign operations have been set to zero at 1 January 2004.

The impact of the first time adoption of IAS 32 and IAS 39 on 1 January 2005, is set out in the Consolidated statement of recognised income and expense and in note 29.

Measurement convention

The financial statements are prepared on the historical cost basis except that the following assets and liabilities are stated at their fair value: derivative financial instruments and financial instruments classified as fair value through the income statement. Non-current assets are stated at the lower of previous carrying amount and fair value less costs to sell.

(c) Basis of consolidation

Subsidiaries

Subsidiaries are those entities controlled by the Group. Control exists when the Group has the power, directly or indirectly to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable or convertible are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Associates

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. The consolidated financial statements include the Group's share of the total recognised income and expense of associates on an equity accounted basis, from the date that significant influence commences until the date that significant influence ceases. When the Group's share of losses exceeds its interest in an associate, the Group's carrying amount is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of an associate. The Group does not consider the associate to be an integral part of the Group's operations and therefore its results are presented outside of the Group operating profit.

Transactions eliminated on consolidation

Intra group balances and transactions, and any unrealised gains and losses or income and expenses arising from intra group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with associates are eliminated to the extent of the Group's interest in the entity. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

(d) Foreign currency

Foreign currency transactions

Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated at foreign exchange rates ruling at the dates the fair values were determined.

Financial statements of foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on consolidation, are translated to sterling at foreign exchange rates ruling at the balance sheet date. The revenues and expenses of foreign operations are translated into sterling at average rates of exchange during the year. Foreign exchange differences arising on translation are recognised directly in equity in a translation reserve.

Exchange differences arising from the translation of foreign operations, and of related qualifying hedges are taken directly to the translation reserve. They are released into the income statement upon disposal. The Group has taken advantage of relief available in IFRS 1, to deem the cumulative translation differences for all foreign operations to be zero at the date of transition to IFRS on 1 January 2004.

Prior to 1 January 2004, exchange differences arising from the translation of foreign operations were recognised in retained earnings.

(e) Derivative financial instruments

The Group uses derivative financial instruments to economically hedge its exposure to foreign exchange and interest rate risks arising from operational, financing and investment activities. In accordance with its treasury policy, the Group does not hold or issue derivative financial instruments for trading purposes.

The accounting policy up to 1 January 2005, was as follows:

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 immediately.

The accounting policy from 1 January 2005, is as follows:

Derivative financial instruments are recognised initially at fair value. Subsequent to initial recognition, derivative financial instruments are stated at fair value. The gain or loss on re-measurement to fair value is recognised immediately in the income statement. However, where derivatives qualify for hedge accounting, recognition of any resultant gain or loss depends on the nature of the item being hedged (see accounting policy (f)). Derivatives that do not qualify for hedge accounting are accounted for as trading instruments.

The fair value of interest rate swaps is the estimated amount that the Group would receive or pay to terminate the swap at the balance sheet date, taking into account current interest rates and the current creditworthiness of the swap counterparties. The fair value of forward exchange contracts is their quoted market price at the balance sheet date, being the present value of the difference between the quoted forward price and the exercise price of the contract.

(f) Hedging

Cash flow hedges

Where a derivative financial instrument is designated as a hedge of the variability in cash flows of a recognised asset or liability, or a highly probable forecasted transaction, the effective part of any gain or loss on the derivative financial instrument is recognised directly in the hedging reserve. The ineffective part of any gain or loss on the derivative financial instrument is recognised in the income statement.

When a hedging instrument expires or is sold, terminated or exercised, or the entity revokes designation of the hedge relationship but the hedged transaction is still expected to occur, the cumulative gain or loss at that point remains in equity and is recognised in accordance with the above policy when the transaction occurs. If the hedged transaction is no longer expected to take place, the cumulative unrealised gain or loss recognised in equity is recognised in the income statement immediately.

Hedge of monetary assets and liabilities

Where a derivative financial instrument is used economically to hedge the foreign exchange exposure of a recognised monetary asset or liability, no hedge accounting is applied and any gain or loss on the hedging instrument is recognised in the income statement.

Hedge of net investment in a foreign operation

The portion of the gain or loss on an instrument used to hedge a net investment in a foreign operation that is determined to be an effective hedge is recognised directly in equity in a translation reserve. The ineffective portion is recognised immediately in the income statement.

(g) Property, plant and equipment

Owned assets

Items of property, plant and equipment are stated at cost or deemed cost less accumulated depreciation (see below) and impairment losses (see accounting policy (l)).

Leased assets

Leases in terms of which the Group assumes substantially all the risks and rewards of ownership, are classified as finance leases. Where land and buildings are held under finance leases, the accounting treatment of the land is considered separately from that of the buildings. Leased assets acquired by way of finance leases are stated at an amount equal to the lower of their fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation and impairment losses.

Depreciation

Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of items of property, plant and equipment. Land is not depreciated. The estimated useful lives are as follows:

Freehold buildings and long leasehold land and buildings	50 years
Short leasehold land and buildings	Term of lease
Plant and equipment	3 – 10 years

Depreciation methods, residual values and the useful lives of all assets are re-assessed annually.

(h) Intangible assets

Goodwill

All business combinations are accounted for by applying the purchase method. In respect of business acquisitions that have occurred since 1 January 2004, goodwill represents amounts arising on acquisition of subsidiaries and associates, being the difference between the cost of acquisition and the fair value of the net identifiable assets acquired. Goodwill is stated at cost less any accumulated impairment losses (see accounting policy (l)). Goodwill is allocated to cash generating units (CGUs) and is not amortised but is tested annually for impairment. In respect of associates, the carrying amount of goodwill is included in the carrying amount of the investment in associate.

In respect of acquisitions prior to 1 January 2004, goodwill is included at 1 January 2004, on the basis of its deemed cost, which represents the amount recorded under UK GAAP which was broadly comparable save that only separable intangibles were recognised and goodwill was amortised. On transition, certain items recognised as other intangibles under Adopted IFRSs (but not all such items) have been separately accounted for with appropriate adjustments against goodwill and amortisation of goodwill has ceased as required by IFRS 1.

Negative goodwill arising on an acquisition is recognised in the income statement.

Notes to the financial statements
continued

Purchased goodwill in respect of acquisitions before 1 January 1998, was written off to reserves in the year of acquisition, in accordance with the accounting standard then in force.

Fair value adjustments are made in respect of acquisitions. If at the balance sheet date the amounts of fair values of the acquiree's identifiable assets and liabilities can only be established provisionally then these values are used. Any adjustments to these values made within 12 months of the acquisition date are taken as adjustments to goodwill.

Other intangible assets
Intangible assets other than goodwill that are acquired by the Group are stated at cost less accumulated amortisation and impairment losses.

Amortisation is charged to the income statement on a straight-line basis over the estimated useful lives of other intangible assets from the date they are available for use. The estimated useful lives are as follows:

Customer relationships	Up to 10 years
Know how	Up to 5 years
Licenses	Contractual life
Covenants not to compete	Contractual life

(i) Trade and other receivables
Trade and other receivables are stated at their cost less impairment losses (see accounting policy (l)).

(j) Inventories
Inventories are stated at the lower of cost and net realisable value. Cost comprises expenditure incurred in the normal course of business in bringing inventories to their present condition and location and net realisable value is the estimated selling price in the ordinary course of business, less the estimated selling costs.

(k) Cash and cash equivalents
Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

(l) Impairment
The carrying amount of the Group's assets other than inventories and deferred tax assets, are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the assets recoverable amount is estimated.

An impairment loss is recognised whenever the carrying amount of an asset or its cash generating unit exceeds its recoverable amount. Impairment losses are recognised in the income statement.

Impairment losses recognised in respect of cash generating units are allocated first to reduce the carrying amount of any goodwill allocated to cash generating units and then to reduce the carrying amount of the other assets in the unit on a pro-rata basis. A cash generating unit is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

Goodwill was tested for impairment at 1 January 2004, the date of transition to Adopted IFRSs even though no indication of impairment existed.

Calculation of recoverable amount
The recoverable amount is the greater of the asset's net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash generating unit to which the asset belongs. Receivables with a short duration are not discounted.

Reversal of impairment
An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised. An impairment loss in respect of goodwill is not reversed. In respect of other assets, an impairment loss is reversed when there is an indication that the impairment loss may no longer exist and there has been a change in the estimates used to determine the recoverable amount.

(m) Dividends
Dividends are reported as a movement in equity in the period in which they are approved by the shareholders.

(n) Interest-bearing borrowings
The accounting policy up to 1 January 2005, was as follows:
Loans and borrowings are initially recognised at face value less directly attributable costs. The finance costs of the debt are allocated to periods over the term of the debt at a constant rate on the carrying amount. All finance costs are charged to the income statement.

The accounting policy from 1 January 2005, is as follows:
Interest-bearing borrowings are initially recognised at fair value, less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the income statement over the period of the borrowings on an effective interest basis.

(o) Employee benefits
Defined contribution plan
Obligations for contributions to defined contribution pension plans are recognised as an expense in the income statement as incurred.

Defined benefit plans
The Group's net obligation in respect of significant defined benefit pension plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine the present value, and the fair value of any plan assets (at bid values) is deducted. The discount rate is the yield at the balance sheet date on high quality corporate bonds that have maturity dates approximating to the terms of the Group's obligations. The calculation is performed by a qualified actuary using the attained age method for closed schemes and projected unit credit method for open schemes. 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.

The increase in the present value of the liabilities expected to arise from the employees' services in the accounting period is charged to the income statement. The expected return on the schemes' assets and the interest on the present value of the schemes' liabilities during the accounting period are shown as finance income and finance expense respectively. Actuarial gains and losses are recognised in the Consolidated statement of recognised income and expense.

The amendments in revised IAS 19 have been applied from 1 January 2005.

Share based payment transactions

The share option programme allows Group employees to acquire shares of the company. The fair value of options is recognised as an expense with a corresponding increase in equity. The fair value is measured at grant date and spread over the period during which the employee becomes unconditionally entitled to the options. The fair value of the options granted is measured using the Black-Scholes model. The amount recognised as an expense is adjusted to reflect the actual number of share options that vest except where forfeiture is only due to share prices not achieving the threshold for vesting.

The Group has taken advantage of the provisions of IFRS 1: First-time Adoption of International Financial Reporting Standards and has recognised an expense only in respect of share options granted since 7 November 2002.

Own shares held by ESOT trust

Transactions of the Group sponsored ESOT trust are included in the Group financial statements. In particular, the trust's purchase of shares in the Company are debited directly to equity.

