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AMEC p.l.c.

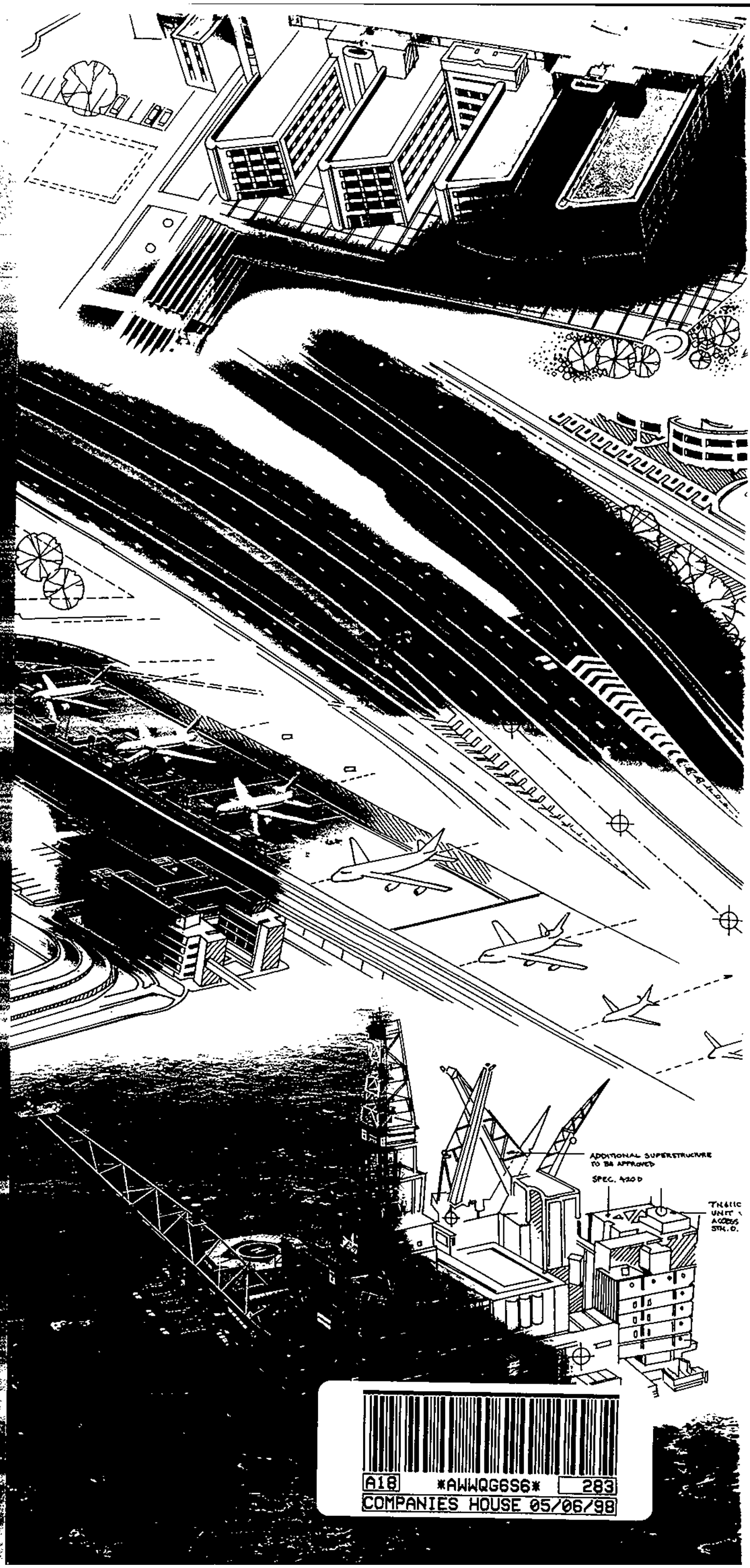
1997

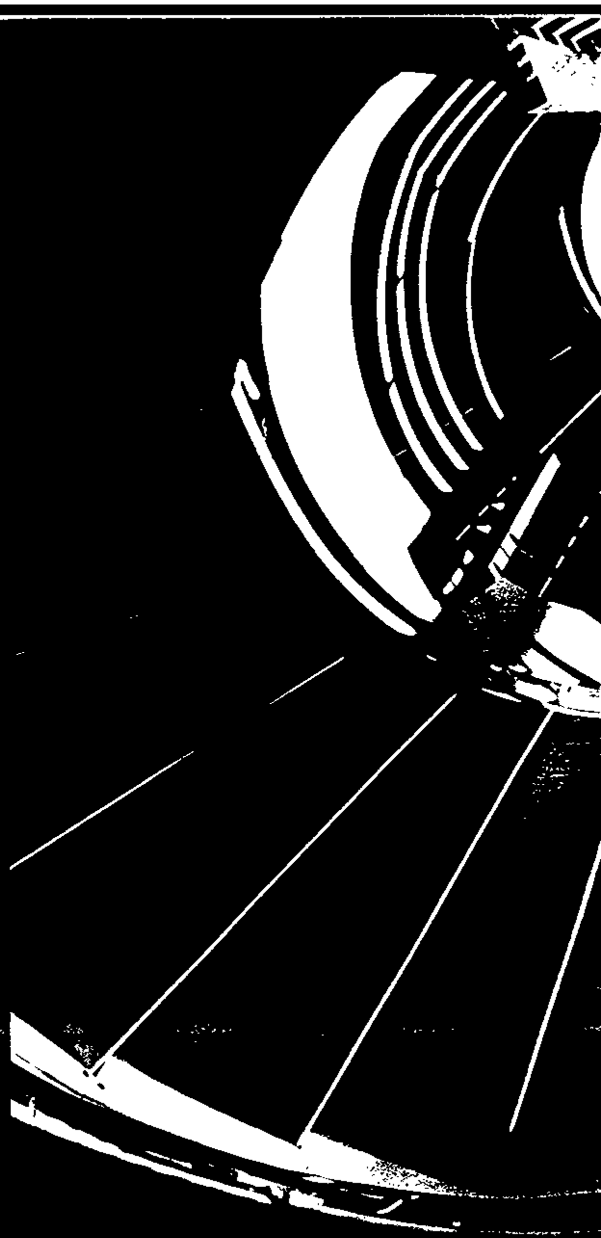
ANNUAL

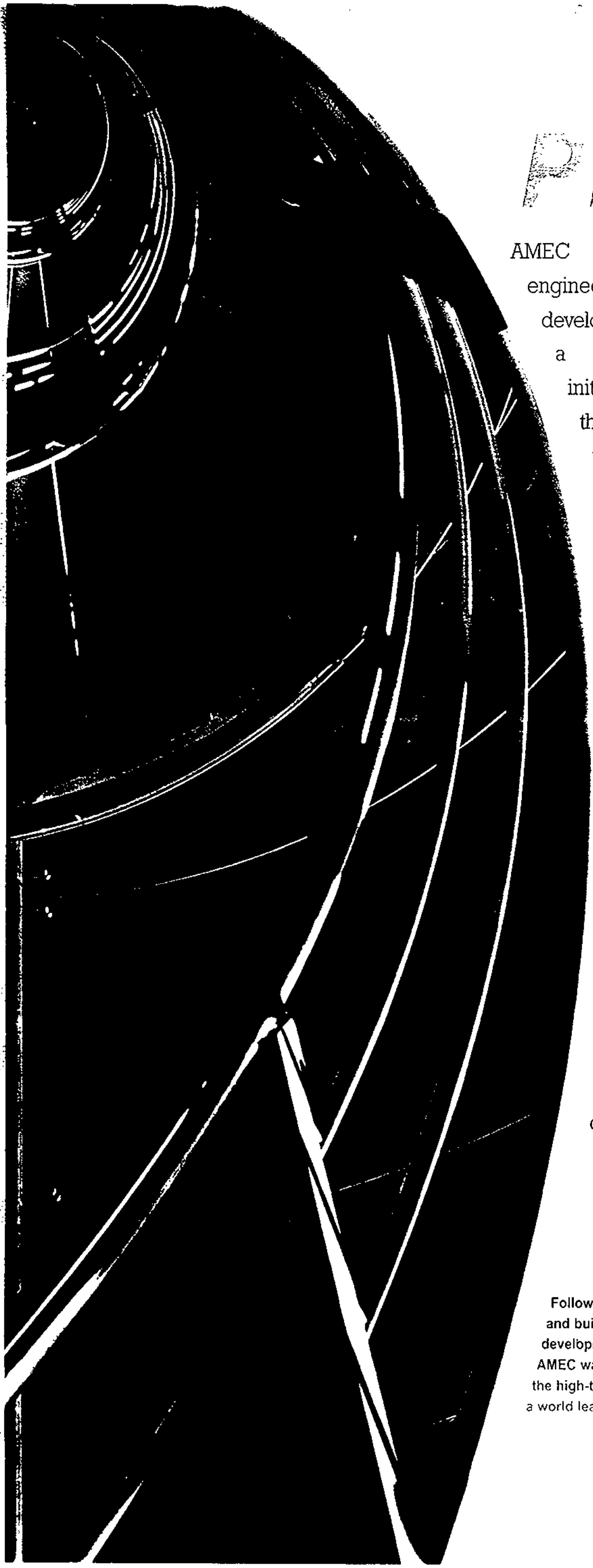
REPORT

AND

ACCOUNTS







Profile

AMEC is a fully integrated engineering, construction and development group, which offers clients a complete service from initial concept development, through design and construction, to aftercare.

Operating across all areas of the built environment, the group employs more than 20,000 people in a wide range of specialist disciplines. Linking them together is a strong central commitment to the transfer of technology, allowing the very best skills and expertise within AMEC to be focused on any project worldwide.

Whilst offering the broadest range of services, AMEC also provides the simplicity of single point responsibility for even the most complex projects.

Following its successful contract to design and build Clockhouse Place, an impressive office development at Bedfont Lakes in Middlesex, AMEC was also awarded the fit-out of the high-tech building for occupier SAP, a world leading software house.

Last July, when Sir Alan Cockshaw retired, I took over as chairman and I would like to pay tribute to his direction of the group's affairs over many years on which we are now building future prosperity.

In my first annual statement as chairman, it is very pleasing to be able to report on a successful year in which we not only improved our performance but also built a sounder base from which to deliver enhanced profitability in the years ahead.

We achieved a strong profit performance, 26 per cent ahead, together with a further improvement in trading cash flow.

In addition, the progress made in changing the shape of the group through our programme of acquisitions and disposals is very satisfactory. It is particularly pleasing that there was a significant contribution from Spie Batignolles, in line with its forecast at the time we made our investment.

We have a strong order book, containing an increased proportion of services related work, and the prospects for future profit growth are very good indeed.

Against that back-cloth, the board has recommended a final ordinary dividend of 3.25 pence, to be paid on 1 July 1998, bringing the total ordinary dividend for the year to 5.0 pence per share. This is an increase of 25 per cent over the previous year and is covered twice by earnings before exceptional items. As the group's financial performance improves, the relative significance of the fixed preference dividend will decline, with a consequent additional beneficial effect on profits available for ordinary shareholders. This will help us to build dividend cover as well as to permit dividend growth.

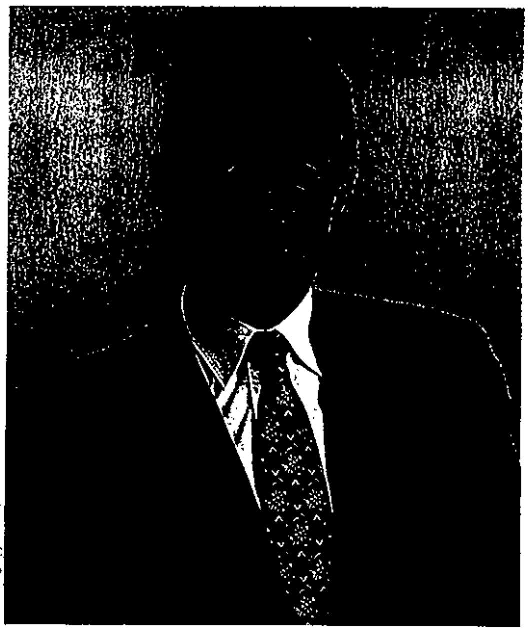
The good results have been achieved despite the enforced absence, through illness, of our group chief executive, Peter Mason, for a major part of the second half-year. In Peter Mason's absence, my role was even more challenging and interesting than I had expected and, whilst I benefited from a much accelerated learning process, I am delighted to see him back at the helm.

It is a great credit to the strength of the executive management team that we were able to deliver the results and maintain strategic direction during his absence and now, with Peter fully restored to leadership, that performance by the executive management team gives me great confidence for the future.

Finally, I would like to express my thanks to my board colleagues and the management team for their support and to all of our employees for their efforts and achievements. I am proud to lead the AMEC team, which has delivered successfully in 1997 and has established a sound footing for the future development of your company.

Sydney Gillibrand CBE

Chairman



Substantial progress has been made by the group in 1997. In particular, AMEC Rail has achieved an encouraging result in its first full year in our ownership and there has been a return to profitability in our Newcastle offshore fabrication activity. James Scott and AMEC Civil Engineering have again delivered robust results and we were greatly encouraged by achieving financial close on a number of key private finance initiative schemes. We have also seen a much better performance by Fairclough Homes which benefited from market conditions and particularly from its strong position in the south east. Property development and manufacturing made important contributions to group profits.

We continue to make significant progress in loss elimination. Despite a poor year in 1997, the radical action which we have taken in respect of Kittelberger has greatly reduced our exposure to the difficult German market.

In addition to the welcome first time profit contribution from our investment in the French group, Spie Batignolles, progress is also being made in pursuit of the longer term objective of combining the resources of Spie and AMEC to win new business together, particularly in rail and civil engineering.

Trading

Most of our **building and civil engineering** businesses have performed satisfactorily, generating excellent cash flow in the year, despite the overall set-back in results which has occurred because of losses in Germany and the United Kingdom building business.

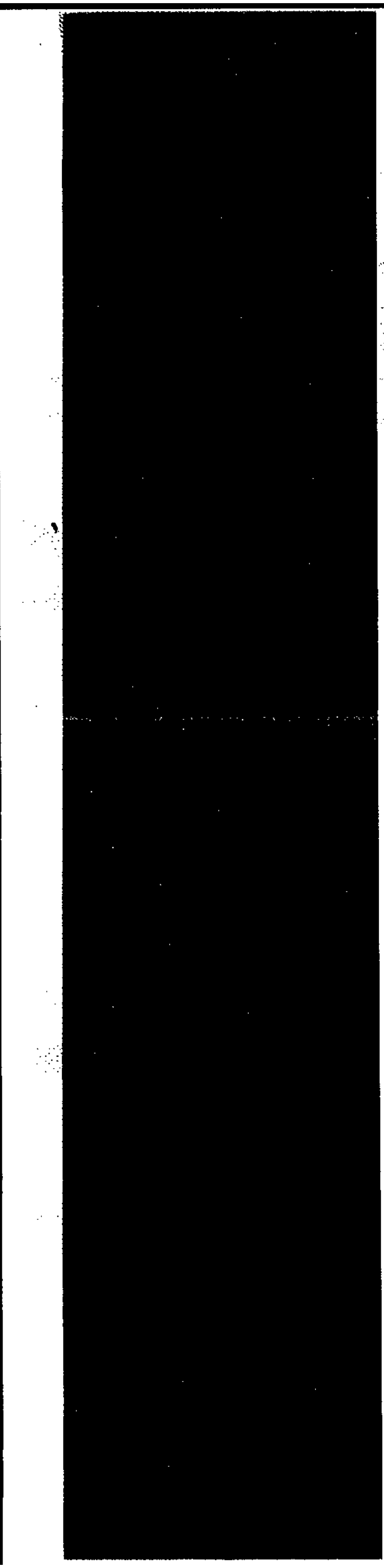
In Germany, the restructuring programme is now substantially complete, although further losses were incurred in the second half-year, albeit at a significantly reduced level. The German business now operates from only two offices, at an activity level 60 per cent below that experienced in 1997, substantially reducing the group's potential exposure to contract risk in this depressed market.

"Substantial progress has been made by the group in 1997."

In the United Kingdom, we took the opportunity to undertake a prudent reappraisal of the carrying values of completed contracts within the building business, where progress towards final account settlements has been particularly slow. Although timing is very uncertain, recovery of these amounts is expected, in due course, as claims are settled. The repositioning of activities in the United Kingdom away from traditional contracting has led to a reduction in turnover, but an improved quality of work which offers the prospect of better future margins.

Morse Diesel's order intake in the USA continues to be good with the expectation of profit growth as long-term contracts progress towards completion.

In south east Asia, our activity is focused on public sector financed infrastructure projects, which are largely unaffected by the recent turmoil. Progress on the Hong Kong contracts, particularly the major airport terminal and runway projects, continues to be very satisfactory.



The increase in profitability in our **mechanical and electrical** activities reflects progress made in the improvement of margins by reducing exposure to traditional contracting, particularly in Matthew Hall. This business is well positioned to secure a number of further PFI funded hospital building services contracts.

Operating margins in AMEC Rail have also improved as the steps taken to enhance productivity and engineering practices bear fruit.

Better results have been achieved by the **process and energy** business, although there remains scope for further margin improvement. The business objective continues to be to change the balance of activity from fabrication to engineering and service work, with the aim of improving the quality and security of future earnings. The acquisition, during the year, of the onshore process division of Babcock is a further example of progress in the pursuit of this objective. Our first order was secured in Azerbaijan and prospects for this new area look very promising.

The marked improvement in profitability in **Fairclough Homes** reflects both the substantial completion of the development of lower margin, older land and the benefit of a buoyant south east market-place.

Volume, at 1,627 units, was 10 per cent lower than last year but the average selling price, at £107,000, was 24 per cent higher, principally reflecting changes in product mix. The land bank stands at 3,588 plots, held at an average plot cost of £24,500.

In **project investment, property development, manufacturing and services** the second half profits have shown the sharp improvement forecast at the half year, as costs borne in the first half, and in 1996, were recovered following the successful completion of PFI financing arrangements for the Carlisle Hospital and DSS Longbenton projects. Improved contributions were also made by the property development and manufacturing activities.

A first time profit contribution from **Spie Batignolles** of £7.5 million represents AMEC's share of a financial performance in line with their business plan, published in February 1997, at the time of the employee buy out. The results were underpinned by an excellent performance from Spie-Trindel, which generated a pre-tax margin of 2.4 per cent from its electrical services business, representing over 40 per cent of the Spie Group's activities. Elsewhere, as we expected, the weakness of the French economy held back the performances of Spie Enertrans and Spie-Citra, both of which cut back activities in line with the market. Internationally, satisfactory performances were achieved by Spie-Capag and SBTP.

Further significant improvement in profitability in Fairclough Homes

Corporate activity

In addition to the acquisition of our 41.6 per cent shareholding in Spie Batignolles, which I reported last year, we acquired in 1997 the major part of the process division of Babcock International Group p.l.c. and the offshore platform maintenance and fabrication business of Grootcon UK Limited, both of which now form part of our process and energy activity.

The sales of Egypt Gas Company and the Dutch engineering and design businesses were the most important of several business disposals made in the year, resulting in a net profit of £23.9 million.

Management

We announced on 19 January 1998 that, as a consequence of my review of the responsibilities of the executive directors, David Robson had been appointed to the new position of chief operating officer and Malcolm Eckersall to the new position of business development director. These appointments represent a significant step towards my objective of defining clear functional responsibilities in the senior management structure of the group. I believe that this new structure will help us to manage the group's business portfolio more effectively.

Strategy

Whilst the international thrust, typified by the group's investment in Spie, is central to the future development of the group, over 70 per cent of the group's turnover is still in the United Kingdom. Prospects for AMEC in the United Kingdom are better than they have been for many years. We recognise fully that the last peak in the business cycle was followed by a marked downturn, with demand and prices falling rapidly. As the market again improves, the group is committed to strategic objectives intended to reduce this vulnerability to future cyclical changes in traditional contracting.

The group's mix of businesses has been progressively changed by increasing our participation in service activity. Ten years ago, 85 per cent of the group's United Kingdom activity was capital projects related and only eight per cent was in services. In 1997, over 40 per cent of AMEC's United Kingdom business was in support services, manufacturing and housing, with the balance relating to capital projects. Further changes to this balance of activity are being targeted.

