AMEC plc annual report and accounts 2004

amec

A leader in project management and services, we design, deliver and support infrastructure – from local technical services to international landmark projects

Contents

Across the world

Responsibly

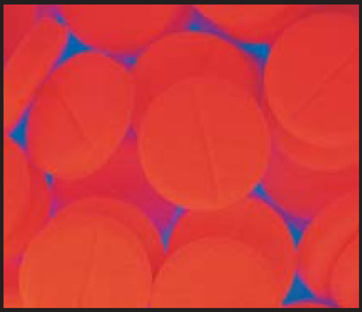
For the long term

44,000 people

700 locations

40 countries

AMEC at a glance



About us

AMEC is an international project management and services company, employing 44,000 people in over 40 countries around the world.

We provide total life of asset services – designing, delivering and supporting our clients' investments in capital assets.

Design

We help develop the initial concept, plan funding and add value from the initial concepts through to detailed designs.

Deliver

We project manage, construct and take care of commissioning according to individual client's requirements.

Support

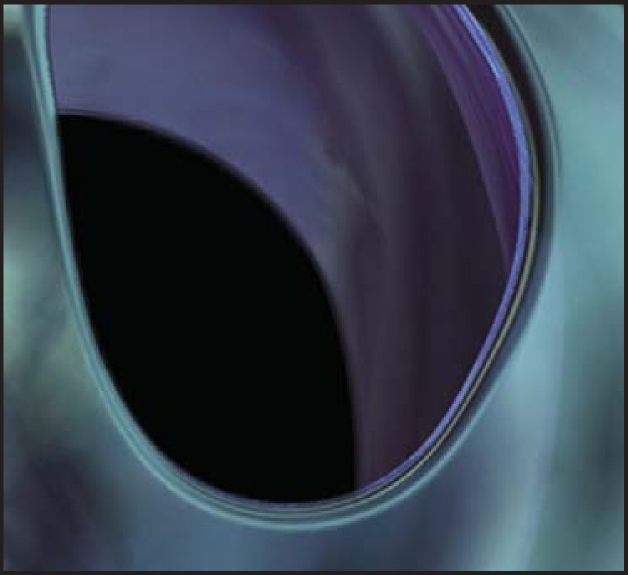
We offer support services, from long-term maintenance to specialist technical services such as environmental consulting. And at the end of the asset's life, we can help shut it down safely.

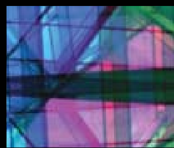
Our markets and customers

AMEC has major home markets in the UK, Continental Europe and the Americas and works internationally from Alaska to Australia.

We work for a wide range of clients across the public and private sectors, ranging from national and local governments to blue chip companies on both sides of the Atlantic.

Our largest customer accounts for around six per cent of total turnover.





Principal activities

Engineering and Technical Services ("ETS")

Specialist services ranging from environmental consulting to asset maintenance.

Unlike the rest of AMEC, where we meet customers' needs as a national or international business, the Multitechnical and Environmental businesses provide services locally, to a diverse regional and international client base. With over 50,000 clients in many different sectors and a high percentage of repeat business, ETS is generally a highly predictable business.

Multitechnical Services

In Europe, AMEC SPIE provides a broad range of mechanical, electrical and communications services, ranging from maintenance of street lighting for local authorities to design and delivery of fully automated vehicle assembly lines and advanced voice and data systems. It has a network of offices in over 300 locations across Benelux, France, Portugal and Spain.

Environmental Services

With a network of 100 offices in North America and beyond, the Environmental business provides a range of specialist services from environmental assessments to geo-technical and materials testing services.

Design and Engineering Services

Provides services from front-end design to maintenance support across a wide range of market sectors, mainly in North America and the UK.

Oil and Gas

With market-leading expertise working in hostile deepwater environments, AMEC provides total life of asset services to clients in the international oil and gas industry, where barriers to entry are extremely high.

In recent years AMEC has successfully pursued a strategy of international growth, working closely with long-term clients who are developing new sources of supply around the world.

Upstream

AMEC has leading market positions in the engineering and project management of complex offshore topsides and in operations and maintenance services. In Canada, we have a strong position in the large and growing oil sands industry.

Downstream and Pipelines

In Downstream, AMEC is recognised for its expertise in gas processing and operations and maintenance, whilst in Pipelines the group is one of the world's leading large-diameter pipeline contractors.

Project Solutions

Construction Services

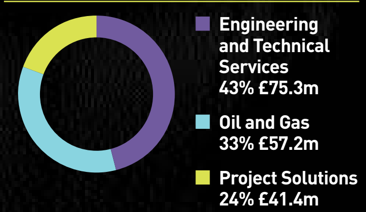
AMEC takes a selective approach to project delivery for public and private sector clients, in particular markets where we have expertise, often involving design, maintenance or operations support and sometimes equity participation.

Project Equity Investments

AMEC has equity participation in PPP and urban regeneration projects where multiple income streams are typically generated – from the investment, construction work and associated services. Significant opportunities also exist for additional investment in our Wind Energy business.

Financial highlights

Total operating profit 2004

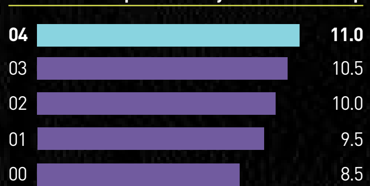


Total turnover £m

Pre-tax profit £m

Diluted earnings per ordinary share p

Dividends per ordinary share p



- Record pre-tax profit of £118.1 million – up 5%
- Operating profit in Engineering and Technical Services up 8%
- Oil and Gas boosts margin to 4.7% and expands in Houston
- PPP portfolio valued at £77 million
- Dividends increased by 5% to 11.0 pence per share
- Further progress expected across all three businesses

	2004 £ million	2003 £ million	
Total turnover	**4,816.4**	4,712.7	+2.2%
Total operating profit	**149.6**	141.7	+5.6%
Pre-tax profit	**118.1**	112.5	+5.0%
Pre-tax profit after goodwill amortisation and exceptional items	**65.7**	95.7	-31.3%
Effective tax rate	**32.8%**	32.0%	+0.8pts
Average weekly net debt	**450.0**	360.0*	+25.0%
Diluted earnings per ordinary share	**25.9p**	25.3p	+2.4%
Dividends per ordinary share	**11.0p**	10.5p	+4.8%

* Pro forma average weekly net debt for the year ended 31 December 2003 assumes SPIE S.A. was acquired and 51 per cent of Spie Batignolles S.A. was disposed of on 1 January 2003

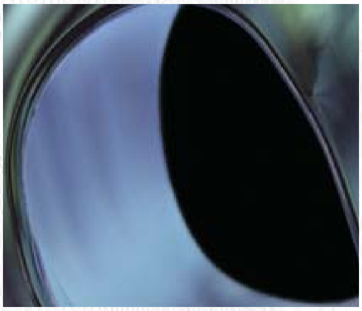
† Pro forma basis assuming preference shares were converted to ordinary shares on 1 January 2001

Unless otherwise stated, amounts and percentage movements throughout this document relating to the profit and loss account are stated before goodwill amortisation and exceptional items. Amounts and percentage movements relating to total operating profit and margin of Engineering and Technical Services, Oil and Gas and Project Solutions activities are stated before corporate costs of £24.3 million, goodwill amortisation of £21.6 million, a pre-tax exceptional charge of £17.8 million plus goodwill previously written off to reserves of £13.0 million.

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 including some 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.

Why AMEC?

An introduction to this annual report and to investing in AMEC



Sir Peter Mason KBE
Chief executive

New reporting

During 2004, we simplified the way we report our results. We now present these for our three main businesses: Engineering and Technical Services, Oil and Gas and Project Solutions. This reflects better the way our business has been reshaped in recent years and allows investors to develop an informed view of the prospects for AMEC in each of our three areas of activity.

Over the next 16 pages, you can read about our services, customer base and the operating model of each of these in more detail.

A balanced portfolio

The new reporting should help to clarify the reasons for investing in AMEC and the way our three different but complementary businesses fit together to make a balanced portfolio. In particular, it shows:

- In Engineering and Technical Services we have a robust business delivering predictable earnings, which offers thousands of customers, both large and small, a range of technical services through a growing network of local outlets across Europe – and a similarly structured environmental consulting business in the Americas.

Year on year, these businesses grow by pushing more volume through an expanding network. In addition, our Design and Engineering business is well positioned to benefit from any upturn in our industrial clients' capital spending in the Americas.

- Our Oil and Gas business offers particularly attractive prospects. A leading player in the high growth upstream segment of the oil and gas market, it has longstanding relationships with a growing number of major international and national oil companies. Its competitive position has been strengthened through the recent acquisition of the engineering firm Paragon, in Houston, which gives us more capacity to benefit from strong demand and new customer relationships won in 2004.

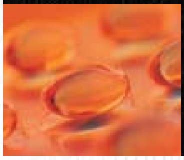
- In Project Solutions, prospects in our UK public sector markets of health, education, transport and defence continue to look promising as the Government renews its commitment to these services. Importantly, our strategy of prudent investment in quality PPP, urban regeneration and wind projects has paid off and we now have a maturing portfolio of equity investments. This makes us confident we can deliver substantial and growing annual profits in 2005 and beyond, as we sell these investments, and selectively reinvest – a process that has already begun.

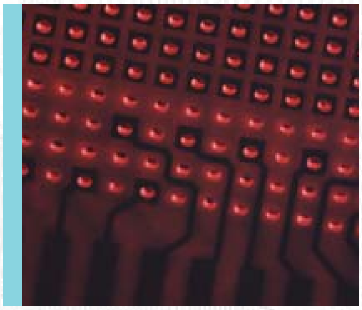
Differentiated by our expertise

All three of the businesses you will see in the next section are underpinned by our technical skills, our long-term customer relationships, and our project management expertise – delivering best lifetime value.

With thousands of technical and scientific experts, AMEC has deep specialist knowledge in the industries in which it works, where barriers to entry are often high. This makes us the natural choice for many of our customers. During 2004, we forged more of the long-term contracts with companies and governments that are so important for our future and, importantly, saw rising demand for our project management skills. Increasingly, customers are looking to us to take on the role of adviser, structuring and shaping projects at a high level. We see this as an important future growth opportunity in a range of new markets.

The next section of this report gives you more detail on the investment proposition offered by each of our three main businesses, after which you can turn to a review of our performance in 2004.





Engineering and Technical Services

Significant opportunities for growth

With total turnover of over £2 billion and generating 43 per cent of total operating profit, Engineering and Technical Services ("ETS") is the largest of AMEC's three business segments.

ETS has three discrete areas of activity – Multitechnical Services, Environmental Services and Design and Engineering Services.

Jean Monville
Chairman and CEO,
AMEC Continental Europe

£2.3 billion
total turnover

Services in the first two businesses are delivered through extensive local networks – with over 300 locations in Continental Europe and around 100 in North America.

Unlike the rest of AMEC, where we meet customers' needs as a national or international business, the Multitechnical and Environmental businesses provide services locally to a diverse regional and international base. With over 50,000 clients in many different sectors and a high percentage of repeat business, ETS is generally a highly predictable business.

Our Design and Engineering business, provides services from front-end design to maintenance support for North American and UK clients across a range of sectors including transport, defence, mining, forest products, food and pharmaceutical.

Local service business model

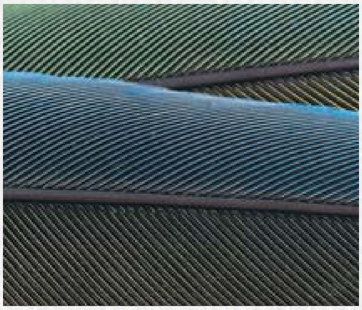
The business model in Multitechnical and Environmental Services differs fundamentally from the model in other parts of AMEC.

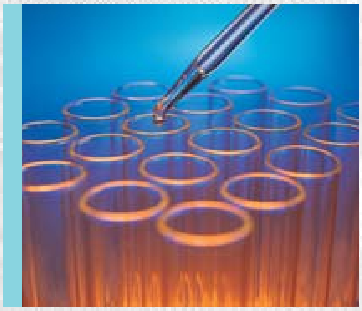
First, these businesses are essentially local. While other AMEC businesses deliver from central locations, these work mainly through extensive local networks.

Secondly, the client base is extremely diverse. We have tens of thousands of customers across most sectors of the economy, while the other AMEC businesses have fewer customers and work on larger projects.

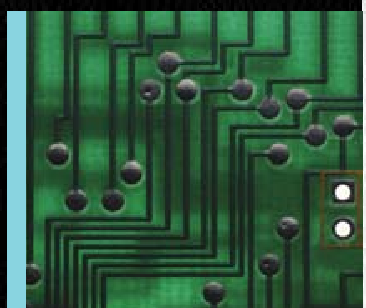
Thirdly, our strong local relationships mean we tend to win long-term or repeat business over a number of years. This, and the diversity of clients and end markets, gives our business great resilience and predictability.

Finally, our markets in both Europe and North America are highly fragmented, giving us significant opportunities for growth.





Engineering and Technical Services
continued



Multitechnical Services

By far the largest of the three areas of activity in ETS, is the Multitechnical Services business in Continental Europe. Here, AMEC SPIE provides a broad range of electrical, mechanical and communications services through its local service network of over 300 locations across Benelux, France, Portugal and Spain.

Examples of our Multitechnical Services

Our services span the total life of our clients' capital assets. Examples of our work include the illumination of the Eiffel tower – where we provided and maintain more than 20,000 specially designed bulbs, 40,000 connectors and 78 kilometres of cables – and other historic monuments across France in places including Limoges (illustrated left) and Toulouse. Also in Toulouse, we provide facilities management services for Airbus at their headquarters and have provided electrical engineering, heating, ventilation and air conditioning systems on the new assembly facility for the Airbus A380, together with advanced equipment for assembling various components of the airframe.

In the automotive sector, we have designed and delivered the new body assembly line for the recently launched Citroën C4 for PSA Peugeot Citroën at Mulhouse. This project involves 84 robots performing welding and materials handling tasks – we carried out the installation and programming – and is a good example of our automation skills.

A highly
predictable business

In the public sector, we have designed, developed, installed and now support a customised solution for traffic management in the City of Lyons. This system has reduced journey times, allows better coordination of emergency services and provides high quality information to road users and operators. We have also been entrusted with communications at events as prestigious as the G8 summit in Evian, where we installed two independent secure telephone systems for the French Ministry of Foreign Affairs and the Ministry of the Interior – and put in more than 800 media workstations – in just two weeks.

Diverse customer base

AMEC SPIE has an extremely diverse customer base, spread across most sectors of the economy.

Our largest clients include government departments, local authorities and blue-chip companies such as Air Liquide, Cegetel, European Aeronautic Defence and Space Company ("EADS"), Electricité de France ("EDF"), France Télécom, and PSA Peugeot Citroën. It is our close working relationships with these, and tens of thousands of smaller customers, that form the essence of the business.

Large numbers of small contracts

Our customer relationships are characterised by large numbers of small contracts, with a high percentage of repeat business.

At any one time AMEC SPIE is working on around 10,000 contracts, with an average size of less than £20,000. This results in the business having a high degree of predictability – and results over the last ten years show performance to have been extremely robust through the economic cycle.

Fragmented market

The market for Multitechnical Services is extremely fragmented and offers significant opportunities for growth through geographical expansion.

Over the last five years, growth in this business has been a blend between GDP driven organic growth, the acquisition of small local businesses to enlarge our network and strategic acquisitions that give us an improved technical position – and we expect this to be the pattern as we move forward.

Engineering and Technical Services
continued

Early entry to the
project life cycle

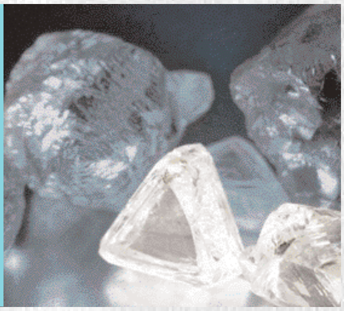
Environmental Services

Our Environmental business provides clients with a range of specialist services from environmental assessments to geo-technical and clean-up services and is important because it allows us to enter projects at the very beginning of the asset's life.

This business uses the same local service business model as the European Multitechnical Services business and operates from a network of 100 offices across North America and beyond.

Examples of our work include the provision of consultancy services in local storm water and flood control for the City of Charlotte, North Carolina. Here, we provided compliance and technical advice, and also developed software programs which planned the management of storm water flows.

We have numerous clients in the energy sector, where assignments include environmental and geotechnical work on projects such as the McKenzie Valley pipeline in Western Canada.



We have built strong relationships in the US Federal sector, where our expertise includes the clean up of military facilities including the firing range at the Massachussetts Military Reserve, Cape Cod. And we have major construction support programmes underway in Guam and Iraq, with smaller projects at several US domestic bases through our relationship with the US Air Force.

There are some very specialist niches within this business. For instance, Geomelt, which stabilises lower level radioactive waste. We are carrying out a contract initially valued at US$60 million for this process to be used to treat waste at Hanford, in the US, the largest nuclear site in the country. And we expect this technology – which has also been successfully used in Australia and Japan – to be employed in future at other similar sites across the world.

The environmental market is large and fragmented, has attractive margins and offers good opportunities for growth in the Americas, Europe and the Far East.

Design and Engineering Services

The last of our ETS businesses is Design and Engineering, which provides services from front-end design to maintenance support for clients in the UK, the Americas and Iraq. This business works in a range of sectors, including transport, defence, mining, forest products, food and pharmaceutical.

In the UK, we have worked with British Nuclear Group ("BNG") and its predecessor British Nuclear Fuels Ltd ("BNFL") for over 25 years. Today, we are working together to decommission some of the oldest buildings on the UK Sellafield site and have also installed special fire protection systems in the waste storage silos. And we have a seven year joint venture contract, worth £460 million, to provide property management services for around 400 establishments belonging to the UK Ministry of Defence in Scotland, ranging from RAF Lossiemouth to small communications transmitters.

Examples of our work in the Americas include the design and delivery of a new fibre line system for Bowater, the paper company, in South Carolina. And we are providing design and engineering services for 10 stories or 250,000 square feet of new laboratories for the University Health Network in Toronto.

Financial performance of this business has been affected in recent years by severe cutbacks in customers' capital expenditure, particularly in the US. We have, and continue to, address our cost base – and this business will be one of the earliest beneficiaries of any resumption in our customers' capital expenditure.

Oil and Gas

33%
total operating profit

Carlos Riva
Chief executive AMEC Group Limited,
Chairman AMEC Americas

Specialist total life of asset services and project delivery

With market-leading expertise working in deep water and hostile environments, AMEC provides total life of asset services and project delivery to clients in the international oil and gas industry.

This business, with total operating profit of £57.2 million, makes up a third of our business overall.

We are a leader in our chosen fields and work right across the upstream, downstream and pipeline sectors of the market in regions as widely spread as Australia, West Africa and the Canadian oil sands.

We work closely with long-term clients who are developing new sources of supply around the world, often in hostile operating environments. And we continue to increase levels of activity through new client relationships around the world.

Competitive advantage

Barriers to entry in the oil and gas market are extremely high, and our proven health and safety management systems, robust environmental systems, highly skilled workforce and regional presence mean we have a solid and established position with our customers.

Scope for margin improvement

Underlying margins in this business are stable. Generally, we enjoy higher margins in our design and support services than we do in project delivery – where large sums of money relating to procurement of materials or subcontractors attract small margins. As customers look to AMEC more for design and project management services – and less for actual construction, we see scope for margin improvement and further risk reduction.

Long-term contracts

This business has a strong portfolio of contracts and customers. We have a number of long-term support services contracts with a broad geographical spread – and the three largest deepwater operators – Shell, BP and ExxonMobil – are all long-term AMEC customers.

With oil and gas expected to remain the dominant source of global energy supply for the foreseeable future, we see significant long-term opportunities arising across all areas of the business.

A world leader in deep water and hostile environments

Upstream

With over 30 years' experience working with our clients, this business has developed a leading international position in the upstream oil and gas industry. In this market sector we design, deliver and support offshore and onshore production facilities and have special expertise on the complex topsides found on oil rigs and the latest generation of floating production, storage and offtake vessels, or "FPSOs".

Specialist expertise

We are working in joint venture for ExxonMobil on the Kizomba A and B FPSO projects offshore Angola, and for Woodside Energy on its Enfield FPSO offshore Australia. In the past, we also fabricated these FPSOs – for instance Shell's massive turnkey Bonga project, offshore Nigeria. Today, however, customers are sending FPSO construction work to lower-cost locations like Korea – and using us for the higher-value front-end design, procurement and project management services. This means we book less turnover than we did, but the attractive trade-off is that we now carry far less risk and enjoy a better margin.

Shell Expro's Sigma 3 is another example of our upstream work, this time in the North Sea. This is a seven year joint venture services contract supporting all Shell's Northern North Sea assets. And we have been building our international portfolio. Shell's Malampaya project is one example of the support services work we are developing in the Far East.

We are also working in Kuwait – where we recently secured an important long-term contract from the Kuwait Oil Company, to support the development of their assets in the south of the country – and in Indonesia, where we are carrying out an offshore survey for BP Indonesia, aimed at enhancing the performance and life of 60 oil platforms. This work may lead to additional maintenance and engineering services contracts in both regions.

Leading position in oil sands

We have a strong position in the large and growing Canadian oil sands industry, servicing companies extracting onshore oil from the sands in Northern Alberta. Here, a very different extraction technology is used – it is more similar to mining. This business is extremely busy at present, as more efficient extraction methods and a strong oil price have made it more attractive for our customers to invest.

Long-term client relationships

We have strong relationships with the major oil companies, built up over many years. Examples include BP, with whom we have been involved in project activity on a continuous basis since the 1970s; ExxonMobil, where our relationship with Esso goes back to the 1960s; Shell, with whom we have worked in the North Sea since the early 1970s; and Total, where we have a long-term relationship in asset support, both in West Africa and the Middle East.

Our relationships with these and other large operators are bringing in new work as they develop new fields in West Africa, the Caspian and Russia, the Gulf of Mexico, Brazil and the North Atlantic. And we expect to remain busy for the foreseeable future, working with oil companies to maintain and upgrade their existing assets, whilst providing assistance as they bring on-line new sources of supply to offset declining reserves in existing areas of production.

Delivering assured production

Downstream

AMEC is recognised in the downstream sector for its expertise in gas processing and operations and maintenance and provides a range of services to operators of refineries and petrochemical facilities.

Gas

We have developed specialist expertise in the gas industry and have long-term relationships with clients including Saudi Aramco, with whom we have been working since 1966 and National Grid Transco, where our relationship goes back over 30 years.

Refining
In the refining industry, we have maintained a strong association with key clients over the past forty years, having become firmly established as one of the premier refinery contractors, notably in the Middle East, China and Western Europe. Our projects have included new facilities, shutdowns and maintenance management. One example of a long-term client relationship in this market sector is with BP at its large Grangemouth facility in Scotland, where we have been working for 35 years.

Petrochemicals
We provide a full range of total life of asset services to our clients in the petrochemicals sector. Here, we have over 70 years of experience working in markets including China, where we have undertaken over 100 project and service contracts in the last 13 years. One of these is the SECCO ethylene production plant in China – one the largest of its kind in the world – where we are providing project management and procurement services.

Pipelines
In the last of our businesses in the oil and gas sector, we are a global leader in large diameter pipelines, with extensive experience of working on some of the most challenging pipeline projects of recent years in climates ranging from tropical rainforests to frozen tundra.

Our services range from planning and regulatory permitting through to consulting and design, financial planning, engineering, procurement, construction, commissioning, operation and maintenance. And we have particular strength in meeting clients' needs in the areas of environmental protection and pipeline integrity.

Our pipelines are capable of distributing a wide variety of products, including natural gas, liquid hydrocarbons, multi-phase hydrocarbons, synthetic crude oil, diluted bitumen and mine products and tailings.

