Intertek

# Interim Report **2006**

# 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 and processes, ultimately supporting their success in the global marketplace.

Intertek has the experience, expertise, resources and global reach to support its customers through its network of 910 laboratories and offices and 16,600 people in more than 110 countries around the world.

# Financial highlights
## Strong growth, good prospects

### Revenue
**£327.1m**
Up 20.1% (15.1% constant currency basis[1])

### Operating profit
**£48.7m**
Up 19.7%

### Adjusted operating profit[2]
**£50.7m**
Up 16.6% (10.0% constant currency basis[1])

### Adjusted operating profit margin[2]
**15.5%**
Down 50 bp

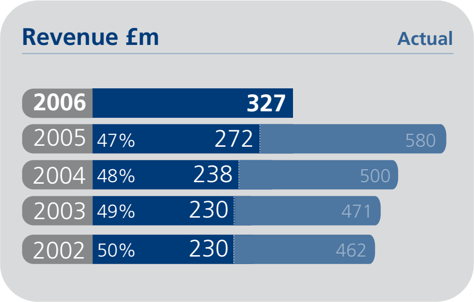
### Operating cash flow
**£47.3m**
Up 57.7%

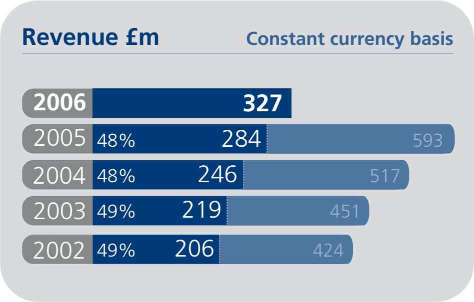
### Profit before taxation
**£45.2m**
Up 17.4%

### Basic earnings per share
**20.1p**
Up 18.2% (13.9% diluted adjusted EPS[3])

### Interim dividend per share
**4.6p**
Up 17.9%

1 The constant currency basis compares revenue and adjusted operating profit for H1 06 and H1 05 at the average exchange rates for the six months to 30 June 2006.
2 Adjusted to remove amortisation of intangible assets £2.0m (H1 05: £0.8m) and goodwill impairment £nil (H1 05: £2.0m), (see reconciliation in note 2 to the interim financial information).
3 Diluted adjusted EPS based on adjusted profit (see note 4 to the interim financial information).




The graphs above show the amount and proportion of total revenue generated in the first half of each of the years 2002 to 2005, compared to the revenue generated in the first half of 2006.

**Cautionary statement**
This Interim 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 Interim Report should be construed as a profit forecast.

# The combined strength of all divisions

Around the world, Intertek provides a full range of safety and quality services through laboratory testing, inspection, auditing and certification for manufacturers, retailers, governments and traders throughout its four divisions. The combined strength of all divisions results in a service solution that sets Intertek apart, providing an in-depth response to customers’ needs, on a local or global basis.

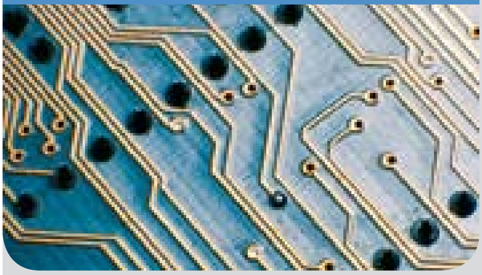
Consumer Goods

**Consumer Goods (Labtest)**
Servicing industries producing products such as textiles, footwear, toys and hardlines in the areas of design, quality, safety and corporate social responsibility. Our clients include some of the world’s largest retail organisations, manufacturers and international traders.

Oil, Chemical & Agri

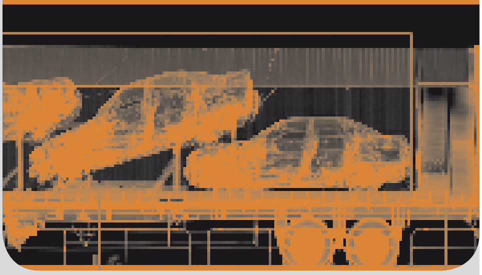
**Oil, Chemical & Agri (Caleb Brett)**
Offering inspection and analytical services to the oil, gas, chemical, agricultural and pharmaceutical industries.

Commercial & Electrical



**Commercial & Electrical (ETL SEMKO)**
Providing services to a wide range of industries including those in the electrical, electronic, medical, building, industrial and automotive component sectors.

Government Services



**Government Services (FTS)**
Working with governments to check safety and quality of imports, verify duty collection and provide cargo security services.

# Chairman's statement

'Strong revenue growth and good prospects for the full year.'

## Results at actual exchange rates

I am pleased to report that revenue for the Group grew to £327.1m, up 20.1%. Strong growth was achieved in all divisions apart from Government Services, our smallest division, which declined as expected, due to the discontinuation of pre-shipment inspection contracts in Nigeria and Venezuela. Organic revenue growth was 12.2%.

Operating profit was £48.7m, up 19.7% over the same period last year. Operating profit before amortisation of intangible assets and goodwill impairment ('adjusted operating profit') increased to £50.7m, up 16.6%. Organic growth in adjusted operating profit was 8.0%.

## Acquisitions

In line with the Group's policy of making complementary acquisitions, in February 2006, the Group acquired Akzo Nobel's electromagnetic compatibility business and assets in Japan for £9.4m. This acquisition enables the Commercial & Electrical division to extend its service offering into a territory where the Group was under represented.

On 1 September 2006, the Group acquired for £6.2m the business and assets of an analytical chemical testing laboratory in the Netherlands, from Chemelot BV, a subsidiary of DSM N.V.

## Dividends

The Board has decided to pay, on 14 November 2006, an interim dividend of 4.6p (2005: 3.9p), an increase of 17.9% over last year's interim dividend. The interim dividend will be paid to members on the register at 3 November 2006.