"The outlook for AMEC is more positive today than it has been for some time."

The group continues to promote partnering and alliancing activity, and other forms of negotiated work, and seeks to minimise the proportion of capital projects work which is won on a 'hard bid' competitive basis, now only a quarter of our United Kingdom activity.

However, traditional 'hard bid' contracting will never entirely disappear and, as forms of contract become more complex and potentially more onerous, the group is working to strengthen the commercial and legal resources within each of the group's businesses to improve overall risk assessment and management. Whilst continuing to seek growth in profits in the near term, these changes are designed for the longer term improvement in the quality of earnings for shareholders.

Outlook

At 31 December 1997, the group's order book stood at £3 billion, an overall increase of nine per cent in the year. However, this growth has been weighted towards services related activities, which have grown by around 50 per cent in the last 12 months to £850 million.

The outlook for AMEC is more positive today than it has been for some time. We expect to make considerable progress in the foreseeable future and we will continue to seek improvement in the quality of our profits.

Our objective is to ensure that when the next cyclical downturn comes in the United Kingdom as it will, at some time, for traditional contracting, there is sufficient flexibility in the mix of businesses in the United Kingdom, together with overseas earnings, to maintain profit momentum.

Peter Mason
Group chief executive

- 26 per cent increase in profit before exceptional items to £47.5 million
- Strong trading cash flow - net cash £94.3 million (1996 - £61.3 million)
- Order book up nine per cent at £3 billion
- Operating profit from Fairclough Homes more than doubled to £16.2 mil
- £7.5 million first-time contribution from investment in Spie Batignolles
- Dividend increased by 25 per cent

	1997 £ million	1996 £ million	Percent incre
Turnover	2,774.3	2,768.5	
Operating profit before exceptional items:			
Continuing operations	50.7	40.1	+2
Discontinued operations	-	5.1	
	50.7	45.2	
Profit before exceptional items and taxation	47.5	37.7	+2
Profit before taxation	68.4	27.2	+15
Net cash	94.3	61.3	+5
Earnings per ordinary share			
Basic:			
Including exceptional items	**16.5p**	4.7p	+25
Excluding exceptional items	**10.2p**	9.6p	+
Fully diluted:			
Including exceptional items	**15.2p**	7.3p	+10
Excluding exceptional items	**10.9p**	10.5p	+
Dividends per ordinary share	**5.0p**	4.0p	+2

A review of the trading of the group's businesses is provided in the group chief executive's review on pages 3 to 5. A review of the financial highlights affecting the results for the year is set out below.

Investments

The group holds a number of investments in related undertakings. These are held either because their operations are complementary to the group's activities or because we are conducting some of our business through them.

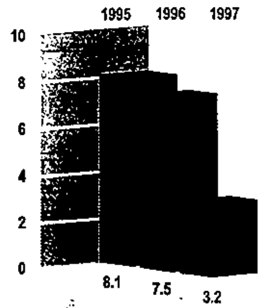
The most significant changes in the year were the disposal of our investment in Egypt Gas Company and the purchase of a 41.6 per cent interest in the share capital of Spie Batignolles.

Four of the company's directors have been appointed to the Spie board and, as we view our investment as long-term, we are treating Spie as an associate and equity accounting for our interest. Our share of results of associated undertakings increased in the year as our profit contribution from Spie Batignolles more than replaced that from our interest in BPMS, which was sold in 1996.

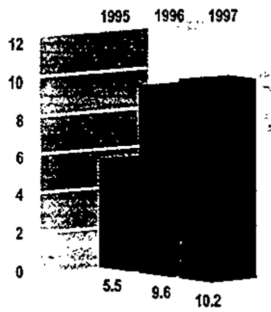
During the year we reviewed the carrying values of our other investments. As a consequence of a prudent reassessment we have made a provision of £3 million in these accounts. This is disclosed as an exceptional charge in the profit and loss account.

The group has achieved financial close on a number of key PFI schemes during the year. We expect to make our return on these investments in future years.

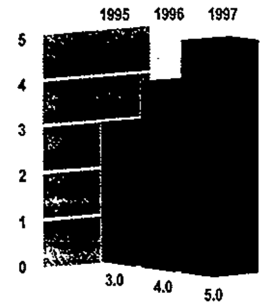
Net interest payable
£ million



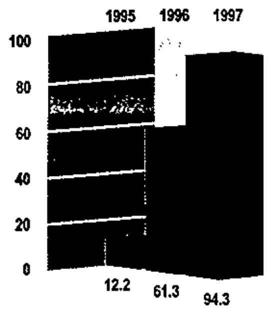
Earnings (before exceptional items)
Pence per share



Dividends
Pence per share



Net cash
£ million



Interest

Strong trading cash flows in recent years have led to a substantial reduction in interest costs which in 1997 were 15 times covered, despite the underlying upward trend in short-term rates.

The group's policy is to borrow on a floating rate basis on a portfolio of debt, which is diversified by source and maturity. If appropriate, the group will use forward agreements to fix the cost of borrowing.

Taxation

The taxation charge on profit before exceptional items represents an effective rate of 33.1 per cent compared to 17.2 per cent last year.

The 1997 charge is higher than the standard rate and reflects unrelieved trading losses in Germany and generally higher rates of taxation on overseas profits. The 1996 charge was low due to the utilisation of prior years' losses.

Earnings and dividends

Earnings per share before exceptional items are 10.2 pence, an increase of 6 per cent over 1996 which benefited from a lower tax charge.

Our stated objective of a progressive buy back of preference shares will improve the earnings for ordinary shareholders. A purchase of 5 per cent of the preference share capital was therefore made in the last quarter of 1997. The board is initiating another rolling programme to buy back, subject to market conditions, up to a further 5 per cent of the preference shares through to 3 June 1998, the date of the annual general meeting.

In view of the continued improvements in earnings and cash, and the overall quality of profits, the board is recommending a final dividend of 3.25 pence, making a total dividend for the year of 5.0 pence per share, an increase of 25 per cent over last year.

Shareholders' funds and returns

The reduction in group reserves in the year is essentially the result of writing off the goodwill arising on the acquisition of our investment in Spie Batignolles.

Non-equity shareholders' funds fell by £8.1 million in the year, principally as a result of the buy back of preference shares.

The return to ordinary shareholders calculated as the movement in the share price plus dividend income, was 31.6 per cent in the year ended 31 December 1997. The mid market price at 31 December 1997 was 117.5 pence ex dividend (31 December 1996 - 92.5 pence ex dividend).

Treasury policy

The group's funding, liquidity and exposure to foreign exchange risk are managed by a central treasury department. The department's operations are conducted within a framework of policies and guidelines authorised by the board.

The group's policy in respect of treasury activity is to match a reasonable proportion of its assets with borrowings in the same currency. Gains and losses arising on these transactions are matched against each other and accounted for as reserve movements.

Liquidity and gearing

At the year end, the group had cash at bank and in hand of £188 million and net cash of £94.3 million. This position fluctuated throughout the year dependent upon the timing of contract receipts and payments, acquisitions, disposals, tax and dividend payments.

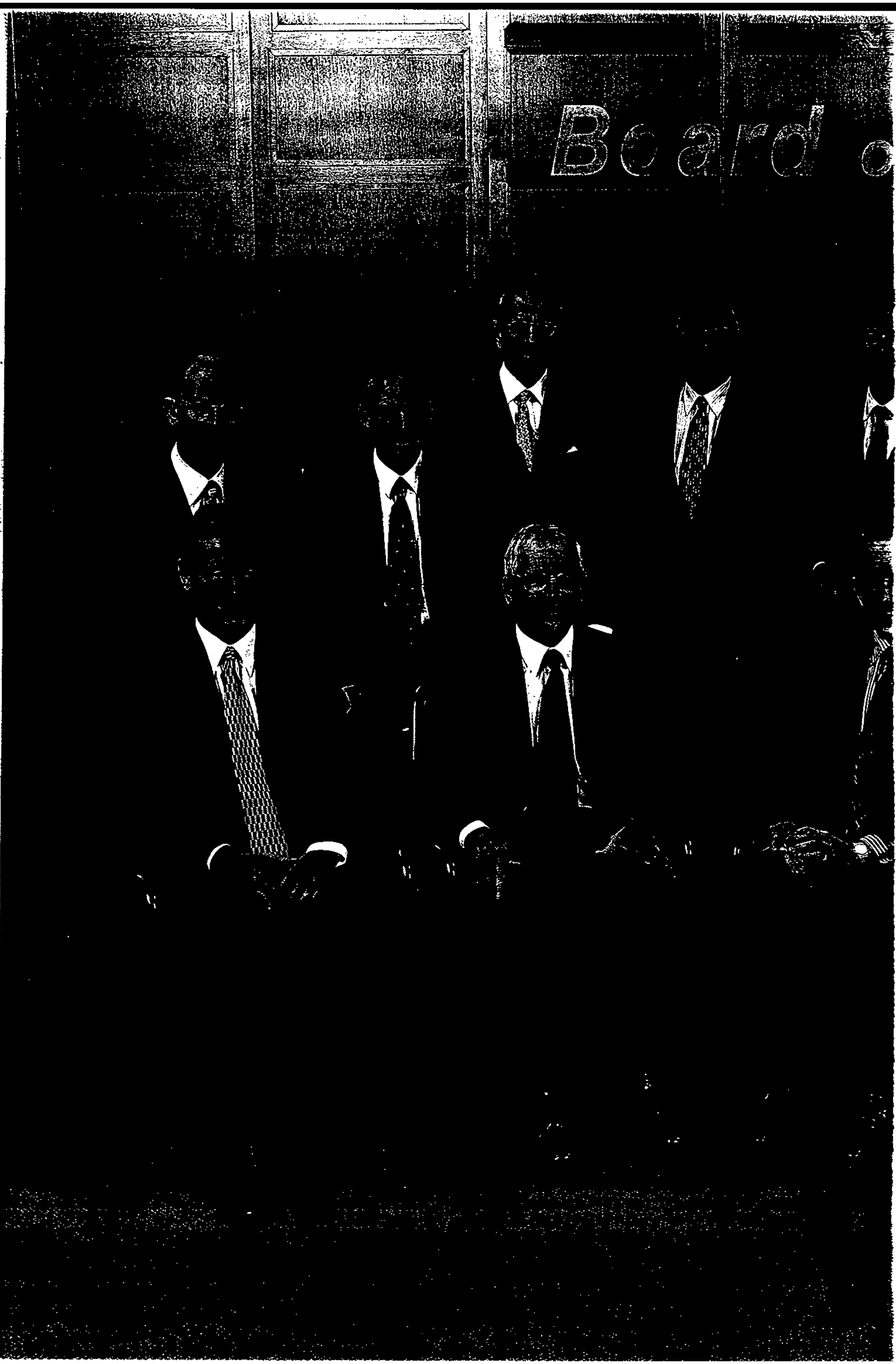
Cash flow

Cash flow overall has been strongly positive in 1997. The cash flow effect of corporate transactions has been broadly neutral but trading cash flows after both tax and dividends have been very good. The group has adopted FRS1 (revised 1996) in presenting the consolidated cash flow statement on page 40.

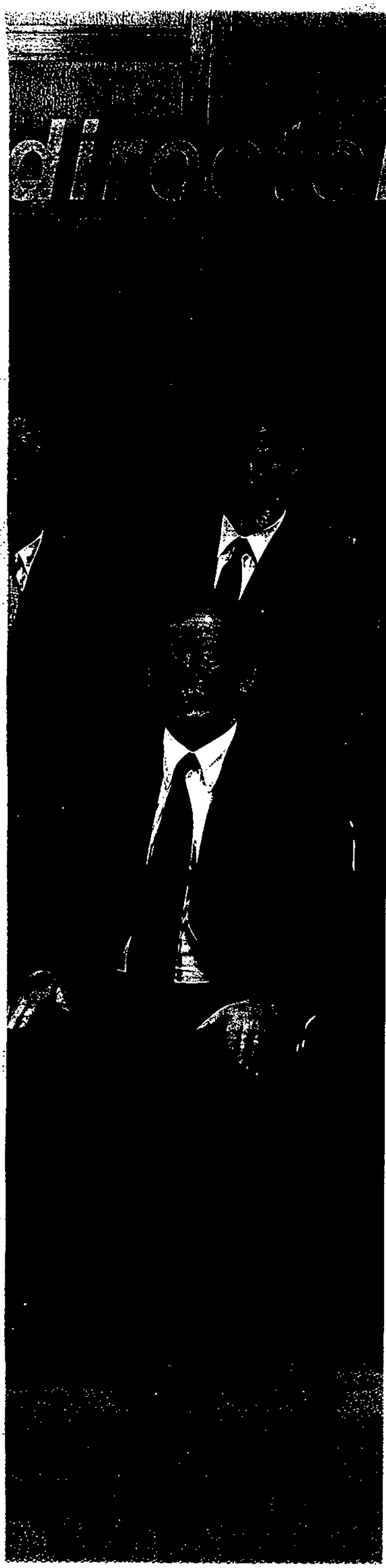
In accordance with the group's strategic review to dispose of non-core businesses, the group disposed of its investments in Egypt Gas Company and the Dutch engineering and design businesses. These generated proceeds of £33.7 million out of which the group funded its investment in Spie Batignolles and the buy back of preference shares.

Simon Batey

Group finance director


Board

directors



Front row left to right:

David Robson, age 52, was appointed an executive director in August 1991 and chief operating officer in January 1998.

Sydney Gillibrand CBE, age 63, was appointed a non-executive director in August 1995 and became non-executive chairman in July 1997. He was previously vice-chairman of British Aerospace plc and is a non-executive director of LucasVarity plc and of ICL plc.

Peter Mason, age 51, group chief executive, was appointed to the board in March 1996. He was previously chairman and chief executive of Balfour Beatty Limited and a director of BICC plc.

Simon Batey, age 44, was appointed group finance director in June 1992.

Back row left to right:

John Early, age 52, was appointed an executive director in March 1986. He is the group property and development director.

George Payne, age 50, was appointed an executive director in November 1994. He is the group commercial director.

Julian Darley, age 60, was appointed a non-executive director in June 1996. He was previously head of engineering and research with British Petroleum p.l.c. and a business board member of BP Exploration, BP Oil and BP Chemicals.

Dr Keith Humphreys CBE, age 64, was appointed a non-executive director in September 1993. He was previously chairman and managing director of Rhône-Poulenc Limited, the United Kingdom subsidiary of Rhône-Poulenc S.A., and is a past president of the Chemical Industries Association. He is chairman of the nominations and remuneration committees.

Jock Green-Armytage, age 52, was appointed a non-executive director in June 1996. He is chairman of both MCIT plc and the International Biotechnology Trust plc. He is chairman of the audit committee.

Jean Monville, age 53, was appointed an executive director in February 1997. He is the chairman and chief executive officer of Spie Batignolles S.A.

Malcolm Eckersall, age 52, was appointed an executive director in July 1993 and group business development director in January 1998.

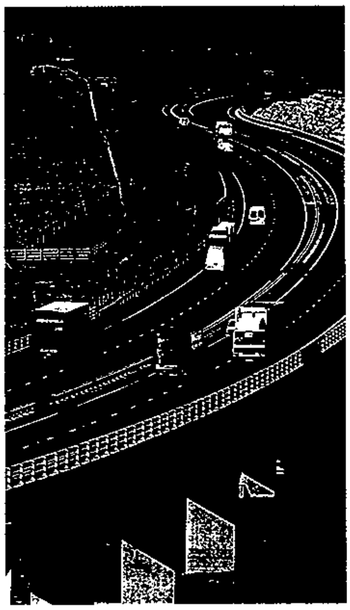
Building and civil

AMEC's building and civil engineering companies *made use of their design and project management expertise* to secure strong order books *for 1998 and beyond.*

Targeting the larger, more complex projects, AMEC was awarded the construction management of a £200 million production facility in Wales for the Korean LG Group. Design and build contracts were also secured for BNF at Sellafield and Astra Pharmaceuticals in Loughborough.

Airport runway contracts were secured in Manchester and Hong Kong while, in the water industry, AMEC won significant civil engineering orders at Southport, Workington and Newport.

Negotiated work, worth more than £200 million, was obtained through the group's new PFI contracts in Carlisle and Newcastle. Completion was reached, nine months ahead of schedule, on the first of AMEC's two PFI road contracts, the A417/A419 Swindon to Gloucester route.



One of the first PFI road schemes - the A417/A419 which forms a strategic link between the M4 and M5 motorways - was opened by the AMEC led consortium, Road Management Group. The consortium will be responsible for operating the 52 kilometre route for 30 years.

Tunnelling on AMEC's Jubilee line extension contract between Green Park and Waterloo was successfully completed during the year, leaving work on Westminster and Waterloo stations to be finished during 1998.

AMEC's existing framework agreement with BAA for runway work progressed well and, under a new framework agreement, AMEC was appointed to project manage Heathrow's new Terminal 2 building. Solid progress was also made on the £120 million alliance contract with Rugby Cement, which started on site during the year.

AMEC combined its expertise with that of associate company, Spie Batignolles, to secure piling contracts on London's Canary Wharf and at Workington. The companies also joined forces to win a contract, in joint venture, at the European particle physics laboratory, for CERN, in Switzerland.

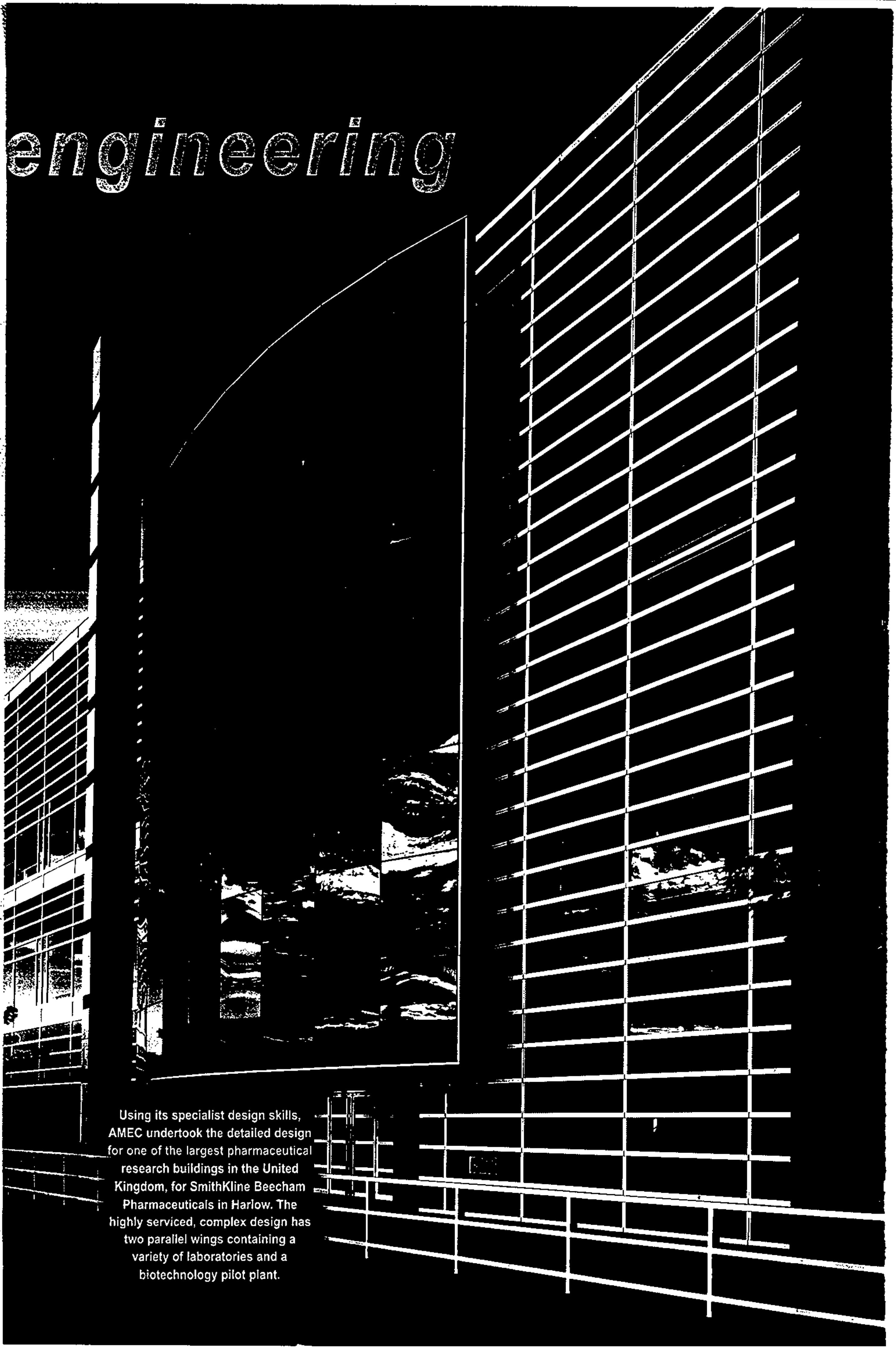
For the New York City Transit Authority, AMEC undertook a design and build contract to develop the striking new 6,000 square foot entrance for Times Square's famous subway station complex.

