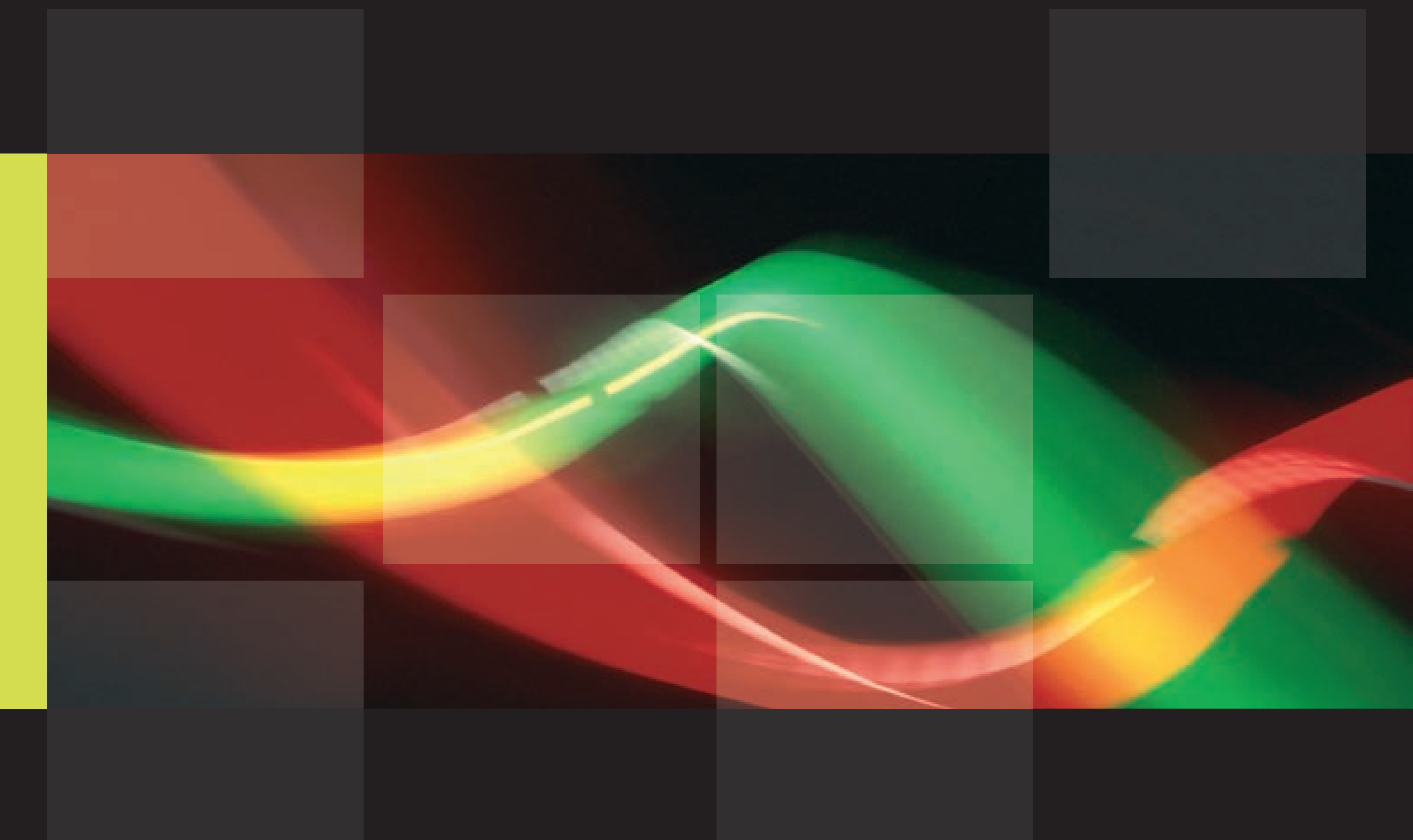
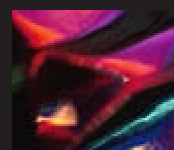
AMEC plc annual report and accounts 2006



Delivering performance and value

amec



Across the world

Responsibly

For the long term

Over 21,000 employees in some 300 locations worldwide

Contents

AMEC at a glance

Energy and Process

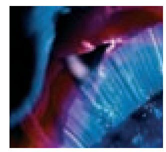
	Natural Resources	Power and Process	Earth and Environmental
2006	Revenues £920.9m Profit £55.0m Margin 6.0% Employees 6,766	Revenues £817.4m Profit £30.4m Margin 3.7% Employees 5,615	Revenues £281.7m Profit £15.2m Margin 5.4% Employees 2,801
Services	**Oil and Gas Services/Oil Sands** Design, manage delivery of, maintain and upgrade production assets for a broad range of oil and gas companies globally **Minerals and Metals Mining** Advise on, design and manage delivery of mining infrastructure	**Industrial** Design, deliver, enhance and maintain electricity and gas infrastructure in the UK, and power and industrial plant in selected markets in North America **Nuclear** Consultancy, programme management and asset delivery services to clients on both sides of the Atlantic	Consultancy, engineering and project management services in environmental, geotechnical, materials and water fields
Clients include	Shell, BP, Syncrude, ExxonMobil, Imperial Oil, Conoco Philips, Suncor, Kuwait Oil Corporation, De Beers, TeckCominco	National Grid, GlaxoSmithKline, Bruce Power, UKAEA, British Nuclear Group, British Energy, Bowater, Dow, Ontario Power Generation, Southern Company	Imperial Oil, GE, Ford, Exxon, BP, BASF, Syncrude, Suncor, DeBeers US Air Force, US Army, US Army Corps of Engineers, US National Guard, Canadian Department of National Defence, Provincial and State agencies
Major contracts include	BG Group plc, UK North Sea: operations support to all of BG's upstream assets and managing development of the Maria brownfield gas project Shell, Athabasca Oil Sands Project, Canada: upstream expansion front end design engineering studies De Beers, Victor diamond mine, Canada: design and asset delivery services	Bruce Power, Canada: nuclear reactor restarts National Grid, UK: replacement of gas mains along the M1 corridor between Sheffield and Leicester National Grid, UK: refurbishment of overhead power transmission lines and underground cables across western England and all of Wales	Encana, Borealis oil sands project, Canada: environmental impact assessment ("EIA") US Air Force Center for Environmental Excellence: multiple projects at bases in countries including Iraq, Afghansitan, Guam and the UK National Grid, Grain LNG Terminal, UK: geotechnical investigations and EIA

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

green denotes AMEC capability

Built Environment

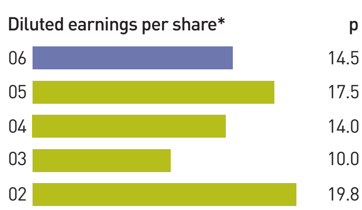
Construction	Investments
Revenues £1,150.8m Loss £(27.8)m Margin (2.4)% Employees 6,111	Revenues £82.5m Profit £21.3m Margin not meaningful Employees 186
Design, project management, construction and hard facilities management of public and private sector assets in sectors including healthcare, education, defence, manufacturing and commercial, principally in the UK	Equity participation in PPP and urban regeneration projects where multiple income streams are generated from investment, project management, delivery and maintenance services. Focused on hospitals, schools, transport infrastructure, commercial and government buildings and wind farms
BAA, Barclays, Interserve, JP Morgan, UBS, Transport for London, Defence Estates, Manchester County Council, Marks&Spencer, Scottish Water, Welsh Water	UK Government (via the PFI initiative), local authorities, strategic partnerships with English Cities Fund and ISIS Waterside Regeneration, together with scheme-specific partnerships with local authorities, land-owners, financial institutions or other corporates
BAA, London Heathrow Airport Terminal 5, UK: mechanical and electrical services Docklands Light Railway, UK: construction of the London City Airport extension South Lanarkshire Schools, UK: delivery of 17 new and two refurbished secondary schools	AMEC has a portfolio of 12 PPP projects focused on the transport, healthcare and education sectors The Property Developments portfolio includes two important joint ventures with ISIS Waterside Regeneration and English Cities Fund The Wind Energy business is developing an onshore portfolio of over 1,000MW

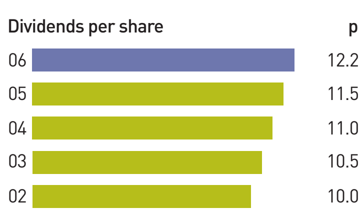


AMEC's vision is to be a leading supplier of high value consultancy, engineering and project management services to defined market segments within the world's energy and industrial process industries

Services focused on designing, managing the delivery of, and maintaining strategic and complex assets

Highlights*





Strategy

- Core businesses identified in energy and industrial markets
- Deliver margin targets of 6 per cent in 2008; 8 per cent in 2010
- Exit from non-core businesses expected by year end 2007
- Implementation of STEP Change in 2007; recurring net benefits of £40 million from 2008

Financial highlights

- Revenue growth 14 per cent
- Pre-tax profit before exceptional items £64.7 million (2005: £73.9 million) reflects losses in Construction
- Average net cash 1 August to 31 December 2006 £190 million
- Dividends 12.2 pence (2005: 11.5 pence)

	2006 £ million	2005 £ million	
Continuing operations:			
Revenue	**3,229.2**	2,843.8	+14%
Profit before intangible amortisation, exceptional items and income tax	**64.7**	73.9	-12%
Loss before income tax	**(108.8)**	(17.7)	nm
Diluted earnings per share from continuing operations before intangible amortisation and exceptional items	**14.5p**	17.5p	-17%
Profit from discontinued operations	**319.1**	22.1	nm
Diluted earnings per share	**66.9p**	1.3p	nm
Dividends per share	**12.2p**	11.5p	+6%

nm: not meaningful

*Unless otherwise stated, amounts and percentage movements throughout this document relating to the income statement are for continuing operations before intangible amortisation of £3.6 million (2005: £4.5 million) and pre-tax exceptional charges of £169.9 million (2005: £87.1 million) but including joint venture profit after tax of £9.8 million (2005: £11.0 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 of which will be outside the control of the group. Such factors could cause the group's actual results for future periods to differ materially from those expressed in any forward looking statements made in this document.

Chairman's statement

2006 was the end of one era and the beginning of another for AMEC. We said farewell to one chief executive and welcomed another, sold a major business while laying plans for future investment and decided to exit former important markets in order to focus on our growing core businesses. As we start 2007, AMEC is making good progress as it executes its new strategy.

This transition has taken place in a demanding time frame. In November 2005, we announced our plans to review strategy, in particular that we would dispose of AMEC SPIE, which we successfully completed in July 2006, producing an excellent return on our investment.

In August 2006, we announced the appointment of our new chief executive, Samir Brikho, who took over from Sir Peter Mason in October. By the year end, Samir had announced his strategy, begun to prepare for the sale of the Built Environment businesses and put in place a major cost cutting programme to make AMEC substantially leaner and fitter than it was previously. These announcements received widespread investor support. At the same time, he successfully defended the company against an approach from a private equity consortium, which the board felt undervalued our business.

Jock Green-Armytage
Chairman

2006 marked the **beginning** of a **new era** for **AMEC**

All this speaks of Samir's energy and dedication to results and I am delighted that our recruitment exercise identified the right man to take AMEC forward. He has already laid the foundations for the group's future growth and success and we can expect to see the new AMEC well established by the end of the current year.

During 2006, we said farewell to Sir Peter Mason, who left the company in October 2006, his official retirement date. Sir Peter played a pivotal role in AMEC's development over the last decade and indeed instigated the reshaping of the group away from its traditional construction markets. Jean Monville, who led AMEC SPIE and was an influential and much valued presence on the board, and Jean-Paul Jacamon, another valued director, left the board following the AMEC SPIE sale. It was announced with our 2006 results, that James Dallas would retire from the board after the annual general meeting on 16 May of this year. James originally intended to serve two terms only, but he agreed to stay on through a period of major change for which we are grateful. On behalf of the board, I would like to thank all of them for their important contributions to AMEC.

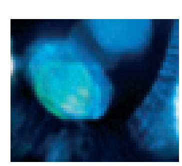
Results for 2006 were very much as expected in December 2006. Adjusted profit from continuing operations of £64.7 million was below both 2005 (£73.9 million) and original expectations for the year. The loss before income tax was £108.8 million (2005: £17.7 million). However, there was a profit from discontinued operations of £319.1 million. Strong performance in Natural Resources and Earth and Environmental, together with a substantial profit from the sale of a PPP asset during the year, was not sufficient to offset reduced profit in Power and Process and continued Construction losses.

We are confident about 2007 and the future given the strength in our core markets and the intense efforts being directed to achieving significant reductions in cost and improved margin in each of our businesses. This is reflected in proposed dividends for the year, which are increased by 6 per cent to 12.2 pence (2005: 11.5 pence).

AMEC has a clear vision and new strategy focused on providing value-added engineering services to its core energy and process clients worldwide. We have put in place plans to turn around, and will divest, the UK Construction business, putting a stop to the losses that have damaged AMEC's performance in recent years. This, together with the divestment of our profitable Investments and Building and Facilities Services businesses, will refocus the group and increase resources available to invest in the core businesses.

Looking further ahead, our core markets are strong, and I am confident that the new AMEC will achieve its margin targets of 6 per cent in 2008 and 8 per cent in 2010, delivering performance and value.

14 March 2007



Chief executive's review

2006 has been a year of considerable change for AMEC. Since my appointment as chief executive in October we have wasted no time in streamlining our businesses, strengthening our position in core markets and building a firm foundation. We are now in a much stronger position than we were a year ago and well on the way to creating a more focused and profitable business for the future.

Creating a leaner, fitter business

Our first priority at AMEC has been to create a leaner and more efficient business. To do this, we have introduced a major cultural change programme known as STEP Change, with a focus on significantly reducing our costs. This was well underway in December 2006 when a cost savings target of £100 million was announced. Progress has been more successful than we anticipated, with all of us who work for the company taking responsibility for driving the programme forward. We have now identified an additional £12 million of savings, involving many initiatives such as aligning our benefits programme with peers and reducing our corporate costs. This will deliver significant benefits of around £40 million in recurring net benefits from 2008 onwards.

S Y Brikho
Chief executive

AMEC now has a **clear vision** and **strategy**

The focus of any organisation must be clear if it hopes to progress and grow. As a result, at the end of 2006 we decided our focus would be on the energy and process markets and that non-core businesses in Built Environment would therefore be sold. We have already successfully sold the rail business, received over 40 expressions of interest for the remaining businesses, and we expect the sale of them to be completed during 2007.

As part of the transformation of AMEC, we have had to manage certain issues that have prevented us from achieving our full potential, including the legacy projects that have involved litigation claims. We addressed this issue as a matter of urgency, reviewing all major disputes, establishing clear responsibility for the management of the legacy issues and adopting a strategy to settle where reasonable to do so. In addition, risk management processes have been strengthened.

A strong balance sheet is always important and following the sale of AMEC SPIE in July 2006, we expect to have £250 million of average net cash available in 2007, up to £100 million of which is being returned to shareholders in a share buy back programme. Conversion of profit to cash has also improved considerably.

Recent successes

In 2006, we profited from successes in our core markets such as oil sands, mining and oil and gas. These included a major joint venture contract for the upgrade of overhead power lines across western England and Wales for National Grid and a contract with BG Group to support all of BG's upstream natural gas assets and manage the development of the Maria brownfield gas project in the North Sea. We also improved the market position of our Earth and Environmental business with the award of a multi-year contract for the US Air Force.

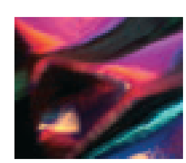
We remain fully committed to a sustainable approach in all that we do, and our success has been reflected with AMEC being awarded the number one position in the 2006 Dow Jones Sustainability Index. This was for both the World and European sustainability indices within the support services sector and was the third year in succession we have achieved this.

AMEC's vision for the future

All the work we are doing is focused on achieving our goal of becoming a leading supplier of high value consultancy, engineering and project management services within the global energy and industrial process industries.

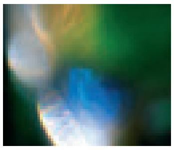
The next stage in the development and growth of AMEC is to focus on the achievement of operational excellence. This will be by strengthening our client relationships, engaging to a much greater degree with our key customers and by creating simpler and more robust management processes. Everyone within AMEC is very clear about what they as individuals need to do to deliver the targets we have set for the business. Their commitment means we will continue to deliver on our promises to put the business in order, to dispose of the non-core businesses, to deliver STEP Change and achieve targeted margin improvements. By doing so, we are positioning ourselves as an organisation that is leaner, more focused and profitable and a leader in our chosen fields.

14 March 2007



Meet our people

Highly talented people, **adding value** to clients' operations



Alison Francis
BSc(Hons), ACA, CTA, AMCT
AMEC plc, Finance, UK

In her role as Director of Tax and Treasury, Alison is responsible for ensuring that AMEC remains compliant with relevant legislation while also being structured efficiently to minimise taxes. Her role also includes ensuring that AMEC has access to funds when necessary and uses them resourcefully.

Paul McRae
BASc (Bachelor of Applied Science)
Natural Resources – Minerals and Metals Mining, Canada

Paul is Project Manager for DeBeers' Victor diamond mine. This remote site in Northern Ontario, Canada, is only land accessible via a 400km winter road, which is open just 45 days each year, making this the largest, single project, winter road mobilisation ever undertaken in North America. AMEC's scope for this project ranges from design through logistics, construction and commissioning, including project management and environmental permitting.

Dr. Scott Stoodley

Ph.D Environmental Sciences, MS Environmental Studies, BS Wildlife Resources Management

Earth and Environmental, US

Dr. Stoodley sits on the United States Water Resources Steering Committee and uses his 20 years of experience in this field to help shape the future of AMEC's water resources programmes throughout North America. He is an expert in non-point source pollution and the application of remote sensing for environmental problem solving.

Nicola Mason

BEng(Hons), CEng, MIChemE

Power and Process - Industrial, UK

In her role as Engineering Manager, Nicola has overall responsibility for ensuring technical integrity of the projects delivered from our Darlington office. Using her specialist process engineering background and experience of the technical aspects of gas compression and storage, she is currently considering how to transfer this knowledge into the renewable and green energy markets, particularly carbon dioxide capture and storage.

Syed Alyahya

Natural Resources – Oil and Gas Services, Malaysia

Having put his Diploma in Information Systems to good use setting up AMEC's offices in Manila, Singapore and Jakarta, Syed has now moved on to take up a new role as Sales Manager for Malaysia. Based in Kuala Lumpur, he is responsible for developing and maintaining all the region's business development systems.

Elisabeth Castro

MEng (Hons), CEng, MIMechE

Power and Process - Nuclear, UK

Elisabeth works for AMEC's Nuclear business with responsibility for a wide range of R&D projects. Amongst her day to day activities of tenders, technical reports and project management, Elisabeth has also designed and commissioned a ¼ scale model of an Advanced Gas-cooled Reactor incorporating an optical measurement system precise to a fraction of a millimetre.

Steve Radley

MSc (Project Management), HND, HNC, OND

Natural Resources – Oil and Gas Services, UK

Following a successful three years in Korea providing technical support services for the Sakhalin topsides construction and commissioning teams as Senior Project Manager, Steve is now pursuing other major offshore oil and gas projects on AMEC's behalf. He also puts his extensive and wide ranging experience to good use, coaching our engineers and project managers of the future.

Strong client relationships

Innovative solutions to some of the world's most **complex engineering** challenges

AMEC is a leading provider of services to Canada's diamond industry. We work with De Beers as their alliance partner and preferred supplier for engineering, consulting, project and construction management services in Canada.

AMEC provides the full range of environmental services for both Snap Lake, De Beers first diamond mine in Canada and Victor, De Beers first diamond mine in Ontario.

The Victor project is in a sub-arctic location, where access is only possible via land for less than two months a year. AMEC's knowledge of the arctic environment and our ability to provide a range of services, from permitting through to construction management, means that we play an essential role in progressing the project through to sanction and development.

Our environmental specialists provided geotechnical and environmental assessment and permitting assistance during the initial stages of the project and are now delivering engineering, procurement and construction management of the site infrastructure as well as working with De Beers to train the local workforce.

AMEC was awarded a £250 million contract with Bruce Power – Ontario's largest independent nuclear generator – over 15 months ago, for the restart of two nuclear reactors.

The plant had been closed for several years, with very limited maintenance, making it an extremely technically challenging project. The work includes a series of refurbishments, upgrades and enhancements to the two reactors, improving safety and increasing generation capacity.

Just over a year into the project, it remains on schedule. AMEC has worked with Bruce Power since 2001, providing complex engineering solutions and safety consultancy services throughout the life-cycle of nuclear facilities in Canada, the UK and Eastern Europe.

AMEC's experience in the nuclear sector, its expertise in large scale project, contract and construction management were major factors in winning this contract.

AMEC is a market leader in the upstream bitumen production oil sands projects in Northern Alberta, Canada, having worked on almost every major development for over 15 years.

AMEC's relationship with Syncrude – the world's largest producer of crude from oil sands - has spanned over ten years, providing project management services, together with design, engineering, procurement, construction management, commissioning and training. The projects are located in severe winter conditions where knowledge of cold weather engineering is mandatory.

On the Aurora mine Train 1 for example, Syncrude introduced a new low-energy process for the extraction of bitumen for the first time, together with the first use of new pipeline technology. AMEC has worked closely with Syncrude in the implementation and enhancements of these new technologies over the years.

AMEC provides long-term asset support to international and national oil companies, using our experience in offshore services to upgrade their facilities and enhance their performance.

AMEC was awarded a seven year ground-breaking performance based contract by Shell ONEgas to provide extensive support services to over 50 offshore gas production platforms and two gas plants in the North Sea.

AMEC created a new joint venture with a UK and Dutch company to deliver a complete service solution to Shell. The company is responsible for the design and management of capital projects and for continuous operational support, including modifications, maintenance and supply of skilled personnel.

Our experience in managing offshore asset support operations in the North Sea has enabled us to improve the reliability of existing facilities and contribute towards extending their productive life as well as helping to raise overall production levels.

Esso Imperial Oil

AMEC's Earth and Environmental business has worked in the extreme climate of North America for more than 30 years, producing environmental impact assessments for major exploration projects.

One long-term client is Imperial Oil Resources, for which AMEC has provided assessment, monitoring and remediation services for both Upstream and Downstream projects. AMEC is currently working with Imperial on the Mackenzie Valley Gas Project in Northern Canada.

AMEC was chosen to conduct a wide range of environmental services, including a full environmental impact assessment, and supporting our client throughout the regulatory review and approvals process. This was one of the largest environmental impact assessments ever undertaken worldwide.

Our experience in handling, large-scale, complex projects is a major factor for our clients in their choice to work with us.

nationalgrid

AMEC is the only UK company to offer a complete range of services across all sectors of the gas and electricity transmission and gas distribution networks.

For many years, AMEC has worked with National Grid on both the gas and electricity transmission networks, and also on gas distribution. In 2005, AMEC was awarded a £280 million contract to provide a rolling programme of upgrading the gas infrastructure along the M1 corridor, covering the cities of Derby, Leicester, Nottingham and Sheffield.

We are providing a complete service from refining the design, delivering the replacement of the pipelines to testing, commissioning and handing over the pipelines over an eight year period.

More recently, in October 2006, an AMEC joint venture won a £500 million contract to upgrade the overhead power lines and underground cables across western England and Wales.

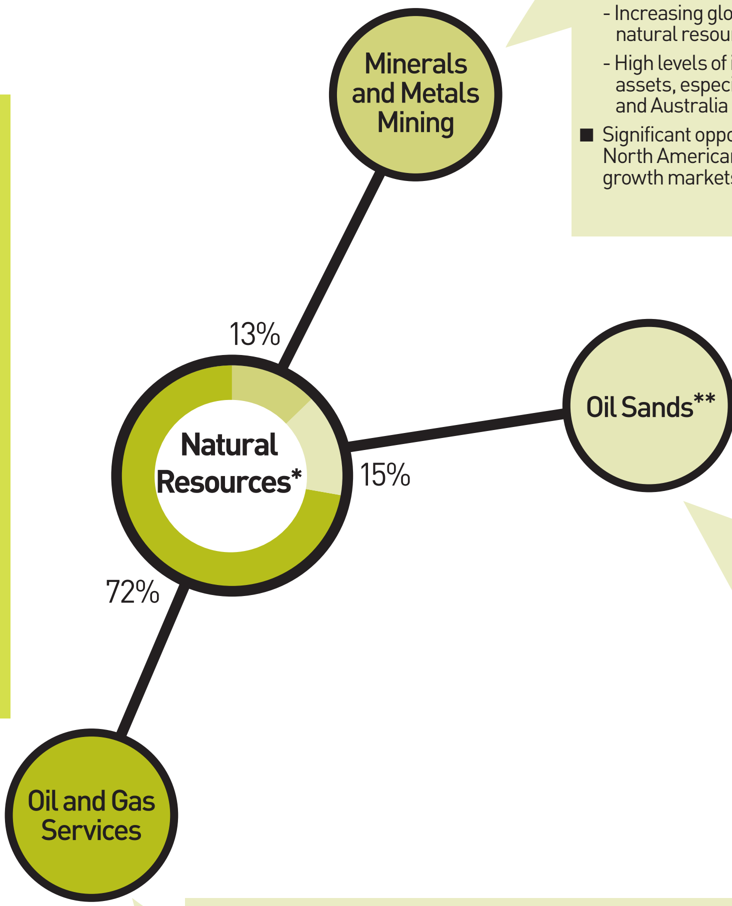
Kimberly-Clark

With over 90 years' experience, AMEC is a global market leader in pulp and paper projects, having designed and constructed some of the world's largest and most technologically advanced integrated mills.

AMEC has a twenty year relationship with Kimberly-Clark – one of the world's top producers of personal paper products – providing engineering, procurement and construction services. For example, AMEC provided engineering design of a specialist machine to increase production in a growing market; using new and refurbished equipment, a solution which maximised Kimberly-Clark's return on capital.

For more information on our projects and clients see our website www.amec.com

Scaleable market positions



- Leading position in North America
- Long-term growth market
  - Increasing global demand for natural resources
  - High levels of investment in mining assets, especially in South America and Australia
- Significant opportunities to leverage North American expertise into growth markets

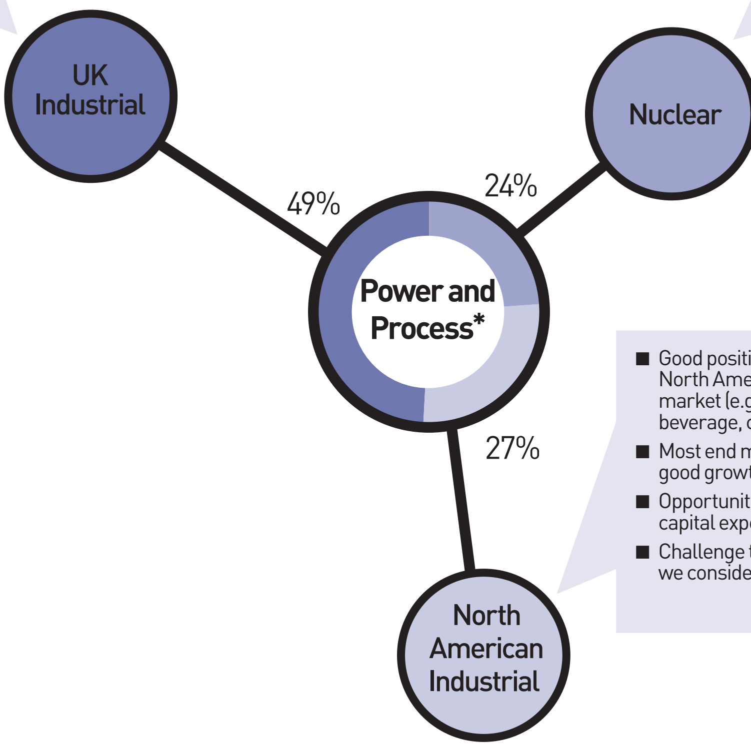
- Leading supplier in surface mining sector
- Long-term growth market
  - Technological advances reducing costs of production
  - Security of supply
  - Strong growth in output predicted
- Good scope for organic growth and investment in the in-situ market

- Leading supplier in the UK North Sea
- Strong position in growth markets – e.g. Caspian
- Long-term growth market
  - Oil and gas to remain the world's dominant source of energy
  - Strong demand for engineering and project management services
- Strategy for growth
  - Grow services related to core activities
  - Increasing emphasis on operational support
  - Capacity and geographical expansion

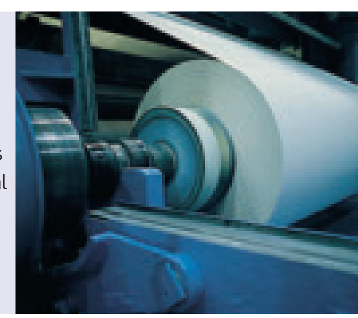
*Revenue split 2006, excluding lump-sum fabrication
**Oil Sands engineering and infrastructure

- Leading positions in gas transmission and storage and electricity transmission
- Spending in our chosen market sectors expected to grow significantly over the next three years
- Opportunity from increasing industrial capital expenditure
- Challenge to improve margins before we consider investments

- Major alliance in the UK with UKAEA and CH2MHILL
- A leading position on reactor restarts in Canada
- Significant long-term opportunities in decommissioning, restarts and new build
- Strategic interest in nuclear defence market



- Good positions in segments of the North American industrial process market (e.g. pulp and paper, food and beverage, cement)
- Most end markets expected to show good growth over the next three years
- Opportunity from increasing industrial capital expenditure
- Challenge to improve margins before we consider investments



- A leading position in Canada and major supplier to the US Air Force
- Long-term growth prospects
  - Increasing environmental legislation
  - High level of development in environmentally sensitive areas
- Large and fragmented market provides consolidation opportunities
- Capacity and geographic expansion in North America and internationally

*Revenue split 2006, excluding joint venture activities in Iraq

Business and financial review

Stuart Siddall
Finance director

Introduction

This business and financial review provides a broader perspective of AMEC's businesses to enable a more informed judgement to be made of the group's financial performance and prospects. The review contains certain forward-looking statements with respect to the financial condition, operations and results of AMEC's businesses. These statements involve risk and uncertainty because they relate to events and depend upon circumstances that will occur in the future. There are a number of factors that could cause actual performance or developments to differ materially from those expressed or implied by these forward-looking statements.

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

Strategy

On 13 December 2006, AMEC announced that it had completed a comprehensive review of the company's businesses including consideration of their market position, client relationships, profitability and growth potential. The review also focused on the reasons for AMEC's underperformance in recent years, which had included a complex organisational structure, high overhead costs, a lack of business focus and ongoing litigation.

AMEC's vision is to be a leading supplier of high value consultancy, engineering and project management services to defined market segments within the world's energy and industrial process industries.

Important goals for AMEC are margin targets of 6 per cent in 2008 and 8 per cent in 2010.

£40 million recurring net benefits from **STEP Change** expected from **2008 onwards**

The review resulted in the decision to retain the following core businesses:

- Natural Resources: Oil and Gas Services; Oil Sands (Engineering and Infrastructure); Minerals and Metals Mining
- Power and Process: Industrial (UK and North America); Nuclear
- Earth and Environmental

In addition, the Wind Energy business and the Incheon Bridge PPP project will be retained.

These businesses generated aggregate 2006 revenues of £2.1 billion (2005: £1.8 billion).

The review also resulted in the decision to sell the following "non-core" Built Environment businesses:

- Building and Civil Engineering
- Building and Facilities Services
- Property Developments
- PPP

These Built Environment businesses, together with various specialist activities* generated 2006 revenues of £1.1 billion (2005: £1.0 billion) and losses of £11.6 million** (2005: profit of £12.9 million).

Non-core businesses will be divested as quickly as possible during 2007 consistent with optimising value.

AMEC also announced that following negative developments on several major disputes further exceptional charges of £68 million would be made, largely in respect of future settlement and litigation costs. These charges reflect the view that AMEC should seek to settle these disputes. Where settlement cannot be secured on a reasonable basis, AMEC will continue to defend its position.

*Excluding the pipeline construction businesses which are classified as discontinued in 2006
**Proforma analysis for 2006 and 2005. Loss/profit is before net financing costs but including joint venture profit before tax

STEP Change

In October 2006, AMEC launched "STEP Change", a programme of change in the structure and culture of the company, which has a target of £112 million in annualised savings. Of this, approximately £80 million relates to savings in the group's gross overhead costs of about £450 million, with £32 million coming from other measures. Approximately 75 per cent of targeted overhead savings are in the company's core businesses. Although not all savings will be retained by AMEC, the company's market competitiveness will be increased by these measures.

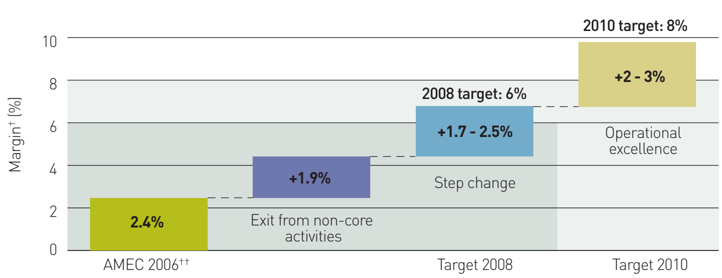
As at 14 March 2007, annualised savings of about £80 million had been identified within the group's businesses. Benefits in 2007 are expected to be some £20 million, with costs of achieving these benefits of £20 million. The programme will be completed by the end of 2007 and recurring net benefits of around £40 million are expected to benefit results for the group overall from 2008 onwards.

Operational Excellence Programme

In December 2006, AMEC announced that it would be launching an Operational Excellence Programme in 2007 designed to strengthen process assurance and risk management, improve business focus and provide better staff training.

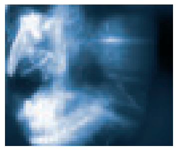
As a result of the overhead cost reduction programme, exit from non-core activities and improvements in operational performance, AMEC is targeting improvements in margin as shown in the chart below:

Performance improvement



†Profit for core operations before net financing costs, exceptional items, intangible amortisation and joint venture tax, but including joint venture profit before tax, as a percentage of revenues
††Excluding Oil and Gas lump-sum fabrication, now closed

Business review



The business review sets out descriptions of each of the group's business segments, their markets, strategy, significant factors affecting performance for the year ended 31 December 2006 including movements in the income statement, balance sheet and cash flow statement and on matters that may have an impact on the group's future financial performance.

Adjusted profit from continuing operations of £64.7 million in 2006 was below both 2005 (£73.9 million) and the board's original expectations for the year. The result was in line with the board's expectations following AMEC's trading update in December 2006. Strong performance in Natural Resources and Earth and Environmental, together with a substantial profit from the sale of a PPP asset during the year, was not sufficient to offset reduced profit in Power and Process and continued Construction losses.

There was a pre-tax exceptional charge of £169.9 million (2005: £87.1 million) and intangible amortisation of £3.6 million (2005: £4.5 million), resulting in a pre-tax loss of £108.8 million (2005: loss of £17.7 million).

Profit for the year from discontinued operations was £319.1 million (2005: £22.1 million).