## Earnings per share

Basic earnings per share were 20.1p, up 18.2% over the same period last year. Diluted adjusted earnings per share were 21.3p, up 13.9%.

## Board changes

I am pleased to welcome Christopher Knight who was appointed a Non-Executive Director on 30 March 2006. A Chartered Accountant and former investment banker, he will, I am confident, make a valuable contribution to the Board's deliberations and to the continued growth of Intertek.

After leading the Consumer Goods division for most of his 33 years with Intertek, Raymond Kong retired as Chief Executive of the division on 1 July 2006 and became a Non-Executive Director of Intertek Group plc. Raymond continues as President of Asia and China, using his knowledge and experience to advance the Group's interests in that region. On behalf of everyone at Intertek, I would like to express our deep gratitude to Raymond for his outstanding contribution towards building the Consumer Goods division into the successful business that it is today. Paul Yao, formerly the Chief Operating Officer of the Consumer Goods division, was appointed Chief Executive of the division to replace Raymond. I wish both colleagues success in their new roles.

## Outlook

We remain confident that Intertek will maintain its market leading position in the industries it serves, and we expect the good progress to continue in the second half.

**Vanni Treves**
Chairman

# Chief Executive Officer's review

'Our strategic focus on adding value to our customers has produced strong growth in the first half and will drive our future growth.'

## Overview of results at constant exchange rates

Overall, the revenue growth was strong. Total revenue for the Group for the first half of 2006 (H1 06) was £327.1m, an increase of 15.1% over the first half of 2005 (H1 05). The three larger divisions – Consumer Goods, Commercial & Electrical, and Oil, Chemical & Agri, which accounted for 91% of the Group's revenue, grew by 20.6%. Many factors contributed to this growth including the new RoHS (Restriction of Hazardous Substances) legislation, the favourable conditions in the oil and chemical market and the good performance of our acquisitions.

We include the results of acquisitions from the date that we acquire them, therefore they distort the period-on-period comparison. In order to compare the Group's performance for H1 06 and H1 05 without this distortion, we calculate organic growth by excluding the revenue and operating profit from acquisitions made in 2005 and 2006. On this basis, organic revenue growth for H1 06 over H1 05 was 7.4%. Excluding Government Services, organic revenue growth was 11.9%.

Adjusted operating profit for the Group for H1 06 was £50.7m, up 10.0% over H1 05 and the Group's operating profit margin was 15.5%. The decline in margin was mainly attributable to the discontinued contracts in the Government Services division.

## Constant currency basis

For statutory reporting purposes the results for H1 06 are translated into sterling using the average exchange rates for the six months to 30 June 2006 and the results for H1 05 are translated into sterling using the average exchange rates for the six months to 30 June 2005. In order to compare the performance of each division on a like-for-like basis, for management purposes we measure the performance of each of the divisions at constant exchange rates. In the table below and in the discussion of performance by division, the revenue and operating profit for H1 05 have been translated at the average exchange rates for the six months to 30 June 2006.

## Definition of operating profit

For statutory reporting, operating profit is stated after the deduction of amortisation of intangible assets and goodwill impairment. For management purposes, we calculate the operating profit of the divisions before deducting these charges. In the commentary that follows, unless otherwise stated, the management definition of operating profit is used.

| | Revenue | | | Operating profit[1] | | |
|---|---|---|---|---|---|---|
| | **H1 06 £m** | Change % | Organic change[2] % | **H1 06 £m** | Change % | Organic change[2] % |
| Consumer Goods | **74.9** | 12.5 | 8.9 | **24.1** | 11.1 | 10.6 |
| Commercial & Electrical | **88.3** | 16.6 | 9.3 | **13.6** | 12.4 | 0.8 |
| Oil, Chemical & Agri | **134.8** | 28.7 | 15.7 | **13.5** | 45.2 | 21.5 |
| Government Services | **29.1** | (22.0) | (22.0) | **4.2** | (44.0) | (44.0) |
| Central overheads | **–** | – | – | **(4.7)** | (4.4) | (4.4) |
| Total at constant exchange rates[3] | **327.1** | 15.1 | 7.4 | **50.7** | 10.0 | 2.0 |

1 Operating profit is adjusted to remove amortisation of intangible assets £2.0m (H1 05: £0.8m) and goodwill impairment of £nil (H1 05: £2.0m).
2 Organic growth figures exclude the results of acquisitions made in 2005 and 2006.
3 Cumulative average exchange rates for the six months to 30 June 2006.

## Consumer Goods (Labtest)

| | H1 06 £m | Change | Organic change |
|---|---|---|---|
| Revenue | **74.9** | 12.5% | 8.9% |
| Operating profit | **24.1** | 11.1% | 10.6% |
| Operating margin | **32.2%** | (40)bp | 50bp |

## Review of performance by divisions

### Consumer Goods (Labtest)

The Consumer Goods division performed well in the first half of 2006, with revenue growth of 12.5% and operating profit growth of 11.1%. The toy sector, which includes toys, footwear and hardlines, grew particularly well, driven in part by an increase in RoHS (Restriction of Hazardous Substances) testing caused by a European Union directive, which became mandatory on 1 July 2006. The global textile market continued to be unsettled by the impact of changes in import quotas but despite these challenging market conditions, revenue from textile testing grew well in key countries such as China and India. The volume of textile testing in Europe remained stagnant as the market shifted increasingly to Asia and Latin America.

On an organic basis, the operating margin increased by 50 basis points. Including acquisitions, the overall 40 basis point decline in operating margin from 32.6% to 32.2% was attributable to the small equipment and building inspection business acquired by Consumer Goods last year. Whilst this business is profitable, its operating margin is currently lower than other parts of the Consumer Goods division.

Over 60% of the revenue in Consumer Goods is generated in China, Hong Kong and Taiwan. Revenue from these countries grew strongly and prospects continue to look good. The textile laboratory network was expanded with new facilities in India, Guatemala and Vietnam and three new laboratories in China.

