Report of the directors

The directors have pleasure in presenting the annual report and accounts for the year ended 31 December 2005.

Information on the businesses of AMEC, their development during the year and on the future outlook is contained on pages 1 to 55.

An analysis of AMEC's activities is given in note 2 on pages 75 and 76.

The profit on ordinary activities after taxation, which amounted to £3.7 million (2004: £51.7 million), is shown in the consolidated income statement on page 67. These are the group's first accounts prepared under adopted IFRS and IFRS 1, "First time adoption of International Reporting Standards", has been applied.

The directors have proposed a final ordinary dividend in respect of the year ended 31 December 2005 of 7.5 pence per share. This has not been included within creditors as it was not approved before the year end. This final dividend will be payable on 3 July 2006 to shareholders on the register at the close of business on 12 May 2006.

Dividends paid during the year comprise a final dividend of 7.2 pence per share in respect of the year ended 31 December 2004, together with an interim dividend in respect of the year ended 31 December 2005 of 4.0 pence per share.

During the year AMEC successfully completed two major strategic acquisitions in its oil and gas and nuclear businesses. In January 2005, AMEC acquired Paragon Engineering Services Inc, a US oil and gas engineering services business, for £22 million. This provides AMEC with a major presence in Houston, the home of many of the world's major oil and gas companies.

In July 2005, AMEC acquired NNC Holdings Ltd, the UK's leading private sector nuclear services business, for £40 million. This acquisition strengthens AMEC's position in supporting the operations, maintenance and decommissioning of civil nuclear infrastructure in the UK and Canada and will allow the exploitation of new business opportunities in other countries.

Share capital

The authorised and issued share capital of the company as at 31 December 2005 and movements during the year are set out in note 23 on page 91.

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

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

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

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

Pursuant to Section 198 of the Companies Act 1985, notifications have been received by the company of shareholdings of 3 per cent or more of the issued share capital as at 15 March 2006 and these are as follows:

	Number	Per cent
Toscafund Limited	28,714,088	8.63
FMR Corporation/ Fidelity International Ltd	19,524,183	5.87
ZAM Europe, L.P.	13,446,002	4.04
Aviva plc/Morley Fund Management Ltd	13,430,142	4.03
Zurich Financial Services	11,708,999	3.52
Legal & General Investment Management Ltd	11,160,201	3.35
Barclays PLC	10,126,442	3.04
Deutsche Bank AG	10,081,704	3.03

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

Details of the directors of the company at the date of this report are set out on pages 28 and 29.

Mr C A Riva resigned from the board on 11 April 2005.

Mr J A Monville, Ms E P Airey, Mr J A Dallas and Mr J-P Jacamon retire in accordance with article 85 of the articles of association of the company and, being eligible, offer themselves for re-election. None of the aforementioned has an employment contract with the company.

The beneficial interests in the share capital of the company of the directors holding office as at 31 December 2005 were as follows:

	As at 31 December 2005 Number	As at 31 December 2004 Number
J M Green-Armytage	**10,000**	10,000
Sir Peter Mason	**105,827**	90,669
J D Early	**53,347**	53,347
J A Monville	**19,809**	19,809
E P Airey	**18,120**	18,120
J A Dallas	**2,000**	2,000
M O Hesse	**16,414**	16,414
S J Siddall	**26,144**	24,307
J-P Jacamon	**10,000**	10,000
P J Byrom	**–**	–
T W Faithfull	**5,000**	–

Except for interests under share option schemes and the Performance Share Plan, details of which are contained in the directors' remuneration report on pages 61 to 66, no director as at 31 December 2005 had any other interests, beneficial or otherwise, in the share capital of the company or any of its subsidiaries. There were no changes in the directors' interests in the share capital of the company between 31 December 2005 and 15 March 2006.

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

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

In 2005, AMEC employed on average 44,710 people worldwide. Details are given in note 6 on page 78.

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

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

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

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

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

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

Resolution 11 will be proposed at the annual general meeting to amend the memorandum and articles of association of the company which relate to the indemnity provided to the directors of the company and to increase the aggregate annual amount which may be paid to the directors by way of ordinary remuneration.

Resolution 12 will be proposed at the annual general meeting to further amend the articles of association which relate to the company's borrowing powers.

Further explanatory notes to the above two resolutions and the proposed amendments to the memorandum and articles can be found in the circular which accompanies this annual report and accounts.

The annual general meeting will be held on 17 May 2006.

Report of the directors

Dialogue with institutional shareholders
Mr J M Green-Armytage, chairman, wrote to all major shareholders in April 2005 informing them that he and the senior independent director, Ms E P Airey, were available for meetings or telephone calls with them if required. He also advised that Messrs Byrom and Faithfull, as new independent non-executive directors, would also be available for an introductory meeting with them. The chairman attends preliminary and interim results presentations. Ms Airey is available to attend, if requested, one-on-one meetings with major shareholders. The chairman had a number of such meetings with three major shareholders during 2005. No meetings were requested with Ms Airey or Messrs Byrom and Faithfull.

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

The board is responsible to shareholders for the management of the company and for the protection of its assets. As such, it is ultimately responsible for implementing AMEC's systems of internal control and for reviewing their effectiveness. These systems are designed to manage, rather than eliminate, the risk of failure to achieve business objectives and consequently can provide reasonable, but not absolute, assurance against material mis-statement or loss. In 2005 changes were made to the management of the UK Construction business following both internal and external reviews which indicated that certain established control processes were not being followed.

Combined Code compliance
AMEC complied with the Combined Code (July 2003 revision) throughout 2005 except as follows:

The revised code requires there to be a "balance of executive and non-executive directors (and in particular independent non-executive directors) such that no individual or small group of individuals can dominate the board's decision taking". There was an imbalance of executive and non-executive directors on the board, with five executives and four non-executives, from 1 January 2005 until 10 February 2005 when two further independent non-executive directors were appointed to the board. The board does not consider that this imbalance impaired its effectiveness in any way. One of the executive directors resigned from the board in April 2005.

With respect to acquisitions made during the year, due diligence work was performed prior to acquisition and subsequently the companies have been adopting AMEC's key policies and procedures outlined in the AMEC Management and Policy Framework. Internal controls are reviewed by management and by internal audit as part of the normal audit process.

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

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

For the majority of 2005, the board comprised the non-executive chairman, four executive directors and six independent non-executive directors. Mr P J Byrom and Mr T W Faithfull were appointed to the board in February 2005 as independent non-executive directors and Mr C A Riva resigned as an executive director in April 2005.

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

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

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

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

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

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

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

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

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

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

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

It reviews the head of internal audit's regular reports and, during 2005, commissioned an independent review of the internal audit function by PricewaterhouseCoopers. No material changes were identified as being necessary as a result of this exercise.

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

The committee also formally reviews and monitors the external auditor's independence and objectivity and the effectiveness of the audit process, taking into consideration relevant UK professional and regulatory requirements and makes recommendations to the board. During 2005 a review, co-ordinated on behalf of the committee by the head of internal audit, was carried out. The audit committee has also monitored the implementation of the policy on the engagement of the external auditor to supply non-audit services, which was reconfirmed in 2005. This policy follows the guidelines set out by the Institute of Chartered Accountants in England and Wales ("ICAEW") and clearly defines what work can and cannot be performed by any group company's statutory auditor. It also sets out the necessary approval process for those non-audit services that are acceptable.

All non-statutory audit or non-compliance tax services provided by the auditor are reported to the audit committee. During 2005, the fees paid to the company's auditor, KPMG Audit Plc and its associates, for non-audit work were £1.3 million (2004: £0.8 million), which comprised £0.7 million primarily relating to taxation and £0.6 million for other work (2004: £0.6 million and £0.2 million).

In addition to the above amounts, fees of £0.2 million (2004: £0.2 million) were paid to KPMG Audit Plc in connection with due diligence undertaken on acquisitions.

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

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

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

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

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

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

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

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

The following table is a record of the directors' attendance at board and principal board committee meetings during the year ended 31 December 2005.

	AMEC plc board	Audit committee	Nominations committee	Remuneration committee
J M Green-Armytage	12		5	
Sir Peter Mason	12		4	
J D Early	11			
J A Monville	11			
E P Airey	11	5	3	5
J A Dallas	10	4	3	5
M O Hesse	7	3	3	5
S J Siddall	13			
J-P Jacamon	11	5	5	5
P J Byrom (from February 2005)	11	3	3	6
T W Faithfull (from February 2005)	11	3	3	4
C A Riva (to April 2005)	3			

Charities committee – Makes commitments and donations in support of charitable, educational and cultural causes.

Compliance and ethics committee – Considers and approves the codes of business conduct and related compliance arrangements and takes responsibility for management of investigations of violations, as required.

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

Report of the directors

The committees chaired by executive directors are as follows:

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

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

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

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

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

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

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

The risk management and internal control processes are complemented by an annual control risk self-assessment exercise carried out by the principal businesses. This covers major risks, particularly safety, health and environment, legal, commercial and contractual, financial, information technology and human resources. The results are reviewed by the board, through both the audit committee and the executive directors, and as part of the ongoing internal audit process.

The risk management processes were in place for the whole of 2005, and up to the date of approval of the accounts, and satisfy the requirements of the Turnbull guidance.

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

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

The company had 30 days' purchases outstanding as at 31 December 2005 based on the average daily amount invoiced by suppliers during the year.

Donations to United Kingdom charities amounted to £108,000 for the year ended 31 December 2005.

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

By order of the board

P J Holland
Secretary
15 March 2006

P. J. Holland

There were no other changes in either the directors' interests or in the substantial interests in the share capital of the company between 15 March 2006 and 30 March 2006.

Directors' remuneration report

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

Remuneration committee membership and advisers

During the year, the members of the remuneration committee, any three of whom may form a quorum, comprised Mr J A Dallas (chairman), Ms E P Airey, Ms M O Hesse, Mr J-P Jacamon and, following their appointments as directors, Mr P J Byrom and Mr T W Faithfull. In accordance with the Combined Code regulations, the chairman of the board, Mr J M Green-Armytage, attends meetings by invitation but is not a member of the remuneration committee. The committee's terms of reference are available on the company's website and on request from the company secretary.

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

During 2005, New Bridge Street Consultants LLP ("New Bridge Street") continued to provide standing advice to the committee in connection with its responsibilities. New Bridge Street does not carry out material additional work for the company. The terms of engagement between the company and New Bridge Street are available from the company secretary. Monks Partnership, in relation to the UK, and Towers Perrin, particularly in relation to France and the US, provided market remuneration and benefits reports covering various levels of management which, in respect of the executive directors, were reviewed by New Bridge Street.

Remuneration policy

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

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

Remuneration packages comprise:

- base salaries which broadly equate to the mid-market salary practices of a relevant group of support services, engineering and construction comparator companies and other companies regarded as comparable by virtue of, amongst other factors, revenue, employee numbers, market capitalisation and/or geographic coverage;
- annual bonuses which incentivise the achievement of stretching business and individual performance targets and offer the opportunity to achieve upper quartile annual cash earnings if these targets are achieved; and
- medium and long-term incentives which align the interests of shareholders and senior executives by offering the latter the opportunity to accumulate significant capital over a period but only if stretching shareholder value targets are met.

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

[illegible]

The base salaries of executive directors are reviewed annually, having regard to personal performance, company performance, competitive market practice as determined by external research and pay levels more broadly within the company. The following salaries have been approved from 1 January 2006, representing an increase of 5 per cent:

Sir Peter Mason	£640,500
J D Early	£291,375
J A Monville (£393,900 equivalent)	€573,300
S J Siddall	£378,000

All executive directors participate in the AMEC executive annual bonus plan which generates bonus payments calculated by reference to each of the following:

- the profit achievement of the group, with a target level of bonus payable for achieving budget and the maximum pay-out requiring achievement of a more stretching target;
- the achievement of other specific business targets, including cash flow and business unit profit; and
- individual performance objectives (for example, in relation to safety, strategy, business development and organisational issues).

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

For Mr J A Monville, in the event that the sale of AMEC SPIE is completed during 2006, and recognising his key role in achieving a successful transaction, it is intended to replace the normal annual bonus with a special incentive linked to the sale proceeds on a sliding scale above a minimum threshold and subject to the achievement in the business being divested of at least budgeted profit in the period prior to the sale. While there will be no absolute maximum, the structure of this incentive is designed to pay 2 x normal maximum annual bonus at a plausible top-end proceeds level. A number of other senior AMEC SPIE executives are also included in this arrangement but with lower potential payments.

No elements of remuneration other than base salary are pensionable other than for Mr Monville, who is 61, and whose base salary and ordinary annual bonus, up to a maximum of 60 per cent of base salary, are pensionable. Mr Monville's pension arrangements are covered on page 66 of this report. These arrangements are common for senior executives in France and are a contractual obligation that AMEC inherited with the acquisition of SPIE S.A.

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

Directors' remuneration report

AMEC's principal long-term incentive arrangement is the Performance Share Plan 2002. Following approval by shareholders at the annual general meeting in May 2005, AMEC's policy is to make annual awards to executive directors, and to a small number of other senior executives just below board level, of restricted shares with a value at the time of award of up to 175 per cent of base salary. In addition, participants are offered a further award, up to a maximum of 25 per cent of base salary, of five restricted shares for every three purchased from their previous year's post-tax bonus and held on their behalf as investment shares for the full three year performance period. Awards are also made to a wider group of executives, with lower levels of face value to reflect seniority and contribution. Awards are not normally made to those within one year of retirement and, where the individual is within three years of retirement, the size of award has regard to the executive's ability to contribute to the achievement of the performance conditions.

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

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

For 2005, awards were made in two tranches – in April, under the previous limits, and in September to reflect the revised limits approved by shareholders. For subsequent years it is envisaged that awards will normally be made in a single tranche in April.

The present economic value of performance share awards made in 2005 has been assessed by Watson Wyatt LLP as 40 per cent of face value.

The company has a second scheme in place – the Executive Share Option Scheme 2002. AMEC's policy is now only to grant share options under this scheme selectively and in exceptional circumstances such as recruitment. No awards were made under this scheme during 2005.

During the transition to International Financial Reporting Standards, the remuneration committee will aim to ensure that performance measurement for remuneration purposes will be consistent year on year.

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

The executive directors, except for Mr J A Monville and, with effect from 31 October 2005, Mr J D Early, are members of the AMEC Staff Pension Scheme and have top-up benefits provided through the AMEC Executive Pension Scheme. The schemes are both approved defined benefit schemes and also provide for life assurance cover and dependants' pensions. These executive directors have a normal retirement age of 60 and accrue pension rights which are linked to the length of pensionable service and to final pensionable salary.

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

As referred to above, Mr J D Early ceased to be an active member of the AMEC Staff and Executive pension schemes on 31 October 2005 and consequently is not accruing further benefits under either scheme. Since 1 November 2005, he has been paid a salary supplement in lieu of further pension accrual.

A review of policy on UK executive pensions has been undertaken in the light of the new tax regime that comes into force in April 2006. All decisions on this matter were delegated by the board to the remuneration committee to avoid executive directors' conflicts of interest. The following are the key features, which will apply from April 2006:

- There will be a new scheme-specific pensionable earnings cap applicable to all members, set initially at £112,500 p.a. The scheme specific cap of £112,500 is marginally higher than the pensions cap applicable under current legislation (the "Current Cap"). The Current Cap is normally increased annually in line with price inflation and would therefore have been expected to rise from the current figure of £105,600 to approximately £109,000 in 2006. This difference will result in some 25 capped members, including Sir Peter Mason and Mr S J Siddall, receiving a small increase to the value of their pension accrued to date.

- The scheme design is aimed at achieving a benefit equivalent to the statutory Life Time Allowance over 20 years service for those executives who have a 1/30ths accrual rate, which would include all participating executive directors, and 30 years for those with a 1/45ths accrual rate.

- Non-bonusable salary supplements of 20 per cent in respect of basic salary in excess of the scheme-specific cap will be paid to all participating executive directors and may be paid selectively to other senior executives.

- Participants will be able to opt-out of further pension accrual, particularly if this would provide benefits in excess of the Life Time Allowance, in which case they will receive a non-bonusable salary supplement of 20 per cent of basic salary up to the scheme-specific cap in lieu of further pension accrual. Where the supplement referred to above in respect of the earnings cap was also being paid, this would continue in addition.

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

The company is paying for selected senior executives whose benefits may exceed the Life Time Allowance, including Sir Peter Mason and Mr S J Siddall, to receive independent financial advice on the implications of the new pensions tax regime, in particular whether they should opt for primary and/or enhanced protection. This will be disclosed as a benefit in kind.

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

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

AMEC's policy is that on appointment, executive directors will normally be employed with a notice period of one year. In the event of employment being terminated with less notice than this, damages will be determined at the time taking account of the circumstances leading up to the termination and the individual's duty to mitigate his loss.

Mr C A Riva who was appointed in August 2003 had a contract on this basis. This was terminated by the company from 31 July 2005, following notice given on 11 April 2005.

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

Mr J D Early had a similar arrangement up to his normal retirement age on 8 November 2005, at which stage his employment contract was amended by agreement to provide for three months' notice on either side.

Mr J A Monville is employed by SPIE S.A. as chairman. As a governing executive (mandataire social) any compensation for loss of office is governed by his employment contract and French law. He is entitled to three months' notice and a termination indemnity which, at the end of 2005, would have been the equivalent of 10.5 months' base salary plus bonus.

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

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

Sir Peter Mason is a non-executive director of BAE Systems plc. He retains the fee of £63,000 per annum which he receives in relation to this appointment.

The remuneration committee is responsible for determining the remuneration and other terms of employment of the chairman of the board. The contract of the chairman, Mr J M Green-Armytage, contains provision for six months' written notice of resignation prior to the expiry date and payment of six months' fees if the board withdraw their agreement to his continuing to serve as chairman, other than for gross misconduct. The chairman's current fee is £200,000 per annum and he is provided with life assurance cover of four times the pensions earnings cap.

The remuneration of non-executive directors is determined by the chairman and the executive directors under delegated authority from the board. The non-executive directors receive fees for their services and do not participate in any of the incentive or benefit schemes of the group. The fee structure was revised with effect from 1 January 2005.

The current fee is £40,000 per annum plus a further £5,000 per annum in respect of chairing committees of the board other than audit, where the additional fee is £10,000 per annum, and remuneration, where the additional fee is £7,500 per annum. There is an additional fee of £5,000 per annum paid to the senior independent director.

Non-executive directors may also be paid additional fees for other duties undertaken on behalf of the company. In 2005, Ms E P Airey received £10,000 for chairing the trustee boards of the main UK pension schemes. She resigned from that role on 1 March 2006 and was replaced by an independent trustee chairman. Ms M O Hesse received US$10,000 for chairing the North America advisory board.

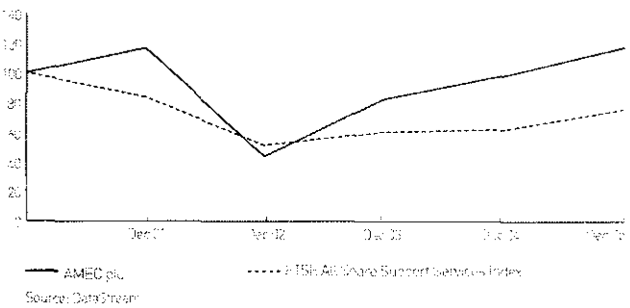
The board's policy is that non-executive director appointments are normally for three consecutive three year terms, subject to review after the end of each term. The non-executive directors as at 31 December 2005 have fixed term contracts which run until the dates set out below:

	Date of contract	Service review date
E P Airey	26 May 1999	25 May 2008
J A Dallas	28 October 1999	27 October 2008
M O Hesse	1 June 2000	31 May 2006
J-P Jacamon	27 November 2002	27 November 2008
P J Byrom	10 February 2005	9 February 2008
T W Faithfull	10 February 2005	9 February 2008

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

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

The following graph (rebased to 100 as at 1 January 2001) charts the total cumulative shareholder return of the company since 1 January 2001:



This graph shows the growth in the value of a hypothetical £100 holding in AMEC plc ordinary shares over five years relative to a the FTSE Support Services sector, where AMEC is listed.