Recent work in this sector includes over 1,000 kilometres of 30 inch diameter pipeline from Chad to Cameroon in Africa, the BTC pipelines in Georgia, which will export oil and gas from the huge Caspian fields, and the Cheyenne Plains pipeline – the largest cross-country pipeline project in the US in 2004.

Project Solutions

£1.4 billion
total turnover

Project Solutions is linked to other parts of the life of asset value chain

Project Solutions is the business that has evolved out of our traditional construction activity. Today, it has total turnover of £1.4 billion, mainly in the UK, is an important generator of future value and is central to our overall strategy.

In the past, we often simply built projects for the lowest cost, whereas today, while construction may form part of the job, we typically get involved in design, maintenance or operations support and sometimes equity participation. Rarely, now, will we do stand-alone construction.

Construction Services

We take a selective approach to project delivery for public and private sector clients, in particular markets where we have expertise. Our projects normally arise as a result of an existing relationship with a client and we will sometimes make an equity investment in a project, for instance when it is delivered under a Public Private Partnerships ("PPP") scheme.

Public sector markets

We are focused on five main public sector markets: healthcare, education, transport, defence and urban regeneration. We have a long standing and, we believe, successful relationship with the UK government and we see significant opportunities arising from its commitment to sustained spending.

In healthcare, we are working in joint venture on the design, financing, construction and operation of the new 669-bed University College London Hospital – this being a good example of our project delivery activity within the framework of a PPP project.

AMEC has long been associated with road building, and is one of the leading players in the UK market today. Our participation is through either traditional contractual relations with the Highways Agency, or through PPP. One example of our current involvement in this market is the A1 upgrade between Darrington and Dishforth, which is being delivered as a PPP project.

Our work in the defence sector includes designing and building a new submarine berthing facility at Her Majesty's Naval Base Clyde – including a new floating jetty, all electrical and mechanical services, and a jetty support building.

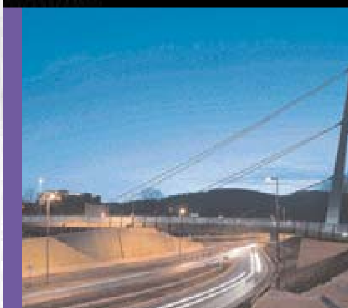
Private sector markets

In the private sector, we work in particular for customers who need high-specification, high-quality delivery. For instance, we work for pharmaceutical companies like Glaxo SmithKline and Astra Zeneca, designing, delivering and supporting their research and development and other specialised facilities. We also work for similarly demanding commercial or light industrial customers – for instance those who need very engineered, high-quality storage, production or retail outlets. Marks & Spencer, for instance, is one of our retail customers.

Overall in this segment, we are selective in choosing customers and often have a long-term relationship that will deliver a stream of projects over time.

We also have an important rail projects business – and are one of the leading players in this market – which spans the private and public sector. One example of our work is the recently completed first section of the new high speed Channel Tunnel line between Folkestone and Swanley, Kent, where we provided design, supply, installation and testing. Another sector where we see real potential and have a strong position is in European light rail systems, where we generally provide track and power supplies. We have delivered a number of projects already, for instance in the cities of Caen, Strasbourg and Bordeaux.

The projects side of AMEC has been substantially overhauled over the last few years, and what we have now is a very focused business in markets we know well and where we see real growth potential. Through our risk management process, we will manage remaining risk in the business and thereby improve the quality of earnings.



John Early
Development and
Investments director

Delivering in partnership

Project Equity Investments

This business falls into three main areas – Public Private Partnerships ("PPP"), Property Developments and Wind Energy. What is common to all three is the opportunity to generate multiple income streams from investment, construction work, and associated services.

PPP

AMEC has been in the UK PPP market since the introduction of the Private Finance Initiative – and has a team of project finance and legal professionals engaged in the complete PPP delivery structure, from front end bidding to long-term management of the investment.

We apply strict selection criteria to the work we do in PPP and stick to what we know – the delivery and maintenance of capital assets – we do not pursue "soft" services like catering.

To realise value from our PPP portfolio we expect, at the appropriate time, routinely to sell all or part of our investment in a rolling process – similar to that which we use in our Developments business.

Developments

In this business we have the ability to deal with complex planning issues, financing and project management and have particular expertise in mixed-use urban regeneration projects – which can include retail, commercial, residential and other facilities.

We have built strong relationships with the key players in urban regeneration – working in partnership with landowners such as local authorities and occasionally private sector organisations.

We have two particularly important joint ventures in the regeneration area – with ISIS Waterside Regeneration, to redevelop British Waterways' large portfolio of surplus land and with English Cities Fund, to regenerate inner city locations. Both are reaching the stage where they should soon start to produce attractive earnings streams.

Our business model in Developments is to minimise upfront capital employed, by partnering with landowners and to reduce risk by securing pre-lets and pre-selling developments. And we also keep our portfolio balanced, with a mix of projects at various stages of development to give a consistent earnings stream.

Wind Energy

We have been in the Wind Energy business for five years and do everything from early site identification, gathering and interpreting wind data, to dealing with complex ecological problems, handling the planning process and, eventually, asset delivery, operations and maintenance.

We have an onshore development portfolio of around 1,500 MW, whilst our offshore developments have all been pre-sold, although we continue to be involved in project management for the owner – work that carries performance incentives as well as the basic fee.

Recent market transactions suggest that pre-tax returns well in excess of 20 per cent can be secured on onshore projects with planning consent.

We believe that we have built an important position in what we think will be a very valuable market for us over the next few years.

Sustainability

Sustainability, or corporate responsibility, is a management approach that takes into account the broad and long-term interests of stakeholders, as well as shorter-term profitability.

AMEC started reporting on sustainability in 2000, when we drew up seven sustainability principles: environmental management, health and safety, ethical conduct, community involvement, human rights, employment rights and profitable growth. These are now the heart of our company's Guiding Principles and we measure our performance annually in each area.

We have made progress since then, improving our own performance against the targets we set ourselves. We also moved up the latest published Business in the Environment ranking, scoring 78 per cent in 2003 against 39 per cent in our first year.

In February 2005, AMEC appointed a dedicated manager, who now drives the sustainability programme across the group.




We also reviewed in detail our approach to reporting sustainability and measuring performance in this area. We commissioned an independent research consultancy to interview customers, employees and investors about sustainability in general and AMEC's approach in particular – and the findings of this report are reflected in our 2004 sustainability report (published late April 2005).

You can see an overview of 2004 below. Please refer to our website at www.amec.com for a detailed performance report.

Health and safety

- One (2003: three) health and safety prosecution
- 94 per cent (2003: 73 per cent) of our employees working within an OHSAS 18001 compliant health and safety management system
- Nine (2003: four) fatalities at work – including one subcontractor caught by a gas explosion on a non-AMEC site
- 736 people (2003: 840) suffering lost time accidents

Environment

- AMEC's Wind Energy portfolio has a potential to represent 16 per cent of the UK government's 2010 renewable energy target
- 87 per cent (2003: 73 per cent) of our employees working within an ISO 14001 compliant environmental management system
- Two (2003: three) environmental notices issued to the company
- 19 per cent (2003: 50 per cent) of waste recorded going to landfill
- AMEC's nuclear waste management technology came into use at Hanford, US

Community

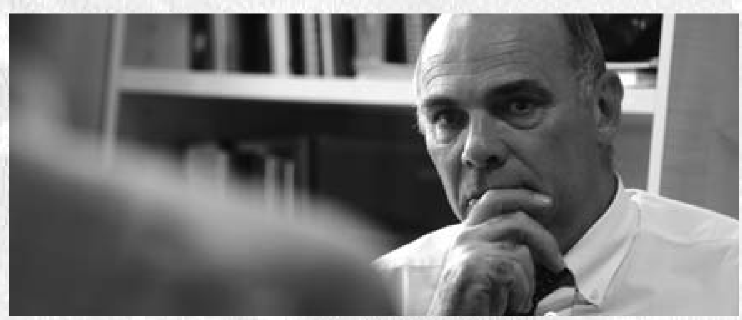
- AMEC made charitable worldwide donations of £265,000 (2003: £154,000)
- Appointed to a major regeneration scheme in Lewisham and working on 12 other schemes across the UK
- Engineers Against Poverty published the positive report "Learning from AMEC's oil and gas asset support operations in the Asia-Pacific region"
- Supported orphanage in Baku, refurbishing and providing resources for 200 orphans

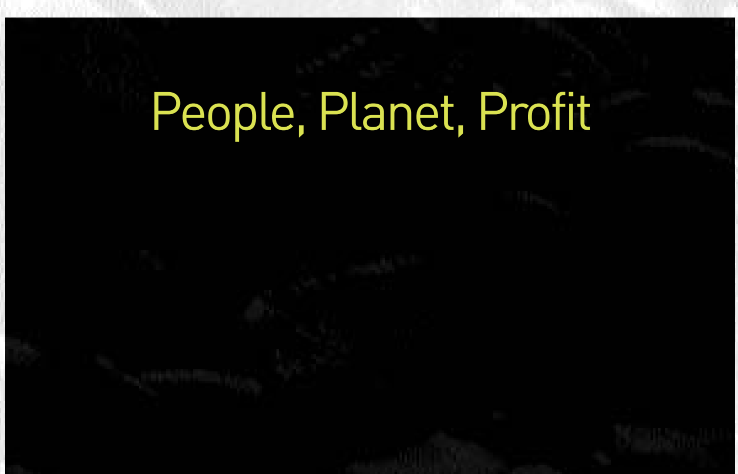
Employment

- Set up Young Offenders' Initiative with major UK client, National Grid Transco
- Conducted senior management survey of 473 people – we are taking the findings forward in the culture change programme "Shaping AMEC"
- Initiated more detailed analysis of diversity and other key employment metrics within AMEC

General

- 85 per cent (2003: 80 per cent) of our employees operating under an ISO 900 compliant quality management system
- New long-term and framework contracts signed with customers and introduced more key account management
- Stakeholder sustainability research conducted for the first time





Our board of directors

Jock Green-Armytage 3
Age 59, 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.

Jean Monville
Age 60, was appointed an executive director in February 1997. He is the director responsible for the Continental European operations.

John Early
Age 59, was appointed an executive director in March 1986. He is the director responsible for the Project Equity Investments operations.

Jean-Paul Jacamon 123
Age 57, was appointed a non-executive director in November 2002. He is chairman of the audit committee. He was previously vice-chairman and chief operating officer of Schneider Electric and is now an independent consultant. He is a non-executive director of Alcan Inc. of Canada and several other companies.

Martha Hesse 123
Age 62, 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 Americas advisory board and the compliance and ethics committee and is also a director of several other companies.

Key to principal committee membership

1 Audit
2 Remuneration
3 Nominations

Our directors have a broad base of experience

Sir Peter Mason KBE 3
Age 58, was appointed chief executive in March 1996. He was previously an executive director of BICC plc and chairman and chief executive of Balfour Beatty Limited. He was appointed a non-executive director of BAE Systems plc in January 2003.

Stuart Siddall
Age 51, was appointed finance director in June 2000. He was previously finance director of Alpha Airports Group PLC and of MANWEB plc.

Carlos Riva
Age 51, was appointed an executive director in August 2003. He is responsible for United Kingdom and Americas operations. He was previously CEO of Intergen, a United States based power generation company jointly owned by Shell and Bechtel.

James Dallas 123
Age 49, was appointed a non-executive director in October 1999. He is the chairman of the remuneration committee and is the chairman of law firm Denton Wilde Sapte.

Liz Airey 123
Age 46, was appointed a non-executive director in May 1999. She is the senior independent director and chairs the boards of the AMEC Staff and AMEC Executive Pension Scheme companies. She was previously the finance director of Monument Oil and Gas plc. She is currently a director of Harrison Lovegrove & Co Limited and is also a non-executive director of several other companies.

Tim Faithfull
Age 60, was appointed a non-executive director in February 2005. He is a non-executive director of Canadian Pacific Railway, TransAlta Corporation and Shell Pension Trust Limited. He was president and chief executive of Shell Canada Limited from 1999 to 2003.

Peter Byrom
Age 60, was appointed a non-executive director in February 2005. He is chairman of Domino Printing Sciences plc and Molins PLC. He is also a non-executive director of Rolls-Royce plc and Wilson Bowden plc. He was a director of N M Rothschild from 1977 to 1996.

Chairman's statement

A world leader in technical services and project management

At the end of my first full financial year in the post of AMEC chairman, I am pleased to report solid progress across all of our three business segments, together with signs of stronger growth coming through in future years.

This was a significant year for AMEC – not because of any noticeable changes, for indeed this was a year in which we did not make any major acquisitions or substantial changes to our business. But it was significant because it marked the successful end of a period of strategic change and, more importantly, the recognition and first fruits of that strategy.

"We are beginning to see our strategy translate into real financial benefit"

At the end of 2004, we were re-classified as a Support Services company. This change of stock market sector reflected the success of our strategy, pursued in previous years, of migrating AMEC away from traditional construction. And we are beginning to see that strategy translate into real financial benefit.

Another significant change that came at the end of 2004 was the re-segmentation of our business, which highlights the important and often unrecognised fact that Oil and Gas now generates one third of AMEC's total operating profit. This business is a strong companion to the solid and predictable Engineering and Technical Services business – our largest area of activity.

The new segmentation also revealed more clearly the strength of our Project Solutions business. Project work often has a bad name – but if you choose carefully, as we always seek to do, you can build a portfolio that will release excellent value over time. Today, our Project Solutions activities – which include our investments in PPP, Developments and Wind Energy, are coming into their own – and are poised to deliver growth well into the future.

So, overall, it was a year in which AMEC did not make any large acquisitions or other strategic changes. We stuck to our three main areas of activity, enhancing our Engineering and Technical Services and Oil and Gas businesses with modest acquisitions.

I am pleased to report a record pre-tax profit of £118.1 million, up 5.0 per cent, and in line with our expectations. Proposed dividends for the year are increased by 4.8 per cent to 11.0 pence (2003: 10.5 pence) and the outlook for 2005 remains in line with our earlier expectations.

In January 2005, our placing of new ordinary shares was extremely well received – raising net proceeds of £88 million to support our increased programme of investments.

I am delighted to welcome to the board Peter Byrom and Tim Faithfull, who were appointed as non-executive directors in February 2005. Their wealth of international knowledge and business experience, particularly in business development and the oil and gas market, will make a valuable contribution as AMEC continues to build its portfolio of project management and services activities.

We are in good shape and, as we move through 2005, feel comfortable with the outlook for our three businesses. I remain confident that AMEC's highly skilled and dedicated people will grasp the opportunity to build on our strengths, expand our service, deepen our client relationships and create value for all our stakeholders.

JM Green-Armytage

Jock Green-Armytage
Chairman
10 March 2005

Chief executive's review

Solid performance across all business segments

AMEC made solid progress in 2004 and on 22 November was reclassified to the Support Services Sector of the London Stock Exchange by the FTSE Global Classification Committee. This change of stock market sector, which recognises the shift in the balance of AMEC's activities towards services, was followed on 2 December 2004 by the announcement of a revised statutory segmental analysis, which better reflects the ongoing business portfolio. The segments are Engineering and Technical Services ("ETS"), Oil and Gas and Project Solutions.

"The strength of our portfolio of Project Equity Investments has really come through this year"

Sir Peter Mason KBE
Chief executive

Business review

Engineering and Technical Services

With turnover of £2.3 billion, representing 47 per cent of total turnover in 2004, ETS is the largest of AMEC's three business segments.

This business delivered another robust performance in 2004, with total operating profit up 7.9 per cent.

Multitechnical Services

2004 was another year of robust performance, with increased activity reflecting organic growth, driven broadly by levels of economic activity, together with a series of eight small acquisitions that extended the local services network and capability in France, the Netherlands, Portugal and Spain. This business will continue to follow the same growth strategy in 2005, targeting further volume growth and an improved margin, particularly in Benelux.

Environmental Services

2004 was a record year, with increased levels of activity under a framework contract for the US Air Force in locations including Iraq and Guam. The Geomelt contract for the US Department of Energy at Hanford, initially valued at US$60 million, continues to make progress and the first full scale nuclear waste vitrification is due to be completed by the end of 2005.

New offices are being opened in a number of countries and this pattern of customer-driven expansion is expected to continue steadily with increasing demand for environmental services.

Design and Engineering Services

Performance in 2004 was mixed.

In the UK, AMEC is active on framework contracts for clients that include BAA and the Ministry of Defence. There are also specific future opportunities, including the restructuring of the nuclear industry which opens to private sector companies from April 2005.

Chief executive's review
continued

AMEC is one of the few companies with the expertise and relationships to pursue the £2 billion of work that the UK government estimates will be available on an annual basis and is positioning itself to compete in that market.

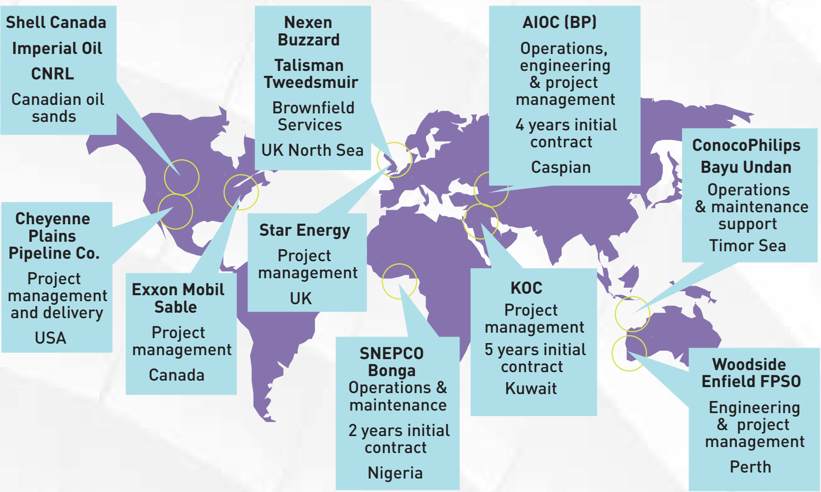
Investment in US industrial markets remains low. While some sectors, like mining, are now very busy, others, such as food and forest products, have yet to show any signs of recovery. AMEC has taken further action to reduce the cost base in response.

AMEC is working in Iraq under various contracts to restore damaged infrastructure, including power generation and water. Task orders under these contracts have, as expected, taken some time to come through and safety and security remain of paramount importance. Firm awards to date to the AMEC Fluor joint venture amount to around US$730 million, although the final value could be much higher. In addition, AMEC has received direct orders totalling around US$130 million. These contracts continue to carry no commercial risk as they are all fully cost reimbursable.

Activity in Iraq made a small contribution in 2004, and whilst conditions remain volatile and it is difficult to predict rates of progress on specific tasks, this contribution is expected to increase in 2005.

AMEC is committed to a long-term presence in Iraq and is exploring opportunities in the country and in the region.

Oil and Gas – Recent contract awards



Oil and Gas

This business generated turnover of £1.2 billion, representing 25 per cent of total turnover in 2004.

Activity levels remained high and the quality of earnings was improved, with operating margin increasing to 4.7 per cent (2003: 4.3 per cent).

During 2004, the services' business increased levels of international activity in regions including the Gulf of Mexico, West Africa, Caspian, Canada and Asia Pacific.

The business has extended its portfolio of services into gas storage and pipeline design and strengthened its position in brownfield projects, operations and asset support services. More work was secured from an increasing range of customers, including the Kuwait Oil Company, the Korean National Oil Company and Woodside of Australia.

The Canadian oil sands business is busy, as more efficient extraction methods and a strong oil price have made the region's resources more profitable to develop, whilst the pipelines business was active during 2004 on a range of projects including the BTC pipelines in Georgia and the Cheyenne Plains project in the US.

Since the year-end, the acquisition of Paragon, the Houston-based design and engineering company, has significantly improved AMEC's competitive position in the main decision-making centre for the global oil and gas industry.

Paragon allows AMEC to provide a more complete service to customers in the Gulf of Mexico region. It has acknowledged sub-sea pipeline design capability and is working on projects including the complex Mardi Gras project for BP.

Paragon positions AMEC as a top tier designer and project manager in Houston, in addition to strengthening its engineering and asset support relationships with customers such as Chevron/Texaco, Marathon and Pemex.

During 2004 AMEC completed the vast majority of its upstream lump sum contracts, with the remainder expected to be completed during the first half of 2005.

These contracts are being replaced with more stable, long-term services and the oil and gas order book for 2005 is up year-on-year despite a reduction in these lump-sum contracts.

Chief executive's review
continued

Project Solutions

This segment, which is generally involved with large infrastructure projects, generated turnover of £1.4 billion, representing 28 per cent of total turnover in 2004.

Performance in the Project Solutions business was steady, following AMEC's exit in the first half of 2004 from US Construction Management and the disposal of AMEC's remaining 49 per cent interest in the regional French construction business Spie Batignolles.

Project Solutions includes AMEC's activities in PPP, Developments and Wind Energy, which reported an operating profit of £20 million, a 10 per cent improvement on 2003.

Construction Services

This business has strong relationships with clients both in the public and private sectors and was active in 2004 on major projects in defence, transport, healthcare and infrastructure markets.

In 2004, good progress was made in delivering the Docklands Light Railway extension, and the University College London Hospital is heading to completion on time and on budget.

PPP

In 2004, AMEC's share of the operating profit of its PPP concessions was £10.8 million (2003: £10.6 million) and after taking into account the share of net interest payable, resulted in a small net contribution.

Since the year-end AMEC's PPP portfolio has been strengthened through the award of preferred bidder status for Colchester Hospital, the Docklands Light Railway extension to Woolwich Arsenal and South Lanarkshire Schools. In total these projects have a value to AMEC in excess of £600 million. AMEC is also at preferred bidder stage on Incheon Bridge in South Korea, where financial close is expected shortly.

Over the coming years, AMEC expects to achieve increasing earnings from this portfolio, either from the sale of its investments or from increasing the contribution from operational concessions.

Developments

AMEC has built a leading reputation in urban regeneration, working in partnership with landowners such as local authorities and private sector organisations. Over a dozen schemes were under development during 2004, including projects in Reading and Durham. During the year an AMEC joint venture was awarded a major scheme to regenerate Lewisham town centre. Planning approval is expected for about three million square feet of developments in 2005, a threefold increase on the previous year.

Wind Energy

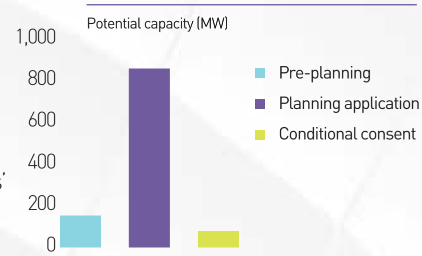
AMEC is developing an onshore portfolio of around 1,500 MW, including third parties' shares of developments being managed by AMEC. Its offshore developments have all been pre-sold, although AMEC continues to be involved in project management for the owner, with work that carries performance incentives as well as management fees.

During 2004, AMEC submitted planning applications for major schemes at Kyle and the Isle of Lewis in Scotland, the latter being potentially the world's largest onshore windfarm.

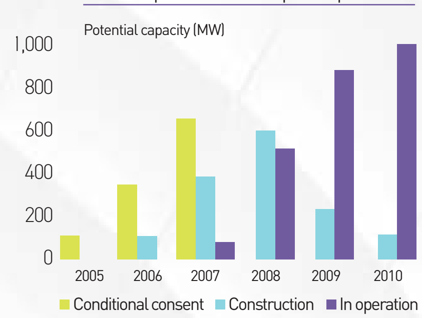
The planning process is extremely slow and at the end of 2004 a very large percentage of the portfolio remained in planning. Over the next few years an increasing number of schemes are expected to emerge from planning, enabling AMEC to commence construction and to release value from its onshore portfolio.