(p) Provisions

A provision is recognised in the balance sheet when the Group has a present legal or constructive obligation as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation.

(q) Trade and other payables

Trade and other payables are stated at their cost.

(r) Revenue

Revenue represents the total amount receivable for services rendered or goods sold, excluding sales related taxes and intra group transactions. Revenue from services rendered is recognised in the income statement when the relevant service is completed or in certain circumstances, in proportion to the stage of completion of the transaction at the balance sheet date.

(s) Expenses

Operating lease payments

Payments made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease. Lease incentives received are recognised in the income statement as an integral part of the total lease expense.

Net financing costs

Net financing costs comprise interest payable on borrowings calculated using the effective interest rate method, amortisation of debt issuance costs, facility fees, interest receivable on funds invested, income and expense relating to pension assets and liabilities and gains and losses on hedging instruments that are recognised in the income statement (see accounting policy (f)). Interest income is recognised in the income statement as it accrues using the effective interest method. The interest expense component of finance lease payments is recognised in the income statement using the effective interest rate method.

(t) Income tax

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly to equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: initial recognition of goodwill, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit, overseas retained earnings the distribution of which is under the control of the Group and which are not likely to be distributed in the foreseeable future, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Any additional income taxes that arise from the distribution of dividends are recognised at the same time as the liability to pay the related dividend.

(u) Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing services (business segment) or in providing services within a particular economic environment (geographic segment), which is subject to risks and rewards that are different from those of other segments.

(v) Significant accounting judgments and estimates

Judgments

In applying the Group's accounting policies described above, management has made the following judgments that have a significant impact on the amounts recognised in the financial statements.

Notes to the financial statements
continued

Claims
Note 17 sets out the provisions made in respect of claims at 31 December 2005 and note 27 explains contingent liabilities in respect of certain litigation. In making provision for claims, the management bases its judgment on the circumstances relating to each specific event, internal and external legal advice, knowledge of the industries and markets, prevailing commercial terms and legal precedents. The Group's legal and warranty claims are reviewed, at a minimum, on a quarterly basis by senior management.

Estimates
The key assumptions concerning the future, and other key sources of estimation at the balance sheet date that have a risk of causing a material adjustment to the carrying amount of assets and liabilities within the next financial year, are discussed below.

Intangible assets
When the Group makes an acquisition, management review the business and assets acquired to determine whether any intangible assets should be recognised separately from goodwill. If such an asset is identified, then it is valued by discounting the probable future cash flows expected to be generated by the asset, over the estimated life of the asset. Where there is uncertainty over the amount of economic benefit and the useful life, this is factored into the calculation. Details of intangible assets are given in note 10.

Impairment of goodwill
The Group determines whether goodwill is impaired at a minimum on an annual basis. This requires an estimation of the value in use of the cash generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash generating unit that holds the goodwill at a determined discount rate to calculate the present value of those cash flows. Note 10 sets out details of impairment in the year.

Recoverability of trade receivables
Trade receivables are reflected net of an estimated provision for doubtful accounts. This provision is based primarily on the Group's ageing policy guidelines and on individual customer analysis.

Employee post retirement benefit obligations
The Group has two principal defined pension benefit plans. The obligations under these plans are recognised in the balance sheet and represent the present value of the obligation calculated by independent actuaries, with input from management. These actuarial valuations include assumptions such as discount rates, return on assets, salary progression and mortality rates. These assumptions vary from time to time according to prevailing economic and social conditions. Details of the assumptions used are provided in note 22.

(w) Adopted IFRSs not yet applied
The following Adopted IFRSs were available for early application but have not been applied by the Group in these financial statements:

IFRS 7: Financial instruments: Disclosure.
This is applicable for years commencing on or after 1 January 2007. The application of IFRS 7 in 2005, would not have affected the balance sheet or income statement as the standard is concerned only with disclosure. The Group plans to adopt it in 2007.

Amendments to IAS 39 and IFRS 4
The Company has not adopted amendments to IAS 39 and IFRS 4 in relation to financial guarantee contracts which will apply for periods commencing on or after 1 January 2006.

Where the Company enters into financial guarantee contracts to guarantee the indebtedness of other Companies within its group, the Company considers these to be insurance arrangements, and accounts for them as such. In this respect, the Company treats the guarantee contract as a contingent liability until such time as it becomes probable that the Company will be required to make a payment under the guarantee.

The Company does not expect the amendments to have any impact on the financial statements for the period commencing 1 January 2006.

Exchange rates
The most significant currencies for the Group were translated at the following exchange rates:

For £1 sterling		Year end rates		Average rates	
		2005	2004	**2005**	2004
USA	Dollar	**1.73**	1.92	**1.82**	1.83
Hong Kong	Dollar	**13.4**	14.9	**14.2**	14.2
China	Renminbi	**13.9**	15.9	**14.9**	15.1
Euro	Euro	**1.45**	1.41	**1.46**	1.48

3 Segment reporting
Segment information is presented in respect of the Group's business and geographical segments. The primary format, business segments, is based on the Group's management and internal reporting structure.

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly borrowings, pension fund liabilities, and corporate expenses and assets.

Business segments
The Group comprises the following main business segments:

Labtest, which tests and inspects consumer goods including textiles, toys, footwear and hardlines.

ETL SEMKO, which tests and certifies commercial and electrical consumer products, telecommunication equipment, building products, automotive components and heating, ventilation and air conditioning equipment.

Caleb Brett, which tests and inspects oil, chemicals and agricultural produce.

FTS, which provides trade services to standards bodies and governments.

Central overheads comprise the costs of the corporate head office and non-operating holding companies and other costs which are not controlled by the operating divisions.

Geographical segments

All the business segments are managed on a worldwide basis but can be divided into the following geographic regions:

Americas
Europe, the Middle East and Africa
Asia

In presenting information on the basis of geographic segments, segment revenue is based on the geographical location of the entity that generated that revenue. Segment assets are based on the geographical location of the assets.

Segment reporting

Business analysis (primary segment)

	Labtest		ETL SEMKO		Caleb Brett		FTS		Central overheads		Eliminations		Consolidated	
	2005 £m	2004 £m	**2005 £m**	2004 £m	**2005 £m**	2004 £m	**2005 £m**	2004 £m	**2005 £m**	2004 £m	**2005 £m**	2004 £m	**2005 £m**	2004 £m
Revenue from external customers	**143.2**	132.3	**144.4**	122.4	**218.0**	177.3	**74.5**	67.6	**–**	–	**–**	–	**580.1**	499.6
Inter-segment revenue	**10.5**	14.3	**10.2**	8.4	**12.1**	9.8	**37.9**	33.2	**–**	–	**(70.7)**	(65.7)	**–**	–
Revenue	**153.7**	146.6	**154.6**	130.8	**230.1**	187.1	**112.4**	100.8	**–**	–	**(70.7)**	(65.7)	**580.1**	499.6
Operating profit before amortisation and impairment	**44.9**	43.5	**22.0**	17.3	**17.9**	15.3	**16.3**	13.8	**(14.0)**	(6.9)	**–**	–	**87.1**	83.0
Amortisation of intangibles	**(0.2)**	–	**(1.2)**	(0.8)	**(0.7)**	(0.6)	**–**	–	**–**	–	**–**	–	**(2.1)**	(1.4)
Impairment of goodwill	**(2.0)**	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**(2.0)**	–
Group operating profit	**42.7**	43.5	**20.8**	16.5	**17.2**	14.7	**16.3**	13.8	**(14.0)**	(6.9)	**–**	–	**83.0**	81.6
Net financing costs													**(5.9)**	(7.9)
Share of profit of associates													**0.7**	0.7
Profit on sale of interest in associate													**1.6**	–
Income tax expense													**(18.7)**	(19.6)
Profit for the year													**60.7**	54.8
Segment assets	**57.9**	45.4	**85.7**	67.0	**158.1**	100.2	**26.6**	20.5	**4.3**	2.5	**–**	–	**332.6**	235.6
Investment in associates													**0.7**	1.8
Unallocated assets													**68.1**	59.2
Total assets													**401.4**	296.6
Segment liabilities	**20.3**	16.0	**27.2**	19.3	**37.3**	26.1	**12.0**	12.4	**6.5**	5.7	**–**	–	**103.3**	79.5
Unallocated liabilities													**238.4**	203.4
Total liabilities													**341.7**	282.9
Depreciation	**5.3**	4.5	**6.9**	6.1	**8.7**	6.7	**1.0**	1.0	**0.1**	0.1	**–**	–	**22.0**	18.4
Capital expenditure	**7.4**	7.7	**9.3**	7.2	**13.0**	10.3	**1.5**	2.9	**0.1**	0.1	**–**	–	**31.3**	28.2

Geographic analysis (secondary segment)

	Americas		Europe, Middle East and Africa		Asia		Consolidated	
	2005 £m	2004 £m	**2005 £m**	2004 £m	**2005 £m**	2004 £m	**2005 £m**	2004 £m
Revenue from external customers	**203.6**	169.0	**186.8**	166.3	**189.7**	164.3	**580.1**	499.6
Segment result	**21.0**	16.6	**2.5**	12.0	**59.5**	53.0	**83.0**	81.6
Amortisation of intangibles	**1.3**	0.8	**0.6**	0.6	**0.2**	–	**2.1**	1.4
Impairment of goodwill	**–**	–	**2.0**	–	**–**	–	**2.0**	–
Segment assets	**141.2**	86.3	**113.3**	96.4	**78.1**	52.9	**332.6**	235.6
Capital expenditure	**10.4**	8.5	**9.3**	9.4	**11.6**	10.3	**31.3**	28.2

Notes to the financial statements
continued

4 Expenses and auditors' remuneration

	2005 £m	2004 £m
Included in profit for the year are the following:		
Auditors' remuneration:		
Group – audit	**1.0**	0.9
Group – non-audit work	**0.3**	0.3
Company – audit	**0.1**	0.1
Property rentals	**19.2**	17.3
Lease and hire charges – plant and equipment	**4.5**	4.4
Depreciation	**22.0**	18.4
Loss on disposal of fixed assets	**0.1**	0.2

The fees of £0.3m (2004: £0.3m) for non-audit work were primarily for tax compliance and the review of the Interim Report.

5 Employees

Employee costs	2005 £m	2004 £m
Wages and salaries	**211.2**	182.0
Equity – settled transactions	**1.9**	1.0
Social security costs	**21.3**	18.4
Pension costs	**9.7**	9.0
Total employee costs	**244.1**	210.4

Details of the remuneration of the Directors are set out in the Remuneration Report. Details of pension arrangements and share based payments are set out in note 22.

