

AMEC plc annual report and accounts 2007

Aspiring to Excellence

AMEC's vision is to be a
leading supplier of **high-value**
consultancy, engineering and
project management services
to the world's **energy, power**
and **process industries**



believing in **people, teamwork** and **diversity**
delivering in a **safe** and **sustainable** way
acting with **integrity** and **respect**
aspiring to **excellence**; passionate about **success**

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AMEC at a glance

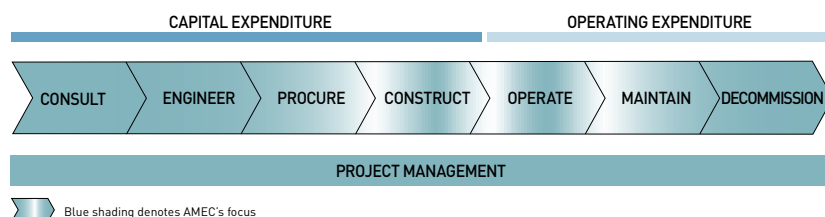
About us

AMEC is a FTSE 100 company, whose shares are traded on the London Stock Exchange, where the company is listed in the Oil Equipment and Services sector (LSE: AMEC.L).

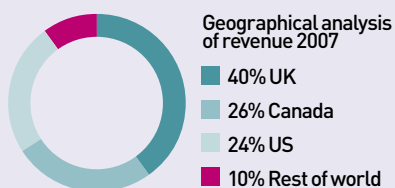
With annual revenues of over £2.3 billion, the company is a focused supplier of high-value consultancy, engineering and project management services to the world's energy, power and process industries.

Our services

We provide total life of asset services including the design, delivery and maintenance of strategic and complex assets, ranging from oil and gas production facilities to nuclear power stations.



We have major operations in the UK and Americas and work internationally for customers from the Arctic to Australia, employing approximately 20,000 people in more than 30 countries worldwide.

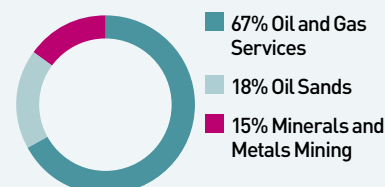


Our customers range from national and local governments to blue chip companies on both sides of the Atlantic, with our largest customer accounting for some 10 per cent of total revenues.

For further details of our activities, visit our website at www.amec.com

Natural Resources

% 2007 divisional revenues



Oil and Gas (including Oil Sands)

We design, manage delivery of, maintain and upgrade production assets for a broad range of oil and gas companies worldwide.

With strong, long-term customer relationships, we are a leading supplier in the UK North Sea and upstream Canadian oil sands and have strong positions in frontier regions including the Caspian.

Minerals and Metals Mining

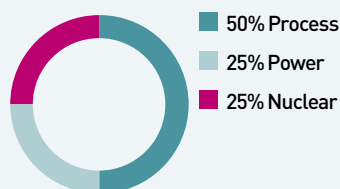
We advise on, design and manage delivery of mining infrastructure for customers, mainly in the Americas.

We have a leading position in North America, where we have strong, long-term relationships with customers that value our experience working on large scale projects, often in extreme climatic conditions.

Albian Sands Energy Arizona Department of Transportation
Defence Cargill Chevron CMPC ConocoPhillips
Koch (Georgia Pacific) Kuwait Oil Company National Oil
Suncor Syncrude Teck Cominco Terrane Metals

Power and Process

% 2007 divisional revenues



We design, deliver, enhance and maintain electricity and gas infrastructure in the UK, and industrial plant and power facilities in the UK and Americas.

AMEC has leading positions in the supply of engineering services to the gas transmission and storage and electricity transmission sectors in the UK and selected segments of the North American industrial process market (e.g. cement).

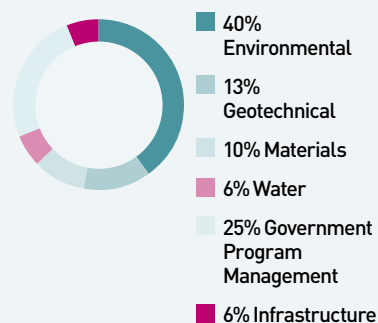
Nuclear

AMEC is one of the leading providers of technical consultancy, engineering services and programme and asset management to the nuclear industry.

We are well positioned in the UK and Canada, and also provide services in the Americas, Central and Eastern Europe and South Africa.

Earth and Environmental

% 2007 divisional revenues

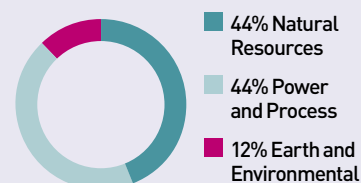


We provide consultancy, engineering and project management services for public and private sector customers, primarily in the Americas.

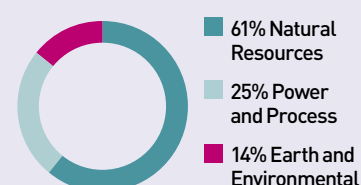
AMEC has a leading position in the Canadian market for environmental services and is a major supplier to the US Air Force in locations around the world.

AMEC

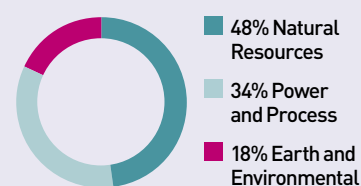
% 2007 group revenues*



% 2007 group EBITA*



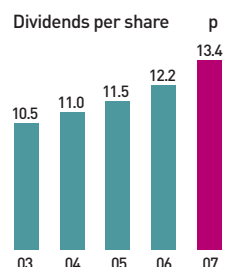
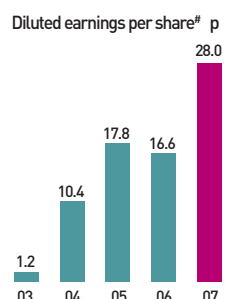
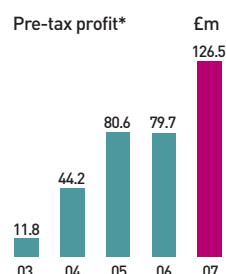
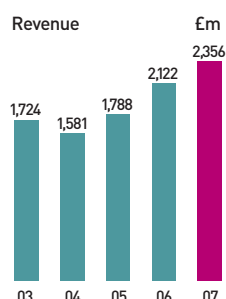
% 2007 group average employees**



* Excluding the Investments and other activities division

Full-time equivalents including agency staff

Highlights



- Strong performance by the group's three core divisions
- Adjusted pre-tax profit* £126.5 million, up 59%
- Profit for the year £344.4 million (2006: £219.2 million)
- 5.1% EBITA margin** (2006: 4.1%); on track to deliver 2008 margin target of 6%
- Diluted earnings per share# from continuing operations 28.0 pence, up 69%
- Dividends per share up 10% to 13.4 pence
- Average net cash 2007 £435 million; 2008 expected to be c.£600 million##

	2007 £ million	2006 £ million	
Continuing operations:			
Revenue	2,356.2	2,121.6	+11%
Profit before intangible amortisation, exceptional items and income tax*	126.5	79.7	+59%
Profit/(loss) before income tax	151.6	(27.0)	nm
Profit from discontinued operations – including profit on disposals	222.9	261.4	-15%
Diluted earnings per share from continuing operations before intangible amortisation and exceptional items	28.0p	16.6p	+69%
Diluted earnings/(loss) per share – continuing operations	36.1p	(13.3p)	nm
Dividends per share	13.4p	12.2p	+10%

nm Not meaningful.

* For continuing operations before intangible amortisation of £2.5 million (2006: £3.6 million) and pre-tax exceptional income of £28.2 million (2006: charges of £102.8 million) but including joint venture profit before tax of £1.8 million (2006: £0.2 million).

** For continuing operations before net financing income/(costs), intangible amortisation, pre-tax exceptional items and £12.4 million one-off costs of STEP Change (2006: £nil) but including joint venture profit before tax, as a percentage of revenue.

For continuing operations before intangible amortisation and exceptional items.

Before acquisitions and share buybacks.

Any forward looking statements made in this document represent management's best judgement as to what may occur in the future. However, the group's actual results for the current and future fiscal periods and corporate developments will depend on a number of economic, competitive and other factors, some of which will be outside the control of the group. Such factors could cause the group's actual results for future periods to differ materially from those expressed in any forward looking statements made in this document.

Chairman's statement



A transformational year, with record results, record levels of cash, and inclusion in the FTSE 100 index.

10%
growth
in dividends
per share

Jock Green-Armytage
Chairman

On track

to deliver our 2008
margin target of 6%

Twelve months ago, I said that we expected to see the new AMEC well established by the end of 2007. We set out to achieve a transformation of the company and I am pleased to report that we have delivered, exceeding our own expectations.

AMEC achieved record results in 2007, and following the successful divestment of our non-core businesses, we now have a record cash balance available to fund future growth.

Our market capitalisation has increased by more than £1 billion since January 2007, to £2.5 billion. I am particularly proud that this success was marked by AMEC's inclusion in the FTSE 100 index in December 2007. This is a tribute to the hard work of Samir Brikho, his management team and AMEC's 20,000 employees around the world.

The board is recommending a final dividend of 8.8 pence per share (2006: 8.0 pence), which results in a total dividend of 13.4 pence per share (2006: 12.2 pence), a 10 per cent increase on 2006. At 2.1 times dividend cover, this achieves our stated aim of having a sustainable dividend cover of more than two times.

During the year, James Dallas and John Early retired from the board, James in May and John in July. Both have been long-serving board members and their support over the years has been much appreciated.

Creating a successful, sustainable company is about more than just improving the results. AMEC has a presence in more than 30 countries and in many more communities within those countries. Our employees are enthusiastic contributors to their local neighbourhoods, giving their time and raising money to support local initiatives. In 2007, for the fourth year running, AMEC was awarded number one position in our sector in the Dow Jones Sustainability Index. We continue to be ranked in the Top 100 'Companies that Count' index, published annually in the UK's Sunday Times.

2007 was a transformational year for AMEC, and one of outstanding financial performance. The identity of the company has been successfully changed to that of a major force in the world of energy, power and process. I am proud of our achievements and have enormous confidence in the management team.

AMEC's prospects have never been better. The outlook in our end markets continues to be strong and I remain confident that we will achieve our stated margin targets of six per cent in 2008 and eight per cent in 2010.

11 March 2008

Adjusted pre-tax profit up 59% to

£126.5 million

Stuart Siddall, Finance Director, resigned on 17 March 2008 and will step down from the board after the annual general meeting. Stuart has seen many changes since he first joined AMEC in 2000 and will leave with the company well positioned for an exciting future. The board is grateful to Stuart for his considerable contribution to the company.

Chief Executive's review



Building an army of the best engineers, project managers and consultants in the world; we aspire to excellence in everything we do.

Record
results and cash position

Samir Brikho
Chief Executive

2007 was a year in which AMEC achieved outstanding success, both in terms of transforming the business and in delivering record results.

Strong growth in both the Natural Resources and Power and Process divisions drove underlying growth of 21 per cent in revenues*, this being almost entirely organic. Adjusted pre-tax profit was up 59 per cent at a record level of £126.5 million, with our year-end net cash position standing at £733 million, also a record. By any measure, these are outstanding results.

After a year in which we delivered on and exceeded the promises we made in late 2006, AMEC is now a company with a clear vision, a common sense of direction and a culture of performance and delivery. AMEC employees understand what we need to do to achieve our performance improvement targets and create a truly world class company. We are united in our desire to achieve our goals.

A year of outstanding success

AMEC's people are our most important asset. It is the skills of our people that our customers value; in particular, our ability to deliver complex projects safely, on time, and on budget. We need to create the best army of engineers in the world; the best army of project

managers and the best army of consultants. We need to make sure they are provided with the skills and tools they need to deliver outstanding performance. We want AMEC to set the standards against which performance is measured in our industry. That is what our Operational Excellence programme is all about.

Operational Excellence was launched in September 2007 and is a two to three year programme which will be a major contributor to the achievement of our eight per cent EBITA margin target in 2010. Taking a good company and turning it into a great company is about much more than merely short-term profit improvement. We want to operate to the highest standards in every area of our business and for continuous improvement to become a way of life for everyone at AMEC.

So what does this mean to the way in which we run our business? We want to be the supplier of choice to our selected customers and the customer of choice to our selected suppliers. AMEC's end markets were strong in 2007 and we expect them to remain so in 2008. Our customers are increasing their capital expenditure plans and continue to look to AMEC to support them in achieving their growth. Operational Excellence is helping us choose the markets in which we should operate, the customers we should be working with and the projects on which we can add the greatest value. We are also reviewing our processes and procedures, ensuring they are efficient and effective in support of our goals.

We want to attract, retain and develop the best people in the business. We continue to work with schools and universities to develop the next generation of world class engineers and also look more widely into our local communities to attract the best employees. Through Operational Excellence, we are looking at new ways to train and develop our employees, providing them with the skills and experience they need to do their job and advance their careers. Providing a healthy and safe working environment for our employees is of paramount importance to AMEC, just as the safe delivery of projects is important to our customers. Despite achieving an improvement in lost time injuries during 2007, tragically, an AMEC employee was killed following a fall from height. No accident is acceptable to us and we will continue to strive for excellence in safety.

We want to create a business which is sustainable for the long term. In 2007, we took the first crucial steps in transforming AMEC into a world class company. I have been humbled by what AMEC employees achieved, setting stretching goals and exceeding them. Going forward, we are aspiring to excellence in everything we do, seeking to raise the bar of best in class performance in our industry and ensure a safe, successful and sustainable future for AMEC.

11 March 2008

* Continuing revenues excluding oil and gas lump-sum contracting (now ceased), and the Investments and other activities division (where various businesses were sold or closed during 2007).



Left to right: Nick Walters, Maintenance
Manager, AMEC; Daren Smith, UK
Maintenance Services Manager, SABIC



AMEC has a three year contract with SABIC (Saudi Basic Industries Corporation) for the maintenance of three major chemical process plants on Teesside, north east England. The contract commenced on 1 January 2007.

“AMEC’s first year of operations has been an overwhelming success, with continued safety performance improvement and minimal disruption to ongoing maintenance service delivery. A very promising start to what I trust will be a long and mutually beneficial relationship.”

Daren Smith, UK Maintenance Services Manager, SABIC

Our people

AMEC is nothing without its people. We are not big spenders on heavy machinery or proprietary technology. Instead, we have highly qualified, highly experienced consultants, engineers and project managers. Their knowledge and expertise is valued by our customers and our ability to attract, develop and retain such exceptional talent underpins our success. Here, we share with you some of the energy and enthusiasm from our people around the world...



"I guess the thing I'm most proud of in the way AMEC works is the fact that they don't compromise on anything. They've got set core values and principles and those are fairly fixed in the way that we do our business and the way we do our work, and those principles aren't dropped when we go into a new country or a new region. Those core values are seen throughout the whole of the business, which is really, really important in terms of a company that you can trust and a company that you're proud to work for. A very trustworthy and reliable company which has values and principles.

What excites me about my job is that it varies day to day. I deal with a whole host of different people from different countries and different cultures and that's a really exciting thing to do."

Frances Allan, Sustainability Programme Manager, Natural Resources.
Honours degree in Chemistry with Environmental Science (University of Kent at Canterbury, 1996); Diploma in Environmental Management (British Safety Council, 2000). Since joining AMEC in 2000, Frances has been supported in gaining her Masters in Sustainable Development (Staffordshire University, 2006).

“It's much more fun being part of Manchester United than a team that's in relegation”

Frances Allan
Sustainability Programme Manager

“Every one of us has an opportunity to make a difference in AMEC”

“I’m part of a motivated team of people that’s making it happen”

“Clients require and demand competent, qualified people on their projects. Within Azerbaijan, AMEC is recognised as a company that puts the development and professional growth of local employees first. AMEC, from my experience, is a company that provides opportunities for people and cares about people, their development, growth and competency. Certainly for me that makes it a good company to work for. It’s an opportunity that I have to make a difference and change, improve health and safety in the workplace... It’s being able to contribute to the overall success of the project and operation.”

Sevil Ismailova, Caspian Health and Safety and Environmental Manager, Natural Resources.

Graduate of Azerbaijan Baku Institute of Political Science, Faculty of Department of International Relations.

Since joining AMEC in August 2000, Sevil has been supported in becoming a chartered member of the UK’s Institution of Occupational Safety and Health (2008), as well as gaining Diploma Parts 1 (2004) and 2 (2005) from the National Examination Board in Occupational Safety and Health.

“One of the things that I’m proud of about the way AMEC works is the way that we go about our business in terms of listening to stakeholders and customers, and then delivering our projects and services, meeting and exceeding customer expectations. Strong delivery like that builds our track record and that’s something to be proud of.”

Andrew Pennington, Business Development Manager, Power and Process Nuclear.

Since joining AMEC in 1991 as a graduate (Mechanical Engineering B. Eng. (Hons), University of Surrey), Andrew has been supported in becoming a Chartered Engineer (Institution of Mechanical Engineers, 1995); and has also been sponsored by AMEC through an Executive MBA at Cranfield School of Management.

“The quality of the expertise that we have is very good. It has to be, because of the type of projects that we deliver. They are complex projects, and therefore to carry out this type of work you have to have good people, across the company, whether it’s in engineering or it’s in project management.”

Ted Barker, Project Manager, Power and Process UK and Europe.

First joined AMEC in 1973 as a trainee, and after leaving in 1991 rejoined in 1995. Ted was supported by AMEC in gaining Higher National Certificate (Darlington College of Technology, 1977) and a Master of Science degree at UMIST University in 2003.

World class engineering

We employ approximately 20,000 people across the world, providing high-value consultancy, engineering and project management services. We have long-term relationships with our customers, who value our skills and ability to deliver projects safely, on time and on budget. They recognise our expertise in working on complex assets, in often harsh conditions. Here, we take a look at just some of the things that make AMEC a leading force in engineering...

Natural Resources

In 2007, AMEC celebrated ten years of being in Baku, Azerbaijan. We are proud of the story of our involvement in the country, where we have worked with local companies and transferred technology and skills to the local workforce to deliver long-term benefits to the local economy.

In September 2007, AMEC celebrated the sail-away, ahead of schedule, of the Azerbaijan International Oil Company's 12,700 tonne process, compression, water injection and utilities facility. Azerbaijan is an emerging market, in a remote location with limited resources, and extreme climate. By bringing together our international expertise with the local capabilities that we have developed with joint venture partners, we are able to achieve world class standards in build quality and project management. We have helped to develop a sustainable oil and gas services business in Azerbaijan, which in future will be able to supply engineering services and skilled resources to oil companies throughout this growth region.

Power and Process

AMEC has been providing engineering support to the UK's nuclear reactor programme over the last 40 years. Many of these reactors have now exceeded their original design lives. It is both of national interest and good business practice that these reactors continue safely to generate electricity into the future and we are proud that our world class skills in reactor services are making an important contribution.

For irreplaceable components such as the graphite cores, we have developed analytical models to substantiate continued safe functionality, validated by extensive test work in our facilities.

During 2007, we developed a world class strategy for life extension and lifetime planning for the advanced gas cooled reactors ('AGRs') owned and operated by British Energy. This has applied the guidelines developed by the US Electric Power Research Institute (mainly for light water reactors) to the specifics of the AGR technology. Through the alliance with AMEC, British Energy expects to see year on year measurable improvement in AGR performance.

Earth and Environmental

AMEC has been selected to perform environmental impact analyses (EIAs) in some of the most challenging and sensitive areas of the world. Examples during 2007 include a liquefied natural gas deepwater port proposed 30 miles off the Southern California coast; a proposed tungsten and molybdenum mining operation in South Korea and an unprecedented 17 state environmental impact statement for a proposed 17,000 mile network of natural gas pipelines in the US.

AMEC has also provided world class consultancy services to enable the clean up of former military firing ranges in difficult and dangerous locations. In Hawaii, our work has resulted in the removal of around 13 tonnes of lead from ranges located in the crater of Diamond Head volcano, whilst at Brown's Island, a saltwater marshland on the North Carolina coast, developmental aerial techniques have been employed to identify locations most likely containing surface or buried unexploded ordnance ('UXO'). This methodology also can be used to safely survey areas littered with landmines to guide reacquisition ground crews, thereby reducing risk to UXO technicians and the public.



"It's how we put those project management skills, those engineering skills to use that makes us different. The people that we have working for us, the skills, the knowledge that's been built up over the years is second to none."

Neil Wem, Operational Excellence Programme Director, based in the UK.
Joined AMEC 1978.

"I think AMEC's expertise is with its people and its professionalism, its experience and track record, its ability to deliver and deliver consistently and reliably to customers."

Nick Walters, Operations Manager, based in the UK.
Joined AMEC 1997.

"Clients aren't expecting us to be perfect. What they're expecting though is competency, consistency, honesty, an ethical approach and if we do happen to make mistakes, which everybody does, we don't run from them, we turn them into wins."

Michael Davies, Vice President, based in Canada.
Joined AMEC 1998.

"We have one client who still speaks our praises for one of our projects, and I think he's the best salesman we have."

Isabel Cellis, Graduate Engineer, based in Canada.
Joined AMEC 2004.

Neil Wem
Operational Excellence Programme Director

Operational Excellence

We want AMEC to be a successful, sustainable company for the long term: one that our employees are proud to work for; that our customers and suppliers want to partner with; that local communities welcome; that shareholders want to invest in...



What is Operational Excellence?

Operational Excellence is about tackling continuous improvement in a consistent way and having consistent practices and procedures to work from. Across AMEC, we want to have world class operating systems and procedures. We want to work for the right customers and with the right suppliers – as the supplier of choice to our chosen customers, and the customer of choice to our chosen suppliers. We want to employ and retain the best people – people that want to develop their skills for the future. We want our culture to be one of delivery and performance.

The Operational Excellence programme will have an effect right across AMEC over the next couple of years and will become a way of life for AMEC employees thereafter.

Operational Excellence will be a major contributor to delivering our margin target of eight per cent by 2010.

“You need to think excellence to deliver excellence. I’ve seen what a lot of really excellent people we’ve got in the business. If we can unlock their potential and get everybody working to the high standards of the best, we’ll be head and shoulders above our competition. I’ve learnt through my career that overcoming challenges is extremely rewarding. I get excited by challenge now rather than afraid of challenge. And I think that when AMEC and its employees come together to overcome challenges for our customers, we really deliver. I think that we shouldn’t be frightened of challenges, we should look forward to challenge and we should embrace challenge.”

Neil Wern, Operational Excellence Programme Director.

Garry Dryburgh
Operational Excellence Director, Natural Resources

“Making a good company great”

“It’s like each one of the tools in our toolbox is a little better tuned”

“If we’re successful, our customers are successful and vice versa”

“I think Operational Excellence is about honing our capabilities to take the organisation forward to an excellent future. It’s about strengthening an organisation to work at a higher level to deliver the levels of performance that we want and expect to achieve in the future. That can only be good for our employees; they get a consistent message, they see a consistency to the way we do things, and new employees quickly feel part of the organisation.”

Nina Schofield, Security, Safety, Health, Environment, and Quality Director for Natural Resources; Head of Safety, Health and Environmental.

“I’m hugely excited to be part of the Operational Excellence programme.

We’re working really hard to equip ourselves to meet the needs of customers into the future and the combination of employee development plans and our recently developed project academy are going to make us an employer of choice.

I think the thing I’m most proud of in the way AMEC works is our honesty when it comes to discussing performance and our steely commitment to do better tomorrow than we do today. We know we’re not perfect, and there’s a concerted effort and a professional will to do something constructive about it.

Operational Excellence has been fundamental to us: creating a culture of high value delivery for the long term, sustainably; meeting our eight per cent margin for 2010; attracting, developing

and retaining the best people; creating world class operating systems and procedures; and becoming the supplier of choice to our chosen customers. It’s also about embedding a performance based culture and there’s nothing there that is not going to benefit our future delivery on our projects and contracts. Will it be tough? Yes. Will it require the engagement of thousands of our people? You bet. Will it have the commitment from the top? Absolutely, and that’s demonstrable now. Will it help us manage a scarce resource and become the project management and engineering services employer of choice? I have every confidence it will propel us a long way down that path.

Will we ever be finished? I certainly hope not because continuous improvement’s going to become the way we do things around here.”

Garry Dryburgh
Operational Excellence Director, Natural Resources.

“You need to think excellence to deliver excellence”

“Cortez Gold Mines and the people at AMEC have enjoyed a strong working relationship for more than a decade. Cortez is grateful for the professionalism, technical acumen, and positive service-oriented attitude of the AMEC people that work with us, and we look forward to working with them in the future.”

George Fennemore, Environmental Manager, Barrick Cortez Gold Mines



Left to right: Michael Rupe, Heap Leach General Supervisor and Project Manager, Barrick Cortez Gold Mines; Paul Kaplan, Client Manager, AMEC; Maria Anderson, HR Coordinator, Cortez



AMEC is providing the Cortez Gold Mine, Nevada, US, with engineering and environmental services focused on gold extraction processes, spent ore disposal, and final reclamation and closure – areas critical not only to the mine's financial performance, but also to the reputation of Cortez with public and regulatory agencies.

Business and financial review



Introduction

This business and financial review sets out descriptions of each of the group's business segments, their markets, strategy, significant factors affecting performance for the year ended 31 December 2007 including comments on movements in the income statement, balance sheet and cash flow statement and on matters that may have an impact on the group's future financial performance.

The review provides a broader perspective of AMEC's businesses to enable a more informed judgement to be made of the group's financial performance and prospects. Certain forward-looking statements with respect to the financial condition, operations and results of AMEC's businesses are contained in the review. These statements 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 performance or developments to differ materially from those expressed or implied by these forward-looking statements.

The review is provided solely to provide additional information to assist in the assessment of the group's strategy and future prospects. It should not be relied on for any other purpose.

Strategy

AMEC's vision is to be a leading supplier of high-value consultancy, engineering and project management services to the world's energy, power and process industries.

Services are focused on consulting, designing, managing the delivery of, and maintaining strategic and complex assets such as offshore oil and gas production facilities, mineral or metals mines, or power infrastructure.

Diluted earnings per share
from continuing operations*
28.0p

up **69%**

*before intangible amortisation and exceptional items

Stuart Siddall
Finance Director

The group's core divisions comprise:

- Natural Resources: Oil and Gas Services
Oil Sands (project management, engineering and infrastructure)
Minerals and Metals Mining
- Power and Process: Power
Process
Nuclear
- Earth and Environmental.

Important goals for AMEC are adjusted EBITA margin* targets of six per cent in 2008 and eight per cent in 2010.

Investment opportunities have been identified which would grow and develop the core divisions, details of which are set out in the segmental review on pages 19 to 44. A number of acquisitions consistent with these opportunities have been made over the last 15 months, details of which are set out on pages 66 to 67 of the report of the directors.

STEP Change

STEP Change, a programme of change in the structure and culture of the company, was completed ahead of schedule in September 2007 and exceeded original expectations. Net savings of £11 million were delivered in 2007, and with further incremental savings of at least £29 million in 2008, recurring net benefits of £40 million per annum are expected compared with the 2006 baseline.

The total cost of the programme in 2007 was £12 million, compared with the original estimate of £18 million.

Operational Excellence

Following the successful completion of STEP Change, AMEC is proceeding with 'Operational Excellence', a two to three year programme to radically improve the group's operating performance.

The programme is packaged into 12 focus areas identified as those most important to achieving high performance across AMEC:

- Business controls
- Cash management
- Commercial management
- Employee development
- Engineering
- Health and safety
- Information technology
- Project management
- Strategic marketing
- Strategic relationship management and business acquisition
- Supply chain management
- Sustainability.

Time based management is being used as a tool to co-ordinate these activities and achieve common and optimised processes and procedures.

Expected average
net cash[#] for 2008

c.£600
million

[#]before acquisitions and share buybacks

* Profit for continuing operations before net financing income/costs, intangible amortisation, pre-tax exceptional items, but including joint venture profit before tax, as a percentage of revenues.

Business review

Strong EBITA growth in all three core divisions

Through Operational Excellence, AMEC intends to improve the quality of the business portfolio and service delivery to customers; and to simplify and optimise internal controls and processes.

Operational Excellence will be a major contributor to AMEC delivering its target EBITA margin of eight per cent in 2010. Target margins for 2008 and 2010 are summarised below:

	Actual EBITA margin	EBITA margin target range	
	2007	2008	2010
Natural Resources	9.4%	9-10%	10-11%
Power and Process	4.3% [#]	5-6%	6-7%
Earth and Environmental	7.4%	8-9%	9-10%
Group margin[†]	5.1%[#]	6%	8%

Operational Excellence is expected to incur costs of up to £10 million in 2008. Further costs, both revenue and capital expenditure, are expected in 2009.

Results

Revenue for the year increased by 11 per cent to £2,356.2 million (2006: £2,121.6 million), reflecting strong growth in both the Natural Resources and Power and Process divisions. Underlying growth in revenues, excluding oil and gas lump-sum contracting (now ceased), and the Investments and other activities division (where various businesses were sold or closed during the 2007) was 21 per cent in 2007, being almost entirely organic.

Adjusted pre-tax profit* of £126.5 million was up £46.8 million (2006: £79.7 million), with all core divisions performing strongly.

There was pre-tax exceptional income of £28.2 million (2006: charge of £102.8 million), intangible amortisation of £2.5 million (2006: £3.6 million) and joint venture tax of £0.6 million (2006: £0.3 million), resulting in a pre-tax profit of £151.6 million (2006: loss of £27.0 million).

Profit for the year (including profit on disposal of discontinued businesses) was £344.4 million (2006: £219.2 million).

Basis of preparation and discontinued activities

The business and financial review is based on the reported results for continuing operations before intangible amortisation and pre-tax exceptional items but including joint venture profit before tax. The results as presented in the business and financial review are reconciled on pages 51 to 53 of this review to those presented in note 2 to the consolidated accounts.

As previously disclosed, the Built Environment businesses, now sold, have been treated as discontinued operations in the 2007 accounts.

The comparative segmental results for the year ended 31 December 2006 have been restated to reflect this change and some minor business restructuring. These restatements are consistent with those disclosed on 25 June 2007, except for a change in classification of the Wind Developments business, which has been transferred out of the Power and Process division and into the Investments and other activities segment.

In accordance with IFRS 5**, the post-tax results of discontinued operations are disclosed separately in the consolidated income statement, with the 2006 consolidated income statement being restated for the same presentation.

The cash flows of discontinued businesses are fully consolidated within AMEC up to the date of sale and the assets and liabilities of discontinued operations that have not been sold at the year end are shown separately on the consolidated balance sheet.

[#] Before one-off costs of STEP Change.

[†] EBITA margin after corporate costs.

* For continuing operations before intangible amortisation of £2.5 million (2006: £3.6 million) and pre-tax exceptional income of £28.2 million (2006: charges of £102.8 million) but including joint venture profit before tax of £1.8 million (2006: £0.2 million).

** International Financial Reporting Standard 5 'Non-current assets held for sale and discontinued operations'.

In accordance with IFRS 5, the consolidated balance sheet for 2006 has not been restated to exclude discontinued operations. The consolidated cash flow has also not been restated.

As noted above, this review is based on continuing operations only and reconciliations to the reported results are provided where appropriate.

The table below analyses the results for the year ended 31 December 2007 between continuing and discontinued operations. Discontinued operations generated a post-tax loss of £4.7 million in 2007 (2006: profit of £0.5 million).

	Year ended 31 December 2007		
	Continuing operations £ million	Discontinued operations £ million	Total group £ million
Pre-tax profit/(loss) before intangible amortisation and joint venture tax*	126.5	(4.5)	122.0
Joint venture tax	(0.6)	–	(0.6)
Income tax	(30.9)	(0.2)	(31.1)
Post-tax profit/(loss) before intangible amortisation*	95.0	(4.7)	90.3
Intangible amortisation	(2.5)	–	(2.5)
Post-tax profit/(loss)*	92.5	(4.7)	87.8
Exceptional items	29.0	227.6	256.6
Profit for the year	121.5	222.9	344.4

	Year ended 31 December 2006		
	Continuing operations £ million	Discontinued operations £ million	Total group £ million
Pre-tax profit before intangible amortisation and joint venture tax*	79.7	9.2	88.9
Joint venture tax	(0.3)	–	(0.3)
Income tax	(22.5)	(6.1)	(28.6)
Post-tax profit before intangible amortisation*	56.9	3.1	60.0
Intangible amortisation	(3.6)	(2.6)	(6.2)
Post-tax profit*	53.3	0.5	53.8
Exceptional items	(95.5)	260.9	165.4
(Loss)/profit for the year	(42.2)	261.4	219.2

Segmental review

Segmental analysis is provided for the group's continuing activities in the Natural Resources, Power and Process and Earth and Environmental divisions. The Investments and other activities division includes past activities in Rail (now sold), Hong Kong (now substantially reduced), US Construction Management (all projects now completed) and a plant hire business (sold in February 2008), together with two ongoing PPP activities in Korea and the UK. It also now includes the Wind Developments business (formerly reported in the Power and Process division).

Commentary for each of AMEC's divisions is set out on pages 22 to 44 of this review. Amounts and percentage movements relating to continuing segmental earnings before net financing income/costs, tax and intangible amortisation ('EBITA') are stated before corporate costs of £36.5 million (2006: £21.4 million) and pre-tax exceptional profits of £28.2 million (2006: charges of £102.8 million), but including joint venture profit before tax of £1.8 million (2006: £0.2 million).

The average number of employees for the years ended 31 December 2007 and 31 December 2006 stated in this review include agency staff. A reconciliation of this position to the employee numbers included in note 6 to the consolidated accounts is included on page 53 of this review.

Amounts relating to segmental net assets / (liabilities) are stated before intangible assets and net cash, but including interests in joint ventures and associates.

Dividend cover

rebuilt to over two times

* Profit/(loss) is stated before exceptional items.

李主任说：能够得到3千万安全工时，这样一个世界一流的安全记录，是阿美科安全专家团队的杰出业绩，同样也是一个独山子安全管理的达到世界水平的标志，并将成为阿美科和中石油在今后决定要继续保持的安全业绩。

AMEC is the Integrated Project Management Team contractor for the management of health, safety and environment ('HSE') and quality assurance and control on Petrochina's Dushanzi Refinery and Ethylene Technical Reformation project, western China.

Left to right: Li Kunsheng,
HSE Director of the PetroChina
Dushanzi Petrochemical Company;
Li Wende, Project HSE Manager, AMEC

“AMEC has helped ensure Dushanzi’s excellent safety levels, with the project having passed the 30 million man hours safety record, a world class achievement. The project is a great example of HSE management, which both AMEC and Petrochina are determined to continue for a long time to come.”

Li Kunsheng, HSE Director, PetroChina Dushanzi Petrochemical Company



Natural Resources



Description of business

Principal activities: Natural Resources comprises AMEC's activities in Oil and Gas Services, Oil Sands (project management, engineering and infrastructure) and Minerals and Metals Mining. Asset development ('Capex') and asset support ('Opex') services are provided in the upstream sector, which accounts for some 85 per cent of revenues, with the balance being in the midstream and downstream sectors. EBITA margins vary according to the nature of activities, ranging from around six per cent on average for Opex services in mature markets to 12 per cent or more with good performance on Capex contracts with performance incentives. Some 50 per cent of revenues in 2007 were generated by each of Capex and Opex services.

Principal locations: Aberdeen, London (UK); Aksai (Kazakhstan); Baku (Azerbaijan); Calgary, Vancouver (Canada); Houston (US); Kuala Lumpur (Malaysia); Kuwait; Perth (Australia); Shanghai (China).

Customers include: BP, Chevron, ConocoPhillips, De Beers, ExxonMobil, Fairfield Energy, Imperial Oil, Kuwait Oil Company, PetroChina, PotashCorp, Shell, Suncor, Syncrude, Teck Cominco, Total, Woodside Energy.

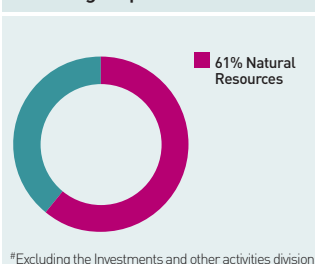
Significant contracts in 2007 included: ConocoPhillips Australia: 15 month extension to the joint venture operations and maintenance contract on the Bayu-Undan development in the Timor Sea; Kuwait National Petroleum Company: refurbishment and modifications on Kuwait's three existing refineries; PotashCorp, Canada: engineering, procurement and construction management services on the Cory mine expansion and Picadilly project; Shenhua Ningxia Coal Group, China: initial engineering design on a coal-to-chemical production complex in northwest China.

Neil Bruce

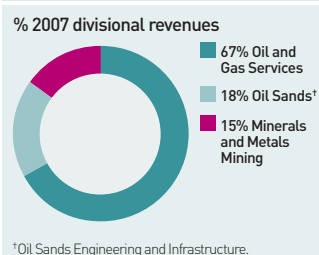
Chief Operating Officer, Natural Resources

Increasing proportion of higher value services

% 2007 group EBITA[#]



Principal activities



£ million	2007	2006	Change
Revenue	1,014.8	818.0*	+24%
EBITA	95.5	59.1*	+62%
EBITA margin	9.4%	7.2%*	+31%
Net assets	28.8	71.3	-60%
Order book	£1.21bn	£1.03bn	+17%
Average number of employees**	9,715	8,317	+17%

* Excluding lump-sum fabrication, now ceased (2007: revenue and EBITA Enil, 2006: revenue £102.9 million, EBITA Enil).

** Full time equivalents, including agency staff.

Oil and Gas Services

AMEC offers a range of Capex and Opex services to International Oil Companies ('IOCs'), National Oil Companies ('NOCs') and independent operators in Europe, Americas and frontier regions around the world:

	Services	Facilities
Capex	<ul style="list-style-type: none"> ■ Construction management ■ Consultancy ■ Design engineering ■ Front end engineering ■ Hook up and commissioning ■ Installation 	<ul style="list-style-type: none"> ■ Offshore fixed platforms ■ Offshore floating production units ■ Onshore booster stations, gathering centres, tank farms, gas-oil separation plants
Opex	<ul style="list-style-type: none"> ■ Brownfield engineering and project management ■ Duty holder ■ Facilities engineering ■ Operations and maintenance support ■ Production operations 	<ul style="list-style-type: none"> ■ Offshore platforms and infrastructure ■ Onshore oil and gas fields

Leading market positions

in mature
markets, frontier regions and
unconventional oil

Natural Resources continued

Demand for AMEC's services is linked to the level of spending on new production facilities, together with operations, maintenance, extending the life and increasing production from existing infrastructure. The business does not operate in early cycle exploration, drilling or sub-sea sectors.

