THINK
CREATE
SUPPORT

AMEC p.l.c.

ANNUAL REPORT
AND ACCOUNTS 1998

AMEC

AMEC

WHAT DO WE DO?

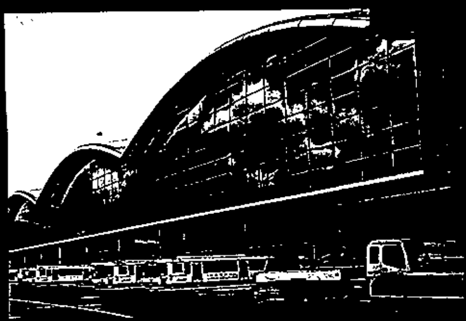
WE PROVIDE AND MAINTAIN OPERATING ASSETS AND INFRASTRUCTURE, SUPPORTING OWNERS AND OPERATORS IN THEIR EFFORTS TO REALISE OPTIMUM VALUE FROM FACILITIES THROUGHOUT THEIR OPERATING LIVES. WE FOCUS ON ACHIEVING EXCELLENCE IN OUR CHOSEN FIELDS, NOT ONLY IN OUR DOMESTIC MARKET BUT ALSO IN EUROPE AND SELECTED MARKETS OVERSEAS. OUR TEAMS, OUR PARTNERS AND THE PEOPLE FOR WHOM WE WORK KNOW THAT THE RESULTS OF OUR EFFORTS HAVE TO PASS THE VALUE TEST IN THE LONG-TERM.

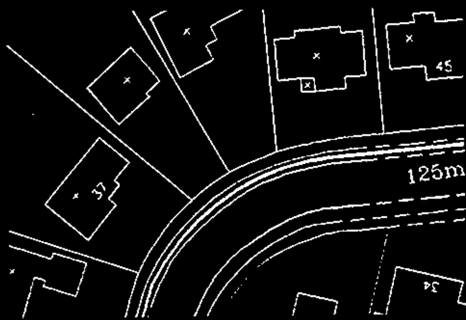
WHAT ARE OUR STRENGTHS?

OUR BREADTH AND DEPTH IN DESIGN AND PROCESS ENGINEERING ENABLE US TO MOBILISE MULTIDISCIPLINARY ENGINEERING, DESIGN AND MANAGEMENT TEAMS, TAILORED TO MEET THE SPECIFIC NEEDS OF EACH CLIENT, REGARDLESS OF THE COMPLEXITY OF THE PROJECT. THIS IS THE ESSENCE OF OUR CAPABILITY; TO UNLOCK VALUE THROUGH INNOVATION AND TO KNOW HOW TO KEEP UNLOCKING FURTHER VALUE IN THE LONGER TERM. OUR PROJECT TEAMS INCLUDE SPECIALISTS IN THEIR FIELDS, WHOSE OPERATIONAL EXPERIENCE AND VISION OFTEN PROVIDES THE VITAL LINK BETWEEN INNOVATION AND VALUE.

WHO DO WE WORK WITH?

WE WORK WITH MANY OF THE WORLD'S MOST DEMANDING ORGANISATIONS IN A WIDE RANGE OF MARKET SECTORS. WHETHER WE ARE PROVIDING A PHARMACEUTICAL RESEARCH FACILITY, ENGINEERING SUPPORT SERVICES FOR A MAJOR MULTINATIONAL, MAINTAINING TRANSPORT LINKS IN ONE OF THE WORLD'S BUSIEST CAPITALS OR DEVELOPING PRIVATE FINANCE SOLUTIONS TO SUPPORT THE DEVELOPMENT OF PUBLIC INFRASTRUCTURE, OUR PEOPLE PROVIDE HIGH QUALITY VALUE SKILLS TO SUPPORT OUR CLIENTS' REQUIREMENTS.





1

CAPITAL PROJECTS

AMEC UTILISES ITS DESIGN, ENGINEERING AND MANAGEMENT SKILLS TO UNDERTAKE CAPITAL PROJECTS IN THE PROCESS, MANUFACTURING AND INFRASTRUCTURE SECTORS.

2

SERVICES

AMEC'S SERVICES CONCENTRATE ON THE RAIL INDUSTRY, OFFSHORE OIL AND GAS, INFRASTRUCTURE AND ELECTRICAL SECTORS.

3

INVESTMENTS

AMEC'S INVESTMENT ACTIVITY COVERS PROJECT INVESTMENT, WHERE THE GROUP IS ONE OF THE MAIN PIONEERS OF PRIVATE FINANCE PROJECTS, PROPERTY DEVELOPMENT AND HOUSING.

OUR PHILOSOPHY: 'LIFE OF ASSET' SUPPORT

WE ARE COMMITTED TO HELPING CLIENTS IMPROVE THEIR OWN BUSINESS PERFORMANCE THROUGH THE APPLICATION OF OUR INNOVATIVE, TALENTED AND EXPERIENCED PEOPLE. OUT OF OUR WORKFORCE OF AROUND 22,000, MORE THAN 2,500 PEOPLE ARE EMPLOYED IN ENGINEERING AND DESIGN.