The key growth drivers in Consumer Goods 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 assurance of quality and safety.

### Profitability

Group operating profit, after charging amortisation of intangibles of £2.0m (H1 05: £0.8m) and goodwill impairment of £nil (H1 05: £2.0m) was £48.7m, up 19.7% over H1 05. The net financing costs were £3.5m in H1 06, compared to £2.6m in H1 05, principally due to higher borrowings and interest rates. The tax rate of 24.8% for H1 06 was based on the estimated tax rate the Group expects for the full year. Profit for the period was £34.0m, up 21.0%.

### Cash flow

Cash from operating activities for H1 06 was £47.3m, up 57.7% on H1 05. The growth was due to the growth in operating profit in the Group and also to an improved working capital position. The cash inflow was used to fund investing activities of £29.4m (H1 05: £13.4m) including capital expenditure of £20.5m (H1 05: £11.7m) and acquisitions of £9.8m (H1 05: £2.2m). Financing activities generated cash inflow of £2.1m (H1 05: £16.8m outflow) due to the net drawdown of debt of £13.6m (H1 05: £7.6m repayment) offset by the payment of dividends of £14.2m (H1 05: £11.8m).

### Litigation

From time to time, the Group is involved in claims and lawsuits incidental to the ordinary course of business. None of the cases has resulted in any material financial impact on the Group's reported income statement for the six months to 30 June 2006. 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 material effect on the financial position of the Group in the foreseeable future. More detail of key claims is given in note 11 to the interim financial information.

### Commercial & Electrical (ETL SEMKO)

| | H1 06 £m | Change | Organic change |
|---|---|---|---|
| Revenue | **88.3** | 16.6% | 9.3% |
| Operating profit | **13.6** | 12.4% | 0.8% |
| Operating margin | **15.4%** | (60)bp | (130)bp |

### Oil, Chemical & Agri (Caleb Brett)

| | H1 06 £m | Change | Organic change |
|---|---|---|---|
| Revenue | **134.8** | 28.7% | 15.7% |
| Operating profit | **13.5** | 45.2% | 21.5% |
| Operating margin | **10.0%** | 110bp | 40bp |

**Commercial & Electrical (ETL SEMKO)**
Overall, the Commercial & Electrical division performed well in the first half of the year, with revenue growth of 16.6% and operating profit growth of 12.4%. All service sectors apart from automotive component testing contributed to this growth.

Revenue from the automotive component testing sector, suffered a small decline in H1 06 compared to H1 05, mostly due to the slow down at the major domestic automotive manufacturers in the United States. Our operations and facilities in the US are being consolidated to achieve greater efficiency and lower costs in the second half of the year. The decline in operating margin was also partly due to investment in facilities in China. The automotive component testing facility in Shanghai which was opened at the end of last year, is progressing and is expected to be fully operational later in the year.

The electrical, building products and HVAC (heating, ventilation and air conditioning) businesses grew strongly, with double digit organic revenue growth. Revenue from the operations in mainland China continued to grow strongly and the network was extended by the opening of five offices and two laboratories in China. Two offices were also opened in India.

In February 2006, the Japanese electromagnetic compatibility (EMC) testing business of Akzo Nobel was acquired. Japan is an important market for Commercial & Electrical and this acquisition will allow quicker penetration of that market for both EMC testing and other services offered by the Group.

There are good growth prospects for the rest of the year and we expect to widen the scope and range of the services we offer, by continued investment in new sectors and regions.

**Oil, Chemical & Agri (Caleb Brett)**
Oil, Chemical & Agri had an excellent performance in the first half of the year with revenue growth of 28.7% and an increase in margin from 8.9% to 10.0%. All service sectors contributed to this growth.

With high volume of trade and increased demand for petroleum products, market conditions were favourable and increased trading activity was evident across all regions. Demand for analytical services also increased with new environmental regulations coming into force in the United States for road and marine fuels. Revenues from analytical services as a percentage of total revenues, grew to 41% in the first half of 2006, up from 36% recorded for the full year 2005.

In the Americas, revenues grew strongly led by the US cargo inspection business with market expansion in the West Coast, East Coast and Gulf of Mexico. Early investments in multiple facilities for testing ultra low sulphur diesel paid off as demand was strong, ahead of the new regulations coming into force in the US later this year. Demand was also strong for ethanol testing due to a change in regulations regarding the permitted additives in petrol.

In Europe, revenue growth was assisted by the full implementation of outsourcing contracts for both inspection and analytical services awarded in 2005. Downstream, two new contracts for a bio fuels plant and a refinery in the UK were won and a contract to provide upstream analytical services to all BP's offshore and onshore oil and gas production facilities started.

In Asia, new laboratories were opened in China, Thailand and Papua New Guinea during the first half of 2006. New minerals testing and agri services were established to take advantage of the growth in these sectors in the region. Upstream capabilities were expanded utilising the support and technology from our Westport laboratory in the US, which was acquired from Halliburton at the end of 2005.

**Government Services** (FTS)

| | H1 06 £m | Change | Organic change |
|---|---|---|---|
| Revenue | **29.1** | (22.0)% | (22.0)% |
| Operating profit | **4.2** | (44.0)% | (44.0)% |
| Operating margin | **14.4%** | (570)bp | (570)bp |

In July, the Group completed the acquisition of Louisiana Meter Services which is a small company providing liquid and gas measurement services to the petroleum and petrochemical industries in the United States.

From 1 September, under an outsourcing agreement, Intertek will provide all the analytical service support to the manufacturing operations of Sabic and DSM in Geleen, Netherlands. This is one of the largest outsourcing contracts for analytical services within the chemical industry to date, with over 170 chemists and technicians joining Intertek.

The market is expected to remain favourable for the rest of the year and there are good prospects for new outsourcing contracts and acquisitions.