Average number of employees by activity	2005	2004
Labtest	**4,565**	4,004
ETL SEMKO	**2,681**	2,146
Caleb Brett	**6,298**	5,551
FTS	**940**	974
Central	**47**	42
Total	**14,531**	12,717

6 Net financing costs

	2005 £m	2004 £m
Finance income		
Interest on bank balances	**0.6**	1.7
Expected return on pension assets (note 22)	**2.8**	2.5
Gain on re-measurement of interest rate swaps to fair value	**0.1**	–
Total finance income	**3.5**	4.2
Finance expense		
Interest on borrowings	**5.7**	6.0
Pension interest cost (note 22)	**3.1**	2.3
Amortisation of debt issuance costs	**–**	0.7
Write off of unamortised debt issuance costs on refinancing	**–**	2.7
Facility fees and other	**0.6**	0.4
Total finance expense	**9.4**	12.1
Net financing costs	**5.9**	7.9

7 Income tax expense

	2005 £m	2004 £m
UK corporation tax at 30% (2004: 30%)	**4.4**	1.2
Double taxation relief	**(4.4)**	(1.2)
UK taxation	**–**	–
Overseas taxation	**22.4**	19.5
Adjustments relating to prior year liabilities	**1.7**	–
Current tax	**24.1**	19.5
Deferred tax – origination and reversal of temporary differences	**(5.4)**	0.1
Total tax in income statement	**18.7**	19.6

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

	2005 £m	2004 £m
Profit before taxation	**79.4**	74.4
Notional tax charge at UK standard rate 30% (2004: 30%)	**23.8**	22.3
Differences in overseas tax rates	**(5.1)**	(4.9)
Tax on dividends	**1.8**	1.2
Non–deductible expenses	**4.5**	4.6
Tax exempt revenues	**(0.8)**	(0.5)
Losses not recognised	**(1.1)**	(1.2)
Accelerated capital allowances and temporary differences	**(5.3)**	(2.3)
Other	**0.9**	0.4
Total tax in income statement	**18.7**	19.6

During the year there was a current tax credit of £0.8m (2004: £nil) and deferred tax credit of £0.6m (2004:£2.8m) credited directly to equity (see notes 12 and 19).

The effective tax rate was 23.6% (2004: 26.3%). The main reason for the reduction in the effective tax rate was the recognition of deferred assets due to improved taxable income in certain jurisdictions. The effective tax rate is expected to be sustainable at close to current year levels for the short to medium-term.

Notes to the financial statements
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8 Earnings per ordinary share

The calculation of earnings per ordinary share is based on profit attributable to equity holders of the Company and the weighted average number of ordinary shares in issue during the year. In addition to the earnings per share required by IAS 33: Earnings per share, an underlying earnings per share has also been calculated and is based on earnings excluding the effect of amortisation of intangibles, and goodwill impairment. It has been calculated to allow shareholders to gain a better 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:	2005 £m	2004 £m
Profit attributable to equity shareholders	**57.1**	52.0
Amortisation of intangibles	**2.1**	1.4
Impairment of goodwill	**2.0**	–
Underlying earnings	**61.2**	53.4

Number of shares (millions):		
Basic weighted average number of shares	**155.1**	154.4
Potentially dilutive share options*	**1.3**	1.1
Diluted weighted average number of shares	**156.4**	155.5

Basic earnings per share	**36.8p**	33.7p
Options	**(0.3)p**	(0.3)p
Diluted earnings per share	**36.5p**	33.4p
Basic underlying earnings per share	**39.5p**	34.6p
Options	**(0.4)p**	(0.3)p
Diluted underlying earnings per share	**39.1p**	34.3p

* The weighted average number of shares used in the calculation of the diluted earnings per share for the year to 31 December 2005, excludes 1,456,156 potential shares (2004: 56,280) as these were not dilutive in accordance with IAS 33: Earnings per share.

9 Property, plant and equipment

	Land and buildings £m	Plant and equipment £m	Total £m
Cost			
At 1 January 2004	10.6	121.2	131.8
Exchange adjustments	–	(7.9)	(7.9)
Additions	1.5	26.7	28.2
Disposals	–	(3.6)	(3.6)
Businesses acquired (note 24)	0.1	5.0	5.1
Businesses sold	–	(0.6)	(0.6)
At 31 December 2004	12.2	140.8	153.0
Depreciation			
At 1 January 2004	1.8	52.2	54.0
Exchange adjustments	–	(4.4)	(4.4)
Charge for the year	0.3	18.1	18.4
Disposals	–	(3.2)	(3.2)
Businesses sold	–	(0.3)	(0.3)
At 31 December 2004	2.1	62.4	64.5
Net book value at 31 December 2004	10.1	78.4	88.5
Net book value at 31 December 2003	8.8	69.0	77.8
Cost			
At 1 January 2005	12.2	140.8	153.0
Exchange adjustments	0.2	14.4	14.6
Additions	0.2	31.1	31.3
Disposals	–	(4.0)	(4.0)
Businesses acquired (note 24)	8.2	3.4	11.6
At 31 December 2005	**20.8**	**185.7**	**206.5**
Depreciation			
At 1 January 2005	2.1	62.4	64.5
Exchange adjustments	–	7.7	7.7
Charge for the year	0.4	21.6	22.0
Disposals	–	(3.6)	(3.6)
At 31 December 2005	**2.5**	**88.1**	**90.6**
Net book value at 31 December 2005	**18.3**	**97.6**	**115.9**

Plant and equipment includes assets in the course of construction at 31 December 2005, of £4.8m (2004: £8.1m). These assets will not be depreciated until they are brought into use.

The net book value of land and buildings comprised:	2005 £m	2004 £m
Freehold	**17.6**	9.4
Long leasehold	**0.7**	0.7
Total	**18.3**	10.1

10 Goodwill and other intangible assets

	Goodwill £m	Customer relationships £m	Know how £m	Licenses £m	Covenants not to compete £m	Other intangibles Total £m
Cost						
At 1 January 2004	26.9	–	–	–	–	–
Exchange adjustments	(1.3)	–	–	–	–	–
Businesses acquired (note 24)	16.8	3.6	0.7	–	0.6	4.9
At 31 December 2004	42.4	3.6	0.7	–	0.6	4.9
Amortisation						
At 1 January 2004	9.1	–	–	–	–	–
Exchange adjustments	(0.2)	–	–	–	–	–
Charged in year	–	1.2	0.1	–	0.1	1.4
At 31 December 2004	8.9	1.2	0.1	–	0.1	1.4
Net book value at 31 December 2004	33.5	2.4	0.6	–	0.5	3.5
Net book value at 31 December 2003	17.8	–	–	–	–	–
Cost						
At 1 January 2005	42.4	3.6	0.7	–	0.6	4.9
Exchange adjustments	2.5	0.6	0.2	–	0.1	0.9
Businesses acquired (note 24)	21.7	5.6	0.9	3.0	1.2	10.7
At 31 December 2005	**66.6**	**9.8**	**1.8**	**3.0**	**1.9**	**16.5**
Amortisation						
At beginning of year	8.9	1.2	0.1	–	0.1	1.4
Exchange adjustments	–	0.2	–	–	–	0.2
Charged in year	–	1.5	0.3	0.1	0.2	2.1
Impairment charge	2.0	–	–	–	–	–
At 31 December 2005	**10.9**	**2.9**	**0.4**	**0.1**	**0.3**	**3.7**
Net book value	**55.7**	**6.9**	**1.4**	**2.9**	**1.6**	**12.8**

An impairment charge of £2.0m was made against the goodwill relating to Fastech, a UK Labtest business acquired in 2003. This was necessitated by lower than expected trading results in the period since acquisition. The goodwill impairment was based on a calculation of the recoverable amount based on value in use, using projected cash flows for the Fastech CGU discounted by a pre-tax rate of 12%. The charge of £2.0m represents the shortfall of the recoverable amount to the carrying value.

Notes to the financial statements
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11 Investment in associates

	2005 £m	2004 £m
Cost		
At beginning of year	**1.5**	0.8
Exchange adjustments	**0.1**	–
Additions	**–**	0.7
Disposals	**(0.7)**	–
At end of year	**0.9**	1.5
Share of post acquisition reserves		
At beginning of year	**0.3**	0.4
Share of net profit for the year	**0.7**	0.7
Dividends received	**(0.8)**	(0.8)
Disposals	**(0.4)**	–
At end of year	**(0.2)**	0.3
Net book value	**0.7**	1.8

During the year, the Group disposed of its 49% interest in DEKRA Intertek Certification GmbH (DEKRA) for £2.7m, resulting in a profit on sale of £1.6m. The Group also acquired an additional 51% interest in SEMKO DEKRA Certification AB (SEMKO), thereby making it a wholly owned subsidiary of the Group.

In September 2004, the Group acquired a 40% interest in Allium LLC, a company registered in the USA. Summary financial information on associates (100% basis) is set out below:

	Assets £m	Liabilities £m	Equity £m	Revenues £m	Profit/(loss) £m
2005					
Allium LLC	14.3	13.0	1.3	19.7	(0.1)
DEKRA	–	–	–	11.8	1.1
SEMKO	–	–	–	3.2	0.4
2004					
Allium LLC	13.7	11.8	1.9	4.9	(0.2)
DEKRA	3.7	1.8	1.9	12.4	1.2
SEMKO	1.1	0.6	0.5	3.7	0.4

12 Deferred tax assets and liabilities

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets 2005 £m	Assets 2004 £m	Liabilities 2005 £m	Liabilities 2004 £m	Net 2005 £m	Net 2004 £m
Property, plant and equipment	**0.6**	–	**(1.7)**	(0.3)	**(1.1)**	(0.3)
Pensions	**5.4**	4.8	**–**	–	**5.4**	4.8
Share options	**0.8**	0.7	**–**	–	**0.8**	0.7
Provisions and other temporary differences	**7.0**	–	**(1.7)**	(0.3)	**5.3**	(0.3)
Tax value of losses	**0.6**	–	**–**	–	**0.6**	–
Total	**14.4**	5.5	**(3.4)**	(0.6)	**11.0**	4.9

Unrecognised deferred tax assets

Deferred tax assets have not been recognised in respect of the following items:

	2005 £m	2004 £m
Deductible temporary differences	**15.6**	17.8
Tax losses	**21.6**	20.9
Property, plant and equipment	**–**	0.1
Total	**37.2**	38.8

Deferred tax assets have not been recognised in respect of these items because it is not probable that future taxable profits will be available against which the Group can utilise the benefits from them.