A SELECTION OF KEY CLIENTS

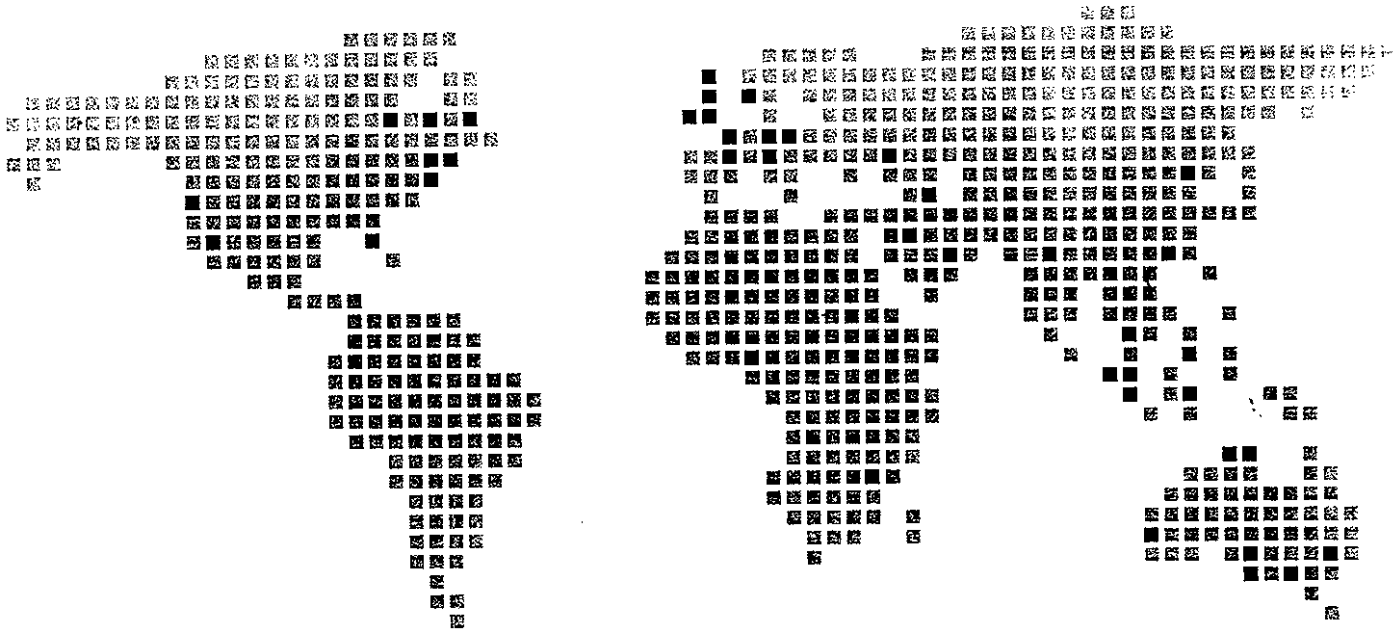
ABBEY NATIONAL
AIRPORT AUTHORITY, HONG KONG
ANGLIAN WATER
ASTRA CHARNWOOD
BAA
BNFL
BOOTS THE CHEMIST
BP AMOCO
BRITISH GAS
CHEVRON
CITIBANK
CONOCO
CONTRIBUTIONS AGENCY
DEPT OF HEALTH – NHS TRUSTS
DETR
ELF
EXXON/ESSO
HEWLETT-PACKARD
HONG KONG MTRC
ICI
LONDON REGIONAL TRANSPORT
MANCHESTER AIRPORT
MARATHON
MARKS & SPENCER
MINISTRY OF DEFENCE
MOBIL
MORGAN STANLEY
NATIONAL AIR TRAFFIC SERVICES
NATIONAL EXHIBITION CENTRE
NORSK HYDRO
NORTH WEST WATER
PFIZER
PHILLIPS
PORT AUTHORITY OF NEW YORK AND NEW JERSEY
RAILTRACK
RUGBY CEMENT
SAUDI ARAMCO
SCOTTISHPOWER
SEVERN TRENT WATER
SHELL
SINGAPORE LAND TRANSPORT AUTHORITY
SMITHKLINE BEECHAM
SOUTHERN WATER
TEXACO
THAMES WATER
THE NATIONAL GRID COMPANY
TOTAL
WELSH WATER
ZENECA

THINK

WE WORK CLOSELY WITH CLIENTS TO FACILITATE THE IDENTIFICATION OF STRATEGIC GOALS, THE DEVELOPMENT OF CONCEPTS AND THE SELECTION OF APPROPRIATE OPTIONS FOR THE IMPLEMENTATION OF THE CLIENTS' REQUIREMENTS.

OUR STRENGTHS COME FROM KNOWLEDGE OF A WIDE RANGE OF INDUSTRIES, AN APPRECIATION OF ENVIRONMENTAL AND SAFETY ISSUES AND A HIGH LEVEL OF SKILL IN VALUE MANAGEMENT AND ENGINEERING.

OUR SPECIALISTS IN VALUE MANAGEMENT, PROCESS ENGINEERING, SYSTEMS INTEGRATION, BUILDABILITY, OPERABILITY AND PROJECT FINANCE, SUPPORT AND ADD VALUE TO OUR CLIENTS FROM THE EARLIEST STAGES OF A CAPITAL PROJECT OR SERVICE OUTSOURCING INITIATIVE.



■ OFFICE LOCATIONS

CREATE

WE MANAGE THE PROCESS FROM DETAILED DESIGN, THROUGH CONSTRUCTION, TO OPERATIONAL HAND-OVER OF NEW ASSETS.

OUR STRENGTH COMES FROM THE VAST EXPERIENCE OF OUR MANAGERS, TECHNICIANS AND OPERATIVES, WORKING IN CONJUNCTION WITH SELECTED SUPPLIERS AND SUB-CONTRACTORS TO DELIVER SUCCESSFUL PROJECTS ON TIME AND TO BUDGET IN A WIDE RANGE OF END USER MARKETS.