## Government Services (FTS)

As expected, revenue for Government Services declined 22.0% in H1 06 over H1 05 due to the discontinuation of pre-shipment inspection (PSI) contracts in Venezuela and Nigeria. These contracts ceased in May 2005 and December 2005 respectively, although revenues from Nigeria ran on through March 2006 to clear work in progress. Operating profit declined 44.0% due mainly to the lost profit from the discontinued contracts and the lost contribution towards the divisional overheads. The division was restructured following the decline in revenue.

Excluding the discontinued contracts, revenue increased by 9.9% in H1 06 compared to H1 05. This growth was due to the good performance of the standards programmes, the container scanning contract in Sierra Leone and technical inspections on construction materials. A new scanning contract in Guinea is expected to commence operations in the second half of the year.

In April, the Government Services division acquired certain assets of Port Maritime Security International Limited (PMSI), a wholly owned subsidiary of Eurotunnel plc. PMSI provides training and consultancy services in cargo scanning and port security. This acquisition strengthens the Group's commitment to the cargo scanning market.

The Government Services division continues to seek new opportunities in the PSI market and is committed to developing innovative solutions to the cargo security issues facing international trade.

## Central overheads

Central overheads were £4.7m for H1 06, an increase of 4.4% over H1 05. The increase reflects the cost of strengthening the procedures and resources in head office to manage the 15% growth in revenue of the Group.

## Looking forward

Our commitment to supporting and adding value for our customers drives everything we do. The issues facing our customers – product variety, shorter product life spans, complexity of supply chains, consumer demand for quality and safety, increasing legislation, environmental and social pressure, increasing competition and price pressure – are the key growth drivers for our business. These remain strong and we are well placed to benefit from them.

We believe that global trade will continue to grow and become more complex and that with the expertise and commitment of our people and our network of resources, we will continue to grow our business to support that trade. Our strategy of focusing on global industries and combining our services, adds value to our customers and has helped to drive the strong growth in our business in the first half of the year. We will continue with this strategic focus and anticipate futher good growth in the second half.

**Wolfhart Hauser**
Chief Executive Officer

# Consolidated interim income statement

| | Notes | Six months to 30 June 2006 (Unaudited) £m | Six months to 30 June 2005 (Unaudited) £m | Year to 31 December 2005 (Audited) £m |
|---|---|---|---|---|
| **Revenue** | 2 | **327.1** | 272.3 | 580.1 |
| Cost of sales | | **(257.7)** | (210.3) | (447.6) |
| **Gross profit** | | **69.4** | 62.0 | 132.5 |
| Amortisation of intangible assets | | **(2.0)** | (0.8) | (2.1) |
| Impairment of goodwill | | **–** | (2.0) | (2.0) |
| Other administrative expenses | | **(18.7)** | (18.5) | (45.4) |
| Total administrative expenses | | **(20.7)** | (21.3) | (49.5) |
| **Group operating profit** | 2 | **48.7** | 40.7 | 83.0 |
| Finance income | | **2.4** | 1.9 | 3.5 |
| Finance expense | | **(5.9)** | (4.5) | (9.4) |
| **Net financing costs** | | **(3.5)** | (2.6) | (5.9) |
| Share of profit of associates | | **–** | 0.4 | 0.7 |
| Profit on sale of interest in associate | | **–** | – | 1.6 |
| **Profit before taxation** | | **45.2** | 38.5 | 79.4 |
| Income tax expense | 3 | **(11.2)** | (10.4) | (18.7) |
| **Profit for the period** | | **34.0** | 28.1 | 60.7 |
| **Attributable to:** | | | | |
| Equity holders of the Company | | **31.3** | 26.4 | 57.1 |
| Minority interest | | **2.7** | 1.7 | 3.6 |
| **Profit for the period** | | **34.0** | 28.1 | 60.7 |

| | Notes | | | |
|---|---|---|---|---|
| **Earnings per share** | 4 | | | |
| Basic | | **20.1p** | 17.0p | 36.8p |
| Diluted | | **20.0p** | 16.9p | 36.5p |
| **Dividends in respect of the period** | | **4.6p** | 3.9p | 12.0p |

# Consolidated interim balance sheet

| | Notes | At 30 June 2006 (Unaudited) £m | At 30 June 2005 (Unaudited) £m | At 31 December 2005 (Audited) £m |
|---|---|---|---|---|
| **ASSETS** | | | | |
| Property, plant and equipment | | **123.1** | 93.1 | 115.9 |
| Goodwill | | **57.6** | 33.9 | 55.7 |
| Other intangible assets | | **11.1** | 2.9 | 12.8 |
| Investments in associates | | **0.5** | 1.9 | 0.7 |
| Deferred tax assets | | **14.2** | 5.5 | 14.4 |
| **Total non-current assets** | | **206.5** | 137.3 | 199.5 |
| Inventories | | **3.4** | 1.7 | 3.1 |
| Trade and other receivables | | **153.2** | 135.3 | 146.3 |
| Derivative financial instruments | | **1.5** | 0.9 | 1.7 |
| Cash and cash equivalents | *7* | **52.6** | 43.3 | 50.8 |
| **Total current assets** | | **210.7** | 181.2 | 201.9 |
| **Total assets** | | **417.2** | 318.5 | 401.4 |
| **LIABILITIES** | | | | |
| Interest bearing loans and borrowings | *7* | **(14.6)** | (14.4) | (15.3) |
| Current taxes payable | | **(25.9)** | (21.4) | (25.8) |
| Trade and other payables | | **(90.0)** | (80.5) | (93.9) |
| Provisions | | **(4.0)** | (3.6) | (8.9) |
| **Total current liabilities** | | **(134.5)** | (119.9) | (143.9) |
| Interest bearing loans and borrowings | *7* | **(181.0)** | (150.1) | (175.4) |
| Deferred tax liabilities | | **(3.5)** | (0.6) | (3.4) |
| Net pension liabilities | | **(17.8)** | (14.1) | (17.8) |
| Other payables | | **(1.1)** | – | (1.2) |
| **Total non-current liabilities** | | **(203.4)** | (164.8) | (197.8) |
| **Total liabilities** | | **(337.9)** | (284.7) | (341.7) |
| **Net assets** | | **79.3** | 33.8 | 59.7 |
| **EQUITY** | | | | |
| Share capital | *8* | **1.6** | 1.6 | 1.6 |
| Share premium account | *8* | **240.9** | 236.8 | 238.2 |
| Other reserves | *8* | **11.1** | 12.1 | 13.4 |
| Retained earnings/(deficit) | *8* | **(182.9)** | (223.4) | (201.3) |
| **Total equity attributable to equity holders of the Company** | *8* | **70.7** | 27.1 | 51.9 |
| Minority interest | | **8.6** | 6.7 | 7.8 |
| **Total equity** | | **79.3** | 33.8 | 59.7 |