Wind Energy

Onshore portfolio* planning status at December 2004



Onshore portfolio* development potential



* Assumptions
- Reflects projects as at 10 March 2005 and includes AMEC's share of joint venture developments
- Excludes any additional new developments
- Excludes projects developed by AMEC in the past and sold-on to third parties
- Based on planning submissions made or management estimates where proposals are at an earlier stage
- Developments are subject to environmental and planning risk until fully consented and to delays in the commissioning of the national grid infrastructure needed to support renewable energy expansion

Orders

Order intake in the ETS business continues to exceed sales, whilst the year-end order book in AMEC's Oil and Gas and Projects Solutions businesses remained solid at £2.4 billion (2003: £2.4 billion).

The quality and volume of the order book in Oil and Gas has improved over the last 12 months, with large project delivery contracts being replaced by higher margin, lower risk services activities. The year-end order book in Oil and Gas stood at £1.3 billion (2003: £1.2 billion), whilst Project Solutions recorded £1.1 billion (2003: £1.2 billion).

Sustainability

2004 was a year of progress, with improvements in our overall performance in health and safety, environment, community and employment. However, it is really unacceptable that the number of fatalities at work increased compared to the previous year and yet further efforts are being taken to ensure a safer year in 2005.

An overview of 2004 appears on page 21 of this report and the sustainability report will be published in late April 2005.

Outlook

The board remains confident that each of AMEC's three business segments will deliver further growth in 2005 in line with its earlier expectations, even after the transfer of UK rail maintenance contracts to Network Rail and the disposal of Spie Batignolles, which together represented about £10 million of total operating profit in 2004.

Peter Mason

Sir Peter Mason KBE
Chief executive
10 March 2005

Outlook for 2005

	Movement relative to 2004 profit base
Rail Maintenance/ Spie Batignolles	↓
North American industrial markets	→
Increased contribution from Iraq	↑
Impact of Placing	↑
Acquisition of Paragon (Houston Oil and Gas)	↑
Growth across all business segments	↑

Operating and financial review

Our ETS business achieved strong sales growth, whilst the quality of earnings was improved in Oil and Gas and Project Solutions

Pre-tax profit for the year ended 31 December 2004, before goodwill amortisation and exceptional items, increased by 5.0 per cent to £118.1 million, a performance that was slightly ahead of the consensus of market expectations*. The board is confident of delivering further growth in 2005.

The following is based on a review of the year ended 31 December 2004 and describes significant factors affecting the outturn, movements in the profit and loss account, balance sheet and cash flow statement and on matters that may have an impact on the group's future financial performance.

"Pre-tax profit increased by 5% to £118.1 million – slightly ahead of market consensus*"

Stuart Siddall
Finance director

*Source: Hemscott Group, 7 March 2005

Changes arising from corporate activity

On 5 March 2003, AMEC acquired the outstanding 54 per cent interest in SPIE and its results have been included at 100 per cent since this date. Comments in the following review are made with reference to a 12 month contribution in 2004 (2003: 10 months).

AMEC acquired Phoenix Imperative® Inc. on 15 March 2004. This business, which offers biotech and pharmaceutical consulting services, has an annual turnover of about £7 million.

AMEC announced in May 2004, the disposal of the Washington and Florida US Construction Management businesses and the closure of this operation's other activities. This business had a turnover of over £200 million in 2003, which halved during 2004.

On 22 June 2004, AMEC disposed of its outstanding 49 per cent interest in Spie Batignolles. As this had been accounted for as an associate there was no impact on turnover.

The group's UK rail maintenance contracts were taken in house by Network Rail on 24 July 2004. The annualised effect on turnover is approximately £135 million.

During the year ended 31 December 2004, AMEC's Continental European operations made eight small acquisitions extending the Multitechnical Services branch network. These in aggregate have an annual turnover of about £35 million.

On 17 June 2004, AMEC received the outstanding amount in respect of the disposal of the Grand Cayman Hotel and, in December 2004, a sale and leaseback agreement was concluded for about 40 properties in France. The combined proceeds were about £35 million.

Preparation of the accounts

In order to conform with the requirements of UITF 38 and the amendment to UITF 17, the investment shares held in respect of long-term incentive schemes are no longer carried as an asset, but deducted from shareholders' funds in the balance sheet. This has the effect of reducing net assets by £7.5 million and £6.0 million in 2004 and 2003 respectively. This change has no effect on the profit and loss account.

The group has made no adjustments to its assessment of the fair value of the assets and liabilities acquired in with the purchase of the outstanding 54 per cent interest in SPIE in 2003. Additional reviews of the SPIE balance sheet have however resulted in the reallocation of amounts held within certain balance sheet captions as at 31 December 2003. These changes provide additional consistency in the presentation of debtors and creditors and have no impact on the net assets of the group at this date.

Operating and financial review
continued

Total turnover and gross margin

Total turnover for the year ended 31 December 2004 was £4,816.4 million (2003: £4,712.7 million). Underlying sales growth in 2004 was higher than these figures indicate with strong sales growth in Engineering and Technical Services ("ETS") offset by reduced turnover in both Oil and Gas and Project Solutions.

The gross and operating margin for the group were slightly ahead of those in 2003.

Whilst margins are important, return on capital employed is an additional key indicator of performance. AMEC's margin is affected by the large element of subcontracted or pass through activities included in turnover. The margin earned on these third party materials or resources varies, but it is generally lower than the margin earned on AMEC's input. AMEC's clients require a one-stop service and third party activity will always be a feature of its business.

The chart on the right demonstrates that AMEC's return on capital employed is reasonably good compared to other service companies. This was nearly 17 per cent for 2004 and with the expected margin increases and reduction in net debt in 2005, this measure should improve.

Administrative expenses

Administrative expenses increased by about £40 million due to the full year impact of SPIE. Overall these costs remain at about 10 per cent of group turnover.

Corporate costs, which represent the costs of operating the head office of AMEC and certain regional overheads not directly related to the business segments, were lower than in 2003. This reduction reflects reduced establishment in North America as a result of the exit from US Construction Management.

Share of joint venture results

The share of profit from joint ventures increased following an improved contribution from Developments activities. This will be an increasing trend as a result of growing contributions from regeneration activities, where the level of planning consent secured is set to increase in 2005, and PPP, as more projects become operational.

Interest

The group interest charge benefited from a profit arising on the disposal of another tranche of PPP subordinated debt investment. The profit is reported on the same basis as an earlier disposal concluded in late 2001.

The group interest charge for the year also reflected the higher level of average net debt, a full period of the SPIE acquisition funding and increased interest charges arising from the group's strategy to lock into longer-term fixed interest rates, a programme that started, largely, in mid 2003.

Net interest payable was covered almost 6.1 times (2003: 6.4 times) by total operating profit on what AMEC regards as the most meaningful basis. This is before goodwill amortisation and exceptional items, but excluding AMEC's share of the contribution and interest in PPP concessions.

The ratio of average weekly net debt to Earnings Before Interest, Tax, Depreciation and Amortisation ("EBITDA") was 2.4 times (2003: 1.9 times).

Despite the increase in average weekly net debt, the ratios remain good.

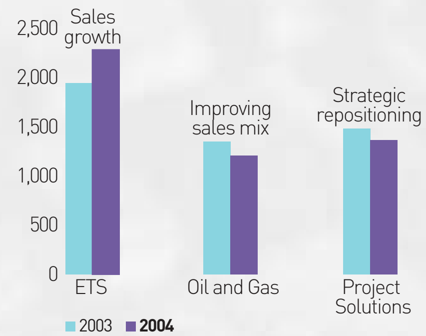
The increase in the joint venture interest cost will continue in view of the level of urban regeneration and PPP activities, as referred to earlier.

Taxation

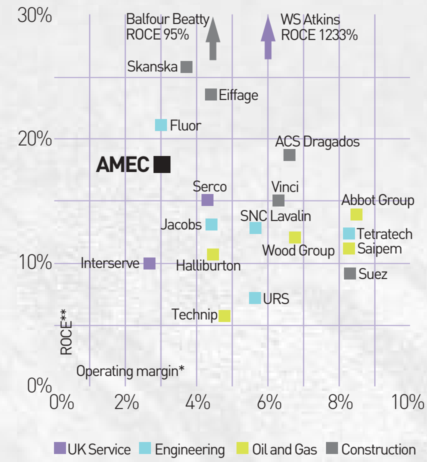
The tax charge before goodwill amortisation and exceptional items amounted to £38.7 million (2003: £36.0 million). An attributable tax charge of £4.4 million (2003: credit of £1.1 million) arose on the exceptional items.

Total turnover

By business £m



Return on capital employed (ROCE)



* Before goodwill amortisation and exceptional items
** Post-tax earnings (excluding goodwill amortisation, exceptional items and interest) divided by the sum of shareholders equity plus net debt

Source: Company accounts as at 8 December 2004

The effective rate on the profit before goodwill amortisation and exceptional items was 32.8 per cent, in line with expectations at the half-year and broadly similar to prior periods. It continues to reflect higher underlying corporation tax rates in Continental Europe. As previously reported, the trend in the rate is upwards as certain activities, in particular Oil and Gas, are undertaken outside of AMEC's home territories where the tax paid is typically at a higher rate.

Goodwill amortisation and exceptional items

Goodwill amortisation increased in the year to £21.6 million (2003: £17.0 million). The increased charge principally reflects a full year's charge on the SPIE acquisition (2003: 10 months).

Subsequent to the 2002 review of the goodwill arising on the acquisition of AGRA Inc., annual impairment reviews are required, in line with FRS 11, 'Impairment of fixed assets and goodwill'. The results of the 2004 review confirmed that the carrying value of the remaining asset was reasonably stated.

Aggregate exceptional costs in 2004 were £22.2 million (including associated taxation but excluding goodwill previously written off).

The most significant component related to the disposal/closure of US Construction Management. Costs have also been incurred in exiting other construction activities where the risk/reward profile has been considered unattractive. There have also been several disposals of non-core businesses in the second half of the year and a net profit has arisen from the rationalisation of the property portfolio.

The exceptional charge on a post-tax basis increased from the half year. This has arisen as a result of attributable tax on property disposals in France.

Aggregate goodwill of £13.0 million on businesses that have been disposed of, which had previously been written-off to reserves, has been reported in the profit and loss account as an exceptional charge. This has no effect on the net assets of the group.

Earnings per share

The increase in earnings per share to 25.9 pence (2003: 25.3 pence) was constrained by the increased tax charge and also by 0.7 pence, as a result of the increase in the number of potentially dilutive shares arising from share option awards.

Dividends per ordinary share

The board is recommending a final dividend of 7.2 pence per share (2003: 6.9 pence) which, together with the interim dividend of 3.8 pence per share (2003: 3.6 pence), results in a total dividend of 11.0 pence per share (2003: 10.5 pence), an increase of 4.8 per cent. Dividend cover was maintained at 2.4 times, in line with the average for the last six years of about 2.5 times.

Balance sheet highlights

Tangible fixed assets reduced in the year reflecting the disposal of property in France offset to some extent by increased investment in financial systems.

Investments increased as a result of increased investment in PPP concessions partially offset by the disposal of AMEC's interest in Spie Batignolles.

The ratio between stocks/trade debtors and trade creditors (as illustrated to the right) increased marginally in the year in view of the capital employed in certain highlighted areas.

In January 2005, AMEC issued approximately 30 million new shares via a placing and raised nearly £90 million. This would have increased shareholders' funds as at 31 December 2004 to over £350 million on a pro forma basis.

Balance sheet analysis £m

	2004	2003*
Payments on account	**(177.7)**	(180.3)
Trade creditors	**(1,277.0)**	(1,163.9)
	(1,454.7)	(1,344.2)
Stocks/trade debtors	**1,741.5**	1,542.8
Net current operating assets	**286.8**	198.6
Months of turnover in stocks/debtors**	**4.2**	4.0
Months of turnover in creditors**	**3.1**	3.0
Ratio of stocks/debtors to creditors	**1.4**	1.3

* Restated for changes in debtor/creditor offsets in SPIE balance sheet

** Based on previous six months' turnover excluding joint ventures

Operating and financial review
continued

Investments in joint ventures

Most of AMEC's interests in PPP concession companies and several property development projects are accounted for using the gross equity method. These joint ventures are all stand-alone businesses, where AMEC is in partnership with others, and are independently funded with only limited support from the shareholders.

The debt in PPP joint ventures is without recourse to AMEC. As at 31 December 2004, financial support was limited to equity commitments of £12.8 million (2003: £30.5 million) and contingent equity of £16.4 million (2003: £9.8 million). AMEC does not believe that it will be called upon to invest the contingent equity and believes that its PPP projects are financially sound.

On 2 February 2005, AMEC disposed of its investment in the Cross Israel Highway for an amount close to its carrying value. Importantly, this transaction released AMEC from a number of commitments and guarantees which are referred to in note 29 to the accounts.

AMEC's share of net debt in PPP companies was £543.6 million as at 31 December 2004 (2003: £441.9 million). Of this amount, approximately £296.5 million relates to operational concession companies, and this amount reduced by £80.0 million following the disposal of the Cross Israel investment.

PPP equity commitments, including those projects where AMEC is preferred bidder, are approaching £60 million and the investment of these funds is spread over a five year period as illustrated to the right. Whilst the equity is typically invested towards the end of the construction phase, it does tie up bank facilities from day one as the lenders to the concession companies require equity commitments to be backed by letters of credit.

Having considered the future discounted cash flows arising from AMEC's PPP concessions, the directors are of the view that the net present value of the PPP portfolio, excluding those contracts where it is preferred bidder, is £77 million. The valuation of the portfolio uses an average discount rate (post-tax in the concession company) of about 10.5 per cent, which is in line with the rates used to value PPP investments in the secondary market. This compares with a book value at the year end of £42 million. This value will, if AMEC retains the investments, flow through the profit and loss account over the next 15 years or so. If AMEC were to sell the investments it would be realised over a period of six to eight years.

Revaluation

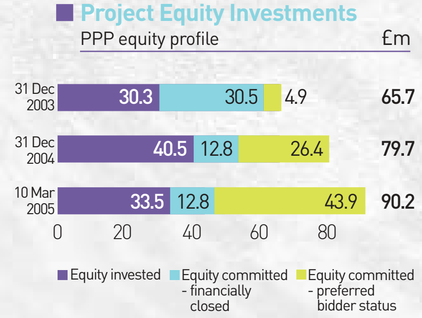
Under UK GAAP, AMEC was required to undertake an external revaluation of its freehold and long leasehold land and buildings as at 31 December 2004. The revaluation exercise resulted in a surplus over book value of £9.6 million.

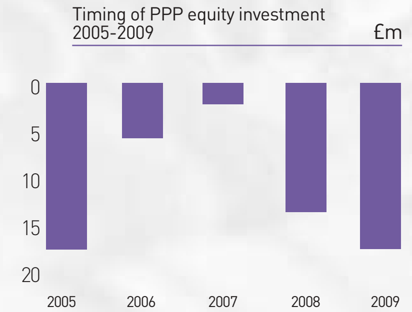
Cash flow and current liquidity

Average weekly net debt in 2004 was £450 million (2003: £360 million). As previously reported, this reflects the temporary increase in capital employed on several Oil and Gas contracts, the planned reduction in AMEC's traditional construction activities, which in the past have provided a good cash profile and the expected funding of activities in Iraq, which amounted to £24 million as at 31 December 2004.

Closing net debt was £284 million (2003: £218 million) reflecting the factors noted above.

Project Equity Investments





Total equity commitment* £56.7 million

* As at 10 March 2005, including preferred bids

Net debt has increased by some £247 million over the last two years. Of this amount £153 million has financed the net cost of acquisitions and a further £17 million has been absorbed with the expected reduction in payments on account.

The profit conversion chart (illustrated to the right) shows that over the eight years ended 31 December 2003, cash matched profit. The gap of some £80 million at the end of 2004 is principally explained by the cash tied up on Iraq work and on several Oil and Gas projects. The position on these projects is expected to improve in 2005, although capital employed on Iraq work is likely to remain at similar levels for the foreseeable future.

In July 2004, AMEC completed the refinancing of some medium-term facilities that were due to expire in the first half of 2005. The new facility which is for a five year term, retains AMEC's principal covenants and is attractively priced.

On 20 January 2005, the company successfully completed a placing of new ordinary shares, which resulted in net proceeds of £88 million. These were partly used to acquire Paragon, a Houston-based oil and gas services company, for approximately £20 million in cash.

AMEC has recently established a non-recourse debtor securitisation programme in Continental Europe which is expected to be substantially drawn by the end of April 2005 and to generate about £80 million of cash. AMEC SPIE had a securitisation plan for a number of years and this expired in late 2003. The delay in implementing a new scheme was due to ensuring a suitable balance could be achieved between operational, commercial and accounting considerations.

In 2005, the placing, together with the proceeds from the securitisation and the expected reduction in capital employed in Oil and Gas contracts, will be partially offset by currently identified acquisitions and investments and a reduction in advance payments.

In aggregate, however, these are expected to lead to a reduction in average weekly net debt in 2005 to around £350 million as illustrated in the chart below.

Group treasury policies

The group's treasury department manages the liquidity, funding and exposure to foreign exchange risk in a manner which ensures the most effective financing of the group's operations. It aims to reduce financial risks arising from these operations to levels acceptable to the board and manage the residual risk, by the use of agreed procedures and instruments. The treasury department is a cost centre, and its activity is aimed at preventing an increase in financial risk above the levels inherent in the underlying businesses.

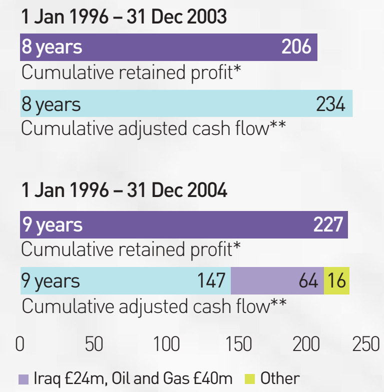
The significant financial risks and exposures to the group are in respect of liquidity, interest rates and foreign currency. These are managed by the treasury department within a framework of policies and guidelines authorised by the board.

Liquidity risk

Other than derivatives, the group's financial instruments comprise cash, liquid resources and borrowings.

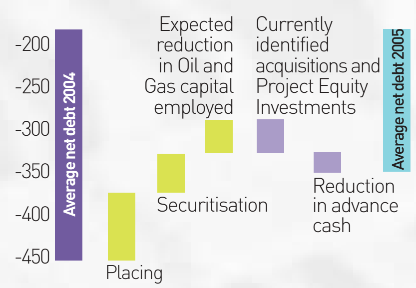
The group's funding policy aims to ensure the availability of an appropriate amount of reasonably priced funding to meet current requirements as well as future growth anticipated within the group's budget and strategic plan. Accordingly, the group aims to keep committed facilities to a minimum of 125 per cent of peak gross debt. The principal bank covenants relate to interest cover and the ratio of net debt to EBITDA. The board has approved more stringent internal targets as being appropriate for planning and managing the operations of the group for a minimum interest cover of four times and a ratio of net debt to EBITDA not exceeding two. Whilst the latter was exceeded in 2004, the board is confident that the ratio will fall below the target level in 2005.

Profit conversion £m



* Profit excludes goodwill written off and amortisation
** Adjusted cash flow excludes acquisitions, disposals and share transactions, advance cash, cash retained in SPIE prior to March 2003 and SSAP24 pension scheme accounting

Average weekly net debt in 2005 £m



Operating and financial review
continued

AMEC had committed bank facilities, all of which are unsecured, of £861 million as at 31 December 2004.

A core element of the group's committed facilities is always drawn. In addition, drawings are made to match the underlying business requirements, usually for periods of between one and six months.

Uncommitted and overdraft facilities are used to manage day to day liquidity requirements. Drawings are usually made in Sterling, and swapped into other currencies as required.

The average maturity of AMEC's committed facilities amounted to 47 months at the year end (2003: 43 months) comfortably above the board's target of a minimum of 30 months.

Interest rate risk

The group finances its operations through a mixture of equity, retained profit, cash and debt facilities. The objectives of the interest rate policy for the group is to ensure a suitable match of its interest rate characteristics to its underlying assets, revenues and expenditures whilst ensuring adequate interest cover is maintained in line with board approved targets and banking covenants.

Most borrowings are on a floating rate basis, however, the rate of interest on the private placement debt of some £105 million is fixed. Recognising the need to link interest rate risk to the underlying businesses, the group has in addition used interest rate swaps during the year to convert a proportion of its floating rate debt to fixed rate and vice versa. The group, as at 31 December 2004, had approximately £81 million Sterling equivalent of interest rate swaps, in a mixture of Sterling, US dollars, Canadian dollars and Euros, with an effective rate of 4.7 per cent and with a weighted average of 25 months to maturity.

Using average net debt of £350 million, a one per cent change in interest rates would have an impact of around £2.5 million on reported profit, mitigated in part by interest rate swaps.

Foreign exchange risk

The group is exposed to both transaction and translation of foreign exchange risk.

Transaction exposures

A significant proportion of trading activity is denominated in the relevant local currency of the businesses matching the currency of its cost base. Where contracts are awarded, or involve costs in non local currency, the group looks to mitigate the foreign exchange risk arising through the use of forward currency arrangements, which may include the purchase of currency options.

Translation exposures

As a Sterling-based group, AMEC now has a significant part of its earnings denominated in Euros whilst other currencies including the US dollar play a secondary role. In 2004, AMEC partially hedged the profit and loss account against a fall in the Euro and has done so again in 2005.

The group has various assets denominated in foreign currency. The policy is to hedge a proportion of the assets and unamortised goodwill. Such hedging activity is undertaken through foreign exchange swaps and foreign currency borrowings.

At 31 December 2004, the principal exposure was to assets denominated in US dollars, Canadian dollars and the Euro. At that date, balance sheet hedges totalled £263 million Sterling equivalent comprising both foreign exchange swaps and currency borrowings. The book value of the overseas assets, including unamortised goodwill was approximately £465 million as at 31 December 2004.

FRS 17 'retirement benefits'

The FRS 17 pre-tax surplus of about £120 million is in line with that calculated using the bases prescribed by IAS 19.

Given the surplus in the principal pension scheme, the adoption of IAS 19 will not have an adverse impact on the company's ability to pay dividends.

Had AMEC adopted the requirements of FRS 17, the pension cost charged in the profit and loss account for the year ended 31 December 2004 would have been £8.5 million (2003: £10.8 million) some £1.6 million (2003: £4.2 million) higher than the SSAP 24 charge included in the accounts.

International Financial Reporting Standards (IFRS)

Guidance given to the markets in terms of AMEC's outlook is currently based on UK GAAP. AMEC intends to publish the restated balance sheet as at 31 December 2003 and interim and year end accounts for 2004, in June 2005. From this time, guidance will be based on IFRS. In overall terms, the net assets are expected to increase upon implementation of IFRS with no material impact expected on the 2004 results.

AMEC's transitional balance sheet as at 31 December 2003 will benefit by £20 million as a result of applying IAS 10, as dividends will no longer be accrued in the balance sheet. The application of IAS 19 will also result in a further increase in the net assets as a result of the pension surplus in AMEC's principal scheme. The net post tax pension adjustment is about £20 million.

No further adjustments are expected in respect of deferred tax and no change is expected to the way in which AMEC values its fixed assets (other than ceasing to revalue its property portfolio on an ongoing basis) and joint ventures.

AMEC considers that all its short-term property leases are of a standard nature and will not require a finance lease accounting treatment under IAS 17.

On the face of the income statement, AMEC will be required to report its share of results from joint ventures as a one line item at the post tax level. As a consequence the reported earnings before interest and tax will reduce.

Under IFRS 2, AMEC will be required to charge the income statement with the value of options granted. The full impact of this standard is expected to result in an annual charge of about £3 million.

Goodwill will be subject to an annual impairment test rather than annual amortisation and whilst intangible assets will have to be amortised, AMEC expects the overall ongoing charge in the income statement to be lower.

AMEC does not expect there to be any change to the way it values work in progress and applies its contract profit take policies as a result of applying IAS 11.

AMEC has decided to adopt IAS 39 with effect from 1 January 2005 and expects that this will be the main contributor to any volatility in the income statement.