OUR PEOPLE ARE EXPERT IN ENGINEERING AND DESIGN, PLANNING, MANAGEMENT AND IMPLEMENTATION OF MULTI AND SINGLE DISCIPLINE PROJECTS EMPLOYING THE FULL RANGE OF TECHNOLOGIES. WE SEEK CONTINUOUS IMPROVEMENT AND INNOVATION AS A MEANS OF ADDING VALUE.

SUPPORT

WE OPERATE WITH OUR CLIENTS, PROVIDING SUPPORT TO THEIR CORE BUSINESS OPERATIONS AND ADMINISTRATION ON A DAY-TO-DAY BASIS. WE ALSO SPECIALISE IN SHUT-DOWNS FOR MAJOR MAINTENANCE, ENHANCEMENT AND RENEWAL ACTIVITY.

OUR STRENGTH COMES FROM OUR APPRECIATION OF OUR CLIENTS' BUSINESS NEEDS TO MAINTAIN AND IMPROVE CONTINUOUSLY THEIR SYSTEMS AND ASSET PERFORMANCE.

OUR PEOPLE ARE FULLY COMMITTED TO SUPPORTING THE OPERATIONS OF OUR CLIENTS AND CONTRIBUTING TO THE IMPROVEMENT OF THEIR BUSINESSES.

IMPROVED PERFORMANCE FROM A SOUND BASE

	1998 £M	1997 £M
TURNOVER	3,392.8	3,370.9
OPERATING PROFIT	72.4	52.6
NET ASSETS	209.7	194.8
PROFIT BEFORE EXCEPTIONAL ITEMS AND TAXATION	71.4	47.5
EARNINGS PER ORDINARY SHARE BEFORE EXCEPTIONAL ITEMS:		
DILUTED	17.3P	11.0P
BASIC	18.9P	10.2P
DIVIDENDS PER ORDINARY SHARE	6.25P	5.0P

SYDNEY GILLIBRAND CBE
CHAIRMAN

Last year, in my first annual statement as chairman, I said that AMEC had built a sounder base on which to deliver enhanced profitability in the years ahead.

It is especially pleasing, therefore, to be able to report that AMEC's financial performance improved significantly in 1998. A 57 per cent increase in diluted earnings per share reflected an increase of 50 per cent in pre-exceptional profit. After the funding of private finance investments and the buying back of our preference shares, the group's strong cash flows still resulted in a net cash position at the year end of £97.2 million.

The investment in SPIE continues to provide an excellent financial return, with more added value to come in the future from the further application of SPIE's skills and expertise in AMEC's markets.

Confirmation that AMEC has been on the right track with its strategy came with the publication of the report of the Construction Task Force, chaired by Sir John Egan, entitled 'Rethinking Construction'. Your board has, since an earlier date, been 'Rethinking AMEC' and it continues to do so. The agenda which has been set by the board centres on AMEC building positively on the recommendations of the Egan report by focusing yet further on delivering business solutions to the challenges facing our clients.

On long-term contracts, it takes time for improvement in contract profitability to flow through to the bottom line, but the change in the contractual relationships between AMEC and its clients was evidenced in 1998 by over 60 per cent of the intake in new orders for UK capital projects being awarded on a negotiated basis. We continue to reshape the group to ensure that we control our cost base, whilst improving our ability to respond more efficiently to these new project demands. All of this augurs well for improved margins in years to come.

AMEC is already a significant and growing services player, deriving 25 per cent of its turnover and over 50 per cent of its operating profits from such activities. In seeking growth in this sector, we continue to focus on those areas of the market in which we presently operate and which carry a level of technical skills leading to high barriers to entry. I believe that AMEC has the expertise and resources to generate this growth whilst maintaining margins.

In addition to its responsibilities to shareholders, AMEC is also sensitive to its responsibilities to its employees and the many communities in which it operates. The year under review saw further progress in the management of health and safety and environmental issues with increased resources devoted to addressing the need for continuous improvement.

AMEC has a wealth of talented people and I wish to express my thanks to everyone in the group, at all levels, for their contribution to the excellent performance achieved in 1998.

Overall, we believe that the outlook in most of our markets is improving: the government appears committed to the private finance initiative; more industries are accelerating the outsourcing process; and we are well positioned to benefit from multi-disciplinary projects.

I am confident that we should be able to deliver a further improvement in performance in the year ahead.

Sydney Gillibrand CBE
Chairman

57% **6.25p** **£97.2m**

EARNINGS PER ORDINARY SHARE INCREASE
[illegible]

DIVIDENDS PER ORDINARY SHARE
[illegible]

STRONG NET CASH POSITION
[illegible]

RETHINKING AMEC: THE WAY FORWARD

OUR INDUSTRY IS CHANGING. WE ARE REFLECTING THESE CHANGES BY FURTHER INCREASING OUR FOCUS ON HIGH ADDED VALUE MARKET SEGMENTS, PROVIDING INTEGRATED SOLUTIONS TO DEMANDING CLIENTS BY MAKING FULL USE OF OUR ENGINEERING AND DESIGN SKILLS. THE INCREASING IMPORTANCE OF MULTI-DISCIPLINARY PROJECT CAPABILITY AND FLEXIBLE RESOURCING PRESENT CHALLENGES TO OUR TRADITIONAL CULTURE AND ORGANISATION WHICH WE WILL CONTINUE TO ADDRESS DURING THE COMING YEAR.