Work on the new Hong Kong International Airport terminal progressed well with completion due for the early part of 1998. A growing number of infrastructure and airport maintenance contracts have been identified in the region and AMEC will be pursuing these during 1998.

In the United States, notable contracts include BA's passenger terminal at JFK International Airport, New York and the Interstate Commerce Commission building for the US Customs Service in Washington DC.

In Germany, AMEC's activities were substantially restructured after an extremely difficult year. This should lead to an improvement in the trading position in 1998 and beyond.

engineering



Using its specialist design skills, AMEC undertook the detailed design for one of the largest pharmaceutical research buildings in the United Kingdom, for SmithKline Beecham Pharmaceuticals in Harlow. The highly serviced, complex design has two parallel wings containing a variety of laboratories and a biotechnology pilot plant.

Housing

Fairclough Homes ***more than doubled its operating profit*** *during 1997 and benefited from* ***a better quality land bank.***

Fairclough Homes has seen a significant improvement in performance during 1997, with operating profit more than doubled and a marked improvement in the quality of the land bank. This is a result of the restructuring that took place at the start of the year and the concentration during the year on improving margins and return on capital.

Turnover was increased by five per cent to £182 million and 1,627 new homes were sold. The average selling price, at £107,000, is 24 per cent higher than last year as a result of an improvement in sales values in the south east and an increased proportion of larger houses sold across all regions.

The operating profit for the year was £16.2 million, compared with £7.1 million last year, and the operating margin increased from 4.1 per cent in 1996 to 8.9 per cent in 1997.

Fairclough placed particular emphasis on improving the quality of its land bank, which stood at 3,588 plots at the year end. Many of the older, less profitable, sites have been either sold or are in the process of being developed. A total of 37 sites were purchased during the year, accounting for 1,678 new plots, all at satisfactory margins. The company expects to make further improvements in its land bank during 1998.

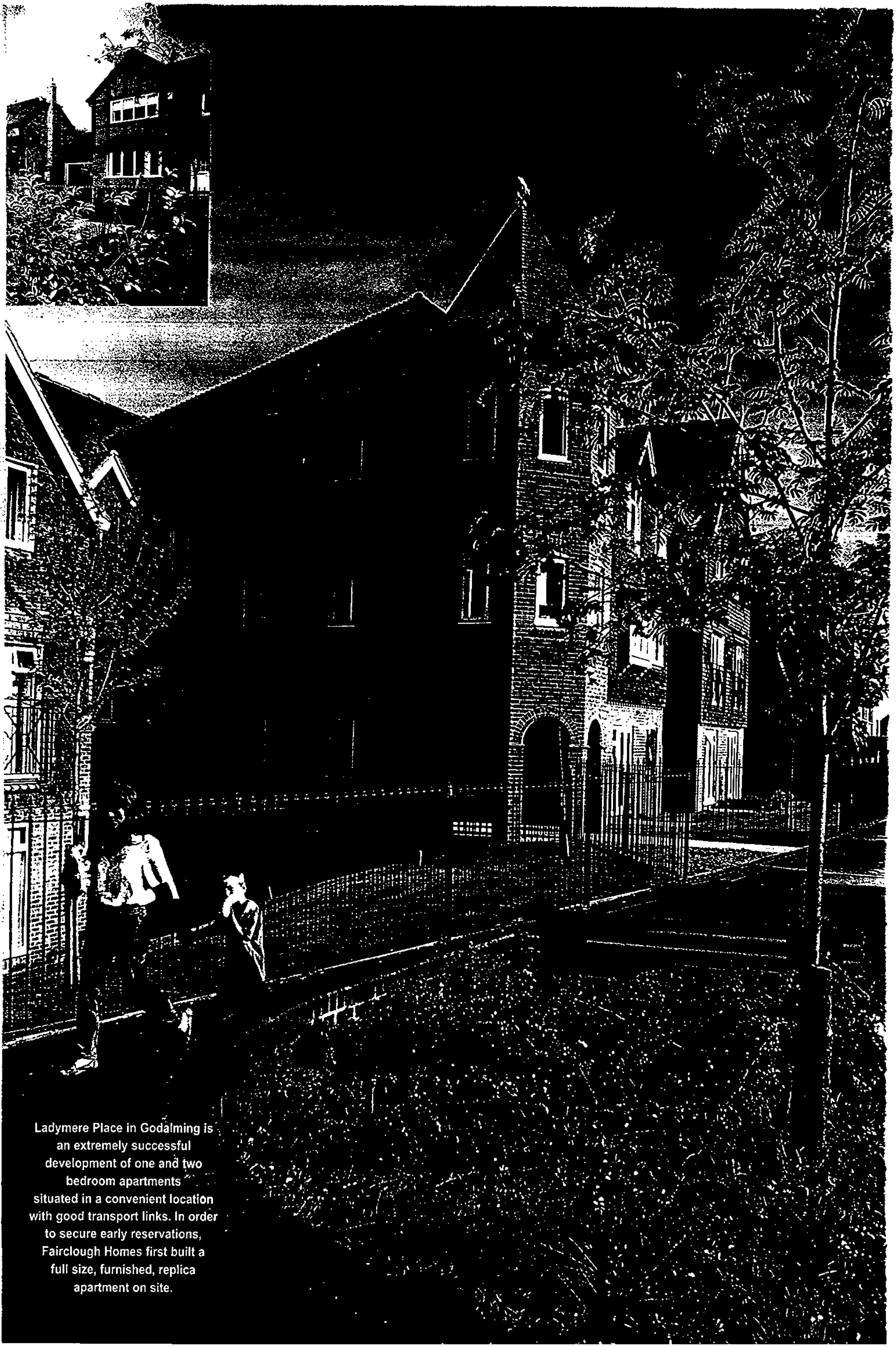
Enjoying sceni views across th North Downs Fairclough Homes Longford Mi development offer traditionally style three, four and fiv bedroom home conveniently set on th fringes of the bustlin Kent market tow of Sevenoaks

Many of the new sites involve the re-use of former industrial or commercial land, particular examples being the development at Shenley in Hertfordshire, which was a former hospital, and in Bedford on the site of a former confectionery factory.

Fairclough also enjoyed success in the 1997 Pride in the Job award scheme, which rewards the quality of site management, and received the *What House?* bronze award for best innovation in house design.

There are a number of indicators that remain favourable as far as the housing market is concerned and Fairclough Homes is confident that it can make further progress in 1998 and beyond.

Completion of the exclusive Hawthorns site on Ferrybridge Road, Castleford was achieved in 1997. The development consists of 23 three and four bedroom detached homes.



Ladymere Place in Godalming is an extremely successful development of one and two bedroom apartments situated in a convenient location with good transport links. In order to secure early reservations, Fairclough Homes first built a full size, furnished, replica apartment on site.

Mechanical an

*Further long-term client relationships were developed and **increased design and technical skills** improved the quality of earnings. The rail business had **an excellent year.***

A framework agreement was secured with BAA for mechanical and electrical work at airports in the south east. AMEC will also join BAA's design team and undertake concurrent engineering for Heathrow's proposed Terminal 5 building.

Major awards were secured at Sellafield for BNF, Nigg Bay in Scotland for Elf Enterprise, a BP Chemicals plant in Hull and Nukem/Wastechem's Berkeley power station.

A new joint company, AMEC SPIE Rail, was formed with Spie Batignolles to focus on large multi-disciplinary projects in the railway industry.

The existing maintenance contracts for Railtrack in the south east performed well and AMEC secured a 10 year maintenance contract on London Underground's Jubilee and East London lines.

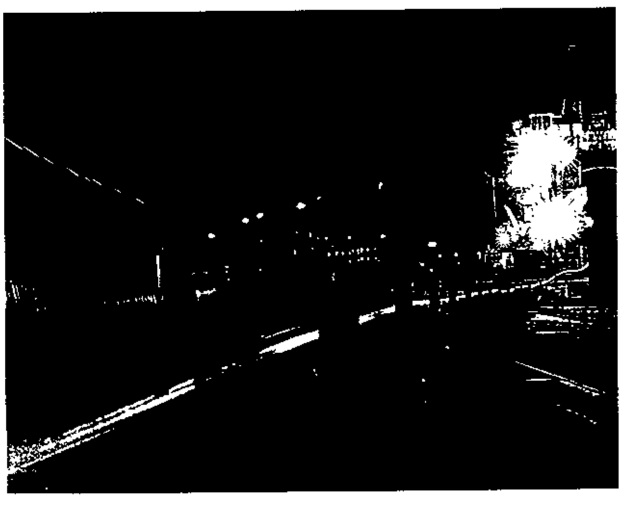
More prestigious facilities contracts were secured during the year, including the CAA's new air traffic control centre at Swanwick, London Underground's headquarters in Docklands, The London Underwriters Centre and multiple locations for high street retailer, The Burton Group.

In collaboration with Scottish Power, AMEC was chosen to launch an innovative new 'home owner' service for the Automobile Association covering the guaranteed maintenance of domestic heating and hot water systems.

In the water industry, three design and management contracts for Severn Trent Water were awarded along with a framework agreement for Thames Water covering the installation of domestic water meters.

Despite a poor year in the United Kingdom power industry, the re-emergence, for 1998 and beyond, of major work programmes by the National Grid and the regional electricity companies will provide significant opportunities for AMEC.

With its obvious advantages of quick and eas access, abseiling is becoming increasingl popular for the inspection of structures particularly on AMEC's work for Railtrack, wher inspections are now regularly carried out withou the need of a track possession



Consolidating its leading position in the transmission industry, AMEC was awarded several specialist design contracts for the National Grid and regional electricity companies.

Overseas, AMEC secured a major electrical contract on the northern extension line of Singapore's mass rapid transit network. In Australia, a strong contribution was made by AMEC's ongoing contract to build transmission stations for Vodafone's mobile communications network.

For Norwegian company, DSND Oceantec, AMEC has undertaken welding and non-destructive testing on over 14,000 metres of coated, heavy wall, carbon steel pipeline, up to 12 inches in diameter. The pipeline is destined for use as flow lines between production facilities in the North Sea.

electrical

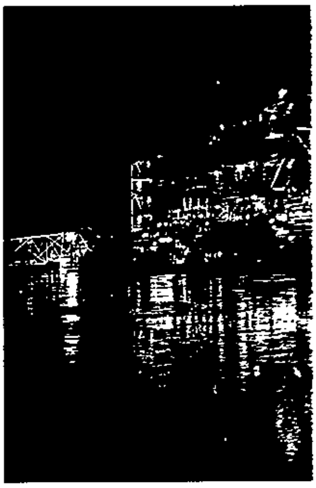
BAA selected AMEC as a framework contractor for mechanical and electrical building services work at Heathrow, Gatwick, Stansted and Southampton airports. The five year agreement, worth an estimated £40 million per year, is the fourth framework agreement AMEC has secured with BAA.

Process and energ

More rigorous management *of the fabrication facility coupled with a* ***good performance*** *in offshore services and engineering marked* ***a year of consolidation.***

AMEC's Wallsend fabrication facility was restructured to increase efficiency and reduce the cost base. The 10,500 tonne integrated deck for Shell's Shearwater platform will maintain activity levels through until 1999.

In offshore services, AMEC secured the seven year, £250 million northern integrated services contract (ISC) for Shell/Esso and a five year, £100 million extension to an existing Mobil ISC contract. AMEC's leading position in the North Sea operation and maintenance market was further strengthened with its acquisition of Grootcon's offshore services business.



AMEC's alliance contract to fabricate topsides, weighing ove[r] 14,500 tonnes, for the two Easte[rn] Trough Area Project platforms was substantially complete by the end of 1997. The project, for BP Exploration, links the development of a series of fields in the central North Sea.

AMEC successfully delivered a number of major offshore capital projects, including Ekofisk for Phillips, the British Gas Armada platform, the seven year, £1 billion Brent refurbishment project and, in the floating production market, the Shell Curlew conversion. Major milestones were also achieved on the Britannia project with the jacket and topsides installed and commissioning work well advanced.

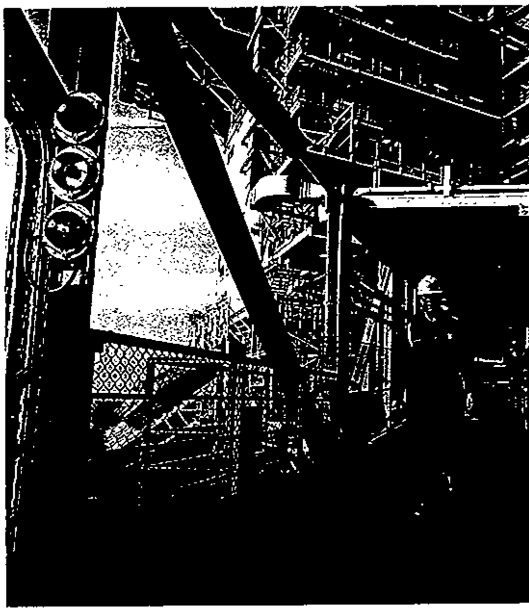
Onshore, AMEC secured a major ethanol project for BP at Grangemouth, while work progressed well on the BP Coryton alliance. In addition, contracts were secured at the Bacton terminal for Interconnector Group and Mobil.

AMEC re-focused its international activities in three main areas - the Far East/Asia Pacific, the Caspian region and South America.

An office was opened in Azerbaijan to tackle the Caspian Sea market, where AMEC secured an upgrade contract for BP's Shelf 5 drilling rig. An AMEC joint venture also undertook the concept review and optimisation contract for Esso's proposed Natuna gas project in Indonesia.

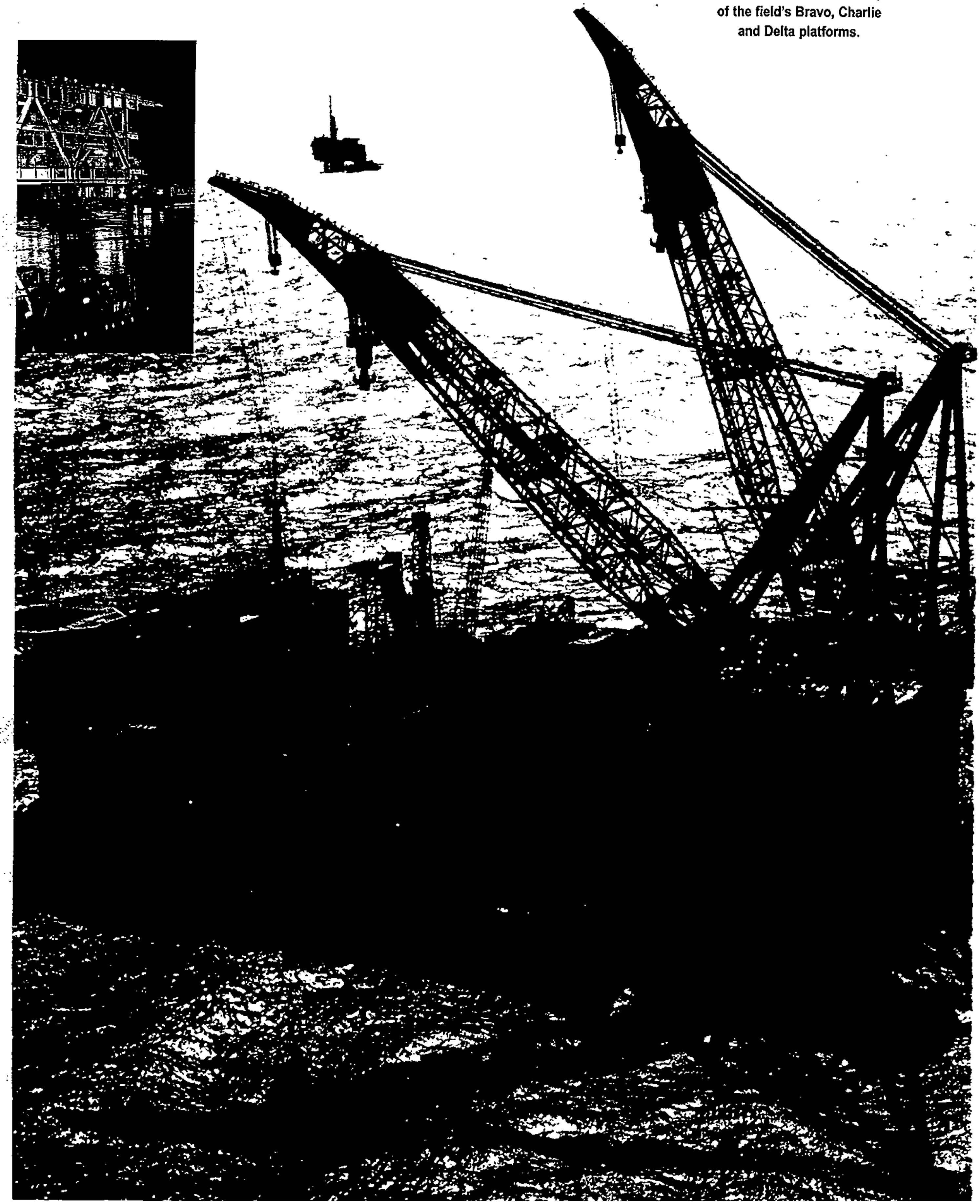
AMEC plans to target a number of significant projects in South America and, during the year, secured an engineering contract to upgrade the *Spirit of Columbus,* a semi-submersible destined for the Roncador field, Brazil. Engineering contracts were also secured for projects in northern Africa and the Indian subcontinent.

AMEC acquired the process division of Babcock International, considerably strengthening the group's capability to undertake onshore oil, gas and petrochemical projects in the United Kingdom and overseas. The acquisition brought with it a number of significant contracts, including a £36 million paraxylene plant at Louyang in China.



The Britannia platform, for Chevron and Conoco, was installed in the central North Sea during 1997. AMEC's alliance involvement included engineering design and procurement for the topsides and the hook-up and commissioning which will lead up to scheduled full production by the end of 1998.

AMEC played a leading role in a seven year, £1 billion refurbishment project on the Shell and Esso Brent field. AMEC's extensive contract covered the initial feasibility studies, conceptual design, detailed design and procurement for the modernisation of Brent Alpha and the redevelopment of the field's Bravo, Charlie and Delta platforms.



Project investmen

A strong project investment *and* ***development performance*** *was achieved with further progress on road and hospital* ***private finance initiative*** *projects.*

AMEC achieved commercial and financial close on a £60 million PFI hospital contract at Carlisle in November 1997. The 474 bed hospital will open in the year 2000 and be managed by an AMEC led consortium for a 45 year period.

Considerable effort was directed towards finalising details for the redevelopment of the Department of Social Security estate in Newcastle. Key milestones on this £160 million PFI project were reached during the year, with the final signing taking place in January 1998. The 25 year project involves the construction of one million square feet of new offices and the management of DSS property in the north east to accommodate some 10,000 staff on four sites.

AMEC's two existing PFI road contracts progressed well, with the A417/A419 Swindon to Gloucester route opening nine months early at the end of the year. The second contract, the A1(M) Alconbury to Peterborough road, is scheduled for completion in 1998.

Property development achieved completion on a number of existing schemes and ended the year with secured positions on a range of new schemes ensuring continuity of activity into 1998 and beyond.

In Newcastle, AMEC's £170 million Quayside development continued to make good progress with the opening of a Malmaison hotel on the refurbished former CWS warehouse site and an adjacent riverside bar and restaurant for Pitcher & Piano. Work on a new 41,000 square foot headquarters building for solicitors, Dickinson Dees, progressed well with completion due early in 1998.