Basis of preparation and discontinued activities

The business and financial review is based on the reported results for continuing operations before intangible amortisation and pre-tax exceptional items but including joint venture profit before tax ("adjusted profit"). The results as presented in the business and financial review are reconciled to those presented in note 2 to the consolidated accounts on pages 42 and 43 of this review.

On 27 July 2006, AMEC SPIE was sold to PAI partners for a cash consideration of €1 billion. The results of AMEC SPIE for the period to 27 July 2006 are consolidated in these accounts. During 2006, AMEC decided to exit from pipeline construction as a line of business. AMEC's pipeline construction business comprised three companies which were actively marketed during 2006. One of these companies, US Pipelines Inc, was sold in September 2006, and the sale process of the remaining two companies is ongoing.

As a result of the above, both AMEC SPIE and pipelines construction are treated as discontinued operations in 2006.

In accordance with IFRS 5*, the post-tax results of discontinued operations are disclosed separately in the consolidated income statement, with the 2005 consolidated income statement being restated for the same presentation.

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

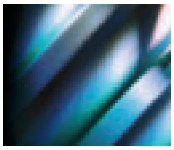
In accordance with IFRS 5, neither the consolidated balance sheet nor the consolidated cash flow statement for 2005 are restated to exclude discontinued operations.

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

Following the disposal of AMEC SPIE, the UK rail business was jointly owned by AMEC and SPIE. On 19 February 2007, AMEC announced an unconditional agreement to sell its 50 per cent interest in the business, with completion expected to take place on 2 April 2007. This business did not meet the criteria under IFRS 5 for presentation as either held for sale or a discontinued operation in 2006.

The table opposite analyses the results for the year ended 31 December 2006 between continuing and discontinued operations. Discontinued operations generated a post-tax profit of £7.6 million in 2006.

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



				Year ended 31 December 2006
	Continuing operations £ million	**Discontinued operations £ million**	**Rail JV tax £ million**	**Total group £million**
Pre-tax profit before intangible amortisation*	**64.7**	**23.9**	**–**	**88.6**
Income tax	**(14.9)**	**(13.7)**	**–**	**(28.6)**
Post-tax profit before intangible amortisation*	**49.8**	**10.2**	**–**	**60.0**
Intangible amortisation	**(3.6)**	**(2.6)**	**–**	**(6.2)**
Post-tax profit*	**46.2**	**7.6**	**–**	**53.8**
Exceptional items (net of tax)	**(146.1)**	**311.5**	**–**	**165.4**
(Loss)/profit for the period	**(99.9)**	**319.1**	**–**	**219.2**

				Year ended 31 December 2005
	Continuing operations £ million	Discontinued operations £ million	Rail JV tax £ million	Total group £million
Pre-tax profit before intangible amortisation*	73.9	44.6	2.4	120.9
Income tax	(15.7)	(18.6)	(2.4)	(36.7)
Post-tax profit before intangible amortisation*	58.2	26.0	–	84.2
Intangible amortisation	(4.5)	(1.5)	–	(6.0)
Post-tax profit*	53.7	24.5	–	78.2
Exceptional items (net of tax)	(72.1)	(2.4)	–	(74.5)
(Loss)/profit for the period	(18.4)	22.1	–	3.7

On 13 December 2006, AMEC announced the decision to divest its non-core Built Environment activities, as referred to on page 13. Due to the timing of this announcement, these businesses did not meet the criteria under IFRS5 to be classified as either held for sale or discontinued as at 31 December 2006. The results of these businesses are therefore included within continuing operations in the 2006 accounts. A pro-forma income statement of the group's results excluding the non-core businesses is set out opposite.

				Pro-forma income statement*
	2006 Revenue £ million	**2006 Profit*** £ million**	2005 Revenue £ million	2005 Profit*** £ million
Continuing businesses**	**2,006.9**	**105.7**	1,577.3	102.5
Internal turnover	**(24.1)**	**–**	(20.5)	–
Corporate costs	**–**	**(20.2)**	–	(19.9)
	1,982.8	**85.5**	1,556.8	82.6
Net financing costs	**–**	**(4.2)**	–	(16.9)
Pre-tax	**1,982.8**	**81.3**	1,556.8	65.7
Tax (pro-forma based on 30%)	**–**	**(24.4)**	–	(19.7)
	1,982.8	**56.9**	1,556.8	46.0
Diluted EPS		**16.9p**		13.8p

Following the formal marketing of the Built Environment businesses in early 2007, these businesses are expected to be treated as discontinued for reporting purposes in 2007.

Segmental analysis

Following the sale of AMEC SPIE, AMEC comprised five operating divisions, each with its own operational structures and management teams. As a result, at the time of the 2006 interim results, AMEC adopted a revised statutory segmental analysis reflecting this structure. The segments are as follows:

- Natural Resources
- Power and Process
- Earth and Environmental
- Construction
- Investments

Commentary for each of the statutory segments is set out on pages 16 to 33.

Amounts and percentage movements relating to segmental activities are stated for continuing operations and before corporate costs of £20.2 million (2005: £19.9 million), intangible amortisation of £3.6 million (2005: £4.5 million) and pre-tax exceptional charges of £169.9 million (2005: £87.1 million), but including joint venture profit before tax of £14.8 million (2005: £15.7 million).

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

*Profit is stated before exceptional items

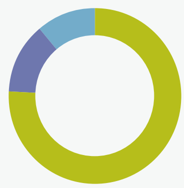
**Excluding non-core businesses to be sold, including all PPP concessions; oil and gas lump-sum fabrication

***Before joint venture tax and intangible amortisation, but including joint venture profit before tax

Natural Resources

% Energy and Process profit

Principal activities



* Including lump-sum fabrication
** Oil Sands Engineering and Infrastructure

£ million	2006	2005	Change
Revenue	**920.9**	870.6	+6%
Adjusted profit	**55.0**	47.0	+17%
Margin	**6.0%**	5.4%	+0.6pts
Net assets	**72.6**	86.2	-16%
Order book	**£1.03bn**	£0.98bn	+5%
Average number of employees	**6,766**	5,733	+18%

Description of business

Divisional head
Neil Bruce

Principal activities
Natural Resources comprises AMEC's activities in Oil and Gas Services, Oil Sands (Engineering and Infrastructure) and Metals and Minerals Mining. Services include asset development and asset support including consultancy and design, project management, commissioning and operational support. Margins vary according to the nature of activities, ranging from 4-5 per cent for asset support services to 10 per cent or more with good performance on contracts with performance incentives.

Principal locations: Aberdeen (UK); Calgary, Vancouver (Canada); Houston (US); Baku (Azerbaijan).

Clients include: Shell, BP, Syncrude, ExxonMobil, Imperial Oil, Conoco Philips, Suncor, Kuwait Oil Corporation, De Beers, TeckCominco.

Major contracts in 2006 included: BG Group plc, UK North Sea: operations support to all of BG's upstream assets and managing development of the Maria brownfield gas project. Shell, Athabasca Oil Sands Project, Canada: upstream expansion front end design engineering studies. De Beers, Victor diamond mine, Canada: design and asset delivery services.

Oil and Gas Services

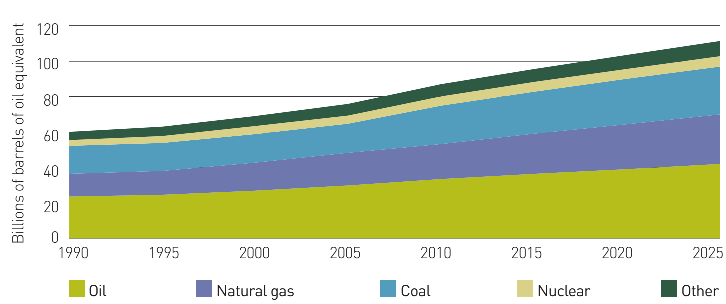
AMEC offers services in design, delivery and commissioning of major upstream oil and gas facilities, the hook-up and commissioning of platforms, project and programme management and operations support and maintenance, including the provision of brownfield engineering and project management services. Demand for AMEC's services is linked to the level of spending on new production facilities, together with extending the life and increasing production from existing infrastructure, and is presently buoyant. The business does not operate in exploration, drilling or sub-sea sectors and has low capital employed on capital equipment as compared with other companies operating in those sectors.

With major locations in Aberdeen, Houston and Baku, this business operates in some 30 countries and serves a broad spread of international, national and independent oil companies in Europe, Americas and frontier regions around the world. The business is the market leader in the UK North Sea ("UKCS") brownfield services and has developed a strong position in frontier regions including Azerbaijan and West Africa. AMEC completed all its lump-sum fabrication activity in the oil and gas market during 2006, with the majority of contracts now being cost reimbursable or cost plus and often performance-based.

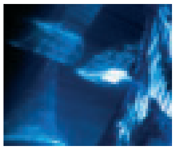
Markets

Oil and gas are expected to remain the dominant sources of global energy supply for the foreseeable future, as shown in the chart below.

Projected global energy supply
1990-2025



Source: International Energy Outlook 1997, 1999, 2002, 2004, 2005 – Washingrton, DC, US Department of Energy, Energy Information Administration



Major oil and gas company plans point to an investment increase of over 57 per cent in 2006-2010 compared to 2001-2005. If those plans are fully implemented and their spending forecasts prove accurate, oil and gas investment would rise from US$340 billion in 2005 to US$470 billion in 2010. The upstream sector will absorb almost two-thirds of total capital spending of which two-thirds will go towards maintaining or enhancing production from current fields. Beyond the current decade, higher investment in real terms will be needed to maintain growth in production capacity, with future projects likely to be more complex and remote, involving a higher unit cost. Slowing production declines at mature giant fields will require increased investment and enhanced recovery. (Source: IEA World Energy Outlook).

Offshore operational expenditure, which includes maintenance and brownfield projects, is expected to outstrip capital spending by 2010 (Source: Douglas-Westwood).

In recent years, the industry has seen the emergence of national oil companies and independents, which in 2006 controlled some 90 per cent of global reserves. This group of companies is expected to account for an increasingly large proportion of investment (2006: 20 per cent), often in frontier regions.

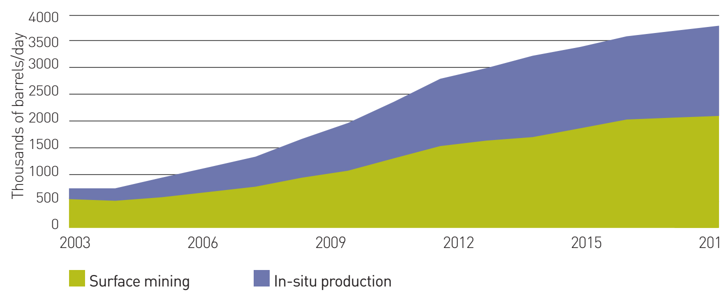
In mature regions, the focus is on asset support and brownfield projects, which develop marginal fields and extend the lives of current assets. Brownfield project margins can be attractive, as operators seek to minimise downtime of their operating facilities. AMEC is the market leader in brownfield projects in UKCS.

Oil Sands

Based in Calgary, Canada, this business is the market leader in engineering services and provision of infrastructure to the upstream surface mining oil sands sector. In early 2007, AMEC was working on various stages of nine out of 10 oil sands projects, with total capital costs in excess of US$19billion.

Oil sands production

2003-2018



Source: Raymond James Canada Centre for Energy Information

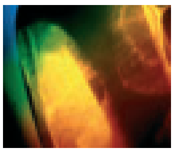
Markets

Two main extraction techniques are used in the oil sands: surface mining, which currently accounts for the majority of production, and in-situ, which is expected to increase its share of the market over the next 10 years. In surface mining, the oil-bearing sand is extracted, mixed with water to form a slurry and piped to the separation facility, where the bitumen is extracted, and then upgraded to a synthetic crude oil. In-situ methods utilise steam injected into shallow reservoirs to mobilise the oil.

The oil sands market has been historically tied to oil prices. More efficient extraction methods, stronger oil prices and domestic security of supply have made investment in the oil sands more attractive. Strong growth in output is expected over the next 10 years. By 2014, the oil sands may produce more oil than any OPEC country except Saudi Arabia (source: EIA; RJ Research estimates and analysis). The pace of development is uncertain; the market is currently resource constrained, with operators curtailing the speed of development owing to escalating project costs.

Natural Resources

continued



Minerals and Metals Mining

AMEC offers consultancy (including ore resource estimation and feasibility studies), design and project management services to clients producing commodities including gold, diamonds, base metals, potash and uranium. The business occupies a top-tier position in international consulting; a leading position in the North American EPCM (Engineering, Procurement and Construction Management) market and is developing its position in South America.

Markets

Demand in the global mining industry has been strong, reflecting high mineral commodity prices and strong economic growth in countries including China and India. This has resulted in the release of a backlog of projects and high levels of activity in 2005 and 2006.

The market in North America is mature, but further growth in activity is expected in 2007. High levels of investment are planned in South America and Australia as new deposits are developed.

Financial performance 2006

Natural Resources reported good overall performance in 2006, being driven by strength in the Oil and Gas Services, Oil Sands and Mining and Metals businesses in the Americas, together with UK asset support activities. Growth in international oil and gas services markets in 2006 was tempered by project deferrals.

The Natural Resources business has withdrawn from lump-sum fabrication. This activity, with sales of £102.9 million and £244.1 million in 2006 and 2005 respectively, generated no trading margin in either year. Substantially all monies due to AMEC from lump sum fabrication projects have now been paid. Commentary below excludes this activity.

Revenue for the period increased by 31 per cent to £818 million.

Adjusted profit increased by 17 per cent to £55.0 million (2005: £47.0 million). Margin of 6.7 per cent (2005: 7.5 per cent), reflected lower than expected incentive payments on a Russian project and compared with strong performance in 2005, which benefited from favourable project completions.

During 2006, the business employed an average of 6,766 employees (2005: 5,733).

The Natural Resources order book was increased despite strong growth in sales during 2006, being up 5 per cent on the position at the end of 2005, standing at £1.03 billion.

Natural Resources has **withdrawn** from all **lump-sum fabrication** activities

During the year, new awards included a three-year contract with BG Group plc to provide asset support services to all of BG's UK upstream assets and to manage the development of the Maria brownfield gas project in the UKCS, together with a three-year extension to the oil and gas asset support services contract from Shell Philippines Exploration for the Malampaya gas field (Philippines). In China, AMEC was appointed project management contractor by Ningxia Coal Industry Group for a coal-to-chemical complex and by PetroChina Guangxi Petrochemical Company for a grassroots refinery. The backlog in Oil and Gas Services also reflected scope changes on pre-existing contracts in asset delivery and support.

In Oil Sands, an AMEC joint venture was awarded a major contract for the Shell Albian Sands Upstream Expansion Project, whilst in Metals and Mining, AMEC was awarded the preliminary basic engineering for a copper and gold project in Chile, and a leading EPCM role for a new zinc smelter in Peru.

Outlook 2007

The market outlook for Natural Resources remains good.

In Oil and Gas Services, activity levels in UKCS are expected to remain high, with continued strength in brownfield developments and other asset support services. Major opportunities are being pursued in frontier regions and some successes are anticipated during 2007.

The Canadian oil sands market for engineering services is expected to remain strong, being driven by increasing levels of investment. Performance in the Oil Sands Infrastructure business, which peaked in 2006, is expected to temper overall growth in the Oil Sands division.

Good growth is expected to continue in the North American mining sector. This, together with increased activity in South America is expected to result in another strong year for the Mining business in 2007.

Taken together, the board expects Natural Resources to make good progress in 2007.

STEP Change

As a result of the STEP Change and Operational Excellence programmes, the Natural Resources business is targeting a 2008 margin of 7-8 per cent.

Strategy

The Oil and Gas Services business aims to build a leadership position as supplier of upstream asset development and asset support services to targeted customers (international operators, national oil companies and smaller independents) in selected geographies, with focus on complex solutions and frontier regions.

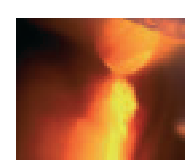
The business will leverage existing capability, deploy brownfield expertise outside of UKCS and focus on global execution using the AMEC supply chain management delivery model.

The business will build capability organically, through alliances and acquisitions in the following areas:

- Increased capacity in North and South America
- Increased capability in frontier regions including Kazakhstan, Sakhalin and China
- Engineering centre in Malaysia/South East Asia

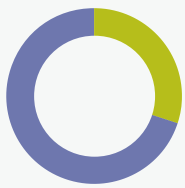
The Oil Sands business aims to maintain its leadership position in the surface mining sector, to strengthen its capabilities and to invest in the in-situ market.

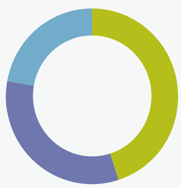
In Minerals and Metals Mining, the business aims to maintain its top tier position in international consulting, to strengthen its leadership position as a North American EPCM contractor and to invest in major markets including South America and Australia.



Power and Process

% Energy and Process profit	Principal activities





* Including joint venture activities in Iraq

£ million	2006	2005	Change
Revenue	**817.4**	602.9	+36%
Adjusted profit	**30.4**	36.7	-17%
Margin	**3.7%**	6.1%	-2.4pts
Net (liabilities)/assets	**(19.9)**	41.3	-£61.2m
Order book	**£1.46bn**	£1.07bn	+36%
Average number of employees	**5,615**	4,440	+26%

Description of business

Divisional head
Tim Watson

Principal activities
Power and Process includes AMEC's activities in UK and North American industrial and power markets, and nuclear. The business designs, delivers, enhances and maintains infrastructure for a broad range of clients in the public and private sectors. Margins across these businesses are varied, but typically average 3-4 per cent through the cycle. The majority of contracts are either framework cost plus or target price with gainshare and painshare conditions, though lump-sum EPC (Engineer Procure Construct) contracts are entered into in selected UK industrial markets where the balance of risk and reward is acceptable.

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

Clients include: National Grid, GlaxoSmithKline, Bruce Power, UKAEA, British Nuclear Group, British Energy, Bowater, Dow, Ontario Power Generation, Southern Company.

Major contracts in 2006 included: Bruce Power, Canada: nuclear reactor restarts. National Grid, UK: replacement of gas mains along the M1 corridor between Sheffield and Leicester. National Grid, UK: refurbishment of overhead power transmission lines and underground cables.

UK Industrial

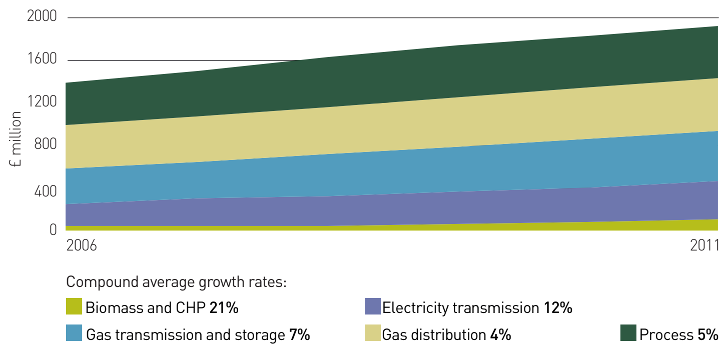
This business includes AMEC's activities in high pressure gas import terminals, storage and transmission; low pressure gas distribution; electricity transmission networks; power generation and process industries (refining, chemicals, pharmaceutical and steel).

The business is based in Darlington and has six operational locations across the UK. Services include engineering, project management, construction, shutdown and maintenance. It is the UK market leader in high pressure gas transmission and storage and in shutdowns, and is a top three supplier to the low pressure gas distribution and electricity transmission sectors. The business has major long-term framework contracts with National Grid for refurbishment of gas and electricity networks. Other key customers include Scottish and Southern Energy, Northern Ireland Electricity, major oil, gas and chemical companies.

Markets

The total market in AMEC's chosen power and process sectors in the UK is large, being worth in excess of £1 billion per annum. AMEC currently has a low market share overall, but has leading market positions in certain energy markets, as referred to above. Spending in the high pressure gas and electricity transmission sectors is expected to grow significantly over the next five years, as investment is made in UK energy infrastructure. Good growth is expected in all core market sectors over the next five years, as seen in the chart below (source: AMEC estimates).

Investment accessible to AMEC
2006-2011



North American Industrial

This business designs, delivers, enhances and maintains plant for the power sector and process industries such as pulp and paper, food, alternative fuels and cement. Engineering services are also provided for public and private sector facilities including hospitals and universities together with defence, transportation, water and waste infrastructure.

The business has major locations in Atlanta, Vancouver and Toronto and operates from some 60 offices across North America.

Markets

The business serves a range of power and process markets across North America and internationally. Principal markets include:

Power generation
Spending is expected to remain high, being driven by high energy costs and environmental legislation. Over 200 new coal units have been announced in the US and significant increases in spending on renewable energy are expected.

Pulp and paper
The North American market is mature, with growth in capital spending being driven by Asia and to a lesser extent, South America and Eastern Europe.

Process industrials (includes food, cement, alternative fuels, facilities)

– Food: The US market is expected to remain flat, with capex shifting from Americas to Central and Eastern Europe.

– Cement: Old plants/technology is being replaced due to high operating costs and environmental legislation. This, coupled with supply shortages is expected to result in good growth in this sector for the next three to five years.

– Alternative fuels: Strong growth is expected to continue in the ethanol and bio-diesel markets.

– Facilities: Significant levels of spending on public and private sector hospitals, research and development facilities and universities are expected to continue.

Infrastructure
The market outlook is strong in both the US and Canada.

The total available market to AMEC's North American Industrial business in its chosen sectors is worth in excess of US$2 billion per annum. Most of the business's key markets are forecast to have capital expenditure growth in excess of 8 per cent per annum over the next three years (source: AMEC).

Nuclear

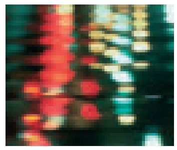
AMEC is the UK and Canada's leading private sector supplier of project management and engineering services to the nuclear industry and also provides services in the Americas, South Africa, Eastern Europe and the former Soviet Union. Services are provided throughout the life of nuclear assets, from programme management and project delivery, operations support for existing assets to decommissioning and waste management. Specialist design, engineering, technical and consultancy services are also available.

AMEC has a proprietary waste vitrification technology, Geomelt®, which uses an electric current to vitrify nuclear waste into a solid, glass-like material. Geomelt® could be used in the clean-up of nuclear facilities around the world.

In January 2006, AMEC formed an alliance with the United Kingdom Atomic Energy Authority ("UKAEA") and CH2MHILL to target selected opportunities in the emerging nuclear decommissioning and clean-up market, which is expected to be worth approximately £2 billion a year. In June 2006, AMEC and UKAEA signed a Memorandum of Understanding with the Korean Power Engineering Company to win work in the multi-billion pound South Korean nuclear market, and in January 2007, AMEC signed a two-year, general service agreement with China's Third Qinshan Nuclear Power Company, owner/operator of two CANDU nuclear power stations.

Power and Process

continued



Markets

Over the next 30 years, of 400 civil reactors worldwide, a significant number will be either decommissioned or receive life extensions, providing major opportunities for AMEC. In the UK alone, the market for decommissioning is valued at some £70 billion (Source: UK Department of Trade and Industry). The Nuclear Decommissioning Authority ("NDA") has published a competition schedule for decommissioning which runs to 2012, (subject to any changes in government policy).

The focus of this business is to continue to invest and enable AMEC to win a major share of contracts from across the expanding global nuclear sector.

AMEC's programme management and technical expertise is already playing a key role in power generation, both in operating reactor support and in reactor re-start programmes, while also positioning itself within the growing new build programme across the world.

AMEC is supporting the NDA as it creates a competitive market in the multi-billion pound management and operation of UK nuclear sites, coupled with an ongoing decommissioning programme, in addition to undertaking major decommissioning work in Eastern Europe and the former Soviet Union.

Financial performance 2006

Revenue for the period increased by 36 per cent to £817.4 million (2005: £602.9 million), with revenue from US Industrial doubling and a 26 per cent increase in UK Industrial. Power and Process also benefited from a full year of sales from the nuclear engineering services business NNC, which was acquired in July 2005.

Growth in these areas was offset by the expected reduction in revenues from joint venture activities in Iraq, which fell from £163.0 million in 2005, to £63.4 million. All joint venture contracts were substantially complete by the end of 2006.

Adjusted profit for the period was £30.4 million (2005: £36.7 million) and margin 3.7 per cent (2005: 6.1 per cent). The decline in margin principally reflected lower margin on contracts secured during 2004/5, together with low profit take on the high volume of sales associated with early stages on industrial projects. Performance also reflected the expected significant reduction of joint venture earnings in Iraq during 2006, which fell from £13.6 million in 2005, to £7.0 million.

In the UK, gas and electricity markets remained buoyant. During the year, AMEC worked on new facilities including gas storage and distribution, flue gas desulphurisation systems and refurbishment or replacement of gas mains and overhead power transmission lines. In North America, the power generation, cement and alternative fuels markets were particularly strong.

In Nuclear, the NNC business, acquired in July 2005, performed ahead of expectations. The major project to restart two reactors for Bruce Power in Canada completed its first year on schedule and on budget, with no lost time incidents, whilst the UK engineering services business had a good year. Performance in the UK capital projects business was below expectation as a number of projects were deferred.

The 2006 **order book** in Power and Process **increased** by **36%**

Net liabilities at 31 December 2006 were £19.9 million (31 December 2005: net assets of £41.3 million) reflecting good cash performance in North America and reduced levels of capital employed associated with joint venture activities in Iraq.

The Power and Process order book grew strongly in 2006, increasing by 36 per cent to £1.46 billion, reflecting strength in power and process markets on both sides of the Atlantic. During the year major contracts were won in joint venture to fit flue-gas desulphurisation systems in the Kilroot power station, Northern Ireland, and the Longannet power station, Scotland, together with contracts in the US for LNG and power generation facilities. Since the year end, an AMEC joint venture signed a major framework contract with National Grid (value to AMEC £237 million) for the upgrade of overhead power lines and underground cables across the western half of England and all of Wales over the next five years. In Nuclear, AMEC was awarded a two-year decommissioning contract for redundant research facilities at the AWE site at Aldermaston, England and an initial contract was awarded by UKAEA for a new decommissioning facility in Dounreay, Scotland.

Outlook 2007

Power and Process end markets are strong.

The industrial businesses in UK and North America are expected to deliver strong growth in 2007. With the strong growth in order book during 2006, the industrial business is now more selective in new projects and sets a gross margin threshold of 8 per cent on new contracts. This, coupled with higher profit take on contracts as they pass key milestones is expected to lead to improved margin performance in 2007.

Continued growth is expected in Nuclear, being driven by the refurbishment project at Bruce Power in Canada. In the longer term, significant opportunities are emerging in the UK from which AMEC expects to benefit.

Overall performance in Power and Process will be tempered by the cessation of joint venture activities in Iraq in 2007.

STEP Change

As a result of the STEP Change and Operational Excellence programmes, the Power and Process business is targeting a 2008 margin of 5-7 per cent.

Strategy

The key challenge for the Power and Process businesses is to improve margins. As detailed above, the business is now operating in a stronger market environment and is being more selective in new work taken on. The STEP Change programme is also expected to improve performance during 2007. Pending improvement in margin, stand alone acquisitions in this area will be a lower priority than for other core activities where margins are stronger.

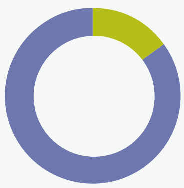
The UK Industrial business aims to maintain its position as a leading supplier to the gas and electricity sectors and to develop a strong position in the provision of engineering services to the renewables sector and in emissions controls.

In the Americas, the business aims to increase its share of the available market and to expand the pulp and paper business into South America.

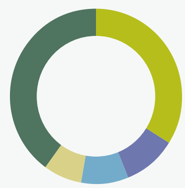
The Nuclear business aims to strengthen its position as the leading private sector supplier of project management and engineering services to the nuclear industry in the UK and Canada. With its alliance partners UKAEA and CH2MHILL, AMEC is well placed to compete in the emerging market in decommissioning and clean-up, where it expects to bid for selected NDA contracts over the next five years. Longer term, AMEC intends to develop a leading position in the new-build market in the UK.

Earth and Environmental

% Energy and Process profit



Revenue by service type



£ million	2006	2005	Change
Revenue	**281.7**	270.9	+4%
Adjusted profit	**15.2**	14.1	+8%
Margin	**5.4%**	5.2%	+0.2pts
Net assets	**4.3**	16.3	-74%
Average number of employees	**2,801**	2,516	+11%

Description of business

Divisional head
Roger Jinks

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

Principal locations: Over 100 locations, mainly across North America but including Iraq, Afghanistan, Germany and UK.

Clients include: Imperial Oil, GE, Ford, Exxon, BP, BASF, Syncrude, Suncor, DeBeers US Air Force, US Army, US Army Corps of Engineers, US National Guard, Canadian Department of National Defence, Provincial and State agencies

Major contracts in 2006 included: Encana, Borealis oil sands project, Canada: environmental impact assessment ("EIA"). US Air Force Center for Environmental Excellence: multiple projects at bases in countries including Iraq, Afghanistan, Guam and the UK. National Grid, Grain LNG Terminal, UK: geotechnical investigations and EIA.

Services

Earth and Environmental provides the following services, principally in North America:

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

Markets

Earth and Environmental operates in a large and highly fragmented market. In 2006, the North American environmental consulting and engineering market segment was valued in excess of US$50 billion. Whilst AMEC's overall market share is small, the business has strong positions in certain end market sectors, notably natural resources and defence. The US Federal Government is the largest procurer of environmental services in the world. Other major market segments include water, waste, air, noise, natural resources, remediation, and industrial services.

Market drivers for this business include growth in environmental legislation; increasing Corporate Social Responsibility; increasing use of brownfield sites and exploration of increasingly environmentally sensitive regions by natural resources companies.

Financial performance 2006

Revenue increased for the period by 4 per cent to £281.7 million (2005: £270.9 million).

Adjusted profit increased by 8 per cent to £15.2 million (2005: £14.1 million) with margin up to 5.4 per cent (2005: 5.2 per cent). The strength of Sterling tempered reported results in this business, which is predominantly carried on in North America. Performance reflected growth in the US Federal sector and continuing strength in the natural resources sectors in North America.

Outlook 2007

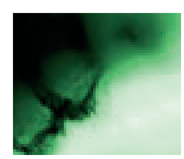
North American markets for environmental services are expected to remain good and the Earth and Environmental business is expected to deliver another strong performance in 2007.

STEP Change

As a result of the STEP Change and Operational Excellence programmes, the Earth and Environmental business is targeting a 2008 margin of 6-8 per cent.

Strategy

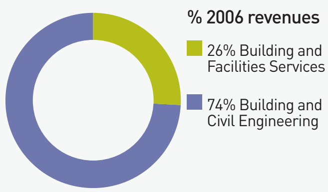
Earth and Environmental aims to improve margin through its continued shift towards higher margin services, with a target of 70 per cent consulting services. Growth through the regional services business model will be achieved organically and through continued bolt-on acquisitions, which will both enhance capabilities and facilitate selective regional expansion.



2006 **results** were **tempered** by the **strength of Sterling**

Construction

Principal activities



£ million	2006	2005	Change
Revenue	**1,150.8**	1,063.7	+8%
Adjusted (loss)/profit	**(27.8)**	1.0	not meaningful
Margin	**(2.4)%**	0.1%	-2.5pts
Net liabilities	**(283.4)**	(114.4)	-148%
Order book	**£1.18bn**	£1.48bn	-20%
Average number of employees	**6,111**	6,761	-10%

Description of business

Divisional head
John Early

Principal activities
Design, project management, construction and hard facilities management ("FM") of public and private sector assets in sectors including healthcare, education, defence, manufacturing and commercial, principally in the UK.

Principal locations: Regional offices throughout the UK.

Clients include: BAA, Barclays, Interserve, JP Morgan, UBS, Transport for London, Defence Estates, Greater Manchester County Council, Marks&Spencer, Scottish Water and Welsh Water.

Major contracts in 2006 included: BAA, London Heathrow Airport Terminal 5, UK: mechanical and electrical services. Docklands Light Railway, UK: construction of the London City Airport extension. South Lanarkshire Schools, UK: delivery of 17 new and two refurbished secondary schools.

Building and Facilities Services

This business provides multi technical engineering services from initial design, through construction, mechanical and electrical installation services, to long-term hard FM across a wide variety of market sectors for clients with specialised requirements for highly engineered facilities. An example is the provision of mechanical and electrical systems at London Heathrow Airport's Terminal 5. AMEC operates from a UK branch network incorporating Glasgow, Edinburgh, London, Birmingham, Bristol and Manchester. Clients are mostly in the private sector and include BAA, Barclays, Interserve, JP Morgan and UBS. The business is characterised by a high percentage of repeat business and generates average margins of 3-4 per cent through the cycle.

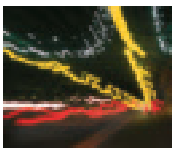
Markets

The business serves markets including air conditioning, heating and ventilation, pipework, electrical power, lighting, security systems and fire protection. Modest growth in these markets is expected in the medium term; the London Olympics could provide additional growth opportunities.

In the UK outsourced FM market, AMEC is focused on hard FM sector, which is a growth market and not on soft FM services such as cleaning or catering.

Building and Civil Engineering

AMEC offers integrated design, project management and construction services for hospitals, schools, rail, airports, and commercial and government buildings. Clients include BAA, Transport for London, Defence Estates, South Lanarkshire Schools, Greater Manchester County Council, Marks & Spencer, Scottish Water and Welsh Water. This area of activities has synergies with the Building and Facilities Services and Investments businesses, both in relation to project tenders and in the construction phase of asset delivery. This business reported substantial losses in 2006, and significant actions have been taken to strengthen management and internal processes, together with increasing focus on higher quality work. The management team is committed to making a small profit in 2007 and the business is capable of achieving average margins of 1-3 per cent through the cycle.



Markets

This business is focused on UK markets which offer sound growth prospects (source: AMEC assessments) together with the right balance of risk and reward:

- Defence: The market available to AMEC is assessed at some £3 billion per annum and is expected to remain relatively stable.
- Healthcare: The UK Government is aiming to deliver 100 new hospitals by 2010; annual spending 2007/8 £4-5 billion.
- Education: The UK is committed to its largest schools capital investment programme for 30 years, with spending rising to £8 billion in 2008.
- Manufacturing: The UK market is stable, but growth opportunities exist with key clients as they invest overseas. Annual spending c. £3-4 billion.
- Transport: Growth in AMEC's available market in this sector is expected to be tempered as a result of the completion of the large terminal 5 project at London Heathrow Airport in 2007. AMEC has exited lump-sum roads contracts as this procurement route is unattractive.

Financial performance 2006

During the year the business continued to exit certain markets in the UK and US, as previously announced.

Revenue increased by 8 per cent to £1,150.8 million (2005: £1,063.7 million), reflecting activity associated with the 2004/5 order book.

Performance in Building and Facilities Services was good, though results for the year were dominated by other construction activities where adjusted losses of £35 million (2005: £7 million) were reported. These results reflected poor performance on a number of current contracts and overhead under-recoveries, as previously disclosed. Significant actions have been taken in the UK Building and Civil Engineering business to improve performance: a new management team is in place; the business has become more selective in work performed, resulting in the order book declining by 23 per cent in the second half of 2006; and controls have been reinforced.