There is a temporary difference of £8.4m which relates to unremitted post acquisition overseas earnings. No deferred tax is provided for on this amount as the distribution of these retained earnings is under the control of the Group and there is no intention to either repatriate from or sell the associated subsidiaries in the foreseeable future.

Movements in temporary differences during the year

	Balance 1 January 2004 £m	Exchange adjustments £m	Recognised in income statement £m	Recognised in equity* £m	Balance 31 December 2004 £m
Property, plant and equipment	0.1	–	(0.4)	–	(0.3)
Pensions	2.4	–	–	2.4	4.8
Share option expense	0.1	–	0.2	0.4	0.7
Provisions and other temporary differences	(0.4)	–	0.1	–	(0.3)
Total	**2.2**	**–**	**(0.1)**	**2.8**	**4.9**

*see notes 7 and 19

	Balance 1 January 2005 £m	Exchange adjustments £m	Recognised in income statement £m	Recognised in equity* £m	**Balance 31 December 2005 £m**
Property, plant and equipment	(0.3)	–	(0.8)	–	**(1.1)**
Pensions	4.8	–	–	0.6	**5.4**
Share option expense	0.7	–	0.1	–	**0.8**
Provisions and other temporary differences	(0.3)	0.1	5.5	–	**5.3**
Tax value of losses	–	–	0.6	–	**0.6**
Total	**4.9**	**0.1**	**5.4**	**0.6**	**11.0**

* see notes 7 and 19

13 Inventories

	2005 £m	2004 £m
Raw materials and consumables	**2.3**	0.6
Work in progress	**0.7**	0.7
Finished goods	**0.1**	0.2
Total inventories	**3.1**	1.5

14 Trade and other receivables

	2005 £m	2004 £m
Trade receivables	**115.9**	87.0
Other receivables	**11.0**	9.8
Prepayments and accrued income	**19.4**	13.0
Total trade and other receivables	**146.3**	109.8

Bad debts written off in 2005 were £1.8m (2004: £3.7m).

15 Interest bearing loans and borrowings

	Current 2005 £m	Current 2004 £m	**Non current 2005 £m**	Non current 2004 £m
Senior Term Loans	**15.2**	14.0	**175.4**	150.9
Other borrowings	**0.1**	–	**–**	–
Total	**15.3**	14.0	**175.4**	150.9

Classifications of financial liabilities are determined on different bases in 2005 and 2004 due to the transitional provisions of IAS 32 and IAS 39. This is explained in more detail in note 2.

Notes to the financial statements
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Analysis of debt	2005 £m	2004* £m
Debt falling due:		
In one year or less	**15.3**	14.0
Between one and two years	**98.8**	93.7
Between two and five years	**76.6**	57.7
Total borrowings	**190.7**	165.4

* Includes £0.5m of other financial liabilities falling due between one and two years.

Description of borrowings
In December 2004, the Group refinanced its existing £300m secured facility with a £300m non-secured facility. The facility was for five years expiring on 15 December 2009, with the option to extend this for a further two years. The facility was extended by a year in 2005.

The facility comprises three tranches. Facility A is now a £56m multi-currency term loan with bi-annual amortisations over the remaining four years. Facility B is a £150m multi-currency revolving credit, available up to 15 December 2010. 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 bear interest at a rate equal to LIBOR (as adjusted) plus a margin of 0.45%. The margin over LIBOR is in the range of 0.6% to 0.4% in accordance with a leveraged grid. At 31 December 2005, the margin was 0.45 %. Advances under Facility C initially bear interest at a rate equal to LIBOR (as adjusted) plus a margin of 0.35%. The margin over LIBOR is in the range 0.5% to 0.3% in accordance with a leveraged grid. At 31 December 2005, the margin was 0.35%.

The undrawn committed borrowing facilities, which mature in 2010 amounted to £95.5m (2004: £135.1m) of which £5.8m (2004: £5.0m) has been utilised for letters of credit and guarantees.

16 Trade and other payables

	Current 2005 £m	Current 2004 £m	Non current 2005 £m	Non current 2004 £m
Trade payables	**30.3**	23.8	**–**	–
Other payables	**11.9**	7.5	**0.6**	0.5
Accruals and deferred income	**51.7**	44.6	**0.6**	–
Total trade and other payables	**93.9**	75.9	**1.2**	0.5

17 Provisions

	Claims £m	Other £m	Total £m
At beginning of year	4.8	0.6	5.4
Exchange adjustments	0.2	–	0.2
Provided in the year	10.8	1.2	12.0
Released during the year	(1.2)	–	(1.2)
Utilised during the year	(6.6)	(0.9)	(7.5)
At end of year	**8.0**	**0.9**	**8.9**

From time to time, the Group is involved in various claims and lawsuits incidental to the ordinary course of its business. The outcome of such litigation and the timing of any potential liability cannot be readily foreseen, as it is often subject to legal proceedings. Based on information currently available, the Directors consider that the cost to the Group of an unfavourable outcome arising from such litigation is unlikely to have a materially adverse effect on the financial position of the Group in the foreseeable future.

The provision for claims of £8.0m (2004: £4.8m) represents an estimate of the amounts payable in connection with identified claims from customers, former employees and other plaintiffs and associated legal costs. The timing of the cash outflow relating to the provisions is uncertain but is likely to be within one year. Details of contingent liabilities in respect of claims are set out in note 27.

18 Share capital

Group and Company	2005 Number	2005 £m	2004 £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
Total	**200,000,000**	**107.5**	107.5
Allotted, called up and fully paid			
Ordinary shares of 1p each at start of year	**154,768,134**	**1.5**	1.5
Employee share option schemes – options exercised (note 25)	**613,339**	**0.1**	–
Ordinary shares of 1p each at end of year	**155,381,473**	**1.6**	1.5

During the year the company issued 613,339 1p ordinary shares in respect of the share options exercised, for a consideration of £3.8m settled in cash. None of the zero coupon redeemable preference shares were allotted at 31 December 2005, or 31 December 2004. Ordinary shareholders have a right to attend and vote at a general meeting and may receive a dividend, if declared. Rights are determined by ordinary resolution of the members.

Preference shareholders have the right to a return of capital on winding up but receive no priority over ordinary shareholders with respect to repayment of capital paid up and have no further rights to participate in the profits or assets of the company.

At 31 December 2004, the Employee Share Ownership Trust (ESOT), held 87,000 ordinary shares of the company at a cost of £0.1m which was included within retained earnings. In 2005, these shares were utilised on exercise of share options (see note 25). At 31 December 2005, no shares were held by the ESOT. The ESOT is managed and controlled by an independent offshore trustee. The total ESOT costs charged to the Group profits for 2005 were £15,000 (2004: £15,000) of which £7,000 (2004: £6,000) was interest expense.

19 Shareholders' equity

			Other reserves				
	Share capital £m	Share premium account £m	Translation reserve £m	Hedging reserve £m	Other £m	Retained earnings* £m	Total £m
At 1 January 2004 under IFRS	**1.5**	**232.1**	**–**	**–**	**6.4**	**(273.9)**	**(33.9)**
Profit for the period attributable to equity holders	–	–	–	–	–	52.0	52.0
Dividends paid	–	–	–	–	–	(14.4)	(14.4)
Issue of shares	–	1.1	–	–	–	–	1.1
Issue of shares on acquisition	–	1.3	–	–	–	–	1.3
Equity settled transactions	–	–	–	–	–	1.0	1.0
Actuarial pension loss	–	–	–	–	–	(9.0)	(9.0)
Foreign exchange translation differences	–	–	7.1	–	–	–	7.1
Tax on income and expense recognised directly in equity	–	–	–	–	–	2.8	2.8
At 31 December 2004	**1.5**	**234.5**	**7.1**	**–**	**6.4**	**(241.5)**	**8.0**
Adoption of IAS 39**	–	–	–	(1.0)	–	–	(1.0)
At 1 January 2005	**1.5**	**234.5**	**7.1**	**(1.0)**	**6.4**	**(241.5)**	**7.0**
Movement on cash flow hedges	–	–	–	2.6	–	–	2.6
Profit for the year attributable to equity holders	–	–	–	–	–	57.1	57.1
Dividends paid	–	–	–	–	–	(16.9)	(16.9)
Issue of shares	0.1	3.7	–	–	–	–	3.8
Disposal of shares held by ESOT	–	–	–	–	–	0.4	0.4
Equity settled transactions	–	–	–	–	–	1.9	1.9
Actuarial pension loss	–	–	–	–	–	(3.7)	(3.7)
Foreign exchange translation differences	–	–	(1.7)	–	–	–	(1.7)
Tax on income and expense recognised directly in equity	–	–	–	–	–	1.4	1.4
At 31 December 2005	**1.6**	**238.2**	**5.4**	**1.6**	**6.4**	**(201.3)**	**51.9**

* After £244.1m for goodwill written off to retained earnings as at 1 January 2004 in relation to subsidiaries acquired prior to 31 December 1997. This figure has not been restated as permitted by IFRS 1.

** IAS 39 Financial instruments: Recognition and measurement, was adopted on 1 January 2005. This resulted in fair values (negative) of hedged derivatives of £1.0m being included in the balance sheet.

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Dividends
The dividends paid of £16.9m (2004: £14.4m) represents £10.8m (2004: £9.1m) being the final dividend in respect of the year ended 31 December 2004, paid on 6 May 2005, at the rate of 7.0p per ordinary share (2004: 5.9p) and £6.1m being the interim dividend in respect of the year ended 31 December 2005, paid on 15 November 2005, at the rate of 3.9p per ordinary share (2004: 3.4p).

After the balance sheet date, the Directors proposed a final dividend of 8.1p (2004: 7.0p) per qualifying share making a total final dividend of £12.6m (2004: £10.8m). The final dividend of 8.1p was not provided at the balance sheet date and there are no income tax consequences.

Translation reserve
The translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations as well as the translation of liabilities that hedge the Group's net investment in these operations.

Hedging reserve
The hedging reserve comprises the effective portion of the cumulative net change in the fair value of the cash flow hedging instruments related to hedged transactions that have not yet occurred.

Other reserves
These relate to a merger difference that arose on the conversion of share warrants into share capital.