Directors' remuneration report

The auditors are required to report on the following information on pages 64 to 66 of the directors' remuneration report.

Individual aspects of remuneration were as follows:

	Salary /fee £000	Pension supplement[i] £000	Bonus[ii] £000	Benefits in kind[iii] £000	Compensation for loss of office £000	2005 Total £000	2004 Total £000
Sir Peter Mason	**610**	**101**	**140**	**44**	**–**	**895**	949
J D Early	**277**	**9**	**98**	**16**	**–**	**400**	418
J A Monville[iv]	**375**	**–**	**156**	**8**	**–**	**539**	562
S J Siddall	**360**	**51**	**108**	**21**	**–**	**540**	558
C A Riva[v] (to 31 July 2005)	**277**	**43**	**–**	**10**	**571**	**901**	960
J M Green-Armytage	**200**	**–**	**–**	**–**	**–**	**200**	191
E P Airey	**58**	**–**	**–**	**–**	**–**	**58**	46
J A Dallas	**49**	**–**	**–**	**–**	**–**	**49**	35
M O Hesse	**53**	**–**	**–**	**–**	**–**	**53**	46
J-P Jacamon	**53**	**–**	**–**	**–**	**–**	**53**	35
P J Byrom (from 10 February 2005)	**39**	**–**	**–**	**–**	**–**	**39**	–
T W Faithfull (from 10 February 2005)	**39**	**–**	**–**	**–**	**–**	**39**	–
S Gillibrand (to 21 January 2004)	**–**	**–**	**–**	**–**	**–**	**–**	12
Total board	**2,390**	**204**	**502**	**99**	**571**	**3,766**	3,812

(i) Sir Peter Mason, Mr Siddall and Mr Riva received a taxable supplement of 20 per cent of salary above the pension earnings cap. Mr Early has received a supplement of 20 per cent of total salary since 1 November 2005 in lieu of further pension accrual.

(ii) The bonuses detailed above represented the following percentages of their base salaries for the year against a maximum potential of *80 per cent: Sir Peter Mason 23.0 per cent, Mr Early 35.4 per cent, Mr Monville 41.6 per cent and Mr Siddall 30.0 per cent. No bonus* has been paid this year in respect of AMEC plc profit performance. The awards made reflect varying achievement against other specific business targets and personal objectives.

(iii) The value of benefits in kind received during the year relates principally to the provision of a company car or car allowance, travelling expenses and private medical expenses insurance. Unemployment insurance is also made available to Mr Monville in accordance with French practice. During 2004, Mr Riva received relocation expenses of £255,000 relating to when he originally joined AMEC. None of these benefits are pensionable.

(iv) Mr Monville's salary comprised €503,000 paid by SPIE S.A. and £30,000 paid by AMEC plc.

(v) Mr Riva received a compensation payment of £571,000 under the terms of a compromise agreement, reached through negotiations with Mr Riva and his legal advisers, in lieu of the balance of his notice and as compensation for loss of office, with a reduction to take account of mitigation. In addition, all Mr Riva's share option and performance share awards lapsed on leaving.

The numbers of restricted shares held by executive directors to whom awards had been made under the Performance Share Plan 2002 were as follows:

	As at 1 January 2005 Number	Awarded during the year Number	Date awarded	Market price at date of award Pence	Lapsed during the year Number	**As at 31 December 2005 Number**	End of performance period
Sir Peter Mason	79,500		Apr 2002	430.50	79,500	–	Mar 2005
	221,248		Apr 2003	228.25		**221,248**	Mar 2006
	191,666		Apr 2004	300.00		**191,666**	Mar 2007
		186,769	Apr 2005	326.60		**186,769**	Mar 2008
		177,583	Sept 2005	343.50		**177,583**	Mar 2008
J D Early	38,030		Apr 2002	430.50	38,030	–	Mar 2005
	105,826		Apr 2003	228.25		**105,826**	Mar 2006
	87,500		Apr 2004	300.00		**87,500**	Mar 2007
		80,786	Sept 2005	343.50		**80,786**	Mar 2008
S J Siddall	43,890		Apr 2002	430.50	43,890	–	Mar 2005
	113,909		Apr 2003	228.25		**113,909**	Mar 2006
	98,333		Apr 2004	300.00		**98,333**	Mar 2007
		97,679	Apr 2005	326.60		**97,679**	Mar 2008
		104,803	Sept 2005	343.50		**104,803**	Mar 2008
J A Monville	134,281		Apr 2003	228.25		**134,281**	Mar 2006
	99,495		Apr 2004	300.00		**99,495**	Mar 2007
		86,412	Apr 2005	326.60		**86,412**	Mar 2008
		109,549	Sept 2005	343.50		**109,549**	Mar 2008
C A Riva	167,597		Aug 2003	268.50	167,597	–	Mar 2006
	153,333		Apr 2004	300.00	153,333	–	Mar 2007

- The additional awards made in September 2005 were to give effect to the policy approved by the 2005 annual general meeting to increase *performance share awards and to cease annual option awards. The timing of the awards was delayed due to close period restrictions.*
- For the performance share awards made in April 2002, AMEC failed to meet the minimum performance conditions and, therefore, the awards lapsed in April 2005.
- The terms and conditions of the Performance Share Plan have not been varied during the year other than in the composition of the comparator group for 2005 awards compared to those for previous years' awards. This change reflects the changed FTSE sector listing of the company's shares from Construction and Building Materials to Support Services.
- The closing price of the shares at *31 December 2005 was 343.50* pence *(2004: 297.75 pence).*
- The range of the closing prices for the shares during the year was 300.00 pence to 372.00 pence.
- The register of directors' interests, which is open to inspection at the company's registered office, contains full details of directors' shareholdings, share options and awards under the Performance Share Plan.
- Had the restricted shares detailed above vested in full as at 31 December 2005 the approximate latent value before appropriate taxes for each of the current directors would have been: Sir Peter Mason, £2,670,000; Mr Early, £942,000; Mr Siddall, £1,425,000; and Mr Monville, £1,377,000. These hypothetical figures assume that all performance conditions would have been fully met, which in practice may not transpire.

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

	As at *1 January* 2005 Number	*Exercised/* lapsed during the year	***As at 31 December* 2005 Number**	Option price Pence	*Market price on* date of exercise Pence	Exercise period
Sir Peter Mason[i]	600,000	600,000	–	99.00	326.00	Feb 1999-Feb 2006
	451,388		**451,388**	144.00		Apr 2000-Apr 2007[iv]
	215,500		**215,500**	219.75		Oct 2005-Oct 2012[v]
	208,000		***208,000***	*276.25*		*Sept 2006-Sept 2013*
	4,231*		**4,231***	218.00		Jan 2007-June 2007
	179,687		**179,687**	320.00		Sept 2007-Sept 2014
J D Early[i]	50,000	50,000	–	144.00	324.50	Apr 2000-Apr 2007
	101,000		**101,000**	219.75		Oct 2005-Oct 2012[v]
	96,000		**96,000**	276.25		Sept 2006-Sept 2013
	3,893*		**3,893***	218.00		Jan 2007-June 2007
	82,031		**82,031**	320.00		Sept 2007-Sept 2014
S J Siddall	118,500		**118,500**	219.75		Oct 2005-Oct 2012[v]
	119,000		**119,000**	276.25		Sept 2006-Sept 2013
	4,231*		**4,231***	218.00		Jan 2007-June 2007
	106,250		**106,250**	320.00		Sept 2007-Sept 2014
J A Monville	135,000		**135,000**	276.25		Sept 2006-Sept 2013
	109,327		**109,327**	320.00		Sept 2007-Sept 2014
C A Riva	325,791	325,791	–	276.25	Lapsed	Sept 2006-Sept 2013
	143,750	143,750	–	320.00	Lapsed	Sept 2007-Sept 2014

Notes relating to this table appear overleaf.

Directors' remuneration report

(i) Gain on exercise £1,362,000 (2004: £1,495).
(ii) Gain on exercise £90,250 (2004: £1,659).
(iii) All awards under the Executive Share Option Scheme 2002 are subject to performance conditions which require a minimum level of earnings per share growth for any vesting and a higher level of growth for full vesting. The minimum performance condition which applies to the awards made in 2002 was not met at the first time of testing. These awards are subject to two further retests in 2006 and 2007. Executive Share Option Scheme awards made from 2004 onwards are not subject to retest.
(iv) Remaining awards made under the former Executive Share Option Scheme 1995 and not exercised during the year were capable of being exercised at 31 December 2005. If these options had been exercised on that date the approximate gain before appropriate taxes for Sir Peter Mason would have been £901,000.
(v) Had the remainder of the options been capable of being exercised and vested in full as at 31 December 2005, the approximate latent gain before appropriate taxes for each of the current directors would have been: Sir Peter Mason, £454,000; Mr Early, £214,000; Mr Siddall, £257,000; and Mr Monville, £116,000. These hypothetical figures assume that all performance conditions would have been fully met, which in practice may not transpire.
(vi) There were no grants under the Executive Share Option Scheme during the year.

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

	Gross increase in accrued pension £000	Increase in accrued pension net of inflation £000	Total accrued pension at 31 December 2005[i] £000	Value of net increase in accrual over period[iii] £000	Total change in value during period[iv] £000	Value of accrued pension at 31 December 2005 £000	Value of accrued pension at 31 December 2004 £000
Sir Peter Mason	**5**	**4**	**35**	**44**	**112**	**744**	627
J D Early	**13**	**8**	**180**	**25**	**183**	**3,599**	3,406
S J Siddall	**4**	**4**	**19**	**73**	**104**	**416**	307
C A Riva	**2**	**2**	**7**	**38**	**46**	**143**	94

(i) Pension accruals shown are the amounts which would be paid annually on retirement based on service to the end of the year.
(ii) Transfer values have been calculated in accordance with version 8.1 of guidance note GN11 issued by the actuarial profession.
(iii) The value of net increase represents the incremental value to the director of his service during the year, calculated on the assumption service terminated at the year end. It is based on the accrued pension increase after deducting the director's contribution. Note that Mr Riva's pensionable service ended on 31 July 2005 and Mr Early's pensionable service ended on 31 October 2005.
(iv) The change in the transfer value includes the effect of fluctuations in the transfer value due to factors beyond the control of the company and directors, such as stockmarket movements. It is calculated after deducting the director's contribution.
(v) Voluntary contributions paid by directors and resulting benefits are not shown.

Mr J A Monville is a member of the SPIE top-up pension scheme for senior executives. Although the scheme, arranged through an insurance company, is a defined benefit scheme, it is not possible to disclose his pension benefits in the above format. A pension is payable by SPIE only in the event of Mr Monville reaching his normal retirement age of 65 or, following the attainment of age 60, by agreement with AMEC. No pension is due or payable in other circumstances and Mr Monville currently has no accrued right to a pension payment. His pension at the normal retirement age, or as agreed by AMEC, would be based on the average of his last three years' base salary and bonus, up to a maximum of 20 per cent of this figure. As at 31 December 2005, this would equate to £110,000 (€160,000 (2004: £106,000 (€149,000)) per annum. It is not possible to attribute a value to the accrued funds as these are not separately identified by the insurance company.

J A Dallas
Chairman, remuneration committee
On behalf of the board
15 March 2006

Consolidated income statement

For the year ended 31 December 2005

	Note	2005 Before exceptional items and intangible amortisation £ million	2005 Exceptional items (note 5) £ million	2005 Intangible amortisation £ million	2005 Total £ million	2004 Before exceptional items and intangible amortisation £ million	2004 Exceptional items (note 5) £ million	2004 Intangible amortisation £ million	2004 Total £ million
Revenue	2	**4,942.5**	**–**	**–**	**4,942.5**	4,657.5	–	–	4,657.5
Cost of sales		**(4,307.8)**	**(26.2)**	**–**	**(4,334.0)**	(4,053.5)	–	–	(4,053.5)
Gross profit/(loss)		**634.7**	**(26.2)**	**–**	**608.5**	604.0	–	–	604.0
Administrative expenses		**(502.5)**	**–**	**(6.0)**	**(508.5)**	(480.0)	–	(0.5)	(480.5)
Loss on business disposals and closures		**–**	**(63.3)**	**–**	**(63.3)**	–	(21.5)	–	(21.5)
Profit/(loss) before net financing costs	2 & 4	**132.2**	**(89.5)**	**(6.0)**	**36.7**	124.0	(21.5)	(0.5)	102.0
Financial income		**22.3**	**–**	**–**	**22.3**	28.3	–	–	28.3
Financial expense		**(44.1)**	**–**	**–**	**(44.1)**	(47.1)	–	–	(47.1)
Net financing costs	7	**(21.8)**	**–**	**–**	**(21.8)**	(18.8)	–	–	(18.8)
Share of post-tax results of joint ventures	2	**10.5**	**–**	**–**	**10.5**	8.0	–	–	8.0
Profit/(loss) before income tax		**120.9**	**(89.5)**	**(6.0)**	**25.4**	113.2	(21.5)	(0.5)	91.2
Income tax	8	**(36.7)**	**15.0**	**–**	**(21.7)**	(38.1)	(1.4)	–	(39.5)
Profit/(loss) for the year		**84.2**	**(74.5)**	**(6.0)**	**3.7**	75.1	(22.9)	(0.5)	51.7
Attributable to:									
Equity holders of the company					**4.0**				50.9
Minority interests					**(0.3)**				0.8
					3.7				51.7
Earnings per share:	9								
Basic					**1.3p**				17.3p
Diluted					**1.2p**				16.8p

As more fully explained in note 31, financial instrument accounting is determined on different bases in 2005 and 2004 due to the transitional provisions of IAS 32 and IAS 39.

Consolidated statement of recognised income and expense

For the year ended 31 December 2005

	Note	2005 £ million	2004 £ million
Exchange differences on translation of foreign subsidiaries		**44.4**	(12.3)
Actuarial losses on defined benefit pension schemes	14	**(56.7)**	(10.1)
Net loss on hedges of net investment in foreign subsidiaries	21	**(12.0)**	–
Cash flow hedges:			
Effective portion of changes in fair value		**(3.8)**	–
Transferred to the income statement		**(1.0)**	–
Group share of changes in fair value of cash flow hedges within joint venture entities (net of tax)		**(8.0)**	–
Tax in respect of items recognised directly in equity	8	**18.3**	3.8
Net expense recognised directly in equity		**(18.8)**	(18.6)
Profit for the year		**3.7**	51.7
Total recognised income and expense for the year		**(15.1)**	33.1
Effect of change in accounting policy			
Effect of adoption of IAS 32 and 39 on 1 January 2005 (with 2004 not restated) on:			
Hedging and translation reserves		**(17.7)**	-
Retained earnings		**(4.4)**	–
	31	**(22.1)**	–
		(37.2)	33.1
Attributable to:			
Equity holders of the company		**(12.1)**	32.3
Minority interests		**(3.0)**	0.8
Total recognised income and expense for the year	23	**(15.1)**	33.1

As more fully explained in note 31, financial instrument accounting is determined on different bases in 2005 and 2004 due to the transitional provisions of IAS 32 and IAS 39.

Consolidated balance sheet

As at 31 December 2005

	Note	2005 £ million	2004 £ million
ASSETS			
Non-current assets			
Property, plant and equipment	10	**158.3**	149.0
Intangible assets	11	**477.9**	392.5
Interests in joint ventures	12	**85.0**	75.6
Other investments	12	**4.5**	16.0
Other receivables	13	**24.0**	21.5
Retirement benefit assets	14	**74.7**	118.9
Deferred tax assets	15	**70.9**	45.5
Total non-current assets		**895.3**	819.0
Current assets			
Inventories	16	**73.8**	87.2
Trade and other receivables	17	**1,884.2**	1,823.8
Derivative financial instruments	21	**0.8**	–
Cash and cash equivalents		**351.9**	299.5
Total current assets		**2,310.7**	2,210.5
Total assets	2	**3,206.0**	3,029.5
LIABILITIES			
Current liabilities			
Bank loans and overdrafts	19	**(39.1)**	(46.0)
Trade and other payables	18	**(2,007.7)**	(1,911.0)
Derivative financial instruments	21	**(3.3)**	–
Tax payable		**(56.1)**	(29.9)
Total current liabilities		**(2,106.2)**	(1,986.9)
Non-current liabilities			
Bank loans	19	**(558.3)**	(537.2)
Trade and other payables	20	**(73.7)**	(67.8)
Derivative financial instruments	21	**(13.0)**	–
Retirement benefit liabilities	14	**(56.2)**	(52.3)
Deferred tax liabilities	15	**(47.1)**	(45.6)
Provisions	22	**(28.6)**	(32.1)
Total non-current liabilities		**(776.9)**	(735.0)
Total liabilities	2	**(2,883.1)**	(2,721.9)
Net assets	2	**322.9**	307.6
EQUITY			
Share capital	23	**166.4**	151.0
Share premium account	23	**89.5**	88.8
Hedging and translation reserves	23	**(5.8)**	(11.8)
Capital redemption reserve	23	**17.2**	17.2
Retained earnings	23	**55.3**	59.1
Total equity attributable to equity holders of the parent		**322.6**	304.3
Minority interests	23	**0.3**	3.3
Total equity	23	**322.9**	307.6

As more fully explained in note 31, financial instrument accounting is determined on different bases in 2005 and 2004 due to the transitional provisions of IAS 32 and IAS 39.

The accounts on pages 67 to 103 were approved by the board of directors on 15 March 2006 and were signed on its behalf by:

Sir Peter Mason KBE
Chief executive

S J Siddall
Finance director

Consolidated cash flow statement

For the year ended 31 December 2005

	Note	2005 £ million	2004 £ million
Cash flow from operating activities			
Profit before income tax		**25.4**	91.2
Financial income		**(22.3)**	(28.3)
Financial expense		**44.1**	47.1
Share of post-tax results of joint ventures		**(10.5)**	(8.0)
Intangible amortisation		**6.0**	0.5
Depreciation		**38.4**	37.9
Profit on disposal of property, plant and equipment		**(9.5)**	(3.7)
Equity settled share-based payments		**(0.8)**	(4.7)
		70.8	132.0
Decrease in inventories		***21.9***	*10.0*
Increase in trade and other receivables		**(30.5)**	(204.7)
Increase in trade and other payables and provisions		**70.6**	75.6
Cash generated from operations		**132.8**	12.9
Interest paid		**(43.7)**	(46.6)
Tax received/(paid)		**3.9**	(26.6)
Net cash flow from operating activities		**93.0**	(60.3)
Cash flow from investing activities			
Acquisition of subsidiaries, net of cash acquired		**(57.8)**	(11.0)
Acquisition of joint ventures		**(25.0)**	(20.1)
Purchase of property, plant and equipment		**(55.4)**	(35.1)
Purchase of intangible assets		**(9.3)**	(16.3)
Disposal of joint ventures		**10.0**	19.7
Disposal of property, plant and equipment		**16.9**	52.8
Interest received		**23.2**	29.1
Dividends received from joint ventures		**3.5**	0.2
Net cash flow from investing activities		**(93.9)**	19.3
Net cash flow before financing activities		**(0.9)**	(41.0)
Cash flow from financing activities			
Proceeds from shares issued		**89.7**	7.4
Proceeds from new loans		**5.8**	(1.7)
Dividends paid		**(34.5)**	(30.8)
Net cash flow from financing activities		**61.0**	(25.1)
Increase/(decrease) in cash and cash equivalents		**60.1**	(66.1)
Cash and cash equivalents as at the beginning of the year		**270.0**	341.9
Exchange gains/(losses) on cash and cash equivalents		**2.6**	(5.8)
Cash and cash equivalents as at the end of the year	24	**332.7**	270.0
Cash and cash equivalents consist of:			
Cash at bank and in hand		**320.8**	214.5
Short-term investments		**31.1**	85.0
		351.9	299.5
Overdrafts		**(19.2)**	(29.5)
Cash and cash equivalents		**332.7**	270.0

As more fully explained in note 31, financial instrument accounting is determined on different bases in 2005 and 2004 due to the transitional provisions of IAS 32 and IAS 39.