AMEC completed all lump-sum fabrication activity in this area of Natural Resources during 2006, with oil and gas services contracts now being cost reimbursable or cost plus and often performance-based. Contracts in oil sands infrastructure include fixed price elements. Being largely services-based, capital employed reflects mainly current trading assets.

With centres of excellence in Aberdeen and London (UK), Calgary and Vancouver (Canada), Houston (US), and Kuala Lumpur (Malaysia), the division is supported by a growing network of high-value engineering centres around the world. Strategic investments in Kazakhstan and Malaysia in 2008 have provided an increase in resources, together with improved access to customers in these regions.

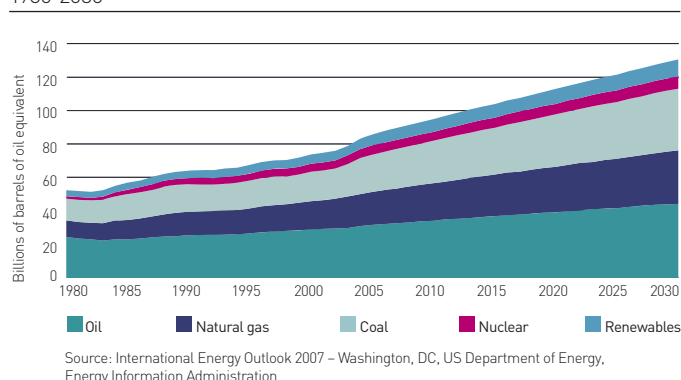
AMEC has global experience of delivering large and complex projects, with capabilities in deep water and hostile conditions including Arctic environments and earthquake-prone regions. It has developed a strong position in frontier regions including the Caspian, South East Asia and West Africa. In the Opex arena, AMEC is a leading international asset support provider, servicing more than 200 facilities daily. It is the market leader in UK North Sea brownfield services and is developing its position as a provider of duty holder services to new entrant operators in the region.

Markets

A major study carried out during the year by the National Petroleum Council in the US found that "powering the world's growing population and economy could require 50 per cent to 60 per cent more energy by the year 2030. That means more use of fossil fuels, biomass, nuclear power and alternative energy."

Over half of the world's oil today comes from mature assets requiring facilities upgrades, life extensions and extended oil recovery applications and technology (source: Oil & Money Conference, October 2007). New discoveries are increasingly found in harsh environments such as the Arctic, deep water areas and in reservoirs with high temperatures and pressures.

Projected global energy supply
1980-2030



High oil prices in 2007 maintained strong levels of exploration drilling, with, for the second year in succession, more than 100,000 wells drilled. Several significant discoveries have been made, resulting in an overall increase in global oil and gas reserves (source: World Oil, September 2007).

Research by investment banks has found that the major oil and gas exploration players plan to increase spending by 11 per cent to an estimated US\$369 billion in 2008, driven by continued spending on exploration and related services (source: Lehman Brothers).

With leading market positions in mature markets and frontier regions, AMEC expects to see continued strong organic growth in this business in 2008 and beyond.

Strategy

- Build on AMEC's position as a leading supplier of asset development and asset support services to targeted customers (IOCs, NOCs and independents) in selected geographies
- Focus on complex solutions and frontier regions
- Maintain balanced portfolio of services (margin, risk, volume)
- Build capability organically, through alliances and by acquisitions.

Oil Sands

AMEC is the market leader in project management, engineering services and the provision of infrastructure to the upstream surface mining oil sands sector. From helping to build the world's first oil sands plant in 1967 to the world's largest plant in 1978, AMEC's operations have matured along with the industry, with participation in 12 out of 15 recent (surface mining) oil sand developments. In early 2008, AMEC is working on various stages of seven major oil sands projects.

The large number and size of oil sands projects have placed huge demands on technical resources across North America. These demands provide significant opportunities for 'distributed engineering' in which multiple offices combine to meet the needs of the industry. For example, the Kearl Oil Sands Project in Canada is being run from AMEC's Calgary offices, with significant contributions from Vancouver, Toronto and Houston engineering resources and expertise.

Services in 2007 were provided on a reimbursable basis other than for some activities within the Oil Sands Infrastructure business.

Markets

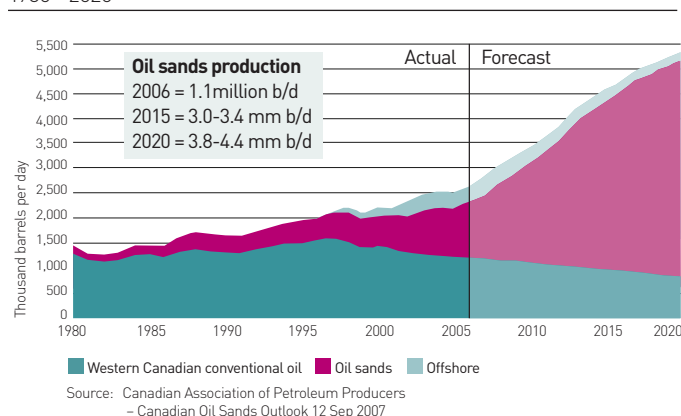
The Canadian oil sands represent the world's second largest reserves of oil after Saudi Arabia. The oil sands deposits contain approximately 1.7 trillion barrels of bitumen in-place, of which 173 billion barrels are proven reserves that can be removed using current technology (source: Alberta Energy and Utilities Board – now the Alberta Energy Resources Conservation Board).

Development of the oil sands has been historically tied to oil prices. With high current and projected oil prices, large scale, geographical proximity to the major US market, security of supply and more efficient extraction methods, the region is undergoing rapid development.

The oil sands continue to be viewed as one of the best oil opportunities in the world, with foreign companies buying into the sector during 2007. Examples include Marathon Oil Corp's acquisition of Western Oil Sands, and BP's entry into the sector through the acquisition of a half share in Husky Energy's Sunrise field.

Oil sands production

1980 – 2020



Two main extraction techniques are used in the oil sands: surface mining, which currently accounts for some 65 per cent of production, and in-situ, which is expected to increase its share of the market over the next 10 years. Mineable bitumen extraction plants receive ore from the mine and separate the bitumen from the sands, through water separation, before it is transferred to the upgrader. The extraction plants have five principal areas; crushing and conveying, hydrotransport, extraction and tailings, froth treatment and supporting infrastructure and utilities. In-situ methods, used to extract deeper reserves, utilise steam injected into reservoirs to mobilise the oil. Development of the oil sands creates environmental challenges, and here, AMEC's Earth and Environmental division is well equipped to provide customers with solutions.

Strategy

- Maintain AMEC's leading position in the surface mining sector, expand capability in froth treatment
- Acquire further in-situ mining capability
- Strengthen construction management capabilities and expand EPCM* service
- Expand the customer base.

* Engineering, Procurement and Construction Management.

Natural Resources continued

Minerals and Metals Mining

AMEC offers mining consultancy (including ore resource estimation and feasibility studies), design and project management services to customers producing commodities including gold, diamonds, base metals, potash and uranium.

The business operates from strategic mining locations including Saskatoon, Toronto and Vancouver (Canada) and Santiago (Chile). It has a strong track record in the execution of large and complex projects and is a recognised leader in northern and Arctic environments where projects have significant logistical challenges associated with remote location and difficult access. AMEC occupies a top-tier position in international consulting; a leading position in the North American EPCM market and is developing its position in South America.

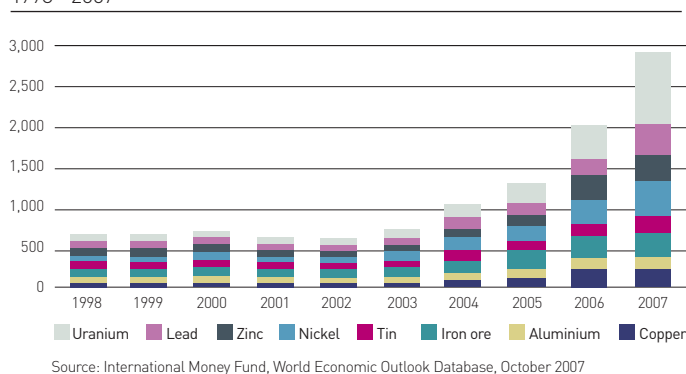
AMEC has provided EPCM services at some of the most prestigious mining projects in the world, including Andacollo Copper and BHP Billiton's Escondida project in Chile; Snap Lake and Victor, De Beers' first two diamond mines in Canada; PotashCorp's Cory and Picadilly potash mills in Canada; Barrick's Donlin Creek property in Alaska, and the New Afton copper project in Canada.

Markets

Increasing demand for raw materials from countries including China and India have driven sharp increases in mineral commodity prices in recent years as the diagram above right shows.

Metals price indices

1998 – 2007



Strength of global demand has driven exploration for new deposits, new mine development and redevelopment of older mines worldwide. As exploration and production ramp up, environmentally responsible remediation is becoming increasingly critical to the industry's sustainability.

Strategy

- Maintain AMEC's top tier position in consulting (globally) and as EPCM contractor in North America
- Strengthen this leadership position by increasing market share organically, through the addition of consulting and EPCM personnel and capabilities in North American offices
- Increase market share in South America by adding EPCM personnel and capabilities
- Acquire a presence in the fast growing market in Australasia.

Resource constraints

Natural Resources operates in a resource constrained environment and all parts of the business suffer from some degree of overheating. This is most pronounced in the Canadian oil sands, where double-digit labour cost inflation was evident during 2007. AMEC's contracting model for engineering services takes this into account.

#1 in design and project management services in the oil sands surface mining sector

AMEC is leading
the only two diamond mines
currently under construction
in Canada, the Snap Lake and
Victor mines for De Beers

AMEC has a well developed strategy to recruit, develop and retain engineers from a wide range of sources around the world, and as a result was able to increase the average number of employees in Natural Resources by 17 per cent in 2007. AMEC's strategic resourcing programme includes the following initiatives:

- AMEC Project Academy
- Apprentice partnerships
- Graduate recruitment
- Industry initiatives
- Internal development
- Schools partnering
- Technician trainees
- University liaison.

In addition, AMEC has successfully developed, in locations such as Baku (Azerbaijan), a sustainable approach to business through working with local stakeholders and supply chains which it is able to adopt in new areas of operation around the world.

Financial performance 2007

Natural Resources performance in 2007 was strong in each of its principal areas of activity but was strongest in North America (Oil and Gas Services, Canadian Oil Sands Infrastructure and Minerals and Metals Mining).

Revenues in 2006 included £102.9 million in respect of lump-sum fabrication activities in the Oil and Gas Services business from which AMEC has now withdrawn. Commentary below excludes this activity from the comparative data.

Revenue for the period was £1,014.8 million (2006: £818.0 million) with the 24 per cent increase for the year being entirely organic. EBITA increased by 62 per cent to £95.5 million (2006: £59.1 million). EBITA margin of 9.4 per cent (2006: 7.2 per cent) comfortably exceeded the 2008 target range of seven to eight per cent originally set in December 2006 and reflected strength in Natural Resources end markets together with improvements in both Capex and Opex margins during the year.

The Natural Resources order book increased despite strong growth in revenues during 2007, and at £1.21 billion was 17 per cent up on the position at the end of 2006.

During the year, new awards included a five year consultancy and engineering services contract with the Kuwait National Petroleum Company covering upgrades, refurbishment and modifications on Kuwait's three existing refineries; front-end engineering design and management of the winter drilling programme for Imperial Oil at their Kearl Oil sands project in Canada and contracts from PotashCorp for engineering, procurement and construction management services on the Cory mine expansion and Picadilly project in Canada.

In January 2008, AMEC announced major contracts, awarded in December 2007, in the UK North Sea and Nigeria. In the North Sea, AMEC was awarded a contract by Fairfield Energy to be the duty holder on the Dunlin cluster of oilfield production facilities. The contract will run for the life of the field, which is estimated to be between 10 and 15 years. In Nigeria, Mobil Nigeria awarded AMEC a contract for project/construction management services on the 'Major Integrity Projects' programme.

Outlook 2008

Natural Resources end markets remain buoyant and the board expects the division to make strong progress in 2008.

In Oil and Gas Services, activity levels are expected to remain high in all regions. In the UK North Sea, existing brownfield and operations and maintenance services will be augmented by increasing levels of higher margin duty holder activity, which represents a growth opportunity for AMEC.


The Canadian oil sands market for engineering and infrastructure services is expected to remain particularly strong, being driven by continued high levels of investment. During 2008, AMEC expects to expand its activities in the in-situ sector through acquisition.

The Minerals and Metals Mining business is expected to remain strong, with ramping up of contracts in South America and continued high levels of activity in Canada.

Given the strength of both margin performance in 2007 and the outlook for 2008, the margin target range for Natural Resources in 2008 was increased to 9-10 per cent in December 2007. The division is targeting an EBITA margin of 10-11 per cent in 2010.



Left to right: Kelly Horvath, Environmental Engineer, AMEC; Neil Van Knotsenburg, Vice President, Projects, BIOX Corporation



AMEC has provided BIOX Corporation with permitting, site assessment and compliance services to support the construction and operation of the first commercial biodiesel production facility in Canada. BIOX will continue to rely on AMEC's due diligence expertise as it builds and operates additional biodiesel facilities throughout the world.

"AMEC has gone above and beyond expectations by providing BIOX with the tools and information required to become a strong contender in the biodiesel market. These are values we at BIOX treasure and look forward to in working with AMEC on future projects."

Neil Van Knotsenburg, Vice President, Projects, BIOX Corporation

Power and Process



Description of business

Principal activities: This division is focused on the power and process markets, principally in the UK and the Americas, and the nuclear market globally. The business designs, delivers, enhances and maintains infrastructure for a broad range of customers in the public and private sectors. 20-30 per cent of Power and Process revenues in 2007 were generated by fixed price contracting work. Lump-sum Engineer Procure Construct ('EPC') contracts are only entered into in selected markets where the balance of risk and reward is acceptable.

Principal locations: Atlanta (US); Darlington, Knutsford (UK); Santiago (Chile); Toronto, Vancouver (Canada).

Customers include: AWE, BIOX Corporation, British Energy, Bruce Power, Cargill, CMPC, EDF, Enbridge, Kimberly-Clark, Koch (Georgia Pacific), National Grid, Ontario Power Generation, RWE, SABIC, Scottish Power, Southern Company, TXI, and Wales and West Utilities.

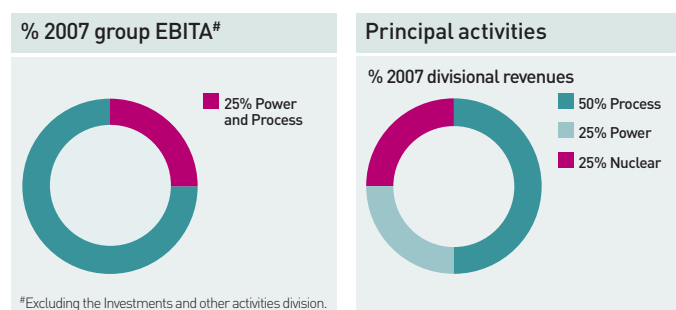
Significant contracts in 2007 included: Long-term contracts with National Grid for replacement of UK gas and electricity infrastructure and with Bruce Power, Canada, for nuclear reactor restarts; installation of clean-air systems on coal-fired power plants for both Southern Company and Nevada Power in the US and Scottish Power and RWE in the UK; engineering and project management services on three nuclear power plants in the UK for British Energy; and a long-term framework contract for turnaround management for SABIC in the UK.

Didier Pfleger

Chief Operating Officer, Power and Process

Focus

on margin
improvement
– not revenues



£ million	2007	2006	Change
Revenue	1,009.1	794.7	+27%
EBITA	38.9	22.8	+71%
EBITA margin*	4.3%	2.9%	+48%
Net liabilities	(57.0)	(55.4)	-3%
Order book	£1.36bn	£1.40bn	-3%
Average number of employees**	6,753	5,766	+17%

* Excludes one-off costs of STEP Change of £4.6 million (2006: £nil).

** Full time equivalents, including agency staff.

Power

This sector comprises the generation of electricity from all sources other than nuclear, together with electricity transmission and distribution. Here, AMEC provides consulting and feasibility studies through to detailed engineering, project management, construction, EPC contracting and commissioning services.

These services are performed in the following segments:

- Fossil fuel power generation, including clean-up of emissions
- Renewables power generation, including wind and hydro
- High voltage power transmission services, including refurbishment of aging infrastructure
- Low voltage power distribution services, including sub-station design, installation and inter-connections.

The majority of services are performed for regulated utilities and industrial companies, primarily in the UK and Americas. Customers value AMEC's familiarity with their assets and the ability to provide innovative solutions.

The UK business is based in Darlington and has locations across the UK. In the Americas, AMEC operates from over a dozen offices across North and South America. A range of projects are entered into, from low risk reimbursable through to higher risk lump-sum. The business is focused on pursuing growth through lower risk projects, with fixed price work being undertaken on a selective basis, where the overall balance of risk and return is attractive.

Leading market positions

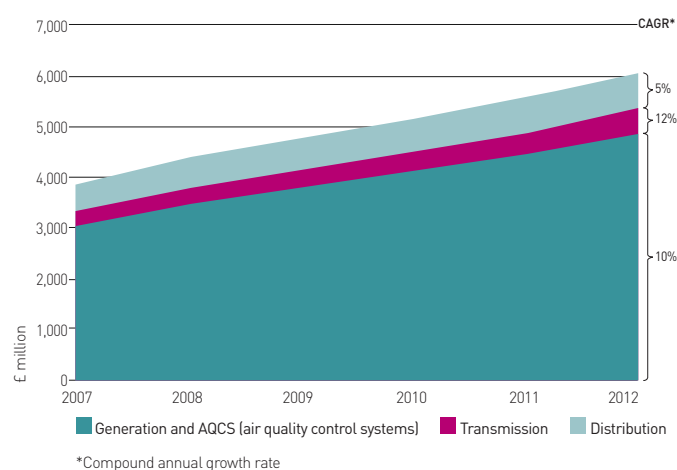
on both sides of the Atlantic

Power and Process continued

Markets

Higher spending over the period 2007-2012 is anticipated in fossil and renewable power generation and electricity transmission. As indicated in the chart below, annual growth rates range from 10 per cent in power generation and air quality control systems ('AQCS') and 12 per cent in power transmission, to five per cent in the power distribution market.

Power: accessible market



Source: AMEC

This investment in power infrastructure reflects:

- Overall demand growth for electricity and shifts between generation fuel types
- Aged assets/safety concerns
- A drive to meet national and international emissions controls and pollution control legislation
- Increasing grid interconnection and the requirement to connect new renewable generation assets.

In 2008, the total accessible market in AMEC's chosen power sectors is estimated to be £4.4 billion, principally in the UK and the Americas (source: AMEC estimates). AMEC has leading market positions in certain segments such as the high voltage transmission line and AQCS market in the UK, the Canadian wind engineering and construction market, and AQCS regionally in the Americas.

Strategy

Power and Process strategy in the power sector over the next two years will focus on the following actions:

- Substantially expand activities in the renewables segment of power generation (particularly wind farms), and other higher growth markets such as AQCS and transmission
- Expand service offerings with existing power customers and partners through dedicated key account management
- Leverage environmental and feasibility studies into the execution phases of projects.

Process

Process covers a broad range of industries, but principally gas processing and transmission, pulp and paper, petrochemicals, cement and biofuels.

The business has major locations in Atlanta and Minneapolis (US), Darlington (UK), St John's, Toronto and Vancouver (Canada), Santiago (Chile) and operates from over a dozen offices across North and South America and locations across the UK. Most contracts are based either on framework, cost plus or target price. Lump-sum EPC contracts are only entered into for selected customers as part of a broader portfolio of services.

Gas

The gas sector includes AMEC's activities in high pressure gas import terminals, storage and transmission, and low pressure gas distribution. AMEC is the UK market leader in high pressure gas transmission and storage services, and occupies a top three position in low pressure gas distribution.

#1

in
UK high pressure
gas transmission
and storage

AMEC's centre of excellence for gas is in Darlington, UK, with project offices throughout the country. Services include front-end as well detailed engineering, project and programme management and construction management.

The outlook for the gas sector is strong, driven primarily by the issues of security of supply and the drive to increase UK storage capacity in line with EU counterparts.

The prime growth strategy is to expand the gas storage business in the EU with selected customers.

Pulp and paper

The pulp and paper sector covers various grades of printing and writing paper, tissue, boxboard, container board, and other specialty products. AMEC is a market leader in the Americas for consulting and design services, and has a strong position in the construction and EPC segment in the US as well as in South America.

Distributed engineering centres include Vancouver (Canada), Greenville (US), Santiago (Chile) while Atlanta (US) is the company's centre of excellence for construction and projects. Services include economic feasibility studies, detailed engineering, project management and full project completion services.

The market outlook for South America is strong, influenced by the pricing cycle of the commodity pulp business and mill expansions. North America remains a mature market, however tissue and new paper plant conversions continue to support levels of spending.

AMEC's strategy is to expand in the high growth regions, using the Santiago office as a springboard for expansion in Peru and Brazil.

Other processes

AMEC is active in a variety of sectors and services including:

- refinery shutdown and maintenance
- cement, biofuels and pharmaceutical plant design, project management and construction.

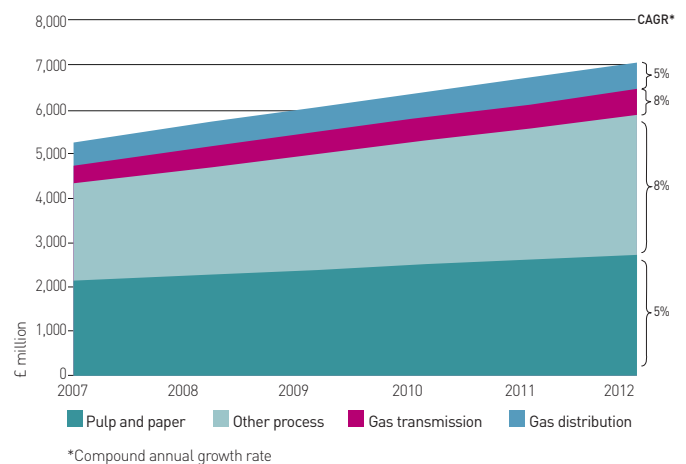
In downstream process AMEC has a leading position in the UK for turnaround projects, managing complicated shutdowns of petrochemical and refinery plants. The company's capability to manage the full scope of such projects is recognised by major oil and gas companies such as SABIC, BP and Shell. The strategy in this sector is to continue expanding internationally, particularly in Europe.

The cement sector for AMEC includes both large brownfield (expansion) as well as greenfield projects, primarily in North America. Detailed engineering and project management/construction management services are provided to this sector, and, with partners, AMEC can provide up to full EPC services. AMEC is a leader in cement plant design and construction, where our customers' levels of capital expenditure are expected to remain high.

The strategy for this part of the business is to retain market position while being selective in new contracts taken on.

Capital spending in AMEC's targeted segments is expected to show steady growth over the next five years, as shown in the diagram below:

Process: accessible market



Source: AMEC

Power and Process continued

Nuclear

AMEC is a leading private sector supplier of project management, consultancy and engineering services to the nuclear industry in the UK and Canada, and also provides services in the Americas, Central and Eastern Europe and South Africa. Principal activities in 2007 were focused on:

- Reactor support
 - Improving operational efficiency to increase output
 - Safely extending the operational life of reactors
- Clean up
 - Decommissioning and remediation of nuclear liabilities
 - Environmental restoration
 - Solutions to legacy waste disposal
- New build
 - Bruce 1&2 Reactor restarts in Canada
 - General design assessment and technical support to EDF together with AREVA for the next generation of UK nuclear power plants.

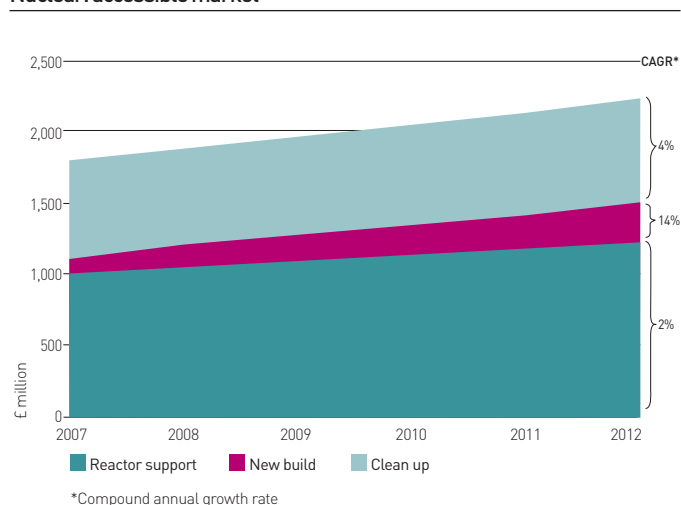
The Nuclear business has principal locations at Knutsford and West Cumbria, (UK) and Toronto, (Canada), as well as regional offices in Eastern Europe and South Africa. Major customers include: British Energy, EDF, Sellafield, AWE (all UK), Bruce Power (Canada), Eskom (South Africa) and Ontario Power Generation (Canada).

In Canada and UK, AMEC has a leading position in the consultancy business, as well as providing project management, specialist engineering, technical and safety support services.

AMEC continues to develop its strong technical, programme and asset management capability. The focus of the business is to continuously strengthen existing client relationships and build new ones across the nuclear life cycle, from new power generation and reactor restart, through operational reactor support, to clean up.

Markets

Nuclear: accessible market



Source: AMEC

Whilst the graph indicates the accessible market over the next five years, even higher market growth rates are likely in the period 2012 to 2020. The longevity of the nuclear market is a key attribute and AMEC is targeting to be a major player. For example, the long-term UK market for decommissioning is valued at over £73 billion (source: National Audit Office Report, January 2008).

AMEC has formed two strategic partnerships to target opportunities for long-term Parent Body Organisation ('PBO') contracts being competed by UK Nuclear Decommissioning Authority ('NDA'). In January 2006, AMEC formed an alliance with the UKAEA and CH2M HILL, to help improve performance at the UKAEA's decommissioning sites and prepare for the upcoming NDA PBO competitions. This alliance has made a significant contribution to the improved performance at the NDA's Dounreay, Harwell and Winfrith sites.

In March 2007, AMEC announced that a joint venture comprising AMEC, Washington Group and AREVA is bidding to become the NDA PBO for the Sellafield Site Licence Company in Cumbria, UK. AMEC is also supporting major decommissioning work in Central and Eastern Europe.

The UK Government has announced its intention to replace the current UK fleet of nuclear power stations with a new build programme. Over the next 15 years, AMEC will be actively supporting EDF in the UK to build a number of nuclear power plants, the first of which is expected to be commissioned by 2017.

Strategy

Life cycle asset management:

■ New build

- Establish AMEC as the utilities' independent nuclear technology partner to assure the licensing, delivery and safe operation of the reactor and associated systems

■ Reactor support

- Strengthen AMEC's leading position as the independent nuclear expert for the existing reactors in current geographic markets

■ Clean up

- Establish AMEC as a major (Tier 1) UK nuclear clean up contractor and long-term partner to the NDA. Pursue international growth priorities.

Financial performance 2007

Performance in the Power and Process division was strong, reflecting strength of end markets and the ramp-up of major contracts in the UK. As a result of the continued strength in trading during 2007 and increased selectivity in new work taken on, the division has increased its minimum gross margin on all new contracts to nine per cent, from eight per cent.

Revenue for the period was £1,009.1 million (2006: £794.7 million), with the 27 per cent increase for the year being almost entirely organic. The UK and Americas Power and Process businesses reported strong growth in 2007. During the year, activity increased on long-term contracts to improve gas and electricity infrastructure in the UK, whilst in North America, activity levels in the power generation, cement and alternative fuels markets were particularly high.

In Nuclear, activity levels remained high on the major project to restart two reactors for Bruce Power in Canada, whilst in the UK, a five year contract was awarded by British Energy for engineering and project management services on three of its fleet of nuclear power plants.

EBITA in 2007 increased by 71 per cent to £38.9 million (2006: £22.8 million), principally reflecting strength of end markets and greater management focus on higher margin contracts. EBITA margin, before one-off costs of STEP Change, showed strong improvement, being up by 48 per cent at 4.3 per cent (2006: 2.9 per cent).

The Power and Process order book declined by three per cent to £1.36 billion as at 31 December 2007 (2006: £1.40 billion), reflecting increased selectivity in this division during the course of 2007.


Outlook 2008

The focus for this division in 2008 remains margin improvement. Although the business is operating in a strong market environment, it is being more selective in new work taken on and revenue growth is not a priority for 2008. The STEP Change and Operational Excellence programmes are expected to improve performance during 2008 and beyond.

In 2007, the UK businesses achieved an EBITA margin within the five to six per cent range targeted for the Power and Process division in 2008. The Americas business is expected to achieve the margin target in 2008.

The quality of the order book was improved during 2007, with a higher gross margin threshold on all new contracts, as described above. This, coupled with higher profit-take on contracts as they pass key milestones, is expected to lead to improved margin performance in 2008.

The board is confident that performance will be comfortably within the revised (as at December 2007) 2008 margin target range of five to six per cent. The Power and Process division is targeting an EBITA margin of six to seven per cent in 2010.



“AMEC’s knowledge and expertise in geotechnical and dam engineering have been extremely valuable to the design team and project stakeholders. Their personnel have been very responsive and a pleasure to work with throughout the project.”

Jim Windsor, P.E. – Resident Engineer, Arizona Department of Transportation

Left to right: Jim Windsor, Professional Engineer (‘P.E.’), Resident Engineer, Arizona Department of Transportation; Brett Howey, P.E., Unit Manager – Geotechnical Services, AMEC; Gary Melita, P.E., Senior Project Manager, Stanley Consultants; Daniel Fr  chette, Ph.D., P.E., Senior Geotechnical Engineer, AMEC

AMEC has provided geotechnical investigation and design services for the rehabilitation of the existing Spook Hill Flood Retarding Structure and construction of the Red Mountain Freeway Levee Dam, Maricopa County, Arizona, US.



Earth and Environmental



Description of business

Principal activities: Earth and Environmental provides specialist environmental, geotechnical, programme management and consultancy services to a broad range of clients in the public and private sectors. This business operates from a regional network and is characterised by a large number of small value contracts.

Locations: Over 100 locations, mainly across North America but including Afghanistan, Chile, Germany, Iraq, Italy, Peru, Romania, Russia, and the UK.

Customers include: Albion Sands Energy, Arizona Department of Transportation, Aventis Crop Science, Canadian Department of National Defence, CSXT, De Beers, ExxonMobil, FEMA, GE, National Grid, Suncor, Syncrude, Terrane Metals Corp., US Air Force, US Army, US National Guard.

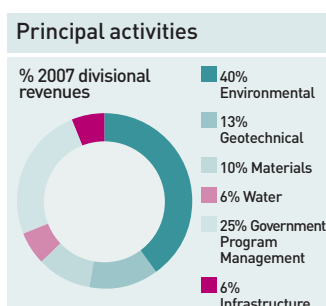
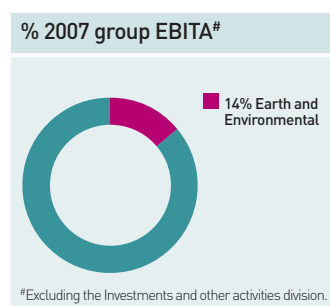
Significant contracts in 2007 included: Flood Control District of Maricopa County, US: two-year dam safety geotechnical services contract; Imperial Oil: geotechnical engineering work on the Kearl Oil Sands project, Canada; National Grid, Grain LNG Terminal, UK: geotechnical investigations and environmental impacts assessment; US Air Force Center for Environmental Excellence: multiple projects at bases in countries including Iraq, Afghanistan, Guam and the UK; US Fish and Wildlife Service: environmental impact statement covering 17 states in the US.

Strong growth

in EBITA and margin

Roger Jinks
President, Earth and Environmental

Over **100**
locations, mainly
across North America



£ million	2007	2006	Change
Revenue	288.4	304.4	-5%
EBITA	21.2	17.7	+20%
EBITA margin	7.4%	5.8%	+28%
Net assets	33.2	19.0	+75%
Average number of employees*	3,576	3,119	+15%

*Full time equivalents, including agency staff.

Services

Earth and Environmental operates a 'seller-doer' business model employing specialist consultants in fields including engineering, biology, toxicology, sociology, chemistry, meteorology and planning. The following are examples of services provided by Earth and Environmental, principally in North America:

- Clean up planning and execution
- Ecological studies
- Engineering design
- Environmental and geotechnical site characterisation
- Environmental impact studies and permitting
- Materials and environmental testing
- Oceanography and meteorology
- Programme management
- Socio-economic studies
- Waste management
- Water and air quality
- Water management, development and protection.

Fragmented market
provides continued opportunities for acquisitions

Earth and Environmental continued

Earth and Environmental works for customers common to the Natural Resources and Power and Process divisions, providing services from environmental impact assessments at the earliest stages of the project life cycle right through to advising on clean up following decommissioning.

Markets

Earth and Environmental operates in a large and highly fragmented market. In 2007, the North American environmental consulting and engineering market segment was valued in excess of US\$50 billion (source: AMEC). Whilst AMEC's overall market share is small, due to the nature of the market, the business has strong positions in certain end market sectors, notably natural resources, water, and defence. AMEC provides services including environmental consulting and construction to the US Federal Government, which is the largest procurer of environmental services in the world. Other major market segments include waste, air/noise, remediation, and industrial services.

The European market for environmental services is smaller than in North America, and is also fragmented. The market is faster growing than the more mature market in North America, being driven by increasing regulatory pressures.

Market drivers for this division include growth in environmental legislation; increasing corporate social responsibility; increasing use of brownfield sites and exploration of increasingly environmentally sensitive regions by natural resources companies.

Earth and Environmental has many small contracts with some fixed price commitments in respect of certain federal activities.

Strategy

- Continued growth in selected sectors both organically, and by way of acquisitions which will enhance capabilities and facilitate selective regional expansion
- Continued development of the Federal business, balancing the broader requirements of defence customers to complement AMEC's environmental and engineering activities.

AMEC regularly helps clients to

**protect
threatened species**

such as the red-legged frog, Delhi Sands fly and the desert tortoise

Financial performance 2007

Underlying revenues before currency fluctuations were up around four per cent during the year. Increased revenues in both Canada and the US were offset by reduced US Federal activities outside North America and weakness of the US dollar.

During the year, significant contracts included the preparation of a major environmental impact statement covering 17 states for the US Fish and Wildlife Service, a two year dam safety geotechnical services contract from the Flood Control District of Maricopa County (US) and environmental services for clients in the Canadian oil sands including Imperial Oil.

EBITA increased by 20 per cent to £21.2 million (2006: £17.7 million), with growth principally reflecting strong end markets in Canada. EBITA margin increased to 7.4 per cent (2006: 5.8 per cent).

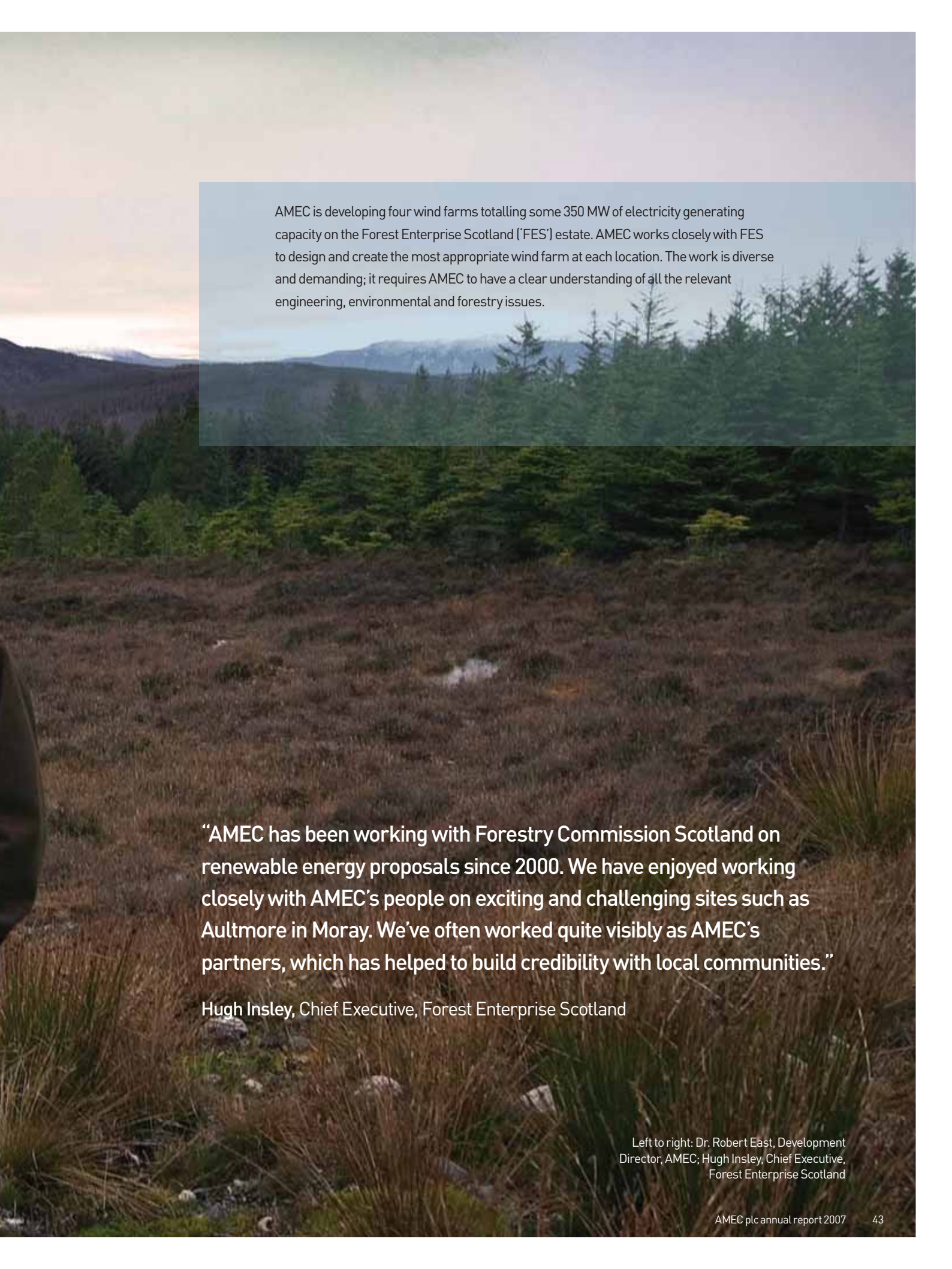
AMEC is a
leading provider
 in the US of flood-hazard identification and mapping, multi-hazard mitigation, and post disaster recovery services to state and local governments and FEMA

Outlook 2008

Earth and Environmental end markets are expected to remain strong, with the division expected to make further progress in 2008.