PETER MASON
CHIEF EXECUTIVE

Three years ago we embarked on a strategy of developing our service activities, focusing on partnering relationships with clients for major projects and participating fully in the government's private finance initiative (PFI). AMEC's performance in 1998 demonstrates further progress in each of these initiatives.

Our service activities in particular had an excellent year with sales now totalling £860 million and an order book which has increased in the United Kingdom over the year by 18 per cent. A particular feature is the length of the services order book which, representing 22 months at current activity levels, is some 2.5 times the historical average for capital projects. I believe that this order book provides a robustness to the future growth prospects and earnings from services.

Whilst we enjoyed a doubling of profits in the year in capital projects, the overall margin on over £2 billion of activity remains inadequate. Excellent performances by our United Kingdom civil engineering, mechanical and electrical and oil and gas capital projects were reduced by profitable but modest results from Morse Diesel in America and construction in the United Kingdom. In addition, the overall profit from capital projects was again impacted by losses in Germany, albeit at a much reduced level from the previous year. We anticipate a significant improvement in overall margins from our capital projects in 1999, as losses in Germany are again reduced and we benefit from the changing nature of our contract relationships to that of 'open book' accounting or partnering.

Overall returns from our investment activity in 1998 were satisfactory although held back by expensing business development costs on the PFI scheme for University College London Hospital. This project is now expected to achieve financial close in 1999.

Site progress on our earlier PFI projects, two DBFO road contracts, together with current projects for Cumberland infirmary and the DSS Longbenton estate, was particularly encouraging with improved contracting margins being earned by our civil engineering and construction companies.

Fairclough Homes delivered a return on capital similar to the previous year despite restructuring costs being absorbed in the year. AMEC Developments had an encouraging year in progressing major developments to the point where there is increasing confidence in future profitability.

Our French associate, SPIE S.A., had another excellent year, trading marginally ahead of its business plan. Whilst the outlook for the overall French economy indicates little growth, SPIE's current order book, together with major projects expected to be secured, suggests that 1999 will be another good year.

Our strategy is to continue what we started three years ago, the further development of our service activities, selective investments in property and PFI and, from capital projects, improved and more predictable margins by a further transfer of resources to partnership and alliance relationships with our major clients, whilst continuing to exit from work secured on the traditional construction contract styles.

This focus on quality at the expense of volume has resulted in a reduced level of orders at the year end for capital projects. However, the group's overall order book at £3 billion has been maintained year-on-year by the increase referred to earlier in orders for services. We see no shortage of opportunities to continue this growth in services whilst maintaining attractive margins.

In summary, therefore, and subject to a reasonable level of economic activity, particularly in the United Kingdom and Europe, we expect to see AMEC's profits continue to improve in the year ahead and, so far as we can see, thereafter.

AMEC'S CONTINUING STRATEGY

SELECTIVE INVESTMENTS IN PROPERTY AND PRIVATE FINANCE PROJECTS

FURTHER DEVELOPMENT OF OUR SERVICE ACTIVITIES

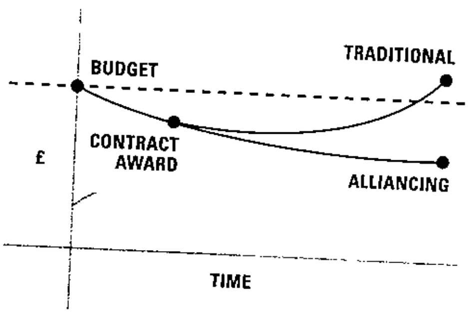
MORE PREDICTABLE MARGINS IN CAPITAL PROJECTS BY A FURTHER TRANSFER OF RESOURCES TO PARTNERSHIP AND ALLIANCE RELATIONSHIPS

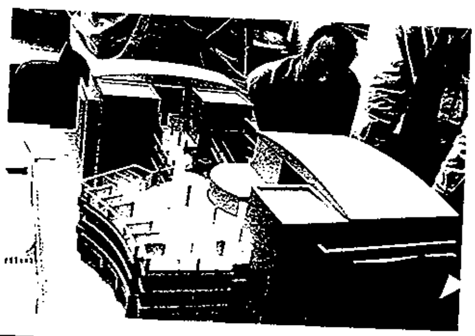
OUR RESPONSE TO CHANGE

CONSIDERABLE CHANGE IS TAKING PLACE IN THE CULTURE, MANAGEMENT AND BUSINESS STRUCTURE OF AMEC AS THE MOVE AWAY FROM TRADITIONAL FORMS OF CONTRACT, WHICH SERVED NO ONE WELL, ACCELERATES.

IN AMEC, WE CHARACTERISE THIS CHANGE AS BEING A MOVE FROM THE ADVERSARIAL PAST TO A MORE CO-OPERATIVE FUTURE IN WHICH DECISIONS ARE NO LONGER BASED ON A NARROW PERSPECTIVE OF WHAT IS BELIEVED TO BE 'BEST FOR AMEC' BUT ON WHAT IS 'BEST FOR THE PROJECT' – AN ANALYTICAL PROCESS WHICH SHOULD REWARD BOTH THE CLIENT AND AMEC. TRADITIONAL CONTRACTS ARE PROGRESSIVELY BEING REPLACED BY ALLIANCE OR PARTNERSHIP BASED AGREEMENTS.