The International Accounting Standards Board has recently put forward its proposals for accounting for service concessions and AMEC is assessing the potential impact of these and in addition how IAS 39 might be applied to those concessions that have interest or inflation rate derivatives.

Stuart Siddall
Finance director
10 March 2005

International Financial Reporting Standards

Main balance sheet restatements	Effect on net assets
IAS 10 – Dividends	↑
IAS 19 – Pensions	↑
IAS 12 – Deferred tax	→
IAS 16 – Plant and equipment	→
IAS 17 – Leases	→
IAS 31 – Joint ventures – PPP	→
IAS 39 – Financial instruments	↑ → ↓

Main profit and loss account restatements	Effect on EBIT
IAS 31 – Joint ventures – PPP	↓
IFRS 2 – Share-based payments	↓
IFRS 3 – Acquisitions (net)	↑
IAS 11 – Construction contracts	→
IAS 19 – Pensions	↑ → ↓
IAS 39 – Financial instruments	↑ → ↓

Segmental review

AMEC has, for a number of years, presented itself as having three business segments. Historically these have been Services, Capital Projects and Investments.

During 2004, the balance of AMEC's operations changed following the exit from US Construction Management and the disposal of the outstanding 49 per cent interest in Spie Batignolles.

In November 2004, AMEC was reclassified to the Support Services Sector of the London Stock Exchange by the FTSE Global Classification Committee. These factors resulted in the announcement of a revised statutory segmental analysis which better reflects the ongoing business portfolio.

The segments are Engineering and Technical Services ("ETS"), Oil and Gas and Project Solutions. Oil and Gas represents such a substantial part of AMEC that it was considered that this merited separate disclosure, making it easier for investors to make a comparison with competitors in this distinct market. The Oil and Gas segment has been drawn from the former Capital Projects and Services segments. ETS is, in the main, the residual element of the Services segment and Projects Solutions is essentially what was Capital Projects plus Investments. The latter is vertically integrated with the projects business and it was considered sensible to absorb it in this segment.

Under IFRS, AMEC's primary segmentation will be geographic, however, additional data such as total operating profit and net assets will continue to be provided for the business classes, which will become AMEC's secondary segmentation.

What's in where

Engineering and Technical Services

- Multitechnical Services
- Environmental Services
- Design and Engineering Services

Oil and Gas

- Upstream
- Downstream
- Pipelines

Project Solutions

- Construction Services
- PPP
- Developments
- Wind Energy

Previous segmental analysis

- Services
- Services/Capital Projects
- Capital Projects
- Investments

Engineering and Technical Services

Total turnover in 2004 increased by over 17 per cent, mainly reflecting growth in the Multitechnical and Environmental Services businesses and the consolidation of SPIE for a full 12 months. Total operating profit increased by 7.9 per cent to £75.3 million.

The Multitechnical Services business reported another robust performance and the Environmental Services business reported record results.

There was a good contribution from some of the UK term contracts and framework agreements with project management activities in Iraq making a useful contribution.

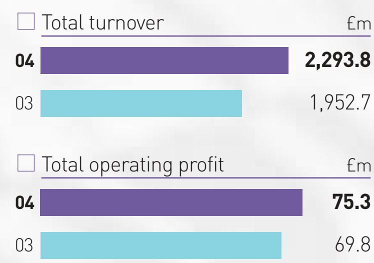
Despite encouraging signs earlier in the year, the performance of AMEC's North American Design and Engineering operations was mixed. The level of contribution from major industrial projects resulted in a decline in the overall margin in this segment and in response the cost base has been addressed. Costs of about £2 million have been incurred in 2004 and a further £1.5 million will be spent in 2005.

ETS margin improvement is expected in 2005 as a result of additions to the European branch network over the last 12 to 18 months, and as a result of reducing the North American cost base.

This segment reported net liabilities as at 31 December 2004. This was due to property disposals in France, a large payment on account received immediately prior to the year end, offset by the capital employed on Iraq work.

Most of the businesses have no forward order book and as such the most meaningful indicator of future performance is the relationship between order intake and sales. Order intake exceeded sales in 2004 and this gives confidence for 2005.

Engineering and Technical Services



	2004 £m	2003 £m
Total turnover	**2,293.8**	1,952.7
Total operating profit	**75.3**	69.8
Margin	**3.3%**	3.6%
Net (liabilities) assets	**(8.1)**	27.2

* Before internal turnover

ETS margin is expected to improve in 2005

Capital employed in Oil and Gas is expected to decline in 2005

Oil and Gas

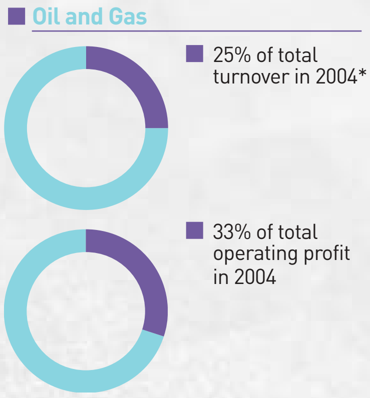
The result for 2004 represented a solid overall performance and was similar to 2003. Total turnover decreased by over £100 million reflecting changes in the way oil and gas majors are procuring their fabrication activities, which is increasingly from Far East companies.

A cautious approach to profit recognition continues to be taken on some Oil and Gas projects. This is offset to some extent by the improved performance of the gas distribution business, following actions taken in 2003 to bring costs in line with lower levels of activity.

AMEC is focusing on higher-value front-end design, procurement and project management services. This requires less external subcontract work, thereby reducing AMEC's reported turnover but this does have a favourable impact on margin. In addition, contracts of this nature have better margins and carry less risk.

Whilst a substantial sum was received prior to the year end, the net assets remained higher than normal as at the end of 2004. Further progress is expected in 2005 and net assets can be expected to return to more normal levels.

The order book at £1.3 billion was slightly ahead of that at the end of 2003. This is despite the run off of large turnkey projects and reflects increased levels of engineering activity, which is an encouraging sign for the future. The order book excludes an eight year alliance contract worth approximately £280 million which was secured from National Grid Transco early in 2005.



	2004 £m	2003 £m
Total turnover	**1,212.1**	1,350.0
Total operating profit	**57.2**	58.2
Margin	**4.7%**	4.3%
Net assets	**129.2**	76.5

* Before internal turnover

Project Solutions

Total turnover was reduced by the strategic decision to exit non core construction. The remaining activities are close to what should be regarded as core and typically represent those where AMEC can add value.

The performance of the Project Equity Investments business offset lower levels of activity in UK roads and non-core construction activities.

AMEC continues to see PPP opportunities in both the UK and overseas. Recently, it has been appointed preferred bidder on three UK PPP projects with a value to AMEC in excess of £600 million. In addition, AMEC is preferred bidder on the Incheon Bridge Project in Korea where it has a project management role.

The Developments business performed satisfactorily. Significant progress was made in submitting planning applications for urban regeneration schemes. AMEC expects to secure consents for three million square feet of mixed use developments for its joint ventures in 2005.

The Wind Energy business continues to make good progress on its projects with the submission of planning applications for projects involving some 800 MW of potential capacity. Whilst the costs incurred in the development phase have an impact on the results of this segment, AMEC remains confident that future returns will be attractive.

The total operating profit excludes the gain of several million pounds that arose from the disposal of subordinated debt in a PPP concession company that has been included within the interest line.

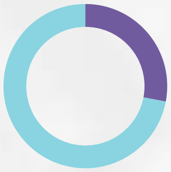
This segment will include gains made on the disposal of interests in PPP and Wind Energy activities as it remains AMEC's intention to consider the disposal of such interests as they reach financial maturity as long as the post-tax returns are attractive. To date, AMEC has realised £17 million from disposals and reported a cumulative profit of £9 million.

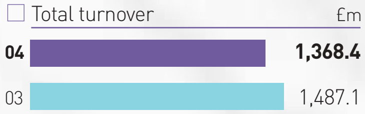
The overall margin is in line with expectations for this business segment with total operating profit slightly ahead of last year.

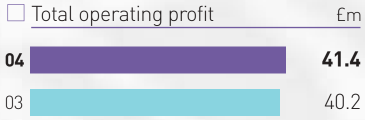
The increase in net assets reflects the unwinding of the cash position following the exit from non-core construction activities, reduced levels of advance cash and increased PPP equity investment.

The order book was virtually stable year on year at £1.1 billion with an increase in the UK offsetting a decline in North America. The order book only includes projects that have been awarded and therefore excludes those PPP contracts where AMEC has recently secured preferred bidder status. The order book also excludes the concession income streams of PPP projects.

Project Solutions







	2004 £m	2003 £m
Total turnover	**1,368.4**	1,487.1
Total operating profit	**41.4**	40.2
Margin	**3.0%**	2.7%
Net assets	**65.9**	10.3

* Before internal turnover

The portfolio of Project Equity Investments is poised to deliver growth

Report of the directors

The directors have pleasure in presenting the annual report and accounts for the year ended 31 December 2004.

Business review

Information on the businesses of AMEC, their development during the year and on the future outlook is contained on pages 1 to 43.

An analysis of AMEC's activities is given in note 2 on pages 61 and 62.

The profit on ordinary activities after taxation, which amounted to £22.6 million (2003: £60.8 million), is shown in the consolidated profit and loss account on page 55.

The directors recommend that a final dividend of 7.2 pence (2003: 6.9 pence) per share be paid which, together with the interim dividend of 3.8 pence (2003: 3.6 pence), results in a total dividend for the year of 11.0 pence (2003: 10.5 pence) per share. Dividends amounted to £34.8 million (2003: £30.7 million). The final dividend will be payable on 1 July 2005 to shareholders on the register at the close of business on 13 May 2005.

On 6 May 2004, AMEC announced that, following a strategic review, it would exit from the US construction management market.

On 22 June 2004, the disposal of the remaining 49 per cent shareholding in SPIE Batignolles S.A., its France – based regional construction business, was completed.

Share capital

The authorised and issued share capital of the company as at 31 December 2004 and movements during the year are set out in note 21 on page 71.

Authority was granted to the directors at the 2002 annual general meeting to allot up to £49,790,640 of ordinary share capital, of which up to £7,204,249 could be allotted for cash other than by way of a rights issue. This authority extends until 8 May 2007.

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.

Resolution 10 will be proposed at the annual general meeting, to be held on 18 May 2005, to grant authority to the directors to make market purchases of up to 10 per cent of the company's shares within prescribed limits. No such purchases were made in 2004 or up to the date of this report pursuant to the authority granted at last year's annual general meeting.

The directors will only exercise such authority to purchase shares if circumstances arise in which they consider purchases would be of benefit to the company. No purchase would be made unless the directors are of the view that it would result in an increase in earnings per share. The directors will also take into account the company's cash resources, the effect on gearing and other possible investment opportunities before exercising this authority.

Resolution 11, which is covered in further detail in the appendix to the notice of annual general meeting, relates to the introduction of the Savings Related Share Option Scheme 2005, to replace the existing scheme which expires in June 2005. Authority is also sought to introduce an International Savings Related Share Option Scheme, which is substantially the same as the UK scheme. The International scheme requires specific shareholder approval in order that employees in the United States and France can enjoy beneficial tax treatment.

Resolution 12, covered further in the directors' remuneration report, amends the rules of the Performance Share Plan 2002 to increase the individual limit of shares which may be awarded to an executive in any one year from one times to two times salary.

Substantial interests

Pursuant to Section 198 of the Companies Act 1985, notifications have been received by the company of shareholdings of three per cent or more of the issued share capital as at 10 March 2005 and these are as follows:

	Number	Per cent
ToscaFund Limited	28,714,088	8.65
FMR Corp./Fidelity International Limited	21,430,039	6.45
Legal & General Investment Management Limited	11,160,201	3.36

Where relevant, the percentage shareholdings have been adjusted from that notified to the company to reflect the increased share capital resulting from the placing of 30,164,357 shares announced on 20 January 2005.

Directors

Details of the directors of the company at the date of this report are set out on pages 22 and 23.

Mr S Gillibrand retired from the board on 21 January 2004 and Mr J M Green-Armytage replaced him as chairman on that date.

Mr P J Byrom and Mr T W Faithfull were appointed to the board as non-executive directors on 10 February 2005. In accordance with article 91 of the articles of association of the company, Mr Byrom and Mr Faithfull will retire from office at the forthcoming annual general meeting and, being eligible, offer themselves for re-election. They do not have employment contracts with the company.

Sir Peter Mason and Mr J D Early retire in accordance with article 85 of the articles of association of the company and, being eligible, offer themselves for re-election. Sir Peter and Mr Early have employment contracts with the company terminable by one year's notice by either party.

The beneficial interests in the share capital of the company of the directors holding office as at 31 December 2004 were as follows:

	As at 31 December 2004 Number	As at 31 December 2003 Number
J M Green-Armytage	**10,000**	10,000
Sir Peter Mason	**90,669**	86,458
J D Early	**53,347**	49,382
J A Monville	**19,809**	13,143
E P Airey	**18,120**	18,120
J A Dallas	**2,000**	2,000
M O Hesse	**16,414**	16,414
S J Siddall	**24,307**	17,641
J-P Jacamon	**10,000**	10,000
C A Riva	**23,000**	–

Except for interests under share option schemes, the Long-Term Incentive Plan and the Performance Share Plan, details of which are contained in the directors' remuneration report on pages 49 to 54, no director as at 31 December 2004 had any other interests, beneficial or otherwise, in the share capital of the company or any of its subsidiaries.

There were no changes in the directors' interests in the share capital of the company between 31 December 2004 and 10 March 2005.

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

Employees

In 2004, AMEC employed on average 43,660 people worldwide. Details are given in note 6 on page 63.

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 young 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. The 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 a priority for AMEC, as employees carry forward AMEC's knowledge, brand and reputation. AMEC provides numerous direct or electronic opportunities for employees to raise issues and discuss matters of concern with management.

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

The company operates an Inland Revenue approved savings related share option scheme open to all eligible UK employees. Shareholders' approval was given at the 2002 annual general meeting to also make the scheme available to overseas employees and the first launch of the scheme is scheduled to be made in North America and certain European countries during 2005.

Report of the directors
continued

Corporate governance

The board is responsible to the shareholders for the management of the company and for the protection of its assets. As such, it is ultimately responsible for putting in place 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 misstatement or loss.

Combined Code compliance
Following the issue in January 2003 of the reports by Derek Higgs on 'Review of the Role and Effectiveness of Non-Executive Directors' and by Sir Robert Smith on 'Audit Committees – Combined Code Guidance', a new Combined Code was issued in July 2003. The new Combined Code applies for reporting years beginning on or after 1 November 2003. Consequently the first year for which the company is required to comply is the year ended 31 December 2004.

As noted in last year's annual report, AMEC carried out a detailed review of the impact of the new Combined Code on the way in which its board and committees carry out their responsibilities. Following this review, the board considered that, as at 1 January 2004, it had taken the necessary steps to put appropriate processes in place to comply with the revised Combined Code throughout 2004.

As at 31 December 2004, the board is able to confirm that the company has complied with the relevant provisions of the revised Combined Code except as follows:

The revised Code requires there to be a "balance of executive and non-executive directors (and in particular independent non-executive directors) such that no individual or small group of individuals can dominate the board's decision taking". Following the resignation of Mr S Gillibrand and the subsequent appointment of Mr J M Green-Armytage, who was previously senior independent director, to the position of chairman on 21 January 2004, there has been an imbalance of executive and non-executive directors, with five executives and four non-executives. The board does not consider that this imbalance has impaired its effectiveness in any way. Two new independent non-executive directors, Mr T W Faithfull and Mr P J Byrom, were appointed to the board on 10 February 2005, following an extensive executive search undertaken by Hanson Green on behalf of the board.

The company 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 as part of the normal internal audit process.

Management and Policy Framework
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 AMEC Management and Policy Framework, which establishes the standards AMEC employees and contracting staff are expected to meet.

Dialogue with institutional shareholders
Mr J M Green-Armytage, chairman, wrote to all major shareholders shortly after his appointment in January 2004 informing them that he and the senior independent director, Ms E P 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. During 2004, the chairman had meetings with representatives from two major institutional investors, one in conjunction 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

For the majority of 2004, the board comprised the non-executive chairman, five executive directors and four independent non-executive directors. Two new independent non-executive directors were appointed to the board in February 2005 (see pages 22 and 23 for biographical details).

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 E P Airey has acted as the board's senior independent director since 21 January 2004, when she replaced Mr J M Green-Armytage in that role. 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 committees, all of which have written terms of reference. The remit of each committee is set out below. The quorum is generally three 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.

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 annual 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.

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

It reviews the head of internal audit's regular reports and, during 2004, carried out an assessment of the effectiveness of the internal audit function. This assessment was carried out by the audit committee primarily by way of a self-assessment by the head of internal audit, following guidance set out by the Institute of Chartered Accountants in England & Wales (ICAEW) in "Evaluating the Effectiveness of Internal Audit", published in November 2003. The audit committee will commission an independent review of the internal audit function in 2005.

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 auditors, 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 2004 a review, co-ordinated on behalf of the committee by the head of internal audit, was carried out. The audit committee has also monitored the implementation of the policy on the engagement of the external auditor to supply non-audit services, which was introduced in 2003. This policy follows the guidelines set out by the ICAEW 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 2004, the fees paid to the company's auditor, KPMG Audit Plc and its associates, for non-audit work were £0.7 million (2003: £0.8 million), which comprised £0.6 million primarily relating to taxation and £0.1 million for other work (2003: £0.6 million and £0.2 million).

In addition to the above amounts, fees of £0.2 million (2003: £1.2 million) were paid to KPMG Audit Plc in connection with due diligence undertaken on acquisitions.

- 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 corporate 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, in respect of the chief executive, and the chief executive, in respect of the other executive directors, 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 deputy 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 2004. Mr Gillibrand attended one board meeting prior to his retirement on 21 January 2004.

	AMEC plc Board	Audit committee	Nominations committee	Remuneration committee
Number of meetings	9	4	1	5
J M Green-Armytage	9		1	
Sir Peter Mason	9		1	
J D Early	9			
J A Monville	9			
E P Airey	8	4	1	5
J A Dallas	9	4	1	5
M O Hesse	8	3	1	5
S J Siddall	9			
J-P Jacamon	9	4	1	4
C A Riva	9			

- 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 required.

- Share transaction committee – Provides clearance or denies permission to relevant employees to deal in AMEC plc shares.

Report of the directors
continued

The committees chaired by executive directors are as follows:

- Banking committee – Reviews and approves facilities for borrowing, guarantees, bonds, indemnities and employee bridging loans and also interest rate and foreign exchange hedging strategies within authority limits set by the board.

- Corporate transactions committee – Considers acquisitions and disposals of businesses and provides guidelines in respect of such transactions within authority limits set by the board.

- Pensions and retirement benefits committee – Reviews proposals relating to new arrangements, amendments, discontinuance, funding or any other matters relating to pension and retirement benefits.

- Risk review committee – Approves the AMEC plc risk register, the AMEC plc risk transfer policy and proposals to enter into contractual commitments that fall outside the delegated authority limits of the executive directors.

Risk management processes
The board, through the committees described above and at its regular meetings, has a continuous process for identifying, evaluating and managing significant risks faced by the company, 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.

AMEC uses a seven-step Total Risk Management process and has incorporated it into the Management and Policy Framework. The process involves the identification of risks at the gross and net level by each business and each corporate function. The risks are recorded in separate risk registers for each business unit and each function to enable the net positions to be pro-actively managed. The highest risks based on probability and impact are then consolidated into an overall risk register for AMEC plc, which is reviewed in detail by the board on an ongoing basis. The risk management process accommodates mergers, acquisitions and disposals as well as entry to and exit from different markets.

Risk management within AMEC is coordinated via the risk management forum, which meets at least twice yearly. The forum consists of risk managers/sponsors for the businesses and heads of corporate functions and has the remit to report to the risk review committee of the board at least annually. It also reviews progress made in embedding risk management throughout the company, dissemination of best practice and communication of lessons learned.

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.

The risk management processes were in place for the whole of 2004, and up to the date of approval of the accounts, and satisfy the requirements of the Turnbull guidance.

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 38 days' purchases outstanding as at 31 December 2004 based on the average daily amount invoiced by suppliers during the year.

Donations
Donations to United Kingdom charities amounted to £132,000 for the year ended 31 December 2004.

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

Post balance sheet events
In January 2005, AMEC announced the successful placing of 30,164,397 new shares, just under 10 per cent of the issued share capital.

In January 2005, AMEC acquired Paragon Engineering Services Inc. (now AMEC Paragon Inc.) a Houston-based oil and gas engineering services company.

By order of the board

P J Holland
Secretary
10 March 2005

Note
Since 10 March 2005, FMR Corp./Fidelity International Limited have notified further increases in their interests and on 30 March 2005 notified an interest of 34,212,407 shares (10.30%). There were no other changes in either the directors' interests or in the substantial interests in the share capital of the company between 10 March 2005 and 31 March 2005.

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, any three of whom may form a quorum, comprised Mr J A Dallas (chairman), Ms E P Airey, Ms M O Hesse and Mr J-P Jacamon. In accordance with the Combined Code regulations, the chairman, Mr J M Green-Armytage, attends meetings by invitation but is not a member of the remuneration committee.

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 2004, 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 additional work for the company. The terms of engagement between the company and New Bridge Street are available from the company secretary. Monks Partnership, in relation to the UK, and Towers Perrin, particularly in relation to France and the USA, provided market remuneration and benefits reports covering various levels of management which, in respect of the executive directors, were reviewed by New Bridge Street.

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 and increase the medium and long-term value of AMEC for its shareholders and encourage executives to build and retain a significant shareholding in AMEC.

Remuneration packages comprise:

- base salaries which broadly equate to the mid-market salary practices of a relevant group of support services, engineering and construction comparator companies and other companies regarded as comparable by virtue of, amongst other factors, turnover, 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; and

- medium and long-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 shareholder value targets are met.

More than half of the overall remuneration package is therefore performance related.

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 2005, representing an average increase of approximately five per cent:

Sir Peter Mason	£610,000
J D Early	£277,500
J A Monville (€546,000 equivalent)	£386,500
S J Siddall	£360,000
C A Riva	£475,000

All executive directors 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;

- the achievement of other specific business targets, including cash flow and business unit profit; and

- individual performance objectives (for example, in relation to safety, strategy and organisational issues).

A separate amount of bonus attaches to each of these components. The proportions vary between individuals depending on their specific executive roles. In addition, 10 per cent may be allocated to allow recognition of how participants have responded to changing circumstances during the year which cannot necessarily be addressed by predefined targets. The maximum potential annual bonus is 80 per cent of base salary. In every case the profit and other business target components represent more than half of the potential total.

No elements of remuneration other than base salary are pensionable other than for Mr Monville, who is 60, and whose base salary and ordinary annual bonus, up to a maximum of 60 per cent of base salary, are pensionable. Mr Monville's pension arrangements are covered on page 54 of this report. These arrangements are common for senior executives in France and are a contractual obligation that AMEC inherited with the acquisition of SPIE S.A.

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

Directors' remuneration report
continued

Executive directors' long-term incentives

AMEC has in recent years operated two long-term incentive arrangements, the Performance Share Plan 2002 and the Executive Share Option Scheme 2002. In the light of market practice and the introduction of international financial reporting standards, it has been concluded that forward practice should be to make annual awards of performance shares only. Major shareholders have been consulted on this change of policy and as a result AMEC will be seeking approval at the annual general meeting to increase the limit of annual awards under the Performance Share Plan to a maximum face value of two times' salary, with the continuing proviso that the present economic value ("PEV") of all long-term incentive awards to an individual in any year cannot exceed one times annual base salary (PEV is an assessment of the value today of an award, taking account of various factors including the likelihood of vesting, using an adaptation of the Black Scholes option pricing model). Subject to shareholders approving this proposal, in future share options would only be granted in exceptional circumstances such as recruitment.