# Consolidated interim statement of cash flows

| | Notes | Six months to 30 June 2006 (Unaudited) £m | Six months to 30 June 2005 (Unaudited) £m | Year to 31 December 2005 (Audited) £m |
|---|---|---|---|---|
| **Operating activities** | | | | |
| Profit for the period | | **34.0** | 28.1 | 60.7 |
| Adjustments for: | | | | |
| Depreciation charge | | **13.1** | 9.9 | 22.0 |
| Amortisation of intangible assets | | **2.0** | 0.8 | 2.1 |
| Impairment of goodwill | | **–** | 2.0 | 2.0 |
| Share based expense | *6* | **1.2** | 1.0 | 1.9 |
| Share of profit of associates | | **–** | (0.4) | (0.7) |
| Profit on sale of interest in associate | | **–** | – | (1.6) |
| Net financing costs | | **3.5** | 2.6 | 5.9 |
| Income tax expense | *3* | **11.2** | 10.4 | 18.7 |
| Loss on disposal of fixed assets | | **–** | – | 0.1 |
| | | **65.0** | 54.4 | 111.1 |
| (Increase)/decrease in inventories | | **(0.4)** | (0.2) | 0.1 |
| Increase in trade and other receivables | | **(11.3)** | (22.3) | (23.7) |
| (Decrease)/increase in trade and other payables | | **(1.1)** | 1.9 | 5.9 |
| (Decrease)/increase in provisions | | **(4.9)** | (3.8) | 3.3 |
| **Cash generated from operations** | | **47.3** | 30.0 | 96.7 |
| Interest paid | | **(3.9)** | (2.9) | (6.5) |
| Income taxes paid | | **(12.2)** | (7.1) | (17.8) |
| **Cash flows from operating activities** | | **31.2** | 20.0 | 72.4 |
| **Investing activities** | | | | |
| Proceeds from sale of property, plant and equipment | | **0.3** | 0.1 | 0.3 |
| Proceeds from disposal of interest in associate | | **–** | – | 2.7 |
| Proceeds from disposal of own shares by ESOT | | **–** | – | 0.4 |
| Interest received | | **0.6** | 0.2 | 0.6 |
| Dividends received from associated undertakings | | **–** | 0.2 | 0.8 |
| Acquisition of subsidiaries, net of cash acquired | *9* | **(9.8)** | (2.2) | (44.5) |
| Acquisition of property, plant and equipment | | **(20.5)** | (11.7) | (31.3) |
| **Cash flows from investing activities** | | **(29.4)** | (13.4) | (71.0) |
| **Financing activities** | | | | |
| Proceeds from the issue of share capital | | **2.7** | 2.6 | 3.8 |
| Drawdown of debt | | **48.5** | – | 62.8 |
| Repayment of debt | | **(34.9)** | (7.6) | (53.1) |
| Dividends paid to minorities | | **(1.6)** | (1.0) | (2.9) |
| Dividends paid | *8* | **(12.6)** | (10.8) | (16.9) |
| **Cash flows from financing activities** | | **2.1** | (16.8) | (6.3) |
| **Net increase/(decrease) in cash and cash equivalents** | *7* | **3.9** | (10.2) | (4.9) |
| Cash and cash equivalents at 1 January | *7* | **50.8** | 52.5 | 52.5 |
| Effect of exchange rate fluctuations on cash held | *7* | **(2.1)** | 1.0 | 3.2 |
| **Cash and cash equivalents at end of period** | *7* | **52.6** | 43.3 | 50.8 |

# Consolidated interim statement of recognised income and expense

| | **Six months to 30 June 2006 (Unaudited) £m** | Six months to 30 June 2005 (Unaudited) £m | Year to 31 December 2005 (Audited) £m |
|---|---|---|---|
| Foreign exchange translation differences | **(2.1)** | (2.3) | (1.7) |
| Actuarial gains and losses on defined benefit pension schemes | **–** | – | (3.7) |
| Tax on income and expense recognised directly in equity | **(1.5)** | 1.5 | 1.4 |
| Effective portion of changes in fair value of cash flow hedges | **(0.2)** | 1.9 | 2.6 |
| **Net (expense)/income recognised directly in equity** | **(3.8)** | 1.1 | (1.4) |
| Profit for the period | **34.0** | 28.1 | 60.7 |
| **Total recognised income and expense for the period** | **30.2** | 29.2 | 59.3 |
| | | | |
| **Total recognised income and expense for the period attributable to:** | | | |
| Equity holders of the Company | **27.5** | 27.5 | 55.7 |
| Minority interest | **2.7** | 1.7 | 3.6 |
| **Total recognised income and expense** | **30.2** | 29.2 | 59.3 |

# Notes to the consolidated interim financial information

## 1. Reporting entity

Intertek Group plc is a company domiciled in the United Kingdom. The consolidated interim financial information of the Company as at and for the six months ended 30 June 2006, comprise the Company and its subsidiaries (together referred to as the 'Group') and the Group's interests in associates.