Notes to the consolidated accounts

AMEC plc is a company domiciled in the United Kingdom.

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

In accordance with EU law (IAS Regulation EC 1606/2002), the consolidated accounts of the group have been prepared in accordance with International Financial Reporting Standards ("IFRS") adopted for use in the EU as at 31 December 2005 ("adopted IFRS"), International Financial Reporting Interpretations Committee ("IFRIC") interpretations and those parts of the Companies Act 1985 applicable to companies reporting under IFRS. The company has elected to prepare its parent company accounts in accordance with UK Generally Accepted Accounting Principles ("UK GAAP"); these are presented on pages 104 to 111.

These are the group's first accounts prepared under adopted IFRS and, IFRS 1 "First time adoption of International Reporting Standards", has been applied. Details of how the group's results and financial position are affected by the change to adopted IFRS are set out in note 31.

IFRS 7 "Financial instruments: disclosure" was available for early application but has not been applied by the group in their consolidated accounts. The application of IFRS 7 in 2005 would not have affected the balance sheet or income statement as the standard is concerned only with disclosure. The group plans to adopt it in 2007.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these consolidated accounts and in preparing an opening IFRS balance sheet as at 1 January 2004 for the purposes of the transition to adopted IFRS.

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

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

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

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

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

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

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

In determining the appropriate accounting policy for AMEC's PPP activities, the directors have considered the current status of the draft IFRIC interpretations on service concession arrangements. The draft interpretations were issued in 2005 and IFRIC is currently reviewing the responses it has received. However, the final form of the interpretations and the timetable for their finalisation by IFRIC and adoption by the EU remains uncertain. In view of this uncertainty, adopted IFRS contains no accounting requirements that specifically apply to service concession arrangements and the directors consider that it remains appropriate to apply the approach set out in Application Note F of the UK Financial Reporting Standard 5 "Reporting the substance of transactions" in determining the accounting model to be applied to AMEC's PPP activities. This involves applying a "risks and rewards" test to determine whether a non-current asset or finance debtor model should be followed. Once the accounting model has been determined, the assets and liabilities of the service concession arrangements will be accounted for in accordance with adopted IFRS. This accounting policy does not differ significantly from that applied under UK GAAP.

Notes to the consolidated accounts

A subsidiary is an entity controlled by AMEC. Control is achieved where AMEC has the power to govern the financial and operating policies of the entity so as to obtain benefits from its activities.

A joint venture entity is an entity over whose activities AMEC has joint control, established by contractual agreement. The consolidated accounts include the group's share of the total recognised gains and losses of jointly controlled entities on an equity accounted basis.

An associate is an entity in which AMEC has significant influence, but not control, over the financial and operating policies.

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

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

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

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

Goodwill represents the excess of the fair value of the purchase consideration over the fair value of the net assets acquired.

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

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

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

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

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

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

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

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

Cumulative actuarial gains and losses were recognised in full in equity on transition to adopted IFRS on 1 January 2004. Actuarial gains and losses that arise subsequent to 1 January 2004 are recognised directly in equity in the year in which they arise.

[illegible]

Under the transitional provisions of IFRS 1, AMEC elected not to adopt IAS 32 and IAS 39 in its financial information for the year ended 31 December 2004 and as a result, UK GAAP has been applied in accounting for financial instruments in the year ended 31 December 2004.

In the comparative period, other than as noted below, all financial assets and financial liabilities were carried at cost (amortised as appropriate) less, in the case of financial assets, provisions for any permanent diminution in value. Gains and losses on forward foreign exchange contracts treated as hedging instruments were not recognised in the income statement. On recognition of the hedged transaction the unrecognised gains and losses arising on the instrument were recognised, either in the income statement or combined into the carrying value of the associated asset or liability. Interest differentials arising from the interest rate swaps were recognised by adjusting net interest payable or receivable over the period of the contract.

On 1 January 2005, AMEC adopted IAS 32 and IAS 39, and applied the following policy in accounting for financial instruments.

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

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

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

The fair value of interest rate swaps is the estimated amount that the group would receive or pay to terminate the swap at the balance sheet date, taking into account current interest rates and the current creditworthiness of the swap counterparties. The fair value of forward exchange contracts is their quoted market price at the balance sheet date, being the present value of the quoted forward price.

All of AMEC's hedging activities are non-speculative.

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

When the forecast transaction subsequently results in the recognition of a non-financial asset or non-financial liability, the associated cumulative gain or loss is removed from the hedging reserve and is included in the initial cost or other carrying amount of the non-financial asset or liability.

If a hedge of a forecast transaction subsequently results in the recognition of a financial asset or a financial liability, the associated gain or loss that was recognised directly in equity is reclassified into profit or loss in the same period or periods during which the asset acquired or liability assumed affects profit or loss, i.e. when interest income or expense is recognised.

For cash flow hedges, other than those covered by the preceding two policy statements, the associated cumulative gain or loss is removed from equity and recognised in the income statement in the same period or periods during which the hedged forecast transaction affects profit or loss.

When a hedging instrument expires or is sold, terminated or exercised, or the entity discontinues hedge accounting but the hedged forecast transaction is still expected to occur, the cumulative gain or loss at that point remains in equity and is recognised in accordance with the above policy when the transaction occurs. If the hedged transaction is no longer expected to take place, the cumulative unrealised gain or loss recognised in equity is recognised in the income statement immediately.

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

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

[illegible]

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

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

Notes to the consolidated accounts

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

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

Goodwill was tested for impairment as at 1 January 2004, the date of transition to adopted IFRS, even though no indication of impairment existed.

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

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

The estimated lives used range from less than one year to ten years.

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

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

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

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

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

The estimated lives used are:

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

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

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

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

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

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

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

[illegible]

The business and financial review is based on the reported results before IAS 39, joint venture tax, intangible amortisation and pre-tax exceptional items, but including joint venture profit before tax. The results as presented in the business and financial review are reconciled in the tables on pages 41 to 44 to those presented in this note.

	United Kingdom		Rest of Europe		Americas		Rest of the world		Total	
	2005 £ million	2004 £ million	**2005 £ million**	2004 £ million	**2005 £ million**	2004 £ million	**2005 £ million**	2004 £ million	**2005 £ million**	2004 £ million
Revenue	**1,770.7**	1,887.0	**1,643.8**	1,594.6	**963.9**	686.3	**564.1**	489.6	**4,942.5**	4,657.5
Segment result	**9.9**	64.6	**48.7**	58.5	**1.1**	(19.6)	**2.0**	22.8	**61.7**	126.3
Corporate costs									**(25.0)**	(24.3)
Profit before net financing costs									**36.7**	102.0
Net financing costs									**(21.8)**	(18.8)
Share of post-tax results of joint ventures	**7.7**	5.1	**2.1**	2.9	**0.7**	0.7	**–**	(0.7)	**10.5**	8.0
Income tax									**(21.7)**	(39.5)
Profit for the year									**3.7**	51.7
Segment assets	**708.2**	724.1	**927.2**	946.5	**377.2**	296.5	**174.9**	190.0	**2,187.5**	2,157.1
Goodwill									**435.2**	361.6
Interests in joint ventures	**59.3**	65.7	**11.6**	8.4	**1.0**	2.1	**13.1**	(0.6)	**85.0**	75.6
Cash and cash equivalents									**351.9**	299.5
Unallocated assets									**146.4**	135.7
Total assets									**3,206.0**	3,029.5
Segment liabilities	**(706.3)**	(727.7)	**(1,008.9)**	(994.0)	**(301.5)**	(191.3)	**(147.3)**	(168.6)	**(2,164.0)**	(2,081.6)
Bank loans and overdrafts									**(597.4)**	(583.2)
Unallocated liabilities									**(121.7)**	(57.1)
Total liabilities									**(2,883.1)**	(2,721.9)
Net assets									**322.9**	307.6
Depreciation	**13.6**	10.7	**15.4**	17.1	**8.8**	9.3	**0.6**	0.8	**38.4**	37.9
Amortisation	**0.9**	–	**1.5**	0.3	**3.6**	0.2	**–**	–	**6.0**	0.5
Capital expenditure:										
Property, plant and equipment	**19.8**	10.7	**23.0**	13.6	**11.6**	9.0	**0.9**	1.8	**55.3**	35.1
Intangible assets	**–**	–	**7.2**	18.0	**2.1**	0.8	**–**	–	**9.3**	18.8
Net assets										
Segment net assets	**1.9**	(3.6)	**(81.7)**	(47.5)	**75.7**	105.2	**27.6**	21.4	**23.5**	75.5
Interests in joint ventures	**59.3**	65.7	**11.6**	8.4	**1.0**	2.1	**13.1**	(0.6)	**85.0**	75.6
Goodwill									**435.2**	361.6
Unallocated net assets									**24.7**	78.6
Net debt									**(245.5)**	(283.7)
									322.9	307.6

The group's primary segment reporting format is geographic, as the group's management and internal reporting are structured geographically.

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

Corporate costs comprise the costs of operating the head office of AMEC and also certain regional overheads. These are not directly related to the activities of the segments.

The financing of the group's activities is undertaken at a head office level and consequently net financing costs cannot be analysed segmentally. The unallocated net assets principally comprise assets relating to the pension schemes, and liabilities relating to dividends and taxation and are not directly related to the activities of the segments.

Notes to the consolidated accounts

	Engineering and Technical Services 2005 £ million	Engineering and Technical Services 2004 £ million	Oil and Gas 2005 £ million	Oil and Gas 2004 £ million	Project Solutions 2005 £ million	Project Solutions 2004 £ million	Total 2005 £ million	Total 2004 £ million
Total revenue	**2,614.7**	2,252.0	**1,405.6**	1,172.6	**976.5**	1,290.8	**4,996.8**	4,715.4
Internal revenue							**(54.3)**	(57.9)
Revenue							**4,942.5**	4,657.5
Segment result	**90.3**	88.9	**41.4**	49.0	**(70.0)**	(11.6)	**61.7**	126.3
Corporate costs							**(25.0)**	(24.3)
Profit before net financing costs							**36.7**	102.0
Net financing costs							**(21.8)**	(18.8)
Share of post-tax results of joint ventures	**1.5**	1.0	**1.2**	6.1	**7.8**	0.9	**10.5**	8.0
Income tax							**(21.7)**	(39.5)
Profit for the year							**3.7**	51.7
Segment assets	**855.8**	809.5	**620.4**	599.1	**711.3**	748.5	**2,187.5**	2,157.1
Segment liabilities	**(938.1)**	(860.8)	**(492.1)**	(469.5)	**(733.8)**	(751.3)	**(2,164.0)**	(2,081.6)
Segment net (liabilities)/assets	**(82.3)**	(51.3)	**128.3**	129.6	**(22.5)**	(2.8)	**23.5**	75.5
Interests in joint ventures	**13.7**	10.8	**(0.6)**	(0.6)	**71.9**	65.4	**85.0**	75.6
Goodwill							**435.2**	361.6
Unallocated net assets							**24.7**	78.6
Net debt							**(245.5)**	(283.7)
Net assets							**322.9**	307.6
Capital expenditure:								
Property, plant and equipment	**39.8**	24.6	**8.6**	4.0	**6.9**	6.5	**55.3**	35.1
Intangible assets	**9.3**	18.8	**-**	-	**-**	-	**9.3**	18.8

The Project Solutions sector is further analysed as follows:

	Construction 2005 £ million	Construction 2004 £ million	Investments 2005 £ million	Investments 2004 £ million	Total 2005 £ million	Total 2004 £ million
Revenue	**920.3**	1,196.9	**56.2**	93.9	**976.5**	1,290.8
Net (liabilities)/assets	**(30.9)**	(0.9)	**8.4**	(1.9)	**(22.5)**	(2.8)

	2005 £ million	2004 £ million
Construction contracts	**1,823.8**	1,745.6
Services	**3,118.7**	2,911.9
	4,942.5	4,657.5

	2005 £ million	2004 £ million
Depreciation of property, plant and equipment	**38.4**	37.9
Amortisation of intangible assets (included in administrative expenses)	**6.0**	0.5
Operating lease payments/(receipts):		
Minimum lease payments	**186.0**	189.5
Receipts from subleases	**(1.5)**	(0.6)
Fees paid to auditors and their associates:		
Statutory audit services:		
KPMG Audit Plc	**1.9**	1.6
Other auditors	**1.4**	1.7
Further assurance services:		
KPMG Audit Plc	**0.3**	0.1
Other auditors	**0.4**	0.6
Tax services:		
KPMG Audit Plc	**0.7**	0.6
Other auditors	**0.4**	–
Other non-audit services:		
KPMG Audit Plc	**0.3**	0.1
Other auditors	**0.3**	0.4

In addition to the above amounts paid to auditors and their associates, due diligence fees paid to KPMG Audit Plc of £0.2 million were capitalised *in 2004 as part of the costs of acquisitions in the year ended 31 December 2005.*

	2005 £ million	2004 £ million
Engineering and Technical Services	**–**	(8.6)
Oil and Gas	**12.6**	–
Project Solutions	**61.9**	31.5
	74.5	22.9

Provision has been made for the costs of exit from lump sum fabrication work in the upstream and certain other markets.

Provision has been made for the costs of withdrawing from certain loss-making construction markets in the UK and US.

The exit from US construction management activities was announced in May 2004 and actions to close this business are well advanced. However, AMEC continues to be involved in protracted, long standing, litigation in respect of certain contracts. In view of the slow progress in resolution of these disputes, and following a review of the costs of exiting this business, a further provision has been raised.

Notes to the consolidated accounts

	2005 £ million	2004 £ million
Wages and salaries	**1,266.7**	1,226.4
Social security costs	**306.6**	298.8
Share-based payments	**7.9**	1.8
Contributions to defined contribution plans	**7.8**	5.9
Defined benefit scheme expense	**10.5**	10.4
	1,599.5	1,543.3

The average number of people employed was as follows:

	2005 Number	2004 Number
Engineering and Technical Services	**26,683**	25,248
Oil and Gas	**12,088**	11,647
Project Solutions	**5,939**	6,765
	44,710	43,660

Details of directors' remuneration are provided in the remuneration report on pages 61 to 66.

	2005 £ million	2004 £ million
Financial income:		
Interest income	**8.6**	16.6
Other investment income	**8.7**	6.3
Foreign exchange gains	**5.0**	5.4
	22.3	28.3
Financial expense:		
Interest expense	**(38.3)**	(40.7)
Foreign exchange losses	**(5.8)**	(6.4)
	(44.1)	(47.1)
Net financing costs	**(21.8)**	(18.8)

	2005 £ million	2004 £ million
Current tax:		
UK corporation tax at 30.0 per cent (2004: 30.0 per cent)	**5.6**	20.8
Double tax relief	**–**	(2.7)
Overseas tax	**18.2**	17.7
	23.8	35.8
Deferred tax:		
UK deferred tax at 30.0 per cent (2004: 30.0 per cent) – origination and reversal of temporary differences	**(7.7)**	0.8
Overseas deferred tax	**5.6**	2.9
	(2.1)	3.7
Total income tax expense in the income statement	**21.7**	39.5

Included within the current tax charge is a credit of £15.0 million (2004: charge of £1.4 million) in respect of exceptional items.

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

	2005 £ million	2004 £ million
Profit before tax	**25.4**	91.2
Tax charge at 30.0 per cent (2004: 30.0 per cent)	**7.6**	27.4
Non-deductible expenses, non taxable income and other differences	**4.9**	6.4
Overseas income and expenses taxed at rates other than 30.0 per cent (2004: 30.0 per cent)	**9.2**	5.7
Total tax charge for the year	**21.7**	39.5
Tax recognised directly in equity:		
Current tax	**0.1**	(0.5)
Deferred tax	**(18.4)**	(3.3)
Tax credit recognised directly in equity	**(18.3)**	(3.8)

The calculation of the average number of shares in issue has been made having deducted the shares held by the trustees of the Long-Term Incentive Plan and the Performance Share Plan 2002 and those held by the qualifying employee share ownership trust.

			2005			2004
	Earnings £ million	Weighted average shares number million	Earnings per share pence	Earnings £ million	Weighted average shares number million	Earnings per share pence
Basic earnings	**4.0**	**323.3**	**1.3**	50.9	295.0	17.3
Share options	**–**	**4.0**	**–**	–	1.5	(0.1)
Employee share and incentive schemes	**–**	**6.8**	**(0.1)**	–	6.7	(0.4)
Diluted earnings	**4.0**	**334.1**	**1.2**	50.9	303.2	16.8

In order to appreciate the effects of exceptional items on the reported performance, additional calculations of earnings per share are presented.