Given the strength of margin performance in 2007, the margin target range for Earth and Environmental in 2008 was increased to eight to nine per cent in December 2007, up from the six to eight per cent range set in December 2006. The division is targeting an EBITA margin of nine to ten per cent in 2010.





AMEC is developing four wind farms totalling some 350 MW of electricity generating capacity on the Forest Enterprise Scotland ('FES') estate. AMEC works closely with FES to design and create the most appropriate wind farm at each location. The work is diverse and demanding; it requires AMEC to have a clear understanding of all the relevant engineering, environmental and forestry issues.

"AMEC has been working with Forestry Commission Scotland on renewable energy proposals since 2000. We have enjoyed working closely with AMEC's people on exciting and challenging sites such as Aultmore in Moray. We've often worked quite visibly as AMEC's partners, which has helped to build credibility with local communities."

Hugh Insley, Chief Executive, Forest Enterprise Scotland

Left to right: Dr. Robert East, Development Director, AMEC; Hugh Insley, Chief Executive, Forest Enterprise Scotland

Investments and other activities

£ million	2007	2006	change
Revenue	64.4	125.7	-49%
EBITA	(11.0)	8.5	nm

nm Not meaningful.

Description of business

This division includes past activities in Rail (now sold), Hong Kong (now substantially reduced), US Construction Management (all projects now completed) and a plant hire business (sold in February 2008), together with two ongoing PPP activities in Korea and the UK. It also now includes the Wind Developments business (formerly reported in the Power and Process division).

Wind Developments

AMEC has a full service wind development company in the UK that undertakes work for customers as well as supporting AMEC's own development project portfolio consisting of onshore developments of over 1,000MW. Here, capabilities include identifying sites, undertaking environmental studies and developing planning applications, site engineering and design, wind resource assessment, economic modelling, stakeholder management, procurement, construction management, operation and maintenance services and decommissioning.

AMEC remains committed to wind as a source of renewable energy and continues to invest in the Wind Developments business. The relative shortage of new capacity in the market, coupled with UK Government targets for renewable energy and investors keen to participate in the sector gives confidence that, overall, the prognosis for value and marketability of successful wind projects remains good.

In early 2008, AMEC received planning consent for the 23MW development at Edinbane, Scotland. AMEC anticipates building out the development at a cost of c.£40 million.

Financial performance 2007

Revenues in this division declined by 49 per cent to £64.4 million (2006: £125.7 million) reflecting the lower level of activities following business disposals. 2007 revenues primarily reflected the last remaining construction management project in the US, successfully completed in the latter part of the year.

The loss of £11.0 million in 2007 stems largely from the costs of developing the group's Wind Developments portfolio, where a loss of £6.7 million was reported (2006: £4.3 million) and the result of a realignment of profit-take policies for the retained PPP portfolio.

Outlook 2008

The Wind Developments business is expected to make progress in 2008, but will continue to incur costs of progressing development opportunities. The UK PPP project is fully operational and the business will be working to optimise the value of this investment during 2008. AMEC is a shareholder and project manager of the Incheon Bridge project in Korea, which is scheduled to open in late 2009.

The overall outcome for the division in 2008 is expected to be a small loss, assuming that the Edinbane wind development is built-out.

Financial review

Changes arising from corporate activity

Divestments

The divestment of the Built Environment businesses was completed during the year.

Five peripheral non-core businesses were also divested during 2007, being AMEC SPIE Rail, Dynamic Structures, AMEC SPIE Capag, Buchan Concrete Solutions and Midwest Pipelines.

Additionally, in February 2008, the AMEC UK Logistics and Support Services business was sold to Speedy Hire Plc for £12.5 million.

In total, the divestments of the Built Environment and peripheral businesses generated overall cash proceeds in 2007 of £279.2 million before tax and a post-tax gain of £243.3 million.

Acquisitions

AMEC made several acquisitions during the period, including Cade-Idepe, based in Santiago, one of the largest independent Chilean engineering services companies, from its owner-managers for £12 million.

The Earth and Environmental division acquired four small environmental consultancy businesses during 2007.

For further details on changes arising from corporate activity please refer to the directors' report on pages 66 and 67.

Basis of preparation of the accounts

The 2007 annual report and accounts have been prepared in accordance with International Financial Reporting Standards ('IFRS') as adopted for use in the EU ('adopted IFRSs') as at 31 December 2007.

The directors have identified the policies for accounting for construction contracts, retirement benefits and provisions for litigation matters and liabilities related to the sale of businesses, as the most critical because they involve high levels of judgement and estimation.

Construction and services contracts

A significant amount of the group's activities is undertaken via long-term contracts. These contracts are accounted for in accordance with IAS 11 'Construction contracts' and IAS 18 'Revenue' which require estimates to be made for contract costs and revenues.

Management base their judgements of contract costs and revenues on the latest available information, which includes detailed contract valuations. In many cases the results reflect the expected outcome of long-term contractual obligations which span more than one reporting period.

Contract costs and revenues are affected by a variety of uncertainties that depend on the outcome of future events and often need to be revised as events unfold and uncertainties are resolved. The estimates are updated regularly and significant changes are highlighted through established internal review procedures. In particular, the internal reviews focus on the age and recoverability of any unagreed income from variations to the contract scope or claims. The impact of the changes in these accounting estimates is then reflected in the ongoing results.

Financial review continued

Retirement benefits

Defined benefit pension schemes are accounted for in accordance with the advice of independent qualified actuaries but significant judgements are required in relation to the assumptions for future salary and pension increases, inflation, investment returns and member longevity that underpin their valuations. For AMEC, these assumptions are important given the relative size of the scheme that remains open.

During 2007 IFRIC 14 on defined benefit pension scheme assets was issued. This interpretation is effective from 1 January 2008, but has yet to be adopted for use in the EU. In view of this it has not been applied by the group in the consolidated accounts. On adoption this is not expected to have an impact on the group's consolidated accounts as, following a review of the basis of recoverability, the surplus has been recognised net of deferred tax on the balance sheet in 2007.

Provisions for litigation matters and liabilities related to the sale of businesses

When accounting for provisions for litigation and other items the group has taken internal and external advice in considering known legal claims and actions made by or against the group. It carefully assesses the likelihood of success of a claim or action. Appropriate provisions are made for legal claims or actions against the group on the basis of likely outcome, but no provisions are made for those which in the view of management are unlikely to succeed.

Key performance indicators

The board and executive management monitor a range of financial and non-financial performance indicators, reported periodically, to measure the group's performance over time. Of these, the key performance indicators ('KPIs') are shown in the table above, right.

- Safety KPIs show how successful AMEC has been in protecting its employees from harm
- Operational KPIs indicate the volume of work for which orders have been received and the profitability of activity undertaken
- Balance sheet indicators focus on the financial efficiency and balance sheet strength of the business.

	Target	2007	2006
Safety (continuing operations)			
Number of fatalities at work	2008: 0	1	0
Lost time incident frequency rate (per 200,000 exposure hours)	2008: 0.16	0.18	0.32
Total recordable case frequency rate (per 200,000 exposure hours)	2008: 1.04	1.11	1.08
Operational			
Order intake as a percentage of revenue	>100%		
Natural Resources		118%	105%
Power and Process		96%	151%
Adjusted margin – group	2008: 6%; 2010: 8%		
Natural Resources	2008: 9-10%	9.4%	7.2%
Power and Process*	2008: 5-6%	4.3%	2.9%
Earth and Environmental	2008: 8-9%	7.4%	5.8%
Balance sheet			
Profit to cash conversion**	100%	123%	nm
Days sales in stock/wip and receivables***	2008 – average c. 70	72 Average c. 80	82
Average net debt: EBITDA***	<2	Net cash	1.1

nm Not meaningful.

Results

Revenue for the year increased by 11 per cent to £2,356.2 million (2006: £2,121.6 million), reflecting strong growth in both the Natural Resources and Power and Process divisions.

Underlying growth in revenues, excluding Oil and Gas lump-sum contracting (now ceased), and the Investments and other activities division (where various businesses were sold or closed during 2007), was 21 per cent in 2007, being almost entirely organic.

Adjusted pre-tax profit of £126.5 million was up £46.8 million (2006: £79.7 million), with all core divisions performing strongly.

* 2007 excludes one-off costs of STEP Change of £4.6 million.

** Cash flow from operations for the continuing businesses as a percentage of profit before net financing income (before gain on disposals for continuing businesses).

*** Including discontinued operations in 2006.

There was pre-tax exceptional income of £28.2 million (2006: charge £102.8 million), intangible amortisation of £2.5 million (2006: £3.6 million) and joint venture tax of £0.6 million (2006: £0.3 million), resulting in a pre-tax profit of £151.6 million (2006: loss £27.0 million).

Profit for the year (including profit on disposal of discontinued businesses) was £344.4 million (2006: £219.2 million).

Diluted earnings per share from continuing operations, before intangible amortisation and exceptional items were 11.4 pence higher than in 2006 at 28.0 pence (2006: 16.6 pence). Basic earnings per share from continuing operations, before intangible amortisation and exceptional items, were 28.7 pence (2006: 17.1 pence).

The board is recommending a final dividend of 8.8 pence per share (2006: 8.0 pence) which, together with the interim dividend of 4.6 pence per share (2006: 4.2 pence), results in a total dividend of 13.4 pence per share (2006: 12.2 pence), an increase of 10 per cent. This represents a dividend cover* of 2.1 times and is in line with the board's stated policy of rebuilding sustainable dividend cover to a level of over two times.

Geographical analysis

Some 60 per cent of 2007 revenues were generated outside the UK, with the group's largest overseas market being Canada, driven by Minerals and Metals Mining and Oil Sands.

The board's expectations for 2008 reflect current Sterling rates of exchange with principal currencies, being Canadian dollars and US dollars.

Administrative expenses

Administrative expenses increased by £32.0 million to £203.7 million (2006: £171.7 million). During 2007, there was an increased charge for share-based payments, together with a reduction in sales generated by activities which have now ceased and where overheads were minimal in both 2006 and 2007 (US Construction Management and Oil and Gas lump-sum fabrication). After taking these factors into account, administrative costs declined to 8.9 per cent of revenue in 2007 from 9.4 per cent in 2006.

Corporate costs, which represent the costs of operating the head office of AMEC and certain regional overheads, were £36.5 million (2006: £21.4 million). Costs for 2007 included increased year on year share-based payment charges (£6 million), and one-off costs of STEP Change (£5 million). Corporate costs for 2008, including share-based payments, are expected to be c.£30 million. This includes some costs previously reflected within the operating divisions.

Net financing income/costs

The group's net cash balances have increased throughout 2007 upon the divestment of non-core and specialist businesses, with the weekly average level of net cash being £435 million (1 August – 31 December 2006: £190 million). Consequently, the net financing income for the year increased by £25.4 million to £18.4 million (2006: charge £7.0 million).

Net financing income in 2008 will benefit from the expected increase in average net cash for the year.

Taxation

Continuing operations

The group's effective tax rate in 2007 for the continuing businesses before exceptional items (including tax attributable to joint venture interests) was 25.4 per cent (2006: 30.0 per cent). After excluding intangible amortisation, the underlying tax rate was 25.4 per cent (2006: 28.6 per cent). The reduction in overall tax rate is due to the use of overseas tax losses and the recognition of a deferred tax asset in respect of overseas tax losses and short-term timing differences on provisions which are now expected to generate a current tax benefit in future periods.

The underlying tax rate in 2008 is expected to be c. 34 per cent. This would reduce to c. 31 per cent if the group is able to make use of tax attributes brought forward which have not been reflected within the deferred tax asset.

* Based on adjusted diluted earnings per share before intangible amortisation and exceptional items.

Financial review continued

A total net tax credit of £0.8 million (2006: credit £7.3 million) is attributable to total exceptional income of £28.2 million (2006: charges £102.8 million) in respect of continuing activities. There are two parts to this net credit. The first is the net £1.0 million tax credit on exceptional profits from litigation and separation costs of £4.5 million. This arises on the recognition of a deferred tax asset in respect of short-term timing differences on US provisions, which are expected to generate a current tax benefit in future periods. The second is a £0.2 million tax charge on exceptional profits of £23.7 million on exiting businesses and markets. This is low due to the benefit of capital losses and tax exemptions on the sale of trading companies.

Discontinued operations

A tax charge of £67.8 million (2006: credit £20.1 million) is attributable to profits of £290.7 million (2006: £241.3 million) from discontinued operations. Included within this tax charge is a credit for the release of consortium relief payable and a charge for the write-off of deferred tax balances both of which are no longer required. The overall tax charge also reflects the benefit of capital losses and tax exemptions on sale of trading companies.

Deferred tax

At 31 December 2007, the group had deferred tax assets of £58.9 million (2006: £16.4 million) primarily arising from employee share schemes, overseas tax losses and short-term timing differences. At year end the continuing businesses had c. £43.0 million of carried forward tax losses in respect of which a deferred tax asset of £1.5 million had been recognised.

The group also had a deferred tax liability of £86.7 million which in 2007 had been netted against the pension scheme surplus to which it relates.

The 2006 comparatives include deferred tax assets and liabilities relating to the discontinued Built Environment operations which were released/written off in 2007.

Intangible amortisation

Intangible amortisation relates to capitalised software and intangible assets acquired as part of the acquisitions of NNC and Paragon in 2005. The 2007 charge of £2.5 million is £1.1 million lower than in 2006 with the reduction being due to the timing of the write off of certain assets related to the acquisition of Paragon.

In line with IAS 36 'Impairment of assets' annual impairment reviews have been performed on the goodwill carried on the balance sheet. The results of these reviews confirmed that no impairment charge is necessary.

Exceptional items

Divestments

Divestment of the four non-core Built Environment businesses was successfully completed during the fourth quarter of 2007. This, combined with the profit on disposal of peripheral businesses in the first half of the year, resulted in an aggregate post-tax exceptional gain of £243.3 million, slightly above the board's expectations.

Legacy issues

In December 2006, AMEC announced that following a review of projects where it was involved in litigation and/or where material final account settlements were outstanding, the board had decided to change its strategy and seek to settle the disputes where reasonable to do so.

During 2007, AMEC has made good progress in settling disputes, where reasonable to do so. In its 2006 accounts, AMEC noted six major contingent liabilities. The following significant progress has been made:

- Settlement reached on the Jordan Magnesite Company Ltd. (Jordan), and Thelwall Viaduct (UK) disputes during the first half of 2007. Settlement was within the provisions previously made
- Settlement on the San Francisco Jail case agreed, subject to documentation, and within the provisions previously made
- Major issues resolved on the Florida Project (US)
- There have been a number of court hearings on the Courthouses (US) dispute but there remains no immediate conclusion to this long-running case
- As previously indicated, the World Trade Center (US) remains a contingent liability.

No new significant contingent liabilities were added in 2007.

Provisions currently held for future costs of litigation total £71.5 million (2006: £85.3 million). Given the progress made, the board's confidence has increased in the overall level of provisioning for these items. A net pre-tax exceptional release of £13.3 million has been made during the year in respect of exceptional items arising from litigation issues.

Details of material legal actions are set out in note 28 to the accounts on page 113. The balance sheet includes no debtors or work in progress related to these contracts.

Balance sheet highlights

In line with IFRS 5, the 2006 balance sheet is not restated to exclude discontinued operations, accordingly, movements in balance sheet captions need additional explanations.

Key movements in the balance sheet are discussed below:

Fixed assets

The fall in net book value of fixed assets as at 31 December 2007 to £57.6 million (2006: £73.3 million) reflects mainly the sale of non-core businesses.

Additions of £18.8 million were slightly below the depreciation charge for the year of £21.7 million.

Intangible assets

The net book value of intangible assets as at 31 December 2007 is £223.8 million (2006: £197.6 million), including goodwill £215.4 million, software £1.7 million and other intangibles £6.7 million.

The increase in goodwill relates to the impact of foreign exchange and acquisitions during the year. Other intangibles and software have reduced from £9.7 million as at 31 December 2006 to £8.4 million reflecting amortisation of £2.5 million, partially offset by the impact of acquisitions during the year.

Interests in joint ventures and associates

Interests in joint ventures at £22.7 million are significantly below 2006 (£85.2 million) as a result of the divestment of non-core businesses.

Working capital

Days sales in stock/wip and receivables are as follows:

	2007 Days	2006* Days
Group	72	82

Days sales in stock/wip and receivables have continued to decline in 2007, as contract settlements have been secured and cash management has been strengthened.

Derivative financial instruments

As at 31 December 2007, there were derivative financial instruments with a net value of £2.2 million liability on the balance sheet. This net liability represents the fair value of foreign exchange contracts used to hedge the cash flows of foreign currency contracts, and cross currency swaps used to hedge the net investment in overseas subsidiaries.

Distributable reserves

As at 31 December 2007, distributable reserves of AMEC plc stood at £575.0 million (2006: £454.6 million), an increase of £120.4 million. The increase in reserves mainly reflects the profit on disposal of non-core businesses:

	£ million
As at 1 January 2007	454.6
Profit on disposal of non-core businesses	144.6
Dividends received from subsidiaries on disposal of non-core businesses	66.0
Dividends approved during 2007	(41.3)
Acquisition of treasury shares	(21.5)
Impairment provision	(15.0)
Other movements	(12.4)
As at 31 December 2007	575.0

The impairment provision reflects the full write down of the investment in a UK subsidiary.

Pensions

The IAS19 pre-tax surplus of principal UK pension schemes at the end of 2007 of £248.0 million was higher than in 2006 (£105.6 million) reflecting additional contributions made by the company, the curtailment gain on disposals and actuarial gains in the year.

During the year, the trustees reduced the schemes' level of equity investments from c.50 per cent to c.35 per cent, in favour of bonds. This change will reduce the expected investment return on the assets in the principal UK pension schemes in 2008 and beyond.

* Including discontinued operations.

Financial review continued

The regular triennial valuation of the UK schemes took place during 2005, and at that time updated mortality assumptions, which incorporate an allowance for additional longevity improvements in future, were agreed with the schemes' trustees. These assumptions were chosen with regard to the latest available tables, adjusted where appropriate to reflect the experience of the schemes' membership. For the main UK pension plans, the tables adopted are part of the PA92 series of tables, taking into account each member's year of birth adjusted by an age rating of +3 years, and allowing for 'medium cohort' improvements in longevity. For a male/female aged 60 in 2005, these tables show a life expectancy of 23.8/26.8 years. For a male/female aged 40 in 2005, the tables show a life expectancy from age 60 of 25.0/27.8 years. In association with the Trustees of the Schemes, AMEC will continue to monitor scheme mortality experience and will revise assumptions as appropriate.

Since the year-end, equity markets have fallen. The board estimates that as at 31 January 2008, this would have resulted in the pre-tax surplus of the schemes declining by c.£50 million under an IAS 19 valuation.

Recent guidance from the Pensions Regulator regarding longevity statistics suggests that further strengthening of mortality assumptions may be appropriate, and specifically alludes to the adoption of the 'long-cohort' rate of improvement as a benchmark for occupational scheme mortality going forward. The mortality experience of the AMEC schemes will be reviewed in detail at the next actuarial valuation, due as at 1 April 2008. A move to long-cohort assumptions would reduce the current funding surplus (pre-tax) by c.£60 million or approximately five per cent of liabilities. Even after taking into account both the recent fall in equity markets and the potential move to long-cohort assumptions, the schemes would remain in a strong position.

The surplus has been presented net of deferred tax on the balance sheet in 2007, following a review of the basis of recoverability.

Company contributions of £36.4 million were paid during the year (2006: £31.4 million). This included special contributions agreed with the schemes' trustees of £8.4 million (2006: £4.5 million). The principal financial assumptions are set out in note 14 of the accounts, on page 97.

Provisions

Provisions held at 31 December 2007 were £199.4 million (31 December 2006: £173.8 million). The increase during 2007 reflects the net impact of the sale of Built Environment businesses, offset by settlement of litigation issues. Provisions are analysed as follows:

As at 31 December 2007	£ million
Litigation provisions	71.5
Indemnities granted to buyers/retained obligations on disposed businesses	78.9
Insurance and other	49.0
Total	199.4

An outflow of £30-40 million is expected in each of 2008 and 2009. Further outflows can be expected over the longer term.

Cash flow and current liquidity

At 31 December 2007, AMEC had net cash of £733.2 million (2006: £354.9 million, excluding amounts held for sale). The group focuses on the weekly average level of net cash throughout the year, with the increase in 2007 reflecting business divestments, strength of trading and ongoing good cash management.

During 2008, the directors expect weekly average net cash to be around £600 million (2007: £435 million), before the impact of the share buy back programme and acquisitions. Around £100 million is expected to be spent on acquisitions in the first half of 2008.

Following completion of the divestment programme, the profit conversion metric for the group has been rebased to reflect continuing operations from 1 January 2007. Cash flow from operations for the continuing businesses of £140.1 million in 2007 was 23 per cent ahead of profit before net financing income (before gain on disposals for continuing businesses, £17.7 million) of £114.3 million.

Given the impending maturity of our committed facilities in 2009, the group is evaluating the timing for the renewal and level of facilities required. As the group has significant cash resources, it may defer renewal of the committed facilities into 2009. However, appropriate facilities will be maintained to meet ongoing requirements for performance related bonding and letters of credit.

Share buy backs

In 2008, the group may continue the share buy back programme, for up to £80 million, on an opportunistic basis.

Reconciliations of adjusted profit for continuing operations, net assets and employee numbers

The business and financial review is based on the reported results for continuing businesses before joint venture tax, intangible amortisation and pre-tax exceptional items, but including joint venture profit before tax. The results, net assets and employee numbers as presented in the review are reconciled in the tables below to those presented in notes 2 and 6 to the consolidated accounts.

Reconciliation of adjusted pre-tax profit for continuing operations – Class of business

	Year ended 31 December 2007					
	Adjusted profit before tax £ million	Exceptional items £ million	Intangible amortisation £ million	Pre-tax results of joint ventures and associates £ million	Tax on results of joint ventures and associates £ million	Profit before tax £ million
Natural Resources	95.5	–	(0.6)	(1.2)	–	93.7
Power and Process	38.9	11.5	(1.5)	(0.5)	–	48.4
Earth and Environmental	21.2	–	(0.3)	–	–	20.9
Investments and other activities	(11.0)	16.7	(0.1)	(0.1)	–	5.5
	144.6	28.2	(2.5)	(1.8)	–	168.5
Corporate costs	(36.5)	–	–	–	–	(36.5)
Profit/(loss) before net financing income	108.1	28.2	(2.5)	(1.8)	–	132.0
Net financing income	18.4	–	–	–	–	18.4
Share of post-tax results of joint ventures and associates	–	–	–	1.8	(0.6)	1.2
	126.5	28.2	(2.5)	–	(0.6)	151.6

	Year ended 31 December 2006					
Natural Resources	59.1	(7.8)	(1.8)	(0.6)	–	48.9
Power and Process	22.8	(17.6)	(1.0)	(1.2)	–	3.0
Earth and Environmental	17.7	–	(0.5)	–	–	17.2
Investments and other activities	8.5	(77.4)	(0.3)	1.6	–	(67.6)
	108.1	(102.8)	(3.6)	(0.2)	–	1.5
Corporate costs	(21.4)	–	–	–	–	(21.4)
Profit/(loss) before net financing costs	86.7	(102.8)	(3.6)	(0.2)	–	(19.9)
Net financing costs	(7.0)	–	–	–	–	(7.0)
Share of post-tax results of joint ventures and associates	–	–	–	0.2	(0.3)	(0.1)
	79.7	(102.8)	(3.6)	–	(0.3)	(27.0)

Financial review continued

Reconciliation of adjusted pre-tax profit for continuing operations – Geographical origin

	Year ended 31 December 2007					
	Adjusted profit before tax £ million	Exceptional items £ million	Intangible amortisation £ million	Pre-tax results of joint ventures and associates £ million	Tax on results of joint ventures and associates £ million	Profit before tax £ million
United Kingdom	56.2	14.2	(0.9)	0.5	–	70.0
Rest of Europe	6.6	–	–	(0.2)	–	6.4
Americas	85.2	7.0	(1.6)	(1.3)	–	89.3
Rest of the world	(3.4)	7.0	–	(0.8)	–	2.8
	144.6	28.2	(2.5)	(1.8)	–	168.5
Corporate costs	(36.5)	–	–	–	–	(36.5)
Profit/(loss) before net financing income	108.1	28.2	(2.5)	(1.8)	–	132.0
Net financing income	18.4	–	–	–	–	18.4
Share of post-tax results of joint ventures and associates	–	–	–	1.8	(0.6)	1.2
	126.5	28.2	(2.5)	–	(0.6)	151.6

	Year ended 31 December 2006					
United Kingdom	30.6	(1.5)	(0.9)	0.2	–	28.4
Rest of Europe	5.2	0.9	–	1.5	–	7.6
Americas	57.4	(86.9)	(2.7)	(1.2)	–	(33.4)
Rest of the world	14.9	(15.3)	–	(0.7)	–	(1.1)
	108.1	(102.8)	(3.6)	(0.2)	–	1.5
Corporate costs	(21.4)	–	–	–	–	(21.4)
Profit/(loss) before net financing costs	86.7	(102.8)	(3.6)	(0.2)	–	(19.9)
Net financing costs	(7.0)	–	–	–	–	(7.0)
Share of post-tax results of joint ventures and associates	–	–	–	0.2	(0.3)	(0.1)
	79.7	(102.8)	(3.6)	–	(0.3)	(27.0)

Reconciliation of adjusted net assets – Class of business

	31 December 2007			
	Adjusted net assets/ (liabilities) £ million	Interests in joint ventures and associates £ million	Intangible assets £ million	Net assets/ (liabilities) £ million
Natural Resources	28.8	0.2	0.8	29.8
Power and Process	(57.0)	(0.6)	6.1	(51.5)
Earth and Environmental	33.2	(0.2)	1.5	34.5
Investments and other activities	(185.2)	(22.1)	–	(207.3)
	(180.2)	(22.7)	8.4	(194.5)
Goodwill	215.4	–	–	215.4
Intangible assets	8.4	–	(8.4)	–
Interests in joint ventures and associates	–	22.7	–	22.7
Net cash	733.2	–	–	733.2
Unallocated net assets	103.0	–	–	103.0
Assets and liabilities held for sale	13.6	–	–	13.6
	893.4	–	–	893.4

	31 December 2006			
Natural Resources	71.3	0.6	2.1	74.0
Power and Process	(55.4)	(1.1)	6.3	(50.2)
Earth and Environmental	19.0	(0.2)	0.8	19.6
Investments and other activities	(109.2)	(21.8)	0.5	(130.5)
Discontinued businesses	(60.0)	(62.7)	–	(122.7)
	(134.3)	(85.2)	9.7	(209.8)
Goodwill	187.9	–	–	187.9
Intangible assets	9.7	–	(9.7)	–
Interests in joint ventures and associates	–	85.2	–	85.2
Net cash	354.9	–	–	354.9
Unallocated net assets	39.0	–	–	39.0
Assets and liabilities held for sale	37.6	–	–	37.6
	494.8	–	–	494.8

Reconciliation of employee numbers

	Average FTEs* for year ended 31 December 2007			Average FTEs* for year ended 31 December 2006		
	Total Employees Number	Agency staff Number	Direct employees Number	Total Employees Number	Agency staff Number	Direct employees Number
Natural Resources	9,715	(2,024)	7,691	8,317	(1,550)	6,767
Power and Process	6,753	(1,014)	5,739	5,766	(907)	4,859
Earth and Environmental	3,576	(29)	3,547	3,119	–	3,119
Investments and other activities	398	(7)	391	642	(6)	636
Total continuing businesses	20,442	(3,074)	17,368	17,844	(2,463)	15,381

*Full time equivalents.

Financial review continued

Business risks and opportunities

AMEC plc is a focused supplier of high-value consultancy, engineering and project management services to customers in the energy, power and process industry sectors.

The maintenance of high standards of safety and service remain important in securing repeat business from customers.

Principal business opportunities include continued high oil and gas and commodity prices, which would result in continued strength in AMEC's core businesses.

AMEC remains focused on progressing its Wind Developments portfolio, where it is seeking consents for developments with an overall capacity of over 1,000MW. Should the major projects receive planning approval this business is expected to begin to make a contribution to the group.

The price of oil and gas, commodity prices and levels of business confidence across power and process markets are key drivers for AMEC's businesses. A sustained and significant reduction in oil and gas or commodity prices and/or a reduction in business confidence could have an adverse impact on the level of client spending in AMEC's markets.

The Built Environment businesses were disposed of in 2007 as part of the divestment programme, as summarised in the report of the directors on pages 66 and 67. A team has been established in order to manage the legacy risk associated with the disposed businesses. In this regard, AMEC has made provisions for the legacy issues which are believed to be adequate and AMEC is not aware of any current issues relating to the disposed businesses which are likely to have a material impact on the company.

In the US, AMEC has exited certain construction management activities. The company is involved in ongoing litigation relating to these former activities and other construction related activities and has made provisions which are believed to be adequate. The outcome of litigation is not certain, as summarised in note 28 on page 113.

In recent years, AMEC has moved away from lump-sum fabrication activities and the level of lump-sum at risk work across the company in general has been significantly reduced but not eliminated.

AMEC operates in more than 30 countries globally, serving a broad range of markets and customers. As such, the company is subject to certain general and industry-specific risks. Where practicable, the company seeks to mitigate exposure to all forms of risk through effective risk management and risk transfer practices. AMEC uses a risk management process which is described in the Corporate Governance section of the report of the directors on pages 68 and 69.

Specific risks faced by AMEC are as set out below.

Geopolitical and economic conditions

AMEC operates predominately in the UK and North America and is therefore particularly affected by political and economic conditions in those markets. The company is not, however, dependent on any one area of economic activity. Where AMEC works outside these markets in territories which are considered to represent a significant political risk, it seeks to mitigate exposure to political risk through insurance where possible and cost-effective.

Changes in general economic conditions may influence customers' decisions on capital investment and/or asset maintenance, which could lead to volatility in the development of AMEC's order intake. The risk associated with economic conditions resulting in a downturn and affecting the demand for AMEC's services is addressed, as far as practicable, by seeking to maintain a balanced business portfolio.

Environmental and social risk

This area of risk management is growing in influence as the threat of climate change becomes more tangible through more extreme adverse weather conditions, flooding and water stress. In addition, AMEC's operations are subject to numerous local, national and international environmental regulations and human rights conventions.

Breaches of, or changes in environmental or social standards, laws or regulations could expose AMEC to claims for financial compensation and adverse regulatory consequences, as well as damaging corporate reputation.

AMEC takes a pragmatic, integrated approach to managing environmental and social risks utilising existing business management systems to identify and mitigate such risks. For example employment processes protect the human rights of the workforce, and the Safety, Health and Environment ('SHE') Management system defines a standard for environmental management.

AMEC tracks over 40 environmental and social KPIs, including environmental regulatory performance and community investment. Further details are available in the annual sustainability report (available on line at www.amec.com).

Customer concentration

AMEC's largest customer is Shell, which in 2007 accounted for around 10 per cent of continuing revenues. Were dependence on key customers to increase significantly, this could have direct consequences on AMEC's financial development.

Bidding risk

AMEC addresses the risk associated with bidding by a tender review process which addresses the threats and opportunities associated with each tender submitted. In 2007, the Delegated Authorities relating to tender submission were amended in order to place greater emphasis on the level of risk associated with tenders. The tender review process is kept under ongoing review in order to ensure that it continues to address the risk associated with bidding.

Business continuity

Given the broad spread and scope of its operations, AMEC's risk from natural catastrophe and terrorist action is varied, and considerable disruption could be caused to AMEC's operations as a result of the associated business interruption. These risks are mitigated through business continuity planning, which is being implemented throughout the group and is being verified through an ongoing audit process. In addition, the risk of increased cost of working in relation to UK and North America properties as a result of business disruption is transferred via insurance.

Information technology ('IT')

AMEC is exposed to the risk that the IT systems upon which it relies fail. AMEC has appropriate controls in place in order to mitigate the risk of systems failure, including systems back up procedures and disaster recovery plans.

Security of employees

The personal security and the safety of employees and contractors can be compromised due to their either being based, or travelling extensively on business, in potentially hazardous locations. AMEC regards the safety and security of its personnel as being of paramount importance, and this risk is mitigated by keeping security in relevant locations under continual review and the hiring of a local specialist security company where appropriate.

Safety

AMEC is involved in activities which have the potential to cause injury to personnel. In order to control risk and prevent harm to people, AMEC is committed to the highest standards of health and safety management. This is achieved through the setting of an effective health and safety policy and ensuring effective leadership and organisational arrangements are in place to deliver this policy. Performance is regularly reviewed against agreed targets with the objective of facilitating continuous improvement.

Credit

AMEC is exposed to credit risk particularly in relation to customers. The credit risk associated with customers is addressed initially via contract payment terms, and, where appropriate, payment security. Credit control practices are applied thereafter during the project execution phase. Where appropriate, credit risk insurance is considered in relation to specific customers and jurisdictions.

Financial review continued

Treasury risks

The group's treasury department manages funding, liquidity and the risks arising from interest rate and foreign currency movements within a framework of policies and guidelines approved by the board. Derivatives and conventional financial instruments are used with the aim of limiting financial risk. The treasury department does not operate as a profit centre and the undertaking of speculative transactions is not permitted.

Funding and liquidity risk

The group will finance operations and growth from existing cash resources and committed borrowing facilities provided by a syndicate of relationship banks. Following the sale of the non-core businesses, a portion of the committed facilities were cancelled by agreement. At 31 December 2007 committed facilities totalled £315 million (2006: £465 million) with an average duration of 16 months (2006: 28 months). Headroom under these facilities at 31 December 2007 was £291 million (2006: £439 million). The group's policy aims to ensure the constant availability of an appropriate amount of reasonably priced funding to meet both current and future forecast requirements consistent with the group's budget and strategic plans. Borrowings under these facilities can be used for general corporate purposes and are unsecured.

Interest rate risk

The group remained in a net cash position throughout the year. This position is considered to be temporary as the group intends to invest in the businesses and has the ongoing share buy back programme. As a result long-term interest rate hedging (for periods beyond three to six months) is not considered appropriate. Group treasury monitor the interest rate outlook, however, AMEC would suffer a reduction in interest income on surplus cash if interest rates fall. For example, a one per cent movement in rates on the 2007 average cash balance of £435 million would impact interest income by £4.4 million.

Foreign exchange risk

The group publishes its consolidated financial statements in Sterling. It conducts business in a range of foreign currencies, including Canadian and US dollars and currencies linked to the US dollar. As a result, the group is exposed to foreign exchange risks, which will affect transaction costs and the translation of the results and value of underlying assets of its foreign subsidiaries.

Transaction exposures

A significant proportion of the group's trading income is denominated in the local currency of the business operations which provides a natural hedge against the currency of its cost base. Where commercial contracts are undertaken which are denominated in foreign currencies, the group seeks to mitigate the foreign exchange risk, when the cash flow giving rise to such exposure becomes certain or highly probable, through the use of forward currency arrangements, which may include the purchase of currency options.

As stated earlier, contract costs and revenues are affected by a variety of uncertainties that depend on the outcome of future events. This can give rise to exposures if cash flows are denominated in foreign currency. Hedging decisions are based on the latest available forecasts at the time the decision is taken which are subsequently updated regularly. There are currently no material transaction exposures which have been identified and remain unhedged. AMEC recognises that, having taken out forward contracts in respect of underlying commercial transactions, an exposure would arise if the forward contracts had to be unwound as a consequence of the anticipated cash flows under such contracts being cancelled or otherwise not being received. The total gross nominal value of all outstanding forward contracts at 31 December 2007 is £116 million (2006: £137 million). At 31 December 2007 the mark-to-market value of these contracts that were out of the money was a liability of £1.2 million (2006: liability of £2 million) and of these contracts that were in the money was an asset of £3.1 million (2006: £0.8 million). AMEC has no reason to believe that any material outstanding forward contract will not be able to be settled from the underlying commercial transactions.

Translation exposures

A portion of the group's earnings is generated in non-Sterling currencies. Such overseas profits are translated into Sterling at the average exchange rate prevailing throughout the year. There is currently no hedging in place for profits generated in non-Sterling currencies but the impact on group profits is monitored on an ongoing basis.

In addition, the group has various assets denominated in foreign currencies, principally US dollars and Canadian dollars. Consistent with the group's policy, a proportion of these assets, including unamortised goodwill, have been hedged by using cross currency swaps. At 31 December 2007, these net investment hedges amounted to £138 million (2006: £120 million) covering approximately 40 per cent of overseas assets (2006: 40 per cent).

Counterparty risk management

The group holds significant net cash balances following the disposal of AMEC SPIE, the Built Environment businesses and other peripheral businesses during 2006 and 2007. The group intends to reinvest these monies into the core activities and return up to £80 million to shareholders via the previously announced share buy back.

Cash deposits and financial transactions give rise to credit risk in the event that counterparties fail to perform under the contract. AMEC manages these risks by ensuring that surplus funds are placed with counterparties up to a pre-approved limit. These limits are set at prudent levels by the board, are based primarily on credit ratings set by Moody's, Standard & Poors and Fitch and have been reviewed in light of the recent market turbulence.

Credit ratings are monitored continuously by group treasury.

Group treasury monitors counterparty exposure on a global basis to avoid an over concentration of exposure to any one counterparty. As a consequence of these controls the probability of material loss is considered to be remote.

Litigation

AMEC is subject to litigation from time to time in the ordinary course of business and makes provision for the expected costs based on appropriate professional advice.

The outcome of legal action is at times uncertain and there is a risk that it may prove more costly and time consuming than expected. There is a risk that additional litigation could be instigated in the future which could have a material impact on the company, although full risk management controls remain in place to deal with such matters.

Pensions

AMEC operates a number of defined benefit pension schemes, where careful judgement is required in determining the assumptions for future salary and pension increases, inflation, investment returns and member longevity. There is a risk of underestimating this liability and the pension schemes falling into deficit. This risk is mitigated by:

- Maintaining a relatively strong funding position over time
- Taking advice from independent qualified actuaries and other professional advisers
- Agreeing appropriate investment policies with the schemes' trustees
- Close monitoring of changes in the funding position, with reparatory action agreed with the trustees in the event that a sustained deficit emerges.

Project execution risk

One of AMEC's significant risks is the risk of losses arising during the execution phase of projects. Various measures are in place in order to address the project execution risk, including the risk management process, project reviews, internal audit of projects, and the implementation of peer reviews.