This interim financial information has been prepared applying the accounting policies and presentation that were applied in the preparation of the Company's published consolidated financial statements for the year ended 31 December 2005.

The comparative figures for the financial year ended 31 December 2005, are not the Company's statutory accounts for that financial year. Those accounts have been reported on by the Company's auditors and delivered to the Registrar of Companies. The report of the auditors was (i) unqualified; (ii) did not include a reference to any matters to which the auditors drew attention by way of emphasis without qualifying their report; and (iii) did not contain a statement under section 237(2) or (3) of the Companies Act 1985.

The consolidated financial statements of the Group as at and for the year ended 31 December 2005, are available upon request from the Company's registered office at 25 Savile Row, London W1S 2ES or at www.intertek.com.

## 2. Segment information

### Business analysis (Primary segment)

The Group is organised into four operating divisions: Consumer Goods (Labtest), Commercial & Electrical (ETL SEMKO), Oil, Chemical & Agri (Caleb Brett), and Government Services (FTS). On 1 January 2006, the systems certification business was transferred from Consumer Goods to Commercial & Electrical and prior period figures have been restated to show a like-for-like comparison.

### External revenue

| | Consumer Goods £m | Commercial & Electrical £m | Oil, Chemical & Agri £m | Government Services £m | Total £m |
|---|---|---|---|---|---|
| **Six months to 30 June 2006** | **74.9** | **88.3** | **134.8** | **29.1** | **327.1** |
| Six months to 30 June 2005 | 63.2 | 72.0 | 100.0 | 37.1 | 272.3 |
| Year to 31 December 2005 | 136.7 | 150.9 | 218.0 | 74.5 | 580.1 |

For management purposes, the Group measures the performance of the divisions on operating profit excluding amortisation of intangible assets and impairment of goodwill ('adjusted operating profit'). A reconciliation of operating profit to adjusted operating profit is set out below.

### Operating profit

| | Consumer Goods £m | Commercial & Electrical £m | Oil, Chemical & Agri £m | Government Services £m | Central overheads £m | Total £m |
|---|---|---|---|---|---|---|
| **Six months to 30 June 2006** | | | | | | |
| **Group operating profit** | **23.9** | **12.5** | **12.8** | **4.2** | **(4.7)** | **48.7** |
| **Amortisation of intangible assets** | **0.2** | **1.1** | **0.7** | **–** | **–** | **2.0** |
| **Adjusted operating profit** | **24.1** | **13.6** | **13.5** | **4.2** | **(4.7)** | **50.7** |
| Six months to 30 June 2005 | | | | | | |
| Group operating profit | 18.4 | 10.7 | 8.7 | 7.4 | (4.5) | 40.7 |
| Amortisation of intangible assets | – | 0.6 | 0.2 | – | – | 0.8 |
| Impairment of goodwill | 2.0 | – | – | – | – | 2.0 |
| Adjusted operating profit | 20.4 | 11.3 | 8.9 | 7.4 | (4.5) | 43.5 |
| Year to 31 December 2005 | | | | | | |
| Group operating profit | 42.1 | 21.4 | 17.2 | 16.3 | (14.0) | 83.0 |
| Amortisation of intangible assets | 0.2 | 1.2 | 0.7 | – | – | 2.1 |
| Impairment of goodwill | 2.0 | – | – | – | – | 2.0 |
| Adjusted operating profit | 44.3 | 22.6 | 17.9 | 16.3 | (14.0) | 87.1 |

### Geographic analysis (Secondary segment)

| | **Six months to 30 June 2006 £m** | Six months to 30 June 2005 £m | Year to 31 December 2005 £m |
|---|---|---|---|
| **External revenue** | | | |
| Americas | **123.8** | 94.4 | 203.6 |
| Europe, Middle East and Africa | **92.8** | 90.7 | 186.8 |
| Asia | **110.5** | 87.2 | 189.7 |
| **Total** | **327.1** | 272.3 | 580.1 |
| **Group operating profit** | | | |
| Americas | **14.6** | 10.8 | 21.0 |
| Europe, Middle East and Africa | **(0.4)** | 2.9 | 2.5 |
| Asia | **34.5** | 27.0 | 59.5 |
| **Total** | **48.7** | 40.7 | 83.0 |

## 3. Income tax expense

The tax charge, which is wholly overseas, on profits before tax for the six months to 30 June 2006 of £11.2m (30 June 2005: £10.4m) is based on the estimated effective rate for the full year. The effective tax rate at 30 June 2006 is 24.8% (30 June 2005: 27.0%).

Differences between the estimated effective rate of 24.8% and the notional statutory UK rate of 30% include, but are not limited to, the effect of tax rates in foreign jurisdictions, non deductible expenses, the effect of tax losses utilised and under/(over) provisions in previous years.

## 4. Earnings per ordinary share

| Based on the profit for the year: | **Six months to 30 June 2006 £m** | Six months to 30 June 2005 £m | Year to 31 December 2005 £m |
|---|---|---|---|
| **Basic earnings** – profit attributable to equity shareholders | **31.3** | 26.4 | 57.1 |
| Amortisation of intangible assets | **2.0** | 0.8 | 2.1 |
| Impairment of goodwill | **–** | 2.0 | 2.0 |
| **Adjusted earnings** | **33.3** | 29.2 | 61.2 |
| **Number of shares (millions):** | | | |
| Basic weighted average number of shares | **155.7** | 154.9 | 155.1 |
| Potentially dilutive share options | **0.9** | 1.5 | 1.3 |
| **Diluted weighted average number of shares** | **156.6** | 156.4 | 156.4 |
| **Basic earnings per share** | **20.1p** | 17.0p | 36.8p |
| Options | **(0.1)p** | (0.1)p | (0.3)p |
| **Diluted earnings per share** | **20.0p** | 16.9p | 36.5p |
| **Basic adjusted earnings per share** | **21.4p** | 18.9p | 39.5p |
| Options | **(0.1)p** | (0.2)p | (0.4)p |
| **Diluted adjusted earnings per share** | **21.3p** | 18.7p | 39.1p |

The weighted average number of shares used in the calculation of the diluted earnings per share for the six months to 30 June 2006, excludes 1,434,326 potential shares (30 June 2005: 1,497,513; 31 December 2005: 1,456,156) as these were not dilutive in accordance with IAS 33: Earnings per share.