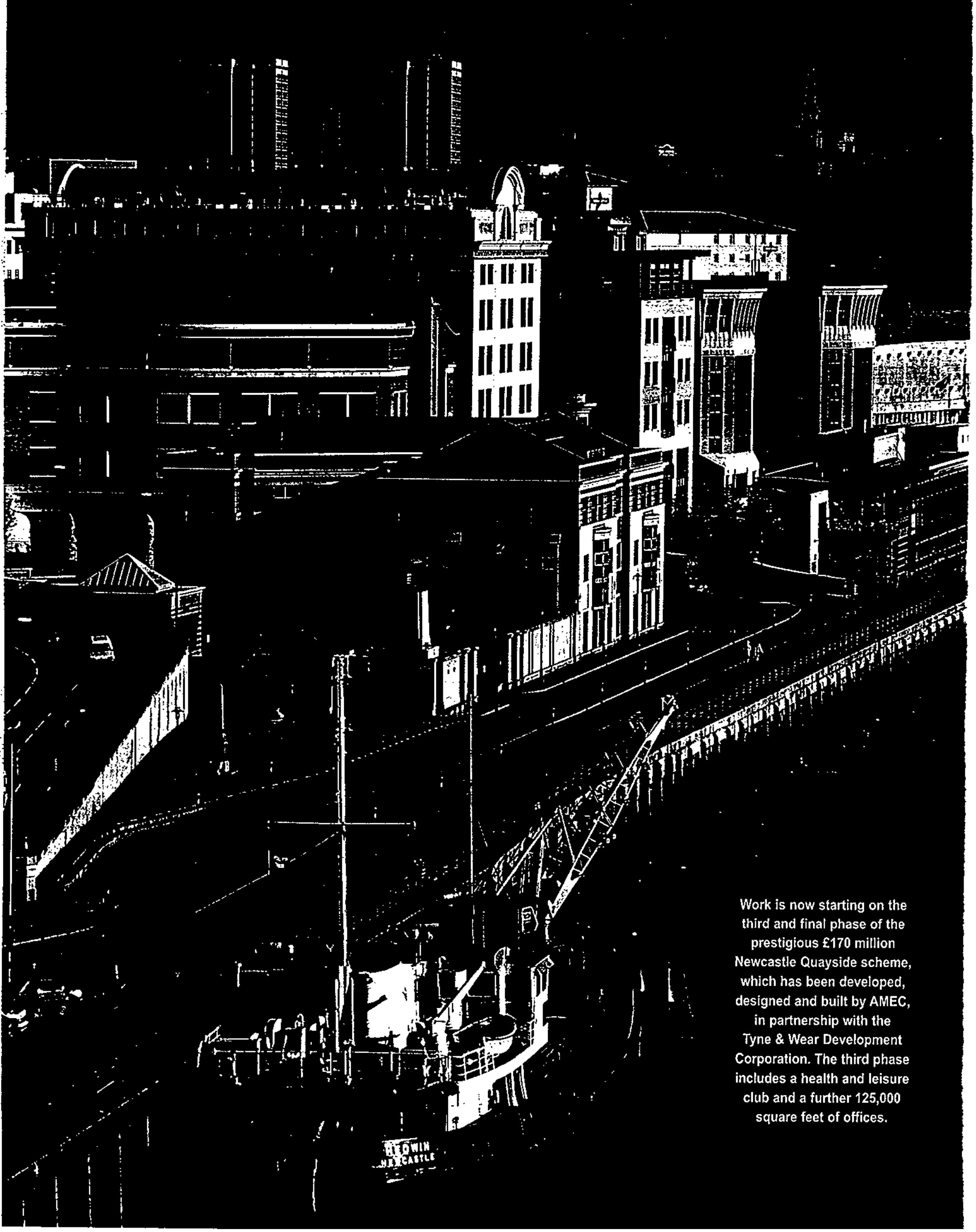
At AMEC's 67 acre Cheadle Royal business park in south Manchester, work on a new 105,000 square foot regional headquarters for Independent Insurance was substantially finished by the year end.

New schemes include the 143 acre Ashton Moss development in east Manchester and a 70 acre business park development adjoining Vauxhall Motors' Ellesmere Port plant. In Birmingham, AMEC is developing Parklands, a new 30 acre business park on the south west side of the city where work has started on a 30,000 square foot office building for Compass Group PLC.

AMEC's Observatory office development, in Manchester, included the provision of a fully self-contained Unitarian Chapel at ground floor and mezzanine level. Occupying a prominent corner site in the centre of Manchester, the excellent location links the financial centre with the city's retail area.

Health Management Group, an AMEC led consortium, secured a contract to design, build and operate a new £60 million hospital in Carlisle, under the government's private finance initiati The hospital, which will be designed and built by AMEC, is scheduled to open in the summer of 2000.

and development



Work is now starting on the third and final phase of the prestigious £170 million Newcastle Quayside scheme, which has been developed, designed and built by AMEC, in partnership with the Tyne & Wear Development Corporation. The third phase includes a health and leisure club and a further 125,000 square feet of offices.

Manufacturing

Good progress was made *as AMEC continued* **to develop and utilise** *its design engineering skills to* **secure higher margin work.**

AMEC engineered and built the complex mast and cable support structure for the high profile Millennium Dome at Greenwich, which involved 1,600 tonnes of steelwork and 70 kilometres of cabling.

A new stand was fabricated and erected for Bolton Wanderers F.C. and the steel structure for Glasgow's new Scottish Exhibition Centre was completed. Fabrication of the steelwork and aluminium bronze for the new Parliamentary Building at Westminster was also substantially completed by the year end.

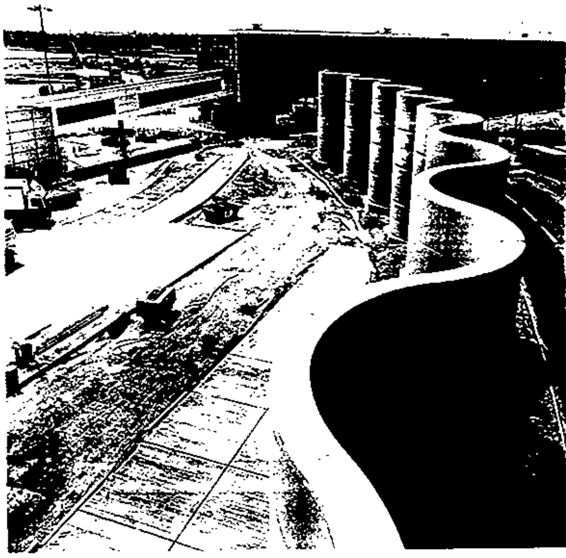
Increased levels of activity during the year in the water industry and the private prisons sector stimulated demand for AMEC's tunnel lining segments and factory engineered concrete accommodation units.

Concentrating on the supply of highly engineered concrete products, AMEC fabricated and built an unusual 400 metre long, 11 metre high acoustic wave wall at Gatwick Airport, whilst continuing to supply its specialist prestressed bridge beams to a variety of projects.

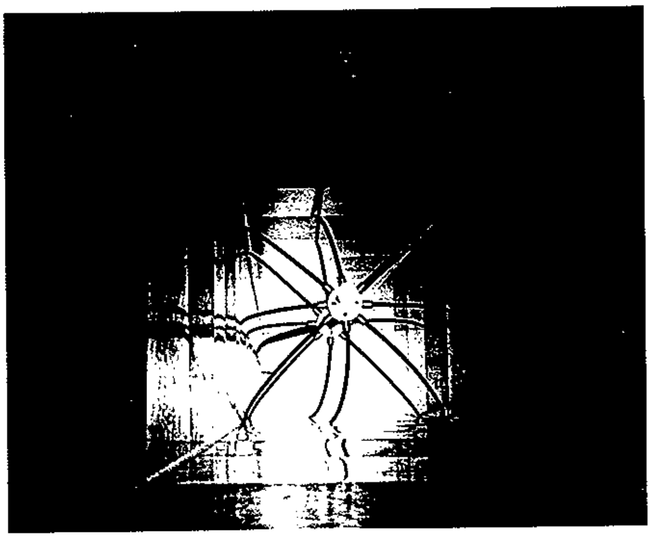
AMEC has developed an innovative, high performance, nylon fixing system for connecting tunnel segments. Initial trials, during the year, produced promising results and keen interest in the system is anticipated from tunnel projects around the world.

Production of air conditioning units at AMEC's Hereford factory was affected by reduced demand from south east Asia. AMEC developed and launched a new range of air conditioning plant during the year, along with a specialist hygiene system for cleaning existing ductwork installations in the United Kingdom.

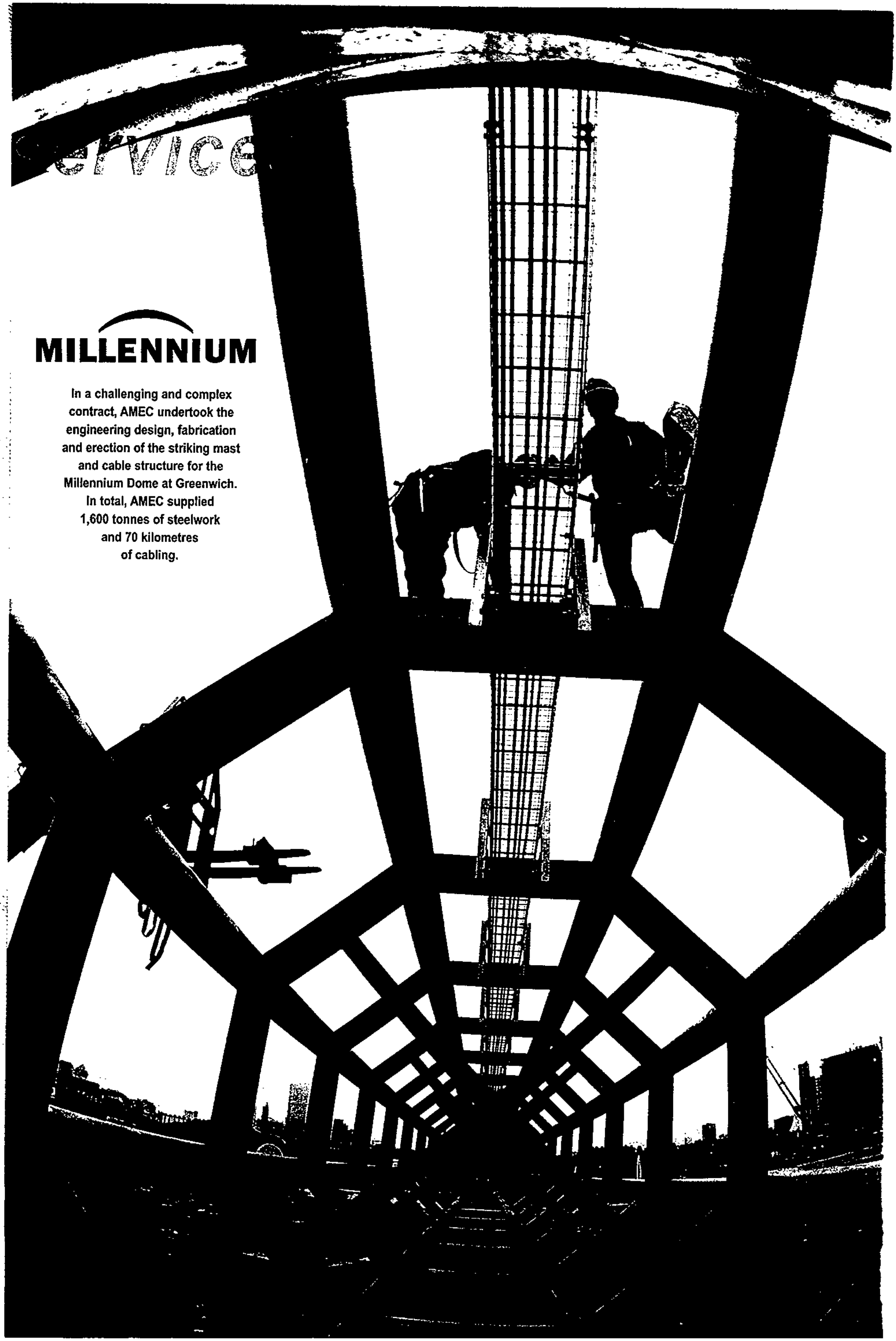
An excellent performance was achieved by AMEC's lubrication business, which secured a number of new orders from private railway operators.



As part of AMEC's five year pavement t framework agreement with B the group fabricated and built an unu acoustic wave wall. Designed to sc noise from new aircraft stands, more 340 pre-cast units v produced from five specialist mo designed and built for the pro



SPIDA, a technically advanced duct cleaning system, launched by AMEC in 1997, is already in strong demand. For use on all types of buildings, it is ideal for addressing poor air quality problems and potential fire risks posed by the build up of debris and dirt in ducting systems.



MILLENNIUM

In a challenging and complex contract, AMEC undertook the engineering design, fabrication and erection of the striking mast and cable structure for the Millennium Dome at Greenwich. In total, AMEC supplied 1,600 tonnes of steelwork and 70 kilometres of cabling.

Spie Batignolles

Spie Batignolles experienced a year of ***strategic development and consolidation.***

A strong performance across Spie Batignolles' businesses, with activity levels matching the previous year, produced results for 1997 in line with expectations and an improved financial position for the group.

Spie Batignolles led an international consortium to build the 60 metre high Muela dam as part of the Lesotho Highlands Water Project in South Africa. Work also involved the excavation of 70 kilometres of hydraulic tunnels and the construction of an underground hydro-electric plant.

Committed to improving its quality of earnings, Spie places an increased emphasis on reducing risk exposure through tighter cash flow controls and stringent selection procedures. The company is concentrating on further growth in Europe, which accounts for over 80 per cent of turnover, and on combining skills and resources with AMEC, particularly in rail and civil engineering.

Spie Batignolles is also to undertake a programme to refocus its core competencies in project engineering and project management for transportation systems and in energy production and distribution.

During the year, Spie Batignolles continued to develop its core mechanical and electrical engineering and contracting businesses, which account for 65 per cent of turnover.

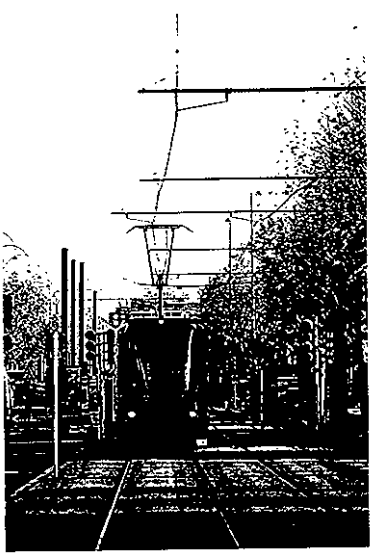
Spie-Trindel, the regional electrical contracting business, secured an increased level of services work across Europe, particularly ongoing maintenance contracts work and high added-value services such as data networks and automation systems.

The electrical and electromechanical business of Spie Enertrans continued to feel the impact of the downturn in large scale French public sector contracts. The company responded to this situation by securing increased international transportation and energy engineering business, particularly in Europe.

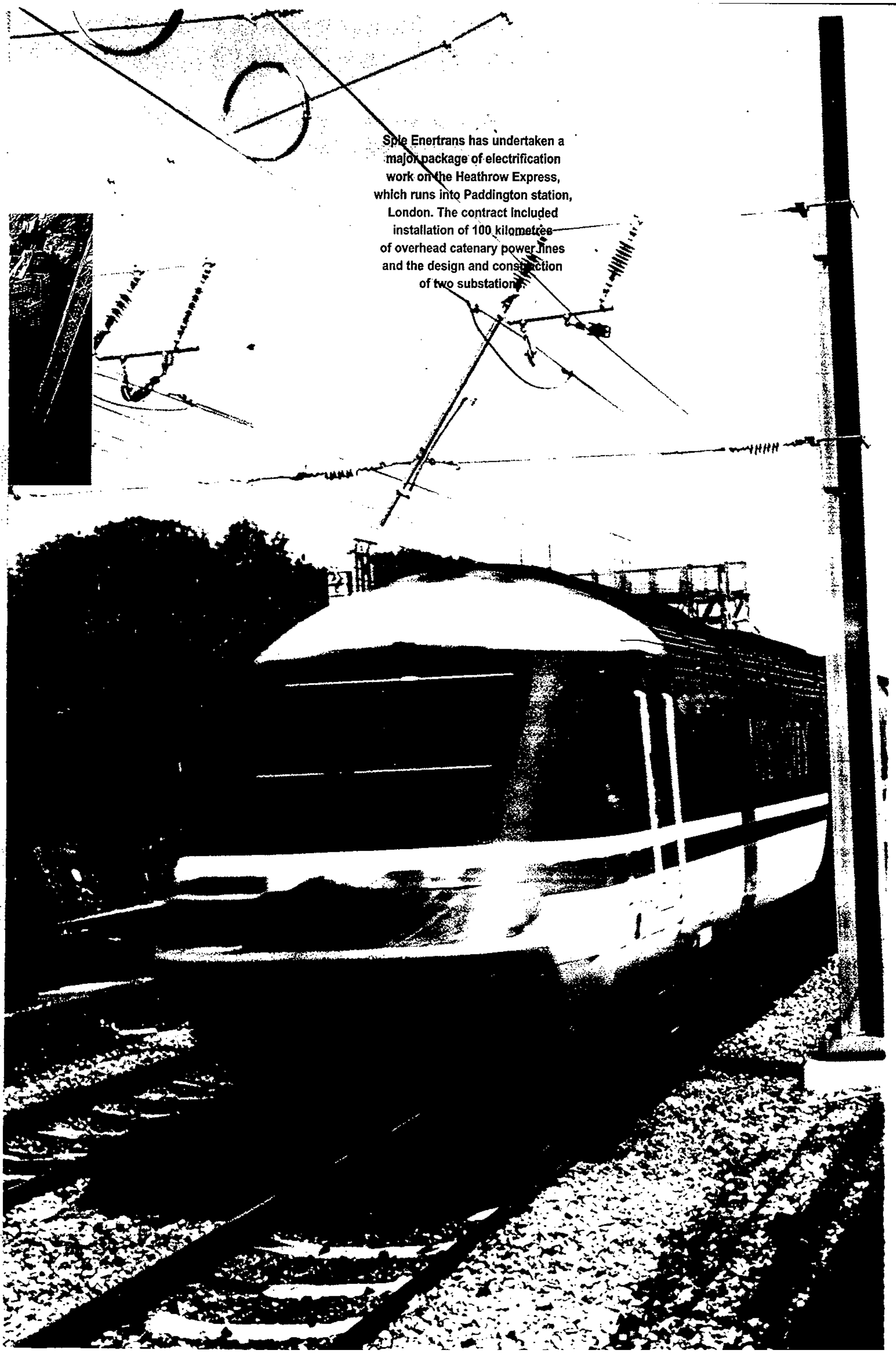
Spie-Capag had a particularly successful year, benefiting from an upswing in the international oil and gas transportation and distribution markets, with orders rising by 46 per cent.

In the nuclear industry, Thermatome, now wholly owned by Spie Batignolles, continued to strengthen its presence in China, where sister company, Spie Ferriere Tuyauterie, also set up a joint venture, with a local partner, for the production of high pressure piping required in the construction of a number of major power plants.

While the construction market in France declined during 1997 for the fourth year in a row, Spie-Citra continued to develop its construction activities across a range of specialised operations such as special foundations, marine and river engineering, steel construction and building engineering. These areas, which offer increased opportunities across Europe, now account for 25 per cent of Spie's construction operations.



Spie Batignolles and Bombardier Eurorail have developed a pioneering new transport system in Caen, France. TVR streetcars, fitted with rubber tyres, will provide the same services as conventional tramways on a dedicated track. It is anticipated that project costs will be cut by 30 per cent compared with standard streetcar systems.



Spie Enertrans has undertaken a major package of electrification work on the Heathrow Express, which runs into Paddington station, London. The contract included installation of 100 kilometres of overhead catenary power lines and the design and construction of two substations.