			2005			2004
	Earnings £ million	Weighted average shares number million	Earnings per share pence	Earnings £ million	Weighted average shares number million	Earnings per share pence
Basic earnings before IAS 39, intangible amortisation and exceptional items net of attributable tax	**84.9**	**323.3**	**26.3**	74.3	295.0	25.2
Impact of IAS 39	**(0.4)**	**–**	**(0.1)**	–	–	–
Exceptional items net of attributable tax	**(74.5)**	**–**	**(23.0)**	(22.9)	–	(7.8)
Intangible amortisation	**(6.0)**	**–**	**(1.9)**	(0.5)	–	(0.1)
Basic earnings	**4.0**	**323.3**	**1.3**	50.9	295.0	17.3
Basic earnings before IAS 39, intangible amortisation and exceptional items net of attributable tax	**84.9**	**323.3**	**26.3**	74.3	295.0	25.2
Share options	**–**	**4.0**	**(0.3)**	–	1.5	(0.1)
Employee share and incentive schemes	**–**	**6.8**	**(0.6)**	–	6.7	(0.6)
Diluted earnings before IAS 39, intangible amortisation and exceptional items net of attributable tax	**84.9**	**334.1**	**25.4**	74.3	303.2	24.5
Impact of IAS 39	**(0.4)**	**–**	**(0.1)**	–	–	–
Exceptional items net of attributable tax	**(74.5)**	**–**	**(22.3)**	(22.9)	–	(7.5)
Intangible amortisation	**(6.0)**	**–**	**(1.8)**	(0.5)	–	(0.2)
Diluted earnings	**4.0**	**334.1**	**1.2**	50.9	303.2	16.8

Notes to the consolidated accounts

	Land and buildings £ million	Plant and equipment £ million	Total £ million
Cost:			
As at 1 January 2004	93.2	203.1	296.3
Exchange and other movements	(0.3)	(4.1)	(4.4)
Additions and transfers	7.9	27.2	35.1
Disposals and transfers	*(30.4)*	*(39.0)*	*(69.4)*
As at 31 December 2004	70.4	187.2	257.6
Exchange and other movements	0.3	5.3	5.6
Acquired through business combinations	0.1	5.6	5.7
Additions and transfers	3.2	52.1	55.3
Disposals and transfers	(17.6)	(38.8)	(56.4)
As at 31 December 2005	**56.4**	**211.4**	**267.8**
Depreciation:			
As at 1 January 2004	9.4	89.5	98.9
Exchange and other movements	0.1	(2.1)	(2.0)
Provided during the year	6.8	31.1	37.9
Disposals and transfers	(1.7)	(24.5)	(26.2)
As at 31 December 2004	14.6	94.0	108.6
Exchange and other movements	(0.1)	2.9	2.8
Provided during the year	3.7	34.7	38.4
Disposals and transfers	(6.5)	(33.8)	(40.3)
As at 31 December 2005	**11.7**	**97.8**	**109.5**
Net book value:			
As at 31 December 2005	**44.7**	**113.6**	**158.3**
As at 31 December 2004	55.8	93.2	149.0
As at 1 January 2004	83.8	113.6	197.4

	2005 £ million	2004 £ million
The net book value of land and buildings comprised:		
Freehold	**32.3**	45.0
Long leasehold	**7.6**	6.5
Short leasehold	**4.8**	4.3
	44.7	55.8

	Goodwill £ million	Software £ million	Other £ million	Total £ million
Cost:				
As at 1 January 2004	*379.0*	*17.1*	–	*396.1*
Exchange and other movements	10.9	–	–	10.9
Acquisition of subsidiaries	8.5	–	–	8.5
Additions	–	18.0	0.8	18.8
Disposals	–	(0.5)	–	(0.5)
As at 31 December 2004	398.4	34.6	0.8	433.8
Exchange and other movements	12.9	(1.9)	0.4	11.4
Acquisition of subsidiaries	56.1	0.1	12.2	68.4
Additions	–	9.2	0.1	9.3
Disposals	–	(0.5)	–	(0.5)
As at 31 December 2005	**467.4**	**41.5**	**13.5**	**522.4**

	Goodwill £ million	Software £ million	Other £ million	Total £ million
Amortisation:				
As at 1 January 2004	36.9	4.1	–	41.0
Exchange and other movements	(0.1)	–	–	(0.1)
Provided during the year	–	0.4	0.1	0.5
Disposals	–	(0.1)	–	(0.1)
As at 31 December 2004	36.8	4.4	0.1	41.3
Exchange and other movements	(4.6)	2.3	(0.1)	(2.4)
Provided during the year	–	5.8	0.2	6.0
Disposals	–	(0.4)	–	(0.4)
As at 31 December 2005	**32.2**	**12.1**	**0.2**	**44.5**
Net book value:				
As at 31 December 2005	**435.2**	**29.4**	**13.3**	**477.9**
As at 31 December 2004	361.6	30.2	0.7	392.5
As at 1 January 2004	342.1	13.0	–	355.1

The principal elements of unamortised goodwill relate to two separate cash generating units, one in the Americas (£154.0 million) and one in the Rest of Europe (£224.2 million). The recoverable amounts of both income generating units have been based on value in use calculations. The calculations use cash flow projections based on financial budgets approved by management covering a two year period and a pre-tax discount rate of 12.8 per cent. For the purposes of the calculation of the recoverable amount the cash flows projections beyond the two year period include no growth.

	Joint ventures £ million	Other investments £ million
Net book value:		
As at 1 January 2004	66.8	8.8
Exchange and other movements	3.6	–
Additions and transfers	12.9	7.2
Disposals and amounts written-off	(19.7)	–
Net movement in share of reserves	12.2	–
Dividends received	(0.2)	–
As at 31 December 2004	75.6	16.0
Effect of adoption of IAS 39 on 1 January 2005	(12.9)	–
Exchange and other movements	–	0.3
Additions and transfers	24.9	0.6
Disposals and amounts written-off	(1.6)	(12.4)
Net movement in share of reserves	2.5	–
Dividends received	(3.5)	–
As at 31 December 2005	**85.0**	**4.5**

Principal group companies are listed on pages 114 and 115.

The group did not recognise its share of the net liabilities of joint venture companies for which the group has no obligation, amounting to £8.4 million on adoption of IAS 32 and IAS 39 on 1 January 2005 and a further £0.9 million during the year (2004: £nil). Cumulative unrecognised net liabilities at 31 December 2005 amount to £9.3 million.

Notes to the consolidated accounts

An analysis of the group's interests in the assets, liabilities, income and expenses of joint ventures was as follows:

	Total 2005 £ million	Total 2004 £ million
Current assets	**591.6**	464.1
Long-term assets	**274.7**	245.6
Current liabilities	**(158.5)**	(69.1)
Long-term liabilities	**(622.8)**	(565.0)
Group share of net assets	**85.0**	75.6
Income	**192.2**	158.9
Expenses	**(178.9)**	(148.5)
Share of profits before tax	**13.3**	10.4
Tax	**(2.8)**	(2.4)
Share of post-tax results of joint ventures	**10.5**	8.0

The joint ventures have no significant contingent liabilities to which the group is exposed. AMEC has provided guarantees in respect of committed bank facilities to certain property joint ventures and there are commitments to invest equity in certain joint venture projects. These guarantees and commitments are set out in note 28.

Included within the above analysis are joint venture entities of the group which operate a number of UK Government PPP concession contracts. There is a high degree of certainty on these project cash flows with revenue subject to inflation indexation. In all cases the concession requires construction of an asset for the public sector client and, with one exception, residual rights remain with the client.

The concessions are in:

Transport, where the concessions operate on a shadow toll arrangement or an availability fee, with an unexpired concession period ranging between 21 and 31 years. One project reached financial close in the year.

Accommodation, with contracts which are subject to an availability fee with unexpired concession periods ranging between 23 and 37 years. One of these projects has a break clause exercisable in 22 years' time and, in another, the residual rights to the asset revert to AMEC rather than the client.

Water treatment, where there is one project which is subject to an availability fee with an unexpired concession period of 25 years.

In Korea, the Incheon Bridge project, for which AMEC has a project management role, reached financial close during the year. This is a toll project in partnership with the Korean Government and the concession term is 30 years.

	2005 £ million	2004 £ million
Other receivables	**24.0**	21.5

The group operates a number of pension schemes for UK and overseas employees. Substantially all UK members are in funded defined benefit schemes, the main schemes being the AMEC Staff Pension Scheme, the AMEC Executive Pension Scheme and the AMEC Rail Section of the Railways Pension Scheme. The majority of overseas members are in defined contribution schemes. Certain employees in France are members of an unfunded defined benefit scheme.

Defined benefit schemes

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

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

	2005 Per cent	2004 Per cent
Rate of discount	**4.9**	5.3
Rate of inflation	**2.8**	2.7
Rate of increase in salaries	**3.8**	3.8
Rate of increase in pensions in payment	**2.8**	2.8
Expected rate of return on scheme assets:		
Equities	**7.6**	7.5
Bonds	**4.4**	5.3
Property	**6.1**	6.5
Other	**4.5**	4.5

For the main UK pension schemes, the assumed life expectancy for a male/female currently aged 60 is 23/26 years.

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

The fair values of the schemes' assets by category, and the amounts recognised in the balance sheet are as follows:

	2005 £ million	2004 £ million
Equity instruments	**707.9**	620.4
Debt instruments	**449.6**	422.6
Property	**102.9**	88.8
Cash	**27.6**	29.7
Fair value of scheme assets	**1,288.0**	1,161.5
Present value of funded obligations	**(1,213.3)**	(1,042.6)
Present value of unfunded obligations	**(56.2)**	(52.3)
Net asset recognised in the balance sheet	**18.5**	66.6
The net asset is presented in the balance sheet as:		
Retirement benefit assets	**74.7**	118.9
Retirement benefit liabilities	**(56.2)**	(52.3)
Retirement benefit net asset	**18.5**	66.6

The amounts recognised in the income statement are as follows:

	2005 £ million	2004 £ million
Current service cost	**29.7**	31.4
Interest cost	**50.7**	48.5
Expected return on scheme assets	**(69.9)**	(69.5)
Total expense included within staff costs (note 6)	**10.5**	10.4
The expense is recognised in the income statement as follows:		
Cost of sales	**6.9**	6.9
Administrative expenses	**3.6**	3.5
	10.5	10.4

Notes to the consolidated accounts

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

	2005 £ million	2004 £ million
Scheme net asset as at 1 January	**66.6**	69.9
Foreign exchange	**1.2**	–
Total expense as above	**(10.5)**	(10.4)
Contributions paid	**22.8**	17.2
Liabilities acquired through business combinations	**(4.9)**	–
Actuarial losses recognised in reserves	**(56.7)**	(10.1)
Scheme net asset as at 31 December	**18.5**	66.6

The actual return on scheme assets is as follows:

	2005 £ million	2004 £ million
Actual return on scheme assets	**200.7**	97.3

Experience and other adjustments arising on scheme assets and liabilities are as follows:

	2005 £ million	2004 £ million
Experience adjustments arising on scheme assets	**130.8**	27.8
Experience adjustments arising on scheme liabilities	**(27.3)**	(0.7)
Changes in assumptions	**(160.2)**	(37.2)
	(56.7)	(10.1)

Deferred tax assets and liabilities are attributable to the following:

Recognised deferred tax assets and liabilities

	Assets		Liabilities		Net	
	2005 £ million	2004 £ million	2005 £ million	2004 £ million	2005 £ million	2004 £ million
Property, plant and equipment	**6.6**	2.7	**–**	(3.7)	**6.6**	(1.0)
Intangible assets	**–**	–	**(2.9)**	(0.3)	**(2.9)**	(0.3)
Retirement benefits	**15.5**	16.2	**(19.4)**	(35.6)	**(3.9)**	(19.4)
Derivative financial instruments	**6.3**	–	**–**	–	**6.3**	–
Provisions	**1.8**	1.8	**–**	–	**1.8**	1.8
Other items	**20.2**	18.7	**(24.8)**	(22.5)	**(4.6)**	(3.8)
Tax losses carried forward	**20.5**	22.6	**–**	–	**20.5**	22.6
Deferred tax assets/(liabilities)	**70.9**	62.0	**(47.1)**	(62.1)	**23.8**	(0.1)
Transfers	**–**	(16.5)	**–**	16.5	**–**	–
Net deferred tax assets/(liabilities)	**70.9**	45.5	**(47.1)**	(45.6)	**23.8**	(0.1)

Movements in deferred tax assets and liabilities during the year

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

	As at 1 January 2004 £ million	Exchange and other movements £ million	Recognised on acquisition £ million	Recognised in income £ million	Recognised in equity £ million	As at 31 December 2004 £ million
Property, plant and equipment	(1.3)	–	–	0.3	–	(1.0)
Intangible assets	(0.3)	–	–	–	–	(0.3)
Employee benefits	(23.4)	–	–	0.7	3.3	(19.4)
Provisions	1.8	–	–	–	–	1.8
Other items	15.6	(1.7)	–	(17.7)	–	(3.8)
Tax losses carried forward	9.8	(0.2)	–	13.0	–	22.6
	2.2	(1.9)	–	(3.7)	3.3	(0.1)

*Deferred tax assets and liabilities in respect of financial instruments as at 1 January 2005 have been restated for the effect of adoption of IAS 32 and IAS 39.

Unrecognised deferred tax assets

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

	2005 £ million	2004 £ million
Deductible temporary differences	**16.3**	23.8
Tax losses	**70.0**	79.1
	86.3	102.9

Tax losses of £33.0 million arising in Canada and unrecognised by the group expire between 2008 and 2024. The other tax losses and deductible temporary differences not recognised by the group do not expire under current tax legislation. Deferred tax assets have not been recognised in respect of these items because it is not probable that profit will be available in the near term against which the group can utilise the benefits therefrom.

	2005 £ million	2004 £ million
Development land and work in progress	**44.5**	71.8
Raw materials and consumables	**2.9**	3.2
Other work in progress	**6.3**	2.0
Finished goods and goods for resale	**20.1**	10.2
	73.8	87.2

Development land and work in progress at 31 December 2005 included assets to a value of £23.6 million (31 December 2004: £31.1 million) expected to be consumed after more than one year.

Notes to the consolidated accounts

	2005 £ million	2004 £ million
Amounts expected to be recovered within one year:		
Gross amounts due from customers	**489.9**	512.2
Trade receivables	**1,178.0**	1,137.9
Amounts owed by joint ventures	**1.9**	1.3
Other receivables	**43.1**	44.4
Prepayments and accrued income	**47.4**	23.8
	1,760.3	1,719.6
Amounts expected to be recovered after more than one year:		
Gross amounts due from customers	**1.4**	–
Trade receivables	**119.1**	99.2
Amounts owed by joint ventures	**1.7**	4.4
Other receivables	**1.3**	0.2
Prepayments and accrued income	**0.4**	0.4
	123.9	104.2
	1,884.2	1,823.8

Trade receivables expected to be recovered within one year include retentions of £37.9 million (2004: £42.3 million) relating to contracts in progress. Trade receivables expected to be recovered after more than one year include retentions of £21.2 million (2004: £9.2 million) relating to contracts in progress.

	2005 £ million	2004 £ million
Amounts expected to be settled within one year:		
Trade payables	**1,305.0**	1,264.0
Gross amounts due to customers	**181.0**	190.7
Amounts owed to joint ventures	**4.4**	2.5
Other taxation and social security costs	**299.6**	270.5
Other payables	**87.7**	59.3
Accruals and deferred income	**83.2**	71.1
Dividends	**13.2**	11.3
	1,974.1	1,869.4
Amounts expected to be settled after more than one year:		
Trade payables	**8.3**	26.9
Contract provisions	**15.5**	–
Other taxation and social security assets	**0.3**	6.4
Other payables	**7.8**	5.3
Accruals and deferred income	**1.7**	3.0
	33.6	41.6
	2,007.7	1,911.0

Gross amounts due to customers includes advances received of £107.7 million (2004: £177.7 million).

[illegible]

	2005 £ million	2004 £ million
Current		
Bank loans and overdrafts	**39.1**	46.0
	39.1	46.0
Non-current		
Bank loans	**446.3**	432.3
Bonds	**112.0**	104.9
	558.3	537.2

All of the group's borrowings are unsecured. The bank loans and overdrafts are denominated in a number of currencies and bear interest based on LIBOR.

The bonds are denominated in US dollars and Sterling.

[illegible]

	2005 £ million	2004 £ million
Other payables	**73.7**	67.8

[illegible]

Details of the group's financial risk management objectives and policies, together with its policies for hedging are provided in the business and financial review on pages 34 to 55.

Designated hedging arrangements are described below. As explained in note 1, AMEC elected not to adopt IAS 32 and IAS 39 in its restated financial information for the year ended 31 December 2004. Consequently, the fair values of derivative financial instruments as at 31 December 2004 as set out in note 31 are not recognised in the 2004 balance sheet.

Hedging of interest rate risk
The group uses interest rate swaps to convert a portion of its floating rate debt to fixed and vice versa. The notional contract amount, carrying amount and fair values of swaps designated as cash flow hedges and fair value hedges as at 31 December 2005 are as follows:

	2005 Notional contract amount £ million	2005 Carrying amount and fair value £ million
Interest rate swaps designated as cash flow hedges:		
Non-current liabilities	**226.0**	**(10.2)**
Interest rate swaps designated as fair value hedges:		
Non-current liabilities	**17.5**	**(1.9)**

The swaps designated as cash flow hedges mature over the next six years following the maturity of the related loans and have fixed swap rates ranging from 3.6 per cent to 5.4 per cent.

Hedging of foreign currency risk – forecast transactions
The group looks to mitigate the foreign exchange risk typically arising where contracts are awarded in, or involve costs in non-local currency. Forward exchange contracts and cross-currency swaps are used for this purpose and designated as cash flow hedges. The notional contract amount, carrying amount and fair values of swaps and forward contracts designated as cash flow hedges as at 31 December 2005 are as follows:

	2005 Notional contract amount £ million	2005 Carrying amount and fair value £ million
Current assets	**79.3**	**0.4**
Current liabilities	**64.9**	**(2.0)**
Non-current liabilities	**13.7**	**(0.9)**
	157.9	**(2.5)**

Notes to the consolidated accounts

The forward exchange contracts and cross-currency swaps designated as cash flow hedges mature predominantly over the next twelve months, in line with the hedged cash flows.

Certain forward exchange contracts and cross-currency swaps are not designated as cash flow hedges and changes in their fair value are recognised through the income statement. The notional contract amount, carrying amount and fair values of these swaps and forward contracts as at 31 December 2005 are as follows:

	2005 Notional contract amount £ million	2005 Carrying amount and fair value £ million
Current assets	46.6	0.4
Current liabilities	48.0	(1.3)
	94.6	(0.9)

Hedging of foreign currency risk – net investment hedges

The group has Euro, Canadian dollar, and US dollar denominated borrowings which are designated as hedges of the net investments in its subsidiaries in France, Canada and the US. The carrying amounts of these borrowings as at 31 December are as follows:

	2005 £ million
Borrowings denominated in:	
Euro	160.8
Canadian dollars	68.8
US dollars	67.0
	296.6

A net foreign exchange loss for the year of £12.0 million was recognised in the translation reserve in respect of these borrowings.

Interest rate risk – contractual maturity and repricing dates and effective interest rates

In respect of interest-earning financial assets and interest-bearing financial liabilities, the following table indicates their effective interest rates at the balance sheet date and the periods in which they mature or are repriced if earlier than maturity:

2005	*Effective* interest rate %	Total £ million	6 months or less £ million	6-12 months £ million	1-2 years £ million	2-5 years £ million	*More* than 5 years £ million
Debt securities held-to-maturity	3.2	7.7	–	0.1	0.1	0.3	7.2
Cash and cash equivalents	2.4	351.9	351.9	–	–	–	–
Unsecured bank loans:							
Sterling floating rate loan	5.0	(225.0)	(225.0)	–	–	–	–
Effect of interest rate swaps	0.3	–	110.0	–	(110.0)	–	–
Euro floating rate loan	3.0	(172.4)	(172.4)	–	–	–	–
Effect of interest rate swaps	1.6	–	37.8	–	(37.8)	–	–
Canadian dollar floating rate loan	3.6	(68.8)	(68.8)	–	–	–	–
Effect of interest rate swaps	1.7	–	12.5	–	(12.5)	–	–
Unsecured bonds:							
Sterling fixed rate bonds	5.9	(45.0)	–	–	–	–	(45.0)
US dollar fixed rate bonds	5.1	(67.0)	–	–	–	(23.3)	(43.7)
Effect of interest rate swaps	–	–	(17.4)	–	–	–	17.4
Bank overdrafts							
Sterling overdraft	5.5	(6.7)	(6.7)	–	–	–	–
Euro overdraft	2.5	(12.5)	(12.5)	–	–	–	–
Other payables:							
Euro floating rate payable	2.8	(65.8)	(65.8)	–	–	–	–
Effect of interest rate swaps	2.5	–	65.8	–	–	–	(65.8)
		(303.6)	9.4	0.1	(160.2)	(23.0)	(129.9)

Credit risk

Trade receivable exposures are typically with large publicly quoted companies and government backed organisations, and the credit ratings of these organisations are monitored. Credit risks are minimised through the use of letters of credit, parent company guarantees, insurance instruments and forward funding where achievable.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset, including derivative financial instruments recorded in the balance sheet.

There are no significant concentrations of credit risk at the balance sheet date.

Fair values

The fair values together with the carrying amounts shown in the balance sheet are as follows:

	Carrying amount 2005 £ million	Fair value 2005 £ million
Non-current other receivables	**24.0**	**24.0**
Current trade and other receivables	**1,884.2**	**1,884.2**
Interest rate swaps:		
Liabilities	**(12.1)**	**(12.1)**
Forward exchange contracts:		
Assets	**0.8**	**0.8**
Liabilities	**(4.2)**	**(4.2)**
Cash and cash equivalents	**351.9**	**351.9**
Bank overdrafts	***(19.2)***	***(19.2)***
Unsecured bank loans	**(466.2)**	**(466.2)**
Unsecured bonds	**(112.0)**	**(117.4)**
Current trade and other payables	**(2,007.7)**	**(2,007.7)**
Non-current trade and other payables	**(73.7)**	**(73.7)**

Fair values are determined as follows:

Trade and other receivables and payables are valued at their notional amounts, which are deemed to reflect fair value.