Sustainability

Growing influence of sustainability

Sustainability can be defined as AMEC's ability to generate shareholder value today without compromising its ability to deliver in the long term. The marketplace is evolving to reflect goods and services which offer more sustainable solutions in design, delivery and support. AMEC must be well positioned to support current and future customers in delivering their sustainable goals.

Many more customers are asking about how AMEC manages and can help them to manage sustainability issues such as ethical conduct, community investment and carbon management. There is an increasing emphasis on the wider social and environmental impact of projects with which AMEC is associated.

During the year, the international and political sustainability agenda has been dominated by the threat of climate change and global attention is turning to look at how best to respond to the warming climate.

In November 2007, the Intergovernmental Panel on Climate Change fourth global assessment report highlighted that there is now unequivocal evidence that the climate is warming and that this is directly attributable to man-made emissions. In December 2007, the UN Climate Change conference took place in Bali to discuss what the world must do to mitigate climate change and to negotiate a new strategy post Kyoto protocol which is due to expire in 2012.

AMEC has engaged with the climate change agenda, taking part in the annual Carbon Disclosure Project and contributing to the Prince of Wales May Day Business Summit on Climate Change for example, but also by looking to future markets. These markets, however, will be highly reliant on global leaders agreeing on a long-term strategy which allows business to make sensible, long-term investment in low carbon technologies.

Climate change management is AMEC's business

AMEC is both helping to conserve finite natural resources, designing efficient, safe oil and gas technologies which seek to reduce pollution and minimise harmful emissions, as well as looking towards tomorrow's energy sources. The continued rise in oil price coupled with the threat of energy security has provided an increased incentive for clients to invest in alternative fuel sources.

With AMEC's range of skills, technical ability and knowledge, it is well placed to succeed in the growth of climate change and sustainable energy related business and has significant capability in both its Nuclear and Wind Developments businesses. AMEC is also at the forefront of a number of innovative climate change related businesses.

In October 2007, AMEC was awarded a contract by Beard Energy to provide engineering and project management services for the front-end engineering and design phase of the US\$5 billion Ohio River Clean Fuels project in Wellsville, Ohio (US). The project is being undertaken in response to growing demand for more environmentally-friendly fuels.

AMEC continues to develop carbon capture, storage and transport technology using its existing experience in gas capture, storage, compression and pipeline transmission which is likely to become a key tool in reducing carbon emission from industrial processes. AMEC is already working with Progressive Energy to design their carbon dioxide pipeline on Teesside (UK), a vital part of their planned clean coal power station with carbon capture.

Adapting to climate change is also a significant challenge to business and industry and AMEC has been working with the European Space Agency to develop satellite remote sensing capability as a tool for use in advanced floodplain management applications. AMEC is also looking at satellite technology for use in calculating biomass from a carbon sequestration perspective.

There is a growing opportunity to develop and market climate change management services and AMEC will continue to work with clients to develop these areas.

Sustainability in the workplace

AMEC is committed to operating in a more sustainable manner in addition to the provision of sustainable services. The company manages and monitors the impact of business activities through its company-wide sustainability programme, which continued to evolve throughout the year. For a full account of AMEC's sustainability management and performance please refer to the on-line sustainability report which will be posted on www.amec.com later this year.

Board commitment and leadership

The board receives regular updates and briefings on significant sustainability issues such as safety, health, environmental management and human resources. Performance is monitored and action taken as necessary. Samir Brikho, Chief Executive, has responsibility for leading and driving the sustainability programme throughout the business.

Sustainability management

AMEC's minimum requirement is to ensure the effective management of its sustainability impacts by integrating sustainability into day-to-day business processes. In addition to this, each business is required to define and deliver improvement programmes, known as AMEC Agenda 21s. These programmes are a direct response to the UN Agenda 21 call for business and industry to implement action within their sphere of influence to address sustainable development priorities (UN Agenda 21 Chapter 30, paragraph 30.1).

Operational sustainability performance summary

AMEC has over 40 corporate sustainability indicators across the business. A full and detailed performance report will be contained in the on-line sustainability report including an analysis of performance, targets and objectives.

At the beginning of the year, AMEC set company-wide health and safety performance targets designed to drive down accidents in the workplace and prevent people from being injured. Targets were set for 2007, based on a 10 per cent improvement on best recorded performance. Improvement was made in the number of people suffering a lost time injury and the 10 per cent improvement target was exceeded. Improvement was also made in the number of recorded accidents although the improvement target was not met. Figures recorded include data for the Built Environment businesses, up until the time of divestment.

Tragically, in September 2007, an AMEC employee sustained fatal head injuries following a fall from height. Immediate action, following this incident, included a review and reinforcement of safe working at height practices across the whole of AMEC.

Benchmarking AMEC performance

Taking part in sustainability performance surveys provides AMEC with excellent learning opportunities through benchmarking its performance and engaging with its peers. The surveys in which AMEC participates provide an in-depth analysis of its sustainability performance.

Dow Jones Sustainability Index ('DJSI')

DJSI results influence the investment decisions of asset managers in 15 countries for a variety of sustainability-driven portfolios, including mutual funds, segregated accounts, structured products, as well as two exchange traded funds.

During 2007, AMEC achieved a strong performance in both the World and Pan-European Dow Jones Sustainability Indices. AMEC was listed

as the support services sector leader in both. This is AMEC's fourth year as a participant of the index and its fourth year as a sector leader.

Business in the Community

For the last four years, AMEC has been ranked in the Sunday Times Top 100 'Companies That Count' index, published annually, and has achieved year-on-year improvement in its management score.

In 2007, AMEC continued to participate in the Corporate Responsibility, Environment and Community indices and all results and feedback will be included in the on-line sustainability report.

Future priorities

In years to come, the only truly successful businesses will be those that achieve a sustainable balance between their own interests, and those of society and the natural world. It is only possible to achieve this through wholly integrating sustainability into the way AMEC performs on a daily basis, upholding its principles and striving for improvement across the 'triple bottom line'.

AMEC recognises that sustainable development is essential to the future of the business and this is reflected in the fact that sustainability is a key focus area of AMEC's Operational Excellence programme. One of AMEC's key challenges for 2008 will be to plan, develop and implement AMEC's Sustainability Operational Excellence programme. The focus of the programme will be on three key challenges:

- Carbon management
- Global sustainability performance standards
- Stakeholder engagement programme.

Operational Excellence will build on the best practice within the business and focus on taking a leadership position on key sustainability issues.

Verification procedure

Statements relating to sustainability made on pages 58 and 59 of this report have been verified by an external, independent team from Enviro. All data used has been checked for reliability and subjected to audit via an internal team of auditors.

The opinion of Enviro is set out in the footnote below.

Enviro has verified the Sustainability section of the AMEC annual report 2007. This involved reviewing quantitative and qualitative information that supports the statements made. Enviro is satisfied that this section of the report is an accurate representation of the sustainability performance and related business practices within AMEC.

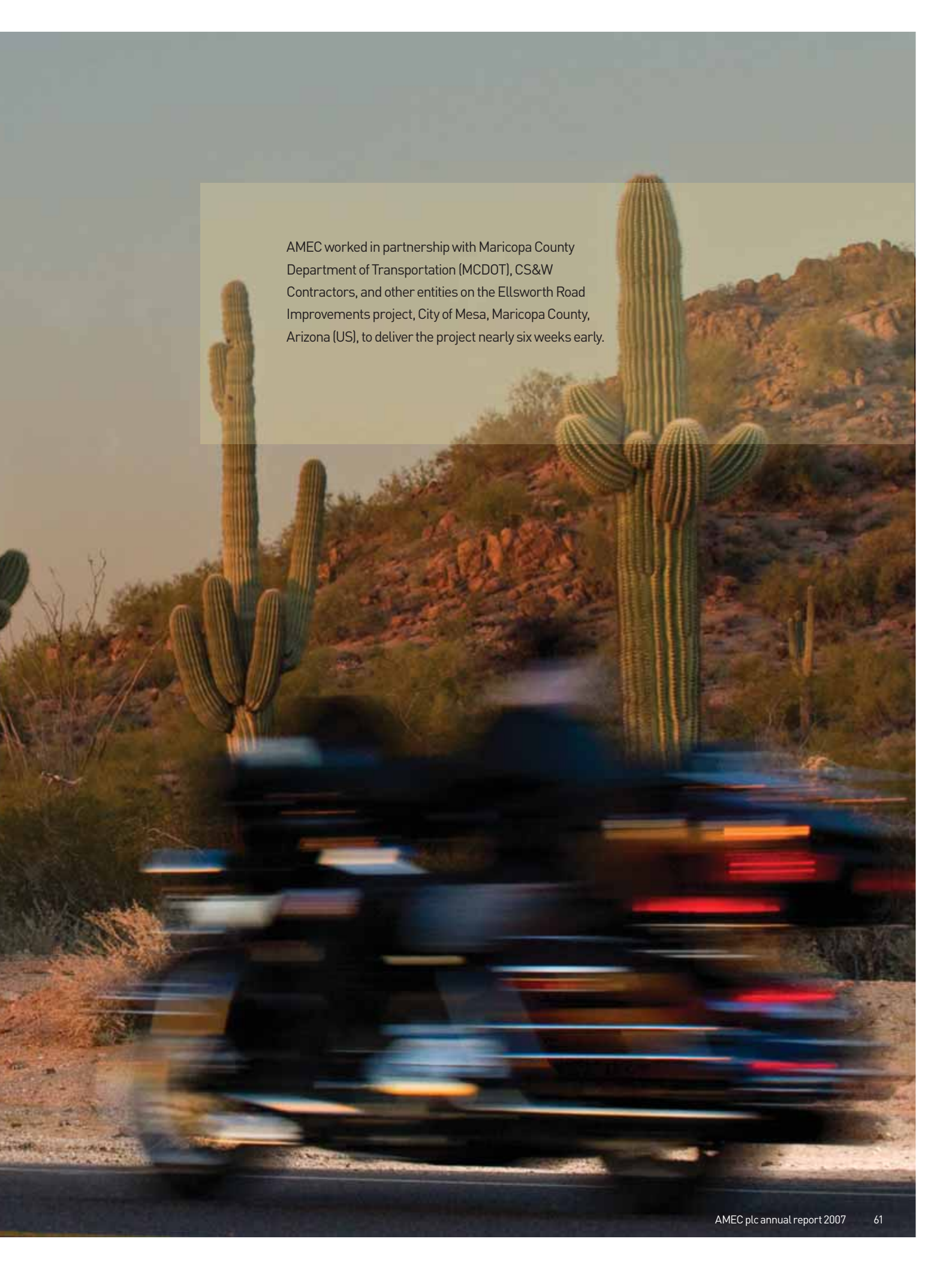
The information presented in this Sustainability section has been tailored to the interests of the report's audience and is a sub-set taken from AMEC's more detailed Sustainability Performance Report 2007, which Enviro also verifies.

“How many times have we heard our goal is to have a quality project that is on time and within budget? Well this one is such a project... I personally believe that the results may have been very different if we had not worked with AMEC using the team/partnering concept.”

Lisa Ruane, Construction Engineer, MCDOT



Left to right: Lisa Ruane, Construction Engineer, Maricopa County Department of Transportation; Greg Bosworth, Project Manager, CS&W Contractors; Jay Guertin, Assistant Branch Manager (Phoenix), AMEC

A photograph of a desert landscape at dusk or dawn. In the foreground, a dark-colored car is blurred, indicating motion. The background features several tall saguaro cacti and a rocky, hilly terrain under a clear sky. A semi-transparent text box is overlaid on the upper left portion of the image.

AMEC worked in partnership with Maricopa County Department of Transportation (MCDOT), CS&W Contractors, and other entities on the Ellsworth Road Improvements project, City of Mesa, Maricopa County, Arizona (US), to deliver the project nearly six weeks early.

Our board of directors



1 Jock Green-Armytage 23

Age 62, was appointed a non-executive director in June 1996 and became non-executive Chairman in January 2004. He is the Chairman of the nominations committee. He is Chairman of JZ International Limited and a director of JZ Equity Partners plc and several other companies.

2 Samir Brikho 3

Age 49, was appointed Chief Executive in October 2006. He was previously a member of the ABB Executive Committee, heading the Power Systems division. He was also Chairman of ABB Lummus Global, ABB's international projects and services business. He is also a director of United Kingdom-Japan 21st Century Group.

3 Stuart Siddall

Age 54, was appointed Finance Director in June 2000. He was previously Finance Director of Alpha Airports Group PLC and of MANWEB plc. On 17 March 2008, he tendered his resignation and will cease to be a director following the annual general meeting on 14 May 2008.

4 Liz Airey 123

Age 49, was appointed a non-executive director in May 1999. She is the senior independent director. She was previously the Finance Director of Monument Oil and Gas plc. She is currently Chairman of Zetex plc and a non-executive director of Tate & Lyle PLC. In addition, she is Chairman of a European investment trust and a non-executive director of another investment trust specialising in private equity.

5 Peter Byrom 13

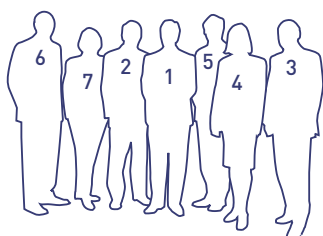
Age 63, was appointed a non-executive director in February 2005. He is Chairman of the audit committee. He is Chairman of Domino Printing Sciences plc and Molins PLC and a non-executive director of Rolls-Royce plc. He was a director of N M Rothschild from 1977 to 1996.

6 Tim Faithfull 23

Age 63, was appointed a non-executive director in February 2005. He is Chairman of the remuneration committee. He is a non-executive director of Canadian Pacific Railway, TransAlta Corporation and Shell Pensions Trust Limited and was President and Chief Executive of Shell Canada Limited from 1999 to 2003.

7 Martha Hesse 123

Age 65, was appointed a non-executive director in June 2000. She was President of Hesse Gas Company until the end of 2003 and is the former Chairman of the US Federal Energy Regulatory Commission and Assistant Secretary for management and administration of the US Department of Energy. She chairs the compliance and ethics committee and is Chairman of Enbridge Energy Partners, L.P., Enbridge Energy Management, L.L.C. and Enbridge Energy Company Inc. and a director of Terra Industries Inc. and Mutual Trust Financial Group. All these entities are based in the US and Canada.

**Key to principal committee membership**

- 1** Audit
- 2** Remuneration
- 3** Nominations

Our management team



Michael Blacker

Michael Blacker is General Counsel and is responsible for the provision of legal services across the organisation. Michael joined AMEC in 1999.

Ron Lee

Ron Lee is Group Human Resources and Safety Director. He is also responsible for the environment, sustainability and pensions functions. He joined AMEC in 1996.

Roger Jinks

Roger Jinks was appointed President of the Earth and Environmental division in 2000. He joined the company in 1987.

Stuart Siddall

Stuart Siddall was appointed Finance Director in 2000. He leaves AMEC in May 2008.

Samir Brikho

Samir Brikho was appointed Chief Executive of AMEC in October 2006.



Didier Pflieger

Didier Pflieger joined AMEC in 2007 as Chief Operating Officer of the Power and Process division.

Neil Bruce

Neil Bruce was appointed Chief Operating Officer of the Natural Resources division in 2006. He joined AMEC in 1997.

Sue Scholes

Sue Scholes is Director of Communications and also has responsibility for investor relations. Sue joined AMEC in 2007.

François-Philippe Champagne

François-Philippe Champagne joined AMEC in 2008 as Director of Strategic Development, with responsibility for mergers and acquisitions activity, strategy and supply chain management.

Report of the directors

The directors have pleasure in presenting the annual report and accounts for the year ended 31 December 2007.

Business review

Information fulfilling the requirements of the business review is contained in the business and financial review on pages 16 to 57, which includes details of AMEC's development and performance during the year, its position at the year end and the outlook for the future, and is included in this report by reference.

Key events

In October 2006, AMEC launched 'STEP Change', a programme of change in the structure and culture of the company. The programme was completed ahead of schedule in September 2007 and exceeded original expectations. Compared with the 2006 baseline, benefits of at least £40 million for the continuing businesses are expected in 2008, increased from an initial commitment in March 2007 of £35 million. With all of AMEC's end markets remaining buoyant, the board remains confident that margin targets of six per cent in 2008 and eight per cent in 2010 will be delivered.

Following the successful completion of STEP Change, AMEC is proceeding with 'Operational Excellence', a two to three year programme designed to radically improve operating performance. Operational Excellence will be a major contributor to AMEC delivering its target margin of eight per cent in 2010.

AMEC intends to improve the quality of the business portfolio and service delivery to customers and to simplify and optimise internal controls and processes. The Operational Excellence programme is packaged into 12 workstreams identified as those most important to achieving high performance across the group:

- Business controls
- Cash management
- Commercial management
- Employee development
- Engineering
- Health and safety
- Information technology
- Project management
- Strategic marketing
- Strategic relationship management and business acquisition
- Supply chain management
- Sustainability

In June 2007, AMEC and Morgan Sindall plc agreed terms for the divestment of the Property Developments and UK Building and Civil Engineering businesses for a premium of £55 million to the aggregate net assets as at 30 April 2007. Completion was achieved in July 2007. AMEC's interest in the Inland Revenue Newcastle Estate PPP project was subsequently excluded from this transaction and has been retained by AMEC, reducing the actual premium on disposal to £49 million. In addition, a joint venture asset was subject to a pre-emption clause which was duly exercised by the partner which, together with other adjustments, reduced the premium achieved to £44.5 million.

In July 2007, AMEC and Land Securities Trillium ('LST') agreed terms for the divestment of the management team and nine underlying PPP assets of the Project Investments business for £163.5 million. Completion of the sale of eight of these assets to LST was achieved in November 2007. The remaining asset, being AMEC plc's shares in two

PPP road projects, was pre-empted by the fellow shareholders and was sold to them in March 2008 for £11.1 million. Following the disposal of the Property Developments and Project Investments businesses, AMEC has retained three PPP projects, being a completed UK road project (discontinued operation), the completed Inland Revenue Newcastle Estate project referred to above and the Incheon Bridge project in Korea which is under construction.

In July 2007, AMEC announced a proposal to increase its presence in the Caspian frontier region through the acquisition of a 60 per cent interest in Kazakh oilfield services company, Batys Kazakhstan Kuat Service Limited, for c. £5 million. The transaction was completed in January 2008.

In August 2007, AMEC and SPIE S.A. agreed terms for divestment of the Building and Facilities Services business for £117 million. Completion took place in September 2007.

Also in August 2007, AMEC and MMC Oil and Gas, a leading Malaysian oil and gas engineering consultancy organisation, announced the formation of a new company, MMC AMEC Sdn. Bhd. to deliver project management and engineering services to oil and gas customers in the expanding Malaysian and Asian markets. AMEC holds 49 per cent of the shares in this company.

In September 2007, AMEC announced the acquisition of Cade-Idepe, based in Santiago, from its owner-managers for £12 million. AMEC is now one of the largest engineering companies in Chile, employing some 900 engineers providing engineering services for Natural Resources and Power and Process clients in Chile and throughout South America. Completion took place in October 2007.

During the year, AMEC made four small acquisitions in the Earth and Environmental business.

Five peripheral non-core businesses were divested during the first half of 2007, being AMEC SPIE Rail, Dynamic Structures, AMEC SPIE Capag, Buchan Concrete Solutions and Midwest Pipelines. This was followed by the sale of the Logistics and Support Services business which was completed in February 2008.

In total, the divestments of the Built Environment and peripheral businesses generated overall cash proceeds of £279.2 million after costs but before tax and a post-tax gain of £243.3 million.

Details of the good progress made with the settlement of legacy disputes are shown on pages 48 and 49.

Dividends

The directors have proposed a final ordinary dividend in respect of the year ended 31 December 2007 of 8.8 pence per share. This final dividend will be payable on 1 July 2008 to shareholders on the register at the close of business on 23 May 2008.

Dividends paid during the year comprised an interim dividend of 4.2 pence per share, and a final dividend of 8.0 pence per share both in respect of the year ended 31 December 2006.

Share capital

The authorised and issued share capital of the company as at 31 December 2007, movements during the year and the rights attaching to the shares are set out in note 23 on pages 107 to 109 and the rights and obligations attaching to the shares are more fully set out in the articles of association of the company.

A resolution will be proposed at the annual general meeting to extend the authority of the directors to make market purchases of up to 10 per cent of the company's shares within prescribed limits.

On 13 December 2006 the directors announced their intention, pursuant to the authority granted at the 2006 annual general meeting, to return up to £100 million via on-market share repurchases during 2007.

As at 31 December 2007, AMEC had as a consequence purchased 3.52 million shares in the market to be held in treasury at a total cost of £19.5 million*. On 6 September 2007, the board confirmed that the balance of up to £80.5 million would be returned to shareholders in 2007 and beyond. A further 250,000 shares were purchased in the market after the year end, to be held in treasury, at a total cost of £1.9 million. There were no further purchases of treasury shares up to the date of this report.

The directors consider that a share buy back is in the best interests of shareholders generally and is expected to result in an increase in earnings per share. The directors will retain sufficient financial flexibility to be able to progress AMEC's strategic growth plans in its core businesses. Repurchased shares will be held in treasury.

During late December 2007 and early January 2008, AMEC purchased a further 2.7 million shares in the market to be held in treasury at a total cost of £22.2 million, specifically to satisfy 2007 awards under the UK and International SAYE schemes previously approved by shareholders.

Authority was granted to the directors at the 2007 annual general meeting to allot up to £55,938,640 of ordinary share capital of which up to £8,390,796 could be allotted for cash other than by way of a rights issue. Resolutions will be proposed at the forthcoming annual general meeting to extend this authority to May 2009. The revised Section 80 amount will be £55,154,246 and the revised Section 89 amount will be £8,273,136.

The directors have no present intention of issuing any shares other than in respect of the exercise of share options. No issue will be made which will effectively alter the control of the company without the prior approval of shareholders in general meeting.

Substantial interests

Pursuant to the FSA Disclosure and Transparency Rules (DTR) 5, notifications have been received by the company of shareholdings of 3 per cent or more of the voting rights of the company as at 11 March 2008 and these are as follows:

	Number	Per cent
Toscafund Limited	37,697,620	11.37
Barclays PLC	14,410,295	4.35
Legal & General Investment Management Ltd	13,588,869	4.10
ABN-AMRO Bank NV	13,317,635	4.02

The shareholding percentages have been adjusted from those notified to reflect the current issued share capital net of treasury shares.

There are no shareholdings which carry special rights relating to control of the company.

There are no significant agreements in place to which the company is a party which take effect, alter or terminate upon a change of control of the company following a takeover bid.

Directors

Details of the directors of the company as at the date of this report, together with membership of the principal board committees, are set out on pages 62 and 63.

Non-executive director Mr J A Dallas stepped down as planned from the board on 16 May 2007 and Mr J D Early retired from the board on 31 July 2007.

Mr P J Byrom and Mr T W Faithfull retire in accordance with article 85 of the articles of association of the company and, being eligible, offer themselves for re-election. Neither Mr Byrom nor Mr Faithfull has an employment contract with the company.

* The total cost of treasury shares for the year ending 31 December 2007 was £21.5 million, including £2.0 million purchased to satisfy awards under the SAYE scheme.

Report of the directors continued

The beneficial interests in the share capital of the company of the directors holding office as at 31 December 2007 were as follows:

	As at 31 December 2007 Number	As at 31 December 2006 Number
J M Green-Armytage	10,000	10,000
S Y Brikho	116,979	52,892
S J Siddall	34,859	30,628
E P Airey	18,120	18,120
M O Hesse	16,414	16,414
P J Byrom	–	–
T W Faithfull	5,000	5,000

Except for interests under share option schemes and the Performance Share Plans, details of which are contained in the directors' remuneration report on pages 72 to 77, no director as at 31 December 2007 had any other interests, beneficial or otherwise, in the share capital of the company or any of its subsidiaries. There were no other changes in the directors' interests in the share capital of the company between 31 December 2007 and 11 March 2008.

No director was materially interested in any contract of significance to AMEC's businesses.

As at the date of this report, individual indemnities have been provided to the directors, under which the company has agreed to indemnify the directors to the extent permitted by law in respect of all liabilities to third parties arising out of, or in connection with, the execution of their powers, duties and responsibilities as directors of the company, any of its associated companies or any other company that the director serves as a director at the request of the company. These indemnities are Qualifying Third Party Indemnity Provisions as defined in Section 309A-B of the Companies Act 1985 and copies are available for inspection at the registered office of the company during business hours on any weekday except public holidays.

Employees

AMEC employed on average 20,442 people in continuing activities worldwide in 2007. Details are given on page 53 of the financial review which reconciles the employee numbers in the business and financial review (including agency staff) to those in note 6 of the accounts. On average 5,549 people were employed by discontinued operations.

The development of employees, to ensure that AMEC has the necessary skills and behaviours to deliver its strategic business objectives and to provide for management succession, is given high priority. In addition, recognising the importance for the future of bringing new people into the group, all businesses have well established programmes for recruiting and developing graduates and other trainees.

Respect for cultural diversity and equal opportunities are included among AMEC's Guiding Principles which are incorporated into management policies and processes worldwide. AMEC's policy is to recruit from the widest labour market, determining the careers of all employees solely on merit and making judgements about employees free from the effects of bias and prejudice.

It is AMEC's policy to consider for employment suitably qualified disabled people and to assist them in overcoming handicaps at work. AMEC recognises that special arrangements are necessary, in view of the nature of its main activities, to ensure that disabled employees are properly trained for the tasks they perform. AMEC endeavours to retrain any employee who develops a disability during employment, wherever practicable.

Internal communication is of key importance for AMEC, as employees embody AMEC's knowledge, brand and reputation. AMEC provides numerous opportunities for employees to raise issues and discuss matters of concern with management, whether face to face or using electronic means.

Employees share knowledge and are kept informed of developments within AMEC through various means, including a weekly letter from the chief executive, its intranet AMECnet, internal publications, best practice groups, news bulletins and announcements. A global conference of senior managers is normally held each year to discuss developing issues.

The company operates a UK tax authority approved savings related share option scheme which is open to eligible UK employees and introduced the International Savings Related Share Option Scheme in 2005. A further offer to eligible employees under both schemes was made during November 2007.

The terms of employment of one senior executive who is not a director provide that the employee's normal notice period of 12 months increases to 24 months for the duration of 12 months following a change of control in the company. This is an historic arrangement and it is not the company's intention to extend this provision to other employees. There are no other agreements with AMEC employees which contain terms which provide for compensation for loss of office or employment in the event of a takeover offer being made for AMEC.

Annual general meeting – special business

Resolutions are being proposed at the annual general meeting to authorise the company to make market purchases of shares in the company within prescribed limits, to authorise the directors to allot shares in the company for a further period of one year and to allot a proportion of those shares for cash.

A resolution is being proposed to amend the articles of association of the company to incorporate changes consequent upon the further enactment of the Companies Act 2006. The articles of association may only be amended by a shareholders' special resolution.

A resolution relating to the introduction of a new incentive scheme for senior executives is also being proposed.

Further details of these proposals are outlined in the circular which accompanies this annual report and accounts.

Corporate governance

The board is responsible to shareholders for the management of the company and for the protection of its assets. As such, it is ultimately responsible for implementing AMEC's systems of internal control and for reviewing their effectiveness. These systems are designed to manage, rather than eliminate, the risk of failure to achieve business objectives and consequently can provide reasonable, but not absolute, assurance against material mis-statement or loss.

The board, through the committees described below and at its regular meetings, has a continuous process for identifying, evaluating and

managing significant risks faced by AMEC, including strategy, major projects to be undertaken, significant acquisitions and disposals, as well as entry to and exit from different markets. Where appropriate, business decisions are reached following a structured and documented review of potential opportunities and threats, taking steps designed to manage or mitigate any residual risk exposure. Principal business risks are set out in the business and financial review on pages 16 to 57.

AMEC uses a risk management process which is incorporated into the AMEC Mandatory Procedures described below. The process involves the identification of risks at the gross and current level by projects, businesses and corporate functions. The risks are recorded in risk registers to enable the net positions to be pro-actively managed. Following a review of this process in 2007, quarterly risk review meetings comprising representatives from the businesses and functions have been instigated. These meetings discuss business and functional risks; the highest risks in terms of probability and impact are then elevated to the AMEC plc risk register. The plans for mitigation of such risks are also reviewed.

The risk management and internal control processes are complemented by an annual control risk self-assessment exercise carried out by the principal businesses. This covers major risks, particularly safety, health and environment, legal, commercial and contractual, financial, information technology and human resources. The results are reviewed by the board, through both the audit committee and the executive directors, and as part of the ongoing internal audit process. For 2007, this self assessment exercise was undertaken for the continuing businesses; however discontinued businesses were subject to review and audit until such time as their disposal was concluded.

AMEC Mandatory Procedures and Delegated Authorities

AMEC's businesses are managed on a decentralised basis. Whilst the board has retained reserve powers, the day-to-day management has been passed to the business leaders within defined authority limits. The management philosophy is to empower the business leaders to take the actions necessary to deliver the company's operational business objectives within the defined Mandatory Procedures and Delegated Authorities, which set out the standards AMEC employees and contracting staff are expected to achieve.

During 2007, AMEC's Mandatory Procedures and Delegated Authorities were reviewed and updated to reflect the continuing core businesses. This framework provides for an effective control structure and a clear link between the levels of risk associated with tenders and delegated authority limits.

AMEC has interests in a number of joint ventures, associates and joint arrangements. Controls within these entities may not be reviewed as part of AMEC's formal corporate governance process because of the joint management responsibilities but are reviewed by the joint venture boards and as part of AMEC's normal internal audit process.

Consequently, AMEC complied with the Combined Code on Corporate Governance throughout 2007.

Dialogue with institutional shareholders

Mr Green-Armytage, chairman, wrote to all major shareholders in April 2007 informing them that he and the senior independent director, Ms Airey, were available for meetings or telephone calls with them if required. The chairman attends preliminary and interim results presentations. Ms Airey is available to attend, if requested, one-on-one meetings with major shareholders. The chairman had a number of such meetings with major shareholders during 2007. No meetings were requested with Ms Airey.

An in-depth annual perception study of investors' views, prepared by an independent third party, is presented to all board members, who also receive unexpurgated feedback reports following shareholder

meetings or events together with all material brokers' research notes on the company.

The board

The board comprises the non-executive chairman, two executive directors and four independent non-executive directors.

The company does not combine the role of Chairman and Chief Executive. The Chairman is responsible for the running of the board, with the Chief Executive being responsible for running the group and implementing board strategy and policy. This ensures a clear division of responsibilities at the head of the company, so that no individual has unfettered powers of decision. The independent non-executive directors review the relationship between the Chairman and Chief Executive each year to ensure that the relationship is working effectively.

The non-executive directors are all considered to be independent by the board. They are not employed by the company in any capacity, nor have they been in the past. Ms Airey has acted as the board's senior independent director since 21 January 2004.

The Company Secretary is responsible for ensuring that board procedures are followed and all directors have access to his advice and services.

The board has a schedule of matters reserved for its approval covering areas such as company strategy, the appointment of key executives, approval of accounts, approval of the business plan, budget and financial policies, review of operating results, risk management strategy, ensuring the effectiveness of governance practices, succession planning and significant capital expenditure. The board is supplied in a timely manner with information which enables it to discharge its duties.

An external review of the effectiveness of the board and its committees was carried out during the year by Spencer Stuart by way of interviews with individual directors. Findings were considered by the board as part of its review of both collective and individual board member performance. No material changes were identified as being necessary as a result of this exercise. The independent non-executive directors also met privately both with and without the Chairman present and also with both the Chairman and Chief Executive together to consider management performance and succession issues. A formal process exists for the directors to take independent professional advice and receive appropriate training in the course of their duties, at the company's expense, organised by the Company Secretary.

Board committees

Under AMEC's Management and Policy Framework, the board has formally delegated specific responsibilities to various board committees, all of which have written terms of reference.

The remit of each committee is set out below. The quorum is three directors, save for the audit and remuneration committees where the quorum is two directors. Full details of the constitution and remit of the audit, nominations and remuneration committees can be found under 'corporate governance' on www.amec.com (click on 'About AMEC' and follow the links).

The committees chaired by non-executive directors are as follows:

- **Audit committee** — Reviews the integrity, including the material financial reporting judgements, of the company's accounts, including the preliminary and interim results, related report and accounts and Stock Exchange announcements and any other formal announcements in connection with the company's financial performance, and recommends their approval to the board.

It also reviews the company's internal financial controls and, in conjunction with the risk review committee, the internal control and risk management systems.

Report of the directors continued

The committee has unrestricted access to company documents and meets with the internal and external auditors, and any other relevant member of staff, without the executive directors being present, as necessary. The head of internal audit formally reports to the committee chairman.

It reviews the head of internal audit's regular reports and carries out an annual assessment of the internal audit function's effectiveness. In 2007, this exercise was carried out on behalf of the committee by the acting head of internal audit. No material changes were identified as being necessary as a result of this exercise.

The committee considers the appointment, re-appointment, removal, remuneration and terms of engagement of the external auditor and makes recommendations to the board. It discusses the scope and planning of the external audit and reviews the outcome of the external audit and any formal communications from the external auditor, including internal control reports.

The committee also formally reviews and monitors the external auditor's independence and objectivity and the effectiveness of the audit process, taking into consideration relevant UK professional and regulatory requirements and makes recommendations to the board. During 2007, a review, co-ordinated on behalf of the committee by the acting head of internal audit, was carried out. The audit committee also monitors the implementation of the policy on the engagement of the external auditor to supply non-audit services. This policy follows the guidelines set out by the Institute of Chartered Accountants in England and Wales and clearly defines what work can and cannot be performed by any group company's statutory auditor. It also sets out the necessary approval process for those non-audit services that are acceptable.

All non-statutory audit or non-compliance tax services provided by the auditor are reported to the audit committee. During 2007, the fees paid to the company's auditor, KPMG Audit Plc and its associates, for non-audit work were £1.3 million (2006: £1.1 million), which comprised £0.7 million primarily relating to taxation and £0.6 million for other work (2006: £0.8 million and £0.3 million).

KPMG also received fees of £2.0 million (2006: £4.9 million) in respect of corporate finance transactions as follows:

	2007 £ million	2006 £ million
Divestment of the Built Environment businesses	2.0	–
Sale of AMEC SPIE	–	3.3
Potential separation of the group	–	1.6
	2.0	4.9

All additional KPMG fees were approved in accordance with AMEC's policy covering non-audit services. As a result of the application of this policy and additional discussions with the external auditor, the directors do not believe that KPMG's independence has been compromised as a result of their additional work on behalf of the company.

- **Nominations committee** — Makes recommendations to the board concerning the appointment or termination of a director or the company secretary and, in the case of a non-executive director and the chairman, the extension of an existing appointment.

The committee also regularly reviews board succession planning, in conjunction with reports from the chief executive and group human resources director on senior management succession planning, so as to ensure that an appropriate balance of skills is maintained both within AMEC and on the board.

- **Remuneration committee** — Sets, and reviews as necessary, the overall contractual and remuneration framework for the chairman, the executive directors and the company secretary, including pension rights and annual bonus incentives.

It considers and determines such other matters relating to the engagement of the chief executive and other executive directors, including matters relating to the enforcement of their service contracts and payments on termination, as the chairman and chief executive respectively refer to the committee.

It agrees the terms to be offered to a proposed new chairman or executive director.

It reviews the salaries of executive directors annually and the chairman biennially, or more frequently as is deemed necessary by the committee chairman. It agrees the performance targets of executive directors and the levels of bonus to be paid to them under the annual bonus incentive scheme.

It determines and agrees with the chief executive the remuneration policy and structure, including annual bonus, for corporate functional executives and senior operational executives immediately below board level.

It approves performance targets, participation and level of awards for any executive share-based incentive scheme.

The following table is a record of the directors' attendance at board and principal board committee meetings during the year ended 31 December 2007.

	AMEC plc board	Audit committee	Nominations committee	Remuneration committee
Number of meetings	12	4	2	5
J M Green-Armytage*	12		2	2
S Y Brikho	12		2	
J D Early (up to 31 July)	7			
E P Airey	11	4	2	5
J A Dallas (up to 16 May)	4			2
M O Hesse*	11	4	2	2
S J Siddall	12			
T W Faithfull	12		2	5
P J Byrom	11	4	2	

* Joined remuneration committee on the departure of J A Dallas on 16 May 2007.

- Charities committee — Makes commitments and donations in support of charitable, educational and cultural causes
- Compliance and ethics committee — Considers and approves the codes of business conduct and related compliance arrangements and takes responsibility for management of investigations of violations, as necessary
- Share transaction committee — Provides clearance or denies permission to relevant employees to deal in AMEC shares

The committees chaired by executive directors are as follows:

- Banking committee
- Corporate transactions committee
- Pensions and retirement benefits committee
- Risk review committee.

Going concern

The directors, having made enquiries, consider that the company and the group have adequate resources to continue in operational existence for the foreseeable future and, therefore, it is appropriate to continue to adopt the going concern basis in preparing the accounts.

Creditor payment policy

Businesses are responsible for agreeing terms and conditions under which transactions with their suppliers are conducted. It is group policy that payments to suppliers are generally made in accordance with these terms and conditions, provided that the supplier complies with all of its obligations in this regard.

The company had 35 days' purchases outstanding as at 31 December 2007 (2006: 31 days) based on the average daily amount invoiced by suppliers during the year.

Donations

Donations to UK charities amounted to £446,000 for the year ended 31 December 2007 (2006: £186,000).

Disclosure of information to auditors

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the company's auditor is unaware; and each director has taken all the steps that he/she ought to have taken as a director to make himself/herself aware of any relevant audit information and to establish that the company's auditor is aware of that information.

Auditors

A resolution will be proposed at the annual general meeting for the re-appointment of KPMG Audit Plc as auditor of the company.

By order of the board

P J Holland

Company Secretary

11 March 2008

Since the date of this report, as at 25 March 2008, the latest practicable date prior to publication of this document, AMEC had purchased a further 500,000 shares in the market for an aggregate cost of £3.6 million. All the shares are held in treasury.

Directors' remuneration report

This report covers the remuneration of executive and non-executive directors and related matters, including long-term incentive awards.

Remuneration committee membership and advisers

During the year, the members of the remuneration committee comprised Mr T W Faithfull (chairman), Ms E P Airey, Mr J M Green-Armytage (from 16 May 2007), Ms M O Hesse (from 16 May 2007), and Mr J A Dallas (until his resignation as a director on 16 May 2007). The committee's terms of reference can be found under 'corporate governance' on www.amec.com (click on 'About AMEC' and follow the links) or on written request from the Company Secretary.