Assuming such approval, AMEC's policy for 2005 and beyond will be to make awards each year to executive directors, and to a very 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 will be offered a further award, up to a maximum of 25 per cent of base salary, of five restricted shares for every three purchased from their previous year's post-tax bonus and held on their behalf as investment shares for the full three year performance period. Awards are also made to a wider group of executives, with lower levels of face value to reflect seniority and contribution. Awards are not normally made to those within 12 months of retirement and, where the individual is within three years of retirement, the size of award has regard to the executive's ability to contribute to the achievement of the performance conditions.

These restricted shares will only vest if pre-determined performance conditions are met. For full vesting, the requirement is for AMEC to be ranked in the top quartile of total shareholder return, measured over a three year period, of a comparator group. This comprises the companies (approximately 40 in number) that, at the time of grant of each award, are in the FTSE All Share Business Support, Environmental Control, Other Construction and Oil Services sub-sectors, and whose market capitalisations lie between £250 million and £3,000 million (or such other range spanning that of AMEC as may be agreed from time to time). If AMEC's performance is at the median, 25 per cent of the award will vest. 100 per cent of the award will vest at upper quartile. Between the median and the upper quartile, the award will vest on a straight-line basis. No awards will vest if AMEC's performance is below median. As a further threshold condition, to ensure that the company's underlying performance is properly reflected, no awards will vest if AMEC's earnings per share have grown by less than the rate of inflation plus six percentage points over the three year period.

These performance conditions are intended to focus executives' attention on the return that AMEC is delivering to its shareholders over the medium-term relative to broadly comparable alternative companies in which shareholders could have invested. Lists of the comparator companies for the awards that lapsed during the year and those awards currently subsisting can be obtained on request from the company secretary.

The present economic value of performance share awards made on this basis in 2004 has been assessed by Watson Wyatt LLP as 40 per cent of face value.

Awards under the Executive Share Option Scheme 2002 are made at an option price based on the market value at the time of grant and are subject to meeting earnings per share ("EPS") performance conditions measured over a fixed three year period as detailed below.

Face value of shares under option	EPS performance – growth per annum	Percentage of award vesting
Up to 1 x base salary	RPI +3 per cent to RPI +5 per cent	25 per cent to 100 per cent
Any award above 1 x base salary	RPI +5 per cent to RPI +9 per cent	0 per cent to 100 per cent

Once exercisable, options may be exercised up to the tenth anniversary of the date of grant.

The present economic value of options granted on this basis in 2004 has been assessed by Watson Wyatt LLP as 17.5 per cent of face value.

During the transition to international financial reporting standards, the Remuneration Committee will aim to ensure that performance measurement for remuneration purposes will be consistent year on year.

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 maximum savings per month.

Executive directors' pension entitlements and benefits

The executive directors, except for Mr J A Monville, are members of the AMEC Staff Pension Scheme and have top-up benefits provided through the AMEC Executive Pension Scheme. The schemes are both approved defined benefit schemes and also provide for life assurance cover and dependants' pensions. These executive directors have a normal retirement age of 60 and accrue pension rights which are linked to the length of pensionable service and to final pensionable salary.

The benefits of Sir Peter Mason, Mr S J Siddall and Mr C A Riva are restricted to take account of the earnings cap and they receive a taxable supplement to their salaries in relation to earnings above the cap. There are no funded or unfunded unapproved arrangements in force for executive directors.

The review of policy on UK executive pensions has still to be concluded following the introduction of the new tax regime that comes into force in April 2006, but the Remuneration Committee currently believes that:

- Pensions should not be provided routinely in excess of the Life Time Allowance;
- The payment of any tax liability of employees will be the responsibility of the individual and not AMEC;
- The scheme design going forward should be aimed at achieving a benefit equivalent to the life-time limit over 20 years service for those executives who would currently have a 1/30ths accrual rate and 30 years for those with a 1/45ths accrual rate. This would involve applying a new scheme-specific earnings cap i.e. only earnings up to a certain level will be used to calculate the final salary-related pension; and
- Salary supplements may continue to be used, where appropriate.

Mr Monville is a member of the SPIE top-up scheme for senior executives, which provides additional pension of up to 20 per cent of pensionable salary on top of the French compulsory social security and industry arrangements, subject to an aggregate limit of 50 per cent of pensionable pay at retirement. Due to French tax rules, this additional pension does not vest until the point of retirement. Mr Monville may retire with the agreement of AMEC from age 60 and must retire by age 65.

Employment related benefits, principally the provision of a company car or car allowance, life assurance and private medical expenses insurance, are also provided to executive directors.

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. Mr C A Riva who was appointed in August 2003 has a contract on this basis.

During 2001 the Remuneration Committee decided to change the policy on notice periods from two years to one year. Sir Peter Mason, Mr J D Early and Mr S J Siddall, had employment contracts with notice periods of two years. These were reduced by agreement to one year from 1 January 2003 without compensation but with provision that if the company terminates employment (other than for gross misconduct), rather than receiving notice, the individual 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 to take account of salary, bonus potential, pension arrangements, the value of benefits and compensation for loss of office.

Mr J A Monville is employed by SPIE S.A. as chairman. As a governing executive (mandataire social) any compensation for loss of office would be subject to negotiation under French law.

External directorships

Executive directors are not permitted to accept external directorships without the prior approval of the board. Sir Peter Mason is a non-executive director of BAe Systems plc. He retains the fee of £50,000 per annum which he receives in relation to this appointment.

Non-executive directors

The non-executive directors receive fees for their services and do not participate in any of the incentive or benefit schemes of the group, other than Mr J M Green-Armytage who is provided with life assurance cover of four times the Inland Revenue pensions earnings cap. The chairman's current fee is £200,000 per annum.

The remuneration of non-executive directors is determined by the chairman and the executive directors under delegated authority from the board. The current fee is £30,000 per annum plus a further £5,000 per annum in respect of chairing one or more committees of the board. Additional fees are payable for days in excess of 20 per annum at the rate of £1,500 per day.

Following a review of governance, a change has been made to the board's policy in relation to the term of office of non-executive directors. The board has concluded that, given the changed emphasis of the company to an increasingly complex international long-term project management and services business, it is appropriate that non-executive director appointments should be for three consecutive three year terms, subject to review after the end of each term. The previous policy was that appointments should be for three years with provision for a review on expiry and that any extended term would normally be for no greater than three years, however further renewal could be made in exceptional circumstances.

The non-executive directors as at 31 December 2004 have fixed term contracts which run until the dates set out below:

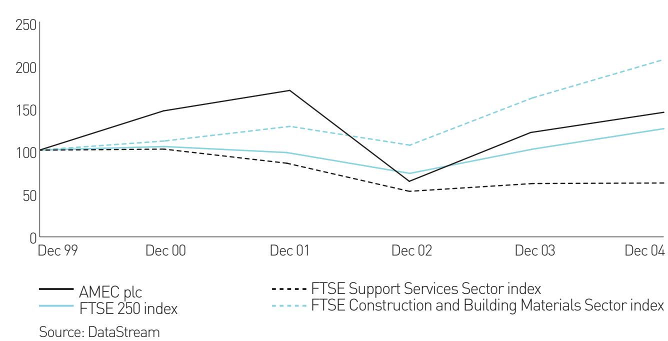
	Date of contract	Service review date
J M Green-Armytage	21 January 2004	20 January 2007
E P Airey	26 May 1999	25 May 2005
J A Dallas	28 October 1999	27 October 2005
M O Hesse	1 June 2000	31 May 2006
J-P Jacamon	27 November 2002	27 November 2005

The contract of the chairman, Mr Green-Armytage, contains provision for six months' written notice of resignation prior to the expiry date and payment of six months' fees if the board withdraw their agreement to his continuing to serve as chairman, other than for gross misconduct. The contracts of the other 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

The following graph (rebased to 100 as at 1 January 2000) charts the total cumulative shareholder return of the company since 1 January 2000:



This graph shows the growth in the value of a hypothetical £100 holding in AMEC plc ordinary shares over five years relative to a broad equity market index. As the company's activities span a variety of sectors, the remuneration committee has determined that AMEC's relative performance is best judged against a general market index and, therefore, the relative performance against the FTSE Mid 250 index is shown. As additional information, the performance against the FTSE Construction and Building Materials Sector, where AMEC was listed until 22 November 2004, and the FTSE Support Services sector, where AMEC is currently listed, are also shown.

Directors' remuneration and related matters

The auditors are required to report on the following information on pages 52 to 54 of the directors' remuneration report.

Individual aspects of remuneration were as follows:

		Salary/fee £000	Bonus[v] £000	Benefits in kind[vi] £000	2004 Total £000	2003 Total £000
Executive:	Sir Peter Mason[i]	**670**	**239**	**40**	**949**	1,021
	J D Early	**263**	**139**	**16**	**418**	378
	J A Monville[ii]	**370**	**185**	**7**	**562**	542
	S J Siddall[iii]	**388**	**148**	**22**	**558**	513
	C A Riva[iv] (from 1 August 2003)	**532**	**140**	**33**	**705**	426
	D Robson (to 31 July 2003)	**–**	**–**	**–**	**–**	268
	G E Payne (to 31 March 2003)	**–**	**–**	**–**	**–**	67
Non-executive:	J M Green-Armytage	**191**	**–**	**–**	**191**	46
	E P Airey	**46**	**–**	**–**	**46**	52
	J A Dallas	**35**	**–**	**–**	**35**	43
	M O Hesse	**46**	**–**	**–**	**46**	78
	J-P Jacamon	**35**	**–**	**–**	**35**	38
	S Gillibrand (to 21 January 2004)	**12**	**–**	**–**	**12**	167
Total board		**2,588**	**851**	**118**	**3,557**	3,639

Notes

(i) Sir Peter Mason's salary includes a taxable supplement in relation to earnings above the earnings cap for pension purposes of £95,000 (2003: £88,000).

(ii) Mr Monville's salary comprised €480,000 paid by SPIE S.A. and £30,000 paid by AMEC plc

(iii) Mr Siddall's salary includes a taxable supplement in relation to earnings above the earnings cap for pension purposes of £48,000 (2003: £42,000).

(iv) Mr Riva's salary includes a taxable supplement in relation to earnings above the earnings cap for pension purposes of £72,000 (2003: £29,000).

(v) The bonuses detailed above represented the following percentages of their base salaries for the year against a maximum potential 80 per cent: Sir Peter Mason 41.5 per cent, Mr Early 52.9 per cent, Mr Monville 49.9 per cent, Mr Siddall 43.5 per cent and Mr Riva 30.4 per cent. These reflected the achievement of AMEC plc profit performance that was midway between the threshold and stretch targets set at the start of the year and varying achievement against specific business targets and personal objectives.

(vi) The value of benefits in kind received during the year relates principally to the provision of a company car or car allowance, travelling expenses, life assurance and private medical expenses insurance. Unemployment insurance is also made available to Mr Monville in accordance with French practice and certain relocation expenses have been reimbursed to Mr Riva. None of these benefits are pensionable.

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

	As at 1 January 2004 Number	Granted during the year Number	Exercised during the year Number	**As at 31 December 2004 Number**	Option price Pence	Market price on date of exercise Pence	Exercise period
Sir Peter Mason[i]	600,000			**600,000**	99.00		Feb 1999-Feb 2006
	451,388			**451,388**	144.00		Apr 2000-Apr 2007
	4,211*		4,211*		230.00	265.50	Jan 2004-June 2004
	215,500			**215,500**	219.75		Oct 2005-Oct 2012
	208,000			**208,000**	276.25		Sept 2006-Sept 2013
	4,231*			**4,231***	218.00		Jan 2007-June 2007
		179,687		**179,687**	320.00		Sept 2007-Sept 2014
J D Early[ii]	50,000			**50,000**	144.00		Apr 2000-Apr 2007
	3,369*		3,369*		230.00	263.00	Jan 2004-June 2004
	596*		596*		181.00	272.75	Jul 2004-Dec 2004
	101,000			**101,000**	219.75		Oct 2005-Oct 2012
	96,000			**96,000**	276.25		Sept 2006-Sept 2013
	3,893*			**3,893***	218.00		Jan 2007-June 2007
		82,031		**82,031**	320.00		Sept 2007-Sept 2014
S J Siddall[iii]	97,902		97,902		214.50	317.00	Jun 2003-Jun 2010
	118,500			**118,500**	219.75		Oct 2005-Oct 2012
	119,000			**119,000**	276.25		Sept 2006-Sept 2013
	4,231*			**4,231***	218.00		Jan 2007-June 2007
		106,250		**106,250**	320.00		Sept 2007-Sept 2014
J A Monville	135,000			**135,000**	276.25		Sept 2006-Sept 2013
		109,327		**109,327**	320.00		Sept 2007-Sept 2014
C A Riva	325,791			**325,791**	276.25		Sept 2006-Sept 2013
		143,750		**143,750**	320.00		Sept 2007-Sept 2014

Notes

(i) Gain on exercise £1,495 (2003: £nil).

(ii) Gain on exercises £1,659 (2003: £nil).

(iii) Gain on exercise £100,350 (2003: £nil).

(iv) The performance conditions applied to awards made under the Executive Share Option Schemes during the year were varied from previous years, including the removal of the facility to retest. All awards were at nil cost.

(v) Certain of the options were capable of being exercised as at 31 December 2004 as all performance conditions had been met. If the options had been exercised on that date the approximate gain before appropriate taxes for each of the current directors would have been: Sir Peter Mason, £1,900,000 and Mr Early, £76,875. Had the remainder of the options been capable of being exercised and vested in full as at 31 December 2004, the approximate latent gain before appropriate taxes for each of the current directors would have been: Sir Peter Mason, £213,000; Mr Early, £99,420; Mr Siddall, £118,000; Mr Monville, £29,000 and Mr Riva, £70,000. These hypothetical figures assume that all performance conditions will be fully met, which may not in practice transpire.

The Performance Share Plan 2002 (the 'PSP') was approved by shareholders in 2002. The PSP replaced the Long-Term Incentive Plan (the 'LTIP') which was introduced in 1998. The design of the PSP took account of the provisions of Schedule 'A' to the Combined Code.

The number of restricted shares held by executive directors to whom awards had been made under the PSP and the LTIP were as follows:

	As at 1 January 2004 Number	Awarded during the year Number	Date awarded	Market price at date of award Pence	Lapsed during the year Number	**As at 31 December 2004 Number**	End of performance period
Sir Peter Mason	68,972		Apr 2001	462.50	68,972	**–**	Mar 2004
	79,500		Apr 2002	430.50		**79,500**	Mar 2005
	221,248		Apr 2003	228.25		**221,248**	Mar 2006
		191,666	Apr 2004	300.00		**191,666**	Mar 2007
J D Early	32,729		Apr 2001	462.50	32,729	**–**	Mar 2004
	38,030		Apr 2002	430.50		**38,030**	Mar 2005
	105,826		Apr 2003	228.25		**105,826**	Mar 2006
		87,500	Apr 2004	300.00		**87,500**	Mar 2007
S J Siddall	31,891		Apr 2001	462.50	31,891	**–**	Mar 2004
	43,890		Apr 2002	430.50		**43,890**	Mar 2005
	113,909		Apr 2003	228.25		**113,909**	Mar 2006
		98,333	Apr 2004	300.00		**98,333**	Mar 2007
J A Monville	134,281		Apr 2003	228.25		**134,281**	Mar 2006
		99,495	Apr 2004	300.00		**99,495**	Mar 2007
C A Riva	167,597		Aug 2003	268.50		**167,597**	Mar 2006
		153,333	Apr 2004	300.00		**153,333**	Mar 2007

Notes relating to this table appear overleaf.

Notes

(i) Awards, as determined by the remuneration committee, were made under the PSP on 14 April 2004 to Sir Peter Mason, Mr J D Early, Mr S J Siddall, Mr J A Monville and Mr C A Riva at a market price of 300.00 pence.
(ii) For the LTIP awards made in April 2001, AMEC failed to meet the minimum performance conditions and, therefore, the awards lapsed in April 2004.
(iii) For the LTIP awards made in April 2002, AMEC failed to meet the earnings per share performance condition and, therefore, these awards will lapse in April 2005.
(iv) The terms and conditions of the PSP and the LTIP have not been varied during the year.
(v) The closing price of the shares at 31 December 2004 was 297.75 pence (2003: 260.00 pence).
(vi) The range of the closing prices for the shares during the year was 252.25 pence to 342.00 pence.
(vii) 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 PSP and the LTIP.
(viii) Had the restricted shares detailed above vested in full as at 31 December 2004 the approximate latent value before appropriate taxes for each of the current directors would have been: Sir Peter Mason, £1,466,000; Mr Early, £689,000; Mr Siddall, £763,000; Mr Monville, £696,000; and Mr Riva, £956,000. These hypothetical figures assume that all performance conditions will be fully met, which may not in practice transpire.

Pension arrangements

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 2004(i) £000	Value of net increase in accrual over period(iii) £000	Total change in value during period(iv) £000	Value of accrued pension at 31 December 2004 £000	Value of accrued pension at 31 December 2003 £000
Sir Peter Mason	**4**	**3**	**30**	**37**	**100**	**627**	522
J D Early	**16**	**12**	**167**	**78**	**434**	**3,406**	2,961
S J Siddall	**4**	**3**	**15**	**63**	**90**	**307**	212
C A Riva	**3**	**3**	**5**	**61**	**65**	**94**	25

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 1.5 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.

Mr J A Monville is a member of the SPIE top-up pension scheme for senior executives. Although the scheme, arranged through an insurance company, is a defined benefit scheme, it is not possible to disclose his pension benefits in the above format. A pension is payable by SPIE only in the event of Mr Monville reaching his normal retirement age of 65 or, following the attainment of age 60, by agreement with AMEC. No pension is due or payable in other circumstances and Mr Monville currently has no accrued right to a pension payment. His pension at the normal retirement age, or as agreed by AMEC, would be based on the average of his last three years base salary and bonus, up to a maximum of 20 per cent of this figure. As at 31 December 2004, this would equate to £106,000 (€149,000) (2003: £94,000 (€134,000)) per annum. It is not possible to attribute a value to the accrued funds as these are not separately identified by the insurance company.

J A Dallas
Chairman, remuneration committee
On behalf of the board
10 March 2005

Consolidated profit and loss account

For the year ended 31 December 2004

	Notes	2004 Before goodwill amortisation and exceptional items £ million	2004 Goodwill amortisation and exceptional items £ million	2004 Total £ million	2003 Before goodwill amortisation and exceptional items £ million	2003 Goodwill amortisation and exceptional items £ million	2003 Total £ million
Turnover: Group and share of joint ventures	2	**4,816.4**	**–**	**4,816.4**	4,712.7	–	4,712.7
Share of turnover in joint ventures		**(158.9)**	**–**	**(158.9)**	(289.9)	–	(289.9)
Group turnover		**4,657.5**	**–**	**4,657.5**	4,422.8	–	4,422.8
Cost of sales		**(4,051.6)**	**–**	**(4,051.6)**	(3,853.2)	–	(3,853.2)
Gross profit		**605.9**	**–**	**605.9**	569.6	–	569.6
Administrative expenses		**(479.4)**	**(21.6)**	**(501.0)**	(441.1)	(16.3)	(457.4)
Group operating profit/(loss)		**126.5**	**(21.6)**	**104.9**	128.5	(16.3)	112.2
Share of operating profit/(loss) in joint ventures and associates	2	**23.1**	**–**	**23.1**	13.2	(0.7)	12.5
Total operating profit/(loss)	2 & 3	**149.6**	**(21.6)**	**128.0**	141.7	(17.0)	124.7
(Loss)/profit on disposal or closure of operations:	4						
(Loss)/profit before goodwill		**–**	**(21.5)**	**(21.5)**	–	0.6	0.6
Goodwill previously written-off to reserves		**–**	**(13.0)**	**(13.0)**	–	–	–
		–	**(34.5)**	**(34.5)**	–	0.6	0.6
Profit/(loss) on disposal of fixed assets	4	**–**	**3.7**	**3.7**	–	(0.4)	(0.4)
Profit/(loss) on ordinary activities before interest		**149.6**	**(52.4)**	**97.2**	141.7	(16.8)	124.9
Net interest payable:	7						
Group		**(18.8)**	**–**	**(18.8)**	(18.4)	–	(18.4)
Joint ventures and associates		**(12.7)**	**–**	**(12.7)**	(10.8)	–	(10.8)
		(31.5)	**–**	**(31.5)**	(29.2)	–	(29.2)
Profit/(loss) on ordinary activities before taxation		**118.1**	**(52.4)**	**65.7**	112.5	(16.8)	95.7
Taxation on profit/(loss) on ordinary activities	8	**(38.7)**	**(4.4)**	**(43.1)**	(36.0)	1.1	(34.9)
Profit/(loss) on ordinary activities after taxation		**79.4**	**(56.8)**	**22.6**	76.5	(15.7)	60.8
Equity minority interests				**(0.8)**			(0.8)
Profit for the year				**21.8**			60.0
Dividends	9			**(34.8)**			(30.7)
Retained (loss)/profit for the year	22			**(13.0)**			29.3
Earnings per ordinary share:	10						
Basic		**26.7p**		**7.4p**	25.8p		20.4p
Diluted		**25.9p**		**7.2p**	25.3p		20.0p
Dividends per ordinary share	9			**11.0p**			10.5p

Consolidated balance sheet

As at 31 December 2004

	Notes	2004 £ million	2003 (as restated) £ million
Fixed assets			
Intangible assets	11	**341.2**	342.1
Tangible assets	12	**187.1**	207.0
		528.3	549.1
Investments:	13		
Joint ventures:			
Share of gross assets		**709.7**	639.7
Share of gross liabilities		**(634.1)**	(585.6)
		75.6	54.1
Associates		**–**	12.7
Other		**37.5**	30.3
		113.1	97.1
		641.4	646.2
Current assets			
Stocks	14	**91.4**	102.0
Debtors: amounts falling due within one year	15	**1,723.5**	1,541.6
Debtors: amounts falling due after one year	15	**184.3**	177.6
Cash at bank and in hand		**299.5**	364.8
		2,298.7	2,186.0
Creditors: amounts falling due within one year	16	**(1,968.1)**	(1,919.1)
Net current assets		**330.6**	266.9
Total assets less current liabilities		**972.0**	913.1
Creditors: amounts falling due after one year	17	**(644.1)**	(587.3)
Provisions for liabilities and charges	20	**(59.8)**	(57.3)
Net assets	2	**268.1**	268.5
Capital and reserves			
Called up share capital	21	**151.0**	149.6
Share premium account	22	**88.8**	82.8
Revaluation reserve	22	**20.1**	11.1
Capital redemption reserve	22	**17.2**	17.2
Profit and loss account	22	**(12.3)**	0.4
Equity shareholders' funds		**264.8**	261.1
Equity minority interests		**3.3**	7.4
Capital employed		**268.1**	268.5

The accounts on pages 55 to 78 were approved by the board of directors on 10 March 2005 and were signed on its behalf by:

Sir Peter Mason KBE
Chief executive

S J Siddall
Finance director

Company balance sheet

As at 31 December 2004

	Notes	2004 £ million	2003 (as restated) £ million
Fixed assets			
Tangible assets	12	**7.5**	7.3
Investments:	13		
Subsidiaries		**891.8**	850.5
Joint ventures		**10.1**	11.1
Other		**0.1**	0.1
		902.0	861.7
		909.5	869.0
Current assets			
Debtors: amounts falling due within one year	15	**12.9**	9.3
Debtors: amounts falling due after one year	15	**76.1**	66.0
Cash at bank and in hand		**4.0**	9.0
		93.0	84.3
Creditors: amounts falling due within one year	16	**(86.8)**	(76.0)
Net current assets		**6.2**	8.3
Total assets less current liabilities		**915.7**	877.3
Creditors: amounts falling due after one year	17	**(528.8)**	(452.8)
Provisions for liabilities and charges	20	**(21.9)**	(20.7)
Net assets		**365.0**	403.8
Capital and reserves			
Called up share capital	21	**151.0**	149.6
Share premium account	22	**88.8**	82.8
Revaluation reserve	22	**0.5**	0.3
Capital redemption reserve	22	**17.2**	17.2
Profit and loss account	22	**107.5**	153.9
Equity shareholders' funds		**365.0**	403.8

The accounts on pages 55 to 78 were approved by the board of directors on 10 March 2005 and were signed on its behalf by:

Sir Peter Mason KBE
Chief executive

S J Siddall
Finance director

Consolidated cash flow statement

For the year ended 31 December 2004

	Notes	2004 £ million	2003 (as restated) £ million
Net cash flow from operating activities	23	**19.4**	97.9
Dividends from joint ventures and associates		**0.2**	4.3
Returns on investments and servicing of finance			
Interest received		**29.1**	24.1
Interest paid		**(46.6)**	(37.0)
		(17.5)	(12.9)
Taxation		**(26.6)**	(30.6)
Capital expenditure			
Purchase of tangible fixed assets		**(51.4)**	(69.6)
Disposal of tangible fixed assets		**52.8**	50.8
		1.4	(18.8)
Acquisitions and disposals	26		
Acquisition of subsidiaries		**(11.0)**	(182.4)
Acquisition of joint ventures, associates and other investments		**(20.1)**	(10.4)
Disposal of joint ventures, associates and other investments		**19.7**	11.7
		(11.4)	(181.1)
Dividends paid to equity shareholders		**(30.8)**	(28.9)
Net cash flow before management of liquid resources and financing		**(65.3)**	(170.1)
Management of liquid resources	25	**32.8**	(20.2)
Financing			
Shares issued		**7.4**	0.4
Purchase of own shares		**(6.5)**	(5.9)
Net movement in debt		**(1.7)**	291.3
		(0.8)	285.8
(Decrease)/increase in cash	24	**(33.3)**	95.5

Consolidated statement of total recognised gains and losses

For the year ended 31 December 2004

	2004 £ million	2003 £ million
Profit for the year	**21.8**	60.0
Exchange and other movements	**(11.8)**	(2.3)
Adjustment arising from the full consolidation of SPIE	**–**	(12.1)
Surplus on property revaluation	**9.6**	–
Total gains and losses relating to the year	**19.6**	45.6

Note of consolidated historical cost profits and losses

For the year ended 31 December 2004

There is no material difference between the reported results and the results calculated on an unmodified historical cost basis.