20 Minority interests

	2005 £m	2004 £m
At beginning of year	**5.7**	7.2
Exchange adjustments	**0.9**	(0.1)
Share of profit for the year	**3.6**	2.8
Additions	**0.5**	0.5
Disposals	**–**	(0.6)
Dividends	**(2.9)**	(4.1)
At end of year	**7.8**	5.7

21 Commitments
At 31 December, the Group had future unprovided commitments under non-cancellable operating leases as follows:

	2005			2004		
In respect of leases which expire:	**Land and buildings £m**	**Other £m**	**Total £m**	Land and buildings £m	Other £m	Total £m
Within one year	**17.1**	**3.1**	**20.2**	14.0	3.2	17.2
In the second to fifth years inclusive	**35.2**	**3.0**	**38.2**	30.0	2.3	32.3
Over five years	**25.4**	**–**	**25.4**	28.4	0.1	28.5
Total	**77.7**	**6.1**	**83.8**	72.4	5.6	78.0

Contracts for capital expenditure which are not provided in these accounts amounted to £4.3m (2004: £1.7m).

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

In 2005, 45 former Avecia employees had the option to transfer past service pension benefits to the UK scheme following an acquisition which took place on 13 May 2004. Approximate assets and liabilities in respect of the 34 members who have elected to transfer are included in the IAS 19 figures below.

The Group recognises any actuarial gains and losses, in the Consolidated statement of recognised income and expense.

(a) The total pension cost included in operating profit for the Group was:

	2005 £m	2004 £m
Defined contribution schemes	**7.9**	7.0
Defined benefit schemes – current service cost	**1.8**	2.0
Pension cost included in operating profit	**9.7**	9.0

See below for pension interest cost and expected return on scheme assets recognised in the income statement.

(b) The pension cost for the defined benefit schemes 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 actuarial valuation of the Hong Kong scheme was carried out as at 31 December 2005, for local accounting purposes.

The amounts recognised in the balance sheet are as follows:

	2005 £m	2004 £m	2003 £m
Fair value of scheme assets	**55.0**	46.7	36.4
Present value of funded defined benefit obligations	**(72.8)**	(62.8)	(43.9)
Deficit in the schemes	**(17.8)**	(16.1)	(7.5)

The amounts recognised in the income statement are as follows:

	2005 £m	2004 £m
Current service cost	**(1.8)**	(2.0)
Pension interest cost (note 6)	**(3.1)**	(2.3)
Expected return on scheme assets (note 6)	**2.8**	2.5
Total charge	**(2.1)**	(1.8)

The current service cost is included in administrative expenses in the income statement and pension interest cost and expected return on scheme assets are included in net financing costs.

(c) Changes in the fair value of scheme assets

	2005 £m	2004 £m
Fair value of scheme assets at the start of the year	**46.7**	36.4
Expected return on scheme assets	**2.8**	2.5
Normal contributions by the employer	**1.9**	2.2
Special contribution by the employer	**2.0**	–
Contributions by scheme participants	**0.7**	0.7
Benefits paid	**(2.3)**	(1.6)
Business combinations	**–**	6.3
Removal of insignificant schemes from valuation*	**(2.5)**	–
Actuarial gains	**5.7**	0.2
Fair value of the schemes at the end of the year	**55.0**	46.7

* The USA and Taiwan schemes, previously included as defined benefit schemes, are now treated as defined contribution schemes on grounds of insignificance.

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(d) Changes in the present value of the defined benefit obligations are as follows:

	2005 £m	2004 £m
Defined benefit obligations at start of the year	**62.8**	43.9
Current service cost	**1.8**	2.0
Interest cost	**3.1**	2.3
Contributions by scheme participants	**0.7**	0.7
Benefits paid	**(2.3)**	(1.6)
Business combinations	**–**	6.3
Removal of insignificant schemes from valuation*	**(2.7)**	–
Actuarial losses	**9.4**	9.2
Defined benefit obligations at the end of the year	**72.8**	62.8

* The USA and Taiwan schemes, previously included as defined benefit schemes, are now treated as defined contribution schemes on grounds of insignificance.

(e) Actuarial losses

	2005 £m	2004 £m
In the Consolidated statement of recognised income and expense for the year	**(3.7)**	(9.0)
Cumulative amount in the Consolidated statement of recognised income and expense at the end of the year	**(12.7)**	(9.0)

(f) Company contributions
The Company expects to make normal contributions of £1.5m (2005: £1.2m) to the UK pension scheme and £0.7m (2005: £0.7m) to the Hong Kong pension scheme in 2006.

(g) Fair value of scheme assets in each category:

	United Kingdom		Hong Kong	
	2005	2004	2005	2004
Equity instruments	**74%**	75%	**65%**	62%
Debt instruments	**23%**	19%	**33%**	34%
Cash/other	**3%**	6%	**2%**	4%

The UK assets returned 22% during 2005 (2004:10%). The Hong Kong assets returned 10% during 2005 (2004: 13%). The return for the UK assets excludes any return on assets in respect of the bulk transfer from Avecia since these assets were not transferred until February 2006.

(h) The net pension liabilities of each scheme at 31 December 2005, are as follows:

	United Kingdom £m	Hong Kong £m	Total £m
Fair value of scheme assets	41.6	13.4	55.0
Present value of funded defined benefit obligations	(60.0)	(12.8)	(72.8)
(Deficit)/surplus in schemes	**(18.4)**	**0.6**	**(17.8)**

(i) Principal actuarial assumptions:

	United Kingdom		Hong Kong		Weighted average	
	2005	2004	2005	2004	2005	2004
Discount rate	**4.8%**	5.3%	**4.2%**	4.0%	**4.7%**	5.1%
Inflation rate	**2.8%**	2.7%	**n/a**	n/a	**2.8%**	2.7%
Rate of salary increase	**3.5%**	3.0%	**4.0%**	4.0%	**3.8%**	3.5%
Rate of pension increase	**2.8%**	2.7%	**n/a**	n/a	**2.8%**	2.7%
Annualised expected return on scheme assets	**6.8%**	6.9%	**6.5%**	5.8%	**6.7%**	6.6%

The expected rates of return on scheme assets are determined by reference to relevant indices. The overall expected rate of return is calculated by weighting the individual rates in accordance with the anticipated balance in the plan's investment portfolio.

Where investments are held in bonds and cash, the expected long-term rate of return is taken to be the yields generally prevailing on such assets at the balance sheet date. A higher rate of return is expected on equity investments. This is based on an out-performance assumption over gilt yields.

(j) Life expectancy at year end for:

	United Kingdom		Hong Kong	
	2005	2004	**2005**	2004
Male aged 40	**42.1**	42.1	**n/a**	n/a
Male aged 65	**19.5**	19.5	**n/a**	n/a
Female aged 40	**47.8**	47.8	**n/a**	n/a
Female aged 65	**24.2**	24.2	**n/a**	n/a

The Hong Kong scheme provides for a lump sum upon retirement based on a multiple of final salary.

The life expectancy figures will be reviewed at the next actuarial valuation as at 31 March 2007.

(k) History of experience gains and losses:

	2005 £m	2004 £m	2003 £m
Fair value of scheme assets	**55.0**	46.7	36.4
Defined benefit obligations	**(72.8)**	(62.8)	(43.9)
Deficit	**(17.8)**	(16.1)	(7.5)
Experience losses on scheme liabilities	**(0.5)**	(1.6)	(0.9)
Experience gains on scheme assets	**5.7**	0.2	2.7

Share-based payments

The company has share option schemes, details of which are contained in the Remuneration Report and in note 25.

In accordance with IFRS 2, the fair value of services received in return for share options granted to employees, is measured by reference to the fair value of share options granted. In accordance with the transitional provisions in IFRS 1 and IFRS 2, the recognition and measurement principles in IFRS 2 have not been applied to share option grants made prior to 7 November 2002 which had not vested by 1 January 2005. The estimate of the fair value of the services received is measured based on the Black-Scholes formula, a financial model used to calculate the fair value of options.

During the year ended 31 December 2005, the Group recognised an expense of £1.9m (2004: £1.0m) in respect of outstanding share awards granted from 7 November 2002 onwards.

The assumptions used in the calculation of the fair value of options are set out below:

Date of share option grant	7 April 2003	12 Sept 2003	7 April 2004	14 Sept 2004	7 April 2005	13 Sept 2005
Fair value of option at measurement date (pence)	130.3	139.4	163.9	185.9	240.2	189.8
Share price (pence)	375	456	527	611	790	703
Exercise price (pence)	359	462	523.5	607	778	711
Expected volatility	31.4%	30.1%	28.2%	26.2%	25.4%	24.9%
Dividend yield	1.4%	1.8%	1.7%	1.5%	1.3%	1.6%
Risk free interest rate	4.3%	4.4%	4.8%	4.9%	4.6%	4.2%
Time to maturity (years)	6	6	6	6	6	6

The expected volatility is based on the historic volatility, adjusted for any expected changes to future volatility due to publicly available information.

Current share options are granted under a service condition and a non-market performance condition. Such conditions are not taken into account in the grant date fair value measurement for the services received. There are no market conditions associated with the current share option grants.

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23 Analysis of net debt

	At beginning of year £m	Cash flow £m	Exchange adjustments £m	**At end of year £m**
Cash	52.5	(4.9)	3.2	**50.8**
Borrowings	(164.9)	(9.7)	(16.1)	**(190.7)**
Total net debt	(112.4)	(14.6)	(12.9)	**(139.9)**

24 Acquisitions
The Group made a number of acquisitions during the year.

(a) On 11 November 2005, the Group acquired the business and assets of Automotive Research Laboratory based in Texas, USA for a cash consideration, including costs, of £20.1m. The provisional analysis of net assets acquired and the fair value to the Group is set out below. Amendments may be made to these adjustments in the subsequent accounting period with a corresponding adjustment to goodwill.

	Book value prior to acquisition £m	Fair value adjustments £m	Fair value to Group on acquisition £m
Property, plant and equipment	1.1	3.7	4.8
Other intangible assets (note 10)	–	3.7	3.7
Inventories	1.1	–	1.1
Trade and other receivables	1.6	–	1.6
Trade and other payables	(0.8)	–	(0.8)
Net identifiable assets and liabilities	3.0	7.4	10.4
Goodwill on acquisition			9.7
Fair value of consideration, including costs of £0.1m, satisfied in cash			20.1
Cash acquired			–
Net cash outflow			20.1

Goodwill of £9.7m represents the value of anticipated synergies, future profits and the value of qualified workforce that do not meet the criteria for recognition as separate intangible assets.

The fair value adjustment to property, plant and equipment relates to the revaluation of the acquired freehold land and buildings.

The profit before tax of Automotive Research Laboratory for the period 1 January 2005 to 11 November 2005 was £1.9m. The contribution (EBITA) to the Group from the date of acquisition to 31 December 2005 was £0.6m. After amortisation of intangibles it was £0.5m.

(b) In addition to the above acquisition there were eleven other acquisitions. The main ones were: Omega Point Laboratories (USA), PARC Technical Services (USA), Westport (USA), Lintec (UK) and KPMG certification business in India and Dubai.