Interest rate swaps are valued using appropriate zero coupon valuation techniques based on rates current at the year end.

Forward foreign exchange contracts are valued based on market spot rates at the year end and zero coupon valuation techniques.

Bank loans and bonds are valued based on discounted expected future principal and interest cash flows.

Securitisation

AMEC SPIE operates a securitisation programme whereby a proportion of trade receivables, totalling £89.3 million as at 31 December 2005, were sold to a special purpose vehicle. Under the terms of the scheme, the recourse to AMEC SPIE is capped at 10 per cent of the receivables which have been sold and therefore AMEC SPIE's continuing involvement of £8.9 million as at 31 December 2005 is included within bank loans.

The net impact of the securitisation programme has been to reduce net assets attributed to each of the ETS segment and the Rest of Europe by £89.3 million.

Disclosures under FRS 13 "Derivatives and other financial instruments: disclosures" ("FRS 13") in respect of 2004

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

				2004
	Non interest bearing £ million	Floating rate £ million	Fixed rate £ million	Total £ million
Group:				
Financial assets:				
Sterling	45.4	41.0	–	86.4
Euro	114.0	98.5	0.1	212.6
US dollar	6.0	23.3	–	29.3
Hong Kong dollar	2.0	3.6	–	5.6
Canadian dollar	0.1	11.5	–	11.6
Other	17.2	7.1	0.1	24.4
	184.7	185.0	0.2	369.9

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

Notes to the consolidated accounts

	Non interest bearing £ million	Floating rate £ million	Fixed rate £ million	Total £ million
				2004
Group:				
Financial liabilities:				
Sterling	30.4	344.1	45.0	419.5
Euro	78.5	101.9	13.0	193.4
US dollar	2.2	12.6	60.0	74.8
Hong Kong dollar	0.5	1.3	–	1.8
Canadian dollar	1.4	–	0.2	1.6
Other	0.4	–	–	0.4
	113.4	459.9	118.2	691.5

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

The maturity of the financial liabilities was as follows:

	2004 £ million
Group:	
Due:	
In one year or less, or on demand	50.3
Between one and two years	70.6
Between two and five years	424.5
Over five years	146.1
	691.5

There was no material difference between the book and fair value of financial assets and liabilities save for financial liabilities in the two to five years category which had a book value of £424.5 million and a fair value of £343.8 million as at 31 December 2004 and those in the over five years category which had a book value of £146.1 million and £116.0 million respectively as at 31 December 2004.

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

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

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

Gains and losses on instruments used for hedging purposes were not recognised until the exposure that was being hedged was recognised in either the income statement or via an adjustment to the carrying value of an asset on the balance sheet.

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

As permitted by FRS 13, short-term debtors and creditors have been excluded from the above analyses.

	Insurance £ million	Onerous property contracts £ million	Total £ million
As at 1 January 2005	28.4	3.7	32.1
Utilised	(3.1)	–	(3.1)
Income statement	–	(0.4)	(0.4)
As at 31 December 2005	**25.3**	**3.3**	**28.6**

The insurance provision relates to the potential liabilities in the group's captive insurance entity.

	Share capital £ million	Share premium account £ million	Hedging reserve £ million	Translation reserve £ million	Capital redemption reserve £ million	Retained earnings £ million	Total equity attributable to equity holders of the company £ million	Minority interests £ million	Total equity £ million
Group:									
As at 1 January 2004	149.6	82.8	–	–	17.2	46.2	295.8	7.4	303.2
Total recognised income and expense	–	–	–	(11.8)	–	44.1	32.3	0.8	33.1
Dividends	–	–	–	–	–	(31.5)	(31.5)	–	(31.5)
Shares issued	1.4	6.0	–	–	–	–	7.4	–	7.4
Movements relating to share-based payments	–	–	–	–	–	0.3	0.3	–	0.3
Transfers	–	–	–	–	–	–	–	(4.9)	(4.9)
As at 31 December 2004	151.0	88.8	–	(11.8)	17.2	59.1	304.3	3.3	307.6
Effect of adoption of IAS 32 and IAS 39 on 1 January 2005	–	–	(18.7)	1.0	–	(4.4)	(22.1)	–	(22.1)
Total recognised income and expense	–	–	(9.0)	32.7	–	(35.8)	(12.1)	(3.0)	(15.1)
Dividends	–	–	–	–	–	(36.4)	(36.4)	–	(36.4)
Shares issued	15.4	0.7	–	–	–	73.6	89.7	–	89.7
Movements relating to share-based payments	–	–	–	–	–	(0.8)	(0.8)	–	(0.8)
As at 31 December 2005	**166.4**	**89.5**	**(27.7)**	**21.9**	**17.2**	**55.3**	**322.6**	**0.3**	**322.9**

In January 2005, the group raised £89 million by way of a placing. As discussed in the business and financial review on page 48 and in line with counsel's opinion, the excess of the proceeds of the placing over the nominal value of the shares issued created a merger reserve which was subsequently transferred to retained earnings and is available for distribution to shareholders.

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions that have not yet occurred.

The translation reserve comprises all foreign exchange differences arising from the translation of the accounts of foreign operations, as well as from the translation of liabilities that hedge the company's net investment in foreign subsidiaries.

A qualifying share ownership trust ("the Quest") was established on 26 August 1999. The Quest holds shares issued by the company in connection with the savings related share option scheme. During the year the company allotted 126,524 (2004: 2,538,668) shares to the Quest and the Quest transferred 191,662 (2004: 3,140,312) of these shares to employees exercising options.

As at 31 December 2005 the Quest held 941,555 (2004: 1,006,693) shares.

Share capital

The authorised share capital of the company is £350.0 million (2004: £350.0 million). This comprises 700 million (2004: 700 million) ordinary shares of 50 pence each.

	2005 £ million	2004 £ million
Allotted, called up and fully paid ordinary shares of 50 pence each	**166.4**	151.0

The movement in issued share capital was as follows:

	Number	£ million
As at 1 January 2004	299,164,181	149.6
Qualifying employee share ownership trust allotments	2,538,668	1.3
Exercise of executive share options	146,902	0.1
Exercise of AGRA Inc. share options	61,060	–
As at 31 December 2004	301,910,811	151.0
Qualifying employee share ownership trust allotments	126,524	0.1
Exercise of executive share options	655,000	0.3
Other share issues	30,164,397	15.0
As at 31 December 2005	**332,856,732**	**166.4**

During the year the company issued 30,945,921 ordinary shares of 50 pence each, for a consideration of £89.7 million (net of expenses of £1.9 million), settled in cash.

Notes to the consolidated accounts

Share-based payment

In 1985, the group established the Savings Related Share Option Scheme, which entitles employees of the group to buy shares in the company. Grants of share options under this scheme are offered to employees periodically, and options are exercisable at a 20 per cent discount to the market price of shares at the date of grant.

Under the Executive Share Option Scheme 2002, directors and senior employees of the group have been granted share options, which carry a non-market based performance condition.

Until September 2004, the Performance Share Plan 2002 was operated alongside the Executive Share Option Scheme 2002, but since then awards have been made under the Performance Share Plan 2002 only. Under this plan, share awards are made to directors and senior employees of the group, subject to both market and non-market based performance tests.

All of the share-based payment arrangements operated by the group are equity-settled. Options are granted with a maximum term of ten years.

In accordance with the transitional provisions of IFRS 1 and IFRS 2 "Share-based payment", the recognition and measurement provisions of IFRS 2 have not been applied to options granted or shares awarded before 7 November 2002.

The number and weighted average exercise price of share options under the Savings Related Share Option Scheme and the Executive Share Option Scheme 2002 are as follows:

	Weighted average exercise price 2005 pence	**Number of options 2005**	Weighted average exercise price 2004 pence	Number of options 2004
Outstanding on 1 January	**240**	**14,389,582**	222	16,115,303
Lapsed	**250**	**(2,009,880)**	225	(916,173)
Exercised	**129**	**(846,662)**	221	(3,348,274)
Granted	**279**	**5,905,729**	320	2,538,726
Outstanding on 31 December	**257**	**17,438,769**	240	14,389,582
Exercisable on 31 December	**205**	**2,468,967**	122	1,155,965

Options were exercised on a regular basis during the year, and the weighted average share price for the year was 335 pence (2004: 291 pence).

Options outstanding on 31 December 2005 have weighted average remaining contractual lives as follows:

	Weighted average remaining contractual life 2005 years	Weighted average remaining contractual life 2004 years
Up to 99.99 pence	**–**	1.2
100.00 pence to199.99 pence	**1.5**	2.9
200.00 pence to 299.99 pence	**4.0**	5.2
Over 300.00 pence	**8.8**	9.8

Share awards granted during the year under the Performance Share Plan 2002 are as follows:

	Weighted average fair value 2005 pence	**Number of shares 2005**	Weighted average fair value 2004 pence	Number of shares 2004
Share awards granted during the year	**175**	**3,394,227**	179	2,097,355

The fair value of services received in return for share options granted and shares awarded are measured by reference to the fair value of those instruments. For grants in either the current or preceding year, the pricing models used and inputs (on a weighted average basis where appropriate) into those models are as follows:

	Savings Related Share Option Scheme 2005	2004	Executive Share Option Scheme 2005	2004	Performance Share Plan 2005	2004
Pricing model used	Black-Scholes		Binomial lattice		Monte Carlo	
Weighted average fair value at measurement date	**113p**	N/A	**N/A**	108p	**175p**	179p
Share price	**348p**	N/A	**N/A**	320p	**329p**	300p
Exercise price	**279p**	N/A	**N/A**	320p	**N/A**	N/A
Expected share price volatility	**38%**	N/A	**N/A**	41%	**38%**	41%
Option life	**3.4 years**	N/A	**N/A**	N/A	**N/A**	N/A
Expected dividend yield	**3%**	N/A	**N/A**	3%	**N/A**	N/A
Risk-free interest rate	**4.8%**	N/A	**N/A**	4.8%	**N/A**	N/A
Rate of post-vesting leaving	**N/A**	N/A	**N/A**	10% p.a.	**N/A**	N/A
Minimum gain threshold	**N/A**	N/A	**N/A**	33%	**N/A**	N/A
Proportion who exercise given minimum gain achieved	**N/A**	N/A	**N/A**	50% p.a.	**N/A**	N/A
Comparator share price volatility	**N/A**	N/A	**N/A**	N/A	**36%**	36%
Correlation between two companies in comparator group	**N/A**	N/A	**N/A**	N/A	**25%**	25%

The expected share price volatility is based on the historical volatility of the company's share price.

The performance conditions attaching to the Performance Share Plan 2002 involve a comparison of the total shareholder return of the company with that of its comparators and achievement of targeted earnings per share growth. The former is a market based test and as such is incorporated into the grant date fair value of the award.

Goodwill written-off against reserves

The cumulative goodwill (at historic exchange rates) written-off against reserves in respect of acquisitions prior to 1 January 1998, when FRS 10 "Goodwill and intangible assets" was adopted, amounts to £200.2 million (2004: £200.2 million).

Dividends

	2005 £ million	2004 £ million
Dividends paid		
Final dividend paid in respect of 2004: 7.2 pence (2004: final dividend in respect of 2003 of 6.9 pence) per share	**23.4**	20.2
Interim dividend paid in respect of 2005: 4.0 pence (2004: interim dividend in respect of 2004 of 3.8 pence) per share	**13.0**	11.3
	36.4	31.5

The amounts waived by Trustees of the Performance Share Plan 2002 in respect of the final and interim dividends was £0.8 million (2004: £0.6 million).

The amounts waived by Trustees of the qualifying employee share ownership trust in respect of the interim and final dividends was £0.1 million (2004: £0.1 million).

The directors are proposing a final dividend in respect of the financial year ending 31 December 2005 of 7.5 pence per share, which will absorb an estimated £24.3 million of equity. Subject to approval, it will be paid on 3 July 2006 to shareholders on the register of members on 12 May 2006. The dividends have not been provided for and there are no income tax consequences for the company.

Notes to the consolidated accounts

[illegible]

	As at 1 January 2005 £ million	Cash flow £ million	Exchange and other non-cash movements £ million	**As at 31 December 2005 £ million**
Cash at bank and in hand	214.5	104.1	2.2	**320.8**
Short-term investments	85.0	(54.5)	0.6	**31.1**
Cash and cash equivalents per the balance sheet	299.5	49.6	2.8	**351.9**
Overdrafts	(29.5)	10.5	(0.2)	**(19.2)**
Cash and cash equivalents per the cash flow statement	270.0	60.1	2.6	**332.7**
Current debt	(16.5)	(3.5)	0.1	**(19.9)**
Non-current debt	(537.2)	(2.3)	(18.8)	**(558.3)**
	(283.7)	54.3	(16.1)	**(245.5)**

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

[illegible]

All acquisitions in the year have been accounted for under the acquisition method of accounting. An assessment of the fair value to the group of the assets and liabilities acquired on all acquisitions has been made.

On 20 January 2005, the group acquired all the shares in Paragon Engineering Services Inc. ("Paragon") for £21.7 million. Paragon is an oil and gas engineering services company based in Houston, US.

The amounts recognised in respect of identifiable assets and liabilities relating to the acquisition of Paragon were as follows:

	Book value *£ million*	Fair value adjustments *£ million*	Recognised value *£ million*
Property, plant and equipment	1.2	(0.3)	0.9
Intangible assets	–	4.9	4.9
Trade and other receivables	7.7	–	7.7
Cash and cash equivalents	4.2	–	4.2
Deferred tax liability	–	(0.7)	(0.7)
Trade and other payables	(4.3)	–	(4.3)
Net identifiable assets and liabilities	8.8	3.9	12.7
Goodwill on acquisition			9.6
			22.3
Consideration			
Cash			17.2
Deferred consideration			4.5
			21.7
Cost of acquisition			0.6
			22.3

In the period from acquisition to 31 December 2005, Paragon contributed £45.5 million to the consolidated revenue. Its profit contribution was not material to the results of the group.

Goodwill has been recognised on the acquisition of Paragon as a result of its skilled workforce and specialist engineering expertise that did not meet the criteria for recognition as an intangible asset at the date of acquisition.

On 3 July 2005, the group acquired all the shares in NNC Holdings Limited ("NNC") for £25.3 million in cash and net debt of £13.7 million. NNC provides consultancy and engineering services across the life of nuclear facilities in the UK, Canada and across the former Soviet Union. The amounts recognised in respect of identifiable assets and liabilities relating to the acquisition of NNC were as follows:

	Book value £ million	*Fair value adjustments* £ million	*Recognised value* £ million
Property, plant and equipment	4.4	(1.7)	2.7
Intangible assets	9.4	(2.0)	7.4
Inventories	8.5	–	8.5
Trade and other receivables	21.0	(3.4)	17.6
Cash and cash equivalents	1.4	–	1.4
Bank loans and overdrafts	(14.6)	(0.5)	(15.1)
Trade and other payables	(26.1)	(2.3)	(28.4)
Deferred tax liability	–	(2.1)	(2.1)
Net identifiable assets and liabilities	4.0	(12.0)	(8.0)
Goodwill on acquisition			34.1
			26.1
Consideration			
Cash			25.3
Cost of acquisition			0.8
			26.1

In the period from acquisition to 31 December 2005, NNC contributed £50.6 million to the consolidated revenue. Its profit contribution was not material to the results of the group.

Goodwill has arisen on the acquisition of NNC primarily because of its skilled workforce which did not meet the criteria for recognition as an intangible asset at the date of acquisition.

A number of smaller acquisitions were made in the year ended 31 December 2005 for an aggregate consideration net of cash acquired of £8.7 million (of which £4.3 million was paid in 2004). The aggregate book value of the identifiable assets and liabilities was £0.2 million and the aggregate goodwill arising on the acquisitions was £12.4 million.

The acquisition cost of joint ventures and other investments amounted to £25.0 million in 2005 and principally related to investments in public private partnership projects.

	2005 £ million	2004 £ million
Contracted but not provided for in the accounts	**0.3**	1.2

As at 31 December 2005, there was a commitment to invest a total of £42.3 million (2003: £36.0 million) in various Public Private and regeneration partnership projects. In addition, there are commitments to purchase land for a developments project of up to £15 million over the next ten years.

The total obligations under non-cancellable operating lease rentals are as follows:

	2005 £ million	2004 £ million
In one year or less	**31.9**	33.8
Between one and five years	**84.5**	67.8
Over five years	**47.3**	51.7
	163.7	153.3

Notes to the consolidated accounts

The borrowings of joint ventures are generally without recourse to AMEC other than for normal performance obligations which are usually given on a several basis. AMEC has provided guarantees in respect of committed bank facilities granted to certain property joint ventures. The borrowings drawn against these facilities amounted to £33.8 million at 31 December 2005 (2004: £35.0 million) and the current debt service ratios for these joint ventures are all within the agreed levels.

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

As at 31 December 2005, AMEC had a commitment to invest £47.4 million (2004: £36.0 million) in joint venture projects. It had also provided guarantees on certain projects to invest further amounts of up to £34.2 million (2003: £16.4 million). AMEC believes that the circumstances under which it will be called upon to invest the contingent equity are remote.

AMEC has taken internal and external legal advice in considering known legal claims and actions made by or against the company. Consequently, it carefully assesses the likelihood of the success of a claim or action including those identified in this note. AMEC makes an appropriate provision for those legal claims or actions against the company on the basis of the likely outcome, but makes no provision for those which are, in its view, unlikely to succeed.

– During 1994 and 1995, AMEC Construction Management Inc. ("ACMI"), a wholly owned subsidiary of AMEC plc, entered into various contracts with the United States General Services Administration ("GSA") for the construction of courthouses in Missouri and California and for the refurbishment and seismic upgrade of a US Customs House in California. The total value of these contracts at point of signing was in the order of US$290 million. Due, inter alia, to unforeseen site conditions, client delays and numerous design and scope changes, ACMI suffered significant cost overruns and submitted substantial recovery claims.

In June 1999, GSA terminated the right of ACMI to complete one contract, which at that stage was 85 per cent complete. ACMI contested the termination and sued the GSA for recovery of all claims on this contract. Recently the GSA has submitted its claim against ACMI for reprocurement and other costs totalling US$32 million.

The United States Department of Justice then filed a counterclaim alleging false claims on the GSA contracts and sought to argue that, as a result, ACMI had forfeited its rights to recovery of all claims.

ACMI, upon legal advice, pleaded guilty in December 2000 and November 2001 to two federal felonies and paid two fines totalling approximately US$1.2 million. AMEC also agreed to introduce additional ethical processes and procedures, both for the North American workforce and for those staff employed by AMEC, whose responsibilities caused them to have regular business contact with AMEC Americas and thus, the US Government.

The GSA subsequently filed a motion for summary judgement seeking an order declaring that ACMI had forfeited its claims on all the projects. ACMI opposed the motion and oral argument was held in February 2004.

During 2005 the US Court of Federal Claims ruled that ACMI had violated the US Anti-Kickback Act. The Court has stated that it intends to issue an order in respect of the Government's counter claims and the issues relating to the Anti-Kickback Act in April 2006.

– In 2001, ACMI entered into a contract with a value of US$103 million to build a development in Miami, Florida, which was subject to significant changes and design delays. In January 2006 the client terminated ACMI's contract despite having taken possession of the majority of the facility for many months. Both parties are now in litigation in pursuit of various claims and counter claims.