Reconciliation of movements in consolidated shareholders' funds

For the year ended 31 December 2004

	2004 £ million	2003 (as restated) £ million
Profit for the year	**21.8**	60.0
Dividends	**(34.8)**	(30.7)
Retained (loss)/profit for the year	**(13.0)**	29.3
Exchange and other movements	**(11.8)**	(2.3)
Shares issued	**7.4**	0.4
Adjustment arising from the full consolidation of SPIE	**–**	(12.1)
Surplus on property revaluation	**9.6**	–
Goodwill written back on disposal or closure of operations	**13.0**	–
Movements relating to the Long-Term Incentive Plan and Performance Share Plan 2002	**(1.5)**	(1.8)
Net increase in shareholders' funds	**3.7**	13.5
Equity shareholders' funds as at 1 January	**261.1**	247.6
Equity shareholders' funds as at 31 December	**264.8**	261.1

Shareholders' funds as at 31 December 2002 were £251.8 million and have been amended to incorporate a prior year adjustment of £4.2 million which arose on the adoption of UITF Abstract 38 'Accounting for ESOP trusts' and the amendment to UITF Abstract 17 'Employee share schemes'.

Notes to the accounts

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.

Full implementation of FRS 17 'Retirement benefits' is not mandatory. The additional disclosures required during the transitional period have been included in note 30 to the accounts.

In order to conform with the requirements of UITF Abstract 38 'Accounting for ESOP trusts' and the amendment to UITF Abstract 17 'Employee share schemes', investments in AMEC plc ordinary shares of 50 pence each held by the trustees of the Long-Term Incentive Plan and Performance Share Plan 2002 are recorded as a deduction in arriving at shareholders' funds. Previously these shares were shown within investments. In addition, purchases of shares which were previously shown in the cash flow statement within acquisitions and disposals are now disclosed within financing. This has the effect of reducing net assets by £7.5 million and £6.0 million in 2004 and 2003 respectively. This change has no impact on either the profit and loss account or the statement of total recognised gains and losses for either the prior year or the year under review.

AMEC acquired the outstanding 54 per cent interest in SPIE on 5 March 2003, after which it was fully consolidated in the accounts of AMEC. Additional reviews of the SPIE balance sheet have resulted in the reallocation of amounts held within certain balance sheet captions as at 31 December 2003. These changes provide additional consistency in the presentation of debtors and creditors and have no impact on the net assets of the group.

A new segmental format showing the nature of the group's total turnover, total operating profit and net assets has been adopted. The segments reflect the changes to the composition of the group in 2004 arising from the exit of low margin, high risk construction activities. In addition, the company was reclassified as a Support Services company in November 2004 and the new segmental format is expected to enhance the clarity of the group's reporting and lead to a greater understanding of its activities.

Basis of consolidation

The group accounts include the accounts of AMEC plc and all of its subsidiaries made up to 31 December each year and the group's share of the results and net assets of joint ventures and associates, based on the gross equity and equity methods of accounting, respectively. Joint arrangements, where each party has its own separate interest in particular risks and rewards, are accounted for by including the attributable share of the assets, liabilities and cash flows measured according to the terms of the arrangement.

The company has not presented its own profit and loss account, as permitted by section 230(4) of the Companies Act 1985.

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

Foreign currencies

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. Exchange differences arising on the retranslation 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.

Goodwill

Goodwill represents the excess of the fair value of purchase consideration over the fair value of net assets acquired. Goodwill arising on acquisitions made post 1 January 1998 is capitalised and amortised, on a straight line basis, over its estimated useful life, which for large acquisitions is not expected to exceed 20 years and for smaller acquisitions, 10 years. Where a business is disposed of or closed, the profit or loss on disposal or closure includes any unamortised amount included within intangible assets.

As permitted by FRS 10 'Goodwill and intangible assets', goodwill arising on acquisitions made prior to 1 January 1998 has been written-off to reserves. Where a business is disposed of or closed, the profit or loss on disposal or closure includes the attributable amount of goodwill previously charged to reserves.

Interest

Interest is written-off to the profit and loss account as incurred by all subsidiaries in the group. The group has, however, investments in joint ventures which are involved in public private partnership projects to finance, design and build assets and operate them on behalf of the client. In view of the nature of these projects, interest directly incurred in funding the construction programme is capitalised until the relevant assets are brought into operational use.

Leases

Operating lease costs are charged to the profit and loss account on a straight line basis over the period of the lease.

Long-term contracts

Amounts recoverable on long-term contracts are stated at cost plus attributable profits, less provision for any known or anticipated losses and payments on account, and are included in debtors. Payments on account in excess of amounts recoverable on long-term contracts are included in creditors.

1 Accounting policies continued

Pensions
Contributions to defined benefit schemes are allocated to the profit and loss account on a systematic basis over the normal expected service lives of employees. Contributions to money purchase schemes are charged to the profit and loss account in the year in which they are incurred.

Share option schemes
No charge is made to the profit and loss account in respect of SAYE schemes that are offered on similar terms to all, or substantially all, UK employees. Included within the profit and loss account reserve are shares in the company held by the AMEC plc Employee Share Trust. This is a discretionary trust, established for the benefit of AMEC employees, the trustee of which is an independent trustee company which retains legal responsibility, control and ownership of these shares.

Stocks
Stocks are stated at the lower of cost and net realisable value.

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'.

Turnover
Turnover represents sales and value of work done excluding all internal transactions within the group.

2 Segmental analyses

	Total turnover 2004 £ million	Total turnover 2003 £ million	**Total operating profit/(loss) 2004 £ million**	Total operating profit/(loss) 2003 £ million	**Net assets/ (liabilities) 2004 £ million**	Net assets/ (liabilities) 2003 £ million
Class of business:						
Engineering and Technical Services	**2,293.8**	1,952.7	**75.3**	69.8	**(8.1)**	27.2
Oil and Gas	**1,212.1**	1,350.0	**57.2**	58.2	**129.2**	76.5
Project Solutions	**1,368.4**	1,487.1	**41.4**	40.2	**65.9**	10.3
	4,874.3	4,789.8	**173.9**	168.2	**187.0**	114.0
Internal turnover	**(57.9)**	(77.1)	**–**	–	**–**	–
Corporate costs	**–**	–	**(24.3)**	(26.5)	**–**	–
	4,816.4	4,712.7	**149.6**	141.7	**187.0**	114.0
Goodwill amortisation/capitalised	**–**	–	**(21.6)**	(17.0)	**341.2**	342.1
Net debt	**–**	–	**–**	–	**(283.7)**	(218.1)
Unallocated net assets	**–**	–	**–**	–	**23.6**	30.5
	4,816.4	4,712.7	**128.0**	124.7	**268.1**	268.5
Geographical origin:						
United Kingdom	**1,974.8**	2,109.6	**89.2**	94.8	**67.2**	46.3
Rest of Europe	**1,651.3**	1,379.6	**46.4**	43.1	**(10.9)**	(26.3)
Americas	**690.2**	749.3	**15.3**	9.1	**109.9**	100.6
Rest of the world	**500.1**	474.2	**23.0**	21.2	**20.8**	(6.6)
	4,816.4	4,712.7	**173.9**	168.2	**187.0**	114.0
Corporate costs	**–**	–	**(24.3)**	(26.5)	**–**	–
	4,816.4	4,712.7	**149.6**	141.7	**187.0**	114.0
Goodwill amortisation/capitalised	**–**	–	**(21.6)**	(17.0)	**341.2**	342.1
Net debt	**–**	–	**–**	–	**(283.7)**	(218.1)
Unallocated net assets	**–**	–	**–**	–	**23.6**	30.5
	4,816.4	4,712.7	**128.0**	124.7	**268.1**	268.5

The analysis of total turnover by geographical market is not materially different from that by geographical origin.

Corporate costs comprise the costs of operating the head office of AMEC plc and also certain regional overheads. 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 interest payable cannot be analysed segmentally. Due to the nature of the businesses acquired, goodwill amortisation/capitalised cannot be analysed segmentally. The unallocated net assets principally comprise assets relating to the pension schemes prepayment and liabilities relating to dividends and taxation and are not directly related to the activities of the segments.

2 Segmental analyses continued

The group's share of the results of joint ventures and associates was as follows:

	SPIE S.A. 2004 £ million	SPIE S.A. 2003 £ million	**Others 2004 £ million**	Others 2003 £ million	**Total 2004 £ million**	Total 2003 £ million
Turnover:						
Engineering and Technical Services	**–**	76.8	**41.8**	27.7	**41.8**	104.5
Oil and Gas	**–**	28.5	**39.5**	39.8	**39.5**	68.3
Project Solutions	**–**	50.7	**77.6**	66.4	**77.6**	117.1
	–	156.0	**158.9**	133.9	**158.9**	289.9
Total operating profit/(loss):						
Engineering and Technical Services	**–**	(1.5)	**1.4**	0.9	**1.4**	(0.6)
Oil and Gas	**–**	–	**1.6**	2.2	**1.6**	2.2
Project Solutions	**–**	(4.5)	**20.1**	15.4	**20.1**	10.9
Total operating profit/(loss)	**–**	(6.0)	**23.1**	18.5	**23.1**	12.5
Profit on disposal or closure of operations	**–**	7.4	**–**	–	**–**	7.4
Profit on ordinary activities before interest	**–**	1.4	**23.1**	18.5	**23.1**	19.9
Net interest payable	**–**	–	**(12.7)**	(10.8)	**(12.7)**	(10.8)
Profit on ordinary activities before taxation	**–**	1.4	**10.4**	7.7	**10.4**	9.1
Taxation on profit on ordinary activities	**–**	–	**(2.4)**	0.7	**(2.4)**	0.7
Profit for the year	**–**	1.4	**8.0**	8.4	**8.0**	9.8

SPIE's total operating loss for Engineering and Technical Services in 2003 is after charging goodwill amortisation of £0.7 million.

3 Total operating profit/(loss)

Total operating profit/(loss) is stated after charging the following:

	2004 £ million	2003 £ million
Goodwill amortisation	**21.6**	17.0
Depreciation	**39.8**	47.8
Operating lease payments:		
Land and buildings	**49.6**	33.7
Plant and equipment (including short-term hire)[i]	**139.3**	119.9
Fees paid to auditors and their associates:		
Audit fees:		
KPMG Audit Plc	**1.7**	1.6
Other auditors	**1.7**	1.4
Non-audit fees:		
KPMG Audit Plc or its associates: taxation – £0.6 million (2003: £0.6 million) and other services – £0.1 million (2003: £0.2 million)[ii]	**0.7**	0.8
Other auditors	**1.0**	0.4

Notes

(i) Current annual commitments are detailed in note 28.

(ii) In addition to the above amounts paid to auditors and their associates, due diligence fees paid to KPMG Audit Plc of £0.2 million (2003: £1.2 million) were capitalised as part of the costs of acquisitions in the year ended 31 December 2004.

4 Non-operating exceptional items

	2004 £ million	2003 £ million
(Loss)/profit on disposal or closure of operations:		
Engineering and Technical Services	**9.7**	7.4
Oil and Gas	**–**	(0.5)
Project Solutions	**(31.2)**	(6.3)
Goodwill previously written-off to reserves	**(13.0)**	–
	(34.5)	0.6
Profit/(loss) on disposal of fixed assets	**3.7**	(0.4)
	(30.8)	0.2

5 Directors' remuneration and related matters

	2004 £000	2003 £000
Directors' emoluments	**3,557**	3,639
Gains on exercise of share options	**104**	–

More detailed information concerning directors' remuneration, including pension benefits, share options and long-term incentive arrangements, is set out in the directors' remuneration report on pages 49 to 54.

6 Staff costs and employee numbers

	2004 £ million	2003 £ million
Wages and salaries	**1,226.4**	1,271.0
Social security costs	**298.8**	317.7
Other pension costs	**13.5**	12.8
	1,538.7	1,601.5

The average number of people employed was as follows:

	2004 Number	2003 Number
Engineering and Technical Services	**25,248**	25,891
Oil and Gas	**11,647**	12,806
Project Solutions	**6,765**	7,204
	43,660	45,901

Notes to the accounts
continued

7 Net interest payable

	2004 £ million	2003 £ million
Interest payable and similar charges:		
Group:		
Bank loans and overdrafts	**(40.7)**	(37.1)
Other charges	**(6.4)**	(5.2)
	(47.1)	(42.3)
Joint ventures and associates	**(13.1)**	(12.0)
	(60.2)	(54.3)
Interest receivable and similar income:		
Group:		
Bank and short-term deposits	**16.6**	16.0
Other income	**11.7**	7.9
	28.3	23.9
Joint ventures and associates	**0.4**	1.2
	28.7	25.1
	(31.5)	(29.2)

The group's share of interest capitalised by joint ventures involved in public private partnership projects amounted to £13.1 million (2003: £10.2 million).

8 Taxation on profit/(loss) on ordinary activities

	2004 £ million	2003 £ million
Current tax:		
UK corporation taxation at 30.0% (2003: 30.0%)	**20.8**	16.6
Double taxation relief	**(2.7)**	(0.9)
Overseas taxation	**17.7**	21.1
Joint ventures' and associates' taxation	**(1.8)**	(1.4)
	34.0	35.4
Deferred tax:		
UK deferred taxation at 30.0% (2003: 30.0%) – origination and reversal of timing differences	**1.7**	(2.6)
Overseas deferred taxation	**3.2**	–
Joint ventures' and associates' deferred taxation	**4.2**	2.1
	9.1	(0.5)
	43.1	34.9

Included within the current tax charge is £4.4 million (2003: credit of £1.1 million) in respect of exceptional items.

The current tax charge for the year is higher than the standard rate of corporation tax in the UK and is explained as follows:

	2004 £ million	2003 £ million
Profit on ordinary activities before taxation	**65.7**	95.7
Tax charge at 30.0% (2003: 30.0%)	**19.7**	28.7
Goodwill amortisation	**6.4**	4.9
Non-deductible expenses, non taxable income and other differences	**2.2**	0.1
Overseas income and expenses taxed at rates other than 30.0% (2003: 30.0%)	**5.7**	1.7
Current tax charge for the year	**34.0**	35.4

9 Dividends

	2004 Pence	2003 Pence	2004 £ million	2003 £ million
Ordinary shares:				
Interim dividend paid 4 January 2005	**3.8**	3.6	**11.3**	10.6
Final recommended dividend payable 1 July 2005	**7.2**	6.9	**23.5**	20.1
	11.0	10.5	**34.8**	30.7

The amounts waived and to be waived by the Trustees of the Long-Term Incentive Plan and Performance Share Plan 2002 in respect of the interim and final dividends is £0.6 million (2003: £0.4 million).

The amounts waived and to be waived by the Trustees of the qualifying employee share ownership trust in respect of the interim and final dividends is £0.1 million (2003: £0.2 million).

10 Earnings per ordinary share

In order to appreciate the effect of goodwill amortisation and exceptional items (net of attributable tax) on the reported underlying performance, additional calculations of earnings per ordinary share have been presented.

			2004			2003
	Earnings £ million	**Weighted average ordinary shares Number million**	**Earnings per share Pence**	Earnings £ million	Weighted average ordinary shares Number million	Earnings per share Pence
Basic earnings before goodwill amortisation and exceptional items, net of attributable tax	**78.6**	**295.0**	**26.7**	75.7	293.3	25.8
Goodwill amortisation	**(21.6)**	**–**	**(7.3)**	(17.0)	–	(5.8)
Exceptional items	**(30.8)**	**–**	**(10.5)**	0.2	–	–
Attributable tax on exceptional items	**(4.4)**	**–**	**(1.5)**	1.1	–	0.4
Basic earnings	**21.8**	**295.0**	**7.4**	60.0	293.3	20.4
Basic earnings before goodwill amortisation and exceptional items, net of attributable tax	**78.6**	**295.0**	**26.7**	75.7	293.3	25.8
Share options	**–**	**1.5**	**(0.1)**	–	1.5	(0.1)
Employee share and incentive schemes	**–**	**6.7**	**(0.7)**	–	4.5	(0.4)
Diluted earnings before goodwill amortisation and exceptional items, net of attributable tax	**78.6**	**303.2**	**25.9**	75.7	299.3	25.3
Goodwill amortisation	**(21.6)**	**–**	**(7.1)**	(17.0)	–	(5.8)
Exceptional items	**(30.8)**	**–**	**(10.2)**	0.2	–	0.1
Attributable tax on exceptional items	**(4.4)**	**–**	**(1.4)**	1.1	–	0.4
Diluted earnings	**21.8**	**303.2**	**7.2**	60.0	299.3	20.0

11 Intangible assets

	Goodwill £ million
Group:	
Cost:	
As at 1 January 2004	379.0
Exchange and other movements	10.9
Acquisition of subsidiaries and businesses	9.7
As at 31 December 2004	**399.6**
Amortisation:	
As at 1 January 2004	36.9
Exchange and other movements	(0.1)
Provided during the year	21.6
As at 31 December 2004	**58.4**
Net book value:	
As at 31 December 2004	**341.2**
As at 31 December 2003	342.1

Notes to the accounts
continued

12 Tangible assets

	Land and buildings £ million	Plant and equipment £ million	Total £ million
Group:			
Cost or valuation:			
As at 1 January 2004	93.2	215.4	308.6
Exchange and other movements	(0.3)	(3.5)	(3.8)
Additions and transfers	7.9	46.8	54.7
Property revaluation	1.0	–	1.0
Disposals and transfers	(29.4)	(39.5)	(68.9)
As at 31 December 2004	**72.4**	**219.2**	**291.6**
Depreciation:			
As at 1 January 2004	9.4	92.2	101.6
Exchange and other movements	0.1	(2.1)	(2.0)
Property revaluation	(8.6)	–	(8.6)
Provided during the year	6.8	33.0	39.8
Disposals and transfers	(1.7)	(24.6)	(26.3)
As at 31 December 2004	**6.0**	**98.5**	**104.5**
Net book value:			
As at 31 December 2004	**66.4**	**120.7**	**187.1**
As at 31 December 2003	83.8	123.2	207.0

	Land and buildings £ million	Plant and equipment £ million	Total £ million
Company:			
Cost or valuation:			
As at 1 January 2004	7.4	2.1	9.5
Additions and transfers	1.3	0.1	1.4
Property revaluation	(0.8)	–	(0.8)
Disposals	(0.1)	(0.1)	(0.2)
As at 31 December 2004	**7.8**	**2.1**	**9.9**
Depreciation:			
As at 1 January 2004	0.7	1.5	2.2
Exchange and other movements	0.1	–	0.1
Property revaluation	(0.4)	–	(0.4)
Provided during the year	0.3	0.3	0.6
Disposals	–	(0.1)	(0.1)
As at 31 December 2004	**0.7**	**1.7**	**2.4**
Net book value:			
As at 31 December 2004	**7.1**	**0.4**	**7.5**
As at 31 December 2003	6.7	0.6	7.3

	Group 2004 £ million	Group 2003 £ million	**Company 2004 £ million**	Company 2003 £ million
The net book value of land and buildings comprised:				
Freehold	**55.2**	61.4	**4.9**	4.4
Long leasehold	**6.9**	15.0	**–**	–
Short leasehold	**4.3**	7.4	**2.2**	2.3
	66.4	83.8	**7.1**	6.7
The cost or valuation of land and buildings comprised:				
Cost	**26.3**	55.5	**2.9**	2.8
External valuation in 1999	**–**	37.7	**–**	4.6
External valuation in 2004	**46.1**	–	**4.9**	–
	72.4	93.2	**7.8**	7.4

12 Tangible assets continued

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.

For the United Kingdom, the basis of revaluation was existing use value for properties occupied by group companies and market value for those properties without group occupancy. For properties outside the United Kingdom, the appropriate country valuation standards were adopted which generally reflect market value.

No provision has been made for the tax liability which may arise in the event that certain properties are disposed of at their revalued amounts.

The amount of land and buildings included at valuation, determined according to the historical cost convention, was as follows:

	Group 2004 £ million	Group 2003 £ million	**Company 2004 £ million**	Company 2003 £ million
Cost	**39.2**	46.4	**9.3**	8.6
Depreciation	**(10.6)**	(13.9)	**(2.5)**	(1.7)
Net book value	**28.6**	32.5	**6.8**	6.9

13 Investments (held as fixed assets)

	2004 £ million	2003 £ million
Company:		
Investments in subsidiaries:		
Shares at cost less amounts written-off	**1,495.1**	1,505.8
Amounts owed by subsidiaries	**411.3**	401.4
Amounts owed to subsidiaries	**(1,014.6)**	(1,056.7)
	891.8	850.5

	Joint ventures £ million	**Associates £ million**	**Other investments £ million**	**Total £ million**
Group:				
Net book value:				
As at 1 January 2004	54.1	12.7	30.3	97.1
Exchange and other movements	3.4	0.2	–	3.6
Additions and transfers	12.9	–	7.2	20.1
Disposals and amounts written-off	(5.7)	(14.0)	–	(19.7)
Net movement in share of reserves	11.1	1.1	–	12.2
Dividends received	(0.2)	–	–	(0.2)
As at 31 December 2004	**75.6**	**–**	**37.5**	**113.1**
Represented by:				
Shares at cost less amounts written-off	21.1	–	37.5	58.6
Share of post acquisition results	24.2	–	–	24.2
Net loans from group companies	30.3	–	–	30.3
	75.6	–	37.5	113.1
Company:				
Cost:				
As at 1 January 2004	11.1	–	0.1	11.2
Disposals	(1.0)	–	–	(1.0)
As at 31 December 2004	**10.1**	**–**	**0.1**	**10.2**

Principal group companies are listed on page 82.