The provisional analysis of net assets acquired and the fair value to the Group in respect of the other 11 acquisitions made during the year is set out below. Amendments may be made to these adjustments in the subsequent accounting period with a corresponding adjustment to goodwill.

	Book value prior to acquisition £m	Fair value adjustments £m	Fair value to Group on acquisition £m
Property, plant and equipment	5.3	1.5	6.8
Other intangible assets (note 10)	–	7.0	7.0
Trade and other receivables	3.9	–	3.9
Cash	1.3	–	1.3
Trade and other payables	(4.2)	–	(4.2)
Net identifiable assets and liabilities	6.3	8.5	14.8
Goodwill on acquisition			12.0
Fair value of consideration including costs of £1.1m			26.8
Deferred and contingent consideration			(1.1)
Cash acquired			(1.3)
Net cash outflow			24.4

Goodwill of £12.0m represents the value of anticipated synergies, future profits and the value of qualified workforce that do not meet the criteria for recognition as separate intangible assets. The fair value adjustment to property, plant and equipment relates to the revaluation of the acquired freehold land and buildings.

These acquisitions contributed earnings before interest and tax to the Group from the date of acquisition to 31 December 2005 of £1.3m. After amortisation of intangibles it was £0.9m.

(c) The Group revenue and operating profit before amortisation would have been approximately £605.7m and £92.0m respectively if all the acquisitions made in 2005, were assumed to be made on 1 January 2005.

(d) Details of 2004 acquisitions

	Book value prior to acquisition £m	Fair value adjustments £m	Fair value to Group on acquisition £m
Property, plant and equipment	5.9	(0.8)	5.1
Other intangible assets (note 10)	–	4.9	4.9
Inventories	0.2	(0.1)	0.1
Trade and other receivables	2.3	–	2.3
Trade and other payables	(0.9)	(0.6)	(1.5)
Net identifiable assets and liabilities	7.5	3.4	10.9
Goodwill on acquisition			16.8
Fair value of consideration, including costs of £0.8m			27.7
Borrowings acquired			(0.1)
Shares issued			(1.3)
Net cash outflow			26.3*

* In addition to net cash outflow of £26.3m on acquisitions above, there was £0.3m of cash in a subsidiary disposed during the year resulting in £26.6m net cash outflow.

The major acquisition in 2004 was that of Entela Inc., for a consideration of £16.2m with goodwill arising of £9.3m.

Total goodwill of £16.8m represents the value of anticipated synergies, future profits and the value of qualified workforce that do not meet the criteria for recognition as separate intangible assets.

(e) On 22 February 2006, the Group acquired AKZO NOBEL's electromagnetic compatibility business and assets in Japan. The cost of the acquisition, excluding associated costs, was £9.0m. The value of assets acquired and fair value adjustments have not yet been determined.

25 Share option schemes

The Company established a share option scheme for senior management in March 1997. The maximum number of options that can be granted under the scheme have been allocated and that scheme has been discontinued. In May 2002, the Intertek Group plc 2002 Share Option Plan (the 2002 Plan) and the Intertek Group plc 2002 Approved Share Option Plan (the Approved Plan) were established for employees to be granted at the discretion of the Remuneration Committee. These plans have also been discontinued and the last grants under these plans were made in September 2005.

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(a) The number and weighted average exercise prices of share options are as follows:

	2005		2004	
	Weighted average exercise price	**Number of options**	Weighted average exercise price	Number of options
At beginning of year	**437p**	**3,883,150**	350p	3,190,523
Granted	**776p**	**1,539,046**	527p	1,498,727
Exercised*	**405p**	**(700,339)**	192p	(551,390)
Forfeited	**478p**	**(226,502)**	406p	(254,710)
Outstanding options at end of the year	**556p**	**4,495,355**	437p	3,883,150

* Shares issued on exercise of options in 2005 were made up of 613,339 shares issued by Intertek Group plc and 87,000 shares issued by ESOT. See note 18.

The weighted average share price at the date of exercise of share options was 749p (2004: 547p).

The options outstanding at the year end have an exercise price in the range of 140p to 778p and a weighted average contractual life of 8.2 years.

(b) The outstanding options at 31 December 2005, are exercisable as follows:

Option Scheme	Number of options outstanding	Exercise price per share	Exercisable between	
1997 Plan	23,612	140p	31 December 2003	31 December 2007
	17,709	140p	1 December 2004	1 December 2008
	41,321			
2002 Plan	477,638	437p	30 May 2005	30 May 2012
	8,633	380p	17 July 2005	17 July 2012
	4,000	421p	31 October 2005	31 October 2012
	949,619	359p	7 April 2006	7 April 2013
	52,002	462p	12 September 2006	12 September 2013
	1,158,238	523.5p	7 April 2007	7 April 2014
	42,205	607p	14 September 2007	14 September 2014
	1,390,202	778p	7 April 2008	7 April 2015
	29,742	711p	13 September 2008	13 September 2015
	4,112,279			
Approved Plan	57,720	437p	30 May 2005	30 May 2012
	7,894	380p	17 July 2005	17 July 2012
	96,168	359p	7 April 2006	7 April 2013
	6,082	462p	12 September 2006	12 September 2013
	90,408	523.5p	7 April 2007	7 April 2014
	7,422	607p	14 September 2007	14 September 2014
	65,954	778p	7 April 2008	7 April 2015
	10,107	711p	13 September 2008	13 September 2015
	341,755			
Total	**4,495,355**			

Details of the share option schemes are shown in the Remuneration Report on page 28.

26 Financial instruments
Details of the Group's treasury controls are set out in the Performance Review.

As noted in the basis of preparation in note 2, on 1 January 2005, IAS 32: Financial instruments – Disclosure and presentation and IAS 39: Financial instruments – Recognition and measurement were adopted. As permitted under IFRS the comparatives (including disclosures) have not been restated and are presented in accordance with the previous GAAP (FRS 13: Derivatives and other financial instruments). Accordingly, the notes below have been split into two sections: notes under IAS 32 and IAS 39 for 2005, and notes on the 2004 comparatives under FRS 13.

2005 IAS 32 disclosures

Exposures to credit, interest rate and currency risks arises in the normal course of the Group's business. Derivative financial instruments are used to hedge exposure to fluctuations in foreign exchange rates and interest rates.

(a) Credit risk

Transactions involving derivative financial instruments are with counterparties who have sound credit ratings. Given their high credit ratings, management does not expect any counterparty to fail to meet its obligations.

At the balance sheet date there were no significant concentrations of credit risk. The maximum exposure to credit risk is represented by the carrying amount of each financial asset, including derivative financial instruments, in the balance sheet.

(b) Interest rate risk

Hedging

The Group adopts a policy of ensuring that between 30% and 80% of its exposure to changes in interest rates on borrowings is on a fixed rate basis. Interest rate swaps, denominated in various currencies, have been entered into to achieve an approximate mix of fixed and floating rate exposure within the Group's policy. The swaps mature over the next two years and have fixed swap rates ranging from 2.9% to 3.6%. At 31 December 2005, the Group had interest rate swaps with a notional contract amount of £110.4m.

The Group designates interest rate swaps as hedging instruments in cash flow hedges and states them at fair value.

The net fair value of swaps at 31 December 2005, was £1.7m comprising assets of £1.7m and liabilities of £nil. These amounts were recognised as fair value derivatives.

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 at 31 December 2005, is set out below:

Financial assets	Effective interest rates	At floating interest rates £m	Interest free £m	Total carrying amount £m
Short term deposits and cash*:				
Sterling	4.7%	0.8	–	0.8
US dollar	3.1%	5.7	3.2	8.9
Chinese renminbi	1.5%	15.7	–	15.7
Hong Kong dollar	2.2%	3.6	–	3.6
Euros	2.0%	1.2	4.0	5.2
Other currencies	Various	13.1	3.5	16.6
		40.1	10.7	50.8
Investment in associates:				
US dollar		–	0.7	0.7
Total financial assets		**40.1**	**11.4**	**51.5**

*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.

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

Liabilities 2005	2006 £m	2007 £m	2008 £m	2009 £m	2010 £m	Carrying and fair value £m
Floating rate (USD)	–	67.1	–	–	37.2	104.3
Average interest rate	–	5.2%	–	–	5.3%	–
Floating rate (HKD)	13.0	29.5	13.0	13.0	6.5	75.0
Average interest rate	4.9%	4.8%	4.9%	4.9%	4.9%	–
Floating rate (SEK)	2.2	2.2	2.2	2.2	1.0	9.8
Average interest rate	3.3%	3.3%	3.6%	3.7%	3.8%	–
Floating rate (GBP)	0.1	–	–	–	1.5	1.6
Average interest rate	5.1%	–	–	–	5.1%	–
Total	**15.3**	**98.8**	**15.2**	**15.2**	**46.2**	**190.7**

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(c) Foreign currency risk
A substantial portion of the Group's revenue 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 uses forward exchange contracts to hedge its foreign currency risk.

Recognised assets and liabilities
Changes in the fair value of forward exchange contracts that economically hedge monetary assets and liabilities in foreign currencies and for which no hedge accounting is applied are recognised in the income statement. The fair value of forward exchange contracts used as economic hedges of monetary assets and liabilities in foreign currencies at 31 December 2005, was £nil recognised in fair value derivatives.

Hedge of net investment in foreign subsidiaries
The Group's foreign currency denominated loans are designed as a hedge of the Group's investment in its respective subsidiaries. The carrying amount of the loans at 31 December 2005, was £190.7m.

A foreign exchange loss of £16.1m was recognised in the translation reserve in equity on translation of the loans to sterling.

(d) Sensitivity analysis
In managing interest rate and currency risks the Group aims to reduce the impact of short term fluctuations on the Group's earnings. Over the longer term, however, permanent changes in foreign exchange and interest rates would have an impact on consolidated earnings.

At 31 December 2005, it is estimated that a general increase of one percentage point in interest rates would decrease the Group's profit before tax by approximately £0.5m. Interest rate swaps have been included in this calculation.

It is estimated that a general increase of one percentage point in the value of sterling against the dollar (the main currency impacting the Group) would have decreased the Group's profit before tax by approximately £0.6m for the year ended 31 December 2005. The forward exchange contracts have been included in this calculation.

2004 FRS 13 disclosures
(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 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
	Buy £m	Sell £m
US dollar	–	17.2
Euro	1.6	–

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):

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

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

	2004 £m
Sterling	(1.9)
US dollar	92.2
Euro	12.9
Chinese renminbi	11.8
Swedish kroner	6.5
Hong Kong dollar	5.0
Others	34.8
Total	**161.3**

Borrowings are excluded from the above table as they are used to finance foreign currency investments.