– In 2000, ACMI entered into a contract with a value of US$115 million to design and build a jail for the City and County of San Francisco ("CCSF"). Due to unforeseen conditions, delays and interference with ACMI's design, procurement and execution of the work, ACMI suffered large cost overruns. In 2005, lawsuits were filed by both parties. CCSF further alleged that ACMI made false claims in connection with the project and also failed to properly maintain its California contractor's licence throughout the project term. The litigation is at the pleading stages with an initial trial date set for November 2007.

– In 1999 AGRA Monenco Inc. (a predecessor company of AMEC Americas Limited, a wholly owned subsidiary of AMEC plc), in joint venture, entered into a contract with Jordan Magnesia Company Ltd. ("Jormag") to design and construct a magnesium plant in Jordan with a contract value of US$80 million. The joint venture experienced delays in completing its work under the contract and Jormag terminated the contract when work was approximately 95 per cent complete. The joint venture commenced an action against Jormag, who counter claimed for damages it claims it suffered from the alleged default of the joint venture. The dispute has been referred to arbitration under the terms of the contract, and the matter is scheduled to be heard by a panel in the UK in March 2006.

– After the terrorist attacks in September 2001, ACMI was one of four construction managers hired by the City of New York to carry out the clean up and debris removal work at the World Trade Center site. The client was responsible for procuring insurance to protect the construction managers and various contractors from lawsuits arising out of the work. The World Trade Center Captive Insurance Company (the "WTC Captive") was formed and was funded with US$1 billion in Federal money to provide coverage for the City, the construction managers and the contractors who performed the work on site. Pursuant to the insurance policy that was issued, the WTC Captive is providing a minimum of US$1 billion in insurance coverage. This amount can increase depending upon investment returns on the US$1 billion. The WTC Captive is providing a defence and indemnification for claims against ACMI arising out of this work.

– AMEC Civil Engineering Limited was awarded a contract to refurbish the existing Thelwall viaduct which carries the M6 motorway over the Manchester Ship Canal. Shortly prior to the expiry of the six year latent defects liability period the Highways Agency advised AMEC that a number of bearings/bearing plates had failed. Subsequently the Highways Agency decided to replace all the 316 bearings and has raised a claim against AMEC for £48 million. The client has instigated a dispute under the contract which has been referred to arbitration. The hearing is not anticipated until 2007.

During the year there were a number of transactions with the senior management group, joint venture entities and subsidiary companies.

Transactions with the senior management group

Directors of the company and their immediate relatives control 0.1 per cent of the voting rights of the company.

In addition to their salaries, the group and company also provide non-cash benefits to directors and executive officers, and contribute to a post-employment defined benefit plan on their behalf. Directors and executive officers also receive share awards under the Performance Share Plan.

Details of the senior management group compensation are as follows:

	2005 £ million
Short-term employee benefits	**1.0**
Post-employment benefits	**0.2**
Share-based payment	**0.4**
	1.6

The transactions and related balances outstanding with joint ventures entities are as follows:

	Value of transactions in the year		**Outstanding balance as at 31 December**	
	2005 £ million	*2004* £ million	**2005 £ million**	*2004* £ million
Services rendered	**12.6**	59.6	**3.9**	6.5
Services received	**4.5**	3.0	**0.3**	–
Sale of property, plant and equipment	**43.9**	29.7	**–**	–
Provision of finance	**26.2**	18.0	**7.9**	–

AMEC Developments Limited and AMEC Staff Pensions Trustee Limited entered into an agreement on 23 December 2005 for the sale of the long leasehold interests forming part of the Newcastle Estate, currently owned by AMEC Developments Limited, to AMEC Staff Pensions Trustee Limited, for a price of £25 million. The agreement was conditional upon various consents being obtained and ancillary documentation being entered into. It is envisaged that the conditions will be satisfied shortly. AMEC Developments Limited and AMEC Staff Pensions Trustee Limited have each received separate legal and valuation advice in respect of the transaction.

As previously announced, the group is continuing with the proposed sale of AMEC SPIE.

The assets to be disposed of include Continental European Rail, Multitechnical and Oil and Gas Services activities, excluding the pipeline business. The UK Rail business will be subject to a joint venture and will be held 50 per cent by AMEC plc and 50 per cent will be disposed of along with AMEC SPIE.

The sales process has commenced and the Information Memorandum will be issued in March. The group is expecting to seek shareholder approval for the sale process around the middle of the year.

Total profit before net finance costs relating to the business subject to the disposal process amounted to £49.7 million in 2005. The majority of this is included in the Engineering and Technical Services segment, although small elements also relate to Oil and Gas and Project Solutions.

Notes to the consolidated accounts

As stated in note 1, these are the group's first consolidated accounts prepared in accordance with adopted IFRS.

The accounting policies set out in note 1 have been applied in preparing the accounts for the year ended 31 December 2005, the comparative information presented in these accounts for the year ended 31 December 2004 and in the preparation of an opening IFRS balance sheet at 1 January 2004, the group's date of transition.

The rules for first time adoption of IFRS are set out in IFRS 1. In general, a company is required to define its IFRS accounting policies and apply these retrospectively to determine its opening consolidated balance sheet as at 1 January 2004 under IFRS. To assist companies in their transition to reporting under IFRS, IFRS 1 sets out various exceptions and exemptions from this principle of full retrospective adoption. The exemptions that AMEC has applied under IFRS 1 are discussed below.

As permitted by the transitional provisions of IFRS 1, AMEC elected to adopt IAS 32 and IAS 39, prospectively from 1 January 2005. The 2004 comparative figures have not been restated to comply with these standards. The effect of adopting IAS 32 and IAS 39 on the balance sheet as at 1 January 2005 is set out on page 103.

Reconciliation of consolidated result from UK GAAP to IFRS for the year ended 31 December 2004

	Previously reported under *UK GAAP* £ million	IFRS 2 Share-based *payments* £ million	IFRS 3 Business *combinations* £ million	IAS 1 Reclassification *adjustment* £ million	IAS 16 Property, plant and *equipment* £ million	IAS 19 Employee *benefits* £ million	IAS 31 Interests in joint *ventures* £ million	IAS 38 Intangible *assets* £ million	Total effect of transition *to IFRS* £ million	Restated under *IFRS* £ million
Revenue	4,657.5	–	–	–	–	–	–	–	–	4,657.5
Cost of sales	(4,051.6)	–	–	–	–	(1.9)	–	–	(1.9)	(4,053.5)
Gross profit	605.9	–	–	–	–	(1.9)	–	–	(1.9)	604.0
Administrative expenses	(501.0)	(1.8)	21.6	3.7	(1.8)	(0.7)	–	(0.5)	20.5	(480.5)
Share of profit in joint ventures	23.1	–	–	–	–	–	(23.1)	–	(23.1)	–
(Loss)/profit on business disposals and closures	(34.5)	–	13.0	–	–	–	–	–	13.0	(21.5)
Profit on disposal of fixed assets	3.7	–	–	(3.7)	–	–	–	–	(3.7)	–
Profit/(loss) before net financing costs	97.2	(1.8)	34.6	–	(1.8)	(2.6)	(23.1)	(0.5)	4.8	102.0
Net financing costs	(31.5)	–	–	–	–	–	12.7	–	12.7	(18.8)
Share of post-tax results of joint ventures	–	–	–	–	–	–	8.0	–	8.0	8.0
Profit/(loss) before income tax	65.7	(1.8)	34.6	–	(1.8)	(2.6)	(2.4)	(0.5)	25.5	91.2
Income tax	(43.1)	0.5	–	–	–	0.7	2.4	–	3.6	(39.5)
Profit/(loss) for the year	22.6	(1.3)	34.6	–	(1.8)	(1.9)	–	(0.5)	29.1	51.7
Attributable to:										
Equity holders of the company	21.8	(1.3)	34.6	–	(1.8)	(1.9)	–	(0.5)	29.1	50.9
Minority interests	*0.8*	–	–	–	–	–	–	–	–	*0.8*
Profit/(loss) for the year	22.6	(1.3)	34.6	–	(1.8)	(1.9)	–	(0.5)	29.1	51.7
Earnings per share:										
Basic	7.4p	(0.4)p	11.7p	–	(0.6)p	(0.6)p	–	(0.2)p	9.9p	17.3p
Diluted	7.2p	(0.4)p	11.4p	–	(0.6)p	(0.6)p	–	(0.2)p	9.6p	16.8p

Reconciliation of equity from UK GAAP to IFRS as at 1 January 2004

	Previously reported under UK GAAP £ million	Balance sheet re-classification adjustments £ million	IAS 10 Events after the balance sheet date £ million	IAS 16 Property, plant and equipment £ million	IAS 19 Employee benefits £ million	IAS 38 Intangible assets £ million	Total effect of transition to IFRS £ million	Restated under IFRS £ million
ASSETS								
Non-current assets								
Property, plant and equipment	207.0	(9.6)	–	–	–	–	(9.6)	197.4
Intangible assets	342.1	14.4	–	–	–	(1.4)	13.0	355.1
Interests in joint ventures – share of gross assets	639.7	(639.7)	–	–	–	–	(639.7)	–
– share of gross liabilities	(585.6)	585.6	–	–	–	–	585.6	–
Interests in joint ventures	54.1	–	–	–	–	–	–	54.1
Interests in associates	12.7	–	–	–	–	–	–	12.7
Other investments	30.3	(21.5)	–	–	–	–	(21.5)	8.8
Other receivables	–	21.5	–	–	–	–	21.5	21.5
Retirement benefit assets	–	–	–	–	*120.3*	–	*120.3*	*120.3*
Deferred tax assets	–	48.7	–	–	7.6	–	56.3	56.3
	646.2	53.5	–	–	127.9	(1.4)	180.0	826.2
Current assets								
Inventories	102.0	(4.8)	–	–	–	–	(4.8)	97.2
Trade and other receivables	1,719.2	(10.4)	–	–	(70.3)	–	(80.7)	1,638.5
Cash and cash equivalents	364.8	–	–	–	–	–	–	364.8
	2,186.0	(15.2)	–	–	(70.3)	–	(85.5)	2,100.5
Current liabilities								
Bank loans and overdrafts	(109.9)	–	–	–	–	–	–	(109.9)
Trade and other payables	(1,786.5)	(49.4)	20.2	–	(2.5)	–	(31.7)	(1,818.2)
Tax payable	(22.7)	–	–	–	–	–	–	(22.7)
	(1,919.1)	(49.4)	20.2	–	(2.5)	–	(31.7)	(1,950.8)
Net current assets	266.9	(64.6)	20.2	–	(72.8)	–	(117.2)	149.7
Non-current liabilities								
Bank loans	(473.1)	–	–	–	–	–	–	(473.1)
Trade and other payables	(114.2)	49.4	–	–	–	–	49.4	(64.8)
Retirement benefit liabilities	–	–	–	–	(50.3)	–	(50.3)	(50.3)
Deferred tax liabilities	–	(38.3)	–	–	(15.8)	–	(54.1)	(54.1)
Provisions	(57.3)	–	–	–	26.9	–	26.9	(30.4)
	(644.6)	11.1	–	–	(39.2)	–	(28.1)	(672.7)
Net assets	268.5	–	20.2	–	15.9	(1.4)	34.7	303.2
TOTAL EQUITY								
Share capital	149.6	–	–	–	–	–	–	149.6
Share premium account	82.8	–	–	–	–	–	–	82.8
Revaluation reserve	11.1	–	–	(11.1)	–	–	(11.1)	–
Capital redemption reserve	17.2	–	–	–	–	–	–	17.2
Retained earnings	0.4	–	20.2	11.1	15.9	(1.4)	45.8	46.2
Total equity attributable to equity holders of the parent	261.1	–	20.2	–	15.9	(1.4)	34.7	295.8
Minority interests	7.4	–	–	–	–	–	–	7.4
Total equity	268.5	–	20.2	–	15.9	(1.4)	34.7	303.2

Notes to the consolidated accounts

Reconciliation of equity from UK GAAP to IFRS as at 31 December 2004

	Previously reported under UK GAAP £ million	Balance sheet re-classification adjustments £ million	IFRS 2 Share-based payments £ million	IFRS 3 Business com-binations £ million	IAS 10 Events after the balance sheet date £ million	IAS 16 Property, plant and equipment £ million	IAS 19 Employee benefits £ million	IAS 21 The effects of changes in foreign exchange rates £ million	IAS 38 Intangible assets £ million	Total effect of transition to IFRS £ million	Restated under IFRS £ million
ASSETS											
Non-current assets											
Property, plant and equipment	187.1	(26.7)	–	–	–	(11.4)	–	–	–	(38.1)	149.0
Intangible assets	341.2	31.6	–	21.6	–	–	–	–	(1.9)	51.3	392.5
Interests in joint ventures											
– share of gross assets	709.7	(709.7)	–	–	–	–	–	–	–	(709.7)	–
– share of gross liabilities	(634.1)	634.1	–	–	–	–	–	–	–	634.1	–
Interests in joint ventures	75.6	–	–	–	–	–	–	–	–	–	75.6
Other investments	37.5	(21.5)	–	–	–	–	–	–	–	(21.5)	16.0
Other receivables	–	21.5	–	–	–	–	–	–	–	21.5	21.5
Retirement benefit assets	–	–	–	–	–	–	118.9	–	–	118.9	118.9
Deferred tax assets	–	38.0	0.5	–	–	–	7.0	–	–	45.5	45.5
	641.4	42.9	0.5	21.6	–	(11.4)	125.9	–	(1.9)	177.6	819.0
Current assets											
Inventories	91.4	(4.2)	–	–	–	–	–	–	–	(4.2)	87.2
Trade and other receivables	1,907.8	(3.9)	–	–	–	–	(80.1)	–	–	(84.0)	1,823.8
Cash and cash equivalents	299.5	–	–	–	–	–	–	–	–	–	299.5
	2,298.7	(8.1)	–	–	–	–	(80.1)	–	–	(88.2)	2,210.5
Current liabilities											
Bank loans and overdrafts	(46.0)	–	–	–	–	–	–	–	–	–	(46.0)
Trade and other payables	(1,892.2)	(39.8)	–	–	23.5	–	(2.5)	–	–	(18.8)	(1,911.0)
Tax payable	(29.9)	–	–	–	–	–	–	–	–	–	(29.9)
	(1,968.1)	(39.8)	–	–	23.5	–	(2.5)	–	–	(18.8)	(1,986.9)
Net current assets	330.6	(47.9)	–	–	23.5	–	(82.6)	–	–	(107.0)	223.6
Non-current liabilities											
Bank and other loans	(537.2)	–	–	–	–	–	–	–	–	–	(537.2)
Trade and other payables	(106.9)	39.1	–	–	–	–	–	–	–	39.1	(67.8)
Retirement benefit liabilities	–	–	–	–	–	–	(52.3)	–	–	(52.3)	(52.3)
Deferred tax liabilities	–	(34.1)	–	–	–	–	(11.5)	–	–	(45.6)	(45.6)
Provisions	(59.8)	–	–	–	–	–	27.7	–	–	27.7	(32.1)
	(703.9)	5.0	–	–	–	–	(36.1)	–	–	(31.1)	(735.0)
Net assets	268.1	–	0.5	21.6	23.5	(11.4)	7.2	–	(1.9)	39.5	307.6

Reconciliation of equity from UK GAAP to IFRS as at 31 December 2004 continued

	Previously reported under UK GAAP £ million	Balance sheet re-classification adjustments £ million	IFRS 2 Share-based payments £ million	IFRS 3 Business com-binations £ million	IAS 10 Events after the balance sheet date £ million	IAS 16 Property, plant and equipment £ million	IAS 19 Employee benefits £ million	IAS 21 The effects of changes in foreign exchange rates £ million	IAS 38 Intangible assets £ million	Total effect of transition to IFRS £ million	Restated under IFRS £ million
TOTAL EQUITY											
Share capital	151.0	–	–	–	–	–	–	–	–	–	151.0
Share premium account	88.8	–	–	–	–	–	–	–	–	–	88.8
Revaluation reserve	20.1	–	–	–	–	(20.1)	–	–	–	(20.1)	–
Translation reserve	–	–	–	–	–	–	–	(11.8)	–	(11.8)	(11.8)
Capital redemption reserve	17.2	–	–	–	–	–	–	–	–	–	17.2
Retained earnings	(12.3)	–	0.5	21.6	23.5	8.7	7.2	11.8	(1.9)	71.4	59.1
Total equity attributable to equity holders of the parent	264.8	–	0.5	21.6	23.5	(11.4)	7.2	–	(1.9)	39.5	304.3
Minority interests	3.3	–	–	–	–	–	–	–	–	–	3.3
Total equity	268.1	–	0.5	21.6	23.5	(11.4)	7.2	–	(1.9)	39.5	307.6

The impacts of significant changes in policy, which have arisen from AMEC's transition to IFRS, on the company's results and financial position are discussed below:

There are a number of reclassifications between balance sheet captions that arise from the application of various IFRS.

Under UK GAAP, there was no charge to the income statement in respect of Save As You Earn schemes that were offered on similar terms to all, or substantially all, UK employees. For other share option schemes, there was a charge only in respect of the difference between the market price on the date of grant and the exercise price of the option i.e. there was no charge in respect of options issued at market price. For shares issued under the Long Term Incentive Plan ("LTIP") and Performance Share Plan 2002 ("PSP"), there was a charge to the profit and loss account equal to the market price of the shares on the date of the award, spread over the performance period.

IFRS 2 requires the fair value of all equity instruments granted to be charged to the income statement over the performance period of the award. This results in a charge in respect of all share options issued, and a different basis for calculation of the charge in respect of the LTIP and PSP.

As permitted by IFRS 1, AMEC has applied IFRS 2 only to those equity instruments granted after 7 November 2002 that had not vested by 1 January 2005.

The impact of this is to reduce profit for the year ended 31 December 2004 by £1.8 million, together with an associated tax credit of £0.5 million.

Under UK GAAP, goodwill arising on acquisitions made post 1 January 1998 was capitalised and amortised, on a straight line basis, over its estimated useful economic life.

Under IFRS 3, positive goodwill is considered to have an indefinite life and consequently is not amortised, but instead is subject to impairment testing both annually and when there are indications that the carrying value may not be recoverable in full.

Goodwill previously written-off to reserves is no longer recycled to the income statement on the disposal or closure of operations as it would have been under UK GAAP.

As permitted by IFRS 1, AMEC has applied IFRS 3 prospectively from the transition date, rather than restating all previous business combinations.

The impact of IFRS 3 on AMEC is as follows:

- the amortisation of goodwill is reversed increasing profit for the year ended 31 December 2004 by £21.6 million.
- the goodwill recycled to the income statement on the disposal or closure, of operations in 2004 is frozen in reserves. This increases profit for the year ended 31 December 2004 by £13.0 million.

Notes to the consolidated accounts

Under UK GAAP, dividends declared after the period end are recognised as a liability of the company at the balance sheet date.

Under IAS 10, dividends declared after the period end represent a non-adjusting post balance sheet event and therefore no liability is recognised at the balance sheet date.

Consequently, there is an adjustment as at 31 December 2004 to remove the liability of £23.5 million in respect of the 2004 final dividend (2003: £20.2 million).

Under UK GAAP, AMEC's policy was to revalue freehold and long leasehold property on a regular basis.

Under IAS 16, AMEC has opted to carry property, plant and equipment at cost less accumulated depreciation and impairment losses.

As permitted by IFRS 1, AMEC has frozen the UK GAAP land and buildings revaluations as at 1 January 2004 by ascribing the carrying value as deemed cost.