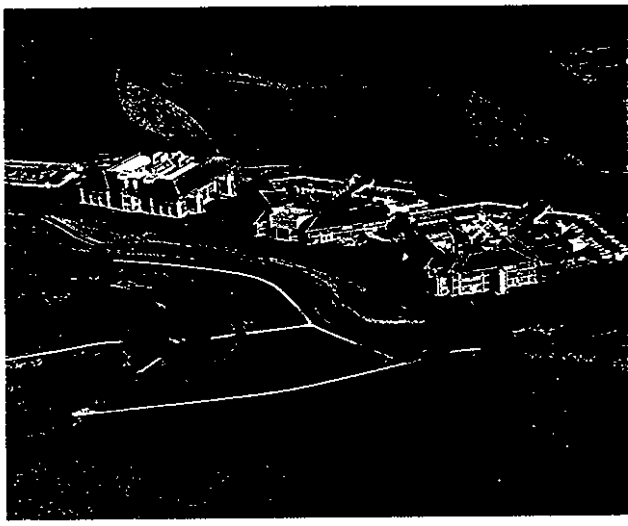
Health, safety

From wind swept platforms in the North Sea through to major projects in Hong Kong, ***AMEC co-ordinates*** *the activities of more than* ***50,000 workers*** *in some of the most demanding construction and engineering environments in the world.*

To ensure the safety of operations, AMEC's proactive approach forces health, safety and environmental issues to the top of the agenda for every project. Indeed, the recent growth in legislation has provided a powerful focus for the requirement to maintain high levels of environmental and safety awareness and to reduce accident incidence rates.

This task is driven through a network of more than 80 safety and enviromental personnel spanning the group's operations. The high visibility of this approach has ensured that incidence rates have fallen across the group virtually every year for the past 15 years.

Central to AMEC's approach is an ongoing training regime to enable best practice in any one activity to be transferred, where appropriate, to other areas of the group.



Re-development a
landscaping of t
200 acre North Earley pov
station site into the Tham
Valley business and natu
park was undertaken
AMEC. The work incluc
the removal of a substan
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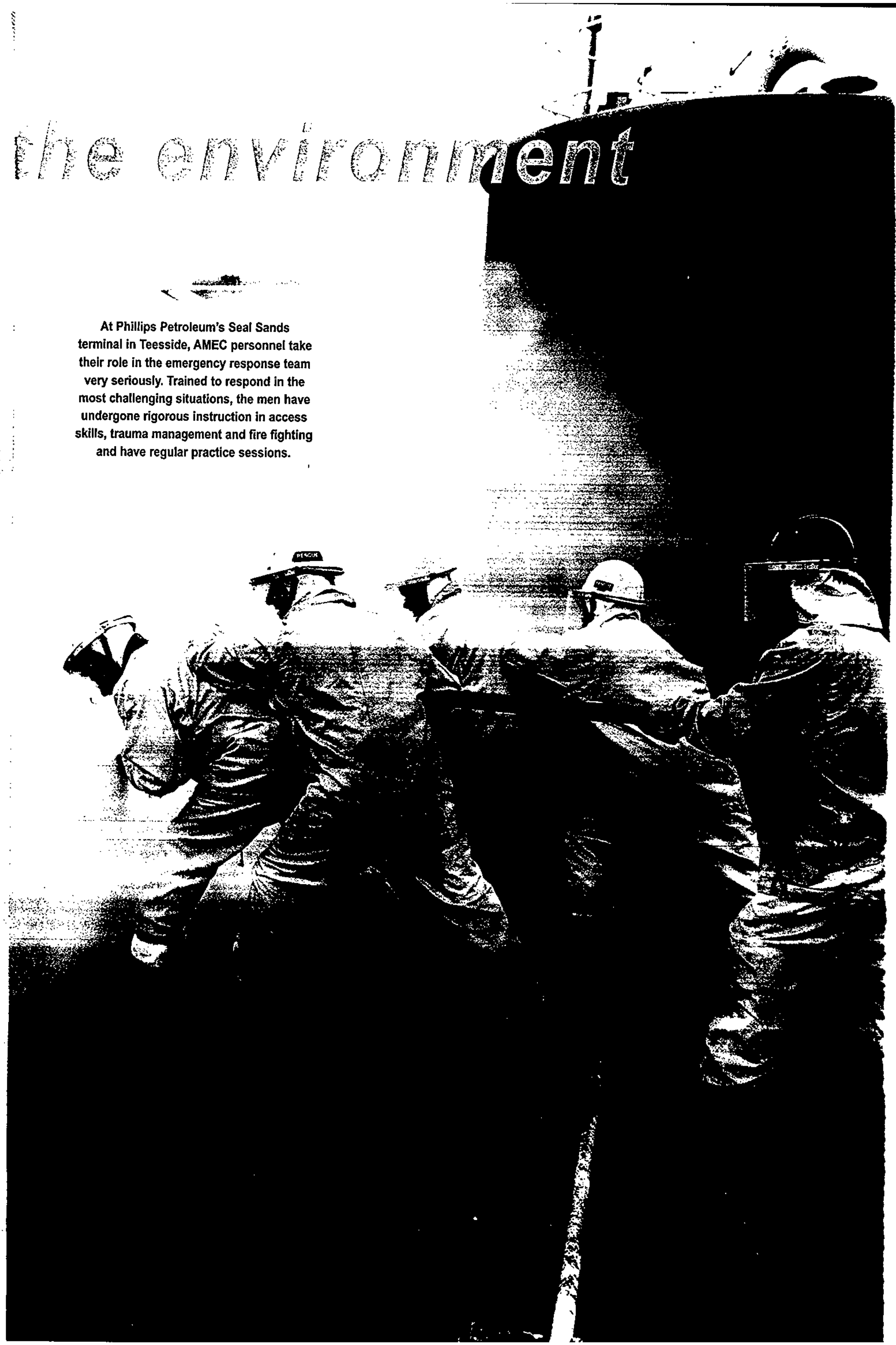
of the infrastructu
necessary to exte
the pa

A tiered training system covers all levels of personnel with mobile training units touring contracts to ensure standards are met. The group training courses include an in-house diploma in safety management and a course designed specifically for directors and senior management, accredited by the Institution of Occupational Safety and Health.

Mindful of the environmental sensitivity of many of the markets it serves, AMEC has introduced extensive environmental management systems across the group and AMEC companies are working towards ISO14001 accreditation in recognition of these procedures. AMEC has further strengthened its resources through the recruitment of specialist environmental advisors and by an increasing number of environmental management training courses.

AMEC's 1998 health, safety and environmental calendar was designed with the help of employees' children, grandchildren, nephews and nieces. The result was an unqualified success, with a wide range of innovative and colourful entries being received from all age groups.

the environment



At Phillips Petroleum's Seal Sands terminal in Teesside, AMEC personnel take their role in the emergency response team very seriously. Trained to respond in the most challenging situations, the men have undergone rigorous instruction in access skills, trauma management and fire fighting and have regular practice sessions.

AMEC people

Personal ***achievement*** *and* ***energetic support*** *for good causes yet again demonstrated* ***AMEC's commitment*** *to the communities which it serves.*

In an exceptional year, nine Fairclough Homes site managers - Alan Sunter, Ray Pollitt, John Warburton, John Gaisey, Tony Felton, Mick Valentini, Barry Heald, Paul McMulkin and Terry Shilton - received coveted Pride in the Job quality awards from the National House Building Council.

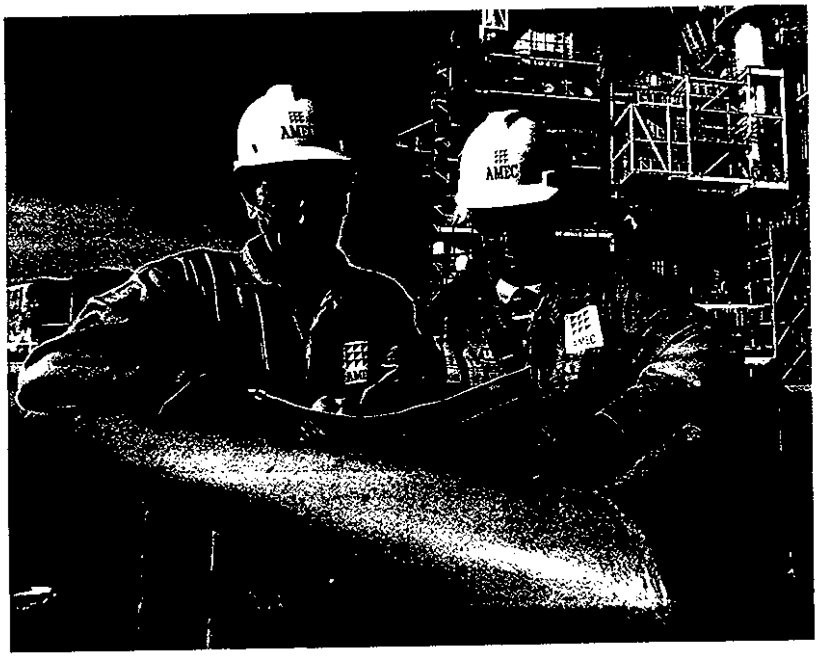
Watson Steel's Dave Bursnoll won an award for excellence from British Airways for his work on the World Cargo Centre at Heathrow and a team from AMEC Tunnelling received an award from Anglian Water for their professionalism in working with the local community on a complex contract at Clacton.

Kathryn Noake, the daughter of Watson Steel's Ray Noake, enjoying an open day at Bolton Wanderers F.C.'s new stadium. The day was organised as a 'thank you' from Watson Steel to their employees and families and to celebrate the successful completion of the steelwork contract for the new venue.

In London, AMEC Construction helped build Christmas shelters for the homeless, for the fifth year running, while in Manchester, AMEC's Winston Allen enlisted the company's help to refurbish a local community centre in Hulme.

In the London Marathon, AMEC Power's Con O'Neill raised more than £5,000 for the Chernobyl Children's Project and AMEC Facilities' Michelle Harrison raised over £900 for a charity which funds research into Down's Syndrome.

Pushing physical endurance to the limit, Denco's Charlie Bruce cycled 395 miles in 24 hours to help regain the national 24 hour team championship, while AMEC Civil Engineering's Karen Nicholson fulfilled a lifetime's ambition and walked 1,151 miles from Land's End to John O'Groats in just 71 days.



Peter Clarke and James McDade from James Scott working on the hook-up contract for the Britannia platform in the North Sea.

The largest fund raising event of the year was the M65 motorway superwalk. Nearly 5,000 walkers raised over £100,000 for the East Lancashire Superscan Appeal fund to which the M65 joint venture donated £5,000.

A sponsored walk by AMEC Process and Energy's Darlington office raised £2,300 for a local charity helping sick children, while the Great Yarmouth employees and AMEC donated £1,000 to the Norfolk and Norwich Hospital. A number of charities also benefited from £5,000 raised through a safety incentive scheme introduced by an AMEC/Shell project team.

Charity organisers from AMEC Power gave £1,000 each to the Macmillan Cancer Relief fund and the Rainbow Appeal, which supports a local children's hospice.

Notes to the accounts

1 Accounting policies

Basis of presentation

Accounting convention

The accounts have been prepared under the historical cost convention modified to include the revaluation of certain fixed assets and in accordance with applicable accounting standards and with the Companies Act 1985 except as noted below under Depreciation.

Basis of consolidation

The group accounts include the accounts of AMEC p.l.c. and all of its subsidiary undertakings made up to 31 December each year and the group's share of the results and net assets of associated undertakings based on the equity accounting method. Unincorporated joint ventures are accounted for on the proportional consolidation method.

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

Turnover

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

Stocks

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

Long-term contracts

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

Payments on account in excess of amounts recoverable on long-term contracts are included in creditors.

Taxation

The charge for taxation is based on the result for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes.

Provision is made for deferred tax only to the extent that it is probable that an actual liability will crystallise.

Pensions

Contributions to pension schemes are allocated to the profit and loss account on a systematic basis over the normal expected service lives of employees.

Foreign currencies

Assets and liabilities denominated in foreign currencies are translated into sterling at the rates of exchange ruling at the balance sheet date. Trading results are translated at average rates for the year. Exchange differences arising on the retranslation of foreign currency net investments are taken directly to reserves. Other exchange differences are taken to the profit and loss account in the year.

Goodwill

Goodwill, representing the excess of the fair value of the purchase consideration over the fair value of net assets acquired, is charged to reserves.

Where a business is sold, the profit or loss on disposal includes the attributable amount of goodwill previously charged to reserves.

Depreciation

Depreciation is provided on all tangible assets, other than freehold land, investment properties and assets in the course of construction, at rates calculated to write off the cost or valuation, less estimated residual value, of each asset on a straight line basis over its anticipated 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

The treatment adopted in respect of investment properties may be a departure from the requirements of the Companies Act 1985 concerning depreciation of fixed assets. However, these properties are not held for consumption but for investment and the directors consider that systematic annual depreciation would be inappropriate. The accounting policy adopted is, therefore, necessary for the accounts to give a true and fair view. Depreciation is only one of many factors reflected in periodic valuations and the amount which might otherwise have been shown cannot be separately identified or quantified.

Leases

Operating lease costs are charged to the profit and loss account in the period in which they are incurred. Assets held under finance leases are included in tangible fixed assets at cost and depreciated over their anticipated useful lives: the finance element of lease payments is charged to the profit and loss account.

Consolidated statement of total recognised gains and losses for the year ended 31 December 1997

	1997 £ million	1996 £ million
Profit for the financial year	44.7	21.2
Exchange and other movements	1.3	(1.2)
Total recognised gains and losses for the financial year	46.0	20.0

Note of historical cost profits and losses for the year ended 31 December 1997

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

Reconciliation of movements in consolidated shareholders' funds for the year ended 31 December 1997

	1997 £ million	1996 £ million
Shareholders' funds at 1 January	218.2	219.3
Profit for the financial year	44.7	21.2
Dividends	(21.3)	(19.7)
Goodwill on acquisitions and disposals	(41.4)	(1.7)
Ordinary shares issued	1.2	0.3
Purchase and cancellation of preference shares	(7.9)	–
Exchange and other movements	1.3	(1.2)
Shareholders' funds at 31 December	194.8	218.2

Consolidated cash flow statement for the year ended 31 December 1997

Comparative figures have been restated to conform with FRS 1 (revised 1996).

	Note	1997 £ million	1997 £ million	1996 £ million	1996 £ million
Net cash flow from operating activities	22		73.2		82.8
Returns on investments and servicing of finance					
Interest received		7.2		7.2	
Interest paid		(9.9)		(14.8)	
Dividends paid to non-equity shareholders		(11.2)		(11.2)	
			(13.9)		(18.8)
Taxation			(5.1)		(3.2)
Capital expenditure					
Purchase of tangible fixed assets		(20.2)		(18.1)	
Disposal of tangible fixed assets		9.9		11.4	
			(10.3)		(6.7)
Acquisitions and disposals	21				
Purchase of subsidiary undertakings		(3.3)		(23.4)	
Purchase of associated undertakings		(27.7)		(2.3)	
Disposal of subsidiary undertakings		1.5		1.5	
Disposal of associated undertakings		32.2		33.1	
			2.7		8.9
Dividends paid to equity shareholders			(8.3)		(5.4)
Net cash flow before use of liquid resources and financing			38.3		57.6
Management of liquid resources	23		50.7		(32.0)
Financing					
Ordinary shares issued		1.2		0.3	
Purchase and cancellation of preference shares		(7.9)		–	
Net movement in loans and finance leases		4.4		(52.2)	
			(2.3)		(51.9)
Movement in cash			86.7		(26.3)

Consolidated profit and loss account for the year ended 31 December 1997

	Note	Before exceptional items 1997 £ million	Exceptional items (Note 4) 1997 £ million	Total 1997 £ million	Before exceptional items 1996 £ million	Exceptional items (Note 4) 1996 £ million	Total 1996 £ million
Turnover:							
Continuing operations		2,758.2	–	2,758.2	2,768.5	–	2,768.5
Acquisitions		16.1	–	16.1	–	–	–
Total turnover	2	2,774.3	–	2,774.3	2,768.5	–	2,768.5
Cost of sales		(2,601.9)	–	(2,601.9)	(2,602.0)	(25.2)	(2,627.2)
Gross profit (loss)		172.4	–	172.4	166.5	(25.2)	141.3
Administrative expenses		(131.0)	–	(131.0)	(132.2)	–	(132.2)
Share of results of associated undertakings		9.3	–	9.3	10.9	(2.5)	8.4
Operating profit (loss):							
Continuing operations		42.9	–	42.9	40.1	(27.7)	12.4
Acquisitions		7.8	–	7.8	–	–	–
		50.7	–	50.7	40.1	(27.7)	12.4
Discontinued operations		–	–	–	5.1	–	5.1
Total operating profit (loss)	2	50.7	–	50.7	45.2	(27.7)	17.5
Profit (loss) on disposal or termination of operations:							
Continuing operations		–	23.9	23.9	–	(0.6)	(0.6)
Discontinued operations		–	–	–	–	20.1	20.1
		–	23.9	23.9	–	19.5	19.5
Amounts written off investments:							
Continuing operations		–	(3.0)	(3.0)	–	–	–
Discontinued operations		–	–	–	–	(2.3)	(2.3)
Profit (loss) on ordinary activities before interest		50.7	20.9	71.6	45.2	(10.5)	34.7
Net interest payable	8	(3.2)	–	(3.2)	(7.5)	–	(7.5)
Profit (loss) on ordinary activities before taxation		47.5	20.9	68.4	37.7	(10.5)	27.2
Taxation on profit (loss) on ordinary activities	9	(15.7)	(8.0)	(23.7)	(6.5)	0.5	(6.0)
Profit (loss) on ordinary activities after taxation		31.8	12.9	44.7	31.2	(10.0)	21.2
Dividends on equity and non-equity shares	10			(21.3)			(19.7)
Transfer to reserves	11			23.4			1.5
Earnings (loss) per ordinary share:	12						
Basic		10.2p	6.3p	16.5p	9.6p	(4.9p)	4.7p
Fully diluted		10.9p	4.3p	15.2p	10.5p	(3.2p)	7.3p
Dividends per ordinary share	10			5.0p			4.0p

Report of the remuneration committee

Directors' pension benefits

Pension benefits earned by the directors during the year ended 31 December 1997 are as follows:

	Increase in accrued pension (i) £000	Value of increase (ii) £000	Accrued entitlement at 31 December 1997 (or date of retirement if earlier) (iii) £000	Accrued entitlement at 31 December 1996 £000
P J Mason	3	41	5	2
J D Early	11	174	66	54
D Robson	3	57	102	96
S G Batey	5	37	49	43
M K Eckersall	8	130	84	73
G E Payne	8	109	53	44
Sir Alan Cockshaw	7	55	173	161

Notes

(i) The increase in accrued pension during the year excludes any increase for inflation.

(ii) The value of increase has been calculated on the basis of actuarial advice consistent with Actuarial Guidance Note GN11 and is shown net of member contributions paid during the year.

(iii) The accrued entitlement shown is that which would be paid annually at normal retirement age based on service to the end of the year, save in respect of Sir Alan Cockshaw, who retired on 14 July 1997 and whose entitlement is shown as at that date.

(iv) Members of the AMEC Staff Pension Scheme have the option to pay additional voluntary contributions; neither the contributions nor the resulting benefits are included in the above table.

Dr K W Humphreys
Chairman, remuneration committee
19 March 1998

Note

Changes in directors' interests between 31 December 1997 and 10 April 1998 are detailed in the report of the directors.

Report of the remuneration committee

Longer term incentive schemes

In 1995, shareholders approved the renewal of a savings related share option scheme and the introduction of a new executive share option scheme.

The AMEC Savings Related Share Option Scheme is open to all employees (including the executive directors) and is linked to a monthly savings contract.

The AMEC Executive Share Option Scheme 1995 - the successor to the AMEC Executive Share Option Scheme introduced in 1985 (together "Executive Schemes") - reflects the principles of guidelines published by the bodies representing institutional investors and, in particular, before any options can be exercised, certain performance conditions have to be achieved. The current performance condition is that, over a three year period, the percentage growth in earnings per share of the group exceeds the percentage growth in the Retail Price Index by at least six percentage points. The grant of options to executives by the remuneration committee is on a discretionary basis with emphasis on performance and job responsibilities.