Net liabilities of £283.4 million (2005: £114.4 million) reflect the exceptional charges made in 2006 of £144.5 million, including £90 million in respect of future litigation and settlement costs, largely relating to the North American activities which are being closed.

The overall order book in Construction at 31 December 2006 was down 20 per cent at £1.18 billion (2005: £1.48 billion), reflecting AMEC's planned exit from certain markets and the changed focus of the continuing business. Major contract awards during the year included construction work associated with the South Lanarkshire Schools PPP project, a seven-year FM contract renewal on the Tate Gallery, London, contracts worth £85 million to deliver new further education colleges in eastern England, a £28 million contract to refurbish the main runway at Stansted Airport, UK, and refurbishment works at Victoria Station, London and Waverley Station, Edinburgh.

Outlook 2007

The outlook across Building and Facilities Services markets is generally good. Progress in 2007 is expected to be tempered upon completion of the large Terminal 5 project at London's Heathrow Airport.

The focus of the UK Building and Civil Engineering business will be on improving the quality of work and decreasing risk.

As a result, the business is expected to deliver a small profit in 2007.

Strategy

On 13 December 2006, AMEC announced that UK Building and Civil Engineering and Building and Facilities Services were no longer part of AMEC's core activities. These businesses are the subject of a divestment process during 2007.

Investments

Net assets employed

31 December 2006
53% PPP
47% Property Developments

£ million	2006	2005	Change
Revenue	**82.5**	56.2	not meaningful
Adjusted profit	**21.3**	16.6	+28%
Net assets	**112.4**	105.8	+6%
Average number of employees	**186**	144	+29%

Description of business

Divisional head
John Early

Principal activities
The Investments business has equity participation in PPP and urban regeneration projects where multiple income streams are generated from investment, project management, delivery and maintenance services. The business is focused on hospitals, schools, transport infrastructure, commercial and government buildings and wind farms.

Principal locations: Manchester, London, Hexham (UK).

Clients include: UK Government (via the PFI initiative) and local authorities. Most projects in Property Developments are undertaken in partnership and AMEC has strategic partnerships with English Cities Fund ("ECf") and ISIS Waterside Regeneration ("ISIS"), together with scheme-specific partnerships with local authorities, land-owners, financial institutions or other corporates.

Major contracts: AMEC has a portfolio of 12 PPP projects focused on the transport, healthcare and education sectors. The Property Developments portfolio includes two important joint ventures with ISIS and ECf. The Wind Energy business is developing an onshore portfolio of over 1,000MW.

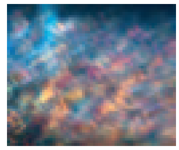
PPP

AMEC has been in the UK PPP market since the introduction of the Private Finance Initiative and has a specialist team of professionals engaged in the complete PPP delivery structure, from front end bidding to long-term management of the investment. The business focus is on projects where it can secure multiple income streams from investing in, delivering and maintaining assets. AMEC has a portfolio of 12 PPP projects focused on the transport, healthcare and education sectors.

AMEC PPP projects: Operational

	Financial close	Equity stake	Concession period	Net equity invested*	Equity committed
Transport					
A1(M) Peterborough to Alconbury	1996	25%	30 years	£6.6m	–
A419/417 Swindon to Gloucester	1996	25%	30 years	£2.4m	–
A13 Thames Gateway	2000	25%	30 years	£5.9m	–
A1(M) Darrington to Dishforth	2003	25%	33 years	£4.7m	–
Docklands Light Railway City Airport extension	2003	50%	30 years	£7.0m	–
Hospitals					
Cumberland Infirmary	1997	50%	45 years	£2.9m	–
University College London Hospital	2000	33%	38 years	£9.4m	–
Accommodation					
Inland Revenue Newcastle Estate	1998	50%	25-31 years	£0.5m	–
Water Treatment					
Ayrshire Wastewater Treatment	2000	25%	30 years	£1.9m	–

*Equity and subordinated debt invested less subordinated debt repaid to date



AMEC PPP projects: Delivery

	Financial close	Equity stake	Concession period	Net equity invested*	Equity committed
Transport					
Incheon Bridge, Korea	2005	23%	30 years	£14.0m	£6.3m
Docklands Light Railway Woolwich Arsenal extension	2005	50%	30 years	–	£11.5m
Schools					
South Lanarkshire Schools	2006	33%	30 years	–	£8.4m
Total PPP portfolio				**£55.3m**	**£26.2m**

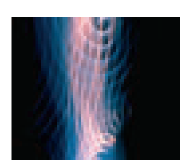
Markets

The UK Government will continue to use PPP as a procurement route for 10-15 per cent of its total investment in public services over the next 5 years (source: *Strengthening Long Term Partnerships* document, March 2006). The National Health Service is planning to continue its multi billion pound capital investment programme with a substantial part of this to be delivered via PPP. Significant opportunities are also expected in education, where the government is aiming to improve all secondary school buildings in England under the Building Schools for the Future programme within 10-15 years.

Property Developments

Property Developments is a property development/urban regeneration business. It offers services from land assembly, remediation and planning through to financing and project management, and has particular expertise in mixed-use urban regeneration projects. Property Developments participates in two particularly important strategic partnerships, with ECf, to regenerate inner city locations and ISIS, to redevelop British Waterways' large portfolio of non-operational sites across the UK canal network. The business generates profit from the development and sale of property assets and is not a long-term investor in completed buildings. Examples of property assets are shown in the table below:

Residential developments	City centre style apartments High density urban family homes
Offices	Provincial city centre Business parks
Leisure	Cinemas Bars/restaurants
Industrial & Distribution	Warehousing and logistics Manufacturing plants Industrial units
Retail	High street/retail parks Retail as a component of mixed use



*Equity and subordinated debt invested less subordinated debt repaid to date

Investments

continued

ECf

AMEC acts as development manager for ECf, the delivery vehicle founded with English Partnerships and Legal & General to deliver sustainable regeneration in inner city fringe locations. ECf is focused on mixed use schemes in assisted areas and has a portfolio of several schemes:

- St Paul's Square, Liverpool – in delivery
- Plymouth, Millbay – in delivery
- Wakefield, Westgate – in delivery
- Preferred developer for Pall Mall scheme, Liverpool
- Preferred developer for Central Salford
- Opportunities also progressing in Canning Town and Manchester

Further information may be found at: www.englishcitiesfund.co.uk

ISIS

ISIS was established in 2002 to develop non-operational sites across the UK canal network.

Joint venture partners are British Waterways (50 per cent), AMEC (25 per cent) and Morley (25 per cent). ISIS holds options over a number of British Waterways sites, predominantly for large scale residential-led mixed use brownfield regeneration projects. Principal schemes are:

Mixed use schemes	Timescale	Sq ft	Status	Value*
Islington Wharf, Manchester	2006-11	0.39m	Ph 1 under construction	£110m
Icknield Port Loop, Birmingham	2009-17	1.45m	Masterplanning	£400m
Brentford	2008-11	0.7m	Planning	£300m
Glasgow	2009-16	1.3m	Masterplanning	£290m
Granary Wharf, Leeds	2007-11	0.2m	Construction Q1 07	£70m
Trent Basin, Nottingham	2007-15	1.2m	Planning	£300m
Hale Wharf, Tottenham	2009-13	0.2m	Planning	£100m

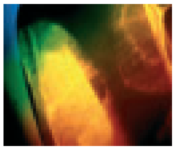
Further information may be found at: www.isis.gb.com

AMEC Developments

Elsewhere, the portfolio includes the current schemes:

Completed projects	Development period	Sq ft	Value*
Barbirolli Square, Manchester City centre offices	1994-1997	0.25m	£60m
Newcastle Quayside Commercial/retail	1993-2001	0.25m	£50m
Inland Revenue Newcastle Estate Public sector offices	1998-2006	1.7m	£240m
Petersbogen centre, Leipzig** Retail	Opened 2001	0.25m	€105m
Projects in delivery			
Wakefield Europort Distribution park	1996-2008	1.2m	£100m
Eurocentral Mossend Distribution park	1994-	1.5m	£150m
Cheadle Royal Business Park Business park	1995-	0.6m	£130m
Ashton Moss Office/distribution/leisure/retail	1998-	1.4m	£160m
Smithfield, Manchester Mixed use	2001-	0.35m	£90m
Hulme High St., Manchester Mixed use	1997-	0.5m	£70m
Lingley Mere, Warrington Business park	2006-	0.6m	£150m
Walkergate, Durham Mixed use	2004-	0.1m	£40m
Castle Gate, Dudley Business park	2000-	0.25m	£60m
Chatham Place, Reading Mixed use	2006-	1.1m	£250m
Pipeline projects			
Lewisham Gateway Mixed use	2007-	1.1m	£250m
North Shore, Stockton on Tees Mixed use	2007-	1.5m	£220m
Pontefract Lane, Leeds Office/distribution	2008-	1.6m	£120m

*End development value
**50% joint venture interest



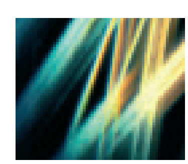
Wind Energy

AMEC is a leading player in the UK wind farm development market. Services include identifying sites, undertaking environmental studies and developing planning applications, site engineering and design, wind resource assessment and economic modelling and stakeholder management. The onshore portfolio of around 1,100MW is outlined below. Offshore, AMEC is leading the development of a 75MW development near Aberdeen, and is providing development and environmental services to Centrica on projects with a potential output exceeding 1,000MW.

Planning committee approval (subject to conditions and a legal agreement) was received in March 2007 for the 18 turbine Edinbane project, and decisions are anticipated on Clashindarroch, Ray and possibly the Isle of Lewis during the remainder of 2007. The business is hopeful for planning decisions on Kyle, currently the subject of a public inquiry, and three other developments before the end of 2008, with decisions on the remainder of the current portfolio, including the Aberdeen offshore development, during 2009.

Onshore portfolio	Output (MW)	No. of turbines
Planning permission obtained		
Carcant, Scottish Borders	6	3
In planning		
Kyle Forest, Ayrshire Public enquiry ongoing	246	82
Isle of Lewis (AMEC 50%) Local authority approval received February 2007	650	181
Clashindarroch, Aberdeenshire Awaiting result of public enquiry	74	37
Aultmore, Moray	58	29
Minch Moor, Borders	21	12
Edinbane, Isle of Skye Conditional planning approval received March 2007	23	18
Ray, Northumberland	60	20
Early stage development		
Logiealmond, Perthshire	26	13
Whitton, Scottish Borders	20	10

The relative shortage of new capacity in the market, coupled with government initiatives to accelerate the planning process and investors keen to participate in the sector gives confidence that the portfolio with planning approval will increase over the next twelve months.



Investments
continued

Financial performance 2006

Overall, the Investments business performed strongly in 2006.

Adjusted profit increased by 28 per cent to £21.3 million (2005: £16.6 million). Performance in both 2005 and 2006 was dominated by substantial profits arising from the sale of two PPP assets. In addition, 2006 saw increased profits from concessions.

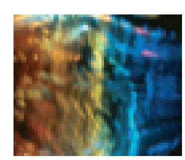
In June 2006, financial close was reached on the South Lanarkshire Schools project in which AMEC has a 33 per cent equity stake. Also in June, Essex Rivers NHS Trust unexpectedly announced the cancellation of the Colchester General Hospital PFI scheme where AMEC, in joint venture, was preferred bidder. The project had been expected to reach financial close during 2006. A claim in respect of the costs AMEC incurred has been submitted to Essex Rivers NHS Trust and discussions with the NHS are progressing.

In Property Developments, good progress has been made on major mixed use urban development schemes, with a start on site on the 1m sq ft scheme at Chatham Place, Reading, and development agreements on similar sized schemes at Lewisham and Stockton.

AMEC's two multi-project partnerships continue to make progress, although ISIS suffered from delays in planning during the year. ECf made progress on St Paul's Square in Liverpool and Plymouth, and was selected as preferred partner in Central Salford and on an extension to the Liverpool scheme.

The only overseas development in the Property Developments portfolio, in Leipzig, Germany, was sold to a 50:50 joint venture in September 2006, resulting in a £33.8 million reduction in financial guarantees provided by AMEC.

The Wind Energy business continued to develop its portfolio and recorded a loss of £4 million arising from the development costs that have been incurred. The business is expecting significant progress in securing planning consents during 2007 and 2008.



The **PPP portfolio valuation** in 2006* **increased** to **£132 million**

*As at 31 December 2006

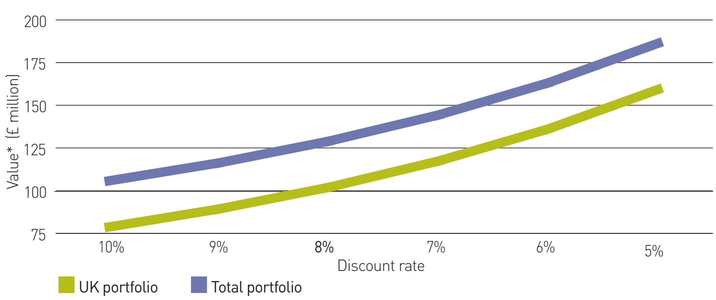
PPP portfolio valuation

The PPP portfolio valuation at 31 December 2006 was £132.1 million (2005: £109.5 million), based on a weighted average discount rate of 9.1 per cent (2005: 10.6 per cent). Net book value of the portfolio at the same date was £69.8 million.

The valuation is sensitive to discount rates, which have been improving in the UK. For illustrative purposes, a discount rate of 6 per cent would value the UK portfolio at around £140 million. This is illustrated in the chart below.

Details of the valuation methodology are set out in the financial review on page 40.

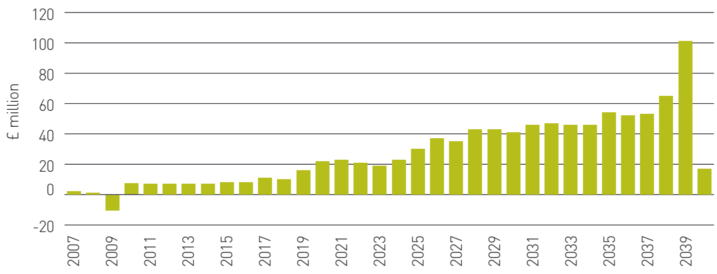
PPP portfolio valuation



*Excluding consortium tax relief; discount rates are only varied for the UK portfolio

PPP portfolio shareholder cash flows*

2007-2040



*Excluding consortium relief

Outlook 2007

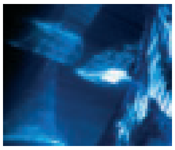
The PPP and Property Developments businesses are expected to make satisfactory progress in 2007, but profits from the sale of PPP assets are expected to be at a lower level than in 2006.

Progress in Wind Energy remains subject to the planning process, but the business remains confident that after a long period of gestation, momentum will increase during 2007.

Strategy

On 13 December 2006, AMEC announced PPP and Property Developments as being non-core activities. These businesses are the subject of a divestment process during 2007.

Wind Energy and the Incheon Bridge concession remain core business activities and will be retained by AMEC.



Financial review

Average net cash* in **2007** is expected to be around **£250 million**

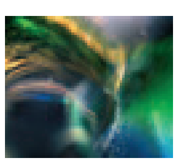
Changes arising from corporate activity

On 27 July 2006, AMEC completed the sale of AMEC SPIE to PAI partners for a cash consideration of approximately €1 billion (£684 million). This disposal has strengthened the balance sheet and generated a post-tax exceptional gain of £311 million.

On 5 September 2006, AMEC completed the disposal of its Houston-based pipelines company, US Pipeline, Inc. to Dearborn Resources, Inc., a company owned and managed by its previous president for a consideration of £11 million.

On 19 February 2007, AMEC announced that an unconditional agreement had been reached for the sale of its 50 per cent interest in AMEC SPIE Rail to the French infrastructure company Colas SA. Completion is expected on 2 April 2007.

AMEC made two small acquisitions during 2006. In January, 50.2 per cent of the Romanian nuclear company Stevenson & Associates SRL was acquired and in July, AMEC acquired Coastal Ocean Associates, based in Nova Scotia, a company specialised in professional oceanographic, numerical modelling and scientific technical services.



Basis of preparation of the accounts

The 2006 annual report and accounts have been prepared in accordance with International Financial Reporting Standards ("IFRS") adopted for use in the EU as at 31 December 2006.

The directors have identified the policies for accounting for construction contracts and retirement benefits as the most critical because they involve high levels of judgement and estimation.

*Before share buy back programme, acquisitions and disposals

Construction contracts

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

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

Retirement benefits

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

Key performance indicators

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

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

	Target	**2006**	2005
Safety			
Number of fatalities at work	0	**0**	7
Lost time incident frequency rate	At least 10% improvement from previous best	**15% deterioration**	14% improvement
Total recordable case frequency rate	At least 10% improvement from previous best	**2% improvement**	1% improvement
Operational			
Order intake as a percentage of sales			
Natural Resources	>100%	**118%**	131%
Power and Process	>100%	**209%**	134%
Margin – core businesses	2008: 6%; 2010: 8%		
Natural Resources	2008: 7-8%	**6.0%**	5.4%
Power and Process	2008: 5-7%	**3.7%**	6.1%
Earth and Environmental	2008: 6-8%	**5.4%**	5.2%
Balance sheet**			
Profit to cash conversion*	100%	**171%**	73%
Average net debt: EBITDA	<2	**1.1**	2.5

*Adjusted cash flow as a percentage of retained profit. See page 41 for basis of calculation

**Including discontinued operations

Financial review
continued

Results of continuing operations

Revenue for the year increased by 14 per cent to £3,229.2 million (2005: £2,843.8 million), with growth throughout the core businesses, but in particular Power and Process, with revenue from US industrial activities doubling and a 26 per cent increase in UK industrial activity. Power and Process also benefited from a full year of sales from the nuclear business NNC, acquired in July 2005. Revenue from UK and US lump-sum Building and Civil Engineering activities was 9 per cent higher than in 2005, as the planned exit from certain markets continued and the existing order book was worked through.

Adjusted pre-tax profit was £64.7 million, a £9.2 million shortfall on the previous year (2005: £73.9 million). Natural Resources and Earth and Environmental performed well and there was a significant profit from disposal of a PPP asset. However, this was not sufficient to offset continued losses in Construction and reduced profit in Power and Process, where there was reduced joint venture activity in Iraq, low margin on industrial projects in the early stages of completion, and project deferrals in UK nuclear capital projects.

There was a pre-tax exceptional charge of £169.9 million (2005: £87.1 million) and intangible amortisation of £3.6 million (2005: £4.5 million), resulting in a pre-tax loss of £108.8 million (2005: loss of £17.7 million).

Diluted earnings per share* from continuing operations were 3.0 pence lower than in 2005 at 14.5 pence (2005: 17.5 pence).

The board is recommending a final dividend of 8.0 pence per share (2005: 7.5 pence) which, together with the interim dividend of 4.2 pence per share (2005: 4.0 pence), results in a total dividend of 12.2 pence per share (2005: 11.5 pence) an increase of 6 per cent.

Administrative expenses

Administrative expenses increased by £45.3 million to £239.1 million reflecting the full year impact of acquisitions made during 2005 and growth in 2006, and remain at around 7 per cent of revenue.

The impact of the STEP Change programme will have a significant impact on the level of overheads in the group from 2008 onwards as discussed earlier.

Corporate costs, which represent the costs of operating the head office of AMEC and certain regional overheads were slightly higher than in 2005, with costs rising in-line with inflation. Actions taken as a result of the STEP Change programme should result in a lower level of corporate costs in the future.

Share of joint ventures and associates results

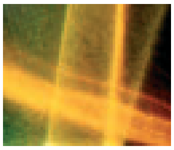
The share of results of joint ventures was £9.8 million (2005: £11.0 million), reflecting reduced contribution from the UK Rail businesses, which are now accounted for as associates, offset by growth in contributions from Developments and Urban Regeneration activities and the Project Equity Investments business.

Net financing costs

Following the receipt in August 2006 of the proceeds from the disposal of AMEC SPIE, the group has been in a net cash position. Around £500 million of bank borrowings were repaid, and there was an early pre-payment of its Private Placement note obligations with a face value of £112 million.

The net finance charge for the year reduced to £4.2 million (2005: £16.9 million), with a benefit of approximately £17 million from the AMEC SPIE proceeds including the interest on inter-group borrowings. As a consequence of the substantial reduction in outstanding debt, AMEC terminated early all related interest rate swaps. The total cost of unwinding all fixed rate liabilities, including the Private Placement notes amounted to approximately £3 million. This is included as a cost of the disposal transaction and offset against the total gain on disposal.

*Based on adjusted profit after tax



Despite the net cash position as at 31 December 2006, AMEC has retained committed facilities of £465 million.

Net interest payable was covered 14 times (2005: 5 times) based on profit before taxation, intangible amortisation and exceptional items and excluding AMEC's share of the results of joint ventures and associates. AMEC remains in compliance with its interest cover ratio banking covenant where profit to net interest payable must be not less than 3:1*.

The ratio of average weekly net debt to earnings before interest, tax, depreciation and amortisation ("EBITDA") was 1.1 times for the continuing group for 2006 (2005: 2.5 times). However, following the sale of AMEC SPIE in July 2006, AMEC has held average net cash balances of £190 million and net cash as at 31 December 2006 was £354.9 million. The maximum level of debt permitted by banking covenants remains at 3.5 times EBITDA*.

Taxation

The group's effective tax rate in 2006 for the continuing businesses before exceptional items (including tax attributable to joint venture interests) was 30.1 per cent (2005: 27.5 per cent). After excluding intangible amortisation, the underlying tax rate was 28.6 per cent (2005: 26.0 per cent). The tax rate, whilst still benefiting from the use of overseas tax losses, has increased overall due to restrictions on the ability of the UK operations, post exceptional costs, to claim full relief for overseas branch taxes suffered. A tax credit of £23.8 million is attributable to exceptional charges of £169.9 million.

At 31 December 2006, the group has deferred tax assets of £16.4 million (2005: £70.9 million) primarily arising from tax losses and short-term timing differences. At year end, the continuing businesses had in excess of £150 million of carried forward tax losses and a deferred tax asset of £22.3 million has been recognised on these tax losses as shown below:

Country	Estimated tax losses at 31 December 2006 £ million	Deferred tax asset recognised on tax losses £ million
UK	72.0	18.0
US	38.0	–
Canada	22.0	4.3
Australia	25.0	–
	157.0	22.3

The group also has deferred tax liabilities of £10.3 million (2005: £47.1 million), mainly arising on liabilities provided for future payments for the use of consortium relief losses and pension surpluses.

The 2005 comparatives include deferred tax assets and liabilities associated with the AMEC SPIE operations now sold/discontinued.

Intangible amortisation

Intangible amortisation relates to capitalised software and intangible assets acquired as part of the acquisitions of NNC and Paragon in 2005. The 2006 charge of £3.6 million is £0.9 million lower than last year, with the reduction being due to the timing of the write off of certain assets related to the acquisition of Paragon in 2005.

In line with IAS 36 "Impairment of assets", annual impairment reviews have been performed on the goodwill carried on the balance sheet. The results of these reviews confirmed that the carrying value of the assets is supported the results of the underlying business.

*For the purpose of the banking covenant, profit is further adjusted by any charges or income relating to the re-measurement of assets or liabilities arising from the adoption of IAS 39 and by any net income or expense arising from the surplus or deficit of the pension schemes

Financial review

continued

Exceptional items

Exceptional provisions were made in 2005 relating to AMEC's exit from lump sum fabrication work in the upstream (Natural Resources) and other markets (Power and Process). In 2006, further provisions (£25 million) were made, reflecting settlement of the major final accounts for upstream fabrication and the ongoing arbitration on a completed overseas Power and Process project.

In 2005, exceptional provisions were also made for the costs of withdrawing from certain loss making construction markets in the UK and US. In the first half of 2006, AMEC made additional provisions for the completion of ongoing construction projects, litigation and other costs totalling £57 million (Construction).

In the latter part of 2006 and following negative developments on several major disputes, AMEC made further provisions of £68 million, largely, in respect of future settlement and litigation costs. These provisions reflect the view that AMEC should seek to settle these disputes. Where settlement cannot be secured on a reasonable basis, AMEC will continue to defend its position.

Details of the material legal actions are set out in note 30 to the accounts on page 99. The balance sheet includes no debtors or work in progress related to these contracts.

In addition, impairment and other provisions associated with a concrete segments business of £15 million were made, together with costs of £4 million associated with the potential separation of the Energy and Process activities from the Built Environment activities.

The net exceptional post-tax credit of £165.4 million for 2006 is summarised as follows:

	Charges arising from litigation and separation costs		Costs of exiting businesses and markets		Total
£ million	Trading items	Related to disposal/closure of businesses	Trading items	Related to disposal/closure of businesses	
June 2006	(13.6)	(21.0)	(22.8)	(21.9)	(79.3)
December 2006	(18.6)	(24.8)	(7.1)	(40.1)	(90.6)
	(32.2)	(45.8)	(29.9)	(62.0)	(169.9)
Tax on exceptional items	–	–	–	–	23.8
Profit on disposal of AMEC SPIE (net of tax)	–	–	–	–	311.5
					165.4

Balance sheet highlights

In line with IFRS 5, the 2005 balance sheet is not restated to exclude discontinued operations. Accordingly, movements in balance sheet captions need additional explanations.

Key movements in the balance sheet are discussed below:

Fixed assets

The fall in net book value of fixed assets as at 31 December 2006 to £73.3 million (2005: £158.3 million) reflects mainly the sale of AMEC SPIE.

Additions of £35.6 million were broadly in line with the depreciation charge for the year of £35.1 million.

The depreciation charge for the year includes a full charge in respect of the businesses held for sale as at 31 December 2006 and seven months of AMEC SPIE, which was sold in July 2006. As a result, the depreciation charge will fall in 2007.

Intangible assets

The net book value of intangible assets as at 31 December 2006 was £197.6 million (2005: £477.9 million), including goodwill £187.9 million, software £3.0 million and other intangibles £6.7 million.

The reduction in goodwill relates to the disposal of AMEC SPIE. Other intangibles and software have reduced from £42.7 million as at 31 December 2005 to £9.7 million, with a reduction of £27.6 million from the disposal of AMEC SPIE and amortisation of £3.6 million.

Interests in joint ventures and associates

Interests in joint ventures and associates at £85.2 million are in line with 2005 (£85.0 million).

Additional investments in AMEC's PPP portfolio and certain Property Development activities have been offset by the disposal of joint ventures held by AMEC SPIE.

Following the disposal of AMEC SPIE, the 50 per cent interest in the UK rail business is accounted for as an associate.

Working capital

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

	2006 Days	2005 Days	2004 Days
Group	**82**	118	117
UK Building and Civil Engineering	**58**	79	84
Energy and Process	**84**	96	100

The reduction in UK Building and Civil Engineering reflects settlement on several contracts which had been completed in previous years together with reduction in carrying values of other projects where settlements had not been secured.

Days sales in stock/wip and receivables for Energy and Process continued to decline in 2006, as final accounts were settled in lump-sum fabrication and other activities. Since the year end, final accounts for substantially all lump-sum fabrication activities have been settled, reducing days sales to about 77 days.

Derivative financial instruments

As at 31 December 2006, there were derivative financial instruments with a net value of £7.1 million (asset) (2005: £15.5 million (liability)) on the balance sheet. This net asset represents the fair value of foreign exchange contracts used to hedge the cash flows of foreign currency contracts, and cross currency swaps used to hedge the net investment in overseas subsidiaries.

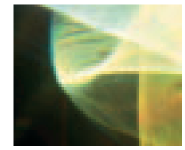
Distributable reserves

As at 31 December 2005, the distributable reserves of AMEC plc stood at £110 million. Following the disposal of AMEC SPIE by a subsidiary company a dividend of £400 million was received by AMEC plc, this being the principal reason for the significant increase in distributable reserves to £455 million as at the year end:

	£ million
As at 1 January 2006	110
Dividend received on disposal of AMEC SPIE	400
Dividends approved during 2006	(38)
Impairment provisions	(20)
Other movements	3
As at 31 December 2006	455

Impairment provisions relate to AMEC's investments in the US and arise as a result of the exceptional charges in 2006.

Financial review
continued



Pensions

The IAS19 pre-tax surplus of principal UK pension schemes at the end of 2006 of £105.6 million was higher than in 2005 (2005: £74.7 million) due mainly to the assets achieving a return higher than the expected increase in the value of the liabilities and additional contributions made by the company.

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

In association with the Trustees of the Schemes, AMEC will continue to monitor scheme mortality experience and will revise assumptions as appropriate.

In order to maintain the relatively strong funding position of the schemes, AMEC increased its cash contributions during 2006 and at the same time offered employees the choice of either increasing their own contributions to maintain current benefits or accepting a lower benefit scale. Company contributions of £31.4 million were paid during the year (2005: £22.8 million) including special contributions agreed with the schemes trustees of £4.5 million (2005: £5.0 million).

The principal financial assumptions are set out in note 15 of the accounts.

At the end of 2005, there was a liability of £56.2 million in respect of an unfunded defined benefit scheme for certain employees in France. Following the disposal of AMEC SPIE, this liability is no longer included in the consolidated balance sheet.

PPP portfolio valuation methodology

A directors' valuation of the PPP portfolio has been carried out as at December 2006 on a consistent basis with past practice. However, in view of reductions in discount rates used to value PPP portfolios in recent UK transactions, the directors have reduced the discount rate applicable to UK PPP concessions by 1.5 per cent since their previous valuation.

The valuation is derived by applying discounted cash flow analysis to future forecast cash flows to which AMEC is entitled either as shareholder or holder of subordinated debt for each project in the portfolio. The forecast cash flows are derived from the detailed financial models for each of the 12 projects in the portfolio.

The models are approved and updated by the project company in line with operational experience and lenders' requirements. Copies of the models are given by the project companies on a six monthly basis to lenders and investors. Typically, the project models are audited on behalf of the funders at financial close and also when there are major changes to the scope of each project such as a refinancing. The models have been analysed to determine forecast future cash flows to AMEC. A discounted cash flow exercise is then applied to cash flows which are post-tax to the project company but pre-tax to AMEC. No value is attributed to preferred bidder positions in the portfolio valuation, neither is any recognition made for additional future cash flows that are not contractually certain, for example potential refinancings. The portfolio valuations include the benefit of UK consortium relief where applicable, discounted at 9 per cent.

The discount rate utilised is 8 per cent (previously 9.5 per cent) for availability-based projects and 9 per cent (previously 10.5 per cent) for volume risk-based projects. A premium of 4 per cent is added to project cash flows in the construction phase and a premium of 2 per cent is added for the ramp-up phase, being 2 years from the start of operations. A discount rate of 15.5 per cent has been used for overseas projects in the construction phase.

The weighted average discount rate for the portfolio is 9.1 per cent (2005: 10.6 per cent).

Investments in joint ventures

AMEC's interests in PPP concession companies and several property development companies are accounted for using the 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.

AMEC's share of net bank debt in PPP companies was £624.9 million as at 31 December 2006 (2005: £541.2 million).The net debt in PPP joint ventures is without recourse to AMEC. As at 31 December 2006, financial support was limited to equity commitments of £26.2 million (2005: £25.1 million) and contingent equity of £34.2 million (£34.2 million). AMEC believes that the circumstances under which it will be called upon to invest the contingent equity are remote.

Cash flow and current liquidity

At 31 December 2006, AMEC had net cash of £354.9 million (2005: net debt of £385.1 million excluding AMEC SPIE). The year end cash position is not a good representation of the group's average cash position. As a result, the group focuses on the weekly average level of net cash/net debt throughout the year.

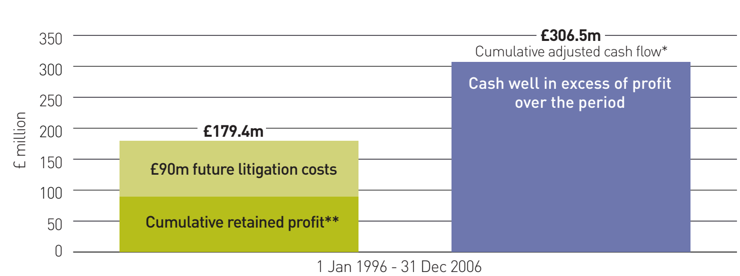
Average weekly net cash for the period following the receipt of AMEC SPIE disposal proceeds (£684 million) in August to the year end was £190 million.

During 2007, the directors expect weekly average net cash to be around £250 million before the impact of the ongoing share buy back programme, acquisitions and disposals.

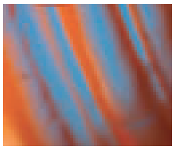
The group's cumulative cash flow* of £306.5 million for the 11 years from 1996 was well in excess of cumulative retained profit** plus provision for future litigation costs of £179.4 million over the same period.

The group's cash conversion charge for the 11 years from 1996 is shown below.