Notes to the accounts
continued

13 Investments (held as fixed assets) continued

An analysis of the group's share of net assets of joint ventures was as follows:

	Total 2004 £ million	Total 2003 £ million
Fixed assets	**245.6**	215.6
Current assets	**499.2**	447.4
Share of gross assets	**744.8**	663.0
Loans to group companies	**(35.1)**	(23.3)
Group share of gross assets	**709.7**	639.7
Liabilities due within one year	**(69.1)**	(51.6)
Liabilities due after one year	**(569.8)**	(540.5)
Share of gross liabilities	**(638.9)**	(592.1)
Loans from group companies	**4.8**	6.5
Group share of gross liabilities	**(634.1)**	(585.6)
Share of net assets	**75.6**	54.1

14 Stocks

	2004 £ million	2003 £ million
Group:		
Development land and work in progress	**71.8**	69.9
Raw materials and consumables	**6.6**	7.6
Other work in progress	**2.0**	16.4
Finished goods and goods for resale	**11.0**	8.1
	91.4	102.0

15 Debtors

	Group 2004 £ million	Group 2003 £ million	**Company 2004 £ million**	Company 2003 £ million
Debtors: amounts falling due within one year				
Amounts recoverable on contracts	**512.2**	476.1	**–**	–
Trade debtors	**1,137.9**	964.7	**5.6**	3.6
Amounts owed by subsidiaries	**–**	–	**3.5**	2.3
Amounts owed by joint ventures	**1.3**	3.4	**0.2**	0.1
Other debtors	**48.3**	73.7	**1.4**	1.2
Prepayments and accrued income	**23.8**	23.7	**2.2**	2.1
	1,723.5	1,541.6	**12.9**	9.3
Debtors: amounts falling due after one year				
Trade debtors	**99.2**	105.0	**–**	–
Amounts owed by joint ventures	**4.4**	1.6	**–**	–
Other debtors	**0.2**	0.3	**–**	–
Prepayments and accrued income	**80.5**	70.7	**76.1**	66.0
	184.3	177.6	**76.1**	66.0
	1,907.8	1,719.2	**89.0**	75.3

16 Creditors: amounts falling due within one year

	Group 2004 £ million	Group 2003 £ million	Company 2004 £ million	Company 2003 £ million
Bank and other loans and overdrafts	**46.0**	109.8	**21.4**	–
Payments on account	**177.7**	180.3	**–**	–
Trade creditors	**1,277.0**	1,163.9	**7.0**	4.7
Amounts owed to subsidiaries	**–**	–	**0.4**	0.4
Amounts owed to joint ventures	**2.5**	2.9	**0.4**	3.0
Corporation tax	**29.9**	22.7	**1.8**	2.2
Other taxation and social security costs	**270.5**	272.3	**2.8**	13.8
Other creditors	**59.3**	44.0	**6.6**	9.0
Accruals and deferred income	**70.4**	92.4	**11.6**	12.1
Dividends	**34.8**	30.8	**34.8**	30.8
	1,968.1	1,919.1	**86.8**	76.0

17 Creditors: amounts falling due after one year

	Group 2004 £ million	Group 2003 £ million	Company 2004 £ million	Company 2003 £ million
Bank and other loans	**537.2**	473.1	**524.8**	448.8
Trade creditors	**26.9**	39.5	**–**	–
Amounts owed to joint ventures	**–**	–	**4.0**	4.0
Other taxation and social security costs	**6.4**	3.7	**–**	–
Other creditors	**2.8**	2.3	**–**	–
Accruals and deferred income	**70.8**	68.7	**–**	–
	644.1	587.3	**528.8**	452.8

18 Analysis of borrowings and banking facilities

The maturity of borrowings was as follows:

	Group 2004 £ million	Group 2003 £ million	Company 2004 £ million	Company 2003 £ million
Due:				
In one year or less, or on demand	**46.0**	109.8	**21.4**	–
Between one and two years	**5.9**	184.1	**–**	180.0
Between two and five years	**423.6**	168.0	**419.9**	159.6
In more than five years	**107.7**	121.0	**104.9**	109.2
	583.2	582.9	**546.2**	448.8

The available undrawn committed bank facilities were as follows:

	2004 £ million	2003 £ million
Group:		
Expiring in:		
In one year or less	**–**	42.7
Between one and two years	**6.4**	40.0
In more than two years	**329.7**	176.8
	336.1	259.5

19 Financial instruments

Details of the group's policies on the use of financial instruments are provided in the Operating and Financial Review on pages 32 to 39. As permitted by FRS 13 'Derivatives and other financial instruments: disclosures', short-term debtors and creditors have been excluded from the following analyses.

The interest rate risk currency profile of financial assets and liabilities was as follows:

				2004				2003
	Non interest bearing £ million	**Floating rate £ million**	**Fixed rate £ million**	**Total £ million**	Non interest bearing £ million	Floating rate £ million	Fixed rate £ million	Total £ million
Group:								
Financial assets:								
Sterling	**45.4**	**41.0**	**–**	**86.4**	73.3	43.8	0.1	117.2
Euro	**114.0**	**98.5**	**0.1**	**212.6**	117.3	96.2	1.1	214.6
US dollar	**6.0**	**23.3**	**–**	**29.3**	5.8	56.4	–	62.2
Hong Kong dollar	**2.0**	**3.6**	**–**	**5.6**	6.1	17.5	–	23.6
Canadian dollar	**0.1**	**11.5**	**–**	**11.6**	0.2	3.9	–	4.1
Other	**17.2**	**7.1**	**0.1**	**24.4**	10.3	7.6	0.3	18.2
	184.7	**185.0**	**0.2**	**369.9**	213.0	225.4	1.5	439.9

Floating rate financial assets comprise cash at bank and in hand which bears interest at prevailing market rates.

				2004				2003
	Non interest bearing £ million	**Floating rate £ million**	**Fixed rate £ million**	**Total £ million**	Non interest bearing £ million	Floating rate £ million	Fixed rate £ million	Total £ million
Group:								
Financial liabilities:								
Sterling	**30.4**	**344.1**	**45.0**	**419.5**	62.6	255.0	45.0	362.6
Euro	**78.5**	**101.9**	**13.0**	**193.4**	81.3	146.0	25.4	252.7
US dollar	**2.2**	**12.6**	**60.0**	**74.8**	2.3	–	64.8	67.1
Hong Kong dollar	**0.5**	**1.3**	**–**	**1.8**	1.6	5.0	–	6.6
Canadian dollar	**1.4**	**–**	**0.2**	**1.6**	1.4	–	0.4	1.8
Other	**0.4**	**–**	**–**	**0.4**	0.2	8.1	–	8.3
	113.4	**459.9**	**118.2**	**691.5**	149.4	414.1	135.6	699.1

Floating rate financial liabilities comprise borrowings which primarily bear interest at a margin over the relevant inter-bank rate. The fixed rate financial liabilities relate to certain bank and other loans. The weighted average interest rate of the fixed rate loans as at 31 December 2004 was 5.4 per cent (2003: 5.4 per cent).

The maturity of the financial liabilities was as follows:

	2004 £ million	2003 £ million
Group:		
Due:		
In one year or less, or on demand	**50.3**	122.8
Between one and two years	**70.6**	245.0
Between two and five years	**424.5**	209.2
Over five years	**146.1**	122.1
	691.5	699.1

There is no material difference between the book and fair value of financial assets and liabilities save for financial liabilities in the two to five years category which have a book value of £424.5 million and a fair value of £343.8 million as at 31 December 2004 (£209.2 million and £186.3 million respectively as at 31 December 2003) and those in the over five years category which have a book value of £146.1 million and £116.0 million respectively as at 31 December 2004 (2003: £122.1 million and £86.3 million).

As at 31 December 2004, there were six outstanding interest rate swaps under which the group pays a fixed rate of interest and receives a floating rate based on six months' LIBOR. The instruments cover US dollars, Canadian dollars, Euro and Sterling, and have a Sterling equivalent of £65.0 million. The expiry dates range from January 2005 to January 2008, with a weighted average period to maturity of 29 months as at 31 December 2004.

In addition, there were two outstanding interest rate swaps under which the group pays a floating rate of interest and receives a fixed rate. The instruments cover US dollars with a Sterling equivalent of £15.6 million and expire in July 2013.

After taking into account the effects of forward foreign currency exchange contracts, there were no material currency exposures in respect of monetary assets and liabilities that are not denominated in the functional currency of the relevant business unit.

Gains and losses on instruments used for hedging purposes are not recognised until the exposure that is being hedged is recognised in either the profit and loss account or via an adjustment to the carrying value of an asset on the balance sheet.

There were no material unrecognised gains or losses at the beginning or end of the year.

20 Provisions for liabilities and charges

	Deferred taxation £ million	Insurance £ million	Onerous property contracts £ million	Retirement indemnities £ million	Total £ million
Group:					
As at 1 January 2004	–	25.3	5.1	26.9	57.3
Exchange and other movements	0.2	–	–	0.8	1.0
Included within debtors	(10.4)	–	–	–	(10.4)
Utilised	(2.8)	–	(1.5)	–	(4.3)
Profit and loss account	9.1	3.1	0.1	–	12.3
Transfer to debtors	3.9	–	–	–	3.9
As at 31 December 2004	**–**	**28.4**	**3.7**	**27.7**	**59.8**

	Deferred taxation £ million
Company:	
As at 1 January 2004	20.7
Profit and loss account	1.2
As at 31 December 2004	**21.9**

The deferred tax (asset)/provision is analysed as follows:

	Group 2004 £ million	Group 2003 £ million	**Company 2004 £ million**	Company 2003 £ million
Difference between accumulated depreciation and capital allowances	**(2.7)**	(2.6)	**0.3**	0.3
Other timing differences	**15.8**	3.9	**21.6**	20.4
Tax losses	**(17.0)**	(11.7)	**–**	–
	(3.9)	(10.4)	**21.9**	20.7

21 Share capital

The authorised share capital of the company is £350.0 million (2003: £350.0 million).

	2004 £ million	2003 £ million
Group and company:		
Allotted, called up and fully paid ordinary shares of 50 pence each	**151.0**	149.6

The movement in issued share capital during the year was as follows:

	Number	£ million
Group and company:		
As at 1 January 2004	**299,164,181**	149.6
Qualifying employee share ownership trust allotments	**2,538,668**	1.3
Exercise of executive share options	**146,902**	0.1
Exercise of AGRA Inc. stock options	**61,060**	–
As at 31 December 2004	**301,910,811**	151.0

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continued

21 Share capital continued

There are no performance criteria for the Savings Related Share Option Scheme. The performance criteria for the Executive Share Option Scheme 1995 has been met in prior periods and the criteria for the Executive Share Option Scheme 2002 are outlined in the Directors' Remuneration Report on page 50.

The number of share options outstanding under the Savings Related and Executive Schemes as at 31 December 2004 was as follows.

	Option price per share Pence	Number
Savings Related Share Option Scheme		
Normally exercisable in the period between:		
July 2004 and December 2004	181.00	50,994
January 2004 and June 2004	230.00	842
January 2007 and June 2007	218.00	5,673,512
		5,725,348
Executive Share Option Scheme 1995		
Normally exercisable in the period between:		
February 1999 and February 2006	99.00	600,000
April 2000 and April 2007	144.00	501,388
March 2001 and March 2008	153.50	19,543
April 2003 and April 2010	169.00	10,000
		1,130,931
Executive Share Option Scheme 2002		
Normally exercisable in the period between:		
October 2005 and October 2012	219.75	2,088,002
March 2007 and March 2013	183.25	70,000
September 2007 and September 2013	276.25	2,811,541
September 2008 and September 2014	320.00	2,538,726
		7,508,269

In April 2000, AMEC acquired AGRA Inc. (now AMEC Inc.). At the time of the acquisition, AGRA Inc. Stock Option Plans were available to senior AGRA employees. Grants of stock options were approved and the conditions for the exercise of grants were established by the AGRA Inc. board of directors. The Plans were approved under the rules of the Montreal and Toronto Stock Exchanges. No performance criteria are required to be met prior to exercise of options pursuant to the Plans.

Employees holding options under the Plans were permitted to roll-over their options over AGRA Inc. shares into options over AMEC plc shares following the acquisition. The resultant AMEC options outstanding as at 31 December 2004 are as follows:

	Option price per share Pence	Number
AGRA Inc. 10 year Stock Option Plan		
Normally exercisable in the period between:		
February 2000 and February 2009	132.20	610
December 2000 and December 2009	171.30	24,424
		25,034

As at 31 December 2004, there were 3,019 participants in the Savings Related Scheme, 182 participants in the Executive Schemes and 2 participants in the AGRA Plan.

During the year, under the provisions of the Savings Related Scheme, 3,140,312 shares were transferred to participants from the qualifying employee share ownership trust (Quest) for a total consideration of £7.0 million. The company received £7.0 million from employees in respect of 2,538,668 shares allotted to the Quest.

Under the provisions of the Executive Schemes, 146,902 shares were allotted to participants for a total consideration of £0.3 million and, under the provisions of the AGRA Inc. Plans, 61,060 shares were allotted to participants for a total consideration of £0.1 million.

The closing price of the shares at 31 December 2004 was 297.75 pence (2003: 260.00 pence).

No options were granted during the year under the provisions of the AMEC Savings Related Share Option Scheme.

Options over 2,538,726 shares were granted pursuant to the terms of the Executive Share Option Scheme 2002.

22 Reserves

	Share premium account £ million	Revaluation reserve £ million	Capital redemption reserve £ million	Profit and loss account £ million	Total £ million
Group:					
As at 1 January 2004 (as originally stated)	82.8	11.1	17.2	6.4	117.5
Prior year adjustment (note 1)	–	–	–	(6.0)	(6.0)
As at 1 January 2004 (as restated)	82.8	11.1	17.2	0.4	111.5
Exchange and other movements	–	–	–	(11.8)	(11.8)
Shares issued	6.0	–	–	–	6.0
Transfers on disposals	–	(0.6)	–	0.6	–
Surplus on revaluation	–	9.6	–	–	9.6
Goodwill written back on disposal or closure of operations	–	–	–	13.0	13.0
Movements relating to the Long-Term Incentive Plan and Performance Share Plan 2002	–	–	–	(1.5)	(1.5)
Retained loss for the year	–	–	–	(13.0)	(13.0)
As at 31 December 2004	**88.8**	**20.1**	**17.2**	**(12.3)**	**113.8**
Company:					
As at 1 January 2004 (as originally stated)	82.8	0.3	17.2	159.9	260.2
Prior year adjustment (note 1)	–	–	–	(6.0)	(6.0)
As at 1 January 2004 (as restated)	82.8	0.3	17.2	153.9	254.2
Exchange and other movements	–	0.6	–	(2.5)	(1.9)
Shares issued	6.0	–	–	–	6.0
Deficit on property revaluation	–	(0.4)	–	–	(0.4)
Movements relating to the Long-Term Incentive Plan and Performance Share Plan 2002	–	–	–	(1.5)	(1.5)
Retained loss for the year	–	–	–	(42.4)	(42.4)
As at 31 December 2004	**88.8**	**0.5**	**17.2**	**107.5**	**214.0**

Included within the profit and loss account is £7.5 million (2003: £6.0 million) in respect of 5,313,367 (2003: 4,008,353) shares of 50 pence each in the company, held by the trustees of the AMEC plc Employee Share Trust to satisfy awards in respect of the Long-Term Incentive Plan and the Performance Share Plan 2002. The cost of these shares is being written-off to the profit and loss account over the period between the dates of the awards and the expected vesting of the shares. The market value of these shares as at 31 December 2004 was £15.8 million (2003: £10.4 million).

A qualifying employee share ownership trust (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 2,538,668 (2003: 59,629) shares to the Quest and the Quest transferred 3,140,312 (2003: 72,109) of these shares to employees exercising options.

As at 31 December 2004 the Quest held 1,006,693 (2003: 1,608,337) shares and these are included within investments at £nil (2003: £nil).

The cumulative goodwill (at historic exchange rates) written-off against reserves in respect of acquisitions prior to 1 January 1998, when FRS 10 'Goodwill and intangible assets' was adopted, amounts to £187.2 million (2003: £200.2 million).

The loss of the company for the year was £7.6 million.

23 Reconciliation of group operating profit to net cash flow from operating activities

	2004 £ million	2003 £ million
Group operating profit	**104.9**	112.2
Goodwill amortisation	**21.6**	16.3
Depreciation	**39.8**	47.8
Decrease/(increase) in stocks	**10.0**	(0.3)
(Increase)/decrease in debtors	**(206.2)**	307.7
Increase/(decrease) in creditors and provisions	**52.0**	(382.2)
Exchange and other movements	**(2.7)**	(3.6)
Net cash flow from operating activities	**19.4**	97.9

Notes to the accounts
continued

24 Reconciliation of net cash flow to movement in net funds

	2004 £ million	2003 £ million
(Decrease)/increase in cash	**(33.3)**	95.5
Cash flow from movement in debt	**1.7**	(291.3)
Cash flow from movement in liquid resources	**(32.8)**	20.2
Change in funds resulting from cash flows	**(64.4)**	(175.6)
Exchange and other non cash movements	**(1.2)**	(5.2)
Movement in net funds in the year	**(65.6)**	(180.8)
Net funds as at 1 January	**(218.1)**	(37.3)
Net funds as at 31 December	**(283.7)**	(218.1)

25 Analysis of net funds

	As at 1 January 2004 £ million	Cash flow £ million	Exchange and other non-cash movements £ million	**As at 31 December 2004 £ million**
Cash at bank and in hand	243.8	(26.8)	(2.5)	**214.5**
Overdrafts	(22.9)	(6.5)	(0.1)	**(29.5)**
		(33.3)		
Debt due within one year	(86.9)	69.6	0.8	**(16.5)**
Debt due after one year	(473.1)	(67.9)	3.8	**(537.2)**
		1.7		
Liquid resources	121.0	(32.8)	(3.2)	**85.0**
	(218.1)	(64.4)	(1.2)	**(283.7)**

Liquid resources comprise short-term bank deposits, investments in government and corporate bonds and floating rate notes.

26 Acquisitions and disposals

All acquisitions in 2004 have been accounted for under the acquisition method of accounting and a provisional assessment of the fair value to the group of the assets and liabilities acquired has been made.

A number of small acquisitions were made in the year ended 31 December 2004 for an aggregate consideration of £11.0 million. The aggregate book value of the identifiable assets and liabilities was £1.3 million and the aggregate goodwill arising on the acquisitions was £9.7 million.

The acquisition cost of joint ventures and other investments amounted to £20.1 million in 2004 and principally related to investments in public private partnership projects.

Joint ventures, associates and other investments with a carrying value of £19.7 million were disposed of in the year, realising proceeds of £19.7 million.

27 Capital commitments

	Group 2004 £ million	Group 2003 £ million	**Company 2004 £ million**	Company 2003 £ million
Contracted but not provided for in the accounts	**1.2**	2.2	**–**	–

As at 31 December 2004, there was a commitment to invest a total of £36.0 million (2003: £56.7 million) in various public private and regeneration partnership projects.

28 Lease commitments

The current annual commitments payable under non-cancellable operating leases were as follows:

	Land and buildings 2004 £ million	Land and buildings 2003 £ million	**Plant and equipment 2004 £ million**	Plant and equipment 2003 £ million
Group:				
Expiring:				
In one year or less	**6.3**	1.3	**9.2**	5.0
Between two and five years	**14.2**	10.7	**9.6**	15.0
Over five years	**10.2**	19.3	**0.1**	0.1
	30.7	31.3	**18.9**	20.1
Company:				
Expiring:				
Over five years	**–**	0.4	**–**	–

29 Contingent liabilities

Guarantees and indemnities

Guarantees given by the company in respect of borrowings of subsidiaries amounted to £nil as at 31 December 2004 (2003: £0.2 million).

The borrowings of joint ventures, consolidated on a gross equity basis, are generally without recourse to AMEC other than for normal performance obligations which are usually given on a several basis. AMEC has provided guarantees in respect of committed bank facilities granted to certain property joint ventures. The borrowings drawn against these facilities amounted to £35.0 million at 31 December 2004 (2003: £37.0 million) and the current debt service ratios for these joint ventures are all within the agreed levels.

The company and certain subsidiaries have given counter indemnities in respect of performance bonds issued, on behalf of group companies, in the normal course of business.

On 2 February 2005, AMEC completed a series of transactions that resulted in the disposal of its effective interest in Derech Eretz Highway (1997) Limited, which owns the concession rights for the Cross Israel Highway, Derech Eretz Construction joint venture, which undertook the design and construction of the Highway and Derech Eretz Highways Management Corporation Limited which acts as the operator to the Highway. As a result of these disposals, AMEC has been released from all guarantees and obligations relating to its various interests as at 31 December 2004.

Prior to the disposal, AMEC had provided direct and indirect support on a joint and several basis for a performance bond on the Cross Israel Highway Concession (the "Concession") for an amount of £78.1 million as at 31 December 2004 (2003: £83.7 million). In addition, AMEC had also provided support on a joint and several basis, both directly to an intermediate holding company and indirectly from the intermediate holding company, to the Concession for letters of credit that the Concession had procured from external banks. These letters principally relate to the performance obligations of the Concession. The intermediate company (in which AMEC had a one third share) had a third share in the Concession and its share of the performance obligations of the Concession amounted to £10.9 million as at 31 December 2004 (2003: £28.8 million). The performance obligations of the Concession amounted to £32.7 million as at 31 December 2004 (2003: £86.4 million).

As at 31 December 2004, AMEC has a commitment to invest £36.0 million (2003: £56.7 million) in joint venture projects. It has also provided guarantees on certain projects to invest further amounts of up to £16.4 million (2003: £9.8 million) if the projects do not perform satisfactorily. No future adverse events, however, are currently envisaged.

Notes to the accounts
continued

29 Contingent liabilities continued

Legal claims and actions
AMEC takes 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. AMEC makes an appropriate provision for those legal claims or actions for and against the company on the basis of the likely outcome, but makes no provision for those which are unlikely to succeed.

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 United States Department of Justice then 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 Americas 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. There were no further developments in the year ended 31 December 2004 and a decision is not expected for at least six months.

AMEC continues to hope that an amicable settlement of all the outstanding issues with the GSA can be secured but there is, at this time, no certainty that such an outcome will be achieved.

30 Pension arrangements

The group operates a number of pension schemes for United Kingdom and overseas employees. All United Kingdom members are in defined benefit schemes and the majority of overseas employees are in defined contribution schemes.

SSAP 24 'accounting for pension costs'
Contributions by employees and employers are paid in accordance with the advice of qualified actuaries and are held separately from the assets of the group in trustee administered funds.

The total pension cost for the group was £13.5 million (2003: £12.8 million) and there is a prepayment of pension costs as at 31 December 2004 of £80.1 million (2003: £70.3 million) included within debtors: amounts falling due after one year.

The projected unit valuation method has been used to assess liabilities and future funding rates for the three major schemes which cover approximately 90 per cent of United Kingdom members. The latest actuarial valuations of these schemes were undertaken as at 31 December 2001 and 1 April 2002. These showed that the market value of the assets was £1,058.6 million, with the actuarial value of assets being sufficient to cover 114 per cent of the accrued benefits. The principal assumptions were based upon future investment returns of 5.50 to 6.30 per cent, future pensionable salary increases of 3.70 to 4.75 per cent, future pension increases of 2.50 to 2.70 per cent and valuation rates of interest of 5.50 to 5.60 per cent.

FRS 17 'retirement benefits'
The valuations used for FRS 17 disclosures have been based on the most recent valuations of the three major schemes as at 31 December 2001 and 1 April 2002, and updated by the schemes' actuaries for the requirement to assess the present value of the liabilities of the schemes as at 31 December. The assets of the schemes are stated at their aggregate market value as at 31 December.

The financial assumptions used to calculate the schemes' liabilities under FRS 17, on a projected unit valuation method, are as follows:

	2004 Per cent	2003 Per cent	2002 Per cent
Rate of discount	**5.3**	5.4	5.5
Rate of inflation	**2.7**	2.7	2.3
Rate of increase in salaries	**3.8**	3.7	3.3
Rate of increase in pensions in payment	**2.8**	2.7	2.3

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.