The impact of this change in policy is as follows:

- the revaluation reserve is reclassified into retained earnings as at the date of transition;
- the results of the external revaluation as at 31 December 2004 are reversed, reducing the value of property, plant and equipment as at 31 December 2004 by £9.6 million; and
- as part of the 2004 external revaluation, certain properties were revalued downwards. Under UK GAAP, these deficits were charged against previous revaluations held in the revaluation reserve. Under IFRS, these downward revaluations have been taken as indicators that the value of the relevant properties is impaired and as such, they have been charged to the income statement as impairment charges in 2004. This reduces the profit for the year ended 31 December 2004 and the value of property, plant and equipment as at 31 December 2004 by £1.8 million.

Under UK GAAP, AMEC accounted for pension costs by spreading the cost of providing the benefits, including any experience gains or losses, over the estimated average service lives of the employees.

Under IAS 19, AMEC's policy is now to recognise all actuarial gains and losses in the statement of recognised income and expense as they arise. This is permitted by the amended version of IAS 19.

The impact of IAS 19 is to increase the pensions charge for the year ended 31 December 2004 by £2.6 million. There is a related tax credit of £0.7 million.

The implementation of IAS 19 results in an increase in the net assets of £7.2 million as at 31 December 2004 (2003: £15.9 million).

IAS 21 requires that exchange differences arising on the re-translation of foreign currency net investments and foreign currency borrowings are taken to a separate component of equity. On the disposal of an operation, such gains or losses are recycled to the income statement as part of the gain or loss on disposal.

As permitted by IFRS 1, AMEC has deemed the cumulative translation differences to be zero at the date of transition.

IAS 38 requires that certain expenditure relating to software be capitalised as an intangible asset.

Certain items that were capitalised, in accordance with UK GAAP, no longer qualify for capitalisation under IAS 38 and these items have been written-off at the date of transition. This reduces the net assets as at 31 December 2003 by £1.4 million.

In addition, certain assets that were included within goodwill under UK GAAP are reclassified as other intangible assets and, consequently, are amortised at a different rate, reducing profit for the year ended 31 December 2004 by £0.5 million.

Under IAS 7 "Cash flow statements", movements in cash and cash equivalents are reconciled; under UK GAAP the statement reconciles cash only. The change in presentation of the cash flow statement under IAS 7 makes no difference to the free cash generated by the group.

Prior to the adoption of IAS 32 and IAS 39, the group did not recognise derivatives. In accordance with IAS 39, derivatives have been recorded at fair value with effect from 1 January 2005 and these principally relate to interest and inflation rate derivatives in the PPP projects.

The effect of adopting IAS 32 and IAS 39 on the group balance sheet as at 1 January 2005 is as follows:

	Adjustment £ million
ASSETS	
Non-current assets	
Interests in joint ventures	(12.9)
Other receivables	(3.7)
Deferred tax assets	4.1
Current assets	
Derivative financial instruments	3.5
LIABILITIES	
Current liabilities	
Trade and other payables	1.0
Derivative financial instruments	(6.1)
Non-current liabilities	
Derivative financial instruments	(8.8)
Deferred tax liabilities	0.8
Net assets	**(22.1)**
EQUITY	
Hedging and translation reserves	(17.7)
Retained earnings	(4.4)
Total equity	**(22.1)**

Company balance sheet

As at 31 December 2005

	Note	2005 £ million	2004 (as restated) £ million
Fixed assets			
Tangible assets		**6.2**	7.5
Investments:			
Subsidiaries		**926.9**	891.8
Joint ventures		**9.9**	10.1
Other		**0.1**	0.1
		936.9	902.0
		943.1	909.5
Current assets			
Debtors: amounts falling due within one year		**37.6**	12.9
Debtors: amounts falling due after one year		**2.8**	1.4
Derivative financial instruments		**0.5**	–
Cash at bank and in hand		**14.2**	4.0
		55.1	18.3
Current liabilities			
Creditors: amounts falling due within one year		**(84.0)**	(63.3)
Derivative financial instruments		**(4.5)**	–
		(88.5)	(63.3)
Net current liabilities		**(33.4)**	(45.0)
Total assets less current liabilities		**909.7**	864.5
Creditors: amounts falling due after one year		**(526.6)**	(528.8)
Net assets		**383.1**	335.7
Capital and reserves			
Called up share capital		**166.4**	151.0
Share premium account		**89.5**	88.8
Revaluation reserve		**0.5**	0.5
Hedging reserve		**(0.8)**	–
Capital redemption reserve		**17.2**	17.2
Profit and loss account		**110.3**	78.2
Equity shareholders' funds		**383.1**	335.7

The accounts on pages 104 to 111 were approved by the board of directors on 15 March 2006 and were signed on its behalf by:

Sir Peter Mason KBE
Chief executive

S J Siddall
Finance director

Notes to the company balance sheet

The accounts have been prepared under the historical cost convention, modified to include the revaluation of certain land and buildings and in accordance with applicable accounting standards and the Companies Act 1985.

In the year the company has adopted FRS 17 "Retirement benefits", FRS 20 "Share-based payment", FRS 21 "Events after the balance sheet date", FRS 23 "The effects of changes in foreign exchange rates", the presentation requirements of FRS 25 "Financial instruments: disclosure and presentation", FRS 26 "Financial instruments: measurement", and FRS 28 "Corresponding amounts". With the exception of the adoption of FRS 25 and FRS 26 *(see financial instruments accounting policy below)* changes in accounting policy have been accounted for as a prior period adjustment, and the company balance sheet as at 31 December 2004 has been restated as detailed in note 13.

The company has not adopted the amendments to FRS 26 and FRS 12 in relation to financial guarantee contracts which will apply for the year commencing on 1 January 2006.

Where the company enters into financial guarantee contracts to guarantee the indebtedness of other companies within the group, the company considers these to be indemnity arrangements, and accounts for them as such. In this respect the company treats the guarantee contract as a contingent liability until such time as it becomes probable that the company will be required to make a payment under the guarantee.

The company does not expect the amendments to have any impact on the accounts for the period commencing 1 January 2006.

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

Depreciation is provided on all tangible assets, other than freehold land, at rates calculated to write-off the cost or valuation, less estimated residual value, of each asset on a straight line basis over its estimated useful life, as follows:

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

Under the transitional provisions of FRS 26 AMEC has elected not to adopt FRS 25 and FRS 26 in its restated financial information for the year ended 31 December 2004 and, as a result, FRS 13 "Derivatives and other financial instruments – disclosures" has been applied in accounting for financial instruments in the year ended 31 December 2004.

On 1 January 2005, AMEC adopted FRS 25 and FRS 26 and adopted the following policy in accounting for financial instruments.

Financial instruments are initially recorded at fair value. Subsequent valuation depends on the designation of the instruments. Cash, deposits and short-term investments are held at amortised cost. Derivative financial instruments are accounted for as described in note 1 to the consolidated accounts.

The company is exempt from the disclosure requirements of FRS 25 as the financial instruments disclosures of IAS 32 are included in the notes to the consolidated accounts.

Assets and liabilities denominated in foreign currencies are translated into Sterling at the rates of exchange ruling at the balance sheet date. Exchange differences arising on the retranslation of foreign currency net investments and foreign currency borrowings, or forward exchange contracts used to hedge those investments, are taken directly to reserves. Other exchange differences are taken to the profit and loss account in the year.

Interest is written-off to the profit and loss account as incurred.

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

Contributions to defined benefit pension schemes in respect of employees of AMEC plc are charged in the profit and loss account as incurred.

Defined benefit pension schemes are operated by the group but the company is unable to separately identify its share of the assets and liabilities of those schemes or any details of the surplus or deficit in the scheme and the implications of that surplus or deficit for the company.

Details of the disclosures required under FRS 17 can be found in the accounts of AMEC Group Limited, a subsidiary company.

Notes to the company balance sheet

The fair value of equity instruments granted to employees of the company is charged to the income statement with a corresponding increase in equity. The fair value is measured at grant date, using an appropriate valuation model and spread over the period during which the employee becomes unconditionally entitled to the award. The charge is adjusted to reflect the actual number of shares or options that vest, except where failure to vest is due to a market based criteria.

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

Deferred tax is recognised, without discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date, except as otherwise required by FRS 19 "Deferred Tax".

	2005 £ million	2004 £ million
Wages and salaries	**9.9**	9.6
Social security costs	**1.1**	1.2
Other pension costs	**1.2**	1.2
	12.2	12.0

The average number of people employed was 143 (2004: 142).

	Land and buildings £ million	Plant and equipment £ million	Total £ million
Cost or valuation:			
As at 1 January 2005	7.8	2.1	9.9
Additions and transfers	0.4	0.1	0.5
Disposals	(1.2)	–	(1.2)
As at 31 December 2005	**7.0**	**2.2**	**9.2**
Depreciation:			
As at 1 January 2005	0.7	1.7	2.4
Provided during the year	0.4	0.2	0.6
As at 31 December 2005	**1.1**	**1.9**	**3.0**
Net book value:			
As at 31 December 2005	**5.9**	**0.3**	**6.2**
As at 31 December 2004	7.1	0.4	7.5

	2005 £ million	2004 £ million
The net book value of land and buildings comprised:		
Freehold	**4.0**	4.9
Short leasehold	**1.9**	2.2
	5.9	7.1
The cost or valuation of land and buildings comprised:		
Cost	**2.9**	2.9
External valuation in 2004	**4.1**	4.9
	7.0	7.8

All significant freehold and long leasehold properties were externally valued as at 31 December 2004 by CB Richard Ellis Limited in accordance with the Appraisal and Valuation Manual of the Royal Institute of Chartered Surveyors.

The basis of revaluation was existing use value for properties occupied by the company and market value for those properties without company occupancy.

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

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

	2005 £ million	2004 £ million
Cost	**8.1**	9.3
Depreciation	**(2.6)**	(2.5)
Net book value	**5.5**	6.8

	2005 £ million	2004 £ million
Investments in subsidiaries:		
Shares at cost less amounts written-off	**1,578.7**	1,495.1
Amounts owed by subsidiaries	**320.7**	411.3
Amounts owed to subsidiaries	**(972.5)**	(1,014.6)
	926.9	891.8

	Joint ventures £ million	Other investments £ million	Total £ million
Cost:			
As at 1 January 2005	10.1	0.1	10.2
Additions	0.3	–	0.3
Disposals	(0.5)	–	(0.5)
As at 31 December 2005	**9.9**	**0.1**	**10.0**

Principal group companies are listed on pages 114 and 115.

	2005 £ million	2004 £ million
Debtors: amounts falling due within one year		
Trade debtors	**7.4**	5.6
Amounts owed by subsidiaries	**2.6**	3.5
Amounts owed by joint ventures	**0.5**	0.2
Corporation tax	**19.7**	–
Other debtors	**5.3**	1.4
Prepayments and accrued income	**2.1**	2.2
	37.6	12.9
Debtors: amounts falling due after one year		
Deferred tax	**2.8**	1.4

The movement in the deferred tax asset is analysed as follows:

	£ million
As at 1 January 2005	**1.4**
Effect of adoption of FRS 26 on 1 January 2005	**1.3**
Reserve movement	**(0.1)**
Profit and loss account	**0.2**
As at 31 December 2005	**2.8**

Notes to the company balance sheet

[illegible]

[illegible]

The deferred tax asset is analysed as follows:

	2005 £ million	2004 £ million
Difference between accumulated depreciation and capital allowances	**(0.2)**	(0.3)
Other timing differences	**3.0**	1.7
	2.8	1.4

[illegible]

	2005 £ million	2004 £ million
Bank and other loans and overdrafts	**33.6**	21.4
Trade creditors	**1.9**	7.0
Amounts owed to subsidiaries	**4.3**	0.4
Amounts owed to joint ventures	**5.0**	0.4
Corporation tax	**–**	1.8
Other taxation and social security costs	**8.8**	2.8
Other creditors	**5.0**	6.6
Accruals and deferred income	**12.2**	11.6
Dividends	**13.2**	11.3
	84.0	63.3

[illegible]

	2005 £ million	2004 £ million
Bank and other loans	**526.6**	524.8
Amounts owed to joint ventures	**–**	4.0
	526.6	528.8

[illegible]

The maturity of borrowings was as follows:

	2005 £ million	2004 £ million
Due:		
In one year or less, or on demand	**33.6**	21.4
Between one and two years	**75.0**	–
Between two and five years	**362.9**	419.9
In more than five years	**88.7**	104.9
	560.2	546.2

The authorised share capital of the company is £350.0 million (2004: £350.0 million).

	2005 £ million	2004 £ million
Allotted, called up and fully paid ordinary shares of 50 pence each	**166.4**	151.0

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

	Number	£ million
As at 1 January 2005	**301,910,811**	151.0
Qualifying employee share ownership trust allotments	**126,524**	0.1
Exercise of executive share options	**655,000**	0.3
Other share issues	***30,164,397***	15.0
As at 31 December 2005	**332,856,732**	166.4

Details of share-based payment schemes operated by the company are provided in note 23 to the group accounts.

	Share capital £ million	Share premium account £ million	Revaluation reserve £ million	Hedging reserve £ million	Capital redemption reserve £ million	Profit and loss account £ million	Total £ million
As at 1 January 2005 (as originally stated)	151.0	88.8	0.5	–	17.2	107.5	365.0
Prior year adjustments (note 13)	–	–	–	–	–	(29.3)	(29.3)
As at 1 January 2005 (as restated)	151.0	88.8	0.5	–	17.2	78.2	335.7
Effect of adoption of FRS 26 on 1 January 2005 (note 14)	–	–	–	(0.9)	–	(1.0)	(1.9)
Shares issued	15.4	0.7	–	–	–	73.5	89.6
Share-based payments	–	–	–	–	–	(1.7)	(1.7)
Dividends	–	–	–	–	–	(36.4)	(36.4)
Effective portion of changes in fair value of cash flow hedges (net of tax)	–	–	–	0.1	–	–	0.1
Loss for the year	–	–	–	–	–	(2.3)	(2.3)
As at 31 December 2005	**166.4**	**89.5**	**0.5**	**(0.8)**	**17.2**	**110.3**	**383.1**

In January 2005, the company raised £89 million by way of a placing. As discussed in the business and financial review on page 48 and in line with counsel's opinion, the excess of the proceeds of the placing over the nominal value of the shares issued created a merger reserve which was subsequently transferred to retained earnings and is available for distribution to shareholders.

Details of dividends paid by the company and proposed during the year are disclosed in note 23 to the group accounts.

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

	Land and buildings 2005 £ million	Land and buildings 2004 £ million	Plant and equipment 2005 £ million	Plant and equipment 2004 £ million
Expiring over five years	**0.4**	0.4	**–**	–

Notes to the company balance sheet

Guarantees given by the company in respect of borrowings of subsidiaries amounted to £nil as at 31 December 2005 (2004: £nil).

Details of other contingent liabilities of the company are provided in note 28 to the group accounts.

The company's balance sheet for 2004 has been restated to reflect the impact of standards adopted for the first time in the year and these restatements are set out below:

	2004 £ million	FRS 17 Retirement *benefits* £ million	FRS 20 Share-based *payment* £ million	FRS 21 Events after the balance *sheet date* £ million	*Reclassification* £ million	2004 *(as restated)* £ million
Tangible fixed assets	7.5	–	–	–	–	7.5
Investments:						
Subsidiaries	891.8	–	–	–	–	891.8
Joint ventures	10.1	–	–	–	–	10.1
Other	0.1	–	–	–	–	0.1
	902.0	–	–	–	–	902.0
	909.5	–	–	–	–	909.5
Current assets						
Debtors: amounts falling due within one year	12.9	–	–	–	–	12.9
Debtors: amounts falling due after one year	76.1	(76.1)	–	–	1.4	1.4
Cash at bank and in hand	4.0	–	–	–	–	4.0
	93.0	(76.1)	–	–	1.4	18.3
Creditors: amounts falling due within one year	(86.8)	–	–	23.5	–	(63.3)
Net current assets	6.2	(76.1)	–	23.5	1.4	(45.0)
Total assets less current liabilities	915.7	(76.1)	–	23.5	1.4	864.5
Creditors: amounts falling due after one year	(528.8)	–	–	–	–	(528.8)
Provisions for liabilities and charges	(21.9)	22.8	0.5	–	(1.4)	–
Net assets excluding pension asset	365.0	(53.3)	0.5	23.5	–	335.7
Capital and reserves:						
Called up share capital	151.0	–	–	–	–	151.0
Share premium account	88.8	–	–	–	–	88.8
Revaluation reserve	0.5	–	–	–	–	0.5
Capital redemption reserve	17.2	–	–	–	–	17.2
Profit and loss account	107.5	(53.3)	0.5	23.5	–	78.2
Equity shareholders' funds	365.0	(53.3)	0.5	23.5	–	335.7

FRS 28 "Corresponding amounts" does not result in any restatement of the balance sheet for 2004.

Prior to the adoption of FRS 25 and FRS 26, the company did not recognise derivatives. In accordance with FRS 26, derivatives have been recorded at fair value with effect from 1 January 2005.

The effect of adopting FRS 25 and FRS 26 on the company balance sheet as at 1 January 2005 is as follows:

	Adjustment £ million
ASSETS	
Non-current assets	
Deferred tax assets	1.3
Current assets	
Derivative financial instruments	1.5
LIABILITIES	
Current liabilities	
Derivative financial instruments	(4.7)
Net assets	**(1.9)**
EQUITY	
Hedging reserve	(0.9)
Retained earnings	(1.0)
Total equity	**(1.9)**

Statement of directors' responsibilities in respect of the annual report and the accounts

The directors are responsible for preparing the annual report and the group and parent company accounts, in accordance with applicable law and regulations.

Company law requires the directors to prepare group and parent company accounts for each financial year. Under that law the directors are required to prepare the group accounts in accordance with IFRS as adopted by the EU and have elected to prepare the parent company accounts in accordance with UK Accounting Standards.

The group accounts are required by law and IFRS as adopted by the EU to present fairly the financial position and performance of the group; the Companies Act 1985 provides in relation to such accounts that references in the relevant part of that Act to accounts giving a true and fair view are references to their achieving a fair presentation.

The parent company accounts are required by law to give a true and fair view of the state of affairs of the parent company.

In preparing each of the group and parent company accounts, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- for the group accounts, state whether they have been prepared in accordance with IFRS as adopted by the EU;
- for the parent company accounts, state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the parent company accounts; and
- prepare the accounts on the going concern basis, unless it is inappropriate to presume that the group and the parent company will continue in business.

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

Under applicable law and regulations, the directors are also responsible for preparing a directors' report, directors' remuneration report and corporate governance statement that comply with that law.

Independent auditors' report to the members of AMEC plc

We have audited the group and parent company accounts (the "accounts") of AMEC plc for the year ended 31 December 2005 which comprise the group income statement, the group and parent company balance sheets, the group cash flow statement, the group statement of recognised income and expense and the related notes. These accounts have been prepared under the accounting policies set out therein. We have also audited the information in the directors' remuneration report that is described as having been audited.

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

The directors' responsibilities for preparing the annual report and the group accounts in accordance with applicable law and International *Financial Reporting Standards ("IFRS") as adopted by the EU,* and for preparing the parent company accounts and the directors' remuneration report in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) *are set out in the statement of directors' responsibilities on page 112.*

Our responsibility is to audit the accounts and the part of the directors' remuneration report to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the accounts give a true and fair view and whether the accounts and the part of the directors' *remuneration report to be audited have been properly prepared in* accordance with the Companies Act 1985 and whether, in addition, the group accounts have been properly prepared in accordance with Article 4 of the IAS Regulation. We also report to you if, in our opinion, the directors' report is not consistent with the accounts, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

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

We read other information contained in the annual report and consider whether it is consistent with the audited accounts. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the accounts. Our responsibilities do not extend to any other information.