Profit conversion

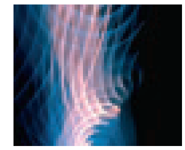


*Adjusted cash flow excludes acquisitions, disposals and share transactions, advanced cash, cash retained in SPIE prior to March 2003, non-cash pensions movements and proceeds from securitisation of debtors
**Profit excludes goodwill write off and amortisation of intangibles but includes dividends charged in the year



Financial review

continued



Reconciliations of adjusted profit for continuing operations and net assets

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

Reconciliation of adjusted pre-tax profit for continuing operations

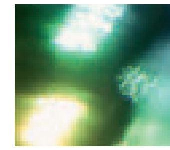
	Adjusted profit before tax £ million	Exceptional items £ million	Intangible amortisation £ million	Pre-tax results of joint ventures and associates £ million	Tax on results of joint ventures and associates £ million	Profit before tax £ million
					Year ended 31 December 2006	
Natural Resources	**55.0**	**(7.8)**	**(1.8)**	**(0.6)**	**–**	**44.8**
Power and Process	**30.4**	**(17.6)**	**(1.0)**	**(1.2)**	**–**	**10.6**
Earth and Environmental	**15.2**	**–**	**(0.5)**	**–**	**–**	**14.7**
Construction	**(27.8)**	**(144.5)**	**(0.3)**	**(0.9)**	**–**	**(173.5)**
Investments	**21.3**	**–**	**–**	**(12.1)**	**–**	**9.2**
	94.1	**(169.9)**	**(3.6)**	**(14.8)**	**–**	**(94.2)**
Corporate costs	**(20.2)**	**–**	**–**	**–**	**–**	**(20.2)**
Profit/(loss) before net financing costs	**73.9**	**(169.9)**	**(3.6)**	**(14.8)**	**–**	**(114.4)**
Net financing costs	**(4.2)**	**–**	**–**	**–**	**–**	**(4.2)**
Share of results of joint ventures and associates	**–**	**–**	**–**	**14.8**	**(5.0)**	**9.8**
	69.7	**(169.9)**	**(3.6)**	**–**	**(5.0)**	**(108.8)**
					Year ended 31 December 2005	
Natural Resources	47.0	(7.0)	(2.8)	(0.2)	–	37.0
Power and Process	36.7	(11.0)	(1.4)	(1.0)	–	23.3
Earth and Environmental	14.1	–	(0.2)	–	–	13.9
Construction	1.0	(69.1)	(0.1)	(6.4)	–	(74.6)
Investments	16.6	–	–	(8.1)	–	8.5
	115.4	(87.1)	(4.5)	(15.7)	–	8.1
Corporate costs	(19.9)	–	–	–	–	(19.9)
Profit/(loss) before net financing costs	95.5	(87.1)	(4.5)	(15.7)	–	(11.8)
Net financing costs	(16.9)	–	–	–	–	(16.9)
Share of results of joint ventures and associates	–	–	–	15.7	(4.7)	11.0
	78.6	(87.1)	(4.5)	–	(4.7)	(17.7)

Reconciliation of adjusted net assets

				31 December 2006
	Adjusted net assets/ (liabilities) £ million	**Interests in joint ventures and associates £ million**	**Intangible assets £ million**	**Net assets/ (liabilities) £ million**
Natural Resources	**72.6**	**0.6**	**2.1**	**75.3**
Power and Process	**(19.9)**	**(1.0)**	**6.3**	**(14.6)**
Earth and Environmental	**4.3**	**(0.2)**	**0.8**	**4.9**
Construction	**(283.4)**	**(7.7)**	**0.5**	**(290.6)**
Investments	**112.4**	**(76.9)**	**–**	**35.5**
	(114.0)	**(85.2)**	**9.7**	**(189.5)**
Goodwill	**187.9**	**–**	**–**	**187.9**
Intangible assets	**9.7**	**–**	**(9.7)**	**–**
Interests in joint ventures and associates	**–**	**85.2**	**–**	**85.2**
Net cash	**354.9**	**–**	**–**	**354.9**
Unallocated net assets	**18.7**	**–**	**–**	**18.7**
Assets and liabilities held for sale	**37.6**	**–**	**–**	**37.6**
	494.8	**–**	**–**	**494.8**

				31 December 2005
Natural Resources	86.2	0.3	4.0	90.5
Power and Process	41.3	(0.5)	8.2	49.0
Earth and Environmental	16.3	–	1.1	17.4
Construction	(114.4)	(2.6)	0.7	(116.3)
Investments	105.8	(70.6)	–	35.2
	135.2	(73.4)	14.0	75.8
Goodwill	435.2	–	–	435.2
Intangible assets	42.7	–	(42.7)	–
Interests in joint ventures and associates	–	85.0	–	85.0
Net debt	(245.5)	–	–	(245.5)
Unallocated net assets	24.7	–	–	24.7
Discontinued businesses	(69.4)	(11.6)	28.7	(52 3)
	322.9	–	–	322.9

Business risks and opportunities



AMEC is **not dependent** on any one **customer**

AMEC's principal activities are in project management, construction and engineering services to clients in energy and process and public sector markets.

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

Principal business opportunities include continued high oil and gas and commodity prices, which would result in continued strength in AMEC's Energy and Process businesses, and continued strength in government spending on public sector assets, which would provide continued opportunities in the Built Environment businesses.

AMEC has invested £3-4 million per annum in developing its portfolio of wind energy projects. Should any of the major projects receive planning approval, this business is expected to begin to make a contribution to the group.

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

The UK Building and Civil Engineering business has been the subject of major restructuring (as described on pages 26-27). AMEC is not aware of any issues within projects under construction that are likely to have a material impact on the company.

In the US, AMEC has exited certain construction management activities. The company is involved in ongoing litigation relating to these former activities and other construction related activities and has made provisions which are believed to be adequate, but the outcome of litigation is not certain, as summarised in note 30 on page 99.

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

AMEC operates in over 30 countries around the world, serving a broad range of markets and customers. As such, the company is subject to certain general and industry-specific risks. Wherever practicable, the company seeks to mitigate exposure to all forms of risk through risk management and the transfer of risk to insurers, where possible and cost-effective. AMEC uses a risk management process which is described in the directors' report on page 57.

Geopolitical and economic conditions

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

Changes in general economic conditions may influence customers' decisions on capital investment and/or asset maintenance, which could lead to volatility in the development of AMEC's order intake.

Environmental issues

AMEC's operations are subject to numerous local, national, and international environmental regulations. Breaches of, or changes in environmental or health and safety laws or regulations, could expose AMEC to claims for financial compensation and adverse regulatory consequences, as well as damaging corporate reputation.

Legislation or other action

AMEC is subject to a broad range of laws, regulations and standards in each of the jurisdictions in which it operates. Failure to comply with these laws, regulations or standards could damage the reputation of the company.

Certain legal liability risks, such as product liability and employer's liability, are transferred to insurers, subject to policy limits and conditions. However, the company and its subsidiaries have been in business for many years and there is a risk of latent injury claims which may not be fully covered by insurance.

Customer concentration

AMEC is not dependent on any one customer, with its largest being Shell, which in 2006 accounted for around 10 per cent* of core business revenues. Were dependence on key customers to increase significantly, this could have direct consequences on AMEC's financial development.

Business continuity

Because of the broad spread and scope of its operations, AMEC's risk from natural catastrophe and terrorist action is varied. Inability to supply against contractual commitments is a risk, which could be material in relation to larger contracts. These risks are mitigated through business continuity planning, which is being developed throughout the group and, where practicable, by transferring risk through business interruption insurance.

Information technology ("IT")

AMEC is exposed to the risk that the IT systems upon which it relies fail. This risk is mitigated through the business continuity planning, which is being developed throughout the group.

Security of employees

The personal security and the safety of employees and contractors can be compromised due to their either being based, or travelling extensively on business, overseas. This is mitigated by security reviews in each location and the hiring of a local specialist security company where appropriate.

Credit

AMEC is exposed to credit risk in relation to customers, insurers and banks. Credit control practices throughout the tender and project execution phases aim to mitigate this risk in relation to customers. Where appropriate, AMEC seeks to insure business risks with insurers of good standing. The insurance industry is, however, subject to credit risk, particularly in the event of catastrophe or where an insurer has substantial exposure to a specific risk.

*Excluding lump-sum fabrication sales

Business risks and opportunities
continued

Treasury risks

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

Funding and liquidity risk

The group finances its operations from retained profits and from committed and uncommitted borrowing facilities provided by a syndicate of relationship banks. Committed facilities at 31 December 2006 totalled £465 million with an average duration of 28 months (2005: 40 months). Headroom under these facilities at 31 December 2006 was £439 million. The group's policy aims to ensure the constant availability of an appropriate amount of reasonably priced funding to meet both current and future requirements consistent with the group's budget and strategic plans. Borrowings under these facilities can be used for general corporate purposes and are unsecured.

Interest rate risk

AMEC would suffer a reduction in interest income on surplus cash if interest rates fall. For example, if cash balances average £250 million during 2007 a 1 per cent movement in rates would impact interest income by £2.5 million. This is not considered to be significant in the context of the group.

Foreign exchange risk

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

Transaction exposures

A significant proportion of the group's trading income is denominated in the local currency of the business operations and therefore provides a natural match with the currency of its cost base. Where commercial contracts are undertaken, which result in a mismatch between currencies the group seeks to mitigate the foreign exchange risk through the use of forward currency arrangements, which may include the purchase of currency options. As stated earlier, contract costs and revenues are affected by a variety of uncertainties that depend on the outcome of future events. This can give rise to exposures if the cash flows are denominated in foreign currency. Judgements are made and hedging decisions are implemented based on the best available information at the time and estimates are subsequently updated regularly. There are currently no material transaction exposures which have been identified and remain unhedged. AMEC recognises that having taken out forward contracts in respect of underlying commercial transactions an exposure would arise if the forward contracts had to be unwound as a consequence of the anticipated cash flows under such contacts being cancelled or otherwise not being received. The total gross nominal value of all outstanding forward contracts is approximately £137 million. At 31 December 2006 the mark-to-market value of these contracts that were out of the money was a liability of £2 million. AMEC has no reason to believe that any material outstanding forward contract will not be able to be settled from the underlying commercial transactions.

Translation exposures

A portion of the group's earnings is generated in non-Sterling currencies. Such overseas profits are translated into Sterling at the average exchange rate prevailing throughout the year. In the past, a portion of Euro denominated profits were hedged as this represented a significant proportion of total group profits. Following the disposal of AMEC SPIE, this hedging is no longer required. There is currently no hedging in place for profits generated in North America but the impact on group profits is monitored on an ongoing basis.

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

Counterparty risk management

Cash deposits and financial transactions give rise to credit risk in the event that counter parties fail to perform under the contract. The group's treasury department regularly monitors the credit ratings of its counter parties and controls the amount of credit risk by adhering to limits approved by the board. As a consequence of these controls the probability of material loss is considered to be low.

Litigation

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

The outcome of legal action is always uncertain and there is a risk that it may prove more costly and time consuming than expected. There is a risk that additional litigation could be instigated in the future which could have a material impact on the company. In some liability cases, legal expenses are covered by insurance.

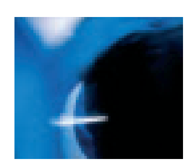
Pensions

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

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

Controls failure

AMEC operates policies and processes as described in the corporate governance section on pages 56 to 57. Failure in these control processes may have a material impact on the company. Control weaknesses were identified within the UK Building and Civil Engineering business as outlined in the directors' report; steps have been taken to rectify these weaknesses and an appropriate control environment had been re-established within the business by the year end.



Sustainability

AMEC topped the **Dow Jones Sustainability indices** for **Support Services** in 2006

Why a sustainable approach?

This section looks at why shareholders should be thinking about sustainability from the perspective of AMEC's business and why ensuring a sustainable approach to all projects worldwide is important to AMEC. In addition, there is a review of AMEC's performance indicators and of the businesses performance against them.

Growing influence of sustainability

Sustainability can be defined as AMEC's ability to generate shareholder value today without compromising its ability to deliver in future years and for future generations. More and more, AMEC is seeing the marketplace evolve to reflect goods and services which offer more sustainable solutions in design, delivery and support. AMEC must be well positioned to support current and future clients in delivering their sustainable goals.

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

Market place opportunities

The Stern Review, published in November 2006, examined the economic implications of climate change on the global economy. Its conclusions were clear and simple: the benefits of strong early action outweigh the costs. The current level of greenhouse gas in the atmosphere is equivalent to around 430 parts per million ("ppm") CO_2 compared to only 280ppm before the industrial revolution. Emission of greenhouse gas is rising at an increasing pace with the emergence of fast growing economies investing in a high carbon infrastructure. The review estimates that to stabilise carbon emissions at 500-550ppm CO_2 equivalent by 2050 would cost one per cent of annual global GDP. The monies would be spent on:

- Reducing demand for emission intensive goods and services
- Increasing efficiency, which can save both money and emissions
- Action on non-energy emissions, such as decontamination of land
- Switching to low carbon technologies for power, heat and transport

With AMEC's range of skills, technical ability and knowledge, it is well placed to succeed in the growth of sustainability related business. For example, AMEC has significant capabilities in environmental, wind and nuclear energy services. In addition, AMEC continues to research and develop many other sustainability related innovative technologies, such as carbon sequestration, satellite monitoring and low carbon materials. It ensures that AMEC is in a strong position to manage both sustainability related market place opportunities and risk.

An important aspect of AMEC's work is helping to conserve finite natural resources such as designing efficient, safe oil and gas technologies, reducing the environmental impact of how resources are used, such as emission desulphurisation for coal fired power stations as well as looking towards tomorrow's energy sources and infrastructure including nuclear and bio fuel. AMEC's experience is helping clients to deliver projects with long-term sustainable benefits as well as contributing to minimising the impacts of resources essential to today's economy and lifestyle.

Sustainability in the workplace

AMEC manages and monitors the impact of business activities through its company-wide sustainability programme, which continued to evolve throughout the year. For a full account of AMEC's sustainability management and performance please refer to the on-line sustainability report at www.amec.com

Board commitment and leadership

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

To help drive improvement, sustainability objectives were part of the 2006 executive directors' bonus scheme.

Continuous improvement

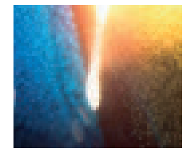
AMEC's minimum requirement is to ensure the effective management of its sustainability impacts by integrating sustainability into day-to-day business processes. In addition to this, each business is required to define and deliver improvement programmes, known as AMEC Agenda 21s. These programmes are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

During 2006, a further series of sustainability workshops and forums were held across the business with the aim of sharing knowledge and information. These forums also tracked progress against individual business Agenda 21s.

AMEC has developed an interactive intranet facility for sustainability co-ordinators across the group, to help them share resources, information and ideas. This has been an efficient way of making best use of AMEC's resources, with the additional benefit of improving the network of sustainability co-ordinators, bringing them closer together.

AMEC has continued to promote sustainable behaviour and business performance through brochures and news networks and reached a wider employee base during the year. There are opportunities for improvement to ensure that people have a clear understanding of their personal sustainability responsibilities and to support AMEC businesses in understanding the evolving global sustainability agenda.

Sustainability
continued



Operational sustainability performance summary

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

A summary of indicators is outlined below that directly affect AMEC's ability to generate long-term value for shareholders. Data for 2005 has been recalculated, excluding the AMEC SPIE business which was sold in 2006, to provide a like for like comparison:

- 0 health and safety convictions/citations, the same as last year
- 0 fatalities at work compared with 7 in 2005
- 2 per cent reduction in total recordable case frequency rate during 2006
- Lost time incident frequency rate rose by 15 per cent during 2006
- The Royal Society for the Prevention of Accidents awarded AMEC businesses two Gold Medal Awards, three Gold Awards and one Silver Award
- 100 per cent of AMEC operations covered by OHSAS 18001 compliant health and safety management system
- 1 environmental prosecution with a fine of £2,044 and one non prosecution agreement compared to 1 prosecution with a £2,493 fine in 2005
- 74 per cent of AMEC people work within an ISO 14001 compliant environmental management system
- AMEC businesses reported 80 pollution incidents of which one resulted in prosecution action
- AMEC contributed to the Carbon Disclosure Project during 2006
- During 2006, AMEC became a founder member of the Carbon Capture and Storage Association with twelve other companies
- Training spend in relation to employment cost 1.27 per cent (2005: 1.41 per cent)
- 33 per cent of vacancies filled internally (2005: 24 per cent)
- 3.35 days lost per employee due to sickness absence (2005: 4.48)
- 15 per cent employee instigated turnover compared to 9 per cent in 2005
- 18 ethics complaints reported in during 2006 (2005: 24)

Sustainability performance indices

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

Dow Jones Sustainability Index ("DJSI")

DJSI results influence the investment decisions of asset managers in 14 countries for a variety of sustainability driven portfolios, including mutual funds, segregated accounts, structured products, as well as two exchange traded funds.

During 2006, AMEC achieved a strong performance in both the World and Pan- European Dow Jones Sustainability Indices. AMEC was listed as the support sector leader in both. This is AMEC's third year as a participant of the index and its third year as sector leader.

Business in the Community

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

In 2006, AMEC continued to participate in the Corporate Responsibility, Environment and Community indices and all results and confidential feedback is included in the on-line sustainability report at www.amec.com.

Future priorities

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

AMEC's challenge for 2007 will be to continue to engage its people and communicate clearly the ways in which they can support the drive towards a more sustainable future. AMEC will continue with its key themes:

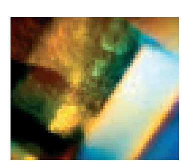
- Ensuring open communication with all stakeholders
- Improving leadership and employee engagement
- Continued alignment of the businesses to sustainability goals

AMEC will continue to use the Agenda 21 approach with the aim of achieving more challenging sustainable targets.

Verification procedure

Statements relating to sustainability made on pages 48 to 51 of this report have been verified by an external, independent team from Enviros. All data used has been checked for reliability and subjected to audit via an internal team of auditors.

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



Enviros has provided verification of the Sustainability section of the AMEC annual report 2006. We have reviewed both quantitative and qualitative information and data and found the interpretation and presentation to accurately reflect business practices and performance within AMEC.

The information and data presented in this section has been tailored to the interests of the report's audience and is a sub-set taken from AMEC's Sustainability Performance Report 2006, which Enviros also verifies.

Our board of directors

Our **directors** have a **broad** base of **experience**

Jock Green-Armytage 3

Age 61, 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.

Stuart Siddall

Age 53, was appointed finance director in June 2000. He was previously finance director of Alpha Airports Group PLC and of MANWEB plc.

Key to principal committee membership

1 Audit
2 Remuneration
3 Nominations

Samir Brikho 3

Age 48, was appointed chief executive in October 2006. He was previously a member of the ABB Executive Committee, heading the Power Systems Division. He was also Chairman of ABB Lummus Global, ABB's international projects and services business.

John Early

Age 61, was appointed an executive director in March 1986. He is the director responsible for the Built Environment operations and is a non-executive director and chairman of G-Mex Limited.

James Dallas 23

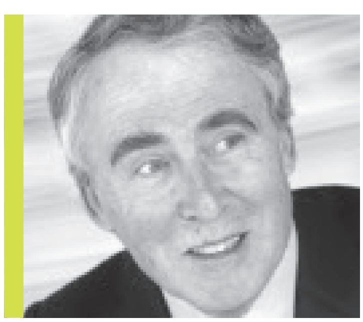
Age 51, was appointed a non-executive director in October 1999. He is the chairman of law firm Denton Wilde Sapte.

Tim Faithfull 23

Age 62, was appointed a non-executive director in February 2005. He is chairman of the remuneration committee. He is a non-executive director of Canadian Pacific Railway, TransAlta Corporation and Shell Pensions Trust Limited and was president and chief executive of Shell Canada Limited from 1999 to 2003.

Martha Hesse 13

Age 64, 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 North America advisory board and the compliance and ethics committee and is also a director of several other companies.



Peter Byrom 13

Age 62, was appointed a non-executive director in February 2005. He is chairman of the audit committee. He is chairman of Domino Printing Sciences plc and Molins PLC and a non-executive director of Rolls-Royce plc and Wilson Bowden plc. He was a director of N M Rothschild from 1977 to 1996.

Liz Airey 123

Age 48, was appointed a non-executive director in May 1999. She is the senior independent director. She was previously the finance director of Monument Oil and Gas plc. She is currently a director of Harrison Lovegrove & Co Limited, chairman of Zetex plc and a non-executive director of Tate & Lyle PLC. In addition, she is chairman of a European investment trust and a non-executive director of another investment trust specialising in private equity.

Report of the directors

The directors have pleasure in presenting the annual report and accounts for the year ended 31 December 2006.

Business review

Information fulfilling the requirements of the business review is contained in the business and financial review on pages 12 to 51, which includes details of AMEC's development and performance during the year, its position at the year end, and the outlook for the future, and is included in this report by references.

Key events

On 22 May 2006, AMEC announced that it had entered into an agreement with PAI Partners for the sale of AMEC SPIE for a cash consideration of approximately €1 billion (£684 million). The disposal was approved by AMEC shareholders at an extraordinary general meeting held on 6 July 2006 and was completed on 27 July 2006, generating an exceptional gain of £311 million after tax. AMEC SPIE is now treated as a discontinued operation and the income statement has been restated accordingly.

On 16 June 2006, AMEC announced pre-tax exceptional charges of £79 million. These costs and provisions related to AMEC's withdrawal from certain construction markets in the UK and US, oil and gas upstream lump-sum fabrication and other activities, and provision for future legal and other costs of disputes.

On 5 September 2006, AMEC disposed of US Pipeline Inc. to Dearborn Resources Inc., a company owned and managed by the previous president of US Pipeline Inc., for a cash consideration of £11 million.

During the year AMEC made a number of small acquisitions in the Earth and Environmental and Nuclear businesses, details of which are set out in the business and financial review.

On 13 December 2006, AMEC announced that it had completed a comprehensive review of the company's businesses including consideration of their market position, existing client relationships, profitability and growth potential. The review also focused on the reasons for AMEC's underperformance in recent years which had included a complex organisational structure, high overhead costs, a lack of business focus and ongoing litigation.

The review resulted in the decision to retain the following businesses as "core", being Oil and Gas Services, Oil Sands (Engineering and Infrastructure), Minerals and Metals Mining, Nuclear, Industrial, Earth and Environmental and Wind Energy. Significant potential opportunities for investment have been identified to develop the core businesses.

The review also resulted in the decision to sell the Built Environment businesses, being Building and Civil Engineering, Building and Facilities Services, Property Developments and Project Investments, together with various specialist activities, as quickly as possible during 2007 consistent with optimising value.

AMEC also announced that a review of completed projects in businesses or activities which had been exited where it was involved in litigation and/or where material final account settlements have been outstanding had been undertaken. Following this review, and reflecting recent negative developments on three major North American disputes, additional pre-tax exceptional charges of £68 million were required.

These further provisions reflected the board's view that AMEC should seek to settle the disputes, but where settlement could not be secured on a realistic basis, AMEC would continue to defend its position.

Finally, as more fully set out in the business and financial review, AMEC announced two further initiatives, being "STEP Change", a programme of change in AMEC's structure and culture with a target of £112 million in annualised overheads savings, and an "Operational Excellence" programme designed to strengthen process assurance and risk management, improve business focus and provide better staff training.

On 19 February 2007, AMEC reached an unconditional agreement to dispose of its 50 per cent interest in AMEC SPIE Rail Systems Limited ("ASRSL") to Colas SA, with completion set for 2 April 2007.

Dividends

The directors have proposed a final ordinary dividend in respect of the year ended 31 December 2006 of 8.0 pence per share. This final dividend will be payable on 2 July 2007 to shareholders on the register at the close of business on 11 May 2007.

Dividends paid during the year comprised an interim dividend of 4.0 pence per share and a final dividend of 7.5 pence per share both in respect of the year ended 31 December 2005.

Share capital

The authorised and issued share capital of the company as at 31 December 2006 and movements during the year are set out in note 25 on pages 94 and 95.

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

On 13 December 2006 the directors announced their intention, pursuant to the authority granted at last year's annual general meeting, to return up to £100 million via on-market share repurchases during 2007. The directors consider that a share buy back is in the best interests of shareholders generally and is expected to result in an increase in earnings per share. The share buy back programme is not dependent upon receipt of the expected net proceeds from AMEC's strategic disposal programme referred to above. Furthermore, the directors will retain sufficient financial flexibility to be able to progress AMEC's strategic growth plans in its core businesses. Repurchased shares will be held in treasury.

On 11 January 2007, AMEC announced that it had purchased 350,000 shares in the market to be held in treasury at a price of approximately 420 pence per share. No further purchases were made up to the date of this report.

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. Resolutions will be proposed at the forthcoming annual general meeting to further extend this authority through to May 2012. The revised Section 80 amount will be £55,938,640 and the revised Section 89 amount will be £8,390,796.

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

Substantial interests

Pursuant to the FSA Disclosure and Transparency Rules (DTR) 5, notifications have been received by the company of shareholdings of 3 per cent or more of the voting rights of the company as at 14 March 2007 and these are as follows:

	Number	Per cent
Toscafund Limited	37,697,620	11.31
ABN-AMRO Bank NV	27,662,914	8.22
Aberdeen Asset Management PLC	15,585,362	5.53
Deutsche Bank AG	17,014,929	5.06
Barclays PLC	14,410,295	4.29
Legal & General Investment Management Ltd	11,576,550	3.44
TIAA-CREF Investment Management, LLC and Teachers Advisors, Inc	10,956,536	3.26

Directors

Details of the directors of the company as at the date of this report, together with membership of the principal board committees, are set out on pages 52 and 53.

Mr J A Monville resigned from the board on 27 July 2006 to concentrate on running AMEC SPIE under its new owners.

Non-executive director Mr J-P Jacamon resigned from the board on 31 August 2006.

Sir Peter Mason stepped down as chief executive of AMEC plc on 30 September 2006 and retired from AMEC on 31 October 2006, having reached his normal retirement age.

Mr S Y Brikho was appointed to the board on 1 October 2006 as chief executive of AMEC plc. Mr Brikho has an employment contract with the company with a notice period which was initially set at two years on the part of the company, reducing progressively by one month each month during the first year of employment to one year after the first year of employment. On the part of Mr Brikho, the notice period was initially set at one year, reducing progressively to six months after the first year of employment.

In accordance with article 91 of the articles of association of the company, Mr Brikho will retire from office at the forthcoming annual general meeting and, being eligible, offers himself for re-election.

Mr J M Green-Armytage, Ms M O Hesse, and Mr S J Siddall retire in accordance with article 85 of the articles of association of the company and, being eligible, offer themselves for re-election. Neither Mr Green-Armytage nor Ms Hesse has an employment contract with the company. Mr Siddall has an employment contract with the company terminable by one year's notice by either party.

Mr J A Dallas has declared his intention to stand down as a non-executive director of the company at the conclusion of the annual general meeting on 16 May 2007.

Report of the directors
continued

The beneficial interests in the share capital of the company of the directors holding office as at 31 December 2006 were as follows:

	As at 31 December 2006 Number	As at 31 December 2005 Number
J M Green-Armytage	**10,000**	10,000
S Y Brikho	**52,892**	–
J D Early	**53,347**	53,347
S J Siddall	**30,628**	26,144
E P Airey	**18,120**	18,120
J A Dallas	**2,000**	2,000
M O Hesse	**16,414**	16,414
P J Byrom	**–**	–
T W Faithfull	**5,000**	5,000

Except for interests under share option schemes and the Performance Share Plans, details of which are contained in the directors' remuneration report on pages 60 to 65, no director as at 31 December 2006 had any other interests, beneficial or otherwise, in the share capital of the company or any of its subsidiaries. On 10 January 2007, Mr J D Early and Mr S J Siddall exercised options held under the SAYE scheme over 3,893 and 4,231 shares respectively at an option price of 218 pence. The shares have been retained. There were no other changes in the directors' interests in the share capital of the company between 31 December 2006 and 14 March 2007.

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

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

Employees

AMEC employed on average 21,479 people in continuing activities worldwide in 2006. Details are given in note 6 on page 78. On average 25,450 people were employed by discontinued operations.

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

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

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

Internal communication is 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 a weekly letter from the chief executive, its intranet AMECnet, internal publications, best practice groups, news bulletins and announcements. A global conference of senior managers is normally held each year to discuss developing issues.

The company operates an HM Revenue & Customs approved savings related share option scheme which is open to eligible UK employees. The International Savings Related Share Option Scheme was introduced in 2005 and launched in North America and certain European countries during that year.

Annual general meeting

As special business, resolutions are being proposed at the annual general meeting to authorise the company to make market purchases of shares in the company within prescribed limits, to authorise the directors to allot shares in the company for a further period of five years and to allot a proportion of those shares for cash.

In addition, a resolution is being proposed to amend the articles of association of the company to incorporate changes consequent upon the enactment of the Companies Act 2006.

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

Corporate governance

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

The board, through the committees described below and at its regular meetings, has a continuous process for identifying, evaluating and managing significant risks faced by AMEC, including strategy, major projects to be undertaken, significant acquisitions and disposals, as well as entry to and exit from different markets. Where appropriate, business decisions are reached following a structured and documented review of potential opportunities and threats, taking steps designed to manage or mitigate any residual risk exposure. Principal business risks are set out in the business and financial review on pages 44 to 47.

AMEC uses a risk management process which is incorporated into the AMEC Management and Policy Framework described below. The process involves the identification of risks at the gross and current 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 annual basis.

The risk management process is coordinated via the risk management forum, which consists of risk managers/sponsors for the businesses and heads of corporate functions. It reports to the risk review committee of the board at least annually and also reviews progress made in embedding risk management throughout AMEC, 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.

In 2005, AMEC reported that certain established control processes were not being followed in the UK construction business. The board reviewed the method by which risk management was embedded within that business, which highlighted the fact that whilst processes were generally sound, there had been, in this case, a failure by business management to apply the controls in a consistent manner.

Measures were taken to improve compliance in that business including new management appointments, staff training, improved project selection processes and closer monitoring of higher risk contracts. The new management team has reinforced controls to ensure increased compliance and, although improvements have been slow to take effect, the board considers that an appropriate control environment had been re-established within the business by the year end.

Consequently, the risk management processes were in place throughout 2006, and up to the date of approval of the accounts, and satisfy the requirements of the Turnbull guidance.

As noted above, AMEC sold its French subsidiary, AMEC SPIE to PAI Partners during the year, with completion taking place on 27 July 2006. AMEC SPIE continued to comply with AMEC's policies and procedures and controls continued to be reviewed by Internal Audit up to that date.

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

Consequently, AMEC complied with the Combined Code on Corporate Governance throughout 2006.

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 Green-Armytage, chairman, wrote to all major shareholders in April 2006 informing them that he and the senior independent director, Ms Airey, were available for meetings or telephone calls with them if required. The chairman attends preliminary and interim results presentations. Ms Airey is available to attend, if requested, one-on-one meetings with major shareholders. The chairman had a number of such meetings with major shareholders during 2006. No meetings were requested with Ms Airey. Since his appointment, Mr Brikho has met with a number of shareholders.

An in-depth annual perception study of investors' views, prepared by an independent third party, is presented to all board members, who also receive unexpurgated feedback reports following shareholder meetings or events together with all material brokers' research notes on the company.

The board

The board currently comprises the non-executive chairman, three executive directors and five independent non-executive directors.

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

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

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

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

An internal review of the effectiveness of the board and its committees was carried out during the year by the chairman, Mr Green-Armytage, by way of a review of questionnaires completed at his request by individual directors. Findings were considered by the board as part of its review of overall board performance. Opportunities for improvement in a number of areas were noted, each of which is being addressed.

The independent non-executive directors also met privately both with and without the chairman present and also with both the chairman and chief executive together to consider management performance and succession issues. A formal process exists for the directors to take independent professional advice and receive appropriate training in the course of their duties, at the company's expense, organised by the company secretary.

Board committees

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

Report of the directors
continued

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

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 carries out an annual assessment of the internal audit function's effectiveness. In 2006, this exercise was carried out on behalf of the committee by the head of internal audit. This followed an independent review of the function by PricewaterhouseCoopers in 2005. No material changes were identified as being necessary as a result of this exercise.

  The committee considers the appointment, re-appointment, removal, remuneration and terms of engagement of the external auditor and makes recommendations to the board. It discusses the scope and planning of the external audit and reviews the outcome of the external audit and any formal communications from the external 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 2006 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. This policy follows the guidelines set out by the Institute of Chartered Accountants in England and Wales and clearly defines what work can and cannot be performed by any group company's statutory auditor. It also sets out the necessary approval process for those non-audit services that are acceptable.

  All non-statutory audit or non-compliance tax services provided by the auditor are reported to the audit committee. During 2006, the fees paid to the company's auditor, KPMG Audit Plc and its associates, for non-audit work were £1.1 million (2005: £1.2 million), which comprised £0.8 million relating to taxation and £0.3 million for other work (2005: £0.7 million and £0.5 million).

  KPMG also received fees of £4.9 million which related to the sale of AMEC SPIE (£3.3 million) and to the potential separation of the group (£1.6 million).

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

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

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

  During 2006, the committee, with the assistance of external search consultants, conducted the recruitment process that led to the appointment of the new chief executive. The outgoing chief executive took no part in this process.

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

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

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

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

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

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

The following table is a record of the directors' attendance at board and principal board committee meetings during the year ended 31 December 2006.

	AMEC plc board	Audit committee	Nominations committee	Remuneration committee
Number of meetings				
J M Green-Armytage	13		4	
S Y Brikho (from 1 October)	3		2	
Sir Peter J Mason (to 30 September)	10		2	
J D Early	12			
J A Monville (to 27 July)	5			
E P Airey	13	3	5	6
J A Dallas	12	3	5	6
M O Hesse	10	3	4	6
S J Siddall	13			
J-P Jacamon (to 31 August)	8	2	1	3
T W Faithfull	10	3	4	5
P J Byrom	10	2	5	5

- 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.

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 and other senior management.

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 31 days' purchases outstanding as at 31 December 2006 (2005: 30 days) based on the average daily amount invoiced by suppliers during the year.

Donations

Donations to United Kingdom charities amounted to £186,000 for the year ended 31 December 2006 (2005: £108,000).

Auditors

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

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

By order of the board

P J Holland
Secretary
14 March 2007

Note

On 20 March 2007, AMEC purchased a further 500,000 shares in the market at a price of 516 pence per share and on 22 March 2007, 250,000 shares were purchased at a price of 515 pence per share. All the shares will be held in treasury.

There were no other purchases of shares to be held in treasury between 14 March 2007 and 23 March 2007, the latest practicable date prior to printing this document.

Directors' remuneration report

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

Remuneration committee membership and advisers

During the year, the members of the remuneration committee comprised Mr J A Dallas (chairman up to 24 August 2006), Mr T W Faithfull (chairman from 25 August 2006), Ms E P Airey, Ms M O Hesse (until 5 December 2006), Mr P J Byrom (until 5 December 2006) and Mr J-P Jacamon (until his resignation as a director on 31 August 2006). The quorum was reduced from three to two members with effect from 5 December 2006. The chairman of the board, Mr J M Green-Armytage, attends meetings by invitation but is not a member of the remuneration committee. The committee's terms of reference can be found under "corporate governance" on www.amec.com or on request from the company secretary.

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

During 2006, New Bridge Street Consultants LLP ("New Bridge Street") continued to provide standing advice to the committee in connection with its responsibilities. New Bridge Street does not carry out material additional work for the company. The terms of engagement between the company and New Bridge Street are available from the company secretary.

Remuneration policy

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

- allow AMEC to attract and retain senior executives of high calibre; and
- incentivise senior executives to achieve superior short-term performance 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.

More specifically, the policy is to set:

- 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, revenue, employee numbers, market capitalisation and/or geographic coverage;
- annual bonuses which incentivise the achievement of stretching business and individual performance targets and offer the opportunity to achieve upper quartile annual cash earnings if these targets are achieved;
- 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;
- whilst accepting that within this policy there will be occasions when higher or lower levels of remuneration will be appropriate in particular circumstances.

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 2007, representing an annualised increase of no more than 4 per cent:

S Y Brikho	£656,500
J D Early	£300,116
S J Siddall	£393,120

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, where relevant, divisional profit; and
- individual performance objectives (for example, in relation to safety, strategy, business development and organisational issues). In 2007, the achievement of the STEP Change plan will be the main or only objective for executives.

A separate amount of bonus attaches to each of these components. The proportions vary between individuals depending on their specific executive roles. The maximum potential annual bonus is 125 per cent of base salary for the chief executive and normally 80 per cent for other executive directors. In every case, the profit and other business target components represent more than half of the potential total.

In order to recruit the new chief executive, it was necessary to guarantee, as part of his joining arrangements, a minimum bonus for the first twelve months of his employment. The guarantee for the part of 2006 after his joining is set out in note (ii) of the table on page 63. For 2007, the guarantee is 62.5 per cent of his salary earned in the first nine months of the year.

Reflecting the planned sale of the Built Environment business, Mr Early's 2007 bonus payment will reflect the achievement of the disposals in terms acceptable to the board, the price achieved and performance of the constituent businesses up to disposal. In certain circumstances, the level of 80 per cent of his rate of salary for the year may be exceeded.