Options held by directors are as follows:

Executive Schemes

	At 1 January 1997 Number	Granted during year Number	Lapsed during year Number	At 31 December 1997 Number	Weighted average exercise price (pence)	Range of exercise dates
P J Mason	600,000	451,388	–	1,051,388	118.32	2/1999 - 4/2007
J D Early	264,100	50,000	63,959	250,141	176.01	4/1991 - 4/2007
D Robson	456,050	–	42,639	413,411	123.34	4/1991 - 10/2005
S G Batey	402,722	–	–	402,722	116.05	4/1991 - 10/2005
M K Eckersall	428,196	–	42,639	385,557	121.47	4/1991 - 10/2005
G E Payne	245,880	–	–	245,880	91.10	5/1993 - 10/2005

Options were granted to Mr Mason and Mr Early on 2 April 1997 at an option price of 144p per share.

Those options which lapsed had an option price of 159p per share.

No options were exercised during the year.

The mid market price of the ordinary shares at 31 December 1997 was 117.5p ex-dividend (1996 - 92.5p ex-dividend).

The range of the mid market quotations for the ordinary shares during the year was 91.0p to 165.5p.

Exercise prices for all outstanding options are detailed in note 19 on page 54.

Savings Related Scheme

No options to subscribe for shares were granted in the year under the provisions of the AMEC Savings Related Share Option Scheme.

Directors' holdings under the scheme are as indicated below.

	At 1 January 1997 Number	Exercised during year Number	Lapsed during year Number	At 31 December 1997 Number
J D Early	2,860	–	–	2,860
D Robson	6,368	–	–	6,368
S G Batey	12,823	2,428	1,994	8,401
G E Payne	11,596	–	–	11,596

On 30 September 1997, Mr Batey exercised an option over 2,428 shares at 139p. The bid price of the shares on that date was 145p, resulting in a gain of £146.

An option over 5,395 shares at 139p per share, granted to Mr Payne under the provisions of the AMEC Savings Related Share Option Scheme, lapsed on 1 March 1998.

The register of directors' interests, which is open to inspection at the company's registered office, contains full details of directors' shareholdings and share options.

Sir Alan Cockshaw, who retired as a director on 14 July 1997, retained rights over executive options amounting to 307,957 shares exercisable up to 13 July 1998 and 2,860 SAYE options exercisable up to 28 February 1998.

Report of the remuneration committee

Non-executive directors

All non-executive directors are independent of management and free from any business or other relationship which could materially interfere with the exercise of their independent judgements.

The board's policy with regard to non-executive directors is that their appointments should be for a fixed period of three years with provision for a review upon expiry with any extended term, mutually acceptable to both the company and the director, being not greater than three years but with no further renewal thereafter.

The non-executive directors receive fees for their services and do not participate in any of the incentive or benefit schemes of the group, save Mr S Gillibrand, who has the provision of a company car and life assurance cover.

The remuneration of non-executive directors is determined by the board as a whole.

Summary remuneration table

	Salary/ fee £000	Bonus £000	Benefits in kind £000	Total 1997 £000	Total 1996 £000
Executive					
P J Mason	356 (i)	146	19	521	416
J D Early	166	81	11	258	194
D Robson	182	86	8	276	222
S G Batey	182	88	13	283	225
M K Eckersall	182	60	8	250	223
G E Payne	166	77	13	256	203
J A Monville (from 26.2.97)	21 (ii)	–	–	21	–
Non-executive					
S Gillibrand	137 (iii)	–	8	145	28
Dr K W Humphreys	39	–	–	39	50
J M Green-Armytage	30	–	–	30	26
J R Darley	27	–	–	27	15
Sir Alan Cockshaw (to 14.7.97)	130	–	6	136	271
Former non-executive directors	–	–	–	–	17

Notes

(i) Mr Mason's salary includes a taxable supplement in relation to earnings above the earnings cap for pension purposes of £45,760 (1996 - £36,300). The 1996 comparative is for the period from 1 March only.

(ii) Mr Monville, chairman and chief executive officer of Spie Batignolles S.A., an associated undertaking, receives a fee for serving on the board of the company and does not participate in any of the incentive or benefit schemes of the group.

(iii) Mr Gillibrand's fee includes an amount of £66,000 which was paid to him, in addition to his fee as non-executive chairman, in respect of his extra duties and responsibilities during the period of absence, due to illness in 1997, of the group chief executive, Mr Mason.

(iv) The 1996 comparatives for Mr Green-Armytage and Mr Darley are for the period from 5 June only.

(v) Sir Alan Cockshaw, who retired as a director of the company on 14 July 1997, is retained by the group, through his management company, on a consultancy basis until 31 October 1998. Payments made in 1997 for his services under this arrangement, following his retirement, totalled £75,000. In addition, office and support services are made available to his management company in respect of the consultancy arrangement.

(vi) The value of benefits in kind received during the year relates principally to the provision of a company car, life assurance cover and private medical expenses insurance.

(vii) Details of executive share options granted during the year are set out in the table on page 35.

Report of the remuneration committee

The role of the remuneration committee, which is comprised solely of the non-executive directors of the company, is to determine the annual remuneration, performance related payments and other aspects of the terms and conditions of employment of the executive directors.

Remuneration policy

The committee considers that, during the year ended 31 December 1997, the company has complied with section A of the best practice provisions of the London Stock Exchange Listing Rules relating to remuneration committees.

The committee has given full consideration to section B of the best practice provisions relating to remuneration policy, service contracts and compensation as required by paragraph 12.43 (x) (ii) of the Listing Rules.

The recruitment, motivation and retention of quality executives is given priority by the board and this objective is reflected in the overall design of the remuneration policies and in the decisions of the committee on implementation for the individuals concerned. The main elements of the remuneration policy for executive directors are:

- to pay market competitive salaries having regard to those prevailing in the employment market generally for a director of similar status and experience, the size and complexity of the role and any other factors (such as special expertise or market requirements necessary to acquire a new recruit) in order to provide a competitive package to attract and retain a high calibre of director; and
- to link an executive director to the long-term success of the group through appropriate and demanding incentive arrangements.

A proposed new long-term incentive plan will, if approved by shareholders, be introduced following the annual general meeting. Further details relating to this proposal will be found in the report of the directors and in a circular accompanying the annual report and accounts.

Executive directors' base salaries and benefits

The base salaries of executive directors are reviewed annually, having regard to personal performance, company performance and competitive market practice as determined by external research.

In 1997, the executive directors, save Mr J A Monville, participated in an executive directors' annual incentive scheme which generated bonus payments calculated by reference to growth in earnings per ordinary share as defined under the rules of the scheme and the achievement of specific business targets and individual performance objectives.

Employment related benefits (principally the provision of a company car, life assurance and private medical expenses insurance) are also provided to executive directors, save Mr Monville.

No elements of remuneration other than basic salary are pensionable.

Executive directors' pension entitlements

The executive directors, save Mr Monville, are members of the AMEC Staff Pension Scheme and have top-up benefits provided through the AMEC Executive Pension Scheme. The schemes are both approved defined benefit schemes and also provide for life assurance cover and dependants' pensions.

The executive directors have a normal retirement age of 60 and accrue pension rights which are linked to the length of pensionable service and to final pensionable salary.

Mr P J Mason's benefits are restricted to take account of the earnings cap and he receives a taxable supplement to his salary in relation to earnings above the earnings cap.

There are no funded or unfunded unapproved arrangements in force.

Executive directors' employment contracts

Each executive director, save Mr Monville, has an employment contract with a notice period of 24 months by both the company and the director.

The committee considers that employment contracts with such notice periods are justified for the executive directors to enable the company to attract and retain high quality executives.

The unexpired terms of the employment contracts of executive directors retiring and offering themselves for re-election at the annual general meeting are detailed in the report of the directors on page 30.

It is the company's policy to ensure that any payments made to executive directors in the event of the early termination of employment contracts reflect the circumstances giving rise to termination and to the executive directors' duty of mitigation.

External directorships

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

Report of the directors

The nominations committee, which is chaired by Dr K W Humphreys, reviews any proposed appointments of directors and makes recommendations to the board in relation to such appointments.

The remuneration committee, which is also chaired by Dr Humphreys, determines the annual remuneration, performance related payments and other aspects of the terms and conditions of employment of the executive directors.

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 adopt the going concern basis in preparing the accounts.

Creditor payment policy

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

The company had 28 days' purchases outstanding at 31 December 1997 based on the average daily amount invoiced by suppliers during the year.

Donations

Group donations to charities worldwide amounted to £198,000 with United Kingdom charities receiving £88,000.

Year 2000

The group has a programme to consider the potential impact of Year 2000 on all of its businesses. The programme is well advanced in its review of the computer systems of the group to ensure that these will be Year 2000 compliant.

Auditors

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

M J Bardsley

By order of the board
M J Bardsley
Secretary
19 March 1998

Notes

(i) On 6 April 1998, FMR Corporation notified the directors of an increase in their holding of ordinary shares to 20,799,824, being 10.13 per cent of the issued share capital.

(ii) There were no other changes in either the directors' interests or in the substantial interests in the share capital of the company between 20 March 1998 and 10 April 1998.

Report of the directors

Employees

In 1997, AMEC employed on average 23,694 people worldwide. Details are given in note 7 on page 45.

Communication with employees is regarded by the group as an important ingredient in engendering the team spirit essential for success. Employees are informed about group affairs through various channels, including the group newspaper, *AMEC Times*. This publication is supplemented by newsletters produced by subsidiaries.

Consultative procedures enable employees to discuss matters of mutual interest with management. The pensions consultative committee of the AMEC Staff Pension Scheme meets regularly and its meetings are reported in *Pension News*, which is distributed to all scheme members and pensioners.

The group seeks to ensure that the careers of all employees are determined solely on merit. This principle guides operations worldwide and is reinforced by policies and procedures which are regularly reviewed and monitored.

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

Long-term incentive plan

The company has for some time operated the AMEC Executive Share Option Schemes in which executive directors and other senior executives could participate at the discretion of the remuneration committee. The schemes have provided the opportunity for participants to acquire ordinary shares and to focus on the performance of the company's share price. Following changes in public and investor opinion, the remuneration committee has reviewed how the present scheme supports the objectives of the company in aligning the interests of executives and shareholders.

As a consequence of this review, the remuneration committee is now recommending different incentive arrangements for executive directors and other senior executives. It has developed, in conjunction with remuneration advisers, an incentive plan which focuses both on absolute financial performance and on investment performance compared to other companies and will encourage the holding of shares by participants.

Ordinary resolution 9, relating to the introduction of a new long-term incentive plan, will be proposed at the annual general meeting. Further details of this proposal will be found in a circular enclosed with the annual report and accounts.

Corporate governance

The board of directors is responsible to shareholders for the management of the company and for the protection of its assets. The board meets formally at least 10 times a year. The company complied throughout the year with The Code of Best Practice as outlined in the Financial Aspects of Corporate Governance.

Internal control

The directors are responsible for the group's system of internal financial control. Although no system of internal financial control can provide absolute assurance against material mis-statement or loss, the group's system is designed to provide the directors with reasonable assurance that problems are identified on a timely basis and dealt with appropriately.

The group's strategic direction is determined by the board. Annual plans and performance targets for each subsidiary are reviewed by the board in the light of overall objectives. Within the objectives agreed by the board, the operational management of the group as a whole is delegated to the group chief executive, supported by the executive directors.

Managing directors of subsidiaries are accountable for the conduct and performance of their businesses within their agreed short range plans. They have authority to act subject to the reserved powers and limits laid down by the board and to group policies and guidelines. Controls are designed to ensure that all activities operate efficiently and effectively.

Subsidiaries are responsible for meeting defined reporting timetables and compliance with group accounting manuals which set out accounting policies and procedures.

The board receives monthly operating reports, together with a summary of financial results and forecasts, for each subsidiary.

The group's interim and annual accounts are based on a standardised reporting process.

The board has reviewed the effectiveness of the system of internal financial control for the group as a whole.

Board committees

Board committees comprise all non-executive directors.

The audit committee, which is chaired by Mr J M Green-Armytage, ensures that appropriate accounting and financial policies and controls are adhered to and, on behalf of the board, reviews half yearly reports from both the internal and external auditors.

Report of the directors

Scrip dividends

The directors propose to offer to ordinary shareholders the opportunity to elect to receive additional ordinary shares, credited as fully paid, in lieu of the final cash dividend of 3.25p per share for 1997, which is subject to the approval of shareholders at the annual general meeting.

The directors also propose to offer to preference shareholders the opportunity to receive new ordinary shares, credited as fully paid, in lieu of the fixed preferential dividends due on 1 May 1998 and 1 November 1998.

Directors

Details of the directors of the company at the date of this report are set out on page 9.

Mr J A Monville was appointed a director on 26 February 1997 and was re-elected at the 1997 annual general meeting.

Dr K W Humphreys ceased to be deputy chairman on 4 June 1997 but remains a non-executive director.

Sir Alan Cockshaw retired as chairman and as a director on 14 July 1997 and was succeeded by Mr S Gillibrand as chairman on that date.

Mr D Robson, Mr G E Payne and Mr S G Batey retire by rotation in accordance with article 84 of the articles of association of the company and, being eligible, offer themselves for re-election. Each has an employment contract with the company terminable by two years' notice.

The beneficial interests in the share capital of the company of the directors holding office at 31 December 1997 were:

	At 31 December 1997			At 1 January 1997 (or date of appointment if later)		
	Ordinary shares Number	Preference shares Number	Share options Number	Ordinary shares Number	Preference shares Number	Share options Number
S Gillibrand	30,880	–	–	10,269	–	–
P J Mason	25,000	–	1,051,388	25,000	–	600,000
J D Early	8,715	2,200	253,001	6,792	2,200	266,960
D Robson	–	–	419,779	–	–	462,418
S G Batey	31,099	–	411,123	27,845	–	415,545
M K Eckersall	–	–	385,557	–	–	428,196
Dr K W Humphreys	5,345	–	–	5,189	–	–
G E Payne	10,000	–	257,476	10,000	–	257,476
J M Green-Armytage	–	–	–	–	–	–
J R Darley	5,161	–	–	–	–	–
J A Monville	–	–	–	–	–	–

No director at 31 December 1997 had any other interests, beneficial or otherwise, in the share capital of the company.

Mr Batey's beneficial interest increased to 51,099 ordinary shares by the purchase of 20,000 ordinary shares at 120.5p per share on 5 January 1998.

Mr Darley's beneficial interest increased to 17,161 ordinary shares by the purchase of 12,000 ordinary shares at 118p per share on 16 January 1998.

Options were granted during the year under the terms of the AMEC Executive Share Option Scheme 1995, which was approved at the annual general meeting held on 7 June 1995. Details of the options of the directors, including grants and lapses thereof, are set out in the report of the remuneration committee on page 35.

No director was materially interested in any contract of significance to the group's business.

There were no other changes in the directors' interests in the share capital of the company between 31 December 1997 and 19 March 1998.

Report of the directors

The directors have pleasure in presenting the annual report and accounts for the year ended 31 December 1997.

Business review

The group is engaged in engineering, construction and development and its activities are referred to on pages 10 to 27.

An analysis of the group's activities is given in note 2 on page 43.

Comments on the development of the business during the period under review and on the future outlook are contained within the chairman's statement on page 2, the group chief executive's review on pages 3 to 5 and the financial highlights and review on pages 6 and 7.

The profit for the financial year available to shareholders, amounting to £44.7 million, is shown in the consolidated profit and loss account on page 37. The directors recommend that a final dividend of 3.25p be paid which, together with the interim dividend of 1.75p, makes a total ordinary dividend for the year of 5.0p per share. Ordinary dividends amounted to £10.3 million and preference dividends amounted to £11.0 million.

The final dividend will be payable on 1 July 1998 to ordinary shareholders on the register at the close of business on 24 April 1998.

In February 1997, the group acquired a 41.6 per cent shareholding in the French electrical contracting and construction company, Spie Batignolles S.A. ("Spie"). The group also acquired an option to purchase the balance of the share capital of Spie from its management and employees. The option is exercisable between 1 July 2002 and 31 December 2002.

Also in February 1997, the group sold its 20 per cent shareholding in Egypt Gas Company.

The sale of the group's Dutch design and engineering business was completed during April 1997.

The major part of the process division of Babcock International Group plc, which carries out a range of project and engineering services for the process industry, and the offshore platform maintenance and fabrication business of Grootcon UK Limited were both acquired in September 1997 and integrated with the group's process and energy business.

Share capital

The present authorised and issued share capital of the company and movements during the year are set out in note 19 on page 53.

Special resolution 6 will be proposed at the 1998 annual general meeting to renew limited powers for the directors to allot the unissued share capital of the company and to issue shares for cash other than to existing shareholders.

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

Special resolution 7 renews the authority, granted to the directors by shareholders at last year's annual general meeting, to make market purchases of preference shares in the capital of the company within prescribed limits.

Pursuant to the authority currently granted by shareholders, the directors purchased, in the market, for an aggregate consideration of £7,859,700 (excluding charges and stamp duty), 8,500,000 preference shares between 23 September 1997 and 9 December 1997. This represented 4.93 per cent of the issued preference share capital.

Special resolution 8 renews the authority, granted to the directors by shareholders at last year's annual general meeting, to make market purchases of ordinary shares in the capital of the company within prescribed limits. No such purchases were made in 1997.

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

Substantial interests

The company has been notified of the following interests, in accordance with section 198 of the Companies Act 1985, as at 19 March 1998.

Ordinary shares	Number	Percentage
PDFM Limited	22,448,306	10.94
FMR Corporation	18,782,427	9.15
Prudential Corporation Limited	10,713,211	5.22
Halifax plc	9,033,502	4.40
Standard Life Assurance Company	7,782,630	3.79
Barclays Bank plc	6,753,737	3.29
General Accident plc	6,200,000	3.02

Preference shares	Number	Percentage
PDFM Limited	37,834,750	23.09
M&G Group plc	19,464,862	11.88

Directors, officers and company information

Directors
S Gillibrand CBE
P J Mason
J D Early
D Robson
S G Batey
M K Eckersall
Dr K W Humphreys CBE
G E Payne
J M Green-Armytage
J R Darley
J A Monville

Secretary
M J Bardsley

Auditors
KPMG Audit Plc

Registrars
IRG plc
Bourne House
34 Beckenham Road
Beckenham
Kent BR3 4TU

Principal Bankers
Barclays Bank plc
Midland Bank plc
National Westminster Bank plc
The Royal Bank of Scotland plc

Registered office
Sandiway House
Hartford
Northwich
Cheshire CW8 2YA

Registered in England No 1675285

Members of the AMEC Civil Engineering team working at Heathrow airport. AMEC has a variety of long-term framework agreements covering project management and building services consultancy work at BAA's airports in the south east of England.

Notes to the accounts

4 Exceptional items

	1997 £ million	1996 £ million
Cost of sales:		
Amounts written off housing assets	–	(20.0)
Amounts written off development assets	–	(2.5)
Restructuring costs in the German building and civil engineering operation	–	(2.7)
	–	(25.2)
Share of results of associated undertakings:		
Amounts written off housing assets	–	(2.5)
	–	(27.7)
Profit (loss) on disposal or termination of operations:		
Building and civil engineering	(0.5)	–
Mechanical and electrical	25.1	19.5
Process and energy	(0.7)	–
	23.9	19.5
Amounts written off investments	(3.0)	(2.3)
	20.9	(10.5)
Taxation	(8.0)	0.5
	12.9	(10.0)

5 Operating profit

	1997 £ million	1996 £ million
Operating profit is stated after charging:		
Depreciation	16.3	22.1
Operating lease payments:		
Land and buildings	13.5	14.2
Plant and equipment	7.2	5.8
Fees paid to auditors and their associates:		
Audit fees:		
KPMG Audit Plc	0.8	0.7
Other auditors	0.1	0.3
Non-audit fees relating to acquisitions, disposals, taxation and other services:		
KPMG Audit Plc	0.5	1.2
Other auditors	–	0.1

Notes to the accounts

2 Analysis of turnover, operating results before exceptional items and net assets

	Turnover 1997 £ million	Turnover 1996 £ million	Operating profit (loss) 1997 £ million	Operating profit (loss) 1996 £ million	Net assets (liabilities) 1997 £ million	Net assets (liabilities) 1996 £ million
Class of business:						
Building and civil engineering	1,240.6	1,299.3	(13.7)	6.2	(100.0)	(74.1)
Mechanical and electrical	598.1	654.0	26.3	25.1	6.7	15.8
Process and energy	645.5	545.3	6.1	1.1	6.6	25.3
Housing	182.0	173.9	16.2	7.1	97.6	95.3
Project investment, development, manufacturing and services	177.6	164.0	12.4	9.8	96.3	83.6
Spie Batignolles S.A.	–	–	7.5	–	(4.1)	–
Internal trading	(69.5)	(68.0)	–	–	–	–
Net cash	–	–	–	–	94.3	61.3
Corporate costs and unallocated items	–	–	(4.1)	(4.1)	(2.6)	11.0
	2,774.3	2,768.5	50.7	45.2	194.8	218.2
Geographical origin:						
United Kingdom	1,998.6	1,955.3	53.9	55.5	141.9	169.8
Rest of Europe	138.2	164.4	(5.8)	(8.5)	6.2	4.1
Americas	460.9	450.0	0.2	3.6	(39.4)	(18.9)
Rest of the world	176.6	198.8	6.5	(1.3)	(5.6)	(9.1)
Net cash	–	–	–	–	94.3	61.3
Corporate costs and unallocated items	–	–	(4.1)	(4.1)	(2.6)	11.0
	2,774.3	2,768.5	50.7	45.2	194.8	218.2

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

3 Acquisitions

The effect of acquisitions in 1997 on each of the statutory profit and loss account format headings is as follows:

	Continuing operations £ million	Acquisitions £ million	Total £ million
Turnover	2,758.2	16.1	2,774.3
Cost of sales	(2,586.8)	(15.1)	(2,601.9)
Gross profit	171.4	1.0	172.4
Administrative expenses	(130.3)	(0.7)	(131.0)
Share of results of associated undertakings	1.8	7.5	9.3
Operating profit	42.9	7.8	50.7

Notes to the accounts

6 Directors

	1997 £	1996 £
Directors' emoluments	2,242,057	1,889,106
Gains on exercise of share options	146	–

The aggregate emoluments of the highest paid director were **£521,287** (1996 - £415,804). He had no gains on the exercise of share options in 1997 or 1996.