In considering the matters within its remit, the committee takes account of recommendations from the Chairman in respect of the Chief Executive and from the Chief Executive in respect of other executives and is advised by the group human resources director.

During 2007, New Bridge Street Consultants LLP ('New Bridge Street') continued to provide standing advice to the committee in connection with its responsibilities. New Bridge Street does not carry out material additional work for the company. The terms of engagement between the company and New Bridge Street are available from the Company Secretary.

Remuneration policy

The objective of the remuneration policy, in respect of the executive directors and other senior executives, is to offer remuneration packages that are competitive in the markets in which the executives are based and which:

- allow AMEC to attract and retain senior executives of high calibre; and
- incentivise senior executives to achieve superior short-term performance, increase the medium and long-term value of AMEC for its shareholders and encourage executives to build and retain a significant shareholding in AMEC.

More specifically the policy is to set:

- base salaries which broadly equate to the mid-market salary practices of a relevant group of oil equipment and services and other engineering and business support services companies and other companies regarded as comparable by virtue of, amongst other factors, revenue, employee numbers, market capitalisation and/or geographic coverage
- annual bonuses which incentivise the achievement of stretching business and individual performance targets and offer the opportunity to achieve upper quartile annual cash earnings if these targets are achieved
- longer term incentives which align the interests of shareholders and senior executives by offering the latter the opportunity to accumulate significant capital over a period but only if stretching financial and shareholder value targets are met
- whilst accepting that within this policy there will be occasions when higher and/or lower levels of remuneration will be appropriate in particular circumstances.

Relationship between remuneration practice and strategic objectives

In applying the above policy, particularly in relation to setting targets under the annual and longer term incentive arrangements, the committee has regard to the need to ensure alignment with the company's strategic objectives.

In 2007, the key objectives which informed this were:

- Delivering improved profitability from ongoing operations
- Reducing the cost base through the STEP Change programme
- Completion of the portfolio restructuring in particular the disposals of the Built Environment businesses

- Progress on resolving long-standing disputes on legacy contracts.

For 2008, priority will be given to:

- Delivering a net margin of at least 6 per cent
- Making progress towards a margin of at least 8 per cent in 2010
- Changing the culture and practice in the business to 'best in class' through the Operational Excellence programme
- Cash generation from ongoing operations.

Executive directors' base salaries and annual bonuses

The base salaries of executive directors are reviewed annually, having regard to personal performance, company performance, competitive market practice as determined by external research and pay levels more broadly within the company. The following salaries have been approved from 1 January 2008:

S Y Brikho	£750,000	+14%
S J Siddall	£413,000	+5%

The increase for Mr Brikho is based on a combination of outstanding performance and the external research indicating that his salary was somewhat behind the market.

Both executive directors and other senior executives participate in the AMEC executive annual bonus plan which generates bonus payments calculated by reference to each of the following:

- The profit achievement of the group, with a target level of bonus payable for achieving budget and the maximum pay-out requiring achievement of a more stretching target. For both 2007 and 2008, the targets recognise that achieving budget is in itself a significant stretch on previous year's performance and that the scope for further upside is therefore limited. A minimum threshold is also set representing the level below which it would not be appropriate for any bonus to be paid
- The achievement of other specific business targets, including cash flow and, where relevant, divisional profit
- Individual performance objectives (for example, in relation to safety, health and environment, strategy, business development and organisational issues). In 2007, the achievement of the STEP Change plan was the main or only objective for executives. For 2008, this will include, where appropriate, the achievement of specific measures and/or implementation of specific change actions arising out of the Operational Excellence programme.

A separate amount of bonus attaches to each of these components. The proportions vary between individuals depending on their specific executive roles. In every case the profit and other business target components represent more than half of the potential total.

Further information on the 2007 targets and the performance against them is set out in the notes to the table of directors' remuneration on page 76.

The maximum potential annual bonus for the Chief Executive is 125 per cent of base salary. For 2008, the maximum potential for the Finance Director has been increased from 80 to 90 per cent in order to move towards a package of fixed and variable pay which is better aligned with the market.

As indicated in last year's report, Mr J D Early's bonus payment for 2007 reflects the achievement of the Built Environment business disposals in terms acceptable to the board, the price achieved and performance of the constituent businesses up to disposal.

In the senior management group, no executive has a base salary or total remuneration higher than any executive director.

Executive directors' long-term incentives

AMEC's principal long-term incentive arrangement is the Performance Share Plan 2002. AMEC's policy is to make annual awards to executive directors, and to a small number of other senior executives just below board level, of restricted shares with a value at the time of award of up to 175 per cent of base salary. In addition, participants are offered a further award, up to a maximum of 25 per cent of base salary, of five restricted shares for every three purchased which are held on their behalf as investment shares for the three year performance period. To the extent that investment shares are withdrawn before the end of the performance period, the matching shares lapse.

Awards are also made to a wider group of executives, with lower levels of face value to reflect seniority and contribution. Awards are normally made in April following the publication of the annual result.

These restricted shares will only vest if pre-determined performance conditions are met. 50 per cent of the award is based on total shareholder return and 50 per cent on growth in earnings per share, both measured over three years.

For the total shareholder return portion, the requirement for full vesting is for AMEC to be ranked in the top quartile of a comparator group.

No awards will vest if AMEC's performance is below median. If AMEC's performance is at the median, 25 per cent of the award will vest. Between the median and the upper quartile, the award will vest on a straight-line basis. In addition, to ensure that AMEC's underlying performance is properly reflected, no awards will vest unless there has been sustained financial growth of the company.

For the 2007 awards, the comparator group comprised the 30 companies, including AMEC, that, at the time of grant, were in the FTSE Business Support Services, Heavy Construction and Oil Equipment and Services sub-sectors, and whose market capitalisations lay in the range £550 million to £5,000 million. For the 2008 awards, taking account of the sale of the UK construction activities, the Heavy Construction sub-sector will be replaced with that of Industrial Machinery and the market capitalisation threshold, for the range spanning that of AMEC, increased to £750 million. Lists of the comparator companies for the awards that lapsed during the year and those awards currently subsisting can be obtained on written request from the Company Secretary.

For the earnings per share growth portion, the intended long-term policy is that the vesting range will be RPI plus 3 per cent per annum (25 per cent of that part of the award vests) to RPI plus 10 per cent per annum (100 per cent of that award vests). However, for the 2007 and 2008 awards, taking account of the plans that are being implemented to improve the margins and reduce overheads in the ongoing business, applying this RPI plus 3 to 10 per cent earnings per share growth range has not been considered to be sufficiently stretching. Consequently the earnings per share required in 2009 for maximum vesting of the relevant portion of the 2007 awards is 38p and the level at which 25 per cent of this portion of the award will vest will be 26p. For the awards being made in 2008, the earnings per share required in 2010 will be 45p for any vesting to 53p for full vesting. These targets are consistent with the company's objective to achieve EBITA margin of at least 8 per cent in 2010.

Earnings per share are calculated on a consistent and normalised basis by the remuneration committee, having sought appropriate external advice on the method of calculation and any adjusting and potentially adjusting items. Performance against the total shareholder return targets is calculated independently and reviewed by the remuneration committee.

In the event of a change of control, awards will normally vest to the extent that the performance conditions have been met at the date the change of control takes place.

Directors' remuneration report continued

Shares held by the trustee of the Performance Share Plan, BWCI Trust Company Limited, may be voted at their discretion.

The company has a second scheme in place, the Executive Share Option Scheme 2002. AMEC's policy is to grant share options under this scheme only selectively and in exceptional circumstances such as recruitment. No awards have been made under this scheme since 2004.

In addition, executive directors may participate in relevant all employee share plans which provide options, without performance conditions, related to savings contracts with an aggregate limit of £250 savings per month.

Transformation Incentive

In order to give additional impetus to the transformation of the company, it is proposed to introduce a further one-off incentive which would apply to a small group of selected top executives whose retention is seen as key through this critical period. This incentive, which requires shareholder approval, would relate directly to the achievement by 2010 of even greater margin than is envisaged in the current plans and entail significant personal investment in AMEC shares. Full details are set out in the resolution and explanatory notes circulated to shareholders with this report.

Share ownership guidelines

During 2007, guidelines have been introduced requiring executive directors and other senior executives to build up over a three year period and retain a holding of AMEC shares received from incentive plans or purchased by them. A level of one times salary is being targeted for executive directors with lower levels for less senior executives. The position against these targets is assessed in December of each year and will be reported on annually following the completion of the initial three year period at the end of 2009. Details of directors' interests at the end of 2007 are listed on page 68 of the report of the directors. Up to date details of current directors' interests and transactions are available on www.amec.com (click on 'Investors' and follow the links).

Executive directors' pension arrangements

Both executive directors are members of the AMEC Staff Pension Scheme and have top-up benefits provided through the AMEC Executive Pension Scheme. The schemes are both defined benefit schemes registered with the UK tax authority and also provide for life assurance cover and dependants' pensions. These executive directors accrue pension rights which are linked to the length of pensionable service and to pensionable salary and have a normal pension age of 60. However executive directors who remain in employment beyond 60 are able to continue to accrue further pension rights. Pensionable salary in respect of scheme membership up to the end of 2007 is based on final salary and in respect of membership from 2008 onwards is based on career average revalued earnings.

The benefits of Mr Brikho and Mr Siddall are restricted to a scheme earnings cap which was set at £120,000 for the 2007/8 tax year (£123,750 for 2008/9) and they receive a taxable supplement to their salaries in relation to earnings above the cap. Mr Brikho also has the benefit of

additional life assurance in respect of earnings above the cap. There are no unregistered pension arrangements in force for executive directors.

Executive directors are able to opt-out of further pension accrual, particularly if this would provide benefits in excess of the Life Time Allowance, in which case they will receive a non-bonusable salary supplement of 20 per cent of basic salary in lieu of further pension accrual. This applied to Mr Early during the part of 2007 for which he was employed.

If individuals do accrue benefits in excess of the Life Time Allowance, the payment of the associated tax liability will be the responsibility of the individual and not AMEC.

Employment related benefits, principally the provision of a company car or car allowance, long-term disability and private medical expenses insurance, are also provided to executive directors. Mr Brikho also receives a temporary relocation allowance that reduces over his first three years of employment.

Executive directors' employment contracts

AMEC's policy is that on appointment, executive directors will normally be employed with a notice period of one year. In the event of employment being terminated with less notice than this, damages will be determined at the time taking account of the circumstances leading up to the termination and the individual's duty to mitigate his loss. Executive directors are required to give six months' notice of resignation. Since 1 October 2006, executive directors have a contractual retirement age of 65.

This policy is followed for Mr Brikho and generally for Mr Siddall. However, in Mr Siddall's case his employment contract provides that if the company terminates employment (other than for gross misconduct), rather than receiving notice, he will be entitled to one year's remuneration (less tax) as liquidated damages in full and final settlement. For this purpose and, as a reasonable estimate of loss, remuneration is defined as 1.75 times basic annual salary. This recognises that he previously had a notice period of two years which was reduced by agreement to one year from 1 January 2003 without compensation, following the change in policy on notice periods.

Mr Early had a contract which was due to terminate on 31 December 2007. He retired earlier than this on 31 July 2007, by agreement following the substantial completion of the Built Environment disposals, with Mr Early receiving compensation for the five months' balance of the contract.

Service contracts for executive directors do not provide for extended notice periods in the event of a change of control. It is not the remuneration committee's intention to introduce such provisions.

The service contracts of the executive directors are available for review at the company's registered office in accordance with relevant legislation.

External directorships

Executive directors are not permitted to accept external directorships without the prior approval of the board.

For the period during the year when he was a director of AMEC, Mr Early was a director of G-Mex Limited for which he received no remuneration.

Chairman

The remuneration committee is responsible for determining the remuneration and other terms of employment of the Chairman of the board. The contract of the chairman, Mr Green-Armytage, was renewed for a further three years from 20 January 2008. It may be terminated earlier than this on six months' written notice of resignation or with payment of six months' fees if the board withdraw their agreement to his continuing to serve as Chairman, other than for gross misconduct. The Chairman's current fee is £225,000 per annum and he is provided with life assurance cover of four times the pensions earnings cap.

Non-executive directors

The remuneration of non-executive directors is determined by the Chairman and the executive directors under delegated authority from the board. The non-executive directors receive fees for their services and do not participate in any of the incentive or benefit schemes of the group. Fees were reviewed with effect from 1 January 2008.

The current fee is £50,000 per annum plus a further £5,000 per annum in respect of chairing committees of the board other than the audit committee, where the additional fee is £12,500 per annum, and the remuneration committee, where the additional fee is £7,500 per annum. There is an additional fee of £7,500 per annum paid to the senior independent director. The policy with regard to fee structure is to reflect time commitment and responsibility of the various roles.

Non-executive directors may also be paid additional fees for other duties undertaken on behalf of the company. No such fees were paid in 2007.

The board's policy is that non-executive director appointments are normally for three consecutive three-year terms, subject to review after the end of each term. The non-executive directors as at 31 December 2007 have fixed-term contracts which run until the dates set out below:

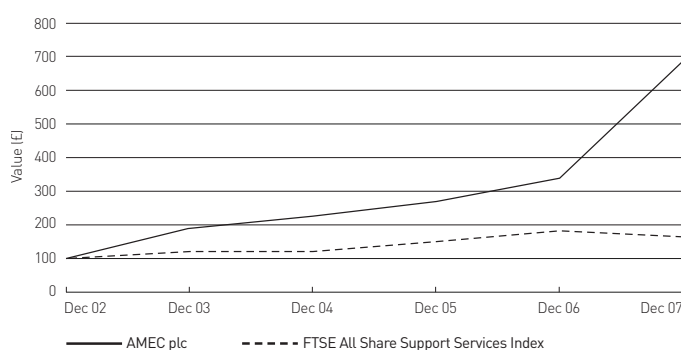
	Date of contract	Service review date
E P Airey	26 May 1999	13 May 2009
M O Hesse	1 June 2000	31 May 2009
P J Byrom	10 February 2005	9 February 2011
T W Faithfull	10 February 2005	9 February 2011

The contracts of non-executive directors may be terminated by the individual at any time and there are no specific provisions for compensation in the event of early termination by the company.

In accordance with the articles of association of AMEC, all directors are required to seek re-election by shareholders every three years.

Performance graph

This graph shows the value, by 31 December 2007, of £100 invested in AMEC plc on 31 December 2002 compared with the value of £100 invested in the FTSE All Share Support Services Index, the sector in which AMEC was listed for the majority of 2007 and which the committee believes is an appropriate comparator of historical performance. The other points plotted are the values at intervening financial year-ends.



Source: Thomson Financial

In respect of forward remuneration policy, the committee believes that the appropriate comparison will be against the FTSE All Share Oil Equipment and Services sub-sector index. However since that index is only available from 2006 onwards, it is not currently possible to present a five year comparison.

Directors' remuneration report continued

Directors' remuneration and related matters

The auditors are required to report on the following information on pages 76 to 77 of the directors' remuneration report.

Individual aspects of remuneration were as follows:

	Salary/fee £000	Pension supplement ⁽ⁱ⁾ £000	Accommodation allowance £000	Bonus ⁽ⁱⁱ⁾ £000	Benefits in kind ⁽ⁱⁱⁱ⁾ £000	Compensation for loss of office ^(iv) £000	2007 Total £000	2006 Total £000
Executive								
S Y Brikho								
(from 1 October 2006)	657	108	220	821	37	–	1,843	465
J D Early (to 31 July 2007)	175	35	–	467	9	156	842	428
S J Siddall	393	55	–	314	20	–	782	588
Sir Peter Mason								
(to 30 September 2006)	–	–	–	–	–	–	–	708
J A Monville								
(to 27 July 2006)	–	–	–	–	–	–	–	1,070
Non-executive								
J M Green-Armytage	200	–	–	–	–	–	200	200
E P Airey	55	–	–	–	–	–	55	65
J A Dallas								
(to 15 May 2007)	15	–	–	–	–	–	15	64
M O Hesse	53	–	–	–	–	–	53	70
P J Byrom	60	–	–	–	–	–	60	64
T W Faithfull	55	–	–	–	–	–	55	63
J-P Jacamon (to 31 August 2006)	–	–	–	–	–	–	–	45
Total board	1,663	198	220	1,602	66	156	3,905	3,830

Notes

- (i) Mr Siddall and Mr Brikho received a taxable supplement of 20 per cent of salary above the pension earnings cap. Mr Early received a supplement of 20 per cent of total salary in lieu of further pension accrual.
- (ii) The bonuses detailed above represented the following percentages of their base salaries for the year: Mr Brikho 125 per cent, and Mr Siddall 80 per cent. The level of these awards at maximum reflects the outstanding business performance during the year where all targets on profit, cash and STEP Change implementation were exceeded. Although not separately targeted for annual bonus purposes for these directors, good progress was also made in settling legacy issues.
The bonus figure for Mr Early relates to a special incentive geared to both the proceeds of the sale of the Built Environment businesses, which were at the upper end of the range of original expectations, and the maintaining of budgeted financial performance up to the point of sale. This replaced his normal annual bonus for the year.
- (iii) The value of benefits in kind received during the year relates principally to the provision of a company car or car allowance, travelling expenses and private medical expenses insurance.
- (iv) Mr Early received a payment equal to base salary, pension supplement and car allowance for the remaining five months of 2007 following his retirement, in line with his contractual terms.

The numbers of restricted shares held by executive directors to whom awards had been made under the Performance Share Plan 2002 or, in the case of Mr Brikho, the Recruitment Plan, were as follows:

	As at 1 January 2007 Number	Awarded during the year Number	Date awarded	Market price at date of award Pence	Vested during the year Number	Lapsed during the year Number	As at 31 December 2007 or date of retirement Number	End of Restricted Period
S Y Brikho	87,857		Oct 2006	358.00	87,857		–	Dec 2007
	63,389		Oct 2006	358.00			63,389	Feb 2009
	544,693		Oct 2006	358.00			544,693	Sep 2009
		246,687	Apr 2007	532.25			246,687	Mar 2010
S J Siddall	98,333		Apr 2004	300.00		98,333	–	Mar 2007
	97,679		Apr 2005	326.60			97,679	Mar 2008
	104,803		Sept 2005	343.50			104,803	Mar 2008
	169,615		Sept 2006	323.00			169,615	Aug 2009
	22,701		Sept 2006	334.50			22,701	Aug 2009
		147,720	Apr 2007	532.25			147,720	Mar 2010
J D Early	87,500		Apr 2004	300.00		87,500	–	Mar 2007
	80,786		Sept 2005	343.50		6,732	74,054	Mar 2008
	130,745		Sept 2006	323.00		41,774	88,971	Aug 2009
	21,776		Sept 2006	334.50		21,776	–	Aug 2009

Notes

- (i) For the performance share awards made in April 2004, AMEC failed to meet the minimum performance conditions and, therefore, the awards lapsed in April 2007.
- (ii) A proportion of Mr Early's performance share awards lapsed on his retirement to take account of the unexpired portions of the relevant performance periods.
- (iii) The awards made to Mr Brikho in October 2006 under the Recruitment Plan are not subject to performance conditions. These replaced share awards in his former employer which were forfeit on joining AMEC.
- (iv) The market price on 8 December 2007, the date of vesting of the second portion of Mr Brikho's award under the Recruitment Plan, was 753.00 pence.
- (v) The terms and conditions of the Performance Share Plan 2002 have not been varied during the year.
- (vi) The closing price of the shares at 31 December 2007 was 838.50 pence (2006: 421.50 pence).
- (vii) The range of the closing prices for the shares during the year was 419.50 pence to 840.50 pence.
- (viii) The register of directors' interests, which is open to inspection at the company's registered office, contains full details of directors' shareholdings, share options and awards under the performance share plans.
- (ix) Had the restricted shares as at 31 December 2007 detailed above vested in full on that date the approximate latent value before appropriate taxes for each of the current directors would have been: Mr Brikho, £7,167,000; and Mr Siddall, £4,549,000. These hypothetical figures assume that all relevant performance conditions would have been fully met, which in practice may not transpire.

The options over AMEC plc shares held by the directors under the Executive Share Option Scheme and Savings Related Share Option Scheme* (together the 'Option Schemes') were as follows:

	Date of grant	As at 1 January 2007 Number	Granted during the year Number	Exercised/lapsed during the year	As at 31 December 2007 or date of retirement Number	Option price Pence	Market price on date of exercise Pence	Exercise period for options outstanding on 31 December 2007
S Y Brikho	Dec 2007		1,624*		1,624	591.00		Mar 2011 – Aug 2011
J D Early	Oct 2002	101,000		101,000	–	219.75	Lapsed	(ii)
	Sep 2003	96,000			96,000	276.25		Sept 2008 – Mar 2009
	Oct 2003	3,893*		3,893	–	218.00	421.25	(i)
	Sep 2004	82,031		82,031	–	320.00	Lapsed	(ii)
S J Siddall	Oct 2002	118,500		118,500	–	219.75	Lapsed	(ii)
	Sep 2003	119,000			119,000	276.25		Sept 2008 – Sept 2013
	Oct 2003	4,231*		4,231	–	218.00	421.25	(i)
	Sep 2004	106,250		106,250	–	320.00	Lapsed	(ii)
	Dec 2007		1,624*		1,624	591.00		Mar 2011 – Aug 2011

Notes

- (i) Gains on exercise: Mr Early £7,913 (2006: £Nil), Mr Siddall £8,600 (2006: Nil).
- (ii) All awards under the Executive Share Option Scheme 2002 are subject to performance conditions which require a minimum level of earnings per share growth for any vesting and a higher level of growth for full vesting. The minimum performance conditions which applied to the awards made in 2002 and 2004 were not met and these awards therefore lapsed on their respective fifth and third anniversaries from grant. The minimum performance condition in relation to the awards made in 2003 has also not been met and these awards will lapse on 4 September 2008.
- (iii) The terms and conditions of the Option Schemes have not been varied during the year and all subsisting awards were made at nil cost.

Pension entitlements and benefits

The following directors were members of defined benefit schemes provided by the company during the year. Pension entitlements and corresponding transfer values increased as follows during the year:

	Gross increase in accrued pension £000	Increase in accrued pension net of inflation £000	Total accrued pension at 31 December 2007 £000	Value of net increase in accrual over period £000	Total change in value during period £000	Value of accrued pension at 31 December 2007 £000	Value of accrued pension at 31 December 2006 £000
S Y Brikho	4	4	5	51	55	79	12
S J Siddall	6	5	30	89	104	646	530

Notes

- (i) Pension accruals shown are the amounts which would be paid annually on retirement based on service to the end of the year.
- (ii) Transfer values have been calculated in accordance with version 8.1 of guidance note GN11 issued by the actuarial profession.
- (iii) The value of net increase represents the incremental value to the director of his service during the year, calculated on the assumption service terminated at the year-end. It is based on the accrued pension increase after deducting the director's contribution.
- (iv) The change in the transfer value includes the effect of fluctuations in the transfer value due to factors beyond the control of the company and directors, such as stock market movements. It is calculated after deducting the director's contribution.
- (v) Voluntary contributions paid by directors and resulting benefits are not shown.

T W Faithfull

Chairman, remuneration committee
On behalf of the board
11 March 2008

Note

As reported elsewhere, Mr S J Siddall resigned on 17 March 2008 and will leave AMEC by agreement on 31 May 2008. He will not receive any compensation. He will not be eligible for a bonus payment in respect of 2008 and the awards made under the Performance Share Plan in 2006 and 2007 will lapse on leaving.

Consolidated income statement

For the year ended 31 December 2007

		2007				2006			
	Note	Before exceptional items £ million	Exceptional items arising from litigation (note 5) £ million	Exceptional profits/(costs) of exiting businesses and markets (note 5) £ million	Total £ million	Before exceptional items (Restated) £ million	Exceptional items arising from litigation and separation costs (note 5) (Restated) £ million	Exceptional profits/(costs) of exiting businesses and markets (note 5) (Restated) £ million	Total (Restated) £ million
Continuing operations									
Revenue	2 & 3	2,356.2	–	–	2,356.2	2,121.6	–	–	2,121.6
Cost of sales		(2,048.7)	10.2	0.5	(2,038.0)	(1,867.0)	(17.6)	(4.3)	(1,888.9)
Gross profit/(loss)		307.5	10.2	0.5	318.2	254.6	(17.6)	(4.3)	232.7
Administrative expenses		(203.7)	–	–	(203.7)	(171.7)	–	–	(171.7)
(Loss)/profit on business disposals and closures		–	(5.7)	23.2	17.5	–	(39.1)	(41.8)	(80.9)
Profit/(loss) before net financing income/(costs)	2 & 4	103.8	4.5	23.7	132.0	82.9	(56.7)	(46.1)	(19.9)
Financial income		22.1	–	–	22.1	9.3	–	–	9.3
Financial expense		(3.7)	–	–	(3.7)	(16.3)	–	–	(16.3)
Net financing income/(costs)	7	18.4	–	–	18.4	(7.0)	–	–	(7.0)
Share of post-tax results of joint ventures and associates	2	1.2	–	–	1.2	(0.1)	–	–	(0.1)
Profit/(loss) before income tax		123.4	4.5	23.7	151.6	75.8	(56.7)	(46.1)	(27.0)
Income tax	8	(30.9)	1.0	(0.2)	(30.1)	(22.5)	4.9	2.4	(15.2)
Profit/(loss) for the year from continuing operations		92.5	5.5	23.5	121.5	53.3	(51.8)	(43.7)	(42.2)
(Loss)/profit for the year from discontinued operations	9	(4.7)	5.1	222.5	222.9	0.5	(16.4)	277.3	261.4
Profit/(loss) for the year		87.8	10.6	246.0	344.4	53.8	(68.2)	233.6	219.2
Attributable to:									
Equity holders of the company					344.3				218.1
Minority interests					0.1				1.1
					344.4				219.2
Basic earnings/(loss) per share:									
Continuing operations	10				36.9p				(13.3)p
Discontinued operations					67.8p				80.2p
					104.7p				66.9p
Diluted earnings/(loss) per share:									
Continuing operations	10				36.1p				(13.3)p
Discontinued operations					66.2p				80.2p
					102.3p				66.9p

Consolidated statement of recognised income and expense

For the year ended 31 December 2007

	Note	2007 £ million	2006 £ million
Exchange movements on translation of foreign subsidiaries		32.3	(37.4)
Actuarial gains on defined benefit pension schemes	14	86.1	2.9
Group share of actuarial gains on defined benefit pension scheme within associate (net of tax)		–	1.8
Net (loss)/gain on hedges of net investment in foreign subsidiaries	21	(8.6)	16.4
Cash flow hedges:			
Effective portion of changes in fair value		1.8	12.5
Transferred to the income statement		(2.1)	–
Group share of changes in fair value of cash flow hedges within joint venture entities (net of tax)		2.4	5.0
Tax in respect of items recognised directly in equity	8	(21.9)	(6.5)
Net income/(expense) recognised directly in equity		90.0	(5.3)
Profit for the year		344.4	219.2
Total recognised income and expense for the year		434.4	213.9
Attributable to:			
Equity holders of the company		434.3	211.3
Minority interests		0.1	2.6
Total recognised income and expense for the year	23	434.4	213.9

Consolidated balance sheet

As at 31 December 2007

	Note	2007 £ million	2006 £ million
ASSETS			
Non-current assets			
Property, plant and equipment	11	57.6	73.3
Intangible assets	12	223.8	197.6
Interests in joint ventures and associates	13	22.7	85.2
Other investments	13	0.8	0.9
Retirement benefit assets	14	161.3	105.6
Deferred tax assets	15	58.9	16.4
Total non-current assets		525.1	479.0
Current assets			
Inventories	16	6.1	47.7
Trade and other receivables	17	529.4	806.3
Derivative financial instruments	21	3.1	9.0
Cash and cash equivalents	24	734.1	375.4
Assets classified as held for sale	18	19.0	107.1
Total current assets		1,291.7	1,345.5
Total assets	2	1,816.8	1,824.5
LIABILITIES			
Current liabilities			
Bank loans and overdrafts	20	(0.8)	(13.6)
Trade and other payables	19	(641.5)	(1,021.4)
Derivative financial instruments	21	(5.3)	(1.9)
Current tax payable		(59.6)	(19.3)
Liabilities classified as held for sale	18	(5.4)	(69.5)
Total current liabilities		(712.6)	(1,125.7)
Non-current liabilities			
Bank loans	20	(0.1)	(6.9)
Retirement benefit liabilities	14	(11.3)	(13.0)
Deferred tax liabilities	15	-	(10.3)
Provisions	22	(199.4)	(173.8)
Total non-current liabilities		(210.8)	(204.0)
Total liabilities	2	(923.4)	(1,329.7)
Net assets	2	893.4	494.8
EQUITY			
Share capital	23	168.7	166.8
Share premium account	23	99.5	90.7
Hedging and translation reserves	23	16.8	(20.5)
Capital redemption reserve	23	17.2	17.2
Retained earnings	23	590.4	238.9
Amounts recognised in equity relating to assets and liabilities held for sale	23	-	0.9
Total equity attributable to equity holders of the parent		892.6	494.0
Minority interests	23	0.8	0.8
Total equity	23	893.4	494.8

The accounts on pages 78 to 114 were approved by the board of directors on 11 March 2008 and were signed on its behalf by:

S Y Brikho

Chief Executive

S J Siddall

Finance Director

Consolidated cash flow statement

For the year ended 31 December 2007

	Note	2007 £ million	2006 £ million
Cash flow from operating activities			
Profit/(loss) before income tax from continuing operations		151.6	(27.0)
Profit before income tax from discontinued operations	9	290.7	241.3
Profit before income tax		442.3	214.3
Financial income		(24.2)	(18.5)
Financial expense		4.2	28.3
Share of post-tax results of joint ventures and associates		(6.0)	(11.7)
Intangible amortisation		2.5	6.2
Depreciation		21.7	35.1
Impairment of non-current assets		-	7.1
Profit on disposal of businesses		(310.1)	(301.8)
Profit on disposal of property, plant and equipment		(2.3)	(1.6)
Equity settled share-based payments		5.3	(2.3)
		133.4	(44.9)
Decrease in inventories		7.4	12.7
Decrease in trade and other receivables		36.1	112.3
(Decrease)/increase in trade and other payables and provisions		(36.7)	21.6
Cash generated from operations		140.2	101.7
Interest paid		(4.2)	(36.8)
Tax (paid)/refunds received		(38.0)	9.5
Net cash flow from operating activities		98.0	74.4
Cash flow from investing activities			
Acquisition of subsidiaries, net of cash acquired		(12.7)	(15.0)
Acquisition of joint ventures, associates and other investments		(6.0)	(23.5)
Purchase of property, plant and equipment		(18.4)	(38.2)
Purchase of intangible assets		(0.2)	(0.6)
Disposal of businesses (net of cash disposed of)		263.1	627.4
Disposal of joint ventures, associates and other investments		19.2	27.2
Disposal of property, plant and equipment		9.7	26.5
Interest received		22.7	19.0
Dividends received from joint ventures and associates		2.0	3.2
Net cash flow from investing activities		279.4	626.0
Net cash flow before financing activities		377.4	700.4
Cash flow from financing activities			
Repayment of loans		(4.3)	(549.9)
Dividends paid		(39.8)	(37.5)
Proceeds from shares issued		10.7	1.6
Acquisition of treasury shares		(21.5)	-
Disposal of shares by trustees of the Performance Share Plan 2002		0.3	2.2
Net cash flow from financing activities		(54.6)	(583.6)
Increase in cash and cash equivalents		322.8	116.8
Cash and cash equivalents as at the beginning of the year		406.4	332.7
Exchange gains/(losses) on cash and cash equivalents		4.2	(12.8)
Cash of former subsidiary equity accounted from the beginning of the year		-	(30.3)
Cash and cash equivalents as at the end of the year	24	733.4	406.4
Cash and cash equivalents consist of:			
Cash at bank and in hand		720.4	336.2
Short-term investments		13.7	39.2
		734.1	375.4
Overdrafts		(0.7)	(1.2)
		733.4	374.2
Cash and cash equivalents (including overdrafts) classified as held for sale		-	32.2
Cash and cash equivalents	24	733.4	406.4

Notes to the consolidated accounts

1 Significant accounting policies

AMEC plc is a company domiciled in the United Kingdom.

Statement of compliance

The group accounts include the accounts of AMEC plc ('AMEC') and all of its subsidiaries made up to 31 December each year, and the group's share of the profit after interest and tax, and net assets of joint ventures and associates, based on the equity method of accounting.

In accordance with EU law (IAS Regulation EC 1606/2002), the consolidated accounts of the group have been prepared in accordance with International Financial Reporting Standards ('IFRS') adopted for use in the EU as at 31 December 2007 ('adopted IFRS'). The consolidated accounts of the group have also been prepared in accordance with those parts of the Companies Act 1985 applicable to companies reporting under IFRS. The company has elected to prepare its parent company accounts in accordance with UK Generally Accepted Accounting Principles ('UK GAAP'); these are presented on pages 115 to 120.

IFRS 7 'Financial instruments: disclosure' was adopted during the year. As the standard is concerned only with disclosure, its adoption had no impact on either the balance sheet or income statement.

During 2006 IFRIC 12 on service concession arrangements was issued. This interpretation is effective from 1 January 2008, but has yet to be adopted for use in the EU. In view of this, the directors consider that it remains appropriate to apply the approach set out in Application Note F of the UK Financial Reporting Standard 5 'Reporting the substance of transactions' in determining the accounting model to be applied to AMEC's PPP activities. This involves applying a 'risks and rewards' test to determine whether a non-current asset or finance debtor model should be followed. The directors do not expect this accounting policy to be significantly different to that under IFRIC 12.

During 2007 IFRIC 14 on defined benefit pension scheme assets was issued. This interpretation is effective from 1 January 2008, but has yet to be adopted for use in the EU. In view of this it has not been applied by the group in the consolidated accounts. On adoption this is not expected to have an impact on the group's consolidated accounts as, following a review of the basis of recoverability, the surplus has been recognised net of deferred tax on the balance sheet in 2007.

During 2006 IFRIC 11 on group and treasury share transactions was issued. This interpretation is effective for the group's 2008 accounts and is not expected to have a material impact on the group's consolidated accounts.

During 2006 IFRS 8 on segment reporting was issued and is effective from 1 January 2009. IFRS 8 will require disclosure of segment information based on internal management information.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these consolidated accounts.

Basis of preparation

The accounts are presented in Sterling, rounded to the nearest hundred thousand. They are prepared on the historical cost basis except that derivative financial instruments and retirement benefit assets and liabilities are stated at fair value.

The preparation of accounts in accordance with generally accepted accounting principles requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Some of these policies require a high level of judgement, and AMEC believes that the most critical accounting policies and significant areas of judgement and estimation arise from the accounting for defined benefit pension schemes under IAS 19 'Employee benefits', for long-term contracts under IAS 11 'Construction contracts' and for provisions under IAS 37 'Provisions, contingent liabilities and contingent assets'.

Defined benefit pension schemes are accounted for in accordance with the advice of independent qualified actuaries but significant judgements are required in relation to the assumptions for future salary and pension increases, inflation, investment returns and member longevity that underpin their valuations.

A significant amount of the group's activities are undertaken via long-term contracts. These contracts are accounted for in accordance with IAS 11 which requires estimates to be made for contract costs and revenues.

Management base their judgements of contract costs and revenues on the latest available information, which includes detailed contract valuations. In many cases the results reflect the expected outcome of long-term contractual obligations which span more than one reporting period. Contract costs and revenues are affected by a variety of uncertainties that depend on the outcome of future events and often need to be revised as events unfold and uncertainties are resolved. The estimates of contract costs and revenues are updated regularly and significant changes are highlighted through established internal review procedures. In particular, the internal reviews focus on the timing and recognition of incentive payments and the age and recoverability of any unagreed income from variations to the contract scope or claims. The impact of the changes in accounting estimates is then reflected in the ongoing results.

When accounting for provisions for litigation and other items the group has taken internal and external advice in considering known legal claims and actions made by or against the group. It carefully assesses the likelihood of success of a claim or action. Appropriate provisions are made for legal claims or actions against the group on the basis of likely outcome, but no provisions are made for those which in the view of management are unlikely to succeed.

1 Significant accounting policies continued

Cash deposits and financial transactions give rise to credit risk in the event that counterparties fail to perform under the contract. AMEC manages these risks by ensuring that surplus funds are placed with counterparties up to a pre-approved limit. These limits are set at prudent levels by the board, are based primarily on credit ratings set by Moody's, Standard & Poors and Fitch and have been reviewed in light of the recent market turbulence.

The board's policy is to maintain a strong capital base. The group has remained in a net cash position throughout the year. This position is considered temporary as the group intends to invest in the businesses and may continue the share buy back programme, for up to £80 million, on an opportunistic basis.

In accordance with IFRS 5, the post-tax results of discontinued operations are disclosed separately in the consolidated income statement, with the 2006 consolidated income statement and notes 2 to 9 being restated for the same presentation. The results and other disclosures in respect of discontinued operations are shown in note 9.

The non-core Built Environment businesses were sold during the year and are treated as discontinued operations in 2007. Other discontinued operations include pipeline construction businesses which were sold during 2006 and 2007, and AMEC SPIE, which was sold in 2006.

The cash flows are fully consolidated within AMEC up to the date of sale and the assets and liabilities of discontinued operations that have not been sold at the year end are shown separately on the consolidated balance sheet.

In accordance with IFRS 5, the consolidated balance sheet has not been restated to exclude discontinued operations. The consolidated cash flow has not been restated to exclude discontinued operations.

Basis of consolidation

A subsidiary is an entity controlled by AMEC. Control is achieved where AMEC has the power to govern the financial and operating policies of the entity so as to obtain benefits from its activities. The results of subsidiaries are included in the consolidated accounts from the date that control commences until the date that control ceases.

A joint venture entity is an entity over whose activities AMEC has joint control, established by contractual agreement. An associate is an entity in which AMEC has significant influence, but not control, over the financial and operating policies. The consolidated accounts include the group's share of the total recognised gains and losses of associates and jointly controlled entities on an equity accounted basis. The results of joint venture entities and associates are included in the consolidated accounts from the date that joint control or significant influence commences until the date that it ceases.

Losses of a joint venture or an associate are recognised only to the extent of the group's interest in the joint venture or associate, unless the group has incurred legal or constructive obligations or made payments on behalf of the joint venture or associate.

Jointly controlled operations and assets where each party has its own separate interest in particular risks and rewards, are accounted for by including the attributable share of the assets it controls, liabilities and cash flows it incurs and its share of the income measured according to the terms of the arrangement.