Net assets are after deducting minority interests.

(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 income statement, 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 amount £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 due after one year:			
US dollar	–	1.8	1.8
Total financial assets	**44.7**	**9.6**	**54.3**

* 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.

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 are disclosed in note 15 as non current payables and are due to mature in 1-2 years. This liability is mainly US dollar denominated and is non-interest bearing. 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.

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

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

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(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%	–
Total	**14.0**	**93.2**	**14.0**	**14.0**	**29.7**	**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 and interest rate swaps was £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.

27 Contingent liabilities

	2005 £m	2004 £m
Guarantees, letters of credit and performance bonds	**5.8**	5.0

Litigation
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.

The outcome of the litigation to which Intertek Group companies are party cannot be readily foreseen. Based on information currently available, the Directors consider that the cost to the Group of an unfavourable outcome arising from such litigation, is unlikely to have a materially 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.

The majority of claims made against Intertek's subsidiary companies fall within the Caleb Brett division. While commercial disputes are often settled, occasionally Caleb Brett will enter into a trial process.

a) In 1999, Caleb Brett Canada (now called Intertek Testing Services Canada) entered into Collateral Management Agreements (CMA) with two trading companies. The agreements provided for Caleb Brett India to manage the storage and release of vegetable oil from warehouses in India. As a result of the actions of a former rogue employee of Caleb Brett India, various quantities of oil were released without authorisation, leading to the commencement of recovery actions against Caleb Brett in Singapore and London. The Singapore proceedings were resolved by an out of court settlement with the involvement of insurers. However, the London proceedings, which comprise subrogated claims by Marine Cargo Underwriters against Intertek Testing Services (ITS) Canada Ltd and Caleb Brett India Pvt Ltd, claiming reimbursement of US$6.9m, have not resulted in a settlement and a trial is scheduled to commence on 13 March 2006. Caleb Brett believes that it had adequate insurance in place to cover the CMA work and has a strong legal defence against these claims.

b) Between 1992 and 2001, the Puerto Rico Electric Power Authority (PREPA) contracted Caleb Brett to perform independent testing services. In August 2002, PREPA filed a lawsuit against Caleb Brett in the federal district court of Puerto Rico. PREPA is seeking unspecified damages, alleging that Caleb Brett falsified test results and engaged in a conspiracy with fuel suppliers to provide off-specification fuel for on-specification prices during the 1992-2000 period.

Caleb Brett has filed a motion to dismiss PREPA's complaint, on the grounds that the claims are time barred by the applicable statute of limitations. Caleb Brett believes that it has substantial defences to the plaintiff's claims and continues to defend itself vigorously. At this point in the litigation however, it is impossible to predict the outcome with any degree of certainty. A process of fact and expert discovery began in earnest in the second half of 2005. The court has set a deadline of 30 June 2006, for the conclusion of this discovery. No trial date has been set.

In May 2004, Caleb Brett filed a petition in Texas state court against Certain Underwriters at Lloyd's of London and other underwriters seeking a declaration that certain policies issued by the Underwriters are in full force and effect, and that the insurers subscribing thereto must indemnify and defend Caleb Brett in the case of PREPA v Caleb Brett USA Inc in federal court in Puerto Rico. At this time, only limited discovery has taken place and it is impossible to predict the outcome with any degree of certainty.

28 Related parties

Identity of related parties

The Group has a related party relationship with its subsidiaries (see note 31), associates (see note 31) and with its Board of Directors (see the Remuneration Report).

Transactions between the Company and its subsidiaries have been eliminated on consolidation and are not disclosed in this note.

Transactions with key management personnel

Until his appointment as Chief Executive Officer on 1 March 2005, WG Hauser, a Non-Executive Director of Intertek Group plc 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. Total consultancy fees in 2005 were £19,700 (2004: £36,700).

In addition to their salaries, the Group also provides non-cash benefits to Directors and contributes to post-employment benefit schemes on their behalf. Directors also participate in the Group's share option programme (see note 25). The share based payments are valued at their fair value at the date of grant. Full details of Directors' compensation, including post-employment benefits is given in the Remuneration Report.

The key management personnel compensations are as follows:

	2005 £m	2004 £m
Emoluments	**1.6**	1.5
Pension contributions	**0.2**	0.2
Equity compensation benefits	**0.3**	0.2
Total	**2.1**	1.9

Details of key managements' interests in the Company's shares and share options are set out in the Remuneration Report.

During 2005 and 2004, no member of the Board of Directors had a personal interest in any business transactions of the Group.

29 Explanation of transition to IFRSs as adopted by EU

As stated in note 1, these are the Group's first consolidated financial statements prepared in accordance with Adopted IFRSs. The comparative information for the year ended 31 December 2004, previously prepared under UK GAAP, has been restated under Adopted IFRSs. An explanation of how the transition from previous GAAP to Adopted IFRSs has affected the Group's financial performance is shown in the table below.

Impact on the income statement:

	Notes	2004* £m
Profit for the year under UK GAAP		**52.7**
IFRS adjustments:		
Goodwill amortisation	a	1.5
Amortisation of intangibles	b	(1.4)
Share option expense	c	(1.0)
Tax relief on share option charge	c	0.2
Ineffective hedges	d	–
Minority interest	e	2.8
Profit for the year under Adopted IFRSs		**54.8**

* As permitted, does not include IAS 32 and IAS 39 adjustments.

a) Under UK GAAP, there was a charge to profit in respect of amortisation of goodwill. Under Adopted IFRSs, there is no such charge. However, under Adopted IFRSs there is an annual review required of goodwill which could result in an impairment charge.

b) Adopted IFRSs requires qualifying intangibles, previously included within goodwill under UK GAAP, to be separately identified and amortised over their useful economic lives.

c) Adopted IFRSs requires a charge to be made for the fair value of options granted to employees.

d) Under Adopted IFRSs, the movement in fair values of financial derivatives in respect of an ineffective hedge is taken to the income statement.

e) Under UK GAAP, minority interest was deducted in arriving at profit for the period. Under Adopted IFRSs, the minority interest is not deducted but is disclosed by way of a note.

Impact on the balance sheet

A reconciliation between UK GAAP and Adopted IFRSs balance sheets at 1 January 2004 and at 31 December 2004, is set out on page 70, together with an explanation of the Adopted IFRSs adjustments.

Impact on the cash flow statement

The move from UK GAAP to Adopted IFRSs does not change any of the cash flows of the Group. The Adopted IFRSs cash flow format is similar to UK GAAP but presents various cash flows in different categories and in a different order from UK GAAP.

Notes to the financial statements
continued

29 Explanation of transition to Adopted IFRSs (continued)
Effect of transition to Adopted IFRSs
Balance sheets

	Notes	At 1 January 2004 UK GAAP £m	Effect of transition £m	Adopted IFRSs £m	At 31 December 2004 UK GAAP £m	Effect of transition £m	Adopted IFRSs £m
ASSETS							
Property, plant and equipment		77.8	–	77.8	88.5	–	88.5
Goodwill	a	17.8	–	17.8	36.9	(3.4)	33.5
Other intangible assets	a	–	–	–	–	3.5	3.5
Investments in associates		1.2	–	1.2	1.8	–	1.8
Deferred tax assets	b	–	2.5	2.5	–	5.5	5.5
Total non-current assets		**96.8**	**2.5**	**99.3**	**127.2**	**5.6**	**132.8**
Inventories		1.4	–	1.4	1.5	–	1.5
Trade and other receivables		105.3	–	105.3	109.8	–	109.8
Cash and cash equivalents		81.5	–	81.5	52.5	–	52.5
Total current assets		**188.2**	**–**	**188.2**	**163.8**	**–**	**163.8**
Total assets		**285.0**	**2.5**	**287.5**	**291.0**	**5.6**	**296.6**
LIABILITIES							
Interest bearing loans and borrowings		(17.5)	–	(17.5)	(14.0)	–	(14.0)
Current taxes payable		(16.6)	–	(16.6)	(19.5)	–	(19.5)
Trade and other payables	c	(75.5)	9.1	(66.4)	(86.7)	10.8	(75.9)
Provisions		(8.3)	–	(8.3)	(5.4)	–	(5.4)
Total current liabilities		**(117.9)**	**9.1**	**(108.8)**	**(125.6)**	**10.8**	**(114.8)**
Interest bearing loans and borrowings		(196.2)	–	(196.2)	(150.9)	–	(150.9)
Deferred tax liabilities		(0.3)	–	(0.3)	(0.6)	–	(0.6)
Net pension liabilities	b	(5.1)	(2.4)	(7.5)	(11.3)	(4.8)	(16.1)
Other creditors		(1.4)	–	(1.4)	(0.5)	–	(0.5)
Total non-current liabilities		**(203.0)**	**(2.4)**	**(205.4)**	**(163.3)**	**(4.8)**	**(168.1)**
Total liabilities		**(320.9)**	**6.7**	**(314.2)**	**(288.9)**	**6.0**	**(282.9)**
Net (liabilities)/assets		**(35.9)**	**9.2**	**(26.7)**	**2.1**	**11.6**	**13.7**
EQUITY							
Share capital		1.5	–	1.5	1.5	–	1.5
Share premium account		232.1	–	232.1	234.5	–	234.5
Other reserves	d	6.4	–	6.4	6.4	7.1	13.5
Retained earnings		(283.1)	9.2	(273.9)	(246.0)	11.0	(235.3)
Total attributable to the equity holders of the company	e	**(43.1)**	**9.2**	**(33.9)**	**(3.6)**	**11.6**	**8.0**
Minority interest		7.2	–	7.2	5.7	–	5.7
Total equity		**(35.9)**	**9.2**	**(26.7)**	**2.1**	**11.6**	**13.7**

Notes to the IFRSs adjustments

a. Goodwill amortisation charged under UK GAAP since 1 January 2004, (the IFRSs transitional date) is reversed, as under Adopted IFRSs goodwill is not amortised. Adopted IFRSs requires a review for impairment of goodwill. This review did not result in any impairment loss in the periods covered by the tables above.
In addition, specific intangible assets, previously included within goodwill under UK GAAP, have been separately identified and shown as 'Other intangibles'.

b. The deferred tax asset netted off against the pension liabilities under UK GAAP, is now shown separately under Adopted IFRSs. In addition the deferred tax asset includes tax on the share option charge.

c. Under Adopted IFRSs, a dividend accrual is only made when the dividend is declared payable. Under UK GAAP dividends had been accrued although they had not been declared.

d. Under Adopted IFRSs, foreign exchange translation differences, previously included in retained earnings under UK GAAP, are shown in a separate translation reserve within 'Other reserves'.

e. The adjustment to retained earnings represents the sum of the adjustments explained in the notes (a) to (d) above and are detailed in the next table:

	Share capital £m	Share premium account £m	Other reserves: Translation reserve £m	Other reserves: Hedging reserve £m	Other reserves: Other £m	Retained earnings £m	Total £m
At 31 December 2004 under UK GAAP	**1.5**	**234.5**	**–**	**–**	**6.4**	**(246.0)**	**(3.6)**
Restatement for IAS:							
Goodwill amortisation	–	–	–	–	–	1.5	1.5
Amortisation of intangibles	–	–	–	–	–	(1.4)	(1.4)
Tax relief on share option charge	–	–	–	–	–	0.7	0.7
Dividend accruals	–	–	–	–	–	10.8	10.8
Foreign exchange translation differences	–	–	7.1	–	–	(7.1)	–
At 31 December 2004 under IFRS	**1.5**	**234.5**	**7.1**	**–**	**6.4**	**(241.5)**	**8.0**

30 Post balance sheet events

a) On 22 February 2006, the Group acquired AKZO NOBEL's electromagnetic compatibility business and assets in Japan for £9.0m.

b) At a Board meeting on 6 March 2006, the Directors proposed a dividend of 8.1p per ordinary share payable to shareholders on 16 June 2006.