## 5. Pension schemes

The Directors are not aware of any significant change in the net liabilities of the Group's defined benefit pension schemes since 31 December 2005. Therefore actuarial valuations of the assets and liabilities of the defined benefit pension schemes were not performed at 30 June 2006.

The expense recognised in the consolidated interim income statement consists of the current service cost, interest on the obligation for employee benefits and the expected return on scheme assets. For the six months ended 30 June 2006, the Group recognised a net expense of £0.9m (30 June 2005: £1.2m).

## 6. Share-based payments

The Company has share option schemes, details of which were contained in the Annual Report for the year ended 31 December 2005. As discussed in the 2005 Annual Report, the Company introduced a long term incentive plan called The Intertek Deferred Bonus Plan ('the Plan') and the first awards under this plan were made in April 2006.

During the period, no share options were granted. Under the Plan, 244,222 deferred shares and 128,195 matching shares were awarded in April 2006.

In accordance with IFRS 2: Share based payments, the fair value of services received in return for share options and share awards granted to employees, is measured by reference to the fair value of share options and shares granted. 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 share-based payments. During the six months ended 30 June 2006, the Group recognised an expense of £1.2m in respect of outstanding share options issued in 2003, 2004 and 2005 and in respect of the share awards made in April 2006. For the six months ended 30 June 2005, the charge was £1.0m for outstanding share options issued in 2003, 2004 and 2005.

## 7. Analysis of net debt

| | At 1 January 2006 £m | Cash flow £m | Exchange adjustments £m | **At 30 June 2006 £m** |
|---|---|---|---|---|
| Cash | 50.8 | 3.9 | (2.1) | 52.6 |
| Borrowings | (190.7) | (13.6) | 8.7 | (195.6) |
| **Total net debt** | **(139.9)** | **(9.7)** | **6.6** | **(143.0)** |

## 8. Reconciliation of 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 2006** | **1.6** | **238.2** | **5.4** | **1.6** | **6.4** | **(201.3)** | **51.9** |
| Movement on cash flow hedges | – | – | – | (0.2) | – | – | (0.2) |
| Profit for the period attributable to equity holders | – | – | – | – | – | 31.3 | 31.3 |
| Dividends paid | – | – | – | – | – | (12.6) | (12.6) |
| Issue of shares | – | 2.7 | – | – | – | – | 2.7 |
| Equity settled transactions | – | – | – | – | – | 1.2 | 1.2 |
| Foreign exchange translation differences | – | – | (2.1) | – | – | – | (2.1) |
| Tax on income and expense recognised directly in equity | – | – | – | – | – | (1.5) | (1.5) |
| **At 30 June 2006** | **1.6** | **240.9** | **3.3** | **1.4** | **6.4** | **(182.9)** | **70.7** |
| | | | | | | | |
| At 1 January 2005 | 1.5 | 234.5 | 7.1 | (1.0) | 6.4 | (241.5) | 7.0 |
| Movement on cash flow hedges | – | – | – | 1.9 | – | – | 1.9 |
| Profit for the period attributable to equity holders | – | – | – | – | – | 26.4 | 26.4 |
| Dividends paid | – | – | – | – | – | (10.8) | (10.8) |
| Issue of shares | 0.1 | 2.3 | – | – | – | – | 2.4 |
| Equity settled transactions | – | – | – | – | – | 1.0 | 1.0 |
| Foreign exchange translation differences | – | – | (2.3) | – | – | – | (2.3) |
| Tax on income and expense recognised directly in equity | – | – | – | – | – | 1.5 | 1.5 |
| At 30 June 2005 | 1.6 | 236.8 | 4.8 | 0.9 | 6.4 | (223.4) | 27.1 |

* 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. As permitted by IFRS 1, this figure has not been restated.

The dividend of £12.6m which was paid on 16 June 2006, represents the final dividend in respect of the year ended 31 December 2005, at the rate of 8.1p per ordinary share.

The dividend of £10.8m which was paid on 17 June 2005, represents the final dividend in respect of the year ended 31 December 2004, at the rate of 7.0p per ordinary share.

There was an issue of 722,394 ordinary shares during the period on exercise of share options.

## 9. Acquisition of businesses

There were two acquisitions in the period.

a) On 22 February 2006, the Group acquired Akzo Nobel's electromagnetic compatibility business and assets in Japan for £9.4m, including expenses. This business contributed £0.5m to operating profits from the date of acquisition to 30 June 2006. If the acquisition had occurred on 1 January 2006, management estimates that Group turnover would have been £328.0m and Group operating profit would have been £48.9m for the six months ended 30 June 2006.

Details of net assets acquired and fair value adjustments are as follows:

| | Book value prior to acquisition £m | Fair value adjustments £m | Fair value to Group £m |
|---|---|---|---|
| Intangible assets | – | 0.5 | 0.5 |
| Property, plant and equipment | 4.9 | (0.4) | 4.5 |
| Trade and other receivables | 1.2 | – | 1.2 |
| Net identifiable assets and liabilities | 6.1 | 0.1 | 6.2 |
| Goodwill on acquisition (provisional) | | | 3.2 |
| Cash paid (including expenses) | | | 9.4 |

b) On 20 April 2006, the Group acquired the business of Port Maritime Security International Limited for £0.4m, including expenses. The purchase price was entirely attributed to intangible assets. There were no fair value adjustments.

## 10. Post balance sheet events

On 1 July 2006, the Group completed the acquisition of Louisiana Meter Services for £1.4m. This is a company providing liquid and gas measurement services to the petroleum and petrochemical industries in the United States.