Bid costs

Bid costs are expensed as incurred until the group is appointed as the preferred bidder. Subsequent to appointment as preferred bidder, bid costs are capitalised and held on the balance sheet provided the award of the contract is virtually certain and it is expected to generate sufficient net cash flow to allow recovery of the bid costs. Where bid costs are reimbursed at financial close, the proceeds are applied first against the balance of costs included in the balance sheet, with any additional amounts treated as deferred income and released to profit over the period of the contract.

Business combinations and goodwill

The purchase method is used to account for all business combinations.

Goodwill represents the excess of the fair value of the purchase consideration over the fair value of the assets, liabilities and contingent liabilities acquired.

Goodwill arising on acquisitions since 1 January 2004 is capitalised and subject to an impairment review, both annually and when there are indications that its carrying value may not be recoverable. Goodwill is not amortised.

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 AMEC's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

Construction and other long-term contracts

As soon as the outcome of a construction or other long-term contract can be estimated reliably, contract revenue and expenses are recognised in the income statement in proportion to the stage of completion of the contract. The stage of completion is assessed by reference to surveys of work performed. When the outcome of a contract cannot be estimated reliably, revenue is recognised only to the extent of contract costs incurred that it is probable will be recoverable, and contract costs are expensed as incurred. An expected loss on a contract is recognised immediately in the income statement.

Revenue in respect of variations to the contract scope and claims is recognised when it is probable that it will be received and is capable of being reliably measured. Incentive payments are recognised when a contract is sufficiently far advanced that it is probable that the required conditions will be met and the amount of the payment can be reliably measured.

The gross amounts due from customers under construction and other long-term contracts are stated at cost plus recognised profits, less provision for recognised losses and progress billings. These amounts are reported in trade and other receivables.

Payments on account in excess of the gross amounts due from customers are included in trade and other payables.

Notes to the consolidated accounts continued

1 Significant accounting policies continued

Discontinued operations and assets and liabilities held for sale

A discontinued operation is a separate major line of business or geographic area of operations that has either been disposed of or is held for sale, or is a subsidiary acquired exclusively with a view to resale or is part of a plan to dispose of a major line of business or geographical area. An operation is classified as a discontinued operation when the above criteria are met, and the comparative income statement is restated to show the operation as discontinued from the start of the comparative period.

Non-current assets (or disposal groups comprising assets and liabilities) that are expected to be recovered primarily through sale rather than through continuing use are classified as held for sale. Immediately before classification as held for sale, the assets (or components of a disposal group) are remeasured in accordance with the group's accounting policies. Thereafter generally the assets (or disposal group) are measured at the lower of their carrying amount and fair value less cost to sell. Any impairment loss on a disposal group first is allocated to goodwill, and then to remaining assets and liabilities on pro rata basis, except that no loss is allocated to inventories, financial assets, deferred tax assets, and retirement benefit assets, which continue to be measured in accordance with the group's accounting policies. Impairment losses on initial classification as held for sale and subsequent gains or losses on remeasurement are recognised in profit or loss. Gains are not recognised in excess of any cumulative impairment loss.

Employee benefits

Defined contribution plans

Obligations for contributions to defined contribution pension plans are recognised in the income statement as incurred.

Defined benefit plans

The group's net obligation in respect of 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 its present value, and the fair value of any plan assets (at bid price) is deducted. The liability discount rate is the yield at the balance sheet date on AA rated 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 projected unit credit method.

Actuarial gains and losses are recognised directly in equity in the year in which they arise.

The pension surplus has been presented net of deferred tax in the 2007 balance sheet following a review of the basis of recoverability.

Financial instruments

Financial instruments are initially recorded at fair value. Subsequent valuation depends on the designation of the instrument.

Cash, deposits and short-term investments are held at amortised cost.

Derivative financial instruments are recognised initially and subsequently at fair value. The gain or loss on re-measurement to fair value is recognised immediately in profit or loss. However, where derivatives qualify for hedge accounting, recognition of any resultant gain or loss depends on the nature of the item being hedged.

The fair value of derivative financial instruments is determined by reference to market values for similar financial instruments or by discounting the expected future cash flows at prevailing interest rates.

The sale and purchase of derivative financial instruments are non-speculative.

Cash flow hedges

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

Hedge accounting is discontinued when the hedging instrument no longer meets the criteria for hedge accounting, expires, or is sold, terminated or exercised. The cumulative gain or loss previously recognised in the hedging reserve remains there until the forecast transaction occurs. Where the hedged item is a non-financial asset, the cumulative gain or loss in the hedging reserve is transferred to the carrying amount of the asset when the asset is recognised. In other cases the cumulative gain or loss in the hedging reserve is transferred to profit or loss in the same period that the hedged item affects profit or loss.

Fair value hedges

Where a derivative financial instrument is designated as a hedge against the variability in fair value of a recognised asset or liability or an unrecognised firm commitment, all changes in the fair value of the derivative are recognised immediately in the income statement. The carrying value of the hedged item is adjusted by the change in fair value that is attributable to the risk being hedged (even if it is normally carried at amortised cost) and any gains or losses on re-measurement are recognised immediately in the income statement.

When hedge accounting ceases, any adjustment made to the carrying amount of the hedged item as a consequence of the fair value hedge relationship, is recognised in the income statement over the remaining life of the hedged item.

Foreign currencies

Monetary assets and liabilities denominated in foreign currencies are translated into Sterling at the rates of exchange ruling at the balance sheet date. Trading results are translated at average rates for the year. Foreign exchange differences arising on the translation of trading results and monetary assets and liabilities are recognised in the income statement. Non-monetary assets and liabilities that are measured in terms of historical cost are translated using the exchange rate at the date of the transaction.

Exchange differences arising on the translation of foreign currency net investments and foreign currency borrowings, or forward contracts used to hedge those investments, are taken to a translation reserve. They are recycled and recognised as a profit or loss on the disposal or closure of a business. The cumulative translation difference for all foreign operations was deemed to be zero as at the date of transition to adopted IFRS.

1 Significant accounting policies continued

Impairment

The carrying values of all of the group's assets other than inventories, balances on construction contracts and deferred tax assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If there are indications of an impairment in the carrying value then the recoverable amount is estimated and compared to the carrying amount. For goodwill and assets not yet available for use, the recoverable amount is estimated at each balance sheet date.

An impairment loss is recognised to the extent that the carrying value of an asset exceeds its recoverable amount.

Intangible assets other than goodwill

Intangible assets acquired by the group, which include software, customer relationships, trademarks and order backlogs are stated at cost less accumulated amortisation and impairment losses. The cost of an intangible asset acquired in a business combination is fair value at date of acquisition. Amortisation is charged to the income statement on a straight line basis over the estimated useful lives of intangible assets, from the date they are available for use.

The estimated lives of intangible assets held at 31 December 2007 are as follows:

Software	Three to five years
Customer relationships	Three to ten years
Tradenames	Five years

Inventories

Inventories, including land held for and in the course of development, are stated at the lower of cost and net realisable value.

Development land and work in progress is included at cost less any losses foreseen in completing and disposing of the development.

Cost includes cost of acquisition and development to date, including directly attributable fees and expenses net of rental and other income attributable to the development.

Leases

Operating lease costs are charged to the income statement on a straight line basis over the period of the lease.

Net financing income/(costs)

Net financing income/(costs) comprise interest receivable on funds invested, interest payable and foreign exchange gains and losses. Interest income and interest payable are recognised in profit or loss as they accrue, using the effective interest method.

Directly attributable finance costs are capitalised in the cost of purchased and constructed property, plant and equipment, until the relevant assets are brought into operational use. The only material projects where this has occurred are those held in the group's investments in joint ventures which are involved in PPP projects to finance, design and build assets and operate them on behalf of the client.

Property, plant and equipment

Property, plant and equipment is measured at cost less accumulated depreciation and impairment losses. The cost of property, plant and equipment at 1 January 2004, the date of transition to IFRS, was determined by reference to its fair value at that date.

Depreciation is provided on all property, plant and equipment, with the exception of freehold land, at rates calculated to write-off the cost, less estimated residual value, of each asset on a straight line basis over its estimated useful life. Reviews are made annually of the estimated remaining lives and residual values of individual assets.

The estimated lives used are:

Freehold buildings	Up to 50 years
Leasehold land and buildings	The shorter of the lease term or 50 years
Plant and equipment	Mainly three to five years

Provisions for litigation and other items

The group has taken internal and external advice in considering known legal claims and actions made by or against the group. It carefully assesses the likelihood of success of a claim or action. Appropriate provisions are made for legal claims or actions against the group on the basis of likely outcome, but no provisions are made for those, which in the view of management are unlikely to succeed.

Revenue

Revenue is measured at the fair value of consideration received or receivable, excluding value added tax, for goods and services supplied to external customers. It includes the group's share of revenue from work carried out under jointly controlled operations.

Revenue from services and construction contracts is recognised by reference to the stage of completion of the contract, as set out in the accounting policy for construction and other long-term contracts.

Revenue from developments activities is recognised on completion of a signed sale agreement after all material conditions have been met.

Share-based payments

There are share-based payment arrangements which allow AMEC employees to acquire AMEC shares; these awards are granted by AMEC. The fair value of awards granted is recognised as a cost of employment with a corresponding increase in equity. The fair value is measured at grant date and spread over the period during which the employees become unconditionally entitled to the award. The fair value of the award is measured using a valuation model, taking into account the terms and conditions upon which the awards were granted. The amount recognised as an expense is adjusted to reflect the actual number of shares that vest except where non-vesting is due to share prices or total shareholder return not achieving the threshold for vesting.

Notes to the consolidated accounts continued

1 Significant accounting policies continued

Taxation

The charge for taxation is based on the results for the year and comprises current and deferred tax. Tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on taxable income for the year, using statutory tax rates, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided on temporary differences between the carrying amount of assets and liabilities recognised in the accounts and the amounts used for taxation purposes.

The following temporary differences are not provided for: the initial recognition of assets or liabilities that affect neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future.

Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the asset can be utilised.

Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on laws that have been enacted or substantively enacted by the reporting date.

2 Segmental analysis of continuing operations – Class of business

As the group's management and internal reporting are structured by class of business, this is the basis for the group's primary segment reporting.

The non-core Built Environment businesses are treated as discontinued operations in 2007. Other discontinued activities include pipeline construction and AMEC SPIE. The segmental results for the year ended 31 December 2006 have been restated to reflect this change in accounting treatment and some minor business restructuring. These restated results are consistent with those disclosed on 25 June 2007, except for a change in classification of the Wind Developments business. This has been transferred out of the power and process division and into the investments and other activities segment.

The business and financial review is based on the reported results before joint venture tax, intangible amortisation and pre-tax exceptional items, but including joint venture profit before tax. The results as presented in the business and financial review are reconciled to those presented in this note in the tables on pages 51 to 53.

The segmental analysis of discontinued operations is shown in note 9.

Revenue and results

For the year ended 31 December 2007

	Natural Resources £ million	Power and Process £ million	Earth and Environmental £ million	Investments and other activities £ million	Total £ million
Total revenue	1,014.8	1,009.1	288.4	64.4	2,376.7
Internal revenue					(20.5)
Revenue					2,356.2
Segment result	93.7	48.4	20.9	5.5	168.5
Corporate costs					(36.5)
Profit before net financing income					132.0
Net financing income					18.4
Share of post-tax results of joint ventures and associates	0.7	0.4	–	0.1	1.2
Income tax					(30.1)
Profit for the year from continuing operations					121.5

For the year ended 31 December 2006

	Natural Resources £ million	Power and Process £ million	Earth and Environmental £ million	Investments and other activities £ million	Total £ million
Total revenue	920.9	794.7	304.4	125.7	2,145.7
Internal revenue					(24.1)
Revenue					2,121.6
Segment result	48.9	3.0	17.2	(67.6)	1.5
Corporate costs					(21.4)
Loss before net financing costs					(19.9)
Net financing costs					(7.0)
Share of post-tax results of joint ventures and associates	0.2	0.9	–	(1.2)	(0.1)
Income tax					(15.2)
Loss for the year from continuing operations					(42.2)

Corporate costs comprise the costs of operating the head office of AMEC. These are not directly related to the activities of the segments. The financing of the group's activities is undertaken at a head office level and consequently net financing income/(costs) cannot be analysed segmentally.

2 Segmental analysis of continuing operations – Class of business continued

Assets and liabilities

As at 31 December 2007

	Natural Resources £ million	Power and Process £ million	Earth and Environmental £ million	Investments and other activities £ million	Total £ million
Segment assets	273.0	208.7	85.8	34.3	601.8
Goodwill					215.4
Interests in joint ventures and associates	(0.2)	0.6	0.2	22.1	22.7
Cash and cash equivalents					734.1
Unallocated assets					223.8
Assets classified as held for sale	–	–	–	19.0	19.0
Total assets					1,816.8
Segment liabilities	(243.2)	(260.2)	(51.3)	(241.6)	(796.3)
Bank loans and overdrafts					(0.9)
Unallocated liabilities					(120.8)
Liabilities classified as held for sale	–	–	–	(5.4)	(5.4)
Total liabilities					(923.4)
Net assets					893.4
Net assets					
Segment assets less segment liabilities	29.8	(51.5)	34.5	(207.3)	(194.5)
Goodwill					215.4
Interests in joint ventures and associates	(0.2)	0.6	0.2	22.1	22.7
Net cash					733.2
Unallocated net assets					103.0
Assets and liabilities classified as held for sale	–	–	–	13.6	13.6
					893.4

As at 31 December 2006

	Natural Resources £ million	Power and Process £ million	Earth and Environmental £ million	Investments and other activities £ million	Discontinued operations £ million	Total £ million
Segment assets	267.3	215.0	70.1	108.9	276.6	937.9
Goodwill						187.9
Interests in joint ventures and associates	(0.6)	1.1	0.2	21.8	62.7	85.2
Cash and cash equivalents						375.4
Unallocated assets						131.0
Assets classified as held for sale	–	107.1	–	–	–	107.1
Total assets						1,824.5
Segment liabilities	(193.3)	(265.2)	(50.5)	(239.4)	(399.3)	(1,147.7)
Bank loans and overdrafts						(20.5)
Unallocated liabilities						(92.0)
Liabilities classified as held for sale	–	(69.5)	–	–	–	(69.5)
Total liabilities						(1,329.7)
Net assets						494.8
Net assets						
Segment assets less liabilities	74.0	(50.2)	19.6	(130.5)	(122.7)	(209.8)
Goodwill						187.9
Interests in joint ventures and associates	(0.6)	1.1	0.2	21.8	62.7	85.2
Net cash						354.9
Unallocated net assets						39.0
Assets and liabilities classified as held for sale	–	37.6	–	–	–	37.6
						494.8

The unallocated assets and liabilities principally comprise assets relating to the pension schemes and liabilities relating to dividends and taxation and are not directly related to the activities of the segments.

Goodwill is not directly attributable to business segments and there is no reasonable basis for allocation of goodwill to business segments.

Notes to the consolidated accounts continued

2 Segmental analysis of continuing operations – Class of business continued

Other information

For the year ended 31 December 2007

	Natural Resources £ million	Power and Process £ million	Earth and Environmental £ million	Investments and other activities £ million	Total £ million
Capital expenditure:					
Property, plant and equipment	5.2	3.5	6.0	4.1	18.8
Intangible assets	–	–	0.2	–	0.2
Charges:					
Depreciation	4.3	5.1	3.1	9.2	21.7
Amortisation	0.6	1.5	0.3	0.1	2.5

For the year ended 31 December 2006

	Natural Resources £ million	Power and Process £ million	Earth and Environmental £ million	Investments and other activities £ million	Discontinued operations £ million	Total £ million
Capital expenditure:						
Property, plant and equipment	6.2	4.8	–	12.5	12.1	35.6
Intangible assets	0.2	0.2	0.1	0.1	–	0.6
Charges:						
Depreciation	4.0	4.8	2.5	10.8	13.0	35.1
Amortisation	1.8	1.0	0.5	0.3	2.6	6.2
Impairment of investment	–	–	–	–	7.1	7.1

Details of depreciation, amortisation and capital expenditure of discontinued operations are given in note 9.

2 Segmental analysis of continuing operations – Geographical origin

Revenue and results

	United Kingdom		Rest of Europe		Americas		Rest of the world		Total	
	2007 £ million	2006 £ million	2007 £ million	2006 £ million	2007 £ million	2006 £ million	2007 £ million	2006 £ million	2007 £ million	2006 £ million
Revenue	950.5	844.5	88.6	55.4	1,180.9	1,018.6	136.2	203.1	2,356.2	2,121.6
Segment result	70.0	28.4	6.4	7.6	89.3	(33.4)	2.8	(1.1)	168.5	1.5
Corporate costs									(36.5)	(21.4)
Profit/(loss) before net financing income/(costs)									132.0	(19.9)
Net financing income/(costs)									18.4	(7.0)
Share of post-tax results of joint ventures and associates	(0.4)	0.3	0.2	(1.5)	1.0	1.0	0.4	0.1	1.2	(0.1)
Income tax									(30.1)	(15.2)
Profit/(loss) for the year from continuing operations									121.5	(42.2)

The analysis of total revenue by geographical market is not materially different from that by geographical origin. There is no revenue from transactions between geographic segments.

Assets and liabilities

	United Kingdom		Rest of Europe		Americas		Rest of the world		Discontinued operations	Total	
	2007 £ million	2006 £ million	2007 £ million	2006 £ million	2007 £ million	2006 £ million	2007 £ million	2006 £ million	2006 £ million	2007 £ million	2006 £ million
Segment assets	219.8	269.2	18.0	4.9	308.6	299.2	55.4	88.0	276.6	601.8	937.9
Segment liabilities	(347.6)	(342.2)	(74.1)	(63.8)	(324.5)	(300.4)	(50.1)	(42.0)	(399.3)	(796.3)	(1,147.7)
Segment assets less segment liabilities	(127.8)	(73.0)	(56.1)	(58.9)	(15.9)	(1.2)	5.3	46.0	(122.7)	(194.5)	(209.8)
Goodwill	28.1	27.7	–	–	187.3	160.2	–	–	–	215.4	187.9
Interests in joint ventures and associates	0.7	21.2	6.1	0.1	–	(0.9)	15.9	2.1	62.7	22.7	85.2
Net cash										733.2	354.9
Unallocated net assets										103.0	39.0
Assets and liabilities classified as held for sale	12.5	–	1.1	33.4	–	4.2	–	–	–	13.6	37.6
Net assets										893.4	494.8

2 Segmental analysis of continuing operations – Geographical origin continued

Other information

	United Kingdom		Rest of Europe		Americas		Rest of the world		Discontinued operations	Total	
	2007 £ million	2006 £ million	2007 £ million	2006 £ million	2007 £ million	2006 £ million	2007 £ million	2006 £ million	2006 £ million	2007 £ million	2006 £ million
Capital expenditure:											
Property, plant and equipment	5.7	10.9	0.1	–	12.8	11.5	0.2	1.1	12.1	18.8	35.6
Intangible assets	–	–	–	–	0.2	0.6	–	–	–	0.2	0.6

3 Revenue

	2007 £ million	2006 £ million
Construction contracts	651.2	509.6
Services	1,705.0	1,612.0
	2,356.2	2,121.6

The revenue from construction contracts shown above is based on the definition of construction contracts included in IAS 11 and includes revenue from all contracts directly related to the construction of an asset even if AMEC's role is as a service provider, for example project management.

4 Profit/(loss) before net financing income/(costs) – continuing operations

	2007 £ million	2006 £ million
Depreciation of property, plant and equipment	21.7	22.1
Amortisation of intangible assets (included in administrative expenses)	2.5	3.6
Minimum payments under operating leases	67.5	43.0

There are no material receipts from subleases.

	2007 £ million	2006 £ million
Fees paid to auditors and their associates:		
Audit of these financial statements	0.3	0.3
The audit of subsidiaries, associates and joint ventures pursuant to legislation	1.0	1.0
Other services supplied pursuant to such legislation	0.1	0.1
Other services relating to taxation	0.7	0.8
Services relating to corporate finance transactions	2.0	4.9
All other services	0.5	–
	4.6	7.1

Services relating to corporate finance transactions in the year include:

	2007 £ million	2006 £ million
Costs in respect of the divestments of Built Environment	2.0	–
Costs in respect of the sale of AMEC SPIE	–	3.3
Costs in respect of the potential separation of the group	–	1.6
	2.0	4.9

Details of amounts charged in arriving at the profit before net financing costs of discontinued operations are given in note 9.

5 Exceptional items

	2007 £ million	2006 £ million
Natural Resources	–	(7.8)
Power and Process	11.5	(17.6)
Investments and other activities	16.7	(77.4)
Exceptional items of continuing operations	28.2	(102.8)
Taxation on exceptional items of continuing operations	0.8	7.3
Exceptional items of discontinued operations (post-tax)	227.6	260.9
Post-tax exceptional profits	256.6	165.4

Notes to the consolidated accounts continued

5 Exceptional items continued

Exceptional items further analysed as follows:

	2007			2006		
	Gain on disposals £ million	Other exceptional items £ million	Total £ million	Gain on disposals £ million	Other exceptional items £ million	Total £ million
Continuing operations	17.7	10.5	28.2	–	(102.8)	(102.8)
Discontinued operations	292.4	2.8	295.2	301.8	(67.1)	234.7
Profit before tax	310.1	13.3	323.4	301.8	(169.9)	131.9
Tax	(66.8)	–	(66.8)	9.7	23.8	33.5
Profit after tax	243.3	13.3	256.6	311.5	(146.1)	165.4

Divestment of the group's four Built Environment businesses was successfully completed during the fourth quarter of 2007. This, combined with the profit on disposal of peripheral businesses in the first half of the year, resulted in an aggregate pre-tax exceptional gain of £310.1 million (post-tax: £243.3 million).

Other exceptional items comprise provision releases of £12.7 million and other releases of £18.2 million in relation to the settlement of several outstanding matters on projects including Jormag (Jordan Magnesite Company Ltd), Thelwall and several other construction related projects. In addition provisions were increased by £16.9 million and other liabilities by £0.7 million, to reflect developments on three US and one UK construction projects.

The post-tax gain on disposal of £311.5 million in 2006 related to the disposal of AMEC SPIE.

In 2006, other exceptional items included provisions of £25 million reflecting settlement of the major final accounts for upstream fabrication and the ongoing arbitration on a completed overseas Power and Process project; and provisions totalling £125 million for the costs of withdrawing from certain loss making construction markets in the UK and US. Additionally, impairment and other provisions of £15 million were made associated with a concrete segments business, together with costs of £4 million associated with the potential separation of the Energy and Process activities from the Built Environment activities.

6 Staff costs and employee numbers – continuing operations

	2007 £ million	2006 £ million
Wages and salaries	693.5	565.7
Social security costs	85.8	73.5
Equity settled share-based payments	4.1	(2.3)
Contributions to defined contribution schemes	9.0	5.8
Defined benefit pension scheme credit	(1.9)	(1.6)
	790.5	641.1
The average number of people employed was as follows:	2007 Number	2006 Number
Natural Resources	7,691	6,767
Power and Process	5,739	4,859
Earth and Environmental	3,547	3,119
Investments and other activities	391	636
	17,368	15,381

Staff costs and employee numbers for discontinued operations are analysed in note 9.

Details of directors' remuneration are provided in the directors' remuneration report on pages 72 to 77.

7 Net financing income/(costs) – continuing operations

	2007 £ million	2006 £ million
Financial income:		
Interest income on bank deposits	22.1	6.4
Other investment income	–	1.9
Foreign exchange gains	–	1.0
	22.1	9.3
Financial expense:		
Interest expense on financial liabilities measured at amortised cost	(1.7)	(16.1)
Foreign exchange losses	(2.0)	(0.2)
	(3.7)	(16.3)
Net financing income/(costs)	18.4	(7.0)

7 Net financing income/(costs) – continuing operations continued

The above financial income and expenses include the following in respect of assets/(liabilities) not at fair value through profit or loss:

	2007 £ million	2006 £ million
Total interest income on financial assets	22.1	8.3
Total interest expense on financial liabilities	(1.7)	(16.1)

8 Income tax – continuing operations

	2007 £ million	2006 £ million
Current tax:		
UK corporation tax at 30.0 per cent (2006: 30.0 per cent)	10.3	8.0
Double tax relief	(5.0)	(1.2)
Overseas tax	29.8	14.5
Prior year tax	2.2	2.2
	37.3	23.5
Deferred tax:		
UK deferred tax at 28.0 per cent, pension surplus at 35.0 per cent (2006: 30.0 per cent) – origination and reversal of temporary differences	6.0	(3.6)
Overseas deferred tax	1.5	(1.6)
Prior year tax	(14.7)	(3.1)
	(7.2)	(8.3)
Total income tax expense for continuing operations in the income statement	30.1	15.2

Included within the current tax expense is a credit of £0.8 million (2006: £7.3 million) in respect of exceptional items as follows:

	2007 £ million	2006 £ million
Income tax expense on continuing operations before exceptional items	30.9	22.5
Income tax credit in respect of exceptional items	(0.8)	(7.3)
Income tax expense for continuing operations in the income statement	30.1	15.2

The tax expense for the year is lower (2006: higher) than the standard rate of corporation tax in the UK and is explained as follows:

	2007 £ million	2006 £ million
Profit/(loss) before income tax from continuing operations	151.6	(27.0)
Add: tax on joint ventures and associates	0.6	0.3
Adjusted profit/(loss) before income tax from continuing operations	152.2	(26.7)
Tax charge/(credit) at 30.0 per cent (2006: 30.0 per cent)	45.7	(8.0)
Non-deductible expenses, non taxable income and other differences	(14.5)	3.1
Impact of providing deferred tax on pension surplus at 35.0 per cent	1.5	–
Impact of change in UK tax rate to 28.0 per cent on deferred tax	1.3	–
Overseas income and expenses taxed at rates other than 30.0 per cent (2006: 30.0 per cent)	8.6	21.0
Prior year tax	(12.5)	(0.9)
Total tax expense for the year for continuing operations	30.1	15.2
Tax recognised directly in equity:		
Current tax	–	1.7
Deferred tax (note 15)	21.9	4.8
Tax expense recognised directly in equity	21.9	6.5

Notes to the consolidated accounts continued

9 Profit for the year from discontinued operations

The non-core Built Environment businesses, which represent a separate line of business, were held for sale and then disposed of in the year. As such, they have been reclassified as discontinued operations in 2007. Further details of the disposal of these businesses are given in the report of the directors on pages 66 and 67. Other discontinued activities in 2007 include pipelines construction. In 2006, AMEC SPIE and pipelines construction were treated as discontinued operations.

In accordance with IFRS 5, the post-tax results of discontinued operations are disclosed separately in the consolidated income statement, with the 2006 consolidated income statement being restated for the same presentation.

The results of the discontinued operations were as follows:

	2007 £ million	2006 £ million
Revenue	710.7	2,431.6
Cost of sales and net operating expenses	(715.2)	(2,422.4)
	(4.5)	9.2
Intangible amortisation	-	(2.6)
(Loss)/profit before exceptional items and income tax	(4.5)	6.6
Attributable tax	(0.2)	(6.1)
	(4.7)	0.5
Exceptional items	2.8	(67.1)
Attributable tax on exceptional items	(0.9)	16.5
Profit on disposal	292.4	301.8
Attributable tax on profit on disposal	(66.7)	9.7
Profit for the year from discontinued operations	222.9	261.4

Revenue from discontinued operations falls into the following categories:

	2007 £ million	2006 £ million
Construction contracts	634.5	1,182.7
Services	76.2	1,248.9
	710.7	2,431.6

The profit from discontinued operations is stated after charging:

	2007 £ million	2006 £ million
Depreciation of property, plant and equipment	-	13.0
Amortisation of intangible assets (included in administrative expenses)	-	2.6
Impairment of investment	-	7.1
Minimum payments under operating leases	31.8	99.3
Fees paid to auditors and their associates:		
Statutory audit services	-	0.1
Services relating to litigation	-	0.2
Total	-	0.3

There are no material receipts from subleases.

The staff costs from discontinued operations were as follows:

	2007 £ million	2006 £ million
Wages and salaries	134.1	548.9
Social security costs	13.5	149.2
Equity settled share-based payments	1.2	-
Contributions to defined contribution schemes	0.4	0.2
Defined benefit pension scheme expense	7.4	13.4
	156.6	711.7

The average number of people employed by discontinued operations was 5,549 (2006: 31,548).

	2007 £ million	2006 £ million
Capital expenditure:		
Property, plant and equipment	0.6	12.1

10 Earnings per share

The calculation of the average number of shares in issue has been made having deducted the shares held by the trustees of the Performance Share Plans, those held by the qualifying employee share ownership trust and those held in treasury by the company.

	2007			2006		
	Earnings £ million	Weighted average shares number million	Earnings per share pence	(Loss)/ earnings £ million	Weighted average shares number million	(Loss)/ earnings per share pence
Basic earnings/(loss) from continuing operations	121.4	328.7	36.9	(43.3)	325.9	(13.3)
Share options	–	2.5	(0.2)	–	–	–
Employee share and incentive schemes	–	5.3	(0.6)	–	–	–
Diluted earnings/(loss) from continuing operations	121.4	336.5	36.1	(43.3)	325.9	(13.3)
Basic earnings from discontinued operations	222.9	328.7	67.8	261.4	325.9	80.2
Share options	–	2.5	(0.5)	–	–	–
Employee share and incentive schemes	–	5.3	(1.1)	–	–	–
Diluted earnings from discontinued operations	222.9	336.5	66.2	261.4	325.9	80.2

For the year ended 31 December 2006 loss per share from continuing operations has been calculated on a loss of £43.3 million, as a result there are no dilutive ordinary shares.

Basic and diluted loss from continuing operations is calculated as set out below:

	2007 £ million	2006 £ million
Profit/(loss) for the year from continuing operations	121.5	(42.2)
Profit attributable to minority interests	(0.1)	(1.1)
Basic and diluted profit/(loss) from continuing operations	121.4	(43.3)

In order to appreciate the effects of exceptional items and intangible amortisation on the reported performance, additional calculations of earnings/(loss) per share from continuing operations are presented.

	2007			2006		
	Earnings £ million	Weighted average shares number million	Earnings per share pence	(Loss)/ earnings £ million	Weighted average shares number million	(Loss)/ earnings per share pence
Basic earnings/(loss) from continuing operations	121.4	328.7	36.9	(43.3)	325.9	(13.3)
Exceptional items	(29.0)	–	(8.8)	95.5	–	29.3
Intangible amortisation (post tax)	1.9	–	0.6	3.6	–	1.1
Basic earnings from continuing operations before exceptional items and intangible amortisation	94.3	328.7	28.7	55.8	325.9	17.1
Share options	–	2.5	(0.2)	–	4.1	(0.2)
Employee share and incentive schemes	–	5.3	(0.5)	–	6.1	(0.3)
Diluted earnings from continuing operations before exceptional items and intangible amortisation	94.3	336.5	28.0	55.8	336.1	16.6

Notes to the consolidated accounts continued

11 Property, plant and equipment

	Land and buildings £ million	Plant and equipment £ million	Total £ million
Cost:			
As at 1 January 2006	56.4	211.4	267.8
Exchange and other movements	(1.3)	(8.5)	(9.8)
Acquired through business combinations	4.2	7.3	11.5
Additions and transfers	1.8	33.8	35.6
Disposals and transfers	(5.3)	(20.0)	(25.3)
Equity account associates	(2.9)	(14.2)	(17.1)
Reclassified as assets held for sale	(0.8)	(32.9)	(33.7)
Disposal of subsidiary	(21.3)	(49.4)	(70.7)
As at 31 December 2006	30.8	127.5	158.3
Exchange and other movements	(0.1)	0.6	0.5
Acquired through business combinations	0.6	0.6	1.2
Additions	2.6	16.2	18.8
Disposals	(5.6)	(29.7)	(35.3)
Disposal of businesses	(5.6)	(6.4)	(12.0)
As at 31 December 2007	22.7	108.8	131.5
Depreciation:			
As at 1 January 2006	11.7	97.8	109.5
Exchange and other movements	(0.3)	(4.1)	(4.4)
Provided during the year	3.2	31.9	35.1
Disposals and transfers	(0.8)	(9.9)	(10.7)
Equity account associates	(1.2)	(6.9)	(8.1)
Reclassified as held for sale	(0.2)	(23.4)	(23.6)
Disposal of subsidiary	(4.6)	(8.2)	(12.8)
As at 31 December 2006	7.8	77.2	85.0
Exchange and other movements	(0.1)	(2.0)	(2.1)
Provided during the year	1.7	20.0	21.7
Disposals	(3.1)	(25.9)	(29.0)
Disposal of businesses	(1.7)	–	(1.7)
As at 31 December 2007	4.6	69.3	73.9
Net book value:			
As at 31 December 2007	18.1	39.5	57.6
As at 31 December 2006	23.0	50.3	73.3
As at 1 January 2006	44.7	113.6	158.3
		2007 £ million	2006 £ million
The net book value of land and buildings comprised:			
Freehold		15.8	18.7
Long leasehold		2.0	2.2
Short leasehold		0.3	2.1
		18.1	23.0

12 Intangible assets

	Goodwill £ million	Software £ million	Other £ million	Total £ million
Cost:				
As at 1 January 2006	467.4	41.5	13.5	522.4
Exchange and other movements	(24.9)	(1.5)	(0.9)	(27.3)
Acquisition of subsidiaries	17.6	–	1.9	19.5
Additions	–	0.6	–	0.6
Transfers	–	0.4	(0.4)	–
Disposal of subsidiary	(245.2)	(34.8)	(1.9)	(281.9)
As at 31 December 2006	214.9	6.2	12.2	233.3
Exchange and other movements	23.1	0.8	0.2	24.1
Acquisition of subsidiaries	8.4	–	1.5	9.9
Additions	–	0.2	–	0.2
Disposals	–	(0.3)	–	(0.3)
Disposal of businesses	(1.0)	(1.0)	(0.9)	(2.9)
As at 31 December 2007	245.4	5.9	13.0	264.3
Amortisation:				
As at 1 January 2006	32.2	12.1	0.2	44.5
Exchange and other movements	(2.0)	(0.7)	–	(2.7)
Provided during the year	–	3.7	2.5	6.2
Transfers	–	(2.8)	2.8	–
Disposal of subsidiary	(3.2)	(9.1)	–	(12.3)
As at 31 December 2006	27.0	3.2	5.5	35.7
Exchange and other movements	4.0	0.5	–	4.5
Provided during the year	–	1.1	1.4	2.5
Disposal of businesses	(1.0)	(0.6)	(0.6)	(2.2)
As at 31 December 2007	30.0	4.2	6.3	40.5
Net book value:				
As at 31 December 2007	215.4	1.7	6.7	223.8
As at 31 December 2006	187.9	3.0	6.7	197.6
As at 1 January 2006	435.2	29.4	13.3	477.9

After the sale of AMEC SPIE on 27 July 2006, the principal remaining element of unamortised goodwill relates to the acquisition of AGRA Inc in the Americas (£153.4 million) with further unamortised goodwill relating primarily to the acquisitions of NNC Holdings Limited (£34.2 million), and Paragon Engineering Services Inc (£9.0 million). The recoverable amount of the income generating unit in the Americas has been based on value in use calculations. The calculations use cash flow projections based on financial budgets approved by management covering a two year period and a pre-tax discount rate of 8.4 per cent (2006: 9.6 per cent). For the purposes of the calculation of the recoverable amount the cash flow projections beyond the two year period include no growth.

Notes to the consolidated accounts continued

13 Interest in joint ventures, associates and other investments

	Joint ventures £ million	Associates £ million	Total of joint ventures and associates £ million	Other investments £ million
Net book value:				
As at 1 January 2006	85.0	–	85.0	4.5
Equity accounted associates	–	26.4	26.4	–
Exchange and other movements	(0.4)	–	(0.4)	(0.6)
Additions	14.1	–	14.1	9.4
Disposals	(9.5)	(17.5)	(27.0)	(0.2)
Impairment	(7.1)	–	(7.1)	–
Disposal of subsidiary	(11.6)	(5.0)	(16.6)	(11.5)
Transfers	(4.6)	–	(4.6)	–
Net movement in share of reserves	15.0	3.6	18.6	–
Dividends received	(3.2)	–	(3.2)	–
Reclassified as held for sale	–	–	–	(0.7)
As at 31 December 2006	77.7	7.5	85.2	0.9
Exchange and other movements	0.3	–	0.3	–
Additions	6.0	–	6.0	–
Disposals	(3.2)	(7.3)	(10.5)	–
Disposal of businesses	(49.8)	–	(49.8)	(0.1)
Net movement in share of reserves	8.5	(0.2)	8.3	–
Dividends received	(2.0)	–	(2.0)	–
Reclassified as held for sale	(14.8)	–	(14.8)	–
As at 31 December 2007	22.7	–	22.7	0.8

Principal group companies are listed on page 123.

Other investments are all classified as available-for-sale financial assets.

The impairment charge of £7.1 million in 2006 represented provision made against an underperforming joint venture.

In 2007, the group did not recognise its share of the net losses of £0.2 million of joint venture companies for which the group has no obligation to fund. There were no such unrecognised losses in 2006. Cumulative unrecognised net liabilities at 31 December 2007 amount to £5.2 million (2006: £5.6 million).

An analysis of the group's interests in the assets and liabilities of joint ventures and associates is as follows:

	Joint ventures 2007 £ million	Joint ventures 2006 £ million	Associates 2007 £ million	Associates 2006 £ million
Current assets	51.2	242.8	–	27.1
Non-current assets	300.3	738.0	–	5.4
Current liabilities	(64.3)	(148.5)	–	(25.0)
Non-current liabilities	(264.5)	(754.6)	–	–
Group share of net assets	22.7	77.7	–	7.5

An analysis of the group's share of the revenue and expenses of joint ventures and associates is as follows:

	Joint ventures 2007 £ million	Joint ventures 2006 £ million	Associates 2007 £ million	Associates 2006 £ million
Revenue	40.1	101.8	10.4	50.6
Expenses	(38.2)	(101.7)	(10.5)	(50.5)
Share of profit/(loss) before tax	1.9	0.1	(0.1)	0.1
Tax	(0.6)	(0.8)	–	0.5
Share of post-tax results	1.3	(0.7)	(0.1)	0.6

Guarantees and commitments in respect of joint ventures and associates are set out in note 28.

13 Interest in joint ventures, associates and other investments continued

PPP service concessions

Details of the PPP service concessions are as follows:

		Financial close	Equity stake	Concession period	Net equity invested	Equity committed
Transport	A13 Thames Gateway	2000	25%	30 years	–*	–
	Incheon Bridge, Korea	2005	29%	30 years	£15.7m	£4.9m
Accommodation	Inland Revenue					
	Newcastle Estate	1998	50%	25–31 years	£0.5m	–

*The net equity invested in A13 Thames Gateway has been previously written down from £5.9 million to £nil.