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

Executive directors' long-term incentives

AMEC's principal long-term incentive arrangement is the Performance Share Plan 2002 ("PSP"). AMEC's policy is to make annual awards to executive directors, and to a small number of other senior executives just below board level, of restricted shares with a value at the time of award of up to 175 per cent of base salary. In addition, participants are offered a further award, up to a maximum of 25 per cent of base salary, of five restricted shares for every three acquired by the executives, generally 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, with lower levels of face value to reflect seniority and contribution.

These restricted shares will only vest if pre-determined performance conditions are met. For awards made up to and including 2006, the requirement for full vesting 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 currently comprises the companies that, at the time of grant of each award, are in the FTSE Business Support Services, Heavy Construction and Oil Equipment and Services sub-sectors, and whose market capitalisations lie in a range (as may be agreed from time to time) spanning that of AMEC. For the 2006 awards, the range was £350 million to £3,200 million and comprised 33 companies including AMEC. 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. However, to ensure that AMEC'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.

For the awards made in 2006 and subsequently, the definition of earnings per share has been changed to reflect underlying performance more accurately in the light of the new International Financial Reporting Standards.

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.

Awards are normally made in April following the publication of the annual result. In 2006, awards were delayed because of the sale of AMEC SPIE until September, following the publication of the interim results. It is intended to revert to the normal pattern of April awards for 2007 and subsequent years.

Following the new chief executive's strategic review of the business, the remuneration committee has decided that the performance targets attached to PSP awards should be modified for grants made in 2007 and future years to create an incentive for executives to deliver the strategic plan and to improve the line of sight between performance and award. In particular, earnings per share should play a greater role in determining the level of vesting of future PSP awards to reflect the objective of increasing operating margins.

Accordingly, the remuneration committee will apply the existing total shareholder return condition to 50 per cent of a future award. No awards will vest under this part unless there has been sustained financial growth of the company. The other 50 per cent will be subject to an earnings per share growth target. The intended policy is that the vesting range will be RPI plus 3 per cent per annum (25 per cent of that part of the award vests) to RPI plus 10 per cent per annum (100 per cent of that award vests).

However, for the 2007 awards, taking account of the plans that are being implemented to improve the margins and reduce overheads in the ongoing business, applying this RPI plus 3 to 10 per cent earnings per share growth range is not considered to be sufficiently stretching. Consequently, the earnings per share required in 2009 for maximum vesting of the relevant portion of these 2007 awards will be 38 pence and the level at which 25 per cent of this portion of the award will vest will be 26 pence.

Earnings per share will be calculated on a consistent and normalised basis by the remuneration committee, having sought appropriate external advice on the method of calculation and any adjusting and potentially adjusting items.

The remuneration committee also ensures that, for any performance conditions affected by the transition to International Financial Reporting Standards, measurement for remuneration purposes will be, as far as practicable, consistent year on year. Performance against the total shareholder return targets is calculated independently and reviewed by the remuneration committee.

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

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

The AMEC Performance Share Plan 2006

On 2 October 2006, Mr S Y Brikho was awarded 785,712 restricted shares in AMEC plc under the AMEC Performance Share Plan 2006 ("Recruitment Plan") which was adopted in October 2006 specifically to facilitate the recruitment of Mr Brikho as chief executive of AMEC plc on 1 October 2006. The terms of the awards generally mirror those under the Performance Share Plan 2002, which was approved by shareholders in May 2002. The award consists of two distinct elements; Part A and Part B:

- Part A is in respect of 241,019 shares and will vest in three tranches on 8 December 2006, 10 December 2007 and 3 February 2009 respectively, subject to continued service but no other vesting conditions. This element of the award is designed to compensate Mr Brikho for the value of the share incentives he held with his previous employer, which lapsed or were forfeit on cessation.
- Part B is in respect of 544,693 shares and will vest subject to the satisfaction of the same performance conditions applying to the awards made in 2006 under the 2002 plan, which are described above.

No further awards may be made to Mr Brikho under the Recruitment Plan and no new issue shares or treasury shares will be used to satisfy the award.

The award will normally lapse if Mr Brikho leaves AMEC before it vests, except where he leaves for certain specified reasons including disability, injury, death, ill health, redundancy and retirement. On a change in control the award will vest under Part A in total and under Part B to the extent that the performance conditions are satisfied.

The number and/or nominal amount of shares may be adjusted by the board on certain variations in AMEC's share capital and the board may require written agreement of any such adjustment by the auditors.

The awards are not pensionable and are not transferable.

Share Ownership Guidelines

It is intended to introduce during 2007, guidelines requiring executive directors to build up over a three year period and retain a holding of AMEC shares received from incentive plans. A level of one times salary is being targeted for executive directors with lower levels for less senior executives.

Executive directors' pension entitlements and benefits

The executive directors, except for Mr J D Early, are members of the AMEC Staff Pension Scheme and have top-up benefits provided through the AMEC Executive Pension Scheme. The schemes are both defined benefit schemes registered with HMRC and also provide for life assurance cover and dependants' pensions. These executive directors accrue pension rights which are linked to the length of pensionable service and to final pensionable salary and have a normal pension age of 60. However executive directors who remain in employment beyond 60 are able to continue to accrue further pension rights.

The company is currently consulting with members and trustees of the Staff and Executive Pension Schemes over proposals to move from final salary to career average revalued earnings ("CARE") in respect of benefits accrued from 1 January 2008 onwards.

The benefits of Mr Brikho and Mr S J Siddall are restricted to a scheme earnings cap which is set at £112,500 for the 2006/7 tax year (£120,000 for 2007/8) and they receive a taxable supplement to their

Directors' remuneration report
continued

salaries in relation to earnings above the cap. Mr Brikho also has the benefit of additional life assurance in respect of earnings above the cap. There are no unregistered pension arrangements in force for executive directors.

Executive directors are able to opt-out of further pension accrual, particularly if this would provide benefits in excess of the Life Time Allowance, in which case they will receive a non-bonusable salary supplement of 20 per cent of basic salary in lieu of further pension accrual. This applies to Mr Early who ceased to be a member of the AMEC Staff and Executive Pension Schemes on 31 October 2005 and consequently is not accruing further benefits under either scheme.

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

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

Executive directors' employment contracts

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

Mr Brikho was employed initially with a notice period of two years from the company, reducing by one month each month during the first year of employment to one year after the first year of employment. On the part of Mr Brikho, the notice period was initially set at one year, reducing progressively to six months after the first year of employment.

Mr Siddall has an employment contract with a notice period of one year but with provision that if the company terminates employment (other than for gross misconduct), rather than receiving notice, he will be entitled to one year's remuneration (less tax) as liquidated damages in full and final settlement. For this purpose and, as a reasonable estimate of loss, remuneration is defined as 1.75 times basic annual salary to take account of salary, bonus potential, pension arrangements, the value of benefits and compensation for loss of office. This recognises that he previously had a notice period of two years which was reduced by agreement to one year from 1 January 2003 without compensation, following the change in policy on notice periods.

Mr Early has a contract which terminates on 31 December 2007. It may be terminated earlier than this by Mr Early giving six months' notice of resignation.

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

External directorships

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

Mr Early is a director of G-Mex Limited for which he receives no remuneration.

For the period during the year when he was a director of AMEC, Sir Peter Mason was a non-executive director of BAE Systems plc. He retained the fee of £73,000 per annum which he received in relation to this appointment.

Chairman

The remuneration committee is responsible for determining the remuneration and other terms of employment of the chairman of the board. The contract of the chairman, Mr Green-Armytage, runs to 20 January 2008. It may be terminated earlier than this on six months' written notice of resignation or with payment of six months' fees if the board withdraw their agreement to his continuing to serve as chairman, other than for gross misconduct. The chairman's current fee is £200,000 per annum and he is provided with life assurance cover of four times the pensions earnings cap.

Non-executive directors

The remuneration of non-executive directors is determined by the chairman and the executive directors under delegated authority from the board. The non-executive directors receive fees for their services and do not participate in any of the incentive or benefit schemes of the group. Fees were reviewed with effect from 1 January 2007.

The current fee is £47,500 per annum plus a further £5,000 per annum in respect of chairing committees of the board other than the audit committee, where the additional fee is £12,500 per annum, and the remuneration committee, where the additional fee is £7,500 per annum. There is an additional fee of £7,500 per annum paid to the senior independent director. The policy with regard to fee structure is to reflect time commitment and responsibility of the various roles.

Non-executive directors may also be paid additional fees for other duties undertaken on behalf of the company.

The board's policy is that non-executive director appointments are normally for three consecutive three year terms, subject to review after the end of each term. The non-executive directors as at 31 December 2006 have fixed-term contracts which run until the dates set out below:

	Date of contract	Service review date
E P Airey	26 May 1999	25 May 2008
J A Dallas*	28 October 1999	27 October 2008
M O Hesse	1 June 2000	31 May 2009
P J Byrom	10 February 2005	9 February 2008
T W Faithfull	10 February 2005	9 February 2008

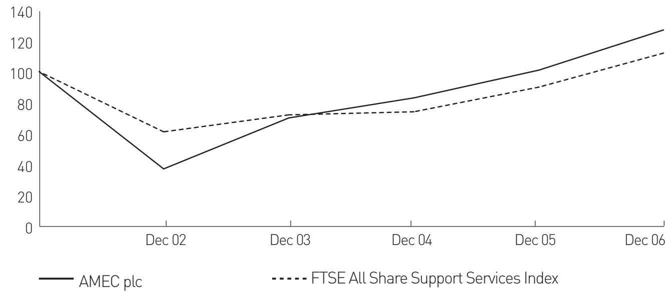
The contracts of non-executive directors may be terminated by the individual at any time and there are no specific provisions for compensation in the event of early termination by the company.

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

*Mr Dallas will be standing down as a non-executive director at the conclusion of the annual general meeting on 16 May 2007.

Performance graph

This graph shows the value, as at 31 December 2006, of £100 invested in AMEC plc on 31 December 2001 compared with the value of £100 invested in the FTSE All Share Support Services Index. The other points plotted are the values at intervening financial year ends.



Source: DataStream

Directors' remuneration and related matters

The auditors are required to report on the following information on pages 63 to 65 of the directors' remuneration report.

Individual aspects of remuneration were as follows:

		Salary /fee £000	Pension supplement[i] £000	Accommodation allowance £000	Bonus[ii] £000	Benefits in kind[iii] £000	2006 Total £000	2005 Total £000
Executive:	S Y Brikho (from 1 October 2006)	**162**	**27**	**61**	**203**	**12**	**465**	–
	J D Early	**292**	**58**	**–**	**62**	**16**	**428**	400
	S J Siddall	**378**	**53**	**–**	**136**	**21**	**588**	540
	Sir Peter Mason (to 30 September 2006)	**480**	**88**	**–**	**107**	**33**	**708**	895
	J A Monville (to 27 July 2006)	**224**	**–**	**–**	**838**	**8**	**1,070**	539
	C A Riva (to 31 July 2005)	**–**	**–**	**–**	**–**	**–**	**–**	901
Non-executive:[iv]	J M Green-Armytage	**200**	**–**	**–**	**–**	**–**	**200**	200
	E P Airey	**65**	**–**	**–**	**–**	**–**	**65**	58
	J A Dallas	**64**	**–**	**–**	**–**	**–**	**64**	49
	M O Hesse	**70**	**–**	**–**	**–**	**–**	**70**	53
	P J Byrom	**64**	**–**	**–**	**–**	**–**	**64**	39
	T W Faithfull	**63**	**–**	**–**	**–**	**–**	**63**	39
	J-P Jacamon (to 31 August 2006)	**45**	**–**	**–**	**–**	**–**	**45**	53
Total board		**2,107**	**226**	**61**	**1,346**	**90**	**3,830**	3,766

Notes

(i) Sir Peter Mason, Mr Siddall and Mr Brikho received a taxable supplement of 20 per cent of salary above the pension earnings cap. Mr Early has received a supplement of 20 per cent of total salary in lieu of further pension accrual.

(ii) The bonuses detailed above represented the following percentages of their base salaries for the year against a maximum potential of 80 per cent: Sir Peter Mason 20 per cent, Mr Early 21.2 per cent and Mr Siddall 36 per cent. (Sir Peter Mason's bonus is calculated on base salary for the 10 months of the year that he worked, including October when he was no longer a director.) No bonus has been paid this year in respect of the AMEC plc profit element which was below the threshold target. The awards made reflect varying degrees of achievement against other specific business targets and personal objectives (which included AMEC plc cash flow, the SPIE disposal and the strategic review in the case of Sir Peter and Mr Siddall, and profit and cash flow of the Investments business in the case of Mr Early).
As outlined in last year's report, the figure for Mr J A Monville relates to a special incentive geared to both the proceeds of the sale of AMEC SPIE, which exceeded original expectations, and the maintaining of budgeted financial performance up to the point of sale. This replaced his normal annual bonus for the year. Mr Brikho's bonus represented the maximum 125 per cent of base salary for the three months of the year after joining AMEC, reflecting his excellent performance since his appointment. As part of his joining arrangements, he had been guaranteed a minimum payment of 75 per cent of this maximum for the balance of 2006.

(iii) The value of benefits in kind received during the year relates principally to the provision of a company car or car allowance, travelling expenses and private medical expenses insurance. Unemployment insurance was also made available to Mr Monville in accordance with French practice.

(iv) As a one-off arrangement, non-executive directors other than the chairman each received additional fees of £20,000 to recognise the exceptional time commitment resulting from the company's strategic review and sale of SPIE. Ms Airey received £1,667 for chairing the trustee boards of the main UK pension schemes up to 1 March 2006. Ms Hesse received US$ 10,000 for chairing the North America Advisory Board.

Directors' remuneration report
continued

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

	As at 1 January 2006 Number	Awarded during the year Number	Date awarded	Market price at date of award Pence	Vested during the year Number	Lapsed during the year Number	**As at 31 December 2006 Number**	End of restricted period
S Y Brikho		89,773	Oct 2006	358.00	89,773		**–**	Dec 2006
		87,857	Oct 2006	358.00			**87,857**	Dec 2007
		63,389	Oct 2006	358.00			**63,389**	Feb 2009
		544,693	Oct 2006	358.00			**544,693**	Sept 2009
J D Early	105,826		Apr 2003	228.25		105,826	**–**	Mar 2006
	87,500		Apr 2004	300.00			**87,500**	Mar 2007
	80,786		Sept 2005	343.50			**80,786**	Mar 2008
		130,745	Sept 2006	323.00			**130,745**	Aug 2009
		21,776	Sept 2006	334.50			**21,776**	Aug 2009
S J Siddall	113,909		Apr 2003	228.25		113,909	**–**	Mar 2006
	98,333		Apr 2004	300.00			**98,333**	Mar 2007
	97,679		Apr 2005	326.60			**97,679**	Mar 2008
	104,803		Sept 2005	343.50			**104,803**	Mar 2008
		169,615	Sept 2006	323.00			**169,615**	Aug 2009
		22,701	Sept 2006	334.50			**22,701**	Aug 2009
Sir Peter Mason	221,248		Apr 2003	228.25		221,248	**–**	Mar 2006
	191,666		Apr 2004	300.00		18,750	**172,916**	Mar 2007
	186,769		Apr 2005	326.60		65,078	**121,691**	Mar 2008
	177,583		Sept 2005	343.50		82,583	**95,000**	Mar 2008
J A Monville	134,281		Apr 2003	228.25		134,281	**–**	Mar 2006
	99,495		Apr 2004	300.00		99,495	**–**	Mar 2007
	86,412		Apr 2005	326.60		86,412	**–**	Mar 2008
	109,549		Sept 2005	343.50		109,549	**–**	Mar 2008

Notes

(i) For the performance share awards made in April 2003, AMEC failed to meet the minimum performance conditions and, therefore, the awards lapsed in April 2006.

(ii) A proportion of Sir Peter Mason's performance share awards lapsed on his retirement to take account of the unexpired portions of the relevant performance periods. The performance conditions relating to Mr Monville's share awards were tested at the time of leaving. The minimum conditions were considered not to have been met and as a result the awards lapsed.

(iii) The awards made to Mr Brikho under the Recruitment Plan that vest in Dec 2006, Dec 2007 and Feb 2009 are not subject to performance conditions. These replaced share awards made by his former employer which were forfeit on joining AMEC.

(iv) The first portion of Mr Brikho's award under the Recruitment Plan vested on 8 December 2006 at a vesting price of 415.5 pence, being the closing market price for the previous day.

(v) The terms and conditions of the Performance Share Plan 2002 have not been varied during the year.

(vi) The closing price of the shares at 31 December 2006 was 421.50 pence (2005: 343.50 pence).

(vii) The range of the closing prices for the shares during the year was 271.25 pence to 439.50 pence.

(viii) The register of directors' interests, which is open to inspection at the company's registered office, contains full details of directors' shareholdings, share options and awards under the performance share plans.

(ix) Had the restricted shares detailed above vested in full as at 31 December 2006 the approximate latent value before appropriate taxes for each of the current directors would have been: Mr Brikho, £2,933,000; Mr Early, £1,352,000 and Mr Siddall, £2,079,000. These hypothetical figures assume that all performance conditions would have been fully met, which in practice may not transpire.

The numbers 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 2006 Number	Exercised/ lapsed during the year	**As at 31 December 2006 Number**	Option price Pence	Market price on date of exercise Pence	Exercise period
J D Early	101,000		**101,000**	219.75		Oct 2005-Oct 2012(ii)
	96,000		**96,000**	276.25		Sept 2006-Sept 2013(ii)
	3,893*		**3,893***	218.00		Jan 2007-June 2007
	82,031		**82,031**	320.00		Sept 2007-Sept 2014
S J Siddall	118,500		**118,500**	219.75		Oct 2005-Oct 2012(ii)
	119,000		**119,000**	276.25		Sept 2006-Sept 2013(ii)
	4,231*		**4,231***	218.00		Jan 2007-June 2007
	106,250		**106,250**	320.00		Sept 2007-Sept 2014
Sir Peter Mason	451,388	451,388	**–**	144.00	399.50	Apr 2000-Apr 2007(i)
	215,500		**215,500**	219.75		Oct 2005-Oct 2012(ii)
	208,000		**208,000**	276.25		Sept 2006-Sept 2013(ii)
	4,231*		**4,231***	218.00		Nov 2006-Apr 2007
	179,687	54,687	**125,000**	320.00	Lapsed	Sept 2007-Sept 2014(iii)
J A Monville	135,000	135,000	**–**	276.25	Lapsed	Sept 2006-Sept 2013(iii)
	109,327	109,327	**–**	320.00	Lapsed	Sept 2007-Sept 2014(iii)

Notes

(i) Gain on exercise £1,153,296 (2005: £1,362,000).

(ii) All awards under the Executive Share Option Scheme 2002 are subject to performance conditions which require a minimum level of earnings per share growth for any vesting and a higher level of growth for full vesting. The minimum performance condition which applies to the awards made in 2002 was not met at the second time of testing. These awards are subject to a further retest in 2007. The minimum performance condition which applies to the awards made in 2003 was not met at the first time of testing. These awards are subject to further retests in 2007 and 2008. Executive Share Option Scheme awards made from 2004 onwards are not subject to retest.

(iii) A proportion of Sir Peter Mason's award made in 2004 lapsed on his retirement to take account of the unexpired portion of the performance period. The performance conditions relating to Mr Monville's options were tested at the time of leaving. The minimum conditions were considered not to have been met and as a result the awards lapsed.

(iv) Had the options been capable of being exercised and vested in full as at 31 December 2006, the approximate latent gain before appropriate taxes for each of the current directors would have been: Mr Early, £434,000 and Mr Siddall, £528,000. These hypothetical figures assume that all performance conditions would have been fully met, which in practice may not transpire.

(v) The terms and conditions of the Option Schemes have not been varied during the year and all subsisting awards were made at nil cost.

Pension 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(iii)**	**Total accrued pension at 31 December 2006 £000**	**Value of net increase in accrual over period £000(iii)**	**Total change in value during period £000(iv, vi)**	**Value of accrued pension at 31 December 2006 £000**	Value of accrued pension at 31 December 2005 £000
Sir Peter Mason	**5**	**3**	**39**	**29**	**83**	**834**	744
S J Siddall	**5**	**4**	**24**	**81**	**104**	**530**	416
S Y Brikho	**1**	**1**	**1**	**9**	**9**	**12**	0

Notes

(i) Pension accruals shown are the amounts which would be paid annually on retirement based on service to the end of the year.

(ii) Transfer values have been calculated in accordance with version 8.1 of guidance note GN11 issued by the actuarial profession.

(iii) The value of net increase represents the incremental value to the director of his service during the year, calculated on the assumption service terminated at the year end. It is based on the accrued pension increase after deducting the director's contribution.

(iv) The change in the transfer value includes the effect of fluctuations in the transfer value due to factors beyond the control of the company and directors, such as stockmarket movements. It is calculated after deducting the director's contribution.

(v) Voluntary contributions paid by directors and resulting benefits are not shown.

(vi) Sir Peter Mason retired on 31 October 2006 and elected to take a lump sum of £178,803 and residual pension of £28,987 per annum. The figures in the table include allowance for these amounts. If allowance for the lump sum is excluded, in accordance with Companies Act Regulations, the year end value reduces to £655,540. The change in value during the period also reduces by the same amount, such that the transfer value at the end of the period is actually £96,053 less than the transfer value at the beginning.

T W Faithfull
Chairman, remuneration committee
On behalf of the board
14 March 2007

Consolidated income statement

For the year ended 31 December 2006

	Note	2006 Before exceptional items £ million	2006 Exceptional charges arising from litigation and separation costs (note 5) £ million	2006 Exceptional profits/costs of exiting businesses and markets (note 5) £ million	2006 Total £ million	2005 Before exceptional items £ million	2005 Exceptional charges arising from litigation and separation costs (note 5) £ million	2005 Exceptional profits/costs of exiting businesses and markets (note 5) £ million	2005 Total £ million
Continuing operations									
Revenue	2 & 3	**3,229.2**	**–**	**–**	**3,229.2**	2,843.8	–	–	2,843.8
Cost of sales		**(2,934.6)**	**(32.2)**	**(29.9)**	**(2,996.7)**	(2,574.7)	(1.0)	(25.2)	(2,600.9)
Gross profit/(loss)		**294.6**	**(32.2)**	**(29.9)**	**232.5**	269.1	(1.0)	(25.2)	242.9
Administrative expenses		**(239.1)**	**–**	**–**	**(239.1)**	(193.8)	–	–	(193.8)
Loss on business disposals and closures		**–**	**(45.8)**	**(62.0)**	**(107.8)**	–	(4.1)	(56.8)	(60.9)
Profit/(loss) before net financing costs	2 & 4	**55.5**	**(78.0)**	**(91.9)**	**(114.4)**	75.3	(5.1)	(82.0)	(11.8)
Financial income		**12.2**	**–**	**–**	**12.2**	11.7	–	–	11.7
Financial expense		**(16.4)**	**–**	**–**	**(16.4)**	(28.6)	–	–	(28.6)
Net financing costs	7	**(4.2)**	**–**	**–**	**(4.2)**	(16.9)	–	–	(16.9)
Share of post-tax results of joint ventures and associates	2	**9.8**	**–**	**–**	**9.8**	11.0	–	–	11.0
Profit/(loss) before income tax		**61.1**	**(78.0)**	**(91.9)**	**(108.8)**	69.4	(5.1)	(82.0)	(17.7)
Income tax	8	**(14.9)**	**9.8**	**14.0**	**8.9**	(15.7)	–	15.0	(0.7)
Profit/(loss) for the year from continuing operations		**46.2**	**(68.2)**	**(77.9)**	**(99.9)**	53.7	(5.1)	(67.0)	(18.4)
Profit/(loss) for the year from discontinued operations	9	**7.6**	**–**	**311.5**	**319.1**	24.5	–	(2.4)	22.1
Profit/(loss) for the year		**53.8**	**(68.2)**	**233.6**	**219.2**	78.2	(5.1)	(69.4)	3.7
Attributable to:									
Equity holders of the company					**218.1**				4.0
Minority interests					**1.1**				(0.3)
					219.2				3.7
Basic (loss)/earnings per share:	10								
Continuing operations					**(31.0)p**				(5.6)p
Discontinued operations					**97.9p**				6.9p
					66.9p				1.3p
Diluted (loss)/earnings per share:	10								
Continuing operations					**(31.0)p**				(5.6)p
Discontinued operations					**97.9p**				6.9p
					66.9p				1.3p

Consolidated statement of recognised income and expense

For the year ended 31 December 2006

	Note	**2006 £ million**	2005 £ million
Exchange movements on translation of foreign subsidiaries		**(37.4)**	44.4
Actuarial gains/(losses) on defined benefit pension schemes	15	**2.9**	(56.7)
Group share of actuarial gains on defined benefit pension scheme within associate (net of tax)		**1.8**	–
Net gain/(loss) on hedges of net investment in foreign subsidiaries	23	**16.4**	(12.0)
Cash flow hedges:			
Effective portion of changes in fair value		**12.5**	(3.8)
Transferred to the income statement		**–**	(1.0)
Group share of changes in fair value of cash flow hedges within joint venture entities (net of tax)		**5.0**	(8.0)
Tax in respect of items recognised directly in equity	8	**(6.5)**	18.3
Net expense recognised directly in equity		**(5.3)**	(18.8)
Profit for the year		**219.2**	3.7
Total recognised income and expense for the year		**213.9**	(15.1)

	Note	**2006 £ million**	2005 £ million
Attributable to:			
Equity holders of the company		**211.3**	(12.1)
Minority interests		**2.6**	(3.0)
Total recognised income and expense for the year	25	**213.9**	(15.1)

Consolidated balance sheet

As at 31 December 2006

	Note	2006 £ million	2005 £ million
ASSETS			
Non-current assets			
Property, plant and equipment	11	**73.3**	158.3
Intangible assets	12	**197.6**	477.9
Interests in joint ventures and associates	13	**85.2**	85.0
Other investments	13	**0.9**	4.5
Other receivables	14	**–**	24.0
Retirement benefit assets	15	**105.6**	74.7
Deferred tax assets	16	**16.4**	70.9
Total non-current assets		**479.0**	895.3
Current assets			
Inventories	17	**47.7**	73.8
Trade and other receivables	18	**806.3**	1,884.2
Derivative financial instruments	23	**9.0**	0.8
Cash and cash equivalents		**375.4**	351.9
Assets classified as held for sale	19	**107.1**	–
Total current assets		**1,345.5**	2,310.7
Total assets	2	**1,824.5**	3,206.0
LIABILITIES			
Current liabilities			
Bank loans and overdrafts	21	**(13.6)**	(39.1)
Trade and other payables	20	**(1,021.4)**	(2,007.7)
Derivative financial instruments	23	**(1.9)**	(3.3)
Current tax payable		**(19.3)**	(56.1)
Liabilities classified as held for sale	19	**(69.5)**	–
Total current liabilities		**(1,125.7)**	(2,106.2)
Non-current liabilities			
Bank loans	21	**(6.9)**	(558.3)
Trade and other payables	22	**–**	(73.7)
Derivative financial instruments	23	**–**	(13.0)
Retirement benefit liabilities	15	**(13.0)**	(56.2)
Deferred tax liabilities	16	**(10.3)**	(47.1)
Provisions	24	**(173.8)**	(28.6)
Total non-current liabilities		**(204.0)**	(776.9)
Total liabilities	2	**(1,329.7)**	(2,883.1)
Net assets	2	**494.8**	322.9
EQUITY			
Share capital	25	**166.8**	166.4
Share premium account	25	**90.7**	89.5
Hedging and translation reserves	25	**(20.5)**	(5.8)
Capital redemption reserve	25	**17.2**	17.2
Retained earnings	25	**238.9**	55.3
Amounts recognised in equity relating to assets and liabilities held for sale	25	**0.9**	–
Total equity attributable to equity holders of the parent		**494.0**	322.6
Minority interests	25	**0.8**	0.3
Total equity	25	**494.8**	322.9

The accounts on pages 66 to 101 were approved by the board of directors on 14 March 2007 and were signed on its behalf by:

S Y Brikho
Chief executive

S J Siddall
Finance director

Consolidated cash flow statement

For the year ended 31 December 2006

	Note	**2006 £ million**	2005 £ million
Cash flow from operating activities			
Loss before income tax from continuing operations		**(108.8)**	(17.7)
Profit before income tax from discontinued operations	9	**323.1**	40.7
Profit before income tax		**214.3**	23.0
Financial income		**(18.5)**	(22.3)
Financial expense		**28.3**	44.1
Share of post-tax results of joint ventures and associates		**(11.7)**	(8.1)
Intangible amortisation		**6.2**	6.0
Depreciation		**35.1**	38.4
Impairment of investment		**7.1**	–
Profit on disposal of subsidiaries		**(301.8)**	–
Profit on disposal of property, plant and equipment		**(1.6)**	(9.5)
Equity settled share-based payments		**(2.3)**	7.9
		(44.9)	79.5
Decrease in inventories		**12.7**	21.9
Decrease/(increase) in trade and other receivables		**112.3**	(30.5)
Increase in trade and other payables and provisions		**21.6**	70.6
Cash generated from operations		**101.7**	141.5
Interest paid		**(36.8)**	(43.7)
Tax refunds received		**9.5**	3.9
Net cash flow from operating activities		**74.4**	101.7
Cash flow from investing activities			
Acquisition of subsidiaries, net of cash acquired		**(15.0)**	(57.8)
Acquisition of joint ventures, associates and other investments		**(23.5)**	(25.0)
Purchase of property, plant and equipment		**(38.2)**	(55.4)
Purchase of intangible assets		**(0.6)**	(9.3)
Disposal of subsidiaries (net of cash disposed of)		**627.4**	–
Disposal of joint ventures, associates and other investments		**27.2**	10.0
Disposal of property, plant and equipment		**26.5**	16.9
Interest received		**19.0**	23.2
Dividends received from joint ventures and associates		**3.2**	3.5
Net cash flow from investing activities		**626.0**	(93.9)
Net cash flow before financing activities		**700.4**	7.8
Cash flow from financing activities			
Proceeds from shares issued		**1.6**	89.7
Proceeds from new loans		**–**	5.8
Repayment of loans		**(549.9)**	–
Dividends paid		**(37.5)**	(34.5)
Disposal/(acquisition) of shares by trustees of the Performance Share Plan 2002		**2.2**	(8.7)
Net cash flow from financing activities		**(583.6)**	52.3
Increase in cash and cash equivalents		**116.8**	60.1
Cash and cash equivalents as at the beginning of the year		**332.7**	270.0
Exchange (losses)/gains on cash and cash equivalents		**(12.8)**	2.6
Cash of former subsidiary equity accounted from the beginning of the year		**(30.3)**	–
Cash and cash equivalents as at the end of the year	26	**406.4**	332.7

Cash and cash equivalents consist of:			
Cash at bank and in hand		**336.2**	320.8
Short-term investments		**39.2**	31.1
		375.4	351.9
Overdrafts		**(1.2)**	(19.2)
		374.2	332.7
Cash and cash equivalents (including overdrafts) classified as held for sale		**32.2**	–
Cash and cash equivalents	26	**406.4**	332.7

Notes to the consolidated accounts

1 Significant accounting policies

AMEC plc is a company domiciled in the United Kingdom.

Statement of compliance

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

In accordance with EU law (IAS Regulation EC 1606/2002), the consolidated accounts of the group have been prepared in accordance with International Financial Reporting Standards ("IFRS") adopted for use in the EU as at 31 December 2006 ("adopted IFRS") and those parts of the Companies Act 1985 applicable to companies reporting under IFRS. The company has elected to prepare its parent company accounts in accordance with UK Generally Accepted Accounting Principles ("UK GAAP"); these are presented on pages 102 to 107.

IFRS 7 "Financial instruments: disclosure" was available for early adoption but has not been applied by the group in the consolidated accounts. The application of IFRS 7 in 2006 would not have affected the balance sheet or income statement as the standard is concerned only with disclosure. The group plans to adopt IFRS 7 in 2007.

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

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

Basis of preparation

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

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

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

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

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

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

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

On 27 July 2006, AMEC SPIE was sold to PAI partners. The results of AMEC SPIE for the period to 27 July 2006 are consolidated in these accounts. During 2006, AMEC decided to exit from pipeline construction as a line of business. AMEC's pipeline construction business comprised three companies which were actively marketed during 2006. One of these companies, US Pipelines Inc, was sold in September 2006, and the sale process of the remaining two companies is ongoing.

As a result of the above, both AMEC SPIE and Pipelines are treated as discontinued operations in 2006.

In accordance with IFRS 5, the post-tax results of discontinued operations are disclosed separately in the consolidated income statement, with the 2005 consolidated income statement and notes 2 to 8 being restated for the same presentation. The results and other disclosures in respect of discontinued operations are shown in note 9.

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

In accordance with IFRS 5, neither the consolidated balance sheet nor the consolidated cash flow statement are restated to exclude discontinued operations.

1 Significant accounting policies continued

Following the disposal of AMEC SPIE, the UK rail business was owned by AMEC and SPIE. AMEC SPIE retained a controlling interest and the results of the rail business were therefore equity accounted as an associate in 2006, with SPIE's 50% share of its results presented as discontinued. The 2005 consolidated income statement has been restated for the same presentation.

In the 2005 consolidated cash flow statement, the cost of acquisition of shares by trustees of the Performance Share Plan 2002 of £8.7 million was offset against the income statement charge of £7.9 million and the net amount presented as a cash flow from operating activities. In the 2006 consolidated cash flow statement the cost of acquiring these shares has been presented separately as a cash flow from financing activities.

Basis of consolidation

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

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

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

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

Bid costs

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

Business combinations and goodwill

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

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

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

Goodwill arising on acquisitions made prior to 1 January 1998 has been written-off to reserves. Under IFRS 1 "First Time Adoption of International Financial Reporting Standards" and IFRS 3 "Business Combinations" this goodwill will now remain eliminated against reserves. Goodwill arising on acquisitions made in the period from 1 January 1998 to 31 December 2003 was capitalised and amortised under UK GAAP. This goodwill is carried at the UK GAAP carrying value at the date of transition to IFRS and is subject to impairment reviews as described above.

Cash and cash equivalents

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

Construction and other long-term contracts

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

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

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

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

Discontinued operations and assets and liabilities held for sale

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

Notes to the consolidated accounts
continued

1 Significant accounting policies continued

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

Employee benefits

Defined contribution plans

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

Defined benefit plans

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

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

Financial instruments

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

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

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

The fair value of interest rate swaps is the estimated amount that the group would receive or pay to terminate the swap at the balance sheet date, taking into account current interest rates and the current creditworthiness of the swap counterparties.

No quoted market prices are available for the forward exchange contracts that AMEC enters into. Consequently, fair value is estimated by discounting the difference between the contractual forward price and the current forward price for the residual maturity of the contract using a risk free interest rate.

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

Cash flow hedges

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

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

Fair value hedges

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

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

Foreign currencies

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

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

Impairment

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

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

1 Significant accounting policies continued

Intangible assets other than goodwill

Intangible assets acquired by the group, which include software, customer relationships, trademarks and order backlogs are stated at cost less accumulated amortisation and impairment losses. The cost of an intangible asset acquired in a business combination is fair value at date of acquisition.