IN THIS NEW ENVIRONMENT WE CHOOSE THE BEST PERSON FOR THE JOB, IRRESPECTIVE OF FROM WHICH TEAM THAT PERSON COMES; WE FORGET CORPORATE DISTINCTIONS AND WORK TOGETHER TO ACHIEVE MUTUALLY ESTABLISHED GOALS. UNDER THIS APPROACH, THE PROJECT TEAM IS ENCOURAGED TO INNOVATE AND ADD VALUE TO THE PROCESS AT EVERY STAGE.



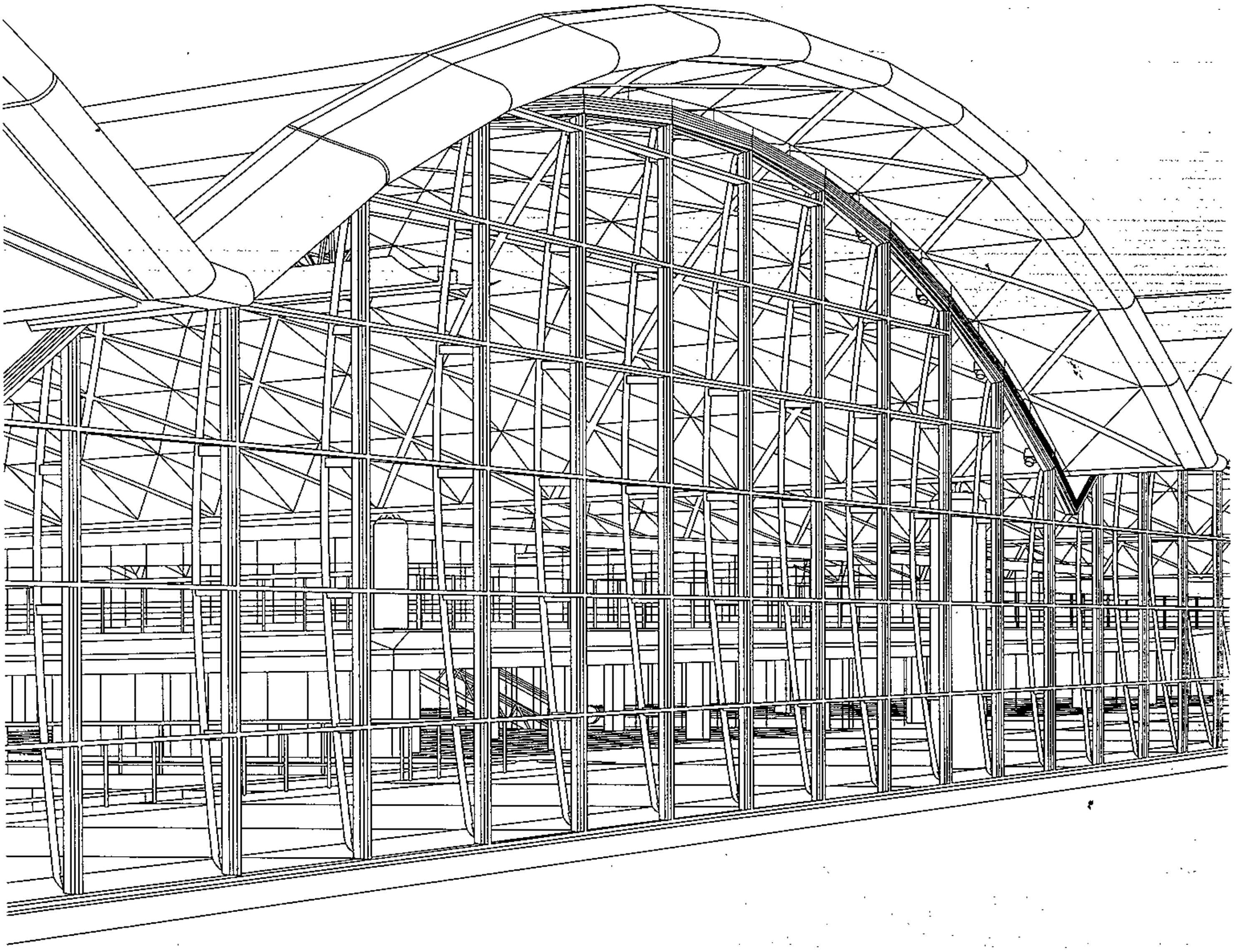


BAA FRAMEWORK AGREEMENTS
AMEC'S FRAMEWORK AGREEMENTS WITH BAA ENSURE THAT WE ARE INVOLVED AT THE VERY EARLIEST STAGE IN PROJECTS AND ALLOW US TO ADD REAL VALUE TO THE PROJECT PLANNING PROCESS. THE AGREEMENTS COVER WORK AT HEATHROW, GATWICK, STANSTED AND SOUTHAMPTON.

COST SAVINGS
CLIENTS CAN ACHIEVE SUBSTANTIAL COST SAVINGS USING ALLIANCE STYLE ARRANGEMENTS IN PLACE OF TRADITIONAL ADVERSARIAL CONTRACT ROUTES.

PFIZER
UTILISING ITS SPECIALIST PHARMACEUTICAL DESIGN SKILLS, AMEC WON FURTHER DESIGN AND MANAGEMENT CONTRACTS DURING 1998 WORTH OVER £200 MILLION FOR LONG-TERM CLIENT PFIZER.

EARLY INVOLVEMENT **BUDGET** **GOOD IDEAS**



AMEC LED AN INTERNATIONAL JOINT VENTURE TO BUILD THE PASSENGER TERMINAL AT THE NEW HONG KONG INTERNATIONAL AIRPORT, WHICH IT COMPLETED ON PROGRAMME IN MARCH 1998. AMEC ALSO FABRICATED AND SUPPLIED THE STEELWORK FOR THE COMPLEX ROOF STRUCTURE.