14 Retirement benefit assets and liabilities

The group operates a number of pension schemes for UK and overseas employees. Substantially all UK members are in funded defined benefit schemes, the main schemes being the AMEC Staff Pension Scheme and the AMEC Executive Pension Scheme. The majority of overseas members are in defined contribution schemes. Contributions by the group into defined contribution schemes are disclosed in note 6.

Defined benefit schemes

The valuations used have been based on the most recent valuations of the two major UK schemes as at 31 December 2004 and 1 April 2005, and updated by the schemes' actuaries for the requirement to assess the present value of the liabilities of the schemes as at 31 December 2007. The assets of the schemes are stated at their aggregate market value as at 31 December.

The principal assumptions made by the actuaries in relation to the main UK schemes are as follows:

	2007 Per cent	2006 Per cent
Rate of discount	5.7	5.1
Rate of inflation	3.2	3.0
Rate of increase in salaries	4.2	4.0
Rate of increase in pensions in payment	3.2	3.0
Expected rate of return on scheme assets:		
Equities	8.1	7.7
Bonds	5.7	4.4
Property	6.6	6.2
Other	5.5	4.5

For the main UK pension schemes, the assumed life expectancy is as follows:

	Male years	Female years
Member aged 60 (current life expectancy)	23.8	26.8
Member aged 40 (life expectancy at 60)	25.0	27.8

The assumptions used by the actuaries are the best estimates chosen from a range of possible actuarial assumptions, which, due to the timescale covered, may not necessarily be borne out in practice.

To develop the expected long-term rate of return on assets assumption, the company considered the current level of expected returns on risk free investments (primarily government bonds), the historical level of risk premium associated with the other asset classes in which the portfolio is invested and the expectations for future returns of each asset class. The expected return for each asset class was then weighted based on the target asset allocation to develop the expected long-term rate of return on assets for the portfolio.

Since the year-end, equity markets have fallen. The board estimates that as at 31 January 2008, this would have resulted in the pre-tax surplus of the schemes declining by c.£50 million under an IAS 19 valuation.

Recent guidance from the Pensions Regulator regarding longevity statistics suggests that further strengthening of mortality assumptions may be appropriate, and specifically alludes to the adoption of the 'long-cohort' rate of improvement as a benchmark for occupational scheme mortality going forward. The mortality experience of the AMEC schemes will be reviewed in detail at the next actuarial valuation, due as at 1 April 2008. A move to long-cohort assumptions would reduce the current funding surplus (pre-tax) by c.£60 million or approximately five per cent of liabilities. Even after taking into account both the recent fall in equity markets and the potential move to long-cohort assumptions, the schemes would remain in a strong position.

The surplus has been presented net of deferred tax on the balance sheet in 2007, following a review of the basis of recoverability.

Notes to the consolidated accounts continued

14 Retirement benefit assets and liabilities continued

The amounts recognised in the balance sheet are as follows:

	2007 £ million	2006 £ million
Retirement benefit assets	248.0	105.6
Deferred tax on retirement benefit assets	(86.7)	–
Retirement benefit assets net of deferred tax	161.3	105.6
Retirement benefit liabilities	(11.3)	(13.0)
Retirement benefit net asset	150.0	92.6

The retirement benefit liabilities of £11.3 million (2006: £13.0 million) reflect primarily the deficit on the overseas schemes.

The major categories of scheme assets as a percentage of total scheme assets are as follows:

	2007 Per cent	2006 Per cent
Equities	32.7	54.0
Bonds	57.8	33.5
Real estate	9.3	9.5
Other	0.2	3.0
	100.0	100.0

The amounts recognised in the income statement are as follows:

	2007 £ million	2006 £ million
Current service cost	26.4	31.5
Interest cost	59.4	53.1
Expected return on scheme assets	(80.3)	(72.8)
Total expense included within staff costs (note 6, note 9)	5.5	11.8
Curtailment gain	(28.5)	–
Total amount recognised in the income statement	(23.0)	11.8

The total amount is recognised in the income statement as follows:

Cost of sales	(3.1)	(0.8)
Administrative expenses	1.2	(0.8)
(Loss)/profit for the year from discontinued operations:		
Before exceptional items	7.4	13.4
Profit on disposal	(28.5)	–
Total amount recognised in the income statement	(23.0)	11.8

The curtailment gain arises as a result of active members in the disposed businesses becoming deferred pensioners, releasing the salary growth reserve held in relation to their accrued pension benefits.

Changes in the present value of the defined benefit liability are as follows:

	2007 £ million	2006 £ million
As at 1 January	1,150.5	1,270.1
Exchange movements	6.2	1.1
Reclassification	26.4	–
Current service cost	26.4	31.5
Interest cost	59.4	53.1
Plan participants' contributions	10.1	10.5
Actuarial (gains)/losses	(90.7)	1.0
Liabilities of businesses sold	–	(47.1)
Liabilities of businesses reclassified as held for sale	–	(1.7)
Curtailment gain	(28.5)	–
Benefits paid	(68.9)	(40.7)
Reclassified as investment in associate	–	(127.3)
As at 31 December	1,090.9	1,150.5

14 Retirement benefit assets and liabilities continued

Changes in the fair value of scheme assets are as follows:

	2007 £ million	2006 £ million
As at 1 January	1,243.1	1,288.6
Exchange movements	4.8	–
Reclassification	26.4	–
Expected return on plan assets	80.3	72.8
Actuarial (losses)/gains	(4.6)	3.9
Employer contributions	36.4	31.4
Plan participants' contributions	10.1	10.5
Benefits paid	(68.9)	(40.7)
Reclassified as investment in associate	–	(123.4)
As at 31 December	1,327.6	1,243.1

The movement in the scheme net assets during the year is as follows:

	2007 £ million	2006 £ million
Scheme net asset as at 1 January	92.6	18.5
Exchange movements	(1.4)	(1.1)
Total expense as above	(5.5)	(11.8)
Employer contributions	36.4	31.4
Liabilities of businesses sold	–	47.1
Curtailment gain	28.5	–
Actuarial gains recognised in reserves	86.1	2.9
Reclassified to liabilities held for sale	–	1.7
Reclassified as investment in associate	–	3.9
Scheme net asset as at 31 December	236.7	92.6

Cumulative actuarial gains and losses recognised in equity are as follows:

	2007 £ million	2006 £ million
As at 1 January	(63.9)	(66.8)
Net actuarial gains recognised in the year	86.1	2.9
As at 31 December	22.2	(63.9)

The actual return on scheme assets is as follows:

	2007 £ million	2006 £ million
Actual return on scheme assets	75.7	76.7

The history of experience gains and losses has been as follows:

	2007	2006	2005	2004
Defined benefit obligation as at 31 December (£ million)	(1,090.9)	(1,150.5)	(1,270.1)	(1,094.9)
Fair value of assets as at 31 December (£ million)	1,327.6	1,243.1	1,288.6	1,161.5
Surplus (£ million)	236.7	92.6	18.5	66.6
Difference between expected and actual return on scheme assets (£ million)	(4.6)	3.9	130.8	27.8
Percentage of scheme assets	(0.3)	0.3	10.2	2.4
Experience gains and losses on scheme liabilities (£ million)	3.5	–	(27.3)	(0.7)
Percentage of scheme liabilities	0.3	–	(2.1)	(0.1)

Contributions

The company expects to contribute £16.1 million to its defined benefit pension schemes in 2008. This includes special contributions of £8.4 million.

Notes to the consolidated accounts continued

15 Deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

Recognised deferred tax assets and liabilities	Assets		Liabilities		Net	
	2007 £ million	2006 £ million	2007 £ million	2006 £ million	2007 £ million	2006 £ million
Property, plant and equipment	14.2	11.4	(0.4)	(0.2)	13.8	11.2
Intangible assets	–	–	(1.9)	(2.9)	(1.9)	(2.9)
Retirement benefits	4.1	2.9	(0.2)	(28.2)	3.9	(25.3)
Derivative financial instruments	0.9	1.5	(0.3)	(1.0)	0.6	0.5
Provisions	15.3	1.8	–	–	15.3	1.8
Employee share schemes	17.8	–	–	–	17.8	–
Other items	11.4	21.3	(3.5)	(22.8)	7.9	(1.5)
Tax losses carried forward	1.5	22.3	–	–	1.5	22.3
Deferred tax assets/(liabilities)	65.2	61.2	(6.3)	(55.1)	58.9	6.1
Offset of deferred tax assets and liabilities relating to income tax levied by the same taxation authority	(6.3)	(44.8)	6.3	44.8	–	–
Net deferred tax assets/(liabilities)	58.9	16.4	–	(10.3)	58.9	6.1

Movements in deferred tax assets and liabilities during the year

	As at 1 January 2006 £ million	Exchange and other movements £ million	Recognised on acquisitions and transfers £ million	Disposals £ million	Recognised in income £ million	Recognised in equity £ million	Reclassified as held for sale £ million	As at 31 December 2006 £ million
Property, plant and equipment	6.6	–	–	0.8	3.8	–	–	11.2
Intangible assets	(2.9)	–	–	–	–	–	–	(2.9)
Retirement benefits	(3.9)	1.5	1.6	(17.4)	(5.5)	(1.6)	–	(25.3)
Derivative financial instruments	6.3	(0.6)	–	(2.7)	1.1	(3.2)	(0.4)	0.5
Provisions	1.8	–	–	–	–	–	–	1.8
Other items	(4.6)	–	(2.0)	(2.2)	7.3	–	–	(1.5)
Tax losses carried forward	20.5	2.3	–	(12.3)	11.8	–	–	22.3
	23.8	3.2	(0.4)	(33.8)	18.5	(4.8)	(0.4)	6.1

	As at 1 January 2007 £ million	Exchange and other movements £ million	Disposals £ million	Recognised in income £ million	Recognised in equity £ million	Reclassified to retirement benefit asset £ million	Reclassified as held for sale £ million	As at 31 December 2007 £ million
Property, plant and equipment	11.2	–	–	2.6	–	–	–	13.8
Intangible assets	(2.9)	0.1	–	0.9	–	–	–	(1.9)
Retirement benefits	(25.3)	0.6	0.1	(22.3)	(35.9)	86.7	–	3.9
Derivative financial instruments	0.5	–	–	–	0.1	–	–	0.6
Provisions	1.8	–	–	13.5	–	–	–	15.3
Employee share schemes	–	–	–	4.1	13.7	–	–	17.8
Other items	(1.5)	0.9	0.4	3.7	0.2	–	4.2	7.9
Tax losses carried forward	22.3	–	–	(20.8)	–	–	–	1.5
	6.1	1.6	0.5	(18.3)	(21.9)	86.7	4.2	58.9

The deferred tax charge of £18.3 million recognised in income consists of a credit of £7.2 million relating to continuing operations and a charge of £25.5 million in respect of discontinued operations.

Included within the deferred tax credit relating to continuing operations are a charge of £1.5 million which results from the provision of deferred tax on the pension surplus at 35 per cent; and a charge of £1.3 million being the impact on deferred tax of the change in UK tax rate to 28 per cent.

The deferred tax charge of £35.9 million in respect of retirement benefit assets and liabilities which was recognised in equity in 2007 consists of £26.4 million relating to the 2007 actuarial valuation and £9.5 million relating to the change in recognition criteria for retirement benefit assets.

15 Deferred tax assets and liabilities continued

Unrecognised deferred tax assets

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

	2007 £ million	2006 £ million
Deductible temporary differences	34.4	10.5
Tax losses	45.8	54.9
	80.2	65.4

Tax losses of £8.4 million arising in Canada and the US which are unrecognised by the group expire between 2022 and 2024.

The other tax losses and deductible temporary differences not recognised by the group do not expire under current tax legislation. Deferred tax assets have not been recognised in respect of these items because it is not probable that profit will be available against which the group can utilise the benefits therefrom.

16 Inventories

	2007 £ million	2006 £ million
Development land and work in progress	–	36.5
Raw materials and consumables	3.5	1.3
Other work in progress	2.5	8.4
Finished goods and goods for resale	0.1	1.5
	6.1	47.7

Development land and work in progress at 31 December 2007 included assets to a value of £nil (2006: £17.4 million) expected to be consumed after more than one year.

The amount of inventories recognised as an expense during 2007 was £2.4 million (2006: £9.6 million), all of which related to operations now discontinued.

17 Current trade and other receivables

	2007 £ million	2006 £ million
Amounts expected to be recovered within one year:		
Gross amounts due from customers	167.7	311.9
Trade receivables	294.5	415.3
Amounts owed by joint ventures and associates	3.2	2.4
Other receivables	19.2	17.5
Prepayments and accrued income	34.8	39.1
	519.4	786.2
Amounts expected to be recovered after more than one year:		
Trade receivables	6.5	18.6
Amounts owed by joint ventures and associates	1.6	0.8
Other receivables	1.9	0.3
Prepayments and accrued income	–	0.4
	10.0	20.1
	529.4	806.3

Trade receivables expected to be recovered within one year include retentions of £20.9 million (2006: £41.6 million) relating to contracts in progress. Trade receivables expected to be recovered after more than one year include retentions of £6.5 million (2006: £10.6 million) relating to contracts in progress.

The aggregate amount of costs incurred plus recognised profits (less recognised losses) for all contracts in progress for continuing businesses at the balance sheet date was £5,606.4 million (2006: £9,260.4 million).

Trade receivables, amounts owed by joint ventures and associates and other receivables are classified as loans and receivables.

Notes to the consolidated accounts continued

18 Assets and liabilities held for sale

As at 31 December 2007, the following assets and liabilities of AMEC's interests in the Petersbogen and RMG joint ventures were classified as being held for sale. As at 31 December 2006, the assets and liabilities of the pipelines construction businesses were classified as held for sale.

	2007 £ million	2006 £ million
Assets held for sale		
Property, plant and equipment	–	10.1
Interests in joint ventures	14.8	–
Other investments	–	0.7
Deferred tax assets	–	0.4
Trade and other receivables	4.2	61.5
Derivative financial instruments	–	1.4
Cash and cash equivalents	–	33.0
	19.0	107.1
Liabilities held for sale		
Bank and other overdrafts	–	(0.8)
Trade and other payables	(1.2)	(66.3)
Tax payable	–	(0.7)
Retirement benefit liability	–	(1.7)
Deferred tax liabilities	(4.2)	–
	(5.4)	(69.5)
Net assets held for sale	13.6	37.6

19 Current trade and other payables

	2007 £ million	2006 £ million
Amounts expected to be settled within one year:		
Trade payables	376.4	661.6
Gross amounts due to customers	56.1	149.2
Amounts owed to joint ventures and associates	0.3	1.5
Other taxation and social security costs	35.2	42.3
Other payables	75.2	59.3
Accruals and deferred income	77.0	85.1
Dividends	15.5	14.0
	635.7	1,013.0
Amounts expected to be settled after more than one year:		
Trade payables	2.0	0.9
Contract provisions	–	4.7
Other payables	3.7	0.9
Accruals and deferred income	0.1	1.9
	5.8	8.4
	641.5	1,021.4

Gross amounts due to customers includes advances received of £42.6 million (2006: £46.9 million of which £4.4 million related to operations now discontinued).

Trade payables, amounts owed to joint ventures and associates, other taxation and social security costs, other payables and dividends are classified as other financial liabilities.

20 Bank loans and overdrafts

	2007 £ million	2006 £ million
Current		
Bank loans and overdrafts	0.8	13.6
Non-current		
Bank loans	0.1	6.9

All of the group's borrowings are unsecured. The bank loans and overdrafts are denominated in a number of currencies and bear interest based on LIBOR.

21 Financial instruments

Details of the group's financial risk management objectives and policies, together with its policies for hedging are provided in the business and financial review on pages 56 and 57.

Hedging of interest rate risk

The group holds significant net cash balances following the disposal of AMEC SPIE, the Built Environment and other peripheral businesses during 2006 and 2007. The group intends to reinvest these monies into the core activities and return up to £80 million to shareholders via the previously announced share buy back. Accordingly, the group has decided not to hedge against longer term interest rate fluctuations. This policy will be kept under review.

Hedging of foreign currency risk – cash flow hedges

The group looks to mitigate the foreign exchange risk typically arising where contracts are awarded in, or involve costs, in non-local currency. Forward foreign exchange contracts and foreign exchange swaps are used for this purpose and designated as cash flow hedges. The notional contract amount, carrying amount and fair values of forward contracts and swaps designated as cash flow hedges are as follows:

	2007 Notional contract amount £ million	2006 Notional contract amount £ million	2007 Carrying amount and fair value £ million	2006 Carrying amount and fair value £ million
Current assets	25.1	10.7	1.6	0.7
Assets classified as held for sale	–	18.3	–	1.4
Current liabilities	12.0	80.2	(0.9)	(1.8)
	37.1	109.2	0.7	0.3

The following tables indicate the periods in which the cash flows associated with the forward foreign exchange contracts designated as cash flow hedges are expected to occur:

	2007						
	Carrying amount £ million	Expected cash flows £ million	6 months or less £ million	6-12 months £ million	1-2 years £ million	2-5 years £ million	More than 5 years £ million
Forward exchange contracts							
Assets	1.6	25.1	8.7	7.6	8.8	–	–
Liabilities	(0.9)	12.0	3.9	3.3	3.5	1.3	–
	0.7	37.1	12.6	10.9	12.3	1.3	–
	2006						
	Carrying amount £ million	Expected cash flows £ million	6 months or less £ million	6-12 months £ million	1-2 years £ million	2-5 years £ million	More than 5 years £ million
Forward exchange contracts							
Assets	0.7	10.7	5.9	0.9	1.8	2.1	–
Liabilities	(1.8)	80.2	47.6	14.5	10.3	7.8	–
	(1.1)	90.9	53.5	15.4	12.1	9.9	–

Notes to the consolidated accounts continued

21 Financial instruments continued

The following tables indicate the periods in which the cash flows associated with the forward foreign exchange contracts designated as cash flow hedges are expected to impact profit or loss:

	2007						
	Carrying amount £ million	Expected cash flows £ million	6 months or less £ million	6-12 months £ million	1-2 years £ million	2-5 years £ million	More than 5 years £ million
Forward exchange contracts							
Assets	1.6	25.1	8.7	7.6	8.8	–	–
Liabilities	(0.9)	12.0	3.9	3.3	3.5	1.3	–
	0.7	37.1	12.6	10.9	12.3	1.3	–
2006							
	Carrying amount £ million	Expected cash flows £ million	6 months or less £ million	6-12 months £ million	1-2 years £ million	2-5 years £ million	More than 5 years £ million
Forward exchange contracts							
Assets	0.7	10.7	5.9	0.9	1.8	2.1	–
Liabilities	(1.8)	80.2	47.6	14.5	10.3	7.8	–
	(1.1)	90.9	53.5	15.4	12.1	9.9	–

Certain forward foreign exchange contracts and foreign exchange swaps are not designated as cash flow hedges and changes in their fair value are recognised through the income statement. The notional contract amount, carrying amount and fair values of these forward contracts and swaps are as follows:

	2007 Notional contract amount £ million	2006 Notional contract amount £ million	2007 Carrying amount and fair value £ million	2006 Carrying amount and fair value £ million
Current assets	69.4	36.4	1.5	0.1
Current liabilities	9.7	9.4	(0.3)	(0.1)
	79.1	45.8	1.2	–

Hedging of foreign currency risk – net investment hedges

The group uses cross currency swaps and, until repayment of substantially all the group's debt during 2006, foreign currency denominated borrowings which have been designated as hedges of the net investments in subsidiaries in Canada, the US and formerly in France. The notional contract amount, carrying amount and fair values of swaps designated as net investment hedges are as follows:

	2007 Notional contract amount £ million	2006 Notional contract amount £ million	2007 Carrying amount and fair value £ million	2006 Carrying amount and fair value £ million
Current assets	–	127.5	–	8.2
Current liabilities	138.3	–	(4.1)	–

A net foreign exchange loss for the year of £8.6 million (2006: gain of £16.4 million) was recognised in the translation reserve in respect of these swaps and borrowings.

Interest rate risk – contractual maturity and effective interest rates

In respect of interest-earning financial assets and interest-bearing financial liabilities, the following table indicates their effective interest rates at the balance sheet date and the periods in which they mature:

	2007						
	Effective interest rate Per cent	Total £ million	6 months or less £ million	6-12 months £ million	1-2 years £ million	2-5 years £ million	More than 5 years £ million
Cash and cash equivalents	5.3	734.1	734.1	–	–	–	–
Unsecured bank loans:							
Sterling fixed rate loan	6.8	(0.2)	(0.2)	–	–	–	–
Bank overdrafts							
Sterling overdraft	6.3	(0.7)	(0.7)	–	–	–	–
		733.2	733.2	–	–	–	–

21 Financial instruments continued

	Effective interest rate Per cent	Total £ million	6 months or less £ million	6-12 months £ million	1-2 years £ million	2-5 years £ million	2006 More than 5 years £ million
Cash and cash equivalents	3.7	375.4	375.4	–	–	–	–
Unsecured bank loans:							
Sterling floating rate loan	4.0	(19.3)	(7.6)	(4.8)	(6.9)	–	–
Bank overdrafts							
Sterling overdraft	6.0	(1.2)	(1.2)	–	–	–	–
		354.9	366.6	(4.8)	(6.9)	–	–

Currency risk

The group publishes its consolidated financial statements in Sterling. It conducts business in a range of currencies, including Canadian and US dollars and currencies linked to the US dollar. As a result, the group is exposed to foreign exchange risks, which will affect transaction costs and the translation results and value of underlying assets of its foreign subsidiaries.

The group hedges its material transaction related exposures. With respect to translation exposure, the group does not hedge the profits generated in non-Sterling currencies but does hedge a proportion of assets denominated in foreign currencies.

The impact of a 10 per cent movement in the average Sterling/Canadian dollar and Sterling/US dollar rates on post-tax profit for 2007 is £7.0 million. The impact of a 10 per cent movement in the closing rates on equity for 2007 is £14.0 million.

Credit risk

The maximum exposure to credit risk is represented by the carrying amount of each financial asset, including derivative financial instruments recorded in the balance sheet.

The ageing of trade receivables at the year end was:

	Gross receivables 2007 £ million	Impairment 2007 £ million	Gross receivables 2006 £ million	Impairment 2006 £ million
Not past due	188.6	(0.5)	287.1	(0.6)
Past due 0-30 days	48.1	–	43.9	–
Past due 31-120 days	27.4	(1.8)	29.5	(3.2)
Past due 121-365 days	12.1	(5.7)	12.9	(2.6)
More than one year	17.4	(12.0)	28.4	(13.7)
	293.6	(20.0)	401.8	(20.1)

The above analysis excludes retentions relating to contracts in progress of £20.9 million (2006: £41.6 million) expected to be recovered within one year and £6.5 million (2006: £10.6 million) expected to be recovered after one year. Net receivables as at 31 December 2007 include £5.4 million in respect of amounts overdue by more than one year. The group believes there is no material exposure in respect of these balances.

The movement in the allowance for impairment in respect of trade receivables during the year was as follows:

	2007 £ million	2006 £ million
As at 1 January	(20.1)	(49.7)
Disposal of businesses	2.6	22.0
(Addition)/reduction in impairment allowance	(2.5)	7.6
As at 31 December	(20.0)	(20.1)

Based on past experience, the group believes that no material impairment allowance is necessary in respect of trade receivables not past due.

Trade receivable exposures are typically with large companies and government backed organisations, and the credit ratings of these organisations are monitored. Credit risks are minimised through the use of letters of credit, parent company guarantees, insurance instruments and forward funding where achievable.

The group's most significant customer is Shell, which in 2007 accounted for around 10 per cent of continuing revenues.

The group holds significant net cash balances following the disposal of AMEC SPIE, the Built Environment businesses and other peripheral businesses during 2006 and 2007. The group intends to reinvest these monies into the core activities and return up to £80 million to shareholders via the previously announced share buy back.

Cash deposits and financial transactions give rise to credit risk in the event that counterparties fail to perform under the contract. AMEC manages these risks by ensuring that surplus funds are placed with counterparties up to a pre-approved limit. These limits are set at prudent levels by the board, are based primarily on credit ratings set by Moody's, Standard & Poors and Fitch and have been reviewed in light of the recent market turbulence. Credit ratings are monitored continuously by group treasury.

Notes to the consolidated accounts continued

21 Financial instruments continued

Fair values

The fair values together with the carrying amounts shown in the balance sheet are as follows:

	Carrying amount 2007 £ million	Carrying amount 2006 £ million	Fair value 2007 £ million	Fair value 2006 £ million
Current trade and other receivables	326.9	454.9	326.9	454.9
Forward foreign exchange contracts and foreign exchange swaps:				
Assets	3.1	9.0	3.1	9.0
Liabilities	(5.3)	(1.9)	(5.3)	(1.9)
Cash and cash equivalents	734.1	375.4	734.1	375.4
Bank overdrafts	(0.7)	(1.2)	(0.7)	(1.2)
Unsecured bank loans	(0.2)	(19.3)	(0.2)	(19.3)
Current trade and other payables	(508.3)	(780.5)	(508.3)	(780.5)
Assets and liabilities classified as held for sale:				
Trade and other receivables	4.2	12.2	4.2	12.2
Forward foreign exchange contracts and foreign exchange swaps	–	1.4	–	1.4
Cash and cash equivalents	–	33.0	–	33.0
Bank and other overdrafts	–	(0.8)	–	(0.8)
Trade and other payables	(1.2)	(60.0)	(1.2)	(60.0)

Fair values are determined as follows:

Trade and other receivables and payables are valued at their amortised cost, which are deemed to reflect fair value.

The fair value of interest rate swaps is estimated by discounting estimated future cash flows based on the terms and maturity of each contract and using market interest rates.

The fair value of forward foreign exchange contracts is estimated by discounting the difference between the contractual forward price and the current forward price for the residual maturity of the contract using a risk free interest rate.

Bank loans and bonds are valued based on discounted expected future principal and interest cash flows.

22 Provisions

	Litigation settlement and future legal costs £ million	Indemnities granted and retained obligations on disposed businesses £ million	Insurance £ million	Onerous property contracts £ million	Total £ million
As at 1 January 2007	85.3	53.6	25.8	9.1	173.8
Exchange movements	(0.5)	3.6	–	–	3.1
Utilised	(17.0)	(8.3)	–	–	(25.3)
Charged/(credited) to the income statement:					
Additional provisions	20.4	35.0	14.1	3.0	72.5
Unused amounts reversed	(16.7)	(5.0)	–	(3.0)	(24.7)
As at 31 December 2007	71.5	78.9	39.9	9.1	199.4

Provision was made during 2006 and prior for the estimated litigation settlement future legal costs in connection with the group's ongoing major litigation – major contingent liabilities are discussed in more detail in note 28.

In 2007 provision has been made for obligations relating to completed projects related to the Built Environment and other peripheral businesses which have been sold during 2007.

The provision for indemnities relates to the indemnification of the purchasers of SPIE in 2006, purchasers of the Built Environment businesses and other peripheral businesses in 2007.

The insurance provision relates to the potential liabilities in the group's captive insurance entity and provisions in relation to risks associated with insurance claims.

Future outflows in respect of the onerous property contracts are expected to occur over the next several years. Due to the nature of the other liabilities, the timing of any potential future outflows is uncertain.

23 Share capital and reserves

	Share capital £ million	Share premium account £ million	Hedging reserve £ million	Translation reserve £ million	Capital redemption reserve £ million	Retained earnings £ million	Amounts recognised in equity relating to assets and liabilities held for sale £ million	Total equity attributable to equity holders of the company £ million	Minority interests £ million	Total equity £ million
As at 1 January 2006	166.4	89.5	(27.7)	21.9	17.2	55.3	–	322.6	0.3	322.9
Total recognised income and expense	–	–	12.0	(22.7)	–	222.0	–	211.3	2.6	213.9
Dividends	–	–	–	–	–	(38.3)	–	(38.3)	–	(38.3)
Shares issued	0.4	1.2	–	–	–	–	–	1.6	–	1.6
Equity settled share-based payments	–	–	–	–	–	(2.3)	–	(2.3)	–	(2.3)
Disposal of shares by trustees of the Performance Share Plan 2002	–	–	–	–	–	2.2	–	2.2	–	2.2
Reclassification	–	–	(0.9)	–	–	–	0.9	–	–	–
Recognised in profit on disposal	–	–	1.5	(4.6)	–	–	–	(3.1)	(2.1)	(5.2)
As at 31 December 2006	166.8	90.7	(15.1)	(5.4)	17.2	238.9	0.9	494.0	0.8	494.8
Total recognised income and expense	–	–	2.2	23.5	–	408.7	(0.1)	434.3	0.1	434.4
Dividends	–	–	–	–	–	(41.3)	–	(41.3)	–	(41.3)
Shares issued	1.9	8.8	–	–	–	–	–	10.7	–	10.7
Equity settled share-based payments	–	–	–	–	–	5.3	–	5.3	–	5.3
Disposal of shares by trustees of the Performance Share Plan 2002	–	–	–	–	–	0.3	–	0.3	–	0.3
Dividend paid to minority interests	–	–	–	–	–	–	–	–	(0.1)	(0.1)
Acquisition of treasury shares	–	–	–	–	–	(21.5)	–	(21.5)	–	(21.5)
Recognised in profit on disposal	–	–	11.0	0.6	–	–	(0.8)	10.8	–	10.8
As at 31 December 2007	168.7	99.5	(1.9)	18.7	17.2	590.4	–	892.6	0.8	893.4

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

The translation reserve comprises all foreign exchange differences arising from the translation of the accounts of foreign operations, as well as from the translation of liabilities and the cumulative net change in the fair value of instruments that hedge the company's net investment in foreign subsidiaries.

The group has acquired 3,768,800 shares during the year which are held in treasury. As at 31 December 2007, £21.5 million had been deducted from equity in respect of these shares.

A qualifying share ownership trust ('the Quest') was established on 26 August 1999. The Quest holds shares issued by the company in connection with the savings related share option scheme. During the year the company allotted 811,773 (2006: 123,437) shares to the Quest and the Quest transferred 1,689,796 (2006: 186,710) of these shares to employees exercising options.

As at 31 December 2007 the Quest held 259 (2006: 878,282) shares.

Notes to the consolidated accounts continued

23 Share capital and reserves continued

Share capital

The authorised share capital of the company is £350.0 million (2006: £350.0 million). This comprises 700 million (2006: 700 million) ordinary shares of 50 pence each. All the ordinary shares rank parri passu in all respects. To the company's knowledge and belief, there are no restrictions on the transfer of shares in the company or on voting rights between holders of shares.

	2007 £ million	2006 £ million
Allotted, called up and fully paid ordinary shares of 50 pence each	168.7	166.8

The movement in issued share capital was as follows:

	Number	£ million
As at 1 January 2006	332,856,732	166.4
Qualifying employee share ownership trust allotments	123,437	0.1
Exercise of executive share options	451,998	0.2
Exercise of savings related share options	178,124	0.1
As at 31 December 2006	333,610,291	166.8
Qualifying employee share ownership trust allotments	811,773	0.4
Exercise of executive share options	24,424	–
Exercise of savings related share options	3,031,797	1.5
As at 31 December 2007	337,478,285	168.7

During the year the company issued 3,867,994 ordinary shares of 50 pence each, for a consideration of £10.7 million, settled in cash.

Share-based payments

Offers are made periodically in certain countries under the UK and International Savings Related Share Option Schemes which are open to all employees in those countries who meet minimum service criteria. Grants of share options are made to participating employees that entitle them to buy shares in the company normally after three years at up to 20 per cent discount to the market price of the shares at the time of offer. In the USA, to conform with the relevant tax rules, options are granted at a maximum discount of 15% to the share price at the time of grant and are normally exercisable after 2 years.

Under the Executive Share Option Scheme 2002, directors and selected senior employees have been granted share options with a maximum term of ten years that are subject to a non-market based performance condition. No awards have been made under this scheme since 2004. The ongoing executive long-term incentive scheme is the Performance Share Plan 2002. Annual awards are made to directors and selected senior employees of restricted shares that are subject to both market and non-market based conditions calculated over a three-year period. Detailed terms of this plan are included in the remuneration report on pages 73 and 74.

All of the share-based payment arrangements operated by the group are equity-settled and, other than in defined good leaver circumstances, require participants to be still in employment with the group at the time of vesting.

The number and weighted average exercise price of share options under the Savings Related Share Option Scheme and the Executive Share Option Scheme 2002 are as follows:

	Weighted average exercise price 2007 pence	Number of options 2007	Weighted average exercise price 2006 pence	Number of options 2006
Outstanding on 1 January	257	13,617,285	257	17,438,769
Lapsed	270	(4,923,788)	277	(2,998,656)
Exercised	227	(4,703,019)	192	(822,828)
Granted	601	3,205,555	–	–
Outstanding on 31 December	421	7,196,033	257	13,617,285
Exercisable on 31 December	276	1,634,500	218	1,850,545

Options were exercised on a regular basis during the year, and the average share price for the year was 640 pence (2006: 368 pence).

Options outstanding on 31 December 2007 have weighted average remaining contractual lives as follows:

	Weighted average remaining contractual life 2007 years	Number of options 2007	Weighted average remaining contractual life 2006 years	Number of options 2006
100.00 pence to 199.99 pence	0.1	19,543	2.2	43,967
200.00 pence to 299.99 pence	2.8	3,970,935	3.0	11,970,515
Over 300.00 pence	3.1	3,205,555	7.8	1,602,803
		7,196,033		13,617,285

23 Share capital and reserves continued

Share awards granted during the year under the Performance Share Plans are as follows:

	Weighted average fair value 2007 pence	Number of shares 2007	Weighted average fair value 2006 pence	Number of shares 2006
Share awards granted during the year	395	1,608,430	181	2,257,919

The fair value of services received in return for share options granted and shares awarded are measured by reference to the fair value of those instruments. For grants in either the current or preceding year, the pricing models used and inputs (on a weighted average basis where appropriate) into those models are as follows:

	Savings Related Share Option Scheme		Performance Share Plan 2002	
	2007	2006	2007	2006
Pricing model used	Black-Scholes	Black-Scholes	Monte Carlo	Monte Carlo
Weighted average fair value at measurement date	210p	–	395p	181p
Share price	747p	–	532p	334p
Exercise price	601p	–	N/A	N/A
Expected share price volatility	24%	–	24%	24%
Option life	3.3 years	–	N/A	N/A
Expected dividend yield	2.5%	–	2.5%	3%
Risk-free interest rate	4.8%	–	N/A	N/A
Comparator share price volatility	N/A	–	24%	25%
Correlation between two companies in comparator group	N/A	–	25%	20%

The expected share price volatility is based on the historical volatility of the company's share price.

The performance conditions attaching to the Performance Share Plans involve a comparison of the total shareholder return of the company with that of its comparators and achievement of targeted earnings per share growth. The former is a market based test and as such is incorporated into the grant date fair value of the award.

Dividends	2007 £ million	2006 £ million
Dividends charged to reserves		
Final dividend in respect of 2006 of 8.0 pence per share (2006: final dividend in respect of 2005 of 7.5 pence) per share	26.2	24.5
Interim dividend in respect of 2007 of 4.6 pence per share (2006: interim dividend in respect of 2006 of 4.2 pence) per share	15.1	13.8
	41.3	38.3
Dividends paid		
Interim dividend in respect of 2006 of 4.2 pence (2006: interim dividend in respect of 2005 of 4.0 pence) per share	13.6	13.0
Final dividend in respect of 2006 of 8.0 pence (2006: final dividend in respect of 2005 of 7.5 pence) per share	26.2	24.5
	39.8	37.5

The amounts waived by Trustees of the Performance Share Plans in respect of the interim and final dividends was £0.7 million (2006: £0.8 million).

The amounts waived by Trustees of the qualifying employee share ownership trust in respect of the interim and final dividends was £nil million (2006: £0.1 million).

The directors are proposing a final dividend in respect of the financial year ending 31 December 2007 of 8.8 pence per share, which will absorb an estimated £29.2 million of equity. Subject to approval, it will be paid on 1 July 2008 to shareholders on the register of members on 23 May 2008. The dividend has not been provided for and there are no income tax consequences for the company.

Notes to the consolidated accounts continued

24 Analysis of cash, cash equivalents and net cash

	As at 1 January 2007 £ million	Cash flow £ million	Exchange and other non-cash movements £ million	As at 31 December 2007 £ million
Cash at bank and in hand	336.2	380.0	4.2	720.4
Short-term investments	39.2	(25.5)	–	13.7
Cash and cash equivalents disclosed on the balance sheet	375.4	354.5	4.2	734.1
Overdrafts	(1.2)	0.5	–	(0.7)
	374.2	355.0	4.2	733.4
Cash and cash equivalents (including overdrafts) classified as held for sale	32.2	(32.2)	–	–
Total cash and cash equivalents	406.4	322.8	4.2	733.4
Current debt	(12.4)	12.3	–	(0.1)
Non-current debt	(6.9)	6.8	–	(0.1)
Net cash as at the end of the year	387.1	341.9	4.2	733.2

Short-term investments comprise short-term bank deposits.

Cash and cash equivalents as at 31 December 2007 include US\$8.0 million which has been frozen by the courts (note 28).

Net cash is analysed between the amount disclosed in the balance sheet and amounts classified as held for sale as follows:

	2007 £ million	2006 £ million
Net cash disclosed on the balance sheet	733.2	354.9
Net cash classified as held for sale	–	32.2
Total net cash as at the end of the year	733.2	387.1

25 Acquisitions and disposals

Acquisitions

On 3 October 2007, the group acquired all the shares in Cade-Idepe for £12.6 million in cash and acquired cash of £0.3 million. Cade-Idepe is one of the largest independent Chilean engineering services companies and is based in Santiago.

The amounts recognised in respect of identifiable assets and liabilities relating to the acquisition of Cade-Idepe were as follows:

	Book value £ million	Fair value adjustments £ million	Recognised value £ million
Property, plant and equipment	0.8	–	0.8
Intangible assets	–	1.5	1.5
Trade and other receivables	6.5	–	6.5
Cash and cash equivalents	0.3	–	0.3
Trade and other payables	(3.1)	–	(3.1)
Net identifiable assets and liabilities	4.5	1.5	6.0
Goodwill on acquisition			6.6
			12.6
Consideration			
Cash (of which £2.5 million is deferred)			12.3
Cost of acquisition			0.3
			12.6

As Cade-Idepe was acquired on 3 October 2007, its contribution to consolidated revenue and profit in the period from acquisition to 31 December 2007 were not material to the results of the group. The revenue and profit for the year ending 31 December 2007 for Cade-Idepe were not material to the group.