More detailed information concerning directors' remuneration, including their pension benefits, is set out in the report of the remuneration committee on pages 33 to 36.

7 Staff costs

	1997 £ million	1996 £ million
Wages and salaries	541.0	530.6
Social security costs	47.9	50.0
Other pension costs	8.8	12.0
	597.7	592.6

The average number of people employed during the year was:

	Number	Number
Building and civil engineering	5,574	5,790
Mechanical and electrical	8,717	9,278
Process and energy	7,238	6,744
Housing	545	524
Project investment, development, manufacturing and services	1,620	1,933
	23,694	24,269

8 Net interest payable

	1997 £ million	1996 £ million
Interest payable:		
Bank loans and overdrafts	11.1	13.7
Other loans	0.1	0.2
	11.2	13.9
Interest and similar income receivable:		
Bank and short-term deposits	6.7	6.2
Other	1.3	0.2
	8.0	6.4
Net interest payable	3.2	7.5

Notes to the accounts

9 Taxation on profit on ordinary activities

	1997 £ million	1996 £ million
The taxation charge is made up as follows:		
Corporation tax	19.8	5.4
Double taxation relief	(0.7)	–
Associated undertakings	6.5	1.6
Overseas taxation	1.1	0.8
Surplus advance corporation tax written back	(3.9)	(0.8)
	22.8	7.0
Taxation under (over) provided in previous years	0.9	(1.0)
	23.7	6.0

Taxation for the year has been provided at the rate of **31.5%** (1996 - 33.0%).

The group and company have no potential liability for deferred tax.

10 Dividends on equity and non-equity shares

	1997 Pence per share	1996 Pence per share	1997 £ million	1996 £ million
Equity shares:				
Ordinary shares:				
Interim payable	1.75	1.50	3.6	3.1
Final proposed	3.25	2.50	6.7	5.1
	5.00	4.00	10.3	8.2
Non-equity shares:				
Convertible redeemable preference shares:				
Paid 1 May 1997	3.25	3.25	5.6	5.6
Paid 1 November 1997	3.25	3.25	5.6	5.6
FRS 4 finance adjustment	–	–	(0.2)	0.3
	6.50	6.50	11.0	11.5
Dividends on equity and non-equity shares			21.3	19.7

Notes to the accounts

11 Transfer to reserves

	1997 £ million	1996 £ million
Dealt with in the accounts of the company	0.5	16.2
Retained by subsidiary undertakings	20.1	(19.9)
Retained by associated undertakings	2.8	5.2
	23.4	1.5

12 Earnings per ordinary share

Basic earnings per ordinary share, including exceptional items, are calculated on earnings of **£33.7 million** (1996 - £9.7 million) and, excluding exceptional items, on earnings of **£20.8 million** (1996 - £19.7 million) and, in each case, on a weighted average of **204,597,292** (1996 - 204,002,759) ordinary shares.

Fully diluted earnings per ordinary share, including exceptional items, are calculated on earnings of **£45.7 million** (1996 - £22.5 million) and, excluding exceptional items, on earnings of **£32.8 million** (1996 - £32.5 million) and, in each case, on a weighted average of **301,477,131** (1996 - 308,707,640) ordinary shares which allows for conversion of all the convertible redeemable preference shares in issue and the allotment of ordinary shares under employee share option schemes.

13 Tangible assets

	Land and buildings £ million	Plant and equipment £ million	Total £ million
Group:			
Cost or valuation:			
At 1 January 1997	88.1	183.6	271.7
Subsidiaries acquired	0.4	1.9	2.3
Subsidiaries sold	(0.5)	(4.9)	(5.4)
Additions and transfers	1.9	18.5	20.4
Disposals and transfers	(5.1)	(25.0)	(30.1)
Exchange and other movements	(1.8)	(1.8)	(3.6)
At 31 December 1997	83.0	172.3	255.3
Depreciation:			
At 1 January 1997	7.4	141.6	149.0
Provided during the year	1.5	14.8	16.3
Subsidiaries sold	–	(3.7)	(3.7)
Disposals and transfers	(0.1)	(20.5)	(20.6)
Exchange and other movements	(0.3)	(1.1)	(1.4)
At 31 December 1997	8.5	131.1	139.6
Net book value:			
At 31 December 1997	74.5	41.2	115.7
At 31 December 1996	80.7	42.0	122.7

Notes to the accounts

13 Tangible assets (continued)

Company:	Land and buildings £ million	Plant and equipment £ million	Total £ million
Cost or valuation:			
At 1 January 1997	6.1	2.4	8.5
Additions and transfers	1.6	0.7	2.3
Disposals and transfers	(1.5)	(0.6)	(2.1)
At 31 December 1997	6.2	2.5	8.7
Depreciation:			
At 1 January 1997	0.9	1.9	2.8
Provided during the year	0.1	0.2	0.3
Disposals and transfers	(0.1)	(0.5)	(0.6)
At 31 December 1997	0.9	1.6	2.5
Net book value:			
At 31 December 1997	5.3	0.9	6.2
At 31 December 1996	5.2	0.5	5.7

	Group 1997 £ million	Group 1996 £ million	Company 1997 £ million	Company 1996 £ million
The net book value of land and buildings comprises:				
Freehold	67.2	72.6	3.7	3.7
Long leasehold	4.1	4.6	–	0.3
Short leasehold	3.2	3.5	1.6	1.2
	74.5	80.7	5.3	5.2
Land and buildings are stated at:				
Valuation 1989	0.9	1.2	0.4	0.7
Valuation 1994	59.2	62.8	3.9	4.1
Cost	22.9	24.1	1.9	1.3
	83.0	88.1	6.2	6.1

Freehold and long leasehold properties situated in the United Kingdom were externally valued at 31 December 1994 on an open market value existing use basis or at depreciated replacement cost.

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.

Notes to the accounts

13 Tangible assets (continued)

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

	Group 1997 £ million	Group 1996 £ million	Company 1997 £ million	Company 1996 £ million
Cost	57.3	59.4	5.9	6.0
Depreciation	16.3	15.9	1.5	1.4
Net book value	41.0	43.5	4.4	4.6
Fixed assets not depreciated:				
Land	21.0	24.0	1.1	1.1
Investment properties	3.1	3.1	–	–
Assets in the course of construction	2.3	1.0	0.7	1.0
	26.4	28.1	1.8	2.1
Assets acquired under finance leases:				
Cost or valuation	1.9	4.1	–	–
Depreciation	1.1	3.0	–	–
Net book value	0.8	1.1	–	–
Depreciation charge for the year	0.4	0.6	–	–

14 Investments (held as fixed assets)

	Company 1997 £ million	Company 1996 £ million
Investments in subsidiary undertakings		
Shares at cost less amounts written off	546.4	550.1
Amounts owed by subsidiary undertakings	86.5	67.2
Amounts owed to subsidiary undertakings	(327.9)	(263.1)
	305.0	354.2

Notes to the accounts

14 Investments (held as fixed assets) (continued)

	Group Associated undertakings £ million	Group Other investments £ million	Group Total investments £ million	Company Associated undertakings £ million
Net book value:				
At 1 January 1997	14.7	0.3	15.0	3.[illegible]
Additions and transfers	29.3	–	29.3	0.[illegible]
Disposals and transfers	(6.8)	–	(6.8)	–
Goodwill on acquisition	(40.5)	–	(40.5)	–
Net movement in share of reserves	3.3	–	3.3	–
Dividends received	(1.4)	–	(1.4)	–
Exchange and other movements	1.1	–	1.1	–
At 31 December 1997	(0.3)	0.3	–	3.2
Represented by:				
Shares at cost less amounts written off	36.7	0.3	37.0	3.2
Share of post acquisition reserves	(37.0)	–	(37.0)	–
	(0.3)	0.3	–	3.2

The group's share of the results of associated undertakings includes a contribution of £7.5 million in respect of Spie Batignolles S.A. and is based on the group's investment of 41.6 % in the share capital of that company from 27 February 1997, the date of acquisition.

The share of results has been calculated by taking the consolidated results of Spie Batignolles S.A. for the year ended 31 December 1997 restated where practicable, after making adjustments to harmonise accounting policies with those of AMEC and UK GAAP.

The summary results of Spie Batignolles S.A., prepared under its accounting policies and French GAAP, for the year ended 31 December 1997, translated at an average rate of £1 = FF9.589, are as follows:

	£ million
Total operating revenue	2,043.[illegible]
Operating profit	32.[illegible]
Net interest	(2.[illegible]
Profit before tax, goodwill amortisation and minority interests	29.4

Principal group undertakings are listed on pages 63 and 64.

The company is committed to investing in 1998 and succeeding years a total of £32.4 million in various PFI projects of which £7.2 million will be equity investment and £25.2 million will be subordinated debt.

Notes to the accounts

15 Stocks

	Group 1997 £ million	Group 1996 £ million
Development land and work in progress	183.5	163.6
Raw materials and consumables	10.0	10.6
Other work in progress	1.9	1.8
Finished goods and goods for resale	5.0	5.3
	200.4	181.3

16 Debtors

	Group 1997 £ million	Group 1996 £ million	Company 1997 £ million	Company 1996 £ million
Due within one year:				
Amounts recoverable on contracts	234.1	231.6	–	–
Trade debtors	358.0	358.9	0.8	0.3
Amounts owed by subsidiary undertakings	–	–	6.6	7.0
Amounts owed by associated undertakings	6.8	8.7	–	0.1
Other debtors	15.9	24.4	3.5	12.9
Prepayments and accrued income	14.4	8.9	2.9	1.3
	629.2	632.5	13.8	21.6
Due after one year:				
Amounts recoverable on contracts	6.9	11.5	–	–
Trade debtors	19.6	28.0	–	–
Other debtors	10.4	3.9	2.5	–
Prepayments and accrued income	17.5	9.6	16.8	8.8
	54.4	53.0	19.3	8.8
	683.6	685.5	33.1	30.4

Notes to the accounts

17 Creditors: due within one year

	Group 1997 £ million	Group 1996 £ million	Company 1997 £ million	Company 1996 £ million
Bank loans and overdrafts	24.0	54.6	2.7	15.3
Trade creditors	629.9	586.4	3.2	3.6
Payments on account	90.4	78.9	–	–
Amounts owed to associated undertakings	0.2	–	–	–
Corporation tax	8.6	2.8	7.5	2.0
Other taxation and social security costs	33.5	38.7	0.7	0.7
Other creditors	26.7	33.5	3.6	1.9
Accruals and deferred income	57.1	56.7	4.0	3.3
Dividends	11.8	9.9	11.8	9.9
	882.2	861.5	33.5	36.7

18 Creditors: due after one year

	Group 1997 £ million	Group 1996 £ million	Company 1997 £ million	Company 1996 £ million
Loans repayable:				
- between one and two years	0.1	0.3	–	–
- between two and five years	43.8	49.0	23.6	4.0
- after five years	24.8	–	–	–
	68.7	49.3	23.6	4.0
Trade creditors	33.6	34.3	–	–
Payments on account	–	1.1	–	–
Amounts owed to associated undertakings	2.4	1.2	2.4	1.1
Other creditors	3.3	2.6	–	–
Accruals and deferred income	2.7	3.6	–	–
	110.7	92.1	26.0	5.1
Loans are denominated in:				
Pounds sterling	44.8	45.0	–	–
US dollars	3.6	3.5	3.6	3.5
German marks	19.6	–	19.6	–
Norwegian krone	0.4	0.5	0.4	0.5
Other currencies	0.3	0.3	–	–
	68.7	49.3	23.6	4.0

Interest payments on all loans vary with market rates. At 31 December 1997, the average rate payable on all loans was **6.8%** (1996 - 6.6%)

Loans amounting to **£68.6 million (company - £23.6 million)** mature within one year (1996 - group £48.7 million and company £4.0 million). They represent advances against facilities available to the group until at least March 2003 (1996 - January 2001) under which such loans may be refinanced on a continuing basis.

Notes to the accounts

19 Share capital

The authorised share capital of the company is **£250.0 million** (1996 - £250.0 million).

Allotted, called up and fully paid:	Group and company 1997 £ million	Group and company 1996 £ million
Equity share capital:		
Ordinary shares of 50p each	102.62	102.10
Non-equity share capital:		
6.5p (net) cumulative convertible redeemable preference shares of 50p each	81.94	86.22
	184.56	188.32

Movements in share capital during the year were as follows:	Ordinary shares Number	Ordinary shares £ million	Preference shares Number	Preference shares £ million
At 1 January 1997	204,206,059	102.10	172,430,549	86.22
Conversion of preference shares to ordinary shares	29,678	0.01	(60,843)	(0.03)
Scrip dividends	379,258	0.20	–	
Exercise of savings related share options	338,412	0.17	–	–
Exercise of executive share options	290,000	0.14	–	–
Purchase and cancellation of preference shares	–	–	(8,500,000)	(4.25)
At 31 December 1997	205,243,407	102.62	163,869,706	81.94

Preference shares

The following is a summary of the rights under the company's articles of association relating to voting, income and capital, conversion and redemption which attach to the preference shares.

Voting

The preference shares entitle the holders thereof to attend and vote at any general meeting of the company. On a show of hands, a holder of preference shares who is present in person has one vote and, on a poll, each such person who is present in person or by proxy has one vote for each preference share of which he is the holder.

Income and capital

Income: the preference shares carry the right to a fixed annual cumulative preferential dividend of 6.5p (net) per share payable in arrears in equal instalments on 1 May and 1 November in each year.

Capital: the preference shares rank ahead of the ordinary shares on a winding-up or other return of capital (other than by conversion, redemption or purchase of shares) in respect of 100p per share together with any arrears and accruals of dividend to the date of repayment.

Conversion

The preference shares are convertible at the option of the holder on the basis of 48.78 ordinary shares for every 100 preference shares (and so in proportion for any lesser or greater number) on 31 May (or if later, five weeks after the posting of the annual report and accounts for the most recently ended financial year) and 30 November in each year to 2008. In the event of conversion of 75 per cent of the preference shares, the company has the right, compulsorily, to convert the balance outstanding.

Redemption

Subject to the provisions of the Companies Act 1985, the company shall redeem on 1 May 2009 any preference shares which remain in issue and outstanding on that date. The preference shares so redeemed will be redeemed at 100p per share together with any arrears and accruals of dividend to the date of redemption.

Notes to the accounts

19 Share capital (continued)

Share options

During the year, options were granted in respect of 1,101,388 ordinary shares under the terms of the AMEC Executive Share Option Scheme 1995. No options were granted under the terms of the AMEC Savings Related Share Option Scheme.

At 31 December 1997, share options were outstanding as follows:

Savings Related Share Option Scheme	Option price per ordinary share	Number of shares
Normally exercisable in the period between:		
September 1997 and February 1998	139.00	1,537,726
September 1999 and February 2000	112.00	1,747,645
September 1999 and February 2000	90.00	849,879
September 2000 and February 2001	58.00	1,631,141
September 2001 and February 2002	90.00	3,476,943
Executive Share Option Schemes		
Normally exercisable in the period between:		
April 1991 and April 1998	183.91	466.773
May 1991 and May 1998	160.69	37[illegible]
August 1991 and August 1998	174.33	90,828
May 1992 and May 1999	222.22	219,240
May 1993 and May 2000	185.34	83,520
May 1994 and May 2001	218.00	1,405,000
May 1995 and May 2002	160.00	1,222,500
May 1997 and May 2004	118.00	340,000
October 1998 and October 2005	60.00	1,916.000
February 1999 and February 2006	99.00	600.000
June 1999 and June 2006	114.00	94.000
September 1999 and September 2006	98.00	124.000
April 2000 and April 2007	144.00	1.051.388
September 2000 and September 2007	140.50	5[illegible]

Currently there are 2,270 participants in the Savings Related Scheme and 104 participants in the Executive Schemes.

During the year, under the provisions of the Savings Related Scheme, 338,412 ordinary shares were allotted at varying prices from 58p to 139p for a total consideration of £452,149.

Under the provisions of the Executive Scheme, 290,000 shares were allotted at prices of 60p and 118p for a total consideration of £226,200.

The market value of the ordinary shares at 31 December 1997 was **117.5p ex-dividend** (1996 - 92.5p ex-dividend).

Notes to the accounts

20 Reserves

Group:	Revaluation reserve £ million	Capital redemption reserve £ million	Special reserve £ million	Profit and loss account £ million	Total reserves £ million
At 1 January 1997	14.9	–	2.5	12.5	29.9
Retained profit for the year	–	–	–	23.4	23.4
Purchase and cancellation of preference shares	–	4.3	–	(7.9)	(3.6)
Goodwill on acquisitions and disposals	–	–	(2.7)	(38.7)	(41.4)
Ordinary shares issued	–	–	0.2	0.5	0.7
Exchange and other movements	(0.6)	–	–	1.8	1.2
At 31 December 1997	14.3	4.3	–	(8.4)	10.2

Company:	Revaluation reserve £ million	Capital redemption reserve £ million	Special reserve £ million	Profit and loss account £ million	Total reserves £ million
At 1 January 1997	(0.5)	–	128.0	82.5	210.0
Retained profit for the year	–	–	–	0.5	0.5
Purchase and cancellation of preference shares	–	4.3	–	(7.9)	(3.6)
Ordinary shares issued	–	–	0.2	0.5	0.7
Exchange and other movements	(0.2)	–	–	(3.8)	(4.0)
At 31 December 1997	(0.7)	4.3	128.2	71.8	203.6

21 Acquisitions and disposals

Net assets of acquired subsidiary undertakings, none of which are sufficiently material for separate disclosure, are as follows:

	Book value £ million	Accounting policy adjustments £ million	Other adjustments £ million	Fair value £ million
Tangible fixed assets	2.6	(0.3)	–	2.3
Stocks	0.1	–	–	0.1
Debtors	16.3	–	(0.8)	15.5
Creditors	(16.6)	–	0.6	(16.0)
Overdrafts	(0.6)	–	–	(0.6)
Loans including finance leases	(0.6)	–	–	(0.6)
	1.2	(0.3)	(0.2)	0.7
Consideration:				
Cash			1.1	
Deferred consideration			0.8	
				1.9
Goodwill on acquisition				1.2

The above adjustments relate to the realignment of accounting policies, a reassessment under SSAP 9 of the outcome of certain contracts and the release of surplus provisions. Acquisition accounting has been used to account for all purchases.