Amortisation is charged to the income statement on a straight line basis over the estimated useful lives of intangible assets, from the date they are available for use.

The estimated lives of intangible assets held at 31 December 2006 are as follows:

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

Inventories

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

Development land and work in progress is included at cost less any losses foreseen in completing and disposing of the development. Cost includes cost of acquisition and development to date, including directly attributable fees and expenses net of rental and other income attributable to the development.

Leases

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

Net financing costs

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

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

Property, plant and equipment

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

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

The estimated lives used are:

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

Revenue

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

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

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

Share-based payments

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

Taxation

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

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

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

The following temporary differences are not provided for: the initial recognition of assets or liabilities that affect neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the asset can be utilised.

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

Notes to the consolidated accounts
continued

2 Segmental analysis of continuing operations – Class of business

On 31 August 2006, AMEC announced a new segmental analysis of activities, which reflects the revised management structure of the continuing businesses following the disposal of AMEC SPIE, which was considered to be a separate segment.

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

The business and financial review is based on the reported results before joint venture tax, intangible amortisation and pre-tax exceptional items, but including joint venture profit before tax. The results as presented in the business and financial review are reconciled to those presented in this note in the tables on pages 42 and 43.

The segmental analysis of discontinued operations is shown in note 9. The pipelines construction businesses which were previously included in Power and Process are now shown in discontinued operations.

	Natural Resources 2006 £ million	Power and Process 2006 £ million	Earth and Environmental 2006 £ million	Construction 2006 £ million	Investments 2006 £ million	Total 2006 £ million
Total revenue	920.9	817.4	281.7	1,150.8	82.5	3,253.3
Internal revenue						(24.1)
Revenue						3,229.2
Segment result	44.8	10.6	14.7	(173.5)	9.2	(94.2)
Corporate costs						(20.2)
Loss before net financing costs						(114.4)
Net financing costs						(4.2)
Share of post-tax results of joint ventures and associates	0.2	0.8	–	0.8	8.0	9.8
Income tax						8.9
Loss for the year from continuing operations						(99.9)
Segment assets	264.9	254.4	61.5	235.3	122.0	938.1
Goodwill						187.9
Interests in joint ventures and associates	(0.6)	1.0	0.2	7.7	76.9	85.2
Cash and cash equivalents						375.4
Unallocated assets						130.8
Assets classified as held for sale	–	107.1	–	–	–	107.1
Total assets						1,824.5
Segment liabilities	(189.6)	(269.0)	(56.6)	(525.9)	(86.5)	(1,127.6)
Bank loans and overdrafts						(20.5)
Unallocated liabilities						(112.1)
Liabilities classified as held for sale	–	(69.5)	–	–	–	(69.5)
Total liabilities						(1,329.7)
Net assets						494.8
Depreciation	4.0	4.8	2.5	10.8	1.0	23.1
Amortisation	1.8	1.0	0.5	0.3	–	3.6
Capital expenditure:						
Property, plant and equipment	6.2	4.8	–	9.0	4.8	24.8
Intangible assets	0.2	0.2	0.1	0.1	–	0.6
Impairment of investment	–	–	–	–	7.1	7.1
Net assets						
Segment assets less segment liabilities	75.3	(14.6)	4.9	(290.6)	35.5	(189.5)
Goodwill						187.9
Interests in joint ventures and associates	(0.6)	1.0	0.2	7.7	76.9	85.2
Net cash						354.9
Unallocated net assets						18.7
Assets and liabilities classified as held for sale	–	37.6	–	–	–	37.6
						494.8

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

2 Segmental analysis of continuing operations – Class of business continued

	Natural Resources 2005 £ million	Power and Process 2005 £ million	Earth and Environmental 2005 £ million	Construction 2005 £ million	Investments 2005 £ million	Discontinued operations 2005 £ million	Total 2005 £ million
Total revenue	870.6	602.9	270.9	1,063.7	56.2	–	2,864.3
Internal revenue							(20.5)
Revenue							2,843.8
Segment result	37.0	23.3	13.9	(74.6)	8.5	–	8.1
Corporate costs							(19.9)
Loss before net financing costs							(11.8)
Net financing costs							(16.9)
Share of post-tax results of joint ventures and associates	0.1	0.8	–	3.5	6.6	–	11.0
Income tax							(0.7)
Loss for the year from continuing operations							(18.4)
Segment assets	270.9	249.3	59.1	429.7	132.2	1,046.3	2,187.5
Goodwill							435.2
Interests in joint ventures and associates	(0.3)	0.5	–	2.6	70.6	11.6	85.0
Cash and cash equivalents							351.9
Unallocated assets							146.4
Total assets							3,206.0
Segment liabilities	(180.4)	(200.3)	(41.7)	(546.0)	(97.0)	(1,098.6)	(2,164.0)
Bank loans and overdrafts							(597.4)
Unallocated liabilities							(121.7)
Total liabilities							(2,883.1)
Net assets							322.9
Depreciation	3.0	10.3	1.8	3.7	1.4	18.2	38.4
Amortisation	2.8	1.4	0.2	0.1	–	1.5	6.0
Capital expenditure:							
Property, plant and equipment	3.0	19.8	3.0	6.5	–	23.0	55.3
Intangible assets	0.4	0.5	1.2	–	–	7.2	9.3
Net assets							
Segment assets less segment liabilities	90.5	49.0	17.4	(116.3)	35.2	(52.3)	23.5
Goodwill							435.2
Interests in joint ventures and associates	(0.3)	0.5	–	2.6	70.6	11.6	85.0
Net debt							(245.5)
Unallocated net assets							24.7
							322.9

Corporate costs comprise the costs of operating the head office of AMEC 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 financing costs cannot be analysed segmentally. The unallocated net assets and liabilities principally comprise assets relating to the pension schemes, and liabilities relating to dividends and taxation and are not directly related to the activities of the segments.

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

Notes to the consolidated accounts
continued

2 Segmental analysis of continuing operations – Geographical origin

	United Kingdom		Rest of Europe		Americas		Rest of the world		Discontinued operations	Total	
	2006 £ million	2005 £ million	**2006 £ million**	2005 £ million	**2006 £ million**	2005 £ million	**2006 £ million**	2005 £ million	2005 £ million	**2006 £ million**	2005 £ million
Revenue	**1,954.7**	1,611.5	**55.4**	50.9	**1,018.6**	855.8	**200.5**	325.6		**3,229.2**	2,843.8
Segment result	**(84.1)**	4.9	**6.5**	5.2	**(30.6)**	3.7	**14.0**	(5.7)		**(94.2)**	8.1
Corporate costs										**(20.2)**	(19.9)
Loss before net financing costs										**(114.4)**	(11.8)
Net financing costs										**(4.2)**	(16.9)
Share of post-tax results of joint ventures and associates	**10.3**	10.0	**(1.5)**	–	**0.7**	1.0	**0.3**	–		**9.8**	11.0
Income tax										**8.9**	(0.7)
Loss for the year from continuing operations										**(99.9)**	(18.4)
Segment assets	**544.7**	693.8	**5.9**	10.0	**299.5**	340.2	**88.0**	97.2	1,046.3	**938.1**	2,187.5
Segment liabilities	**(738.7)**	(697.7)	**(17.9)**	(8.7)	**(329.0)**	(284.5)	**(42.0)**	(74.5)	(1,098.6)	**(1,127.6)**	(2,164.0)
Segment assets less segment liabilities	**(194.0)**	(3.9)	**(12.0)**	1.3	**(29.5)**	55.7	**46.0**	22.7	(52.3)	**(189.5)**	23.5
Goodwill	**27.7**	27.7	**–**	–	**160.2**	183.3	**–**	–	224.2	**187.9**	435.2
Interests in joint ventures and associates	**86.0**	59.3	**(1.9)**	–	**(0.9)**	1.0	**2.0**	13.1	11.6	**85.2**	85.0
Net cash/(debt)										**354.9**	(245.5)
Unallocated net assets										**18.7**	24.7
Assets and liabilites classified as held for sale	**–**	–	**33.4**	–	**4.2**	–	**–**	–	–	**37.6**	–
Net assets										**494.8**	322.9
Capital expenditure:											
Property, plant and equipment	**12.2**	19.8	**–**	–	**11.5**	11.6	**1.1**	0.9	23.0	**24.8**	55.3
Intangible assets	**–**	–	**–**	–	**0.6**	2.1	**–**	–	7.2	**0.6**	9.3

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

3 Revenue

	2006 £ million	2005 £ million
Construction contracts	**1,466.8**	1,533.8
Services	**1,762.4**	1,310.0
	3,229.2	2,843.8

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

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

	2006 £ million	2005 £ million
Depreciation of property, plant and equipment	**23.1**	20.2
Amortisation of intangible assets (included in administrative expenses)	**3.6**	4.5
Impairment of investment	**7.1**	–
Minimum payments under operating leases	**89.8**	90.0

There are no material receipts from subleases.

	2006 £ million	2005 £ million
Fees paid to auditors and their associates:		
Statutory audit services	**0.3**	0.3
The audit of accounts of associates pursuant to legislation	**1.0**	1.3
Other services supplied pursuant to such legislation	**0.1**	0.1
Other services relating to taxation	**0.8**	0.7
Services relating to litigation	**0.2**	0.2
Services relating to corporate finance transactions	**4.9**	–
All other services	**–**	0.2
	7.3	2.8

Services relating to corporate finance transactions in 2006 include:

	2006 £ million	2005 £ million
Costs in respect of the sale of AMEC SPIE	**3.3**	–
Costs in respect of the potential separation of the group	**1.6**	–
	4.9	–

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

5 Exceptional items

	2006 £ million	2005 £ million
Natural Resources	**(7.8)**	(7.0)
Power and Process	**(17.6)**	(11.0)
Construction	**(144.5)**	(69.1)
Exceptional items of continuing operations	**(169.9)**	(87.1)
Taxation on exceptional items of continuing operations	**23.8**	15.0
Exceptional items of discontinued operations (post-tax)	**311.5**	(2.4)
Post-tax exceptional profits/(charges)	**165.4**	(74.5)

Natural Resources and Power and Process

Exceptional provisions were made in 2005 relating to AMEC's exit from lump-sum fabrication work in the upstream (Natural Resources) and other markets (Power and Process). In 2006, further provisions (£25 million) were made reflecting settlement of the major final accounts for upstream fabrication and the ongoing arbitration on a completed overseas Power and Process project. This further provision is included in exceptional charges in the income statement under litigation and separation costs (£18 million in cost of sales) and costs of exiting businesses and markets (£4 million in cost of sales and £3 million in loss on business disposals and closures).

Construction

In 2005, exceptional provisions were also made for the costs of withdrawing from certain loss making construction markets in the UK and US. In the first half of 2006, AMEC made additional provisions for the completion of ongoing construction projects, litigation and other costs totalling £57 million. In the latter part of 2006 and following negative developments on several major disputes, AMEC made further provisions of £68 million, largely in respect of future settlement and litigation costs. These provisions reflect the view that AMEC should seek to settle these disputes. Where settlement cannot be secured on a reasonable basis, AMEC will continue to defend its position. These additional provisions are included in exceptional charges in the income statement under litigation and separation costs (£11 million in cost of sales and £46 million in loss on business disposals and closures) and costs of exiting business and markets (£10 million in cost of sales and £58 million in loss on business disposals and closures).

Details of the material legal actions are set out in note 30.

In addition, impairment and other provisions associated with a concrete segments business of £15 million were made together with the cost of £4 million associated with the potential separation of the Energy and Process activities from the Built Environment activities. The charges associated with the concrete segments business of £15 million are included within cost of sales as exceptional costs of exiting businesses and markets. The cost of £4 million associated with the potential separation of activities is included within cost of sales as exceptional charges arising from litigation and separation costs.

Other

The exceptional gain of £311.5 million relates to the profit on disposal of AMEC SPIE.

Notes to the consolidated accounts
continued

6 Staff costs and employee numbers – continuing operations

	2006 £ million	2005 £ million
Wages and salaries	**783.1**	716.9
Social security costs	**92.1**	86.2
Equity settled share-based payments	**(2.3)**	7.9
Contributions to defined contribution schemes	**6.0**	7.9
Defined benefit pension scheme expense	**11.8**	10.5
	890.7	829.4

The average number of people employed was as follows:

	2006 Number	2005 Number
Natural Resources	**6,766**	5,733
Power and Process	**5,615**	4,440
Earth and Environmental	**2,801**	2,516
Construction	**6,111**	6,761
Investments	**186**	144
	21,479	19,594

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

Details of directors' remuneration are provided in the directors' remuneration report on pages 60 to 65.

7 Net financing costs – continuing operations

	2006 £ million	2005 £ million
Financial income:		
Interest income	**6.4**	4.3
Other investment income	**4.8**	7.1
Foreign exchange gains	**1.0**	0.3
	12.2	11.7
Financial expense:		
Interest expense	**(16.2)**	(27.2)
Foreign exchange losses	**(0.2)**	(1.4)
	(16.4)	(28.6)
Net financing costs	**(4.2)**	(16.9)

8 Income tax – continuing operations

	2006 £ million	2005 £ million
Current tax:		
UK corporation tax at 30.0 per cent (2005: 30.0 per cent)	**(5.9)**	2.0
Double tax relief	**(1.2)**	–
Overseas tax	**14.5**	5.1
Prior year tax	**2.2**	–
	9.6	7.1
Deferred tax:		
UK deferred tax at 30.0 per cent (2005: 30.0 per cent) – origination and reversal of temporary differences	**(13.8)**	(7.1)
Overseas deferred tax	**(1.6)**	0.7
Prior year tax	**(3.1)**	–
	(18.5)	(6.4)
Total income tax (credit)/expense for continuing operations in the income statement	**(8.9)**	0.7

Included within the current tax (credit)/expense is a credit of £23.8 million (2005: £15.0 million) in respect of exceptional items as follows:

	2006 £ million	2005 £ million
Income tax expense on continuing operations before exceptional items	**14.9**	15.7
Income tax credit in respect of exceptional items	**(23.8)**	(15.0)
Income tax (credit)/expense for continuing operations in the income statement	**(8.9)**	0.7

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

	2006 £ million	2005 £ million
Loss before income tax from continuing operations	**(108.8)**	(17.7)
Add: tax on joint ventures	**5.0**	4.7
Adjusted loss before income tax from continuing operations	**(103.8)**	(13.0)
Tax credit at 30.0 per cent (2005: 30.0 per cent)	**(31.1)**	(3.9)
Non-deductible expenses, non taxable income and other differences	**2.1**	3.5
Overseas income and expenses taxed at rates other than 30.0 per cent (2005: 30.0 per cent)	**21.0**	1.1
Prior year tax	**(0.9)**	–
Total tax (credit)/expense for the year for continuing operations	**(8.9)**	0.7

	2006 £ million	2005 £ million
Tax recognised directly in equity:		
Current tax	**1.7**	0.1
Deferred tax	**4.8**	(18.4)
Tax expense/(credit) recognised directly in equity	**6.5**	(18.3)

Notes to the consolidated accounts
continued

9 Profit for the year from discontinued operations

On 27 July 2006, AMEC SPIE was sold to PAI partners. The results of AMEC SPIE for the period to 27 July 2006 are consolidated in these accounts. During 2006, AMEC decided to exit from pipeline construction as a line of business. AMEC's pipelines construction business comprised three companies, one of which was sold in 2006 and the sale process of the remaining two is ongoing.

As a result of the above, both AMEC SPIE and the pipelines construction businesses are treated as discontinued operations in 2006.

In accordance with IFRS 5, the post-tax results of discontinued operations are disclosed separately in the consolidated income statement, with the 2005 consolidated income statement being restated for the same presentation.

The results of their operations were as follows:

	2006 £ million	2005 £ million
Revenue	**1,324.0**	2,022.3
Cost of sales and net operating expenses	**(1,300.1)**	(1,977.7)
	23.9	44.6
Intangible amortisation	**(2.6)**	(1.5)
Profit before income tax	**21.3**	43.1
Attributable tax	**(13.7)**	(18.6)
Profit after income tax	**7.6**	24.5
Exceptional items	**–**	(2.4)
Profit on disposal	**301.8**	–
Attributable tax on profit on disposal	**9.7**	–
Profit for the year from discontinued operations	**319.1**	22.1

Profit before income tax:		
Discontinued operations	**25.1**	51.6
Less: interest on intercompany debt capitalised at disposal	**(3.8)**	(8.5)
Profit before income tax reported above	**21.3**	43.1

The profit on disposal of AMEC SPIE and attributable tax are presented as exceptional profits/costs of exiting businesses and markets for discontinued operations.

Revenue from discontinued operations falls into the following categories:

	2006 £ million	2005 £ million
Construction contracts	**225.5**	257.6
Services	**1,098.5**	1,764.7
	1,324.0	2,022.3

9 Profit for the year from discontinued operations continued

The profit from discontinued operations is stated after charging:

	2006 £ million	2005 £ million
Depreciation of property, plant and equipment	**12.0**	18.2
Amortisation of intangible assets (included in administrative expenses)	**2.6**	1.5
Minimum payments under operating leases	**52.5**	96.0
Fees paid to auditors and their associates:		
Statutory audit services	**0.1**	0.3
Services relating to information technology	**–**	0.1
Total	**0.1**	0.4

There are no material receipts from subleases.

The staff costs from discontinued operations were as follows:

	2006 £ million	2005 £ million
Wages and salaries	**331.5**	549.7
Social security costs	**130.6**	220.4
	462.1	770.1

The average number of people employed by discontinued operations was 25,450 (2005: 25,116).

	2006 £ million	2005 £ million
Capital expenditure:		
Property, plant and equipment	**10.8**	23.0
Intangible assets	**–**	7.2

Notes to the consolidated accounts
continued

10 (Loss)/earnings per share

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

	2006			2005		
	(Loss)/ earnings £ million	**Weighted average shares number million**	**(Loss)/ earnings per share pence**	(Loss)/ earnings £ million	Weighted average shares number million	(Loss)/ earnings per share pence
Basic loss from continuing operations	**(101.0)**	**325.9**	**(31.0)**	(18.1)	323.3	(5.6)
Share options	**–**	**–**	**–**	–	–	–
Employee share and incentive schemes	**–**	**–**	**–**	–	–	–
Diluted loss from continuing operations	**(101.0)**	**325.9**	**(31.0)**	(18.1)	323.3	(5.6)
Basic earnings from discontinued operations	**319.1**	**325.9**	**97.9**	22.1	323.3	6.9
Share options	**–**	**–**	**–**	–	–	–
Employee share and incentive schemes	**–**	**–**	**–**	–	–	–
Diluted earnings from discontinued operations	**319.1**	**325.9**	**97.9**	22.1	323.3	6.9

Loss per share from continuing operations has been calculated on a loss of £101.0 million, as a result there are no dilutive ordinary shares.

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

	2006 £ million	2005 £ million
Loss for the year from continuing operations	**(99.9)**	(18.4)
(Profit)/loss attributable to minority interests	**(1.1)**	0.3
Basic and diluted loss from continuing operations	**(101.0)**	(18.1)

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

	2006			2005		
	(Loss)/ earnings £ million	**Weighted average shares number million**	**(Loss)/ earnings per share pence**	(Loss)/ earnings £ million	Weighted average shares number million	(Loss)/ earnings per share pence
Basic loss from continuing operations	**(101.0)**	**325.9**	**(31.0)**	(18.1)	323.3	(5.6)
Exceptional items	**146.1**	**–**	**44.8**	72.1	–	22.3
Intangible amortisation	**3.6**	**–**	**1.1**	4.5	–	1.4
Basic earnings from continuing operations before exceptional items and intangible amortisation	**48.7**	**325.9**	**14.9**	58.5	323.3	18.1
Share options	**–**	**4.1**	**(0.1)**	–	4.0	(0.2)
Employee share and incentive schemes	**–**	**6.1**	**(0.3)**	–	6.8	(0.4)
Diluted earnings from continuing operations before exceptional items and intangible amortisation	**48.7**	**336.1**	**14.5**	58.5	334.1	17.5

11 Property, plant and equipment

	Land and buildings £ million	Plant and equipment £ million	Total £ million
Cost:			
As at 1 January 2005	70.4	187.2	257.6
Exchange and other movements	0.3	5.3	5.6
Acquired through business combinations	0.1	5.6	5.7
Additions and transfers	3.2	52.1	55.3
Disposals and transfers	(17.6)	(38.8)	(56.4)
As at 31 December 2005	56.4	211.4	267.8
Exchange and other movements	(1.3)	(8.5)	(9.8)
Acquired through business combinations	4.2	7.3	11.5
Additions and transfers	1.8	33.8	35.6
Disposals and transfers	(5.3)	(20.0)	(25.3)
Equity account associates	(2.9)	(14.2)	(17.1)
Reclassified to assets held for sale	(0.8)	(32.9)	(33.7)
Disposal of subsidiary	(21.3)	(49.4)	(70.7)
As at 31 December 2006	**30.8**	**127.5**	**158.3**
Depreciation:			
As at 1 January 2005	14.6	94.0	108.6
Exchange and other movements	(0.1)	2.9	2.8
Provided during the year	3.7	34.7	38.4
Disposals and transfers	(6.5)	(33.8)	(40.3)
As at 31 December 2005	11.7	97.8	109.5
Exchange and other movements	(0.3)	(4.1)	(4.4)
Provided during the year	3.2	31.9	35.1
Disposals and transfers	(0.8)	(9.9)	(10.7)
Equity account associates	(1.2)	(6.9)	(8.1)
Reclassified to assets held for sale	(0.2)	(23.4)	(23.6)
Disposal of subsidiary	(4.6)	(8.2)	(12.8)
As at 31 December 2006	**7.8**	**77.2**	**85.0**
Net book value:			
As at 31 December 2006	**23.0**	**50.3**	**73.3**
As at 31 December 2005	44.7	113.6	158.3
As at 1 January 2005	55.8	93.2	149.0

	2006 £ million	2005 £ million
The net book value of land and buildings comprised:		
Freehold	**18.7**	32.3
Long leasehold	**2.2**	7.6
Short leasehold	**2.1**	4.8
	23.0	44.7

12 Intangible assets

	Goodwill £ million	Software £ million	Other £ million	Total £ million
Cost:				
As at 1 January 2005	398.4	34.6	0.8	433.8
Exchange and other movements	12.9	(1.9)	0.4	11.4
Acquisition of subsidiaries	56.1	0.1	12.2	68.4
Additions	–	9.2	0.1	9.3
Disposals	–	(0.5)	–	(0.5)
As at 31 December 2005	467.4	41.5	13.5	522.4
Exchange and other movements	(24.9)	(1.5)	(0.9)	(27.3)
Acquisition of subsidiaries	17.6	–	1.9	19.5
Additions	–	0.6	–	0.6
Transfers	–	0.4	(0.4)	–
Disposal of subsidiary	(245.2)	(34.8)	(1.9)	(281.9)
As at 31 December 2006	**214.9**	**6.2**	**12.2**	**233.3**

12 Intangible assets continued

	Goodwill £ million	Software £ million	Other £ million	Total £ million
Amortisation:				
As at 1 January 2005	36.8	4.4	0.1	41.3
Exchange and other movements	(4.6)	2.3	(0.1)	(2.4)
Provided during the year	–	5.8	0.2	6.0
Disposals	–	(0.4)	–	(0.4)
As at 31 December 2005	32.2	12.1	0.2	44.5
Exchange and other movements	(2.0)	(0.7)	–	(2.7)
Provided during the year	–	3.7	2.5	6.2
Transfers	–	(2.8)	2.8	–
Disposal of subsidiary	(3.2)	(9.1)	–	(12.3)
As at 31 December 2006	**27.0**	**3.2**	**5.5**	**35.7**
Net book value:				
As at 31 December 2006	**187.9**	**3.0**	**6.7**	**197.6**
As at 31 December 2005	435.2	29.4	13.3	477.9
As at 1 January 2005	361.6	30.2	0.7	392.5

After the sale of AMEC SPIE on 27 July 2006, the principal remaining element of unamortised goodwill relates to the acquisition of AGRA Inc in the Americas (£135.7 million). The recoverable amount of this income generating unit has been based on value in use calculations. The calculations use cash flow projections based on financial budgets approved by management covering a two year period and a pre-tax discount rate of 9.6 per cent (2005: 12.8 per cent). For the purposes of the calculation of the recoverable amount the cash flow projections beyond the two year period include no growth.

13 Interest in joint ventures, associates and other investments

	Joint ventures £ million	Associates £ million	Total of joint ventures and associates £ million	Other investments £ million
Net book value:				
As at 1 January 2005	62.7	–	62.7	16.0
Exchange and other movements	–	–	–	0.3
Additions and transfers	24.9	–	24.9	0.6
Disposals	(1.6)	–	(1.6)	(12.4)
Net movement in share of reserves	2.5	–	2.5	–
Dividends received	(3.5)	–	(3.5)	–
As at 31 December 2005	85.0	–	85.0	4.5
Equity accounted associates	–	26.4	26.4	–
Exchange and other movements	(0.4)	–	(0.4)	(0.6)
Additions	14.1	–	14.1	9.4
Disposals	(9.5)	(17.5)	(27.0)	(0.2)
Impairment	(7.1)	–	(7.1)	–
Disposal of subsidiary	(11.6)	(5.0)	(16.6)	(11.5)
Transfers	(4.6)	–	(4.6)	–
Net movement in share of reserves	15.0	3.6	18.6	–
Dividends received	(3.2)	–	(3.2)	–
Reclassified as held for sale	–	–	–	(0.7)
As at 31 December 2006	**77.7**	**7.5**	**85.2**	**0.9**

Principal group companies are listed on pages 110 and 111.

The impairment charge of £7.1 million represents provision made against an underperforming joint venture.

In 2005, the group did not recognise its share of the net liabilities of joint venture companies for which the group has no obligation, amounting to £0.9 million. There were no such unrecognised losses in 2006. Cumulative unrecognised net liabilities at 31 December 2006 amount to £5.6 million (2005: £9.3 million).

13 Interest in joint ventures, associates and other investments continued

Following the sale of AMEC SPIE, the group's UK rail businesses are owned 50 per cent by AMEC plc and 50 per cent by SPIE. In accordance with IAS 28 "Investments in Associates", AMEC's ongoing interest has been accounted for as an associate. The income statement for 2005 has been restated to present the UK rail business as an equity accounted associate, with 50 per cent included in continuing operations and 50 per cent presented as discontinued operations. The group's share of the results of other joint venture interests held by AMEC SPIE has also been restated as discontinued. The balance sheet as at 31 December 2005 has not been restated and therefore the carrying value of associates on that date includes no amounts in respect of the rail business, which are included within additions in 2006.

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

	Joint ventures 2006 £ million	Joint ventures 2005 £ million	**Associates 2006 £ million**	Associates 2005 £ million
Current assets	**738.0**	591.6	**27.1**	–
Non-current assets	**242.8**	274.7	**5.4**	–
Current liabilities	**(148.5)**	(158.5)	**(25.0)**	–
Non-current liabilities	**(754.6)**	(622.8)	**–**	–
Group share of net assets	**77.7**	85.0	**7.5**	–

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

	Joint ventures 2006 £ million	Joint ventures 2005 £ million	**Associates 2006 £ million**	Associates 2005 £ million
Revenue	**190.0**	141.9	**50.6**	76.4
Expenses	**(175.3)**	(130.8)	**(50.5)**	(71.8)
Share of profits before tax	**14.7**	11.1	**0.1**	4.6
Tax	**(5.5)**	(2.3)	**0.5**	(2.4)
Share of post-tax results	**9.2**	8.8	**0.6**	2.2

The joint ventures have no significant contingent liabilities to which the group is exposed. AMEC had provided guarantees in respect of committed bank facilities granted to certain property joint ventures. These facilities were renegotiated during 2006 with AMEC no longer providing such guarantees. In addition, there are commitments to invest equity in certain joint venture projects. These guarantees and commitments are set out in note 30.

PPP service concessions

Details of the PPP service concessions are set out in the business and financial review on pages 28 and 29.

14 Other non-current receivables

	2006 £ million	2005 £ million
Other receivables	**–**	24.0

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15 Retirement benefit assets and liabilities

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

Defined benefit schemes

The valuations used have been based on the most recent valuations of the two major UK schemes as at 31 December 2004 and 1 April 2005, and updated by the schemes' actuaries for the requirement to assess the present value of the liabilities of the schemes as at 31 December 2006. The assets of the schemes are stated at their aggregate market value as at 31 December.

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

	2006 Per cent	2005 Per cent
Rate of discount	**5.1**	4.9
Rate of inflation	**3.0**	2.8
Rate of increase in salaries	**4.0**	3.8
Rate of increase in pensions in payment	**3.0**	2.8
Expected rate of return on scheme assets:		
Equities	**7.7**	7.6
Bonds	**4.4**	4.4
Property	**6.2**	6.1
Other	**4.5**	4.5

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

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

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

To develop the expected long-term rate of return on assets assumption, the company considered the current level of expected returns on risk free investments (primarily government bonds), the historical level of risk premium associated with the other asset classes in which the portfolio is invested and the expectations for future returns of each asset class. The expected return for each asset class was then weighted based on the target asset allocation to develop the expected long-term rate of return on assets for the portfolio.

	2006 £ million	2005 £ million
The amounts recognised in the balance sheet are as follows:		
Retirement benefit assets	**105.6**	74.7
Retirement benefit liabilities	**(13.0)**	(56.2)
Retirement benefit net asset	**92.6**	18.5

The major categories of scheme assets as a percentage of total scheme assets are as follows:

	2006 Per cent	2005 Per cent
Equities	**54.0**	54.7
Bonds	**33.5**	35.9
Real estate	**9.5**	7.4
Other	**3.0**	2.0
	100.0	100.0

The amounts recognised in the income statement are as follows:

	2006 £ million	2005 £ million
Current service cost	**31.5**	29.7
Interest cost	**53.1**	50.7
Expected return on scheme assets	**(72.8)**	(69.9)
Total expense included within staff costs (note 6)	**11.8**	10.5
The expense is recognised in the income statement as follows:		
Cost of sales	**7.2**	6.9
Administrative expenses	**4.6**	3.6
	11.8	10.5

15 Retirement benefit assets and liabilities continued

Changes in the present value of the defined benefit liability are as follows:

	2006 £ million	2005 £ million
As at 1 January	**1,270.1**	1,094.9
Exchange movements	**1.1**	(1.2)
Current service cost	**31.5**	29.7
Interest cost	**53.1**	50.7
Plan participants' contributions	**10.5**	8.0
Actuarial losses	**1.0**	187.5
Liabilities acquired through business combinations	**–**	4.9
Liabilities of businesses sold	**(47.1)**	–
Liabilities of businesses reclassified as held for sale	**(1.7)**	–
Benefits paid	**(40.7)**	(104.4)
Reclassified as investment in associate	**(127.3)**	–
As at 31 December	**1,150.5**	1,270.1

Changes in the fair value of scheme assets are as follows:

	2006 £ million	2005 £ million
As at 1 January	**1,288.6**	1,161.5
Expected return on plan assets	**72.8**	69.9
Actuarial gains	**3.9**	130.8
Employer contributions	**31.4**	22.8
Plan participants' contributions	**10.5**	8.0
Benefits paid	**(40.7)**	(104.4)
Reclassified as investment in associate	**(123.4)**	–
As at 31 December	**1,243.1**	1,288.6

The movement in the scheme net assets during the year is as follows:

	2006 £ million	2005 £ million
Scheme net asset as at 1 January	**18.5**	66.6
Exchange movements	**(1.1)**	1.2
Total expense as above	**(11.8)**	(10.5)
Employer contributions	**31.4**	22.8
Liabilities acquired through business combinations	**–**	(4.9)
Liabilities of business sold	**47.1**	–
Actuarial gains/(losses) recognised in reserves	**2.9**	(56.7)
Reclassified to liabilities held for sale	**1.7**	–
Reclassified as investment in associate	**3.9**	–
Scheme net asset as at 31 December	**92.6**	18.5

Cumulative actuarial gains and losses recognised in equity are as follows:

	2006 £ million	2005 £ million
As at 1 January	**(66.8)**	(10.1)
Net actuarial gains/(losses) recognised in the year	**2.9**	(56.7)
As at 31 December	**(63.9)**	(66.8)

The actual return on scheme assets is as follows:

	2006 £ million	2005 £ million
Actual return on scheme assets	**76.7**	200.7

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

	2006	2005	2004
Defined benefit obligation as at 31 December (£ million)	**(1,150.5)**	(1,270.1)	(1,094.9)
Fair value of assets as at 31 December (£ million)	**1,243.1**	1,288.6	1,161.5
Surplus (£ million)	**92.6**	18.5	66.6
Difference between expected and actual return on scheme assets (£ million)	**3.9**	130.8	27.8
Percentage of scheme assets	**0.3**	10.2	2.4
Experience gains and losses on scheme liabilities (£ million)	**–**	(27.3)	(0.7)
Percentage of scheme liabilities	**–**	(2.1)	(0.1)

Contributions

The company expects to contribute £38 million to its defined benefit pension schemes in 2007. This includes special contributions of £8.4 million.

16 Deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

Recognised deferred tax assets and liabilities

	Assets		Liabilities		Net	
	2006 £ million	2005 £ million	**2006 £ million**	2005 £ million	**2006 £ million**	2005 £ million
Property, plant and equipment	**11.4**	6.6	**(0.2)**	–	**11.2**	6.6
Intangible assets	**–**	–	**(2.9)**	(2.9)	**(2.9)**	(2.9)
Retirement benefits	**2.9**	15.5	**(28.2)**	(19.4)	**(25.3)**	(3.9)
Derivative financial instruments	**1.5**	6.3	**(1.0)**	–	**0.5**	6.3
Provisions	**1.8**	1.8	**–**	–	**1.8**	1.8
Other items	**21.3**	20.2	**(22.8)**	(24.8)	**(1.5)**	(4.6)
Tax losses carried forward	**22.3**	20.5	**–**	–	**22.3**	20.5
Deferred tax assets/(liabilities)	**61.2**	70.9	**(55.1)**	(47.1)	**6.1**	23.8
Offset of deferred tax assets and liabilities relating to income tax levied by the same taxation authority	**(44.8)**	–	**44.8**	–	**–**	–
Net deferred tax assets/(liabilities)	**16.4**	70.9	**(10.3)**	(47.1)	**6.1**	23.8

Movements in deferred tax assets and liabilities during the year

	As at 1 January 2005 £ million	Exchange and other movements £ million	Recognised on acquisition £ million	Disposals £ million	Recognised in income £ million	Recognised in equity £ million	As at 31 December 2005 £ million
Property, plant and equipment	(1.0)	–	–	–	7.6	–	6.6
Intangible assets	(0.3)	–	(2.9)	–	0.3	–	(2.9)
Retirement benefits	(19.4)	–	–	–	(1.5)	17.0	(3.9)
Derivative financial instruments	4.9	–	–	–	–	1.4	6.3
Provisions	1.8	–	–	–	–	–	1.8
Other items	(3.8)	–	0.1	–	(0.9)	–	(4.6)
Tax losses carried forward	22.6	1.3	–	–	(3.4)	–	20.5
	4.8	1.3	(2.8)	–	2.1	18.4	23.8

	As at 1 January 2006 £ million	Exchange and other movements £ million	Recognised on acquisitions and transfers £ million	Disposals £ million	Recognised in income £ million	Recognised in equity £ million	Reclassified as held for sale £ million	**As at 31 December 2006 £ million**
Property, plant and equipment	6.6	–	–	0.8	3.8	–	–	**11.2**
Intangible assets	(2.9)	–	–	–	–	–	–	**(2.9)**
Retirement benefits	(3.9)	1.5	1.6	(17.4)	(5.5)	(1.6)	–	**(25.3)**
Derivative financial instruments	6.3	(0.6)	–	(2.7)	1.1	(3.2)	(0.4)	**0.5**
Provisions	1.8	–	–	–	–	–	–	**1.8**
Other items	(4.6)	–	(2.0)	(2.2)	7.3	–	–	**(1.5)**
Tax losses carried forward	20.5	2.3	–	(12.3)	11.8	–	–	**22.3**
	23.8	3.2	(0.4)	(33.8)	18.5	(4.8)	(0.4)	**6.1**

Unrecognised deferred tax assets

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

	2006 £ million	2005 £ million
Deductible temporary differences	**10.5**	16.3
Tax losses	**54.9**	70.0
	65.4	86.3

Tax losses of £49 million arising in Canada and the US which are unrecognised by the group expire between 2007 and 2026.