Goodwill has arisen on the acquisition of Cade-Idepe primarily because of synergies obtained through combining Cade-Idepe's specialist engineering expertise and strong customer relationships with AMEC's project management and engineering skills.

A number of other immaterial acquisitions were made in the year ended 31 December 2007 for £3.1 million (2006: £5.5 million) in cash with the assumption of cash of £0.2 million (2006: overdraft of £9.5 million). The aggregate fair value of the identifiable net liabilities was £1.1 million (2006: £2.6 million) excluding overdrafts assumed and the aggregate goodwill arising on the acquisitions was £1.8 million (2006: £17.6 million). There was no difference between book value and fair value to the group of the assets and liabilities acquired.

25 Acquisitions and disposals continued

The contributions of the acquired businesses to revenue and profit were not material to the results of the group.

Goodwill has been recognised on these acquisitions as a result of skilled workforces which did not meet the criteria for recognition as intangible assets at the dates of recognition.

All acquisitions in the year have been accounted for under the purchase method of accounting.

The acquisition cost of joint ventures and other investments amounted to £6.0 million (2006: £23.5 million) and principally related to investments in public private partnership projects and development projects.

Disposals

During 2007, the group sold its non-core Built Environment businesses, which are treated as discontinued operations in 2007 as follows:

On 27 July 2007, the divestment of the Property Developments and UK Building and Civil Engineering businesses to Morgan Sindall plc was completed.

On 14 September 2007, the divestment of the Building and Facilities Services business to SPIE S.A. was completed.

On 12 November 2007, the divestment of the management team and eight underlying PPP assets of the Project Investments business to Land Securities Trillium was completed.

Other non-core businesses divested during the year which are treated as discontinued operations include AMEC SPIE Capag, Buchan Concrete Solutions and Midwest pipelines.

The carrying value of the assets and liabilities sold and the profit on sale in respect of the discontinued operations were as follows:

	£ million
Property, plant and equipment	19.9
Intangible assets	0.4
Interests in joint ventures, associates and other investments	50.3
Deferred tax	(0.3)
Inventories	34.2
Trade and other receivables	225.0
Cash and cash equivalents	104.8
Loan	(15.1)
Current tax	(0.8)
Trade and other payables	(360.3)
Derivative financial instruments	1.3
Net assets sold	59.4
Amounts provided in respect of indemnities and other liabilities (net of amounts released)	20.9
Pension curtailment gain	(28.5)
Amounts recognised in profit on disposal from the hedging and translation reserves	10.8
	62.6
Cash consideration received	391.5
Costs of disposal (of which £7.5 million was accrued at December 2007)	(36.5)
Profit on disposal	292.4

Amounts provided in respect of indemnities and other liabilities above includes £35.0 million of indemnities granted and retained obligations (see note 22), £13.1 million of other liabilities and onerous lease provisions recorded less £27.2 million of centrally held working capital provisions relating to the discontinued operations that are no longer required.

In addition to the cash and cash equivalents of £104.8 million, an amount of £15.1 million previously accounted for as debt was eliminated on disposal.

The net cash flows attributable to discontinued operations during the year were as follows:

	2007 £ million	2006 £ million
Net cash flow from operating activities	(0.7)	(18.2)
Net cash flow from investing activities	(2.3)	(7.0)
Net cash flow from financing activities	–	(24.5)
	(3.0)	(49.7)

AMEC SPIE Rail, Dynamic Structures and Monserco Limited were sold for a cash consideration of £24.6 million during the year, (net of costs of £1.3 million) together with cash sold of £3.1 million, resulting in a profit on disposal of £17.7 million. These businesses were treated as continuing operations.

Further proceeds of £3.1 million were received, primarily in respect of the repayment of loans by joint venture entities.

In 2006, the only material disposal was the sale of AMEC SPIE for a cash consideration of £1 billion (£684 million) which was completed on 27 July 2006.

Notes to the consolidated accounts continued

25 Acquisitions and disposals continued

The carrying value of the assets and liabilities sold and the profit on sale of AMEC SPIE were as follows:

	£ million
Property, plant and equipment	57.9
Intangible assets	269.6
Interests in joint ventures, associates and other investments	28.1
Deferred tax	33.8
Inventories	13.4
Trade and other receivables	820.1
Cash and cash equivalents	39.7
Trade and other payables	(903.2)
Derivative financial instruments	(3.5)
Retirement benefit liabilities	(47.1)
Net assets sold	308.8
Minority interest in net assets sold	(2.1)
	306.7
Provisions made in respect of indemnities	52.0
Amounts recognised in profit on disposal from the hedging and translation reserves	(3.1)
	355.6
Cash consideration received	684.3
Costs of disposal	(17.2)
Profit on disposal	311.5

26 Capital commitments

	2007 £ million	2006 £ million
Contracted but not provided for in the accounts	–	–

As at 31 December 2007, there was a commitment to invest a total of £4.9 million (2006: £56.8 million in various PPP and regeneration partnership projects) in one PPP. As at 31 December 2007, there are no commitments to purchase land for development projects (2006: £15 million over the next ten years).

27 Operating leases

The total obligations under non-cancellable operating lease rentals for continuing operations are as follows:

	2007 £ million	2006 £ million
In one year or less	27.2	29.6
Between one and five years	59.2	68.7
Over five years	24.8	30.0
	111.2	128.3

AMEC enters into the following types of lease: short-term plant hires; leases for motor vehicles and office equipment with lease periods of two to five years; and longer term property leases. None of the leases includes any contingent rentals.

28 Contingent liabilities

Guarantees and indemnities

The borrowings of joint ventures are generally without recourse to AMEC.

In the normal course of business, the company and certain subsidiaries have given counter indemnities in respect of performance bonds issued on behalf of group companies and parental guarantees have been given in support of the contractual obligations of group companies, joint ventures and associates on both a joint and a several basis.

As at 31 December 2007, AMEC has given performance guarantees in respect of Incheon Bridge Company Ltd's overhead costs during the construction phase and has an obligation to subscribe for additional equity (up to £8.1 million) in certain circumstances. Construction completion is expected to be achieved in late 2009 and no obligations under either of these undertakings are expected to arise. There is a separate commitment to invest equity in the Incheon Bridge Company (see note 13).

Legal claims and actions

AMEC has taken internal and external legal advice in considering known legal claims and actions made by or against the company. Consequently, it carefully assesses the likelihood of the success of a claim or action including those identified in this note. AMEC makes an appropriate provision for those legal claims or actions against the company on the basis of the likely outcome, but makes no provision for those which are, in its view, unlikely to succeed. Provisions of £71.5 million (2006: £85.3 million) are shown in note 22 in respect of these claims. It is not practicable to quantify the remaining contingent liability because of the range of possible outcomes and the progress of the litigation.

The information below indicates the quantum of claims against AMEC or where we are unable to quantify the claim, an indication of the gross contract value or the amount in dispute. As the list below involves actions by third parties against AMEC, the timing of settlement cannot be determined although AMEC is endeavouring to settle as soon as practicable. Due to the litigation, there is no work in progress or other receivable recognised in respect of these contracts. Whilst AMEC believes that certain claims may be covered by insurance, it is not currently practicable to assess the extent to which AMEC's insurance policies will respond in the event of a settlement.

– During 1994 and 1995, AMEC Construction Management Inc. ('ACMI'), a wholly owned subsidiary of AMEC plc, entered into various contracts with the United States General Services Administration ('GSA') for the construction of courthouses in Missouri and California and for the refurbishment and seismic upgrade of a US Customs House in California. The total value of these contracts at point of signing was in the order of US\$290 million. Due, inter alia, to unforeseen site conditions, client delays and numerous design and scope changes, ACMI suffered significant cost overruns and submitted substantial recovery claims.

In June 1999, GSA terminated the right of ACMI to complete one contract, which at that stage was 85 per cent complete. ACMI contested the termination and sued the GSA for recovery of all claims on this contract. The GSA submitted its claim against ACMI for reprocurement and other costs totalling US\$32 million. During 2007 the GSA revised and reduced its claim for reprocurement costs to US\$17.3 million.

The United States Department of Justice filed a counterclaim alleging false claims on the GSA contracts and sought to argue that, as a result, ACMI had forfeited its rights to recovery of all claims.

ACMI, upon legal advice, pleaded guilty in December 2000 and November 2001 to two federal felonies and paid two fines totalling approximately US\$1.2 million. AMEC also agreed to introduce additional ethical processes and procedures, both for the North American workforce and for those staff employed by AMEC, whose responsibilities caused them to have regular business contact with AMEC in the US and thus, the US Government.

The GSA subsequently filed a motion for summary judgement seeking an order declaring that ACMI had forfeited its claims on all the projects. ACMI opposed the motion and oral argument was held in February 2004.

During 2005, the US Court of Federal Claims ruled that ACMI had violated the US Anti-Kickback Act. The Court stated that it intended to issue an order in respect of the Government's counter claims and the issues relating to the Anti-Kickback Act in April 2006. The court ruled in January 2007 that ACMI claims must be forfeited and damages in respect of false claims and Anti-Kickback legislation would be payable. Several hearings have taken place in the US Court of Federal Claims and fines/damages of US\$7.3 million sought by the GSA are likely to be granted by the court. The US Government has applied for a motion to seize funds relating to another ACMI project. US\$8.0 million in funds owed to ACMI have been frozen by the courts, and could remain frozen whilst the above judgement is appealed. Other matters (the principal outstanding issue is GSA's claim for reprocurement costs of US\$17.3 million) remain to be heard by the US Court of Federal Claims.

The developments in 2007 have been fully reflected in the provisions held in respect of the Courthouses and Custom's House in California.

In 2000, ACMI entered into a contract with a value of US\$115 million to design and build a jail for the City and County of San Francisco ('CCSF'). Due to unforeseen conditions, delays and interference with ACMI's design, procurement and execution of the work, ACMI suffered large cost overruns. In 2005, lawsuits were filed by both parties. CCSF further alleged that ACMI made false claims in connection with the project and also failed to properly maintain its California contractor's license throughout the project term. Extensive discovery has been conducted and dispositive motions were filed. A mediation was conducted, with sessions in the autumn of 2006 and the spring of 2007, and tentative terms of agreement were reached. In view of the progress toward settlement, the Court vacated the November 2007 date it had earlier set for trial. The parties are presently working together to complete an agreement on all terms. Informed of CCSF's allegations about ACMI's alleged licensing irregularities, the California Attorney General filed an Accusation in 2007, initiating a separate action against ACMI on behalf of the California State License Board. ACMI is continuing its efforts to have the licensing irregularities resolved without significant penalty but, if unable to do so, the matter would be submitted to an administrative law judge for a decision.

After the terrorist attacks in September 2001, ACMI was one of four construction managers hired by the City of New York to carry out the clean up and debris removal work at the World Trade Center site. The client was responsible for procuring insurance to protect the construction managers and various contractors from lawsuits arising out of the work. The World Trade Center Captive Insurance Company (the 'WTC Captive') was formed and was funded with US\$1 billion in Federal money to provide coverage for the City, the construction managers and the contractors who performed the work on site. Pursuant to the insurance policy that was issued, the WTC Captive is providing a minimum of US\$1 billion in insurance coverage. This amount can increase depending upon investment returns on the US\$1 billion. The WTC Captive is providing a defence and indemnification for claims against ACMI arising out of this work.

AMEC Group Limited ('AGL') is currently the subject of certain ongoing Health and Safety Executive investigations, in respect of: (i) separate incidents involving fatalities of subcontractors, namely: two separate fatalities to subcontractors at the Leftbank Apartments project in Manchester in April 2004 and April 2005; and (ii) a fatal accident on the Clipper platform in the North Sea and (iii) AGL's role in the management of its subcontractors following an incident in which a crane overturned on an AGL site in Manchester in 2007. If AGL is to be prosecuted in the Crown Court for any of these cases, it could be liable to unlimited fines. A prosecution for AGL in relation to fatal accidents in relatively quick succession (such as those at the Leftbank Apartments) could have an impact on the amount of any penalty.

Notes to the consolidated accounts continued

29 Related party transactions

During the year there were a number of transactions with the senior management group, joint venture entities and subsidiary companies.

Transactions with the senior management group

Directors of the company and their immediate relatives control 0.1 per cent of the voting rights of the company.

In addition to their salaries, the group and company also provide non-cash benefits to directors and executive officers, and contribute to a post-employment defined benefit plan on their behalf. Directors and executive officers also receive share awards under the Performance Share Plans.

Details of the senior management group compensation are as follows:

	2007 £ million	2006 £ million
Short-term employee benefits	1.0	0.8
Post-employment benefits	0.1	0.1
	1.1	0.9

The transactions and related balances outstanding with joint venture entities and associates are as follows:

	Value of transactions in the year		Outstanding balance as at 31 December	
	2007 £ million	2006 £ million	2007 £ million	2006 £ million
Services rendered	71.5	84.2	2.5	6.0
Services received	2.9	1.9	1.6	0.3
Sale of property, plant and equipment	–	2.2	–	–
Provision of finance	–	9.6	–	61.4
Receipt of finance	–	7.0	–	15.1

AMEC Developments Limited and AMEC Staff Pensions Trustee Limited entered into an agreement on 23 December 2005 for the sale of the long leasehold interests forming part of the Newcastle Estate, owned by AMEC Developments Limited, to AMEC Staff Pensions Trustee Limited, for a price of £25 million. As at 31 December 2005, the agreement was conditional upon various consents being obtained and ancillary documentation being entered into. The consents were received during 2006 and the sale completed. AMEC Developments Limited and AMEC Staff Pensions Trustee Limited received separate legal and valuation advice in respect of the transaction.

On 5 September 2006, AMEC completed the disposal of US Pipeline Inc. to Dearborn Resources, Inc. for £11 million. Dearborn Resources, Inc. is owned and managed by the previous president of US Pipeline Inc.

30 Post balance sheet events

On 4 February 2008, the sale was completed of the tool and equipment hire business and related fixed assets, including certain contracts, of AMEC Logistics and Support Services Limited to Speedy Hire Plc for cash consideration of £12.5 million.

On 6 March 2008, the sale was completed of AMEC's 25 per cent interest in Road Management Group Limited to AMEC's former partners in the joint venture for cash consideration of £11.1 million.

Company balance sheet

As at 31 December 2007

	Note	2007 £ million	2006 £ million
Fixed assets			
Tangible assets	3	3.9	4.7
Investments:	4		
Subsidiaries		1,479.3	1,719.3
Joint ventures		7.1	9.0
Other		0.1	0.1
		1,486.5	1,728.4
		1,490.4	1,733.1
Current assets			
Debtors: including amounts falling due after one year of £5.1 million (2006: £2.0 million)	5	20.4	22.5
Cash at bank and in hand		514.1	196.9
		534.5	219.4
Current liabilities			
Creditors: amounts falling due within one year	6	(99.7)	(53.7)
Net current assets		434.8	165.7
Total assets less current liabilities		1,925.2	1,898.8
Creditors: amounts falling due after one year	7	(1,063.8)	(1,169.0)
Provisions for liabilities and charges	8	(0.5)	–
Net assets		860.9	729.8
Capital and reserves			
Called up share capital	9, 10	168.7	166.8
Share premium account	10	99.5	90.7
Revaluation reserve	10	0.5	0.5
Hedging reserve	10	–	–
Capital redemption reserve	10	17.2	17.2
Profit and loss account	10	575.0	454.6
Equity shareholders' funds		860.9	729.8

The accounts on pages 115 to 120 were approved by the board of directors on 11 March 2008 and were signed on its behalf by:

S Y Brikho

Chief Executive

S J Siddall

Finance Director

Notes to the company balance sheet

1 Accounting policies

Basis of accounting

The accounts have been prepared under the historical cost convention, modified to include the revaluation of certain land and buildings and in accordance with applicable accounting standards and the Companies Act 1985.

The company has not presented its own profit and loss account, as permitted by section 230(4) of the Companies Act 1985.

Cash flow statement

The company is exempt from the requirement of FRS 1 'Cash flow statements' to prepare a cash flow statement as its cash flows are included within the consolidated cash flow of the group.

Depreciation

Depreciation is provided on all tangible assets, other than freehold land, at rates calculated to write-off the cost or valuation, less estimated residual value, of each asset on a straight line basis over its estimated useful life, as follows:

Freehold buildings	50 years
Leasehold land and buildings	the shorter of the lease term or 50 years
Plant and equipment	mainly three to five years

Financial instruments

Financial instruments are initially recorded at fair value. Subsequent valuation depends on the designation of the instruments. Cash, deposits and short-term investments are held at amortised cost. Derivative financial instruments are accounted for as described in note 1 to the consolidated accounts.

The company is exempt from the disclosure requirements of FRS 29 'Financial Instruments: Disclosures' as the financial instruments disclosures of IFRS 7 'Financial Instruments: disclosure' are included in the notes to the consolidated accounts.

Financial guarantee contracts

Where the company enters into financial guarantee contracts to guarantee the indebtedness of other companies within the group, the company considers these to be indemnity 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.

Foreign currencies

Monetary assets and liabilities denominated in foreign currencies are translated into Sterling at rates of exchange ruling at the balance sheet date. Exchange differences arising on the translation of foreign currency net investments and foreign currency borrowings, or forward exchange contracts used to hedge those investments, are taken directly to reserves. Other exchange differences are taken to the profit and loss account in the year.

Interest

Interest income and payable is recognised in profit or loss on an accruals basis using the effective interest method.

Leases

Operating lease costs are charged to the profit and loss account on a straight line basis over the period of the lease.

Pensions

Contributions to defined benefit pension schemes in respect of employees of AMEC plc are charged in the profit and loss account as incurred.

Defined benefit pension schemes are operated by the group but the company is unable to separately identify its share of the assets and liabilities of those schemes or any details of the surplus or deficit in the scheme and the implications of that surplus or deficit for the company.

Details of the disclosures required under FRS 17 'Retirement Benefits' can be found in the accounts of AMEC Group Limited, a subsidiary company.

Share-based payments

There are share-based payment arrangements which allow AMEC employees to acquire AMEC shares; these awards are granted by AMEC. The fair value of awards granted is recognised as a cost of employment with a corresponding increase in equity. The fair value is measured at grant date and spread over the period during which the employees become unconditionally entitled to the award. The fair value of the award is measured using a valuation model, taking into account the terms and conditions upon which the awards were granted. The amount recognised as an expense is adjusted to reflect the actual number of shares that vest except where non-vesting is due only to share prices not achieving the threshold for vesting.

Taxation

The charge for taxation is based on the results for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes.

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'.

2 Staff costs and employee numbers

	2007 £ million	2006 £ million
Wages and salaries	13.1	11.1
Social security costs	1.5	1.6
Other pension costs	1.5	1.3
	16.1	14.0

The average number of people employed was 154 (2006: 168) all in a management or administration capacity.

3 Tangible assets

	Land and buildings £ million	Plant and equipment £ million	Total £ million
Cost or valuation:			
As at 1 January 2007	5.4	2.9	8.3
Additions	–	1.3	1.3
Disposals	(2.9)	–	(2.9)
As at 31 December 2007	2.5	4.2	6.7
Depreciation:			
As at 1 January 2007	1.0	2.6	3.6
Provided during the year	0.3	0.2	0.5
Disposals	(1.3)	–	(1.3)
As at 31 December 2007	–	2.8	2.8
Net book value:			
As at 31 December 2007	2.5	1.4	3.9
As at 1 January 2007	4.4	0.3	4.7

	2007 £ million	2006 £ million
The net book value of land and buildings comprised:		
Freehold	2.5	2.7
Short leasehold	–	1.7
	2.5	4.4
The cost or valuation of land and buildings comprised:		
Cost	–	3.0
External valuation in 2004	2.5	2.4
	2.5	5.4

All significant freehold and long leasehold properties were externally valued as at 31 December 2004 by CB Richard Ellis Limited in accordance with the Appraisal and Valuation Manual of the Royal Institute of Chartered Surveyors.

The basis of revaluation was existing use value for properties occupied by the company and market value for those properties without company occupancy.

The one remaining property owned by the company is now surplus to requirements. The open market value of this property as at 31 December 2007 is not materially different from the valuation performed on an existing use basis as at 31 December 2004.

No provision has been made for the tax liability which may arise in the event that this property is disposed of at its revalued amount.

Notes to the company balance sheet continued

3 Tangible assets continued

The amount of land and buildings included at valuation, determined according to the historical cost convention, was as follows:

	2007 £ million	2006 £ million
Cost	3.3	6.2
Depreciation	(1.2)	(2.5)
Net book value	2.1	3.7

4 Investments (held as fixed assets)

	Shares in subsidiaries £ million	Amounts owed by subsidiaries £ million	Total investment in subsidiaries £ million	Joint ventures £ million	Other investments £ million	Total £ million
Cost:						
As at 1 January 2007	1,638.3	164.0	1,802.3	9.0	0.1	1,811.4
Additions	1.1	97.3	98.4	0.5	–	98.9
Disposals	(251.4)	(72.0)	(323.4)	(2.4)	–	(325.8)
As at 31 December 2007	1,388.0	189.3	1,577.3	7.1	0.1	1,584.5
Provisions:						
As at 1 January 2007	(83.0)	–	(83.0)	–	–	(83.0)
Provided during the year	(15.0)	–	(15.0)	–	–	(15.0)
As at 31 December 2007	(98.0)	–	(98.0)	–	–	(98.0)
Net book value:						
As at 31 December 2007	1,290.0	189.3	1,479.3	7.1	0.1	1,486.5
As at 1 January 2007	1,555.3	164.0	1,719.3	9.0	0.1	1,728.4

Principal group companies are listed on page 123.

5 Debtors

	2007 £ million	2006 £ million
Debtors: amounts falling due within one year		
Trade debtors	9.9	8.8
Amounts owed by subsidiaries	1.0	1.4
Amounts owed by joint ventures	0.3	2.0
Derivative financial instruments	0.6	0.1
Corporation tax	–	6.4
Other debtors	0.1	0.4
Prepayments and accrued income	3.4	1.4
	15.3	20.5
Debtors: amounts falling due after one year		
Deferred tax	5.1	2.0
	20.4	22.5

The movement in the deferred tax asset is analysed as follows:

	£ million
As at 1 January 2007	2.0
Profit and loss account	3.5
Transfer in from group company	(0.4)
As at 31 December 2007	5.1

The deferred tax asset is analysed as follows:

	2007 £ million	2006 £ million
Difference between accumulated depreciation and capital allowances	0.2	(0.3)
Other timing differences	4.9	2.3
	5.1	2.0

6 Creditors: amounts falling due within one year

	2007 £ million	2006 £ million
Trade creditors	8.3	9.0
Amounts owed to subsidiaries	1.1	1.9
Amounts owed to joint ventures	0.3	5.2
Derivative financial instruments	0.3	0.1
Corporation tax	25.1	–
Other taxation and social security costs	8.7	13.1
Other creditors	21.2	6.4
Accruals and deferred income	19.2	4.0
Dividends	15.5	14.0
	99.7	53.7

7 Creditors: amounts falling due after one year

	2007 £ million	2006 £ million
Amounts owed to subsidiaries	1,063.8	1,169.0

8 Provisions for liabilities and charges

	Indemnities granted on disposal of subsidiary £ million
As at 1 January 2007	–
Charged to profit and loss	0.5
As at 31 December 2007	0.5

9 Share capital

The authorised share capital of the company is £350.0 million (2006: £350.0 million).

	2007 £ million	2006 £ million
Allotted, called up and fully paid ordinary shares of 50 pence each	168.7	166.8

The movement in issued share capital during the year was as follows:

	Number	£ million
As at 1 January 2007	333,610,291	166.8
Qualifying employee share ownership trust allotments	811,773	0.4
Exercise of executive share options	24,424	–
Exercise of savings related share options	3,031,797	1.5
As at 31 December 2007	337,478,285	168.7

■ Share-based payment

Details of share-based payment schemes operated by the company are provided in note 23 to the group accounts.

Notes to the company balance sheet continued

10 Reserves

	Share capital £ million	Share premium account £ million	Revaluation reserve £ million	Capital redemption reserve £ million	Profit and loss account £ million	Total £ million
As at 1 January 2007	166.8	90.7	0.5	17.2	454.6	729.8
Shares issued	1.9	8.8	–	–	–	10.7
Equity settled share-based payments	–	–	–	–	2.3	2.3
Dividends	–	–	–	–	(41.3)	(41.3)
Acquisition of treasury shares	–	–	–	–	(21.5)	(21.5)
Profit for the year	–	–	–	–	180.9	180.9
As at 31 December 2007	168.7	99.5	0.5	17.2	575.0	860.9

Details of dividends paid by the company and proposed during the year are disclosed in note 23 to the group accounts.

11 Lease commitments

The current annual commitments payable under non-cancellable operating leases were as follows:

	Land and buildings 2007 £ million	Land and buildings 2006 £ million	Plant and equipment 2007 £ million	Plant and equipment 2006 £ million
Expiring over five years	0.3	0.4	–	–

12 Contingent liabilities

■ Guarantees and indemnities

Guarantees given by the company in respect of borrowings of subsidiaries amounted to Enil as at 31 December 2007 (2006: Enil).

Details of other contingent liabilities of the company are provided in note 28 to the group accounts.

Statement of directors' responsibilities in respect of the annual report and the accounts

The directors are responsible for preparing the annual report and the group and parent company accounts, in accordance with applicable law and regulations.

Company law requires the directors to prepare group and parent company accounts for each financial year. Under that law the directors are required to prepare the group accounts in accordance with IFRS as adopted by the EU and applicable law and have elected to prepare the parent company accounts in accordance with UK Accounting Standards.

The group accounts 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 accounts that references in the relevant part of that Act to accounts giving a true and fair view are references to their achieving a fair presentation.

The parent company accounts 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 accounts, the directors are required to:

- select suitable accounting policies and then apply them consistently
- make judgements and estimates that are reasonable and prudent
- for the group accounts, state whether they have been prepared in accordance with IFRS as adopted by the EU

- for the parent company accounts, state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the parent company accounts 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 accounts 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 web site. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Independent auditors' report to the members of AMEC plc

We have audited the group and parent company accounts (the 'accounts') of AMEC plc for the year ended 31 December 2007 which comprise the group income statement, the group and parent company balance sheets, the group cash flow statement, the group statement of recognised income and expense and the related notes. These accounts 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 accounts in accordance with applicable law and International Financial Reporting Standards ('IFRS') as adopted by the European Union, and for preparing the parent company accounts and the directors' remuneration report in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the statement of directors' responsibilities.

Our responsibility is to audit the accounts 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 accounts give a true and fair view and whether the accounts 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 accounts have been properly prepared in accordance with Article 4 of the IAS Regulation. We also report to you whether in our opinion the information given in the directors' report is consistent with the accounts. The information given in the directors' report includes that specific information presented in the operating and financial review that is cross referred from the business review section of the directors' report.

In addition we report to you if, in our opinion, 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 2006 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 accounts. The other information comprises only the chairman's statement, the chief executive's review, the directors' report, the unaudited part of the directors' remuneration report, the operating and financial review and the corporate governance statement. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the accounts. 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 accounts 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 accounts, 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 accounts 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 accounts and the part of the directors' remuneration report to be audited.

Opinion

In our opinion:

- the group accounts give a true and fair view, in accordance with IFRS as adopted by the EU, of the state of the group's affairs as at 31 December 2007 and of its profit for the year then ended
- the group accounts have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation
- the parent company accounts 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 2007
- the parent company accounts and the part of the directors' remuneration report to be audited have been properly prepared in accordance with the Companies Act 1985 and
- the information given in the directors' report is consistent with the accounts.

KPMG Audit Plc

Chartered Accountants
Registered Auditor
Manchester
11 March 2008

Principal group companies

As at 31 December 2007

The subsidiaries, joint ventures and associates which, in the opinion of the directors, principally affect group trading results and net assets are listed below. Except where indicated, all subsidiaries listed below are wholly owned, incorporated in Great Britain and carry on their activities principally in their countries of incorporation. Shares are held by subsidiary companies except where marked with an asterisk, where they are held directly by the company. All holdings are of ordinary shares, except where otherwise indicated. A full list of subsidiaries will be filed with the Registrar of Companies with the next annual return.

Subsidiaries

AMEC Americas Limited (Canada)
AMEC Australia Pty Limited (Australia) (note 1)
AMEC (Bermuda) Limited (Bermuda)
AMEC BKW Limited
AMEC Capital Projects Limited
AMEC Civil, Inc. (USA)
AMEC Civil LLC (USA) (80 per cent) (note 2)
AMEC Construction Management, Inc. (USA)
AMEC Earth & Environmental, Inc. (USA)
AMEC Earth & Environmental (UK) Limited
AMEC E&C Services, Inc. (USA)
*AMEC Finance Limited
AGRA Foundations Limited (Canada)
*AMEC Group Limited
AMEC Holdings, Inc. (USA)
AMEC Inc. (Canada)
AMEC Infrastructure, Inc. (USA)
AMEC Infrastructure Limited (Canada)
AMEC International (Chile) S.A. (Chile)
AMEC International Construction Limited
(operating outside the United Kingdom)
AMEC Kamtech, Inc. (USA)
*AMEC Logistics and Support Services Limited
AMEC Nuclear UK Limited
AMEC NCL Limited (Canada)
AMEC Nuclear Holdings Limited
AMEC Offshore Services Limited
AMEC Paragon, Inc. (USA)
AMEC (Peru) S.A. (Peru)
AMEC Project Investments Limited
*AMEC Property and Overseas Investments Limited
*AMEC Services Limited (note 3)
AMEC Utilities Limited
Atlantic Services Limited (Bermuda)
KL Ingenieurbau GmbH (Germany)
National Ventures, Inc. (USA)
Nuclear Safety Solutions Limited (Canada)
Primat Recruitment Limited
Terra Nova Technologies, Inc. (USA)

Joint ventures and associates

Incheon Bridge Co. Ltd (29 per cent) (note 4)
KIG Immobilien Beteiligungsgesellschaft mbH (Germany) (50 per cent) (note 5)
*Newcastle Estate Partnership Holdings Limited (50 per cent – “A” shares) (note 6)
*Northern Integrated Services Limited (50 per cent – “B” shares) (note 7)
*Road Management Group Limited (25 per cent) (note 8)
Road Management Services (A13) Holdings Limited (25 per cent) (note 9)

Notes

- 1 The issued share capital of AMEC Australia Pty Limited is 62,930,001 ordinary shares of A\$1 each, 12,500,000 class “A” redeemable preference shares of A\$1 each and 2,500 non-cumulative redeemable preference shares of A\$1 each.
- 2 The issued share capital of AMEC Civil LLC is 1,000 common membership interests of US\$1 each.
- 3 The issued share capital of AMEC Services Limited is 50 million ordinary shares of 99 pence each and 50 million preference shares of 1 pence each.
- 4 The issued share capital of Incheon Bridge Co. Ltd is 19,817,252 ordinary shares of KRW 5,000 each.
- 5 KIG Immobilien Beteiligungsgesellschaft mbH is a limited liability partnership.
- 6 The issued share capital of Newcastle Estate Partnership Holdings Limited is 500,000 “A” ordinary shares of £1 each, 200,000 “B” ordinary shares of £1 each, 250,000 “C” ordinary shares of £1 each and 50,000 “D” ordinary shares of £1 each.
- 7 The issued share capital of Northern Integrated Services Limited is 12,500 “A” ordinary shares of £1 each and 12,500 “B” ordinary shares of £1 each.
- 8 The issued share capital of Road Management Group Limited is 25,335,004 ordinary shares of £1 each.
- 9 The issued share capital of Road Management Services (A13) Holdings Limited is 1,233,754 ordinary shares of £1 each.

Five year record

	2007* £ million	2006* £ million	2005* £ million	2004* £ million	2003** £ million
Summarised consolidated results					
Continuing operations					
Revenue	2,356.2	2,121.6	1,788.5	1,581.5	1,723.8
Adjusted profit before intangible amortisation, exceptional items and taxation but including joint venture profit before tax	126.5	79.7	80.6	44.2	11.8
Amortisation of goodwill and other intangible assets	(2.5)	(3.6)	(6.0)	–	(9.5)
Joint ventures and associate tax	(0.6)	(0.3)	(1.9)	(4.7)	(2.8)
	123.4	75.8	72.7	39.5	(0.5)
Exceptional items arising from:					
Litigation and separation	4.5	(56.7)	(5.1)	–	–
Exiting businesses and markets	23.7	(46.1)	(46.5)	(31.3)	(6.9)
Loss on disposal of fixed assets	–	–	–	–	(0.1)
	28.2	(102.8)	(51.6)	(31.3)	(7.0)
Profit/(loss) before income tax	151.6	(27.0)	21.1	8.2	(7.5)
Income tax	(30.1)	(15.2)	(15.3)	(6.5)	(3.4)
Profit/(loss) for the year from continuing operations	121.5	(42.2)	5.8	1.7	(10.9)
Profit/(loss) for the year from discontinued operations (net of income tax)	222.9	261.4	(2.1)	50.0	71.7
Profit for the year	344.4	219.2	3.7	51.7	60.8
Basic earnings/(loss) per share from continuing operations	36.9p	(13.3)p	1.9p	0.3p	(4.0)p
Diluted earnings per share from continuing operations***	28.0p	16.6p	17.8p	10.4p	1.2p
Dividends per share	13.4p	12.2p	11.5p	11.0p	10.5p
Dividend cover***	2.1x	1.4x	1.5x	0.9x	nm
Summarised consolidated balance sheets					
Non-current assets	525.1	479.0	895.3	819.0	646.2
Net working capital	(167.8)	(179.6)	(108.3)	(29.9)	(102.3)
Net cash/(debt)	733.2	354.9	(245.5)	(283.7)	(218.1)
Other non-current liabilities	(210.7)	(197.1)	(218.6)	(197.8)	(57.3)
Net assets classified as held for sale	13.6	37.6	–	–	–
Net assets	893.4	494.8	322.9	307.6	268.5
Total attributable to equity holders of the parent	892.6	494.0	322.6	304.3	261.1
Minority interests	0.8	0.8	0.3	3.3	7.4
Total equity	893.4	494.8	322.9	307.6	268.5

*The figures for 2007, 2006, 2005 and 2004 are prepared under adopted IFRS and are stated in accordance with the accounting policies set out on pages 82 to 86. The figures for 2006, 2005 and 2004 have been restated to present the operations of the Built Environment businesses as discontinued.

**The figures for 2003 were prepared under UK GAAP and have not been restated, except to present the operations of the Built Environment businesses as discontinued and to amend the presentation of the group's share of the results of joint ventures and associates to be consistent with adopted IFRS. If the figures for this year had been restated the main adjustments would have been in respect of share-based payments; goodwill amortisation; revaluation of property, plant and equipment; the presentation of loss on disposal of fixed assets; and employee benefits.

***Before amortisation of goodwill and other intangible assets and exceptional items.

nm Not meaningful.

The figures for 2003 through 2006 are presented on a continuing basis and therefore exclude the results of discontinued businesses. No adjustment has been made to reflect the financing income that would have been earned on the disposal proceeds.

Shareholder information

Financial calendar

March Preliminary announcement for the year ended 31 December.

April Annual report and accounts for the year ended 31 December.

May Annual general meeting.

August Interim results for the half year ended 30 June.

Interim and preliminary announcements notified to the London Stock Exchange are available on the internet at www.amec.com. Copies of annual reports and accounts are also available upon written request from AMEC at its registered office.

Payment of dividends

The interim ordinary dividend 2008 will be announced in August and paid in January 2009.

Final ordinary dividend announced in March and paid in July.

Shareholders who do not have dividend payments made directly into their bank or building society accounts through the Bankers Automated Clearing System ('BACS') may do so by contacting the company's registrar, Capita Registrars.

Dividend reinvestment plan

A dividend reinvestment plan ('DRIP') is available for the convenience of shareholders who would prefer to use their dividends to buy additional shares in the company instead of receiving cash dividends.

The DRIP provides for shares to be purchased in the market on, or as soon as reasonably practicable thereafter, any dividend payment date at the price then prevailing in the market. Further details of the DRIP may be obtained from Capita Registrars.

Electronic communications

Electronic shareholder communication

Recent changes in the law mean that it is now much simpler for us to communicate with our shareholders electronically.

In the past we produced thousands of printed reports which we sent to our shareholders. However printed documents have a bigger carbon footprint than electronic ones because of the energy and materials used to create them, as well as the energy used to distribute them. We are keen to help you help us reduce our carbon footprint in any way we can.

As many of you know, we have published our annual and interim reports on our website (www.amec.com/investors) for many years. From now on, we will publish annual accounts, notices of shareholder meetings and any other essential shareholder information on our website too. For shareholders who agree, the company website will be the main way in which they get their shareholder information.

Following this electronic communication path helps to make us a more sustainable company, cutting production and distribution costs, reducing

waste and pollution, reducing carbon dioxide and other greenhouse gas emissions. All of which make us a better company to invest in.

Choosing electronic shareholder information means you will receive an e-mail every time any new shareholder information is published – instead of paper documents in the post. E-mails will refer to AMEC annual and interim reports, documents relating to our annual general meeting and any other shareholder communications – and will normally be from our registrar, Capita Registrars. E-mails will contain links to the appropriate website where the documents can be viewed.

Electronic shareholder information

AMEC's website has a facility whereby shareholders can link to the company's registrar, Capita Registrars, via its website in order to gain access to general shareholder information as well as personal shareholding details.

If you wish to register for electronic shareholder communications or wish to access details of your personal shareholding you will need your investor code, which is printed in the bottom right-hand corner of your AMEC share certificates and on your dividend tax vouchers.

To access these services:

- 1 Select the 'Investors' home page at www.amec.com
- 2 Select 'Shareholder information' from the main menu.
- 3 Select the 'Electronic communications' link (under Shareholder information).
- 4 Follow the instructions under the heading 'how to register for electronic communications'.

If you have any questions about electronic communications, contact Capita Registrars on 0871 664 0391*.

Overseas callers: +44 208 639 3367

Capita Registrars

Northern House, Woodsome Park, Fenay Bridge,
Huddersfield HD8 0GA

United Kingdom

Tel: 0871 664 0300*

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E-mail: ssd@capitaregistrars.com or visit the website at www.capitaregistrars.com

*calls cost 10p per minute plus network extras

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United Kingdom

Registered in England No 1675285



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Printed by Taylor Bloxham who are totally committed to reducing the impact printing has on the environment.

The printer is certified to the ISO 14001 Environmental Management System standard and is accredited with FSC (Forest Stewardship Council) certification chain of custody number SA-COC-1487.

Designed by Romanus Odiwe, typeset by The Artwork Agency with photography by James McMillan, Jiang Feng, Steve Frost, Alan Hunter, Kenneth Krehbiel and Keith Taylor.

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