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

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the accounts and the part of the directors' remuneration report to be audited are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the accounts and the part of the directors' remuneration report to be audited.

In our opinion:

- the group accounts give a true and fair view, in accordance with IFRS as adopted by the EU, of the state of the group's affairs as at 31 December 2005 and of its profit for the year then ended;
- the group accounts have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation;
- the parent company accounts give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of the parent company's affairs as at 31 December 2005; and
- *the parent company accounts and the part of the directors'* remuneration report to be audited have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc KPMG Audit Plc
Chartered Accountants
Registered Auditor
Manchester
15 March 2006

Principal group companies

As at 31 December 2005

The subsidiaries and joint ventures which, in the opinion of the directors, principally affect group trading results and net assets are listed below. Except where indicated, all subsidiaries listed below are *wholly owned, incorporated in Great Britain and carry on their activities* principally in their countries of incorporation. Shares are held by subsidiary companies except where marked with an asterisk, where they are held directly by the company. All holdings are of ordinary shares, except where otherwise indicated. A full list of subsidiaries will be filed with the Registrar of Companies with the next annual return.

Subsidiaries

AMEC S.A. (France)
AMEC Americas Limited (Canada)
AMEC Australia Pty Limited (Australia) (note 1)
AMEC (Bermuda) Limited (Bermuda)
AMEC BioPharmaceuticals, Inc. (USA)
AMEC BKW Limited
AMEC Capital Projects Limited
AMEC Civil Engineering Limited
AMEC Civil, Inc. (USA)
AMEC Civil LLC (USA) (80 per cent) (note 2)
AMEC Construction Limited
AMEC Construction Management, Inc. (USA)
AMEC Developments Limited
AMEC Dynamic Structures Ltd. (Canada)
AMEC DS, Inc. (USA)
AMEC Earth & Environmental, Inc. (USA)
AMEC Earth & Environmental (UK) Limited
AMEC E&C Services, Inc. (USA)
AMEC Facilities Limited
*AMEC Finance Limited
AGRA Foundations Limited (Canada)
AGRA Foundations, Inc. (USA)
*AMEC Group Limited
AMEC Group Singapore Pte Limited (Singapore)
AMEC Holdings, Inc. (USA)
AMEC Inc. (Canada)
AMEC Infrastructure, Inc. (USA)
AMEC Infrastructure Limited (Canada)
AMEC Ingenieurbau GmbH (Germany)
AMEC International (Chile) S.A. (Chile)
AMEC International Construction Limited
(operating outside the United Kingdom)
*AMEC Investments Limited
AMEC Kamtech, Inc. (USA)
AMEC Logistics and Support Services Limited
AMEC NNC Limited (acquired July 2005)
AMEC NNC Canada Limited (Canada) (acquired July 2005)
AMEC Nuclear Holdings Limited (acquired July 2005)
AMEC Offshore, Inc. (USA)
AMEC Offshore Services Limited
AMEC Paragon, Inc. (USA)
AMEC (Peru) S.A. (Peru)
AMEC Pipeline Professionals, Inc. (USA)
AMEC Power Limited
AMEC Project Investments Limited
*AMEC Property and Overseas Investments Limited
*AMEC Services Limited (note 3)
AMEC SPIE S.A. (France)
AMEC SPIE Benelux b.v. (Belgium)
AMEC SPIE Capag S.A. (France)
AMEC SPIE Communications S.A. (France)
AMEC SPIE Energie Services S.A. (France)
AMEC SPIE Est SAS (France)
AMEC SPIE Ile-de-France Nord-Ouest SAS (France)
AMEC SPIE Oil and Gas Services SAS (France)
AMEC SPIE Ouest-Centre SAS (France)
AMEC SPIE Rail (FR) S.A. (France)
AMEC SPIE Rail Systems Limited (note 4)
AMEC SPIE Rail (UK) Limited
AMEC SPIE Sud-Est SAS (France)
AMEC SPIE Sud-Ouest SAS (France)
AMEC SPIE Thermatome SAS (France)
AMEC Utilities Limited
Atlantic Services Limited (Bermuda)
Buchan Concrete Solutions Limited
IMISA S.A. (Spain)
Ipedex SAS (France)
Laurent SAS (France)
Midwest Management (1987) Ltd (Canada)
Monserco Limited (Canada)
National Ventures, Inc. (USA)
Nuclear Safety Solutions Limited (Canada)
Primat Recruitment Limited
Spie Enertrans S.A. (France)
Terranova Technologies, Inc. (USA)
US Pipeline, Inc. (USA)

AMEC Turner Limited (50 per cent) (note 5)
City Airport Rail Enterprises (Holdings) Limited (50 per cent) (note 6)
Européenne de Travaux Ferroviaires S.A. (France) (50 per cent) (note 7)
Fluor AMEC LLC (49 per cent) (note 8)
Health Management (Carlisle) Holdings Limited (50 per cent) (note 9)
Health Management (UCLH) Holdings Limited (33.3 per cent) (note 10)
Ician Developments Limited (50 per cent) (note 11)
KIG Immobilien Beteiligungsgesellschaft mbH (Germany) (50 per cent) (note 12)
Newcastle Estate Partnership Holdings Limited (50 per cent – "A" shares) (note 13)
*Northern Integrated Services Limited (50 per cent – "B" shares) (note 14)
*Road Management Group Limited (25 per cent) (note 15)
Road Management Services (A13) Holdings Limited (25 per cent) (note 16)
Road Management Services (Darrington) Holdings Limited (25 per cent) (note 17)
Wastewater Management Holdings Limited (25 per cent – "B" shares) (note 18)
Woolwich Arsenal Rail Enterprises (Holdings) Limited (50 per cent) (note 19)

1 The issued share capital of AMEC Australia Pty Limited is 62,930,001 ordinary shares of A$1 each, 12,500,000 class "A" redeemable preference shares of A$1 each and 2,500 non-cumulative redeemable preference shares of A$1 each.
2 The issued share capital of AMEC Civil LLC is 1,000 common membership interests of US$1 each.
3 The issued share capital of AMEC Services Limited is 50 million ordinary shares of 99 pence each and 50 million preference shares of 1 pence each.
4 The issued share capital of AMEC SPIE Rail Systems Limited is held 50 per cent AMEC plc and 50 per cent SPIE Enertrans UK Limited.
5 The issued share capital of AMEC Turner Limited is 10,000 ordinary shares of £1 each.
6 The issued share capital of City Airport Rail Enterprises (Holdings) Limited is 4,061,498 ordinary shares of £1 each.
7 The issued share capital of Européenne de Travaux Ferroviaires S.A. is 990,000 ordinary shares of €16 each.
8 The authorised share capital of Fluor AMEC LLC is US$4,000,000.
9 The issued share capital of Health Management (Carlisle) Holdings Limited is 841,002 ordinary shares of £1 each.
10 The issued share capital of Health Management (UCLH) Holdings Limited is 2,820,936 ordinary shares of £1 each.
11 The issued share capital of Ician Developments Limited is 10,000 ordinary "A" shares of £1 each and 10,000 ordinary "B" shares of £1 each.
12 KIG Immobilien Beteiligungsgesellschaft mbH is a limited liability partnership.
13 The issued share capital of Newcastle Estate Partnership Holdings Limited is 500,000 "A" ordinary shares of £1 each, 200,000 "B" ordinary shares of £1 each, 250,000 "C" ordinary shares of £1 each and 50,000 "D" ordinary shares of £1 each.
14 The issued share capital of Northern Integrated Services Limited is 12,500 "A" ordinary shares of £1 each and 12,500 "B" ordinary shares of £1 each.
15 The issued share capital of Road Management Group Limited is 25,335,004 ordinary shares of £1 each.
16 The issued share capital of Road Management Services (A13) Holdings Limited is 1,233,754 ordinary shares of £1 each.
17 The issued share capital of Road Management Services (Darrington) Holdings Limited is 140,296 ordinary shares of £1 each.
18 The issued share capital of Wastewater Management Holdings Limited is 224,999 "A" ordinary shares of £1 each and 75,001 "B" ordinary shares of £1 each.
19 The issued share capital of Woolwich Arsenal Rail Enterprises (Holdings) Limited is 50,000 ordinary shares of £1 each.

Five year record

	2005* £ million	2004* £ million	2003** £ million	2002** £ million	2001** £ million
Summarised consolidated results					
Revenue	**4,942.5**	4,657.5	4,422.8	3,212.6	3,462.5
Adjusted profit before the impact of IAS 39, intangible amortisation, exceptional items and taxation	**124.1**	115.6	112.5	105.2	116.7
Impact of IAS 39	**(0.4)**	–	–	–	–
Amortisation of goodwill and other intangible assets	**(6.0)**	(0.5)	(17.0)	(13.1)	(11.1)
Exceptional items:					
Reorganisation costs	**–**	–	–	(12.9)	–
(Loss)/profit on business disposals and closures	**(89.5)**	(21.5)	0.6	(12.0)	(24.0)
Attributable goodwill	**–**	–	–	(28.0)	(0.5)
Loss on disposal of fixed assets	**–**	–	(0.4)	–	(0.4)
	(89.5)	(21.5)	0.2	(52.9)	(24.9)
Adjusted profit before income tax	**28.2**	93.6	95.7	39.2	80.7
Income tax:					
Group	**(21.7)**	(39.5)	(34.2)	(21.6)	(28.6)
Joint venture and associate	**(2.8)**	(2.4)	(0.7)	(7.0)	(4.7)
Profit for the year	**3.7**	51.7	60.8	10.6	47.4
Basic earnings per share	**1.3p**	17.3p	20.4p	3.7p	13.7p
Diluted earnings per share***	**25.4p**	24.5p	25.3p	24.3p	26.5p†
Dividends per share	**11.5p**	11.0p	10.5p	10.0p	9.5p
Dividend cover***	**2.2x**	2.2x	2.4x	2.4x	2.8x
Summarised consolidated balance sheets					
Non-current assets	**895.3**	819.0	646.2	391.5	457.4
Net working capital	**(108.3)**	(29.9)	(102.3)	(57.7)	(84.9)
Net debt	**(245.5)**	(283.7)	(218.1)	(37.3)	(44.6)
Other non-current liabilities	**(218.6)**	(197.8)	(57.3)	(47.1)	(44.2)
Net assets	**322.9**	307.6	268.5	249.4	283.7
Total equity attributable to equity holders of the parent	**322.6**	304.3	261.1	247.6	281.5
Minority interests	**0.3**	3.3	7.4	1.8	2.2
Total equity	**322.9**	307.6	268.5	249.4	283.7

*The figures for 2005 and 2004 are prepared under adopted IFRS and are stated in accordance with the accounting policies set out on pages 71 to 74. Adjusted profit before the impact of IAS 39, intangible amortisation, exceptional items and taxation is presented before joint venture tax

**The figures for 2001 to 2003 were prepared under UK GAAP and have not been restated, except that the presentation of the group's share of the results of joint ventures and associates has been amended to be consistent with adopted IFRS. Profit before intangible amortisation, exceptional items and tax is presented before joint venture tax. If the figures for these years had been restated, the main adjustments would have been in respect of share-based payments; goodwill amortisation; revaluation of property, plant and equipment, the presentation of loss on disposal of fixed assets; and employee benefits

***Before amortisation of goodwill and other intangible assets and exceptional items

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

Shareholder information

March *Preliminary announcement for the year ended 31 December.*
April Annual report and accounts for the year ended 31 December.
May Annual general meeting.
September Interim report for the half year ended 30 June.

Interim and preliminary announcements notified to the London Stock Exchange are available on the internet at www.amec.com. Copies of annual reports and accounts are also available upon written request from:

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

Interim ordinary dividend announced in September and paid in January.

Final ordinary dividend announced in March and paid in July.

Shareholders who do not have dividend payments made directly into their bank or building society accounts through the Bankers Automated Clearing System ("BACS") may do so by contacting the company's registrar, Capita Registrars.

A dividend reinvestment plan ("DRIP") is available for the convenience of shareholders who would prefer the company to utilise their dividends for the purchase, on their behalf, of additional shares of the company instead of receiving cash dividends.

The DRIP provides for shares to be purchased in the market on, or *as soon as reasonably practicable thereafter, any dividend payment* date at the price then prevailing in the market. Further details of the DRIP may be obtained from:

Capita Registrars
The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU
United Kingdom
Tel: +44 (0)870 162 3100
E-mail: ssd@capitaregistrars.com or visit the web site at www.capitaregistrars.com

Electronic shareholder communication
AMEC is working with The CarbonNeutral Company (formerly Future Forests) to reduce the impact of shareholder communications on the environment – as well as cutting the cost of printing and distribution. For every shareholder that elects to receive communications electronically, AMEC will plant a tree on their behalf at the Donkleywood Forest project in Northumberland. Further information on The CarbonNeutral Company and the Donkleywood *project is available at www.carbonneutral.com/pdfs/projects/* forestryenglanddonkleywood.pdf

Choosing electronic shareholder information means you will receive an e-mail every time any new shareholder information is published – instead of paper documents in the post. E-mails will refer to AMEC *annual and interim reports, documents relating to our annual general* meeting and any other shareholder communications – and will normally be from our registrar, Capita Registrars. E-mails will contain links to the appropriate web site where the documents can be viewed.

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

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

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

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

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

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

Electronic shareholder information
AMEC's web site has a facility whereby shareholders can link to the company's registrar, Capita Registrars, via its web site in order to gain access to general shareholder information as well as personal shareholding details. If you wish to access details of your personal shareholding you will need your investor code, which is printed in the bottom right-hand corner of your AMEC share certificates and dividend tax vouchers.

To access these services:

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

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

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

Investor relations report

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

This report provides an overview of AMEC's investor relations strategy, the investor relations programme in 2005 and other information of interest to shareholders.

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

- to seek to achieve the best returns on investment that markets will allow and provide accurate and timely information on the company's performance; and

- to manage the affairs of the company through responsible and effective corporate governance, identifying and managing the risks inherent in our activities on an ongoing basis.

The strategy is focused on three key areas which are:

- Compliance with all regulations relating to the conduct of companies listed on the London Stock Exchange. This includes ensuring that all market sensitive information is issued first through the London Stock Exchange and as soon as possible thereafter is made available to the financial community through various channels including AMEC's corporate website at www.amec.com;

- Understanding the shareholder base and market sentiment towards AMEC. This is achieved through close working relationships with advisers, regular share register analysis and non-attributable feedback from analysts and investors; and

- Delivery of a comprehensive programme of investor relations activity involving effective communication and consultation with current and potential investors and analysts.

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

Key events in AMEC's investor relations programme are the company's preliminary and interim results announcements, annual general meeting and related trading updates. In the year ended 15 March 2006, these events took place on the following dates:

Annual general meeting trading update	18 May 2005
Trading update	30 June 2005
Interim results announcement	1 September 2005
Trading update	12 January 2006
Preliminary results announcement	15 March 2006

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

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

During the course of 2005, AMEC met with a total of 85 (2004: 72) institutions from the UK, Europe and the US.

Analysts and investors value opportunities to meet operational management and to undertake site visits. In May 2005, analysts and institutional investors visited Toulouse, where they received presentations on the AMEC SPIE Multitechnical Services business and visited Airbus. The event was announced in advance to the London Stock Exchange, with all slides being published on www.amec.com.

In June 2005, AMEC's leading banks received presentations on its activities at London Heathrow Airport's Terminal 5, followed by a visit to the site. Feedback from both events was positive.

AMEC recognises the importance of the internet in financial communications and closely follows developments in best practice in investor communications on the internet. During 2005, the site's e-mail alerting service, which is a quick and efficient way to be kept appraised of company announcements, was enhanced to provide improved access to news headlines for users of mobile communications devices. New "AMEC at a glance" pages were also added to the investors pages of the site. Following a major survey of user needs carried out across all stakeholder groups during 2005, further enhancements to the site are planned for 2006.

During 2005, usage of the investors pages of www.amec.com increased by 30 per cent, continuing the strong growth trend seen in recent years.

AMEC in 2005/6

January

An AMEC joint venture is selected as preferred bidder for the new 750-bed NHS PPP hospital in Colchester

The oil and gas engineering services company Paragon is acquired, strengthening our portfolio of services and client relationships in Houston, and establishing us as a Tier One contractor in the region

February

An AMEC joint venture is selected as preferred bidder on the UK's largest schools PPP project – to deliver 17 new and two refurbished secondary schools for South Lanarkshire Council

National Grid awards an eight year alliance contract worth £280 million to replace gas mains along the M1 corridor between Sheffield and Leicester and £35 million of work on overhead electricity lines across the UK

March

AMEC wins North Sea contracts for the hook-up and commissioning support on Nexen's Buzzard oil and gas production platform and to substantially modify the Piper B platform to receive oil and gas from Talisman's new Tweedsmuir field

Scottish and Southern Energy award a contract to design and deliver a new gas storage facility at Aldbrough near Hornsea, East Yorkshire

May

English Cities Fund, in which AMEC is an equity participant and development manager, and Wakefield Council launch a major urban regeneration scheme, which will transform Wakefield's city centre

De Beers awards a major contract to provide engineering, procurement and construction management services for their first diamond mine in Canada, at Snap Lake

Shell awards a contract to design, engineer and deliver a new gas reception facility at the Bacton natural gas terminal, Norfolk, part of a major pipeline project to transport gas from the Netherlands to the UK

June

An AMEC joint venture has its plans to develop the world's largest onshore wind farm on the Isle of Lewis, Scotland, recommended by the Western Isles Council

July

Financial close is reached on the Incheon Bridge, with AMEC becoming the first foreign investor to lead a major PPP project in South Korea

NNC Holdings Limited, the UK's leading private sector nuclear services business, is acquired

August

De Beers award a contract to provide engineering, procurement and construction management services for their second diamond mine in Canada – at Victor

September

Leading chemical companies Innovene and Huntsman award us long-term asset support contracts worth more than £100 million

An AMEC joint venture is awarded front end design engineering studies for the expansion of Shell's Athabasca Oil Sands Project in Canada

Yemen LNG company, a subsidiary of TOTAL, awards an AMEC joint venture a major gas pipeline engineering, procurement and construction contract in Yemen

A consortium including AMEC is awarded a contract to project manage and build part of the Los Teques underground line in Venezuela

October

AMEC is appointed project manager for the refurbishment and restart of two nuclear reactors at the Bruce A power station in Ontario, Canada

An AMEC joint venture is awarded a three-year engineering services contract for Woodside Energy's Australian oil assets

AMEC is selected to provide engineering and project management services for BP's Harding Area Gas project in the North Sea

November

National Grid awards contracts to design and deliver a new gas compression station in South Wales and to upgrade two stations in central England

PetroChina awards a major contract for consultancy services on the Dushanzi petrochemical expansion project, western China – the first ever awarded by PetroChina to a foreign project management company

AMEC announces the proposed disposal of AMEC SPIE and a review of the future development of continuing businesses including possible future restructuring to create two separate businesses focused on energy and process industries and UK infrastructure respectively. Also announced is the withdrawal from certain construction activities, with provision for closure and litigation costs – a post-tax exceptional charge of approximately £70 million in 2005, mainly non-cash items

January

The United Kingdom Atomic Energy Authority ("UKAEA"), AMEC and CH2M HILL form an important new alliance to target opportunities in the UK's £56 billion (£2 billion a year) nuclear clean-up market

February

An AMEC joint venture is awarded front end work defining Petro-Canada's Fort Hills oil sands upstream facility, whilst under a separate contract AMEC will provide front end work for the mining portion of the project

For further details on these announcements visit our website at www.amec.com

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