The other tax losses and deductible temporary differences not recognised by the group do not expire under current tax legislation. Deferred tax assets have not been recognised in respect of these items because it is not probable that profit will be available in the near term against which the group can utilise the benefits therefrom.

17 Inventories

	2006 £ million	2005 £ million
Development land and work in progress	**36.5**	44.5
Raw materials and consumables	**1.3**	2.9
Other work in progress	**8.4**	6.3
Finished goods and goods for resale	**1.5**	20.1
	47.7	73.8

Development land and work in progress at 31 December 2006 included assets to a value of £17.4 million (31 December 2005: £23.6 million) expected to be consumed after more than one year.

The amount of inventories recognised as an expense during 2006 was £9.6 million (2005: £10.0 million).

18 Current trade and other receivables

	2006 £ million	2005 £ million
Amounts expected to be recovered within one year:		
Gross amounts due from customers	**311.9**	489.9
Trade receivables	**415.3**	1,178.0
Amounts owed by joint ventures and associates	**2.4**	1.9
Other receivables	**17.5**	43.1
Prepayments and accrued income	**39.1**	47.4
	786.2	1,760.3
Amounts expected to be recovered after more than one year:		
Gross amounts due from customers	**–**	1.4
Trade receivables	**18.6**	119.1
Amounts owed by joint ventures and associates	**0.8**	1.7
Other receivables	**0.3**	1.3
Prepayments and accrued income	**0.4**	0.4
	20.1	123.9
	806.3	1,884.2

Trade receivables expected to be recovered within one year include retentions of £41.6 million (2005: £37.9 million) relating to contracts in progress. Trade receivables expected to be recovered after more than one year include retentions of £10.6 million (2005: £21.2 million) relating to contracts in progress.

The aggregate amount of costs incurred plus recognised profits (less recognised losses) for all contracts in progress for continuing businesses at the balance sheet date was £9,260.4 million (2005: £11,039.1 million).

19 Assets and liabilities held for sale

As at 31 December 2006, the following assets and liabilities of the pipelines construction businesses have been classified as being held for sale:

	2006 £ million
Assets held for sale	
Property, plant and equipment	**10.1**
Other investments	**0.7**
Deferred tax assets	**0.4**
Trade and other receivables	**61.5**
Derivative financial instruments	**1.4**
Cash and cash equivalents	**33.0**
	107.1
Liabilities held for sale	
Bank and other overdrafts	**(0.8)**
Trade and other payables	**(66.3)**
Tax payable	**(0.7)**
Retirement benefit liability	**(1.7)**
	(69.5)
Net assets held for sale	**37.6**

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20 Current trade and other payables

	2006 £ million	2005 £ million
Amounts expected to be settled within one year:		
Trade payables	**661.6**	1,305.0
Gross amounts due to customers	**149.2**	181.0
Amounts owed to joint ventures and associates	**1.5**	4.4
Other taxation and social security costs	**42.3**	299.6
Other payables	**59.3**	87.7
Accruals and deferred income	**85.1**	83.2
Dividends	**14.0**	13.2
	1,013.0	1,974.1
Amounts expected to be settled after more than one year:		
Trade payables	**0.9**	8.3
Contract provisions	**4.7**	15.5
Other taxation and social security assets	**–**	0.3
Other payables	**0.9**	7.8
Accruals and deferred income	**1.9**	1.7
	8.4	33.6
	1,021.4	2,007.7

Gross amounts due to customers includes advances received of £46.9 million (2005: £107.7 million of which £22.9 million related to operations now discontinued).

21 Bank loans and overdrafts

	2006 £ million	2005 £ million
Current		
Bank loans and overdrafts	**13.6**	39.1
	13.6	39.1
Non-current		
Bank loans	**6.9**	446.3
Bonds	**–**	112.0
	6.9	558.3

All of the group's borrowings are unsecured. The bank loans and overdrafts are denominated in a number of currencies and bear interest based on LIBOR.

The bonds were denominated in US dollars and Sterling and were repaid during the year.

22 Non-current trade and other payables

	2006 £ million	2005 £ million
Other payables	**–**	73.7

23 Financial instruments

Details of the group's financial risk management objectives and policies, together with its policies for hedging are provided in the business and financial review on pages 46 and 47.

Hedging of interest rate risk

The group's policy has been to use interest rate swaps to convert a portion of its floating rate debt to fixed and vice versa. Following repayment of substantially all of its debt during 2006, the group has no need to hedge interest rate risk at 31 December 2006. The notional contract amount, carrying amount and fair values of swaps designated as cash flow hedges and fair value hedges are as follows:

	2006 Notional contract amount £ million	2005 Notional contract amount £ million	**2006 Carrying amount and fair value £ million**	2005 Carrying amount and fair value £ million
Interest rate swaps designated as cash flow hedges:				
Non-current liabilities	**–**	226.0	**–**	(10.2)
Interest rate swaps designated as fair value hedges:				
Non-current liabilities	**–**	17.5	**–**	(1.9)

Hedging of foreign currency risk – forecast transactions

The group looks to mitigate the foreign exchange risk typically arising where contracts are awarded in, or involve costs, in non-local currency. Forward foreign exchange contracts and foreign exchange swaps are used for this purpose and designated as cash flow hedges. The notional contract amount, carrying amount and fair values of forward contracts and swaps designated as cash flow hedges are as follows:

	2006 Notional contract amount £ million	2005 Notional contract amount £ million	**2006 Carrying amount and fair value £ million**	2005 Carrying amount and fair value £ million
Current assets	**10.7**	79.3	**0.7**	0.4
Assets classified as held for sale	**18.3**	–	**1.4**	–
Current liabilities	**80.2**	64.9	**(1.8)**	(2.0)
Non-current liabilities	**–**	13.7	**–**	(0.9)
	109.2	157.9	**0.3**	(2.5)

The forward foreign exchange contracts and foreign exchange swaps designated as cash flow hedges mature predominantly over the next twelve months, in line with the hedged cash flows.

Certain forward foreign exchange contracts and foreign exchange swaps are not designated as cash flow hedges and changes in their fair value are recognised through the income statement. The notional contract amount, carrying amount and fair values of these forward contracts and swaps are as follows:

	2006 Notional contract amount £ million	2005 Notional contract amount £ million	**2006 Carrying amount and fair value £ million**	2005 Carrying amount and fair value £ million
Current assets	**36.4**	46.6	**0.1**	0.4
Current liabilities	**9.4**	48.0	**(0.1)**	(1.3)
	45.8	94.6	**–**	(0.9)

Hedging of foreign currency risk – net investment hedges

The group uses cross currency swaps and, until repayment of substantially all the group's debt during 2006, foreign currency denominated borrowings which have been designated as hedges of the net investments in subsidiaries in Canada, the US and formerly in France. The notional contract amount, carrying amount and fair values of swaps designated as net investment hedges are as follows:

	2006 Notional contract amount £ million	2005 Notional contract amount £ million	**2006 Carrying amount and fair value £ million**	2005 Carrying amount and fair value £ million
Current assets	**127.5**	–	**8.2**	–

Notes to the consolidated accounts
continued

23 Financial instruments continued

The carrying amounts of foreign currency denominated borrowings were as follows:

	2006 £ million	2005 £ million
Borrowings denominated in:		
Euro	–	160.8
Canadian dollars	–	68.8
US dollars	–	67.0
	–	296.6

A net foreign exchange gain for the year of £16.4 million (2005 loss of: £12.0 million) was recognised in the translation reserve in respect of these swaps and borrowings.

Interest rate risk – contractual maturity and repricing dates and effective interest rates
In respect of interest-earning financial assets and interest-bearing financial liabilities, the following table indicates their effective interest rates at the balance sheet date and the periods in which they mature or are repriced if earlier than maturity:

2006	Effective interest rate Per cent	Total £ million	6 months or less £ million	6-12 months £ million	1-2 years £ million	2-5 years £ million	More than 5 years £ million
Cash and cash equivalents	3.7	375.4	375.4	–	–	–	–
Unsecured bank loans:							
Sterling fixed rate loan	4.0	(19.3)	(7.6)	(4.8)	(6.9)	–	–
Bank overdrafts							
Sterling overdraft	6.0	(1.2)	(1.2)	–	–	–	–
		354.9	366.6	(4.8)	(6.9)	–	–

2005	Effective interest rate Per cent	Total £ million	6 months or less £ million	6-12 months £ million	1-2 years £ million	2-5 years £ million	More than 5 years £ million
Debt securities held-to-maturity	3.2	7.7	–	0.1	0.1	0.3	7.2
Cash and cash equivalents	2.4	351.9	351.9	–	–	–	–
Unsecured bank loans:							
Sterling floating rate loan	5.0	(225.0)	(225.0)	–	–	–	–
Effect of interest rate swaps	0.3	–	110.0	–	(110.0)	–	–
Euro floating rate loan	3.0	(172.4)	(172.4)	–	–	–	–
Effect of interest rate swaps	1.6	–	37.8	–	(37.8)	–	–
Canadian dollar floating rate loan	3.6	(68.8)	(68.8)	–	–	–	–
Effect of interest rate swaps	1.7	–	12.5	–	(12.5)	–	–
Unsecured bonds:							
Sterling fixed rate bonds	5.9	(45.0)	–	–	–	–	(45.0)
US dollar fixed rate bonds	5.1	(67.0)	–	–	–	(23.3)	(43.7)
Effect of interest rate swaps	–	–	(17.4)	–	–	–	17.4
Bank overdrafts							
Sterling overdraft	5.5	(6.7)	(6.7)	–	–	–	–
Euro overdraft	2.5	(12.5)	(12.5)	–	–	–	–
Other payables:							
Euro floating rate payable	2.8	(65.8)	(65.8)	–	–	–	–
Effect of interest rate swaps	2.5	–	65.8	–	–	–	(65.8)
		(303.6)	9.4	0.1	(160.2)	(23.0)	(129.9)

Credit risk
Trade receivable exposures are typically with large publicly quoted companies and government backed organisations, and the credit ratings of these organisations are monitored. Credit risks are minimised through the use of letters of credit, parent company guarantees, insurance instruments and forward funding where achievable.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset, including derivative financial instruments recorded in the balance sheet.

There are no significant concentrations of credit risk at the balance sheet date.

No material provision had been made against trade and other receivables at 31 December 2006 (2005: £nil).

23 Financial instruments continued

Fair values

The fair values together with the carrying amounts shown in the balance sheet are as follows:

	Carrying amount 2006 £ million	Carrying amount 2005 £ million	**Fair value 2006 £ million**	Fair value 2005 £ million
Non-current other receivables	**–**	24.0	**–**	24.0
Current trade and other receivables	**454.9**	1,345.1	**454.9**	1,345.1
Interest rate swaps:				
Liabilities	**–**	(12.1)	**–**	(12.1)
Forward foreign exchange contracts and foreign exchange swaps:				
Assets	**9.0**	0.8	**9.0**	0.8
Liabilities	**(1.9)**	(4.2)	**(1.9)**	(4.2)
Cash and cash equivalents	**375.4**	351.9	**375.4**	351.9
Bank overdrafts	**(1.2)**	(19.2)	**(1.2)**	(19.2)
Unsecured bank loans	**(19.3)**	(466.2)	**(19.3)**	(466.2)
Unsecured bonds	**–**	(112.0)	**–**	(117.4)
Current trade and other payables	**(780.5)**	(1,726.3)	**(780.5)**	(1,726.3)
Non-current trade and other payables	**–**	(73.7)	**–**	(73.7)
Assets and liabilities classified as held for sale:				
Trade and other receivables	**12.2**	–	**12.2**	–
Forward foreign exchange contracts and foreign exchange swaps	**1.4**	–	**1.4**	–
Cash and cash equivalents	**33.0**	–	**33.0**	–
Bank and other overdrafts	**(0.8)**	–	**(0.8)**	–
Trade and other payables	**60.0**	–	**60.0**	–

Fair values are determined as follows:

Trade and other receivables and payables are valued at their amortised cost, which are deemed to reflect fair value.

The fair value of interest rate swaps is estimated by discounting estimated future cash flows based on the terms and maturity of each contract and using market interest rates.

The fair value of forward foreign exchange contracts is estimated by discounting the difference between the contractual forward price and the current forward price for the residual maturity of the contract using a risk free interest rate.

Bank loans and bonds are valued based on discounted expected future principal and interest cash flows.

24 Provisions

	Litigation settlement and future legal costs £ million	Indemnities granted on disposal of subsidiary £ million	Insurance £ million	Onerous property contracts £ million	Total £ million
As at 1 January 2006	–	–	25.3	3.3	28.6
Utilised	–	(3.4)	–	(0.2)	(3.6)
Income statement	62.9	52.0	0.5	6.0	121.4
Reclassification from payables	22.4	5.0	–	–	27.4
As at 31 December 2006	**85.3**	**53.6**	**25.8**	**9.1**	**173.8**

Provision has been made during the year for the estimated litigation settlement and future legal costs in connection with the group's ongoing major litigation which is discussed in more detail in note 30.

The provision for indemnities relates to the indemnification of the purchaser of SPIE against potential exposures relating to specified taxation and litigation matters.

The insurance provision relates to the potential liabilities in the group's captive insurance entity.

Future outflows in respect of the onerous property contracts are expected to occur over the next two years. Due to the nature of the other liabilities, the timing of any potential future outflows is uncertain.

Notes to the consolidated accounts
continued

25 Share capital and reserves

	Share capital £ million	Share premium account £ million	Hedging reserve £ million	Translation reserve £ million	Capital redemption reserve £ million	Retained earnings £ million	Amounts recognised in equity relating to assets and liabilities held for sale £ million	Total equity attributable to equity holders of the company £ million	Minority interests £ million	Total equity £ million
As at 1 January 2005	151.0	88.8	(18.7)	(10.8)	17.2	54.7	–	282.2	3.3	285.5
Total recognised income and expense	–	–	(9.0)	32.7	–	(35.8)	–	(12.1)	(3.0)	(15.1)
Dividends	–	–	–	–	–	(36.4)	–	(36.4)	–	(36.4)
Shares issued	15.4	0.7	–	–	–	73.6	–	89.7	–	89.7
Equity settled share-based payments	–	–	–	–	–	7.9	–	7.9	–	7.9
Acquisition of shares by trustees of the Performance Share Plan 2002	–	–	–	–	–	(8.7)	–	(8.7)	–	(8.7)
As at 31 December 2005	166.4	89.5	(27.7)	21.9	17.2	55.3	–	322.6	0.3	322.9
Total recognised income and expense	–	–	12.0	(22.7)	–	222.0	–	211.3	2.6	213.9
Dividends	–	–	–	–	–	(38.3)	–	(38.3)	–	(38.3)
Shares issued	0.4	1.2	–	–	–	–	–	1.6	–	1.6
Equity settled share-based payments	–	–	–	–	–	(2.3)	–	(2.3)	–	(2.3)
Disposal of shares by trustees of the Performance Share Plan 2002	–	–	–	–	–	2.2	–	2.2	–	2.2
Reclassification	–	–	(0.9)	–	–	–	0.9	–	–	–
Recognised in profit on disposal	–	–	1.5	(4.6)	–	–	–	(3.1)	(2.1)	(5.2)
As at 31 December 2006	**166.8**	**90.7**	**(15.1)**	**(5.4)**	**17.2**	**238.9**	**0.9**	**494.0**	**0.8**	**494.8**

In January 2005, the group raised £89 million by way of a placing. In line with counsel's opinion, the excess of the proceeds of the placing over the nominal value of the shares issued created a merger reserve which was subsequently transferred to retained earnings and is available for distribution to shareholders.

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

The translation reserve comprises all foreign exchange differences arising from the translation of the accounts of foreign operations, as well as from the translation of liabilities and the cumulative net change in the fair value of instruments that hedge the company's net investment in foreign subsidiaries.

A qualifying share ownership trust ("the Quest") was established on 26 August 1999. The Quest holds shares issued by the company in connection with the savings related share option scheme. During the year the company allotted 123,437 (2005: 126,524) shares to the Quest and the Quest transferred 186,710 (2005: 191,662) of these shares to employees exercising options.

As at 31 December 2006 the Quest held 891,703 (2005: 941,555) shares.

25 Share capital and reserves continued

Share capital

The authorised share capital of the company is £350.0 million (2005: £350.0 million). This comprises 700 million (2005: 700 million) ordinary shares of 50 pence each.

	2006 £ million	2005 £ million
Allotted, called up and fully paid ordinary shares of 50 pence each	**166.8**	166.4

The movement in issued share capital was as follows:

	Number	£ million
As at 1 January 2005	301,910,811	151.0
Qualifying employee share ownership trust allotments	126,524	0.1
Exercise of executive share options	655,000	0.3
Other share issues	30,164,397	15.0
As at 31 December 2005	332,856,732	166.4
Qualifying employee share ownership trust allotments	123,437	0.1
Exercise of executive share options	451,998	0.2
Exercise of savings related share options	178,124	0.1
As at 31 December 2006	**333,610,291**	**166.8**

During the year the company issued 753,559 ordinary shares of 50 pence each, for a consideration of £1.6 million, settled in cash.

Share-based payments

In 1985, the group established the Savings Related Share Option Scheme, which entitles employees of the group to buy shares in the company. Grants of share options under this scheme are offered to employees periodically, and options are exercisable at a 20 per cent discount to the market price of shares at the date of grant.

Under the Executive Share Option Scheme 2002, directors and senior employees of the group have been granted share options, which carry a non-market based performance condition.

Until September 2004, the Performance Share Plan 2002 was operated alongside the Executive Share Option Scheme 2002, but since then awards have been made under the Performance Share Plans only. Under this plan, share awards are made to directors and senior employees of the group, subject to both market and non-market based performance tests.

All of the share-based payment arrangements operated by the group are equity-settled. Options are granted with a maximum term of ten years.

The number and weighted average exercise price of share options under the Savings Related Share Option Scheme and the Executive Share Option Scheme 2002 are as follows:

	Weighted average exercise price 2006 pence	**Number of options 2006**	Weighted average exercise price 2005 pence	Number of options 2005
Outstanding on 1 January	**257**	**17,438,769**	240	14,389,582
Lapsed	**277**	**(2,998,656)**	250	(2,009,880)
Exercised	**192**	**(822,828)**	129	(846,662)
Granted	**–**	**–**	279	5,905,729
Outstanding on 31 December	**257**	**13,617,285**	257	17,438,769
Exercisable on 31 December	**218**	**1,850,545**	205	2,468,967

Options were exercised on a regular basis during the year, and the average share price for the year was 368 pence (2005: 335 pence).

Options outstanding on 31 December 2006 have weighted average remaining contractual lives as follows:

	Weighted average remaining contractual life 2006 years	**Number of options 2006**	Weighted average remaining contractual life 2005 years	Number of options 2005
100.00 pence to199.99 pence	**2.2**	**43,967**	1.5	495,965
200.00 pence to 299.99 pence	**3.0**	**11,970,515**	4.0	14,697,195
Over 300.00 pence	**7.8**	**1,602,803**	8.8	2,245,609
		13,617,285		17,438,769

25 Share capital and reserves continued

Share awards granted during the year under the Performance Share Plans are as follows:

	Weighted average fair value 2006 pence	**Number of shares 2006**	Weighted average fair value 2005 pence	Number of shares 2005
Share awards granted during the year	**181**	**2,257,919**	175	3,394,227

The fair value of services received in return for share options granted and shares awarded are measured by reference to the fair value of those instruments. For grants in either the current or preceding year, the pricing models used and inputs (on a weighted average basis where appropriate) into those models are as follows:

	Savings Related Share Option Scheme **2006**	Savings Related Share Option Scheme 2005	Performance Share Plan 2002 **2006**	Performance Share Plan 2002 2005
Pricing model used		Black-Scholes		Monte Carlo
Weighted average fair value at measurement date	**–**	113p	**181p**	175p
Share price	**–**	348p	**334p**	329p
Exercise price	**–**	279p	**N/A**	N/A
Expected share price volatility	**–**	38%	**24%**	38%
Option life	**–**	3.4 years	**N/A**	N/A
Expected dividend yield	**–**	3%	**3%**	N/A
Risk-free interest rate	**–**	4.8%	**N/A**	N/A
Comparator share price volatility	**–**	N/A	**25%**	36%
Correlation between two companies in comparator group	**–**	N/A	**20%**	25%

The expected share price volatility is based on the historical volatility of the company's share price.

The performance conditions attaching to the Performance Share Plans involve a comparison of the total shareholder return of the company with that of its comparators and achievement of targeted earnings per share growth. The former is a market based test and as such is incorporated into the grant date fair value of the award.

Dividends

	2006 £ million	2005 £ million
Dividends charged to reserves		
Final dividend in respect of 2005 of 7.5 pence per share (2005: final dividend in respect of 2004 of 7.2 pence) per share	**24.5**	23.4
Interim dividend in respect of 2006 of 4.2 pence per share (2005: interim dividend in respect of 2005 of 4.0 pence) per share	**13.8**	13.0
	38.3	36.4
Dividends paid		
Interim dividend in respect of 2005 of 4.0 pence (2005: interim dividend in respect of 2004 of 3.8 pence) per share	**13.0**	11.2
Final dividend in respect of 2005 of 7.5 pence (2005: final dividend in respect of 2004 of 7.2 pence) per share	**24.5**	23.3
	37.5	34.5

The amounts waived by Trustees of the Performance Share Plans in respect of the final and interim dividends was £0.8 million (2005: £0.8 million).

The amounts waived by Trustees of the qualifying employee share ownership trust in respect of the interim and final dividends was £0.1 million (2005: £0.1 million).

The directors are proposing a final dividend in respect of the financial year ending 31 December 2006 of 8.0 pence per share, which will absorb an estimated £26.1 million of equity. Subject to approval, it will be paid on 2 July 2007 to shareholders on the register of members on 11 May 2007. The dividends have not been provided for and there are no income tax consequences for the company.

26 Analysis of cash, cash equivalents and net debt

	As at 1 January 2006 £ million	Cash flow £ million	Exchange and other non-cash movements £ million	Cash of former subsidiary equity accounted £ million	Reclassification to held for sale £ million	**As at 31 December 2006 £ million**
Cash at bank and in hand	320.8	90.5	(11.8)	(30.3)	(33.0)	**336.2**
Short-term investments	31.1	9.5	(1.4)	–	–	**39.2**
Cash and cash equivalents disclosed on the balance sheet	351.9	100.0	(13.2)	(30.3)	(33.0)	**375.4**
Overdrafts	(19.2)	16.8	0.4	–	0.8	**(1.2)**
	332.7	116.8	(12.8)	(30.3)	(32.2)	**374.2**
Cash and cash equivalents (including overdrafts) classified as held for sale	–	–	–	–	32.2	**32.2**
Total cash and cash equivalents	332.7	116.8	(12.8)	(30.3)	–	**406.4**
Current debt	(19.9)	7.4	0.1	–	–	**(12.4)**
Non-current debt	(558.3)	542.5	8.9	–	–	**(6.9)**
Net (debt)/cash as at the end of the year	(245.5)	666.7	(3.8)	(30.3)	–	**387.1**

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

Net cash/(debt) is analyed between the amount disclosed in the balance sheet and amounts classified as held for sale as follows:

	2006 £ million	2005 £ million
Net cash/(debt) disclosed on the balance sheet	**354.9**	(245.5)
Net cash classified as held for sale	**32.2**	–
Total net cash/(debt) as at the end of the year	**387.1**	(245.5)

27 Acquisitions and disposals

A number of immaterial acquisitions were made in the year ended 31 December 2006 for £5.5 million in cash with the assumption of overdrafts of £9.5 million. The aggregate book value of the identifiable net liabilities was £2.6 million excluding overdrafts assumed and the aggregate goodwill arising on the acquisitions was £17.6 million. All acquisitions in the year have been accounted for under the purchase method of accounting. An assessment of the fair value to the group of the assets and liabilities acquired on all acquisitions has been made.

The contributions of the acquired businesses to revenue and profit were not material to the results of the group.

Goodwill has been recognised on these acquisitions as a result of skilled workforces which did not meet the criteria for recognition as intangible assets at the dates of recognition.

The acquisition cost of joint ventures and other investments amounted to £23.5 million (2005: £25.0 million) and principally related to investments in public private partnership projects.

The only material disposal was the sale of AMEC SPIE for a cash consideration of €1 billion (£684 million) which was completed on 27 July 2006.

The carrying value of the assets and liabilities sold and the profit on sale were as follows:

	£ million
Property, plant and equipment	57.9
Intangible assets	269.6
Interests in joint ventures, associates and other investments	28.1
Deferred tax	33.8
Inventories	13.4
Trade and other receivables	820.1
Cash and cash equivalents	39.7
Trade and other payables	(903.2)
Derivative financial instruments	(3.5)
Retirement benefit liabilities	(47.1)
Net assets sold	308.8
Minority interest in net assets sold	(2.1)
	306.7
Provisions made in respect of indemnities	52.0
Amounts recognised in profit on disposal from the hedging and translation reserves	(3.1)
	355.6
Cash consideration received	684.3
Costs of disposal	17.2
Profit on disposal	311.5

Notes to the consolidated accounts
continued

27 Acquisitions and disposals continued

The net cash flows attributable to discontinued operations during the year were as follows:

	2006 £ million	2005 £ million
Net cash flow from operating activities	**(19.2)**	47.0
Net cash flow from investing activities	**(20.5)**	(19.7)
Net cash flow from financing activities	**(24.5)**	9.6
	(64.2)	36.9

On 20 January 2005, the group acquired all the shares in Paragon Engineering Services Inc. ("Paragon") for £22.3 million. Paragon is an oil and gas engineering services company based in Houston, US.

The amounts recognised in respect of identifiable assets and liabilities relating to the acquisition of Paragon were as follows:

	Book value £ million	Fair value adjustments £ million	Recognised value £ million
Property, plant and equipment	1.2	(0.3)	0.9
Intangible assets	–	4.9	4.9
Trade and other receivables	7.7	–	7.7
Cash and cash equivalents	4.2	–	4.2
Deferred tax liability	–	(0.7)	(0.7)
Trade and other payables	(4.3)	–	(4.3)
Net identifiable assets and liabilities	8.8	3.9	12.7
Goodwill on acquisition			9.6
			22.3

Consideration	
Cash	17.2
Deferred consideration	4.5
	21.7
Cost of acquisition	0.6
	22.3

In the period from acquisition to 31 December 2005, Paragon contributed £45.5 million to the consolidated revenue. Its profit contribution was not material to the results of the group.

Goodwill has been recognised on the acquisition of Paragon as a result of its skilled workforce and specialist engineering expertise that did not meet the criteria for recognition as an intangible asset at the date of acquisition.

On 3 July 2005, the group acquired all the shares in NNC Holdings Limited ("NNC") for £26.1 million in cash and net debt of £13.7 million.

NNC provides consultancy and engineering services across the life of nuclear facilities in the UK, Canada and across the former Soviet Union. The amounts recognised in respect of identifiable assets and liabilities relating to the acquisition of NNC were as follows:

	Book value £ million	Fair value adjustments £ million	Recognised value £ million
Property, plant and equipment	4.4	(1.7)	2.7
Intangible assets	9.4	(2.0)	7.4
Inventories	8.5	–	8.5
Trade and other receivables	21.0	(3.4)	17.6
Cash and cash equivalents	1.4	–	1.4
Bank loans and overdrafts	(14.6)	(0.5)	(15.1)
Trade and other payables	(26.1)	(2.3)	(28.4)
Deferred tax liability	–	(2.1)	(2.1)
Net identifiable assets and liabilities	4.0	(12.0)	(8.0)
Goodwill on acquisition			34.1
			26.1

Consideration	
Cash	25.3
Cost of acquisition	0.8
	26.1

27 Acquisitions and disposals continued

In the period from acquisition to 31 December 2005, NNC contributed £50.6 million to the consolidated revenue. Its profit contribution was not material to the results of the group.

Goodwill has arisen on the acquisition of NNC primarily because of its skilled workforce which did not meet the criteria for recognition as an intangible asset at the date of acquisition.

A number of smaller acquisitions were made in the year ended 31 December 2005 for an aggregate consideration net of cash acquired of £8.7 million (of which £4.3 million was paid in 2004). The aggregate book value of the identifiable assets and liabilities was £0.2 million and the aggregate goodwill arising on the acquisitions was £12.4 million.

28 Capital commitments

	2006 £ million	2005 £ million
Contracted but not provided for in the accounts	**–**	0.3

As at 31 December 2006, there was a commitment to invest a total of £56.8 million (2005: £47.4 million) in various PPP and regeneration partnership projects. In addition, there are commitments to purchase land for a developments project of up to £15 million (2005: £15 million) over the next ten years.

29 Operating leases

The total obligations under non-cancellable operating lease rentals for continuing operations are as follows:

	2006 £ million	2005 £ million
In one year or less	**32.9**	31.9
Between one and five years	**79.4**	84.5
Over five years	**48.0**	47.3
	160.3	163.7

AMEC enters into the following types of lease: short-term plant hires; leases for motor vehicles and office equipment with lease periods of two to five years; and longer term property leases. None of the leases includes any contingent rentals.

30 Contingent liabilities

Guarantees and indemnities

The borrowings of joint ventures are generally without recourse to AMEC other than for normal performance obligations which are usually given on a several basis. AMEC had provided guarantees in respect of committed bank facilities granted to certain property joint ventures. These facilities were renegotiated during 2006 with AMEC no longer providing such guarantees (2005: £33.8 million).

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.

As at 31 December 2006, AMEC had actual commitments to invest £56.8 million (2005: £47.4 million) in various existing Public Private and regeneration partnership projects (note 28). There are further commitments of £3.1 million (2005: £17.2 million) relating to projects at the preferred bidder stage.

AMEC has also provided guarantees on certain existing projects to invest further amounts of up to £34.2 million (2005: £34.2 million). AMEC believes that the circumstances under which it will be called upon to invest this contingent equity are remote.

Legal claims and actions

AMEC has taken internal and external legal advice in considering known legal claims and actions made by or against the company. Consequently, it carefully assesses the likelihood of the success of a claim or action including those identified in this note. AMEC makes an appropriate provision for those legal claims or actions against the company on the basis of the likely outcome, but makes no provision for those which are, in its view, unlikely to succeed. Provisions of £85.3 million (2005: £22.4 million) are shown in note 24 in respect of these claims. It is not practicable to quantify the remaining contingent liability because of the range of possible outcomes and the progress of the litigation.

The information below indicates the quantum of claims against AMEC or where we are unable to quantify the claim, an indication of the gross contract value or the amount in dispute. As the list below involves actions by third parties against AMEC, the timing of settlement cannot be determined although AMEC is endeavouring to settle as soon as practicable. Due to the litigation, there is no work in progress or other receivable recognised in respect of these contracts. Whilst AMEC believes that certain claims may be covered by insurance, it is not currently practicable to assess the extent to which AMEC's insurance policies will respond in the event of a settlement.

– During 1994 and 1995, AMEC Construction Management Inc. ("ACMI"), a wholly owned subsidiary of AMEC plc, entered into various contracts with the United States General Services Administration ("GSA") for the construction of courthouses in Missouri and California and for the refurbishment and seismic upgrade of a US Customs House in California. The total value of these contracts at point of signing was in the order of US$290 million. Due, inter alia, to unforeseen site conditions, client delays and numerous design and scope changes, ACMI suffered significant cost overruns and submitted substantial recovery claims.

Notes to the consolidated accounts
continued

30 Contingent liabilities continued

In June 1999, GSA terminated the right of ACMI to complete one contract, which at that stage was 85 per cent complete. ACMI contested the termination and sued the GSA for recovery of all claims on this contract. The GSA submitted its claim against ACMI for reprocurement and other costs totalling US$32 million.

The United States Department of Justice filed a counterclaim alleging false claims on the GSA contracts and sought to argue that, as a result, ACMI had forfeited its rights to recovery of all claims.

ACMI, upon legal advice, pleaded guilty in December 2000 and November 2001 to two federal felonies and paid two fines totalling approximately US$1.2 million. AMEC also agreed to introduce additional ethical processes and procedures, both for the North American workforce and for those staff employed by AMEC, whose responsibilities caused them to have regular business contact with AMEC 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.

During 2005, the US Court of Federal Claims ruled that ACMI had violated the US Anti-Kickback Act. The Court stated that it intended to issue an order in respect of the Government's counter claims and the issues relating to the Anti-Kickback Act in April 2006. The court ruled in January 2007 that ACMI claims must be forfeited and damages in respect of false claims and Anti-Kickback legislation would be payable. Further hearings are due to take place in April 2007.

In 2001, ACMI entered into a contract with a value of US$103 million to build a development in Miami, Florida, which was subject to significant changes and design delays. In January 2006, the client terminated ACMI's contract despite having taken possession of the majority of the facility. Both parties are now in litigation in pursuit of various claims and counter claims. ACMI's claim amounts to US$11.5 million, of which approximately half represents the claim of a subcontractor. The client's claim amounts to a sum in excess of US$31 million.

The parties have met to mediate their differences, with some success. All but two issues between AMEC and the client have been resolved. The client has recently quantified their remaining claims and indicated they believe AMEC are responsible for US$5 million. AMEC continues to work with insurers and the client in an effort to resolve these issues.

– In 2000, ACMI entered into a contract with a value of US$115 million to design and build a jail for the City and County of San Francisco ("CCSF"). Due to unforeseen conditions, delays and interference with ACMI's design, procurement and execution of the work, ACMI suffered large cost overruns. In 2005, lawsuits were filed by both parties. CCSF further alleged that ACMI made false claims in connection with the project and also failed to properly maintain its California contractor's licence throughout the project term. The litigation is at the pleading stages with an initial trial date set for November 2007. AMEC plc has been joined in this action on the basis that it is allegedly the alter ego of ACMI or, alternately, that ACMI is merely the agent of AMEC plc and thus AMEC plc is liable for ACMI's actions. AMEC plc is vigorously defending its position. The court recently rejected CCSF's request for summary judgement in respect of the licencing issues referred to above.