RANKED AS ONE OF THE WORLD'S LARGEST CONSTRUCTION CONTRACTS, AND VALUED AT OVER £800 MILLION, THE TERMINAL IS A KILOMETRE LONG AND COVERS OVER HALF A MILLION SQUARE METRES. IT HAS PROVED AN EXCELLENT EXAMPLE OF HOW A LARGE AND COMPLEX, FAST TRACK PROJECT SHOULD BE MANAGED, PARTICULARLY BY A JOINT VENTURE COMPOSED OF COMPANIES FROM DIFFERENT COUNTRIES AND CULTURES.

Recognising the contribution made to the industry by the Latham report, the new Labour government appointed Sir John Egan as head of a task force to take forward a study of the UK construction industry. The output was the publishing, in 1998, of Sir John's report 'Rethinking Construction'. There are many key recommendations in the Egan report, including:

– A need to focus on longer term client relationships with integrated processes and teams committed to productivity improvement.

– A move to reduce traditional tendering in favour of more open book accounting with rigorous performance measurement and demanding arrangements for selecting partners.

– A focus on the creation of integrated supply teams to deliver greater value to clients.

As a result of a critical number of major, experienced clients (including HM Government) becoming committed to the adoption of the Egan report recommendations, the opportunity for businesses with the requisite skills to develop partnerships with their clients and begin to deliver real value for money had arrived.

Achieving the necessary change is by no means easy but, in AMEC, we have a real competitive advantage over our peers in operating partnerships with clients, derived from:

– Our ability to spread best practice across AMEC group companies from our process and energy business, which has over five years' experience of partnering and alliancing with major oil company clients and has delivered time and cost savings of up to 30 per cent.

– One of the largest multi-disciplinary design capabilities in Europe (approximately 2,500 professional staff) available to aid the client in the concept design of the project prior to commitment to the detailed design and construction process.

– A service and maintenance capability whose annual UK sales are approaching £550 million.

In AMEC, we have already worked to many partnering models but, although they accommodate different client requirements, they do share some guiding principles, which we know to be essential for success, such as:

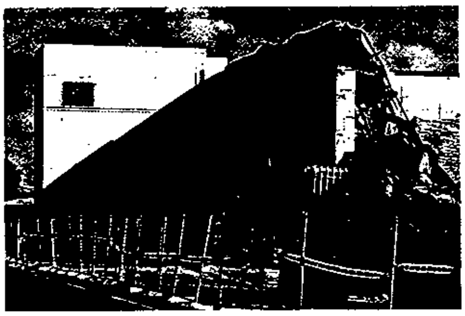
– Negotiated target cost
– Incentives against a target cost
– Incentives against a target programme
– Sub-contractor/supplier incentives
– Negotiated overhead recovery and base profit level

In addition to these interfaces with our clients, it is essential that the whole of the supply chain is managed and incentivised. We have made some progress with systems which achieve this but further development is essential and this will be a particular are for discussion with our suppliers and sub-contractors over the next twelve months.

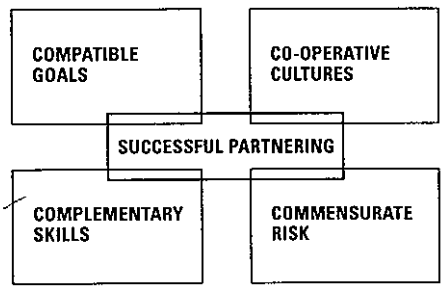
Whilst some of the blue chip companies we work for are 'occasional' clients, the majorit are repeat, even continuous customers and over the last five years, we have worked on an open book, partnering basis with mar major clients in many sectors but particular in pharmaceuticals, airports, oil and gas, water and transport. As we continue to demonstrate success in terms of projects delivered to quality, time and budget, we expect to see more clients move to this form of procurement.

We are committed to our future in capital projects being on this closely focused, partnership basis where there is opportuni through the contractual relationship, to adc value to our clients and, through the resulting improved performance, to add value to our shareholders.

Peter Mason
Chief executive



BOOTS PHOENIX PROJECT, NOTTINGHAM
AMEC WAS CALLED IN BY BOOTS THE CHEMIST TO ASSIST IN ITS DISASTER RECOVERY PROGRAMME AFTER A FIRE DESTROYED ITS WAREHOUSE COMPLEX AT BEESTON, NOTTINGHAM IN OCTOBER 1997. THE REPLACEMENT WAS DESIGNED AND BUILT BY AMEC, UNDER A £30 MILLION CONTRACT, WITHIN 11 MONTHS.



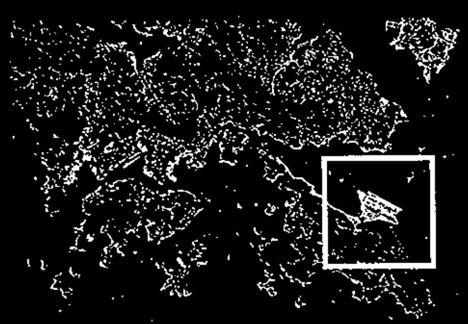
SUCCESSFUL PARTNERING
EACH OF THE AREAS ABOVE MUST BE IN PLACE FOR SUCCESSFUL PARTNERING. THIS MEANS:
– ASSEMBLE TEAM USING COMPLEMENTARY SKILLS;
– FOCUS TEAM WITH COMPATIBLE GOALS;
– BOND TEAM WITH CO-OPERATIVE CULTURES;
– REWARD TEAM WITH COMMENSURATE RISK.