Notes to the accounts

21 Acquisitions and disposals (continued)

The net cash outflow in respect of the purchase of subsidiary undertakings is as follows:

	£ million
Purchase consideration	1.1
Overdrafts of acquired businesses	0.6
Deferred consideration in respect of a prior year acquisition	1.6
	3.3

Investments in associated undertakings during the year amounted to **£27.7 million.** In February 1997, the group acquired a 41.6 per cent interest in Spie Batignolles S.A. for a cash consideration of **£25.1 million.**

The book value of net assets acquired was **£12.3 million** against which fair value adjustments of **£27.7 million** were made. The principal adjustment was to bring the goodwill policy of Spie Batignolles S.A. in line with that of AMEC p.l.c. and as a result, the goodwill carried on the Spie balance sheet amounting to **£23.0 million,** has been written off. The other adjustments of **£4.7 million** relate to the accounting for contracts and other liabilities in accordance with UK GAAP.

Goodwill on acquisition amounted to **£40.5 million** and has been written off against reserves. The goodwill has been calculated on a provisional basis as the carrying values of certain long-term contracts require further assessment.

Accurate details of the results of acquired subsidiary and associated undertakings in periods prior to acquisition are not available as the businesses were each part of a larger operating entity.

The consideration receivable for disposals of subsidiary undertakings during the year amounted to **£2.4 million** of which **£0.2 million** is deferred. This compared to a carrying value of **£3.5 million** restated to include **£0.3 million** goodwill on acquisition and resulted in a net loss on disposal of **£1.1 million.** Net cash transferred with subsidiaries sold amounted to **£0.7 million.**

The consideration received in respect of the disposal of investments in associated undertakings was **£32.2 million.** In February 1997, the group disposed of its 20 per cent interest in Egypt Gas Company for a cash consideration of **£32.0 million.** This compared to a carrying value of **£6.8 million** and resulted in a net profit on disposal of **£25.2 million.**

Cumulative goodwill after merger relief of **£52.9 million** (1996 - £52.9 million) written off to group reserves, net of that attributable to disposals, amounted to **£166.9 million** (1996 - £125.5 million).

22 Reconciliation of operating profit to net cash flow from operating activities

	1997 £ million	1996 £ million
Operating profit before exceptional items	50.7	45.2
Exceptional items	–	(27.7)
	50.7	17.5
Share of results of associated undertakings	(9.3)	(8.4)
Dividends received from associated undertakings	1.4	0.2
Depreciation of fixed assets	16.3	22.1
(Increase) decrease in stocks	(19.3)	15.8
Decrease in debtors	2.2	45.2
Increase (decrease) in creditors	30.1	(15.3)
Exchange and other movements	1.1	5.7
Net cash from operating activities	73.2	82.8

Notes to the accounts

23 Reconciliation of net cash flow to movement in net cash

	1997 £ million	1996 £ million
Movement in cash	86.7	(26.3)
Cash flow from movement in debt	(4.4)	52.2
Cash flow from movement in liquid resources	(50.7)	32.0
Change in cash resulting from cash flows	31.6	57.9
Acquisitions and disposals of loans and finance leases	0.1	(4.3)
New finance leases	(0.2)	(1.1)
Exchange and other movements	1.5	(3.4)
Movement in net cash in period	33.0	49.1
Net cash at commencement of period	61.3	12.2
Net cash at end of period	94.3	61.3

24 Analysis of net cash

	At 1 January 1997 £ million	Cash flow £ million	Acquisitions and disposals £ million	Other non-cash movements £ million	Exchange and other movements £ million	At 31 December 1997 £ million
Cash at bank and in hand	46.7	71.2	–	–	0.4	118.3
Overdrafts	(30.3)	15.5	–	–	1.2	(13.6)
		86.7				
Debt due within one year	(24.3)	39.2	(0.2)	(25.1)	–	(10.4)
Debt due after one year	(49.3)	(44.4)	–	25.1	(0.1)	(68.7)
Finance leases	(2.1)	0.8	0.3	(0.2)	0.2	(1.0)
		(4.4)				
Liquid financial instruments	120.6	(50.7)	–	–	(0.2)	69.7
	61.3	31.6	0.1	(0.2)	1.5	94.3

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

Notes to the accounts

25 Capital commitments

	Group 1997 £ million	Group 1996 £ million	Company 1997 £ million	Company 1996 £ million
Contracted but not provided in accounts	7.0	1.6	0.6	0.4

26 Lease commitments

Current annual commitments payable under non-cancellable operating leases expiring:	Land and buildings 1997 £ million	Plant and equipment 1997 £ million	Land and buildings 1996 £ million	Plant and equipment 1996 £ million
Group:				
Under one year	1.8	2.0	1.1	0.[illegible]
Between two and five years	7.5	5.9	4.2	6.7
After five years	5.4	–	7.4	–
	14.7	7.9	12.7	6.[illegible]
Company:				
Between two and five years	1.8	–	0.2	–
After five years	0.4	–	1.8	–
	2.2	–	2.0	–

Obligations under finance leases due:	Group 1997 £ million	Group 1996 £ million
Under one year	0.6	[illegible]
Between two and five years	0.4	[illegible]
	1.0	2.[illegible]
Future finance charges	0.1	[illegible]
	0.9	[illegible]

27 Contingent liabilities

	Group 1997 £ million	Group 1996 £ million	Company 1997 £ million	Company 1996 £ million
Guarantees given in respect of borrowings of group undertakings	1.7	2.7	96.7	87.[illegible]

AMEC p.l.c. and certain subsidiary undertakings have given counter indemnities in respect of performance bonds issued on behalf of group undertakings in the normal course of business.

Notes to the accounts

28 Pension arrangements

The group operates a number of pension schemes for United Kingdom and overseas employees. All United Kingdom members are in defined benefit schemes. Contributions paid by employees and employers are held in funds that are separate from the group's finances and which are administered by trustees. The total pension cost for the group was **£8.8 million** (1996 - £12.0 million). A prepayment of pension costs of **£16.8 million** (1996 - £8.8 million) is included in note 16 - Debtors due after one year - on page 51. Pension costs are assessed in accordance with the advice of independent qualified actuaries.

The projected unit method is used to assess liabilities and future funding rates for the two major schemes which cover 90 per cent of United Kingdom members. The latest actuarial valuations of these schemes were undertaken as at April 1996. These showed that the market value of the assets was £618 million with the actuarial value of assets being sufficient to cover 118 per cent of the accrued benefits. The valuations assumed that the investment returns would be two per cent higher than the rate of annual salary increases.

29 Related party transactions

During the year, the value of services rendered and goods sold to unincorporated joint ventures and associated undertakings amounted to **£44.8 million** and **£7.7 million** respectively (1996 - £51.1 million and £41.1 million respectively).

At 31 December 1997, the amounts owed by unincorporated joint ventures and associated undertakings for services rendered and goods sold amounted to **£13.0 million** and **£1.2 million** respectively (1996 - £19.9 million and £4.5 million respectively).

Statement of directors' responsibilities for the preparation of accounts

The following statement should be read in conjunction with the report of the auditors set out on page 61.

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

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

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the accounts comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and the group and to prevent and detect fraud and other irregularities.

Report of the auditors to the members of AMEC p.l.c.

KPMG

We have audited the accounts on pages 37 to 59. We have also examined the amounts disclosed relating to the remuneration, share options and pension entitlements of the directors which form part of the report of the remuneration committee on pages 33 to 36.

Respective responsibilities of directors and auditors

As described on page 60, the company's directors are responsible for the preparation of accounts. It is our responsibility to form an independent opinion, based on our audit, on those accounts and to report our opinion to you.

Basis of opinion

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

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the accounts are free from material mis-statement, 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.

Opinion

In our opinion, the accounts give a true and fair view of the state of affairs of the company and the group as at 31 December 1997 and of the profit of the group for the year then ended, and have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc

KPMG Audit Plc
Chartered accountants
Registered auditor

Manchester
19 March 1998

Five year record

	1997 £ million	1996 £ million	1995 £ million	1994 £ million	1993 £ million
Summarised consolidated results					
Turnover	2,774.3	2,768.5	2,451.3	1,962.4	2,186.[illegible]
Profit before taxation	68.4	27.2	15.9	20.0	20.[illegible]
Taxation	(23.7)	(6.0)	(2.0)	(2.3)	(2.[illegible]
Attributable profit	44.7	21.2	13.9	17.7	17.[illegible]
Dividends	(21.3)	(19.7)	(17.7)	(17.6)	(17.[illegible]
Transfer to (from) reserves	23.4	1.5	(3.8)	0.1	0.3
Earnings per ordinary share	16.5p	4.7p	1.1p	3.1p	3.2p
Dividends per ordinary share	5.0p	4.0p	3.0p	3.0p	3.0p
Summarised consolidated balance sheets					
Assets employed:					
Fixed assets	115.7	137.7	151.1	159.8	188.[illegible]
Net current assets	189.8	172.6	228.3	276.5	182.[illegible]
	305.5	310.3	379.4	436.3	370.[illegible]
Financed by:					
Share capital	184.6	188.3	188.2	187.4	187.[illegible]
Reserves	10.2	29.9	31.1	46.0	51.[illegible]
Shareholders' funds	194.8	218.2	219.3	233.4	239.[illegible]
Loans	68.7	49.3	112.0	129.4	95.[illegible]
Other creditors	42.0	42.8	48.1	73.5	36.[illegible]
	305.5	310.3	379.4	436.3	370.[illegible]

The figures are stated in accordance with the accounting policies set out on page 42.

Principal group undertakings at 31 December 1997

The subsidiary and associated undertakings which are, in the opinion of the directors, those principally affecting group trading results and net assets are listed below. All subsidiaries listed below are wholly owned. Except where indicated, undertakings are incorporated in Great Britain and carry on their activities principally in their countries of incorporation. Shares are held directly by the company, except where marked with an asterisk where they are held by subsidiaries. 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.

Civil engineering

AMEC Civil Engineering Limited	*Civil engineering*
AMEC Mining Limited	*Opencast mining*
AMEC International Construction Limited (operating outside the United Kingdom)	*International construction*

Construction

AMEC Construction Limited	*Construction*
AMEC Construction Scotland Limited (Scotland)	*Construction*

Housing

Fairclough Homes Group Limited	*Residential property development*
Fairclough Homes Limited	*Residential property development*

Infrastructure services

AMEC Infrastructure Services Limited	*Infrastructure services*
AMEC Facilities Limited	*Facilities management and services*
AMEC Power Limited	*Power transmission and distribution*
AMEC Utilities Limited	*Ducting and pipeline installation and maintenance*
Denco Limited	*Building services equipment*

Mechanical and electrical

AMEC Mechanical and Electrical Services Limited	*Mechanical and electrical engineering and services*
AMEC Rail Limited	*Railway infrastructure services*

Process and energy

AMEC Process and Energy Limited	*Engineering, construction, fabrication and project management*
AMEC BKW Limited	*Engineering, construction and project management*
*AMEC Process and Energy A/S (Norway)	*Engineering, construction and project management*

Project investment, development, manufacturing and services

AMEC Developments Limited	*Commercial property development*
AMEC Manufacturing and Services Limited	*Manufacturing and services*
AMEC Project Investments Limited	*Private finance initiatives*
AMEC Services Limited	*Plant, transport and agency personnel services*
CV Buchan Limited	*Precast concrete*
Watson Steel Limited	*Fabricated steelwork*

Principal group undertakings at 31 December 1997

International

*AMEC Australia Pty Limited (Australia) (note 1)	*Mechanical and electrical engineering*
*AMEC Electrical and Mechanical Engineers Limited (China)	*Mechanical and electrical engineering*
*AMEC Mechanical and Electrical Engineers Pte Limited (Singapore)	*Mechanical and electrical engineering*
*Gebruder Kittelberger GmbH & Co. (Germany)	*Civil engineering and construction*
*Morse Diesel International Inc. (USA)	*Construction management*

Group services

AMEC Finance Limited	*Group finance*
AMEC Property and Overseas Investments Limited	*Group investments*
*Atlantic Services Limited (Bermuda)	*Insurance*

Associated undertakings

*Spie Batignolles S.A. (France) (41.6%) (note 2)	*Electrical contracting and construction*
Ringway Developments plc (21% - B shares) (note 3)	*Commercial property development*
*Gulliver Consolidated Limited (Zimbabwe) (34.8%) (note 4)	*Civil engineering and transport contracting*
*Christiani-AMEC (Asia) Limited (Thailand) (49% - B shares) (note 5)	*Civil engineering, power transmission and distribution*
Greater Manchester Metro Limited (28.6%) (note 6)	*Light rapid transit system operator*

Notes

1 The issued share capital of AMEC Australia Pty Limited is 62,930,001 ordinary shares of A$1 each, 2,500 non-cumulative redeemable preference shares of A$1 each and 10,000 class A redeemable preference shares of A$1 each.

2 The issued share capital of Spie Batignolles S.A. is 9,127,501 ordinary shares of FF100 each.

3 The issued share capital of Ringway Developments plc is 7,000,000 A shares of £1 each and 7,286,000 B shares of £1 each.

4 The issued share capital of Gulliver Consolidated Limited is 9,694,253 shares of 50 Zimbabwean cents each.

5 The issued share capital of Christiani-AMEC (Asia) Limited is 1,020,000 A ordinary shares of baht 10 each and 980,000 B ordinary shares of baht 10 each.

6 The issued share capital of Greater Manchester Metro Limited is 10,000 ordinary shares of 10p each and 10,000 preference shares of 10p each.

7 The company has representation on the board of each principal group undertaking.

Notice of annual general meeting

Notice is hereby given that the 1998 annual general meeting of AMEC p.l.c. will be held at the Greater Manchester Exhibition and Event (G-MEX) Seminar Centre, Manchester M2 3GX, on Wednesday 3 June 1998, at 12 noon for the following purposes:

1 To consider the accounts and the reports of the directors and the auditors for the year ended 31 December 1997 and to declare a final dividend of 3.25p per ordinary share (Resolution 1).

2 To re-elect directors:

Mr D Robson, Mr G E Payne and Mr S G Batey, who retire by rotation in accordance with article 84 of the articles of association of the company (Resolutions 2, 3 and 4).

3 To consider and, if thought fit, to pass the following resolution:

That KPMG Audit Plc be and they are hereby re-appointed auditors of the company to hold office from the conclusion of this meeting until the conclusion of the next general meeting at which accounts are laid before the company at a remuneration to be determined by the directors (Resolution 5).

4 As special business, to consider and, if thought fit, pass the following resolutions:

As a special resolution (Resolution 6):

That the authority conferred on the directors by paragraph 12.2.1 and the power conferred on the directors by paragraph 12.2.2 of article 12.2 of the articles of association of the company be renewed for the period ending on the date of the annual general meeting in 1999 or on 3 September 1999, whichever is the earlier, and for such period:

(a) the section 80 amount should be £34.215,002 and

(b) the section 89 amount should be £5.131,085.

As a special resolution (Resolution 7):

That the company be and is hereby unconditionally and generally authorised, for the purpose of section 166 of the Companies Act 1985, to make market purchases (as defined in section 163 of that Act) of preference shares in the capital of the company provided that:

(i) the maximum number of preference shares which may be purchased is 16,386,970 or such lesser number as may represent 10 per cent of the issued preference share capital on 3 June 1998;

(ii) the minimum price which may be paid for a preference share (exclusive of expenses) is 50p;

(iii) the maximum price which may be paid for a preference share is an amount (exclusive of expenses) not to exceed the lesser of:

a) 105 per cent of the average of the middle market quotations of the preference shares as derived from the London Stock Exchange Daily Official List for the five business days immediately preceding the day on which such preference share is contracted to be purchased; and

b) 105 per cent of the average of such quotations for the 10 business days immediately preceding the day on which such preference share is contracted to be purchased; and

(iv) this authority shall expire at the conclusion of the annual general meeting of the company held in 1999 or, if earlier, on 3 September 1999 (except in relation to the purchase of shares the contract for which was concluded before the expiry of such authority and which might be executed, wholly or partly, after such expiry) unless such authority is renewed prior to such time.

As a special resolution (Resolution 8):

That the company be and is hereby unconditionally and generally authorised for the purpose of section 166 of the Companies Act 1985 to make market purchases (as defined in section 163 of that Act) of ordinary shares in the capital of the company provided that:

(i) the maximum number of ordinary shares which may be purchased is 20,529,100;

(ii) the minimum price which may be paid for an ordinary share (exclusive of expenses) is 50p;

(iii) the maximum price which may be paid for an ordinary share is an amount (exclusive of expenses) equal to 105 per cent of the average of the middle market quotations of the company's ordinary shares as derived from the London Stock Exchange Daily Official List for the five business days immediately preceding the day on which such ordinary share is contracted to be purchased: and

(iv) this authority shall expire at the conclusion of the annual general meeting of the company held in 1999 or, if earlier, on 3 September 1999 (except in relation to the purchase of shares the contract for which was concluded before the expiry of such authority and which might be executed, wholly or partly, after such expiry) unless such authority is renewed prior to such time.

As an ordinary resolution (Resolution 9):

That:

a) the AMEC long-term incentive plan (the 'plan'), the main features of which are summarised in the appendix to the letter from the chairman dated 8 May 1998 and the rules of which are produced to the meeting and signed by the chairman for the purpose of identification, be and is hereby approved; and

b) the directors be and are hereby authorised (i) to do all such acts and things as they may consider necessary or expedient to carry the plan into effect, and (ii) to vote, and be counted in the quorum, on any matter connected with the plan, notwithstanding that they may be interested in the same (except that no director may be counted in a quorum or vote in respect of his own participation).

M J Bardsley

By order of the board
M J Bardsley
Secretary
8 May 1998

Notes

1 Resolution 6, which is a special resolution proposed in accordance with the provisions of sections 80 and 89 of the Companies Act 1985, renews the authority given to the directors at last year's annual general meeting to issue shares in the company, up to a nominal amount of £34,215,002, being approximately one third of the total issued ordinary share capital, until the earlier of next year's annual general meeting or 3 September 1999 and also renews the power given to the directors at last year's annual general meeting to allot further shares for cash, other than by way of a rights issue, up to a nominal amount of £5,131,085, being approximately five per cent of the total issued ordinary share capital.

2 Resolution 7 is a special resolution and is a renewal of the authority given to the directors at last year's annual general meeting to purchase up to 10 per cent of the preference shares of the company currently in issue.

3 Resolution 8 is a special resolution and is a renewal of the authority given to the directors at last year's annual general meeting to purchase up to 10 per cent of the ordinary shares of the company currently in issue.

4 Resolution 9 relates to the introduction of a long-term incentive plan for directors and senior executives of the group, details of which are set out in a circular enclosed with the annual report and accounts.

5 A member entitled to attend and vote at the meeting is entitled to appoint one or more proxies to attend and, on a poll, vote instead of him. A proxy need not also be a member.

Shareholder information

Financial calendar

Publication of results

The group's results will normally be published at the following times:

Interim report for half year to 30 June	September
Preliminary announcement for year to 31 December	March/April
Annual report and accounts for year to 31 December	May

Copies of the interim report and preliminary announcement, which are notified to the London Stock Exchange, are available to shareholders on the Internet at http://www.amec.co.uk. They are also available together with the annual report and accounts upon written request from: AMEC p.l.c., group communications department, 1 Golden Lane, London EC1Y 0RR.

Annual general meeting	June

Dividends payable

Interim ordinary dividend	January
Final ordinary dividend	July
Preference dividends	1 May and 1 November

Payment of dividends

Shareholders who do not have dividend payments made directly into their bank or building society accounts through the Bankers Automatic Clearing System (BACS) may do so by contacting the company's registrars directly at the following address:

IRG plc
Bourne House
34 Beckenham Road
Beckenham
Kent BR3 4TU
Telephone: (0181) 650 4866

Share dealing service

A share dealing service is provided exclusively for the investment in and sale of shares in AMEC p.l.c. It is an execution only service and no financial or taxation advice is provided.

Stockbroking commission will be payable at the following rate:
1.0 per cent on the first £3,000 consideration
0.5 per cent thereafter
Minimum commission £9.50

Further information may be obtained from:

National Westminster Bank plc
Corporate and Banking Services
AMEC information
55 Mansell Street
FREEPOST
London E1 8BR
Telephone: (0171) 895 5448

This note has been approved for the purposes of section 57 of the Financial Services Act 1986 by National Westminster Bank plc, which is regulated by the Personal Investment Authority and IMRO.

Please remember that the value of shares and the income from them may go down as well as up and that you may not recover the amount originally invested.

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