On 1 September 2006, the Group acquired for £6.2m the business and assets of an analytical chemical testing laboratory from Chemelot BV, a subsidiary of DSM N.V.

## 11. Contingent liabilities: claims and litigation

From time to time, the Group is involved in claims and lawsuits incidental to the ordinary course of business. The majority of claims made against Intertek's subsidiary companies fall within the Oil, Chemical & Agri division (Caleb Brett). In the 2005 Annual Report, reference was made to three ongoing cases in Caleb Brett and the latest developments in each case are summarised below.

In November 2005, one claim dating back to 1996, was contested in court and unexpectedly resulted in a judgment against Caleb Brett. An appeal hearing took place in May 2006. The appeal judgment is expected to be given in the second half of 2006.

A court trial took place in March 2006, in which claims were made by Marine Cargo Underwriters against certain Caleb Brett subsidiary companies. The court ruled in favour of Caleb Brett. The claimant subsequently sought to appeal the court judgment.

In August 2002, a lawsuit was filed against Caleb Brett in the district of Puerto Rico. A process of fact and expert discovery began in earnest in the second half of 2005. This matter has now been resolved and the court dismissed the lawsuit in May 2006.

None of the above cases has resulted in any material financial impact on the Group's reported income statement for the six months to 30 June 2006. 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 material effect on the financial position of the Group in the foreseeable future.

## 12. Approval

The consolidated interim financial information was approved by the Board on 1 September 2006.

# Independent review report by KPMG Audit Plc to Intertek Group plc

**Introduction**

We have been instructed by the Company to review the financial information for the six months ended 30 June 2006 which comprises the consolidated balance sheet, income statement, statement of cash flows, statement of recognised income and expense and the related notes. We have read the other information contained in the Interim Report and considered whether it contains any apparent misstatements or material inconsistencies with the financial information.

This report is made solely to the Company in accordance with the terms of our engagement to assist the Company in meeting the requirements of the Listing Rules of the Financial Services Authority. Our review has been undertaken so that we might state to the Company those matters we are required to state to it in this 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 for our review work, for this report, or for the conclusions we have reached.

**Directors' responsibilities**

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

**Review work performed**

We conducted our review in accordance with guidance contained in Bulletin 1999/4 issued by the Auditing Practices Board for use in the UK. A review consists principally of making enquiries of management and applying analytical procedures to the financial information and underlying financial data and, based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit performed in accordance with International Statements on Auditing (UK and Ireland) and therefore provides a lower level of assurance than an audit. Accordingly, we do not express an audit opinion on the financial information.

**Review conclusion**

On the basis of our review we are not aware of any material modifications that should be made to the financial information as presented for the six months ended 30 June 2006.

KPMG Audit Plc

**KPMG Audit Plc**
Chartered Accountants
London
1 September 2006

# Notes

# Corporate information

**Board of Directors**
Vanni Treves *Chairman**
Richard Nelson *Deputy Chairman**
David Allvey*
Christopher Knight*
Raymond Kong*
Debra Rade*
Wolfhart Hauser *Chief Executive Officer*
William Spencer *Chief Financial Officer*
* Non-Executive Directors

**Company Secretary**
Fiona Evans

**Registrars**
Lloyds TSB Registrars
The Causeway
Worthing
West Sussex BN99 6DA
T: 0870 600 3983
T: +44 121 415 7059 (outside UK)

**Auditors**
KPMG Audit Plc
PO Box 486
8 Salisbury Square
London EC4Y 8BB
T: +44 20 7311 1000

**Registered Office**
Intertek Group plc
25 Savile Row
London W1S 2ES
T: +44 20 7396 3400
F: +44 20 7396 3480

www.intertek.com

Registered number: 4267576

ISIN: GB0031638363

London Stock Exchange Support Services
FTSE 250
Symbol: ITRK

**Brokers**
JPMorgan Cazenove
20 Moorgate
London EC2R 6DA
T: +44 20 7588 2828

Goldman Sachs International
Peterborough Court
133 Fleet Street
London EC4A 2BB
T: +44 20 7774 1000

# Financial calendar

| | |
|---|---|
| Financial year end | 31 December 2006 |
| Results announced | 5 March 2007 |
| Annual General Meeting | 11 May 2007 |
| Interim results announced | 3 September 2007 |

# Contact information

## Consumer Goods

**Labtest**
e: labtest@intertek.com

Americas
t: +1 630 623 6070
f: +1 630 623 6074

Europe
t: +33 232 09 36 36
f: +33 232 09 36 37

Asia
t: +852 2173 8888
f: +852 2786 1903

## Oil, Chemical & Agri

**Caleb Brett**
e: calebbrett@intertek.com

Americas
t: +1 713 407 3500
f: +1 713 407 3594

Europe
t: +44 1708 680200
f: +44 1708 680255

Asia
t: +65 6222 3889
f: +65 6222 2884

## Commerical & Electrical

**ETL SEMKO**
e: etlsemko@intertek.com

Americas
t: +1 800 967 5352
f: +1 800 813 9442

Europe
t: +46 8 750 0000
f: +46 8 750 6030

Asia
t: +86 21 6495 6565
f: +86 21 6495 6263

## Government Services

**FTS**
e: fts@intertek.com

Americas
t: +1 305 513 3000
f: +1 305 513 3001

Europe
t: +44 1277 223400
f: +44 1277 220950

Asia
t: +65 6285 7557
f: +65 6382 8662

We are active in every region around the globe. To find your nearest Intertek office and to see our full range of services, visit our website:

# www.intertek.com

Designed and produced by **Emperor Design Consultants Ltd**
Telephone **020 7729 9090 www.emperordesign.co.uk**

**Intertek Group plc**
Head Office
25 Savile Row
London
W1S 2ES
United Kingdom
T: +44 20 7396 3400
F: +44 20 7396 3480
E: info@intertek.com

**www.intertek.com**