SHEARWATER
AS A KEY MEMBER OF THE SHEARWATER DEVELOPMENT ALLIANCE, AMEC IS WORKING CLOSELY WITH ALL PARTIES IN THE ALLIANCE TO ENSURE THE £876 MILLION PROJECT COMES ON STREAM, WITHIN BUDGET, IN THE CENTRAL NORTH SEA, 207 KILOMETRES EAST OF ABERDEEN BY MID-2000.

TIMING CO-OPERATION PERFORMANCE

1 CAPITAL PROJECTS

SIGNIFICANT PROGRESS WAS MADE DURING 1998 IN THE FURTHER TRANSFORMATION OF AMEC'S CAPITAL PROJECTS BUSINESS INTO A PROVIDER OF DESIGN-LED SOLUTIONS. THERE IS EARLY EVIDENCE THAT THE CHANGE TO OPEN-BOOK PARTNERING WILL GENERATE SUBSTANTIAL BENEFITS FOR ALL PARTIES.



AMEC's capital projects business serves the process, manufacturing, infrastructure and services industries. In 1998, most of the group's work was in petrochemicals, oil and gas, the nuclear industry, airports, pharmaceuticals and chemicals, the water industry, the public sector, commerce and transport.

AMEC's strategy of focusing on selected markets makes most effective use of the group's strengths and ensures a deeper understanding of clients' needs. AMEC is able to take advantage of the breadth and depth of its in-house design resource to improve overall margins and the quality of earnings.

The past year has continued the trend by which AMEC adds value by being involved earlier in the life of a project. By deploying its skills at the planning and concept stages, the group is helping its clients to cut costs and operate more efficiently.

AMEC is also leading the move towards collaborative projects – replacing the old adversarial contract mode with partnerships, alliances, framework agreements and other forms of negotiated contracts in which all parties have an interest in completing the project efficiently. The strength of AMEC's client relationships has been demonstrated again this year by the high proportion of repeat business.

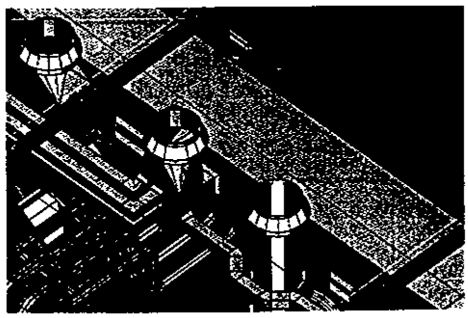
In 1998, AMEC's capital projects business benefited from its focus on particular industry areas and targeted work that best reflected its skills set. The business also gained recognition for its innovative work in partnering and collaboration.

AMEC'S CAPITAL PROJECTS ACTIVITY DELIVERED IMPROVED PERFORMANCE IN THE YEAR

OVERALL, SOME VERY ATTRACTIVE CONTRACT AWARDS WERE SECURED, THE MAJORITY ON A NEGOTIATED BASIS.

CAPITAL PROJECTS	1998 £M	1997 £M
TURNOVER	2,172.5	2,383.3
OPERATING PROFIT	20.6	9.5
NET ASSETS	(46.0)	(69.4)

BAA PAVEMENT TEAM
THE PAVEMENT TEAM WAS FORMED IN NOVEMBER 1995 UNDER A FRAMEWORK AGREEMENT BETWEEN AMEC AND BAA TO CONSTRUCT, REPAIR AND MAINTAIN RUNWAYS AND TAXIWAYS. THROUGH A PROCESS OF CONTINUOUS IMPROVEMENT, THE TEAM IS NOW ACHIEVING COST SAVINGS IN EXCESS OF 20 PER CENT WITH PROGRAMME TIMES REDUCED BY AROUND 40 PER CENT.



SMITHKLINE BEECHAM
AMEC HAS WORKED FOR SMITHKLINE BEECHAM FOR MANY YEARS. THE GROUP RECENTLY COMPLETED THE INTEGRATED DESIGN AND CONSTRUCTION MANAGEMENT OF A MAJOR RESEARCH FACILITY AT RIXENSART IN BELGIUM.

Many of the projects in this area involve harnessing a wide range of skills and expertise from across the group in order to provide bespoke solutions. The following examples illustrate the work undertaken in some of the group's main market areas.

Oil and gas
During 1998, a high level of activity was maintained at AMEC's Tyneside facility where fabrication of the integrated deck for Shell Expro's massive Shearwater platform was progressed.

During the year, AMEC completed several major offshore projects. These included the £450 million British Gas Armada platform (an alliance project which cut 20 per cent from the original budget), the £1.2 billion Britannia platform (an alliance with Chevron and Conoco which reduced the normal development cost by 30 per cent), a £50 million environmental vapour recovery project for BP on the Firth of Forth and the refurbishment of BP's Shelf Five drilling rig in Azerbaijan.

As capital investment is curtailed, particularly in the North Sea, AMEC is seeking to make every project as cost-effective as possible for its clients. It also aims to expand in parts of the world where the oil and gas capital projects market is still developing.

Despite the uncertainties in the offshore market, the year brought several new orders. In Norway, AMEC secured a contract from Norsk Hydro to modify platforms in the Heimdal field. In the Caspian, it won a water injection project from the Azerbaijani Independent Oil Company. In Australia, it secured contracts to work on the Cossack Pioneer offshore production vessel and to carry out a technical integrity project for BHP Petroleum's Griffin field development.