31 Principal operating subsidiaries and associated companies

The Group comprises 161 subsidiary companies and one associated company. 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 2005 and 2004 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 2005.

Company name	Country of Incorporation	Principal activity by division	Percentage of ordinary shares held: Group	Percentage of ordinary shares held: Company
Intertek Holdings Limited	England and Wales	Holding company	100	100
Intertek Testing Services UK Limited	England and Wales	Holding company	100	–
Intertek Finance plc	England and Wales	Finance	100	–
Intertek Testing Services Holdings Limited	England and Wales	Holding company	100	–
Intertek Testing Management Limited	England and Wales	Management company	100	–
Intertek International Limited	England and Wales	FTS	100	–
ITS Testing Services (UK) Limited	England and Wales	Caleb Brett	100	–
ITS Testing Holdings Canada Limited	Canada	Holding company	100	–
Testing Holdings France EURL	France	Holding company	100	–
Testing Holdings Germany GmbH	Germany	Holding company	100	–
ITS Hong Kong Limited	Hong Kong	Labtest & ETL SEMKO	100	–
Yickson Enterprises Limited	Hong Kong	Holding company	100	–
Intertek Testing Services Limited Shanghai	China	Labtest, ETL SEMKO & FTS	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 shares held: Group	Percentage of shares held: Company
Allium LLC	USA	Labtest	40	–

Notes to the financial statements
continued

Company balance sheet
as at 31 December 2005

	Notes	2005 £m	Restated 2004 £m
Fixed assets			
Investments in subsidiary undertakings	35	**274.3**	271.2
Current assets			
Debtors	36	**1.0**	0.9
Cash at bank and in hand		**0.4**	1.2
		1.4	2.1
Creditors due within one year			
Other creditors	37	**(1.7)**	(1.1)
Net current (liabilities)/ assets		**(0.3)**	1.0
Total assets less current liabilities		**274.0**	272.2
Creditors due after more than one year			
Other creditors	38	**(10.1)**	(7.7)
Net assets		**263.9**	264.5
Capital and reserves			
Called up share capital	18	**1.6**	1.5
Share premium	39	**238.2**	234.5
Profit and loss account	39	**24.1**	28.5
Shareholders' funds-equity	39	**263.9**	264.5

The Company financial statements were approved by the Board on 6 March 2006 and were signed on its behalf by:

Wolfhart Hauser
Director

Bill Spencer
Director

32 Accounting policies – Company

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the Company's financial statements, except as noted below. In these financial statements the following new standards have been adopted for the first time:

- FRS 21: Events after the balance sheet date;
- The presentation requirements of FRS 25: Financial instruments: presentation and disclosure; and
- FRS 28: Corresponding amounts.

The accounting policies under these new standards are set out below together with an indication of the effects of their adoption. FRS 28: Corresponding amounts has had no material effect as it imposes the same requirements for comparatives as hitherto required by the Companies Act 1985.

The corresponding amounts in these financial statements are restated in accordance with the new policies.

In 2005, the Company adopted FRS 21: Events after the balance sheet date which requires recognition of dividends as a liability in the period in which they are paid or proposed. A prior year adjustment has been made not to recognise the final dividend previously recognised at 31 December 2004, in the financial statements for that year.

Basis of preparation

The financial statements have been prepared in accordance with applicable United Kingdom Accounting Standards and under the historical accounting rules. The following principal accounting policies have been applied consistently throughout the year and preceding year in dealing with items which are considered material in relation to the Company's financial statements.

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

Under Financial Reporting Standard 1, the Company is exempt from the requirement to prepare a cash flow statement on the grounds that it is included in the consolidated accounts which it has prepared.

Foreign currencies

Assets and liabilities in foreign currencies are translated into sterling at the rates of exchange prevailing at the balance sheet date or at the contracted rate if the transaction is covered by a forward exchange contract. All foreign exchange differences are taken to the income statement.

Deferred tax

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

Dividends

Dividends from subsidiary undertakings are accounted for when declared payable. Dividends payable are recognised when paid or proposed.

Investments in subsidiaries

Investments in subsidiaries are stated at cost less any provisions for impairment.

33 Employees

The Company does not employ any staff.

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

34 Dividends

The aggregate amount of dividends comprises:

	2005 £m	2004 £m
Final dividends paid in respect of prior year but not recognised as liabilities in that year	**10.8**	9.1
Interim dividends paid in respect of the current year	**6.1**	5.3
Aggregate amount of dividends paid in the financial year	**16.9**	14.4

The aggregate amount of dividends proposed and recognised as liabilities as at year end is £nil (2004: £nil).

35 Investment in subsidiary undertakings

	£m
Cost and net book value	
At 1 January 2005	271.2
Additions	3.1
At 31 December 2005	**274.3**

During the year, the Company subscribed £3.1m into the share capital of its subsidiary, Intertek Holdings Limited.

The two main subsidiary undertakings at 31 December 2005, were Intertek Testing Services Holdings Limited and Intertek Holdings Limited, both of which are holding companies, incorporated in the United Kingdom and registered in England and Wales. All interests are in the ordinary share capital of the companies and both companies are wholly owned. In the opinion of the Directors, the value of the investments in subsidiary undertakings is not less than the amount at which the investments are stated in the balance sheet.

36 Debtors

	2005 £m	2004 £m
Other receivables	**0.9**	0.7
Prepayments and accrued income	**0.1**	0.2
	1.0	0.9

37 Creditors due within one year

	2005 £m	2004 £m
Amounts due to group undertakings	**1.5**	1.0
Accruals and deferred income	**0.2**	0.1
	1.7	1.1

38 Creditors due after more than one year

	2005 £m	2004 £m
Amounts due to group undertakings	**10.1**	7.7

39 Shareholders' funds – equity

	Share capital £m	Share premium £m	Profit and loss £m	**Total £m**
At beginning of the year	1.5	234.5	17.7	**253.7**
Prior year adjustment*	–	–	10.8	**10.8**
At beginning of the year –restated	1.5	234.5	28.5	**264.5**
Profit for the financial year	–	–	12.5	**12.5**
Dividends	–	–	(16.9)	**(16.9)**
Shares issued	0.1	3.7	–	**3.8**
At 31 December 2005	**1.6**	**238.2**	**24.1**	**263.9**

* During the year the Company adopted FRS 21: Events after the balance sheet date which superseded SSAP 17. Under the new standard, final dividends payable are recognised only in the period in which they are approved in the Annual General Meeting and therefore become a liability and interim dividends are recognised in the period in which they are paid, whereas under SSAP17 dividends were accrued for when proposed. This has resulted in an increase of £10.8m in the retained profit for the year ended 31 December 2004.

Details of share capital are set out in note 18 and details of share options are set out in note 25 to the Group financial statements.

A profit and loss account for Intertek Group plc has not been presented as permitted by Section 230(4) of the Companies Act 1985. The profit for the financial year, before dividends of £16.9m, was £12.5m which was mainly in respect of dividends received from subsidiaries.

40 Related party transactions

Details of related party transactions are given in note 28 of the Group financial statements.

Under Financial Reporting Standard 8: Related Party Disclosures, the Company has taken advantage of the exemption from disclosing transactions with other group companies.

41 Contingent liabilities

The Company is a member of a group of UK companies that are part of a composite banking cross guarantee arrangement. This is a joint and several guarantee given by all members of the Intertek UK cash pool guaranteeing the total gross liability position of the pool which was £19.3m at 31 December 2005 (2004: £13.9m).

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

Independent Auditors' Report to the Members of Intertek Group plc

We have audited the Group and parent Company financial statements (the 'financial statements') of Intertek Group plc for the year ended 31 December 2005 which comprise the Consolidated income statement, the Consolidated and Parent Company balance sheets, the Consolidated statement of cash flows, the Consolidated statement of recognised income and expense and the related notes. These financial statements have been prepared under the accounting policies set out therein. 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' responsibilities for preparing the Annual Report and the Group financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU, and for preparing the Parent Company financial statements and the Directors' Remuneration Report in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities on page 25.

Our responsibility is to audit the financial statements and the part of the Directors' Remuneration Report to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

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 and whether, in addition, the Group financial statements have been properly prepared in accordance with Article 4 of the IAS Regulation. 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 other transactions is not disclosed.

We review whether the Corporate Governance Statement reflects the Company's compliance with the nine provisions of the 2003 FRC Combined Code specified for our review by the Listing Rules of the Financial Services Authority, 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 other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) 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 judgments made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's and Company's circumstances, consistently applied and adequately disclosed.

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

Opinion

In our opinion:

- the Group financial statements give a true and fair view, in accordance with IFRSs as adopted by the EU, of the state of the Group's affairs as at 31 December 2005 and of its profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation;
- the Parent Company financial statements give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of the parent Company's affairs as at 31 December 2005; and
- the Parent Company 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

6 March 2006

Corporate and Shareholder Information

Shareholders 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 of 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).

Financial Calendar

Financial year end	31 December 2005
Results announced	6 March 2006
Annual General Meeting	12 May 2006
Ex-dividend date for final dividend	31 May 2006
Record date for final dividend	2 June 2006
Final dividend payable	16 June 2006
Interim results announced	September 2006
Interim dividend payable	November 2006

Contact information

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