30 Pension arrangements continued

The market value of the schemes' assets, (which are not intended to be realised in the short-term, and may be subject to significant change before they are realised), and the present value of the schemes' liabilities (which are derived from cash flow projections over long periods and thus inherently uncertain) were as follows:

	Long-term rate of return expected as at 31 December 2004 Per cent	**Value as at 31 December 2004 £ million**	Long-term rate of return expected as at 31 December 2003 Per cent	Value as at 31 December 2003 £ million	Long-term rate of return expected as at 31 December 2002 Per cent	Value as at 31 December 2002 £ million
Equities	**7.5**	**620.4**	7.8	621.3	7.5	459.9
Bonds	**5.3**	**422.6**	5.4	360.1	5.5	380.1
Property	**6.5**	**88.8**	6.8	90.1	6.5	75.9
Cash	**4.5**	**29.7**	4.5	3.4	4.5	25.2
Total market value of schemes' assets		**1,161.5**		1,074.9		941.1
Present value of schemes' liabilities		**(1,042.6)**		(954.6)		(825.7)
Surplus in the schemes		**118.9**		120.3		115.4
Related deferred tax liability		**(35.7)**		(36.1)		(34.6)
Net pension asset arising under FRS 17		**83.2**		84.2		80.8

The movement in the surplus in the schemes during the year is as follows:

	2004 Group £ million	2003 Group £ million
Surplus in the schemes as at 1 January	**120.3**	115.4
Current service cost	**(29.5)**	(25.7)
Contributions paid	**16.8**	16.4
Other financial income	**21.0**	14.9
Actuarial losses	**(9.7)**	(0.7)
Surplus in the schemes as at 31 December	**118.9**	120.3

If FRS 17 had been fully adopted in these accounts the pension costs charged would have been as follows:

Analysis of other pension costs charged in arriving at group operating profit:	**2004 Group £ million**	2003 Group £ million
Current service cost	**29.5**	25.7

Analysis of the amount credited to other financial income:	**2004 Group £ million**	2003 Group £ million
Expected return on pension schemes' assets	**69.5**	57.7
Interest on pension schemes' liabilities	**(48.5)**	(42.8)
Other financial income	**21.0**	14.9

Analysis of amounts included in the consolidated statement of total recognised gains and losses:	**2004 Group £ million**	2003 Group £ million
Actual return less expected return on schemes' assets	**27.8**	84.7
Experience gains and losses on schemes' liabilities	**(0.7)**	(7.0)
Changes in assumptions	**(36.8)**	(78.4)
Actuarial losses	**(9.7)**	(0.7)

Notes to the accounts
continued

30 Pension arrangements continued

If FRS 17 had been fully adopted in these accounts the net assets and profit and loss account reserve would have been as follows:

Net assets	**2004 Group £ million**	2003 Group £ million
Net assets per consolidated balance sheet	**268.1**	268.5
SSAP 24 prepayment (net of deferred tax)	**(56.1)**	(49.2)
Net assets excluding SSAP 24 prepayment	**212.0**	219.3
Net pension asset arising under FRS 17	**83.2**	84.2
Net assets including net pension asset arising under FRS 17	**295.2**	303.5

Profit and loss account reserve	**2004 Group £ million**	2003 Group £ million
Profit and loss account reserve per consolidated balance sheet	**(12.3)**	0.4
SSAP 24 prepayment (net of deferred tax)	**(56.1)**	(49.2)
Profit and loss account reserve excluding SSAP 24 prepayment	**(68.4)**	(48.8)
Net pension asset arising under FRS 17	**83.2**	84.2
Profit and loss account reserve including net pension asset arising under FRS 17	**14.8**	35.4

The history of experience gains and losses has been as follows:

	2004 Group £ million	**2004 Group Per cent**	2003 Group £ million	2003 Group Per cent	2002 Group £ million	2002 Group Per cent
Difference between expected and actual return on scheme assets	**27.8**		84.7		(150.7)	
Percentage of scheme assets		**2.4**		7.9		(16.0)
Experience gains and losses on scheme liabilities	**(0.7)**		(7.0)		(4.6)	
Percentage of scheme liabilities		**(0.1)**		(0.7)		(0.6)
Total amount recognised in statement of total recognised gains and losses	**(9.7)**		(0.7)		(204.0)	
Percentage of scheme liabilities		**(0.9)**		(0.1)		(24.7)

31 Related party transactions

During the year there were a number of transactions with joint ventures, associates and joint arrangements, all of which arose in the normal course of business. These transactions and the related balances outstanding as at 31 December are as follows:

	Value of transactions in the year		**Outstanding balance as at 31 December**	
	2004 £ million	2003 £ million	**2004 £ million**	2003 £ million
Services rendered	**59.6**	63.2	**6.5**	8.3
Services received	**3.0**	19.0	**–**	0.6
Sale of fixed assets	**29.7**	49.2	**–**	–
Purchase of fixed assets	**–**	1.6	**–**	–
Provision of finance	**18.0**	14.3	**25.4**	44.0

The amounts receivable from, and payable to, joint ventures are disclosed in notes 15 and 16.

Statement of directors' responsibilities

The following should be read in conjunction with the report of the auditors which is set out on the following page.

Company law requires the directors to prepare accounts for each financial year which give a true and fair view of the state of affairs of the company and the group and of the profit or loss for that period.

In preparing those accounts, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the accounts; and
- prepare the accounts on the going concern basis unless it is inappropriate to presume that the group will continue in business.

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

Independent auditors' report to the members of AMEC plc

We have audited the accounts on pages 55 to 78. We have also audited the information in the directors' remuneration report that is described as having been audited.

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

Respective responsibilities of directors and auditors

The directors are responsible for preparing the annual report and the directors' remuneration report. As described on the previous page, this includes responsibility for preparing the accounts in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board, the Listing Rules of the Financial Services Authority and by our profession's ethical guidance.

We report to you our opinion as to whether the 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. We also report to you if, in our opinion, the directors' report is not consistent with the accounts, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit or if information specified by law regarding directors' remuneration and transactions with the group is not disclosed.

We review whether the Corporate Governance statement on pages 46 to 48 reflects the company's compliance with the nine provisions of the 2003 FRC Code specified for our review by the Listing Rules and we report if it does not. We are not required to consider whether the board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the group's corporate governance procedures or its risk and control procedures.

We read the other information contained in the annual report, including the corporate governance statement and the unaudited part of the directors' remuneration report, and consider whether it is consistent with the audited accounts. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the accounts.

Basis of audit opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts and the part of the directors' remuneration report to be audited. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the accounts, and whether the accounting policies are appropriate to the group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the 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 accounts give a true and fair view of the state of affairs of the company and the group as at 31 December 2004 and of the profit of the group for the year then ended; and
- the accounts and the part of the directors' remuneration report, on pages 52 to 54, to be audited have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc
Chartered Accountants
Registered Auditor
Manchester
10 March 2005

Five year record

	2004 £ million	2003 £ million	2002 £ million	2001 £ million	2000 £ million
Summarised consolidated results					
Total turnover	**4,816.4**	4,712.7	4,331.6	4,467.5	3,980.0
Profit on ordinary activities before goodwill amortisation, exceptional items and taxation:	**118.1**	112.5	105.2	116.7	96.9
Goodwill amortisation	**(21.6)**	(17.0)	(13.1)	(11.1)	(6.7)
Exceptional items:					
Reorganisation costs	**–**	–	(12.9)	–	–
(Loss)/profit on disposal or closure of operations	**(21.5)**	0.6	(12.0)	(24.0)	(6.8)
Attributable goodwill	**(13.0)**	–	(28.0)	(0.5)	(3.6)
Profit/(loss) on disposal of fixed assets	**3.7**	(0.4)	–	(0.4)	–
	(30.8)	0.2	(52.9)	(24.9)	(10.4)
Profit on ordinary activities before taxation	**65.7**	95.7	39.2	80.7	79.8
Taxation on profit on ordinary activities	**(43.1)**	(34.9)	(28.6)	(33.3)	(29.9)
Profit on ordinary activities after taxation	**22.6**	60.8	10.6	47.4	49.9
Equity minority interests	**(0.8)**	(0.8)	0.2	–	(0.1)
Profit for the year	**21.8**	60.0	10.8	47.4	49.8
Dividends on equity shares	**(34.8)**	(30.7)	(29.5)	(25.9)	(18.8)
Dividends on non-equity shares	**–**	–	–	(15.8)	(9.2)
Retained (loss)/profit for the year	**(13.0)**	29.3	(18.7)	5.7	21.8
Basic earnings per ordinary share	**7.4p**	20.4p	3.7p	13.7p	19.1p
Diluted earnings per ordinary share*	**25.9p**	25.3p	24.3p	26.5p†	23.5p
Dividends per ordinary share	**11.0p**	10.5p	10.0p	9.5p	8.5p
Dividend cover*	**2.4x**	2.4x	2.4x	2.8x	2.8x
Summarised consolidated balance sheets					
Fixed assets	**641.4**	646.2	391.5	457.4	449.4
Net working capital	**(29.8)**	(102.3)	(57.7)	(84.9)	91.8
Net debt	**(283.7)**	(218.1)	(37.3)	(44.6)	(211.8)
Provisions for liabilities and charges	**(59.8)**	(57.3)	(47.1)	(44.2)	(48.6)
Net assets	**268.1**	268.5	249.4	283.7	280.8
Shareholders' funds	**264.8**	261.1	247.6	281.5	278.6
Equity minority interests	**3.3**	7.4	1.8	2.2	2.2
	268.1	268.5	249.4	283.7	280.8

The figures are stated in accordance with the accounting policies set out on page 60.

*Before goodwill amortisation and exceptional items.
†Pro forma basis assuming preference shares were converted to ordinary shares on 1 January 2001.

Principal group companies

As at 31 December 2004

The subsidiaries and joint ventures 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 S.A. (France)
AMEC Americas Limited (Canada) (note 1)
AMEC Australia Pty Limited (Australia) (note 2)
AMEC (Bermuda) Limited (Bermuda)
AMEC Biopharmaceuticals Inc. (USA)
AMEC BKW Limited
AMEC Capital Projects Limited
AMEC Civil Engineering Limited
AMEC Civil Inc. (USA)
AMEC Civil LLC (USA) (80%) (note 3)
AMEC Construction Limited
AMEC Construction Management Inc. (USA)
AMEC Developments Limited
AMEC Dynamic Structures Ltd. (Canada)
AMEC Dynamic Structures Inc. (USA)
AMEC Earth & Environmental Inc. (USA)
AMEC Earth & Environmental (UK) Limited
AMEC E&C Services Inc. (USA)
AMEC Facilities Limited
*AMEC Finance Limited
AGRA Foundations Limited (Canada)
AGRA Foundations Inc. (USA)
*AMEC Group Limited
AMEC Group Singapore Pte Limited (Singapore)
AMEC Holdings Inc. (USA)
AMEC Inc. (Canada)
AMEC Infrastructure Inc. (USA)
AMEC Infrastructure Limited (Canada)
AMEC Ingenieurbau GmbH (Germany)
AMEC Internal Asset Management Limited
AMEC International Construction Limited
(operating outside the United Kingdom)
*AMEC Investments Limited
AMEC Kamtech Inc. (USA)
AMEC Offshore Inc. (USA)
AMEC Offshore Services Limited
AMEC Paragon Inc. (USA) (acquired 20 January 2005)
AMEC Pipeline Professionals Inc. (USA)
AMEC Power Limited
AMEC Project Investments Limited
*AMEC Property and Overseas Investments Limited
*AMEC Services Limited (note 4)
AMEC SPIE S.A. (France)
AMEC SPIE Benelux b.v. (Belgium)
AMEC SPIE Capag S.A. (France)
AMEC SPIE Communications S.A. (France)
AMEC SPIE Energie Services S.A. (France)
AMEC SPIE Est SAS (France)
AMEC SPIE Ile-de-France Nord-Ouest SAS (France)
AMEC SPIE Oil and Gas Services SAS (France)
AMEC SPIE Ouest-Centre SAS (France)
AMEC SPIE Rail (FR) S.A. (France)
AMEC SPIE Rail Systems Limited (note 5)
AMEC SPIE Rail (UK) Limited
AMEC SPIE Sud-Est SAS (France)
AMEC SPIE Sud-Ouest SAS (France)
AMEC SPIE Thermatome SAS (France)
AMEC Utilities Limited
Atlantic Services Limited (Bermuda)
CV Buchan Limited (name changed to Buchan Concrete Solutions Limited on 15 February 2005)
IMISA S.A. (Spain)
Ipedex SAS (France)
Laurent SAS (France)
Midwest Management (1987) Ltd (Canada)
National Ventures Inc. (USA)
Primat Recruitment Limited
SPIE S.A. (France)
Spie Enertrans S.A. (France)
US Pipeline Inc. (USA)

Joint ventures

City Airport Rail Enterprises (Holdings) Limited (50%) (note 6)
Européenne de Travaux Ferroviaires S.A. (France) (50%) (note 7)
Fluor AMEC Enterprises LLC (49%) (note 8)
Health Management (Carlisle) Holdings Limited (50%) (note 9)
Health Management (UCLH) Holdings Limited (33.3%) (note 10)
Ician Developments Limited (50%) (note 11)
KIG Immobilien Beteiligungsgesellschaft mbH (Germany) (50%) (note 12)
Newcastle Estate Partnership Holdings Limited (50% – 'A' shares) (note 13)
*Northern Integrated Services Limited (50% – 'B' shares) (note 14)
*Road Management Group Limited (25%) (note 15)
Road Management Services (A13) Holdings Limited (25%) (note 16)
Road Management Services (Darrington) Holdings Limited (25%) (note 17)
Wastewater Management Holdings Limited (25% – 'B' shares) (note 18)

Notes

1 In January 2004, the operations of AMEC Earth & Environmental Limited and AMEC E&C Services Limited merged to form AMEC Americas Limited.
2 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.
3 The issued share capital of AMEC Civil LLC is 1,000 common shares of US$1 each.
4 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.
5 The issued share capital of AMEC SPIE Rail Systems Limited is held 50% AMEC plc and 50% SPIE Enertrans UK Limited.
6 The issued share capital of City Airport Rail Enterprises (Holdings) Limited is 50,000 ordinary shares of £1 each.
7 The issued share capital of Européenne de Travaux Ferroviaires S.A. is 990,000 ordinary shares of €16 each.
8 The share capital of Fluor AMEC Enterprises LLC is as yet unissued but is expected to be initially US$4,000,000.
9 The issued share capital of Health Management (Carlisle) Holdings Limited is 841,002 ordinary shares of £1 each.
10 The issued share capital of Health Management (UCLH) Holdings Limited is 2,521,149 ordinary shares of £1 each.
11 The issued share capital of Ician Developments Limited is 10,000 ordinary 'A' shares of £1 each and 10,000 ordinary 'B' shares of £1 each.
12 KIG Immobilien Beteiligungsgesellschaft mbH is a limited liability partnership.
13 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.
14 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.
15 The issued share capital of Road Management Group Limited is 25,335,004 ordinary shares of £1 each.
16 The issued share capital of Road Management Services (A13) Holdings Limited is 1,233,754 ordinary shares of £1 each.
17 The issued share capital of Road Management Services (Darrington) Holdings Limited is 50,000 ordinary shares of £1 each.
18 The issued share capital of Wastewater Management Holdings Limited is 150,000 'A' ordinary shares of £1 each, 75,000 'B' ordinary shares of £1 each and 75,000 'C' ordinary shares of £1 each.

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.
September Interim report 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:

WILink
Hook Rise South, Surbiton, Surrey KT6 7LD
United Kingdom

Payment of dividends

Interim ordinary dividend announced in September and paid in January.

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 the company to utilise their dividends for the purchase, on their behalf, of additional shares of 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
The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU
United Kingdom
Tel: +44 (0)870 162 3100
E-mail: ssd@capitaregistrars.com or visit the web site at www.capitaregistrars.com

Electronic communications

Electronic shareholder communication

AMEC is working with Future Forests to reduce the impact of shareholder communications on the environment – as well as cutting the cost of printing and distribution. For every shareholder that elects to receive communications electronically, AMEC will plant a tree on their behalf at the Donkleywood Forest project in Northumberland. Further information on Future Forests and the Donkleywood project is available at www.futureforests.com/forestsandprojects/forests.asp

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.

Shareholders – how to register
If you are an AMEC shareholder and wish to receive electronic communications, you will need your investor code, which is printed in the bottom right-hand corner of your AMEC share certificates and dividend tax vouchers.

You must register with Capita Registrars to receive electronic shareholder communications as follows:

1 Go to www.amec.com/plantatree
2 Follow the "Shareholders – how to register" instructions

Once you confirm your details, Capita Registrars will e-mail you to verify the change. Every time Capita Registrars receives a shareholder request to switch from paper to e-communications, we will ask Future Forests to plant a tree.

You can opt to return to paper communications at any time by amending your details with Capita Registrars. Shareholders who decline to register for e-communications will continue to receive paper documents.

If you have any questions about electronic shareholder communications, contact Capita Registrars on +44 (0)870 162 3100, visit their website at www.capitaregistrars.com or e-mail at ssd@capitaregistrars.com

Electronic shareholder information

AMEC's web site has a facility whereby shareholders can link to the company's registrar, Capita Registrars, via its web site in order to gain access to general shareholder information as well as personal shareholding details. If you 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 dividend tax vouchers.

To access these services:

1 Select the "Investors" home page at www.amec.com
2 Select "Electronic communications" from the main menu.
3 Select the "Electronic shareholder services" link.
4 Follow the instructions at the Capita Registrars website.

If you have any questions about electronic shareholder information, contact Capita Registrars on +44 (0)870 162 3100, visit their website at www.capitaregistrars.com or e-mail at ssd@capitaregistrars.com

Registered office

AMEC plc
Sandiway House, Hartford, Northwich, Cheshire CW8 2YA
United Kingdom
Registered in England No 1675285

Investor relations report

Overview

AMEC investor relations is committed to improving the understanding of AMEC and its business activities in the financial community, enabling financial markets to place an appropriate valuation on the company.

This report provides an overview of AMEC's investor relations strategy, the investor relations programme in 2004 and other information of interest to shareholders.

AMEC's investor relations strategy reflects the company's guiding principles (available at www.amec.com) and its responsibilities to shareholders, which are:

- to seek to achieve the best returns on investment that markets will allow and provide accurate and timely information on the company's performance; and
- to manage the affairs of the company through responsible and effective corporate governance, identifying and managing the risks inherent in our activities on an ongoing basis.

The strategy is focused on three key areas which are:

- Compliance with all regulations relating to the conduct of companies listed on the London Stock Exchange. This includes ensuring that all market sensitive information is issued firstly through the London Stock Exchange and as soon as possible thereafter is made available to the financial community through various channels including AMEC's corporate website at www.amec.com;
- Understanding the shareholder base and market sentiment towards AMEC. This is achieved through close working relationships with advisers, regular share register analysis and non-attributable feedback from analysts and investors; and
- Delivery of a comprehensive programme of investor relations activity involving effective communication and consultation with current and potential investors and analysts.

AMEC investor relations controls and coordinates the company's programme of investor relations activity in line with this strategy. In support of its objectives, AMEC has put in place a management and policy framework for investor relations together with best practice notes on contact with the financial community, stock exchange announcements and published information. These documents are available to employees on the company's intranet.

Review of 2004

Key events in AMEC's investor relations programme are the company's preliminary and interim results announcements, annual general meeting and related trading updates. In the year ended 10 March 2005, these events took place on the following dates:

Annual general meeting trading update	19 May 2004
Trading update	23 June 2004
Interim results announcement	2 September 2004
Trading update	12 January 2005
Preliminary results announcement	10 March 2005

On the days the preliminary and interim results were announced, AMEC's chairman, chief executive and finance director made presentations to analysts, institutional investors and banks in London, with their slides and speaking remarks being published at the time of delivery on AMEC's website. Interviews were also given to journalists from leading newswires and the national and regional press.

Following both the preliminary and interim results announcements, major shareholders were offered one-on-one meetings with management, with other institutional shareholders being offered the opportunity to attend group meetings hosted by the company's brokers.

During the course of 2004, AMEC met with a total of 72 (2003: 73) institutions in the UK, Europe and the US.

Following two major site visits in 2003 at which AMEC's oil and gas and railway businesses were presented by senior operational management, the main event in 2004 was the sector change presentation on 8 December, which introduced AMEC to new analysts and investors in the Support Services sector, whilst at the same time introducing the company's new segmental analysis to the financial community. This event was announced in advance to the London Stock Exchange, with all slides and speaking remarks being published on www.amec.com on the day of presentation. Non-attributable feedback from this event was extremely positive.

AMEC recognises the importance of the internet in financial communications and closely follows developments in best practice in investor communications on the internet. Over the last 12 months a new charting facility which maps key events against the company's share price was introduced, together with the first "on-line" version of AMEC's annual report. The site's best practice e-mail alerting service remains a quick and efficient way to be kept appraised of company announcements. During 2004 the number of visits made to the investors pages of www.amec.com doubled to some 204,000. The site was runner up in the IR Magazine 2004 Awards in the "Best use of the internet for investor relations" category for a non-FTSE 100 company.

AMEC in 2004

Engineering and Technical Services

- We continued to grow our European Multitechnical Services business with a series of eight acquisitions
- We teamed up with Thales to design and upgrade the entire infrastructure security system for the French Ministry of Economy, Finance and Industry
- We headed a consortium of companies to provide full site support services to EDF's Fessenheim nuclear power station in France
- We helped the French government improve its road safety by implementing a system of speed cameras across mainland France which automatically detects and fines traffic offenders
- We tested our innovative GeoMelt technology for use at the world's largest environmental clean-up project at the United States nuclear weapons site in Hanford, Washington
- We were chosen to prepare the environmental impact assessment for the Sydney Tar Ponds in Nova Scotia – one of Canada's largest remediation projects
- Our joint venture with Fluor worked on three major reconstruction contracts in Iraq, covering power generation facilities and water infrastructure
- We were awarded a long-term framework contract by Thames Water to install water meters in London and the Thames Valley – which will run for up to ten years and involve installations at over 200,000 properties in its first five year period

Oil and Gas

- We strengthened our international oil and gas presence with a series of important contract wins in the Caspian, Kuwait, Western Australia, South East Asia, Nigeria, Canada and the UK
- We delivered the Cheyenne Plains pipeline project – over 250 miles of natural gas pipeline – the largest US cross-country pipeline project in 2004
- Over the last 15 months our business in the large and growing Canadian oil sands secured a series of important contracts with clients including Deer Creek, Shell Canada and Imperial Oil Canada
- In January 2005 we acquired oil and gas engineering services company Paragon, which strengthens our portfolio of services and client relationships in Houston – establishing us as a Tier One contractor in the region
- In February 2005 we were awarded an eight year alliance contract worth £280 million by National Grid Transco – to replace gas mains along the M1 corridor between Sheffield and Leicester, UK

Project Solutions

- We worked with the UK Highways Agency to deliver the Bingley Relief Road three months ahead of schedule – and were awarded the Prime Minister's Better Public Building Award, the UK's leading accolade for infrastructure projects
- We were selected by two leading healthcare facility and service providers to deliver £33 million worth of new patient facilities for the NHS in the north and south east of England
- An AMEC joint venture was awarded the contract to partner with Northern Ireland Railways on a major renewal and upgrade of its coast line between Belfast and Larne
- We were selected in joint venture as preferred bidder for a landmark urban regeneration project in London which will transform Lewisham town centre into a thriving residential, commercial and recreation area – and have started on-site at similar schemes in Reading and Durham
- In recent months we have been chosen as preferred bidder for three major UK PPP projects: Colchester Hospital, the Docklands Light Railway extension to Woolwich Arsenal and South Lanarkshire schools, the largest single schools PPP project to date – and are also preferred bidder on the Incheon Bridge PPP project in South Korea

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Designed and produced by in collaboration with Romanus Odiwe, Johnny Boylan and Saffron Digital Production Ltd.

Printed by Wace Limited.

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