– In 1999, AGRA Monenco Inc. (a predecessor company of AMEC Americas Limited, a wholly owned subsidiary of AMEC plc), in joint venture, entered into a contract with Jordan Magnesia Company Ltd. ("Jormag") to design and construct a magnesium plant in Jordan with a contract value of US$84 million. The joint venture experienced delays in completing its work under the contract and Jormag terminated the contract when work was approximately 95 per cent complete. The joint venture commenced an action against Jormag, who counter claimed for damages it claims it suffered from the alleged default of the joint venture. The dispute has been referred to arbitration under the terms of the contract, and the matter has only been part heard, with a final hearing date set for May 2007. Substantial claims were made by the client against AMEC. An arbitration hearing in 2006 awarded damages in the order of US$25 million against AMEC. A further hearing is scheduled for May 2007 to consider potential remediation issues in respect of the plant. Mediation is scheduled in April 2007 to address all outstanding issues.

– After the terrorist attacks in September 2001, ACMI was one of four construction managers hired by the City of New York to carry out the clean up and debris removal work at the World Trade Center site. The client was responsible for procuring insurance to protect the construction managers and various contractors from lawsuits arising out of the work. The World Trade Center Captive Insurance Company (the "WTC Captive") was formed and was funded with US$1 billion in Federal money to provide coverage for the City, the construction managers and the contractors who performed the work on site. Pursuant to the insurance policy that was issued, the WTC Captive is providing a minimum of US$1 billion in insurance coverage. This amount can increase depending upon investment returns on the US$1 billion. The WTC Captive is providing a defence and indemnification for claims against ACMI arising out of this work.

– AMEC Civil Engineering Limited was awarded a contract to refurbish the existing Thelwall viaduct which carries the M6 motorway over the Manchester Ship Canal. Shortly prior to the expiry of the six year latent defects liability period, the Highways Agency advised AMEC that a number of bearings/bearing plates had failed. Subsequently the Highways Agency decided to replace all the 316 bearings and has raised a claim against AMEC for £37 million. The client has instigated a dispute under the contract which is now the subject of court proceedings. The hearing is not anticipated until January 2008.

AMEC Group Limited ("AGL") is currently the subject of certain ongoing Health and Safety Executive investigations, in respect of: (i) separate incidents involving fatalities of subcontractors, namely: two separate fatalities to subcontractors at the Leftbank Apartments project in Manchester in April 2004 and April 2005; and (ii) a fatal accident on the Clipper platform in the North Sea. If AGL is to be prosecuted in the Crown Court for any of these cases, it could be liable to unlimited fines. A prosecution for AGL in relation to fatal accidents in relatively quick succession (such as those at the Leftbank Apartments) could have an impact on the amount of any penalty.

31 Related party transactions

During the year there were a number of transactions with the senior management group, joint venture entities and subsidiary companies.

Transactions with the senior management group
Directors of the company and their immediate relatives control 0.1 per cent of the voting rights of the company.

In addition to their salaries, the group and company also provide non-cash benefits to directors and executive officers, and contribute to a post-employment defined benefit plan on their behalf. Directors and executive officers also receive share awards under the Performance Share Plans.

Details of the senior management group compensation are as follows:

	2006 £ million	2005 £ million
Short-term employee benefits	**0.8**	1.0
Post-employment benefits	**0.1**	0.2
Share-based payments	**–**	0.4
	0.9	1.6

The transactions and related balances outstanding with joint venture entities and associates are as follows:

	Value of transactions in the year		**Outstanding balance as at 31 December**	
	2006 £ million	2005 £ million	**2006 £ million**	2005 £ million
Services rendered	**84.2**	52.4	**6.0**	3.9
Services received	**1.9**	4.5	**0.3**	0.3
Sale of property, plant and equipment	**2.2**	4.1	**–**	–
Provision of finance	**9.6**	14.5	**61.4**	61.2
Receipt of finance	**7.0**	23.7	**15.1**	23.5

AMEC Developments Limited and Amec Staff Pensions Trustee Limited entered into an agreement on 23 December 2005 for the sale of the long leasehold interests forming part of the Newcastle Estate, owned by AMEC Developments Limited, to AMEC Staff Pensions Trustee Limited, for a price of £25 million. As at 31 December 2005, the agreement was conditional upon various consents being obtained and ancillary documentation being entered into. The consents were received during 2006 and the sale completed. AMEC Developments Limited and Amec Staff Pensions Trustee Limited received separate legal and valuation advice in respect of the transaction.

On 5 September 2006, AMEC completed the disposal of US Pipeline Inc. to Dearborn Resources, Inc. for £11 million. Dearborn Resources, Inc. is owned and managed by the previous president of US Pipeline Inc.

32 Post balance sheet events

On 19 February 2007, AMEC announced that an unconditional agreement had been entered into to sell AMEC's 50 per cent interest in AMEC SPIE Rail Systems Limited to the French infrastructure company Colas SA. The sale is expected to complete on 2 April 2007.

Company balance sheet

As at 31 December 2006

	Note	2006 £ million	2005 (Restated) £ million
Fixed assets			
Tangible assets	3	**4.7**	6.2
Investments:	4		
Subsidiaries		**1,719.3**	1,902.1
Joint ventures		**9.0**	9.9
Other		**0.1**	0.1
		1,728.4	1,912.1
		1,733.1	1,918.3
Current assets			
Debtors: including amounts falling due after one year of £2.0 million (2005: £2.8 million)	5	**22.5**	40.9
Cash at bank and in hand		**196.9**	14.2
		219.4	55.1
Current liabilities			
Creditors: amounts falling due within one year	6	**(53.7)**	(88.5)
Net current assets/(liabilities)		**165.7**	(33.4)
Total assets less current liabilities		**1,898.8**	1,884.9
Creditors: amounts falling due after one year	7	**(1,169.0)**	(1,501.8)
Net assets		**729.8**	383.1
Capital and reserves			
Called up share capital	10	**166.8**	166.4
Share premium account	10	**90.7**	89.5
Revaluation reserve	10	**0.5**	0.5
Hedging reserve	10	**–**	(0.8)
Capital redemption reserve	10	**17.2**	17.2
Profit and loss account	10	**454.6**	110.3
Equity shareholders' funds		**729.8**	383.1

The accounts on pages 102 to 107 were approved by the board of directors on 14 March 2007 and were signed on its behalf by:

S Y Brikho
Chief executive

S J Siddall
Finance director

Notes to the company balance sheet

1 Accounting policies

Basis of accounting

The accounts have been prepared under the historical cost convention, modified to include the revaluation of certain land and buildings and in accordance with applicable accounting standards and the Companies Act 1985.

During 2006, amounts owed to subsidiaries falling due after one year have been reclassified under the caption creditors falling due after one year as there was no legal right to set off the liabilities against the investment. In 2005, these items were offset against investments in subsidiaries and the 2005 balance sheet has been restated accordingly. This results in an increase of £975.2 million in investments in subsidiaries and an increase of £975.2 million in creditors falling due after one year and there is therefore no impact on net assets.

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

Financial instruments

Financial instruments are initially recorded at fair value. Subsequent valuation depends on the designation of the instruments. Cash, deposits and short-term investments are held at amortised cost. Derivative financial instruments are accounted for as described in note 1 to the consolidated accounts.

The company is exempt from the disclosure requirements of FRS 25 "Financial Instruments: Disclosure and Presentation" as the financial instruments disclosures of IAS 32 "Financial Instruments: Disclosure and Presentation" are included in the notes to the consolidated accounts.

Financial guarantee contracts

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

Foreign currencies

Monetary assets and liabilities denominated in foreign currencies are translated into sterling at rates of exchange ruling at the balance sheet date. Exchange differences arising on the translation of foreign currency net investments and foreign currency borrowings, or forward exchange contracts used to hedge those investments, are taken directly to reserves. Other exchange differences are taken to the profit and loss account in the year.

Interest

Interest income and payable is recognised in profit or loss on an accruals basis using the effective interest method.

Leases

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

Pensions

Contributions to defined benefit pension schemes in respect of employees of AMEC plc are charged in the profit and loss account as incurred.

Defined benefit pension schemes are operated by the group but the company is unable to separately identify its share of the assets and liabilities of those schemes or any details of the surplus or deficit in the scheme and the implications of that surplus or deficit for the company.

Details of the disclosures required under FRS 17 "Retirement Benefits" can be found in the accounts of AMEC Group Limited, a subsidiary company.

Share-based payments

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

Taxation

The charge for taxation is based on the results for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes.

Deferred tax is recognised, without discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date, except as otherwise required by FRS 19 "Deferred tax".

Notes to the company balance sheet
continued

2 Staff costs and employee numbers

	2006 £ million	2005 £ million
Wages and salaries	**11.1**	9.9
Social security costs	**1.6**	1.1
Other pension costs	**1.3**	1.2
	14.0	12.2

The average number of people employed was 168 (2005: 143).

3 Tangible assets

	Land and buildings £ million	Plant and equipment £ million	Total £ million
Cost or valuation:			
As at 1 January 2006	7.0	2.2	9.2
Additions	0.1	0.1	0.2
Transfers	(1.7)	0.6	(1.1)
As at 31 December 2006	**5.4**	**2.9**	**8.3**
Depreciation:			
As at 1 January 2006	1.1	1.9	3.0
Provided during the year	0.3	0.3	0.6
Transfers	(0.4)	0.4	–
As at 31 December 2006	**1.0**	**2.6**	**3.6**
Net book value:			
As at 31 December 2006	**4.4**	**0.3**	**4.7**
As at 1 January 2006	5.9	0.3	6.2

	2006 £ million	2005 £ million
The net book value of land and buildings comprised:		
Freehold	**2.7**	4.0
Short leasehold	**1.7**	1.9
	4.4	5.9
The cost or valuation of land and buildings comprised:		
Cost	**3.0**	2.9
External valuation in 2004	**2.4**	4.1
	5.4	7.0

All significant freehold and long leasehold properties were externally valued as at 31 December 2004 by CB Richard Ellis Limited in accordance with the Appraisal and Valuation Manual of the Royal Institute of Chartered Surveyors.

The basis of revaluation was existing use value for properties occupied by the company and market value for those properties without company occupancy.

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.

3 Tangible assets continued

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

	2006 £ million	2005 £ million
Cost	**6.2**	8.1
Depreciation	**(2.5)**	(2.6)
Net book value	**3.7**	5.5

4 Investments (held as fixed assets)

	Shares in subsidiaries £ million	Amounts owed by subsidiaries £ million	Total investment in subsidiaries £ million	Joint ventures £ million	Other investments £ million	Total £ million
Cost:						
As at 1 January 2006 (restated)	1,641.7	323.4	1,965.1	9.9	0.1	1,975.1
Additions	–	39.9	39.9	–	–	39.9
Disposals	(3.4)	(199.3)	(202.7)	(0.9)	–	(203.6)
As at 31 December 2006	**1,638.3**	**164.0**	**1,802.3**	**9.0**	**0.1**	**1,811.4**
Provisions:						
As at 1 January 2006	(63.0)	–	(63.0)	–	–	(63.0)
Provided during the year	(20.0)	–	(20.0)	–	–	(20.0)
As at 31 December 2006	**(83.0)**	**–**	**(83.0)**	**–**	**–**	**(83.0)**
Net book value:						
As at 31 December 2006	**1,555.3**	**164.0**	**1,719.3**	**9.0**	**0.1**	**1,728.4**
As at 1 January 2006 (restated)	1,578.7	323.4	1,902.1	9.9	0.1	1,912.1

Principal group companies are listed on pages 110 and 111.

5 Debtors

	2006 £ million	2005 £ million
Debtors: amounts falling due within one year		
Trade debtors	**8.8**	7.4
Amounts owed by subsidiaries	**1.4**	2.6
Amounts owed by joint ventures	**2.0**	0.5
Derivative financial instruments	**0.1**	0.5
Corporation tax	**6.4**	19.7
Other debtors	**0.4**	5.3
Prepayments and accrued income	**1.4**	2.1
	20.5	38.1
Debtors: amounts falling due after one year		
Deferred tax	**2.0**	2.8
	22.5	40.9

The movement in the deferred tax asset is analysed as follows:

	£ million
As at 1 January 2006	2.8
Profit and loss account	(0.8)
As at 31 December 2006	**2.0**

Notes to the company balance sheet
continued

5 Debtors continued

The deferred tax asset is analysed as follows:

	2006 £ million	2005 £ million
Difference between accumulated depreciation and capital allowances	**(0.3)**	(0.2)
Other timing differences	**2.3**	3.0
	2.0	2.8

6 Creditors: amounts falling due within one year

	2006 £ million	2005 £ million
Bank and other loans and overdrafts	**–**	33.6
Trade creditors	**9.0**	1.9
Amounts owed to subsidiaries	**1.9**	4.3
Amounts owed to joint ventures	**5.2**	5.0
Derivative financial instruments	**0.1**	4.5
Other taxation and social security costs	**13.1**	8.8
Other creditors	**6.4**	5.0
Accruals and deferred income	**4.0**	12.2
Dividends	**14.0**	13.2
	53.7	88.5

7 Creditors: amounts falling due after one year

	2006 £ million	2005 (Restated) £ million
Bank and other loans	**–**	526.6
Amounts owed to subsidiaries	**1,169.0**	975.2
	1,169.0	1,501.8

8 Analysis of borrowings and banking facilities

The maturity of borrowings was as follows:

	2006 £ million	2005 £ million
Due:		
In one year or less, or on demand	**–**	33.6
Between one and two years	**–**	75.0
Between two and five years	**–**	362.9
In more than five years	**–**	88.7
	–	560.2

9 Share capital

The authorised share capital of the company is £350.0 million (2005: £350.0 million).

	2006 £ million	2005 £ million
Allotted, called up and fully paid ordinary shares of 50 pence each	**166.8**	166.4

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

	Number	£ million
As at 1 January 2006	**332,856,732**	166.4
Qualifying employee share ownership trust allotments	**123,437**	0.1
Exercise of executive share options	**451,388**	0.2
Exercise of savings related share options	**178,734**	0.1
As at 31 December 2006	**333,610,291**	166.8

■ Share-based payment

Details of share-based payment schemes operated by the company are provided in note 25 to the group accounts.

10 Reserves

	Share capital £ million	Share premium account £ million	Revaluation reserve £ million	Hedging reserve £ million	Capital redemption reserve £ million	Profit and loss account £ million	Total £ million
As at 1 January 2006	166.4	89.5	0.5	(0.8)	17.2	110.3	383.1
Shares issued	0.4	1.2	–	–	–	–	1.6
Equity settled share-based payments	–	–	–	–	–	3.0	3.0
Dividends	–	–	–	–	–	(38.3)	(38.3)
Effective portion of changes in fair value of cash flow hedges (net of tax)	–	–	–	0.8	–	–	0.8
Profit for the year	–	–	–	–	–	379.6	379.6
As at 31 December 2006	**166.8**	**90.7**	**0.5**	**–**	**17.2**	**454.6**	**729.8**

Details of dividends paid by the company and proposed during the year are disclosed in note 25 to the group accounts.

11 Lease commitments

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

	Land and buildings 2006 £ million	Land and buildings 2005 £ million	**Plant and equipment 2006 £ million**	Plant and equipment 2005 £ million
Expiring over five years	**0.4**	0.4	**–**	–

12 Contingent liabilities

■ Guarantees and indemnities

Guarantees given by the company in respect of borrowings of subsidiaries amounted to £nil as at 31 December 2006 (2005: £nil).

Details of other contingent liabilities of the company are provided in note 30 to the group accounts.

Statement of directors' responsibilities in respect of the annual report and the accounts

The directors are responsible for preparing the annual report and the group and parent company accounts, in accordance with applicable law and regulations.

Company law requires the directors to prepare group and parent company accounts for each financial year. Under that law the directors are required to prepare the group accounts in accordance with IFRS as adopted by the EU and have elected to prepare the parent company accounts in accordance with UK Accounting Standards.

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

The parent company accounts are required by law to give a true and fair view of the state of affairs of the parent company.

In preparing each of the group and parent company accounts, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- for the group accounts, state whether they have been prepared in accordance with IFRS as adopted by the EU;
- for the parent company accounts, state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the parent company accounts; and

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its accounts comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the group and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the directors are also responsible for preparing a directors' report, directors' remuneration report and corporate governance statement that comply with that law.

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

Independent auditors' report to the members of AMEC plc

We have audited the group and parent company accounts (the "accounts") of AMEC plc for the year ended 31 December 2006 which comprise the group income statement, the group and parent company balance sheets, the group cash flow statement, the group statement of recognised income and expense and the related notes. These accounts have been prepared under the accounting policies set out therein. We have also audited the information in the directors' remuneration report that is described as having been audited.

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

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the annual report and the group accounts in accordance with applicable law and International Financial Reporting Standards ("IFRS") as adopted by the European Union, and for preparing the parent company accounts and the directors' remuneration report in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the statement of directors' responsibilities.

Our responsibility is to audit the accounts and the part of the directors' remuneration report to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the accounts give a true and fair view and whether the accounts and the part of the directors' remuneration report to be audited have been properly prepared in accordance with the Companies Act 1985 and whether, in addition, the group accounts have been properly prepared in accordance with Article 4 of the IAS Regulation. We also report to you whether in our opinion the information given in the directors' report is consistent with the accounts. The information given in the directors' report includes that specific information presented in the operating and financial review that is cross referred from the business review section of the directors' report.

In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

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

We read other information contained in the annual report and consider whether it is consistent with the audited accounts. The other information comprises only the chairman's statement, the chief executive's review, the directors' report, the unaudited part of the directors' remuneration report, the operating and financial review and the corporate governance statement. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the accounts. Our responsibilities do not extend to any other information.

Basis of audit opinion

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

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

Opinion

In our opinion:

- the group accounts give a true and fair view, in accordance with IFRS as adopted by the EU, of the state of the group's affairs as at 31 December 2006 and of its profit for the year then ended;
- the group accounts have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation;
- the parent company accounts give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of the parent company's affairs as at 31 December 2006; and
- the parent company accounts and the part of the directors' remuneration report to be audited have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the directors' report is consistent with the accounts.

KPMG Audit Plc
Chartered Accountants
Registered Auditor
Manchester
14 March 2007

Principal group companies

As at 31 December 2006

The subsidiaries, joint ventures and associates which, in the opinion of the directors, principally affect group trading results and net assets are listed below. Except where indicated, all subsidiaries listed below are wholly owned, incorporated in Great Britain and carry on their activities principally in their countries of incorporation. Shares are held by subsidiary companies except where marked with an asterisk, where they are held directly by the company. All holdings are of ordinary shares, except where otherwise indicated. A full list of subsidiaries will be filed with the Registrar of Companies with the next annual return.

Subsidiaries

AMEC Americas Limited (Canada)
AMEC Australia Pty Limited (Australia) (note 1)
AMEC (Bermuda) Limited (Bermuda)
AMEC BioPharmaceuticals, Inc. (USA)
AMEC BKW Limited
AMEC Capital Projects Limited
AMEC Civil Engineering Limited
AMEC Civil, Inc. (USA)
AMEC Civil LLC (USA) (80 per cent) (note 2)
AMEC Construction Limited
AMEC Construction Management, Inc. (USA)
AMEC Developments Limited
AMEC Dynamic Structures Ltd. (Canada)
AMEC D.S. 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 International (Chile) S.A. (Chile)
AMEC International Construction Limited (operating outside the United Kingdom)
*AMEC Investments Limited
AMEC Kamtech, Inc. (USA)
AMEC Logistics and Support Services Limited
AMEC NNC Limited
AMEC NNC Canada Limited (Canada)
AMEC Nuclear Holdings Limited
AMEC Offshore, Inc. (USA)
AMEC Offshore Services Limited
AMEC Paragon, Inc. (USA)
AMEC (Peru) S.A. (Peru)
AMEC Pipeline Professionals, Inc. (USA)
AMEC Project Investments Limited
*AMEC Property and Overseas Investments Limited
*AMEC Services Limited (note 3)
AMEC SPIE Capag S.A. (France)
AMEC Utilities Limited
Atlantic Services Limited (Bermuda)
Buchan Concrete Solutions Limited
Midwest Management (1987) Ltd. (Canada)
Monserco Limited (Canada)
National Ventures, Inc. (USA)
Nuclear Safety Solutions Limited (Canada)
Primat Recruitment Limited
Terranova Technologies, Inc. (USA)

Joint ventures and associates

AMEC SPIE Rail Systems Limited (50 per cent) (note 4)
AMEC Turner Limited (50 per cent) (note 5)
City Airport Rail Enterprises (Holdings) Limited (50 per cent) (note 6)
Health Management (Carlisle) Holdings Limited (50 per cent) (note 7)
Health Management (UCLH) Holdings Limited (33.3 per cent) (note 8)
Ician Developments Limited (50 per cent) (note 9)
KIG Immobilien Beteiligungsgesellschaft mbH (Germany) (50 per cent) (note 10)
Newcastle Estate Partnership Holdings Limited (50 per cent – "A" shares) (note 11)
*Northern Integrated Services Limited (50 per cent – "B" shares) (note 12)
*Road Management Group Limited (25 per cent) (note 13)
Road Management Services (A13) Holdings Limited (25 per cent) (note 14)
Road Management Services (Darrington) Holdings Limited (25 per cent) (note 15)
Wastewater Management Holdings Limited (25 per cent – "B" shares) (note 16)
Woolwich Arsenal Rail Enterprises (Holdings) Limited (50 per cent) (note 17)
Inspired Education (South Lanarkshire) Holdings Ltd (Note 18)

Notes

1 The issued share capital of AMEC Australia Pty Limited is 62,930,001 ordinary shares of A$1 each, 12,500,000 class "A" redeemable preference shares of A$1 each and 2,500 non-cumulative redeemable preference shares of A$1 each.
2 The issued share capital of AMEC Civil LLC is 1,000 common membership interests of US$1 each.
3 The issued share capital of AMEC Services Limited is 50 million ordinary shares of 99 pence each and 50 million preference shares of 1 pence each.
4 The issued share capital of AMEC SPIE Rail Systems Limited is 2,000,000 ordinary shares of £1 each.
5 The issued share capital of AMEC Turner Limited is 10,000 ordinary shares of £1 each.
6 The issued share capital of City Airport Rail Enterprises (Holdings) Limited is 4,061,498 ordinary shares of £1 each.
7 The issued share capital of Health Management (Carlisle) Holdings Limited is 841,002 ordinary shares of £1 each.
8 The issued share capital of Health Management (UCLH) Holdings Limited is 2,820,936 ordinary shares of £1 each.
9 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.
10 KIG Immobilien Beteiligungsgesellschaft mbH is a limited liability partnership.
11 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.
12 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.
13 The issued share capital of Road Management Group Limited is 25,335,004 ordinary shares of £1 each.
14 The issued share capital of Road Management Services (A13) Holdings Limited is 1,233,754 ordinary shares of £1 each.
15 The issued share capital of Road Management Services (Darrington) Holdings Limited is 140,296 ordinary shares of £1 each.
16 The issued share capital of Wastewater Management Holdings Limited is 224,999 "A" ordinary shares of £1 each and 75,001 "B" ordinary shares of £1 each.
17 The issued share capital of Woolwich Arsenal Rail Enterprises (Holdings) Limited is 50,000 ordinary shares of £1 each.
18 The issued share capital of Inspired Education (South Lanarkshire) Holdings Ltd is 51,000 ordinary shares of £1 each.

Five year record

	2006* £ million	2005* £ million	2004* £ million	2003** £ million	2002** £ million
Summarised consolidated results					
Continuing operations					
Revenue	**3,229.2**	2,843.8	2,515.5	2,626.7	2,961.4
Adjusted profit before intangible amortisation, exceptional items and taxation	**64.7**	73.9	59.2	49.3	81.4
Amortisation of goodwill and other intangible assets	**(3.6)**	(4.5)	–	(9.5)	(11.7)
	61.1	69.4	59.2	39.8	69.7
Exceptional items:					
Reorganisation costs	**–**	–	–	–	(8.3)
Litigation and separation costs	**(78.0)**	(5.1)	–	–	–
Costs of exiting businesses and markets	**(91.9)**	(82.0)	(31.3)	(6.8)	(40.0)
Loss on disposal of fixed assets	**–**	–	–	(0.6)	–
	(169.9)	(87.1)	(31.3)	(7.4)	(48.3)
(Loss)/profit before income tax	**(108.8)**	(17.7)	27.9	32.4	21.4
Income tax	**8.9**	(0.7)	(15.5)	(17.4)	(18.1)
(Loss)/profit for the year from continuing operations	**(99.9)**	(18.4)	12.4	15.0	3.3
Profit for the year from discontinued operations (net of income tax)	**319.1**	22.1	39.3	45.8	7.3
Profit for the year	**219.2**	3.7	51.7	60.8	10.6
Basic (loss)/earnings per share from continuing operations	**(31.0p)**	(5.6p)	3.9p	4.8p	1.2p
Diluted earnings per share from continuing operations***	**14.5p**	17.5p	14.0p	10.0p	19.8p
Dividends per share	**12.2p**	11.5p	11.0p	10.5p	10.0p
Dividend cover***	**1.2x**	1.5x	1.3x	1.0x	2.0x
Summarised consolidated balance sheets					
Non-current assets	**479.0**	895.3	819.0	646.2	391.5
Net working capital	**(179.6)**	(108.3)	(29.9)	(102.3)	(57.7)
Net cash/(debt)	**354.9**	(245.5)	(283.7)	(218.1)	(37.3)
Other non-current liabilities	**(197.1)**	(218.6)	(197.8)	(57.3)	(47.1)
Net assets classified as held for sale	**37.6**	–	–	–	–
Net assets	**494.8**	322.9	307.6	268.5	249.4
Total attributable to equity holders of the parent	**494.0**	322.6	304.3	261.1	247.6
Minority interests	**0.8**	0.3	3.3	7.4	1.8
Total equity	**494.8**	322.9	307.6	268.5	249.4

*The figures for 2006, 2005 and 2004 are prepared under adopted IFRS and are stated in accordance with the accounting policies set out on pages 70 to 73. The figures for 2005 and 2004 have been restated to present the operations of AMEC SPIE and the pipelines construction businesses as discontinued.

**The figures for 2002 and 2003 were prepared under UK GAAP and have not been restated, except to present the operations of AMEC SPIE and the pipelines construction businesses as discontinued and to amend the presentation of the group's share of the results of joint ventures and associates to be consistent with adopted IFRS. If the figures for these years had been restated, the main adjustments would have been in respect of share-based payments; goodwill amortisation; revaluation of property, plant and equipment, the presentation of loss on disposal of fixed assets; and employee benefits.

***Before amortisation of goodwill and other intangible assets and exceptional items.

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 2006 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 first 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 which includes mandatory policies 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 2006

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 14 March 2007, these events took place on the following dates:

Annual general meeting trading update	17 May 2006
Trading update	16 June 2006
Interim results announcement	31 August 2006
Strategy and trading update	13 December 2006
Preliminary results announcement	14 March 2007

On the days the preliminary and interim results were announced, AMEC's chief executive and finance director made presentations to analysts, institutional investors and banks in London, with their slides 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 2006, AMEC met with a total of 97 institutions (2005: 85), predominantly from the UK and US.

Analysts and investors value opportunities to meet operational management and to undertake site visits. In May 2006, analysts and institutional investors visited Azerbaijan, where they received presentations on the Natural Resources business and visited AMEC's facility in Baku. The event was announced in advance to the London Stock Exchange, with all slides being published on www.amec.com. Non-attributable feedback from the 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. Starting with the 2006 preliminary results, AMEC's results presentations are now webcast and are available on-demand at the company's website.

AMEC in 2006/7

January 2006 The United Kingdom Atomic Energy Authority ("UKAEA"), AMEC and CH2MHILL form an important alliance to speed up decommissioning at the Dounreay civil nuclear site in Scotland and to target additional opportunities in the UK's annual £2 billion + nuclear clean-up market.

AMEC and ALSTOM win a £170 million contract from AES Kilroot Power Ltd to fit new environmental technology to two existing 220 MW coal/oil-fired generating units at the Kilroot power station in Northern Ireland. The seawater flue gas desulphurisation air pollution control system will reduce sulphur dioxide emissions in line with stringent EU emission requirements.

BG Group plc ("BG") signs a major contract with an initial value of £90 million for AMEC to support all of BG's UK upstream natural gas assets and manage the development of the Maria brownfield gas project in the North Sea. AMEC will also execute any additional future brownfield UK upstream projects that BG initiates during the contract period, with each being subject to separate and additional financial arrangements.

AMEC is awarded a multi-million pound three-year extension to its oil and gas asset support services contract by Shell Philippines Exploration for the Malampaya gas field in the Philippines. Under the extended contract AMEC will provide operational support to a production platform offshore of Palawan island, an onshore gas plant at Batangas near Manila, and a 500-kilometre pipeline running between the plant and the platform.

February An AMEC joint venture is awarded front end work defining Petro-Canada's Fort Hills oil sands upstream facility, whilst under a separate contract AMEC will provide front end work for the mining portion of the project.

March BAA appoints AMEC to manage the £28 million refurbishment of the main runway at Stansted Airport. Working only at night when the airport's operational requirements are at a minimum, AMEC will deliver a fully refurbished runway in just nine months, managing a 200-strong workforce that will lay 35,000 tonnes of asphalt and 14,400 tonnes of concrete, while 1000 runway lights will be replaced over the course of the project.

April The European Space Agency ("ESA") selects AMEC for a sustainability project that will use earth observation technology to assess the health of Florida Bay in the Everglades and Cardiff Bay in Wales. The sustainability project will involve the processing of satellite imagery to measure the impact of aeration systems and other management techniques used to improve water quality.

May The US Air Force Center for Environmental Excellence selects AMEC for a third major multi-year contract. The new Heavy Engineering Repair & Construction (HERC) programme will have an initial spending ceiling of US$6 billion, with a potential to increase up to US$15 billion, for AMEC and 19 other companies that were awarded HERC contracts.

June AMEC and the UKAEA sign a Memorandum of Understanding with the Korean Power Engineering Company to work together to target work in nuclear waste management and repository projects, decommissioning, reactors services and nuclear plants in Korean and international markets.

The AMEC-led InspirED joint venture reaches financial close on the UK's largest schools PFI project to deliver 17 new and two refurbished secondary schools for South Lanarkshire Council. AMEC will benefit from multiple income streams together worth more than £400 million, including contracts to design, construct and refurbish the schools, redevelop surplus land around 12 of the sites and provide estate-management services.

July AMEC completes the disposal of AMEC SPIE to a new company controlled by funds managed by PAI Partners for a cash consideration of approximately €1 billion (£684 million).

AMEC is awarded a four-year contract by the University of California, San Diego for water-quality monitoring at the prestigious Scripps Institution of Oceanography. AMEC and its team of sub-consultants will conduct monitoring required under a National Pollutant Discharge Elimination System permit.

August In the Canadian oil sands AMEC is awarded a contract for programme and project management, engineering, and procurement services for the Enbridge Southern Access and Southern Lights Pipeline projects, signifying a continued partnership between AMEC and Enbridge.

AMEC announces that Samir Brikho, a member of the ABB Group Executive Committee, will succeed Sir Peter Mason as the chief executive of AMEC plc on 1 October 2006.

September An AMEC-led joint venture is appointed preferred bidder for the PPP contract to deliver six new secondary schools for East Dunbartonshire Council. In addition to a return on equity, AMEC expects to benefit from contracts to design and construct the schools, redevelop surplus land on five sites and provide estate management services over the concession period, with a total value over £125 million.

AMEC tops the 2006 Dow Jones Sustainability Index in the World and European sustainability indices for the support services sector. This is the third year in succession that AMEC has been named as a sector leader in this prestigious index, which annually surveys the world's 2500 largest companies, with the top 10 per cent best performing, based on their social, environmental and economic performance, being listed.

October AMEC is appointed by PetroChina Guangxi Petrochemical Company as its project management contractor for the development of a US$1.6 billion grassroots refinery in Qinzhou, south-western China. AMEC's role includes development of the project management procedures, engineering, project controls, health, safety and environmental management, quality management and several other operational and commercial functions.

An AMEC joint-venture is appointed by National Grid as the preferred partner for the West Overhead Lines and Cable Alliance, which will carry out the upgrade of overhead power lines and underground cables across the western half of England and all of Wales. The contract will be worth £500 million (AMEC share: £237.5 million) over an initial five-year period, after which the contract may be extended for a further five years.

November AMEC wins a contract to clean up and demolish a number of redundant research facilities on the AWE site at Aldermaston in Berkshire. The highly-specialised decommissioning work will be completed by AMEC's nuclear consultancy AMEC NNC. The two-year programme begins with a safety case and risk assessment that will last for up to eight months before the treatment of waste and final demolishing of the buildings.

December Marks & Spencer appoints AMEC to manage a multi-million pound programme to redevelop two stores in Liverpool and Edinburgh. The new work follows the successful completion this year of seven remodelled stores in Bury, Dumfries, Handforth, Blackpool, Darlington, Workington and Pudsey.

AMEC Berca Indonesia, AMEC's wholly Indonesian joint venture company with CCM Group, based in Jakarta, wins two oil and gas engineering contracts in Indonesia. The first is for Premier Oil Natuna Sea BV, who will be carrying out production capacity enhancement and upgrade projects to its West Natuna facilities. The second contract is for onshore engineering and design work on TOTAL E&P Indonesie's Tatun Oily Water Platform.

AMEC announces its new vision and strategy to the financial community.

January 2007 AMEC signs a two-year contract with China's Third Qinshan Nuclear Power Company, owner/operator of two CANDU nuclear power stations to provide operational support services and assist in maintaining the plants' excellent performance.

AMEC Developments and its joint venture partner Morley Fund Management selected as preferred developer for the £300 million redevelopment of The Exchange site in Swindon town centre by the New Swindon Company and partners South West of England Regional Development Agency, English Partnerships and Swindon Borough Council.

February AMEC is appointed by the Shenhua Ningxia Coal Group to carry out the initial engineering design for the offsite and utility facilities on a US$1.5 billion coal-to-chemical production complex in north west China.

AMEC reaches an unconditional agreement to dispose of its 50 per cent interest in AMEC SPIE Rail Systems Limited to the French infrastructure company Colas SA for an undisclosed sum. Completion is expected to take place on 2 April 2007.

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 AMEC at its registered office.

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.

Electronic communications

Electronic shareholder communication
AMEC is working with The CarbonNeutral Company (formerly 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 The CarbonNeutral Company and the Donkleywood project is available at www.carbonneutral.com/pdfs/projects/forestryenglanddonkleywood.pdf

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 web site 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 The CarbonNeutral Company 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.

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 "Shareholder information" from the main menu.
3 Select the "Electronic shareholder services" link.
4 Follow the instructions at the Capita Registrars web site.

If you have any questions about electronic shareholder information, contact Capita Registrars.

Capita Registrars

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