In contrast to the offshore market, prospects for onshore oil and gas activity are generally strong with growing expenditure on capital and maintenance and a steady stream of new orders. During the year, AMEC completed a new gas compression facility for Interconnector UK, enabling gas to be exported for the first time from the UK to Belgium. It also managed the construction of a new plant in Bahrain.

Capitalising on its skills in front-end consultancy and design, AMEC undertook a number of studies for clients all over the world to identify the best way forward for particular projects. These included a conceptual engineering study for the BP Shah Deniz field in Azerbaijan and a concept engineering study on Lasmo's Bhit field development in Pakistan.

Petrochemicals
New contracts included work on three major chemical plants at BP Chemicals' manufacturing complex at Grangemouth, Scotland, where AMEC has had a continuous presence for over 20 years. All involve close partnership with the client and form part of BP's £500 million chemical investment programme in the UK.

A major improvement project was also secured at Texaco's refinery in Pembroke, South Wales.

Nuclear
Building on a 30-year relationship with BNFL Sellafield, AMEC continued work on a new technology centre and secured a £40 million design and build contract for a new process building to treat medium-hazard waste. Also for BNFL, the group secured new work on the Sellafield Drypac plant.

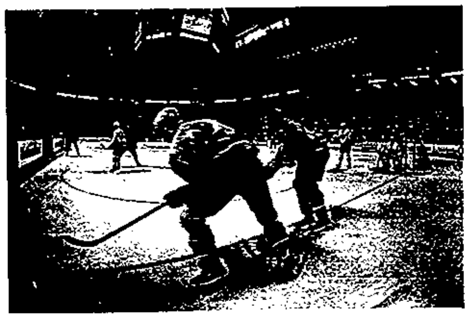
Airports
AMEC's framework agreements with BAA reinforce a relationship that goes back over many years. During 1998, AMEC completed the £50 million refurbishment of terminal two at Heathrow and negotiated a consultancy contract to assess and improve BAA's baggage-handling systems at Heathrow. The group continued to carry out a number of runway and pavement projects while the framework contracts for mechanical and electrical work completed a successful first year. BAA has now selected AMEC as a participating contractor for mechanical and electrical work for Heathrow's terminal five.

As well as the work for BAA, AMEC won a design, management and construction contract for a new terminal building at Bristol airport. In addition, it secured work on runways and pavements for the airport operators at Teesside and East Midlands and made progress on the second runway at Manchester, which is due to open in 2000.

July 1998 saw the opening of Hong Kong's new international airport for which AMEC led two international joint ventures, one for the main terminal building and the other for the second runway. Both projects were completed on schedule.

AMEC also secured an order for a new corporate headquarters for Dragonair and the China National Aviation Corporation at the new airport.

ASTRA
AMEC IS CURRENTLY DESIGNING AND BUILDING THREE MAJOR PROJECTS FOR LEADING PHARMACEUTICAL COMPANY ASTRA AT LOUGHBOROUGH. WORTH IN EXCESS OF £100 MILLION, THEY INCLUDE NEW PROCESS DEVELOPMENT FACILITIES AND ANALYTICAL LABORATORIES.



NATIONAL CAR RENTAL ARENA
AT SUNRISE IN FLORIDA AMEC RECENTLY COMPLETED THE NEW U.S. $175 MILLION NATIONAL CAR RENTAL CENTRE, HOME TO THE FLORIDA PANTHERS HOCKEY TEAM. THE 19,500-SEAT FACILITY WILL ALSO SERVE AS A MULTI-PURPOSE SPORTS AND ENTERTAINMENT VENUE.

AMEC's U.S. $700 million contract, for the new international arrivals terminal at New York's JFK airport, also progressed well during the year while a new order was secured for an extension project at Fort Lauderdale's Hollywood airport.

Pharmaceuticals and fine chemicals
In the pharmaceutical sector, where AMEC is an acknowledged leader in the design and construction management of research facilities, the group secured another contract for Astra at Loughborough where AMEC is now involved in projects worth over £100 million.

At Sandwich, in Kent, AMEC won further design and construction management commissions on projects worth over £200 million for Pfizer. These include a £109 million medicines research facility.

In the fine chemicals sector, AMEC secured separate alliances with ICI Acrylics, Associated Octel, Hickson and Welch and Polymer Latex. In each case, AMEC and the client will work together to provide a range of engineering services. These include design, construction management, technical support, plant and equipment upgrades and projects to improve efficiency and environmental performance.

The water industry
AMEC made good progress in the water industry during 1998, winning new orders worth nearly £140 million. These included a new sewage treatment works at Bromborough for North West Water and, at Portsmouth, for Southern Water, where AMEC is undertaking both the construction and process engineering work.

Tunnelling work was secured for Anglian Water, Yorkshire Water Services and Welsh Water. In each case, AMEC is also manufacturing the pre-cast concrete tunnelling segments.

The public sector
AMEC's innovative work in partnering and collaboration is increasingly recognised by government and industry. The recent 'Rethinking Construction' report for the Department of the Environment, Transport and the Regions singled out a current AMEC contract for the Ministry of Defence as one of the best examples of the preferred new collaborative approach.

Such is the Ministry of Defence's commitment to collaborative working that it now plans to place all of its work, worth over £1.5 billion a year, through companies that can implement the new 'best practice' approach and constantly demonstrate improvement in efficiency and effectiveness. AMEC is well placed to become a preferred supplier.

AMEC's capital projects business is involved in the delivery of several private finance projects. During the year, good progress was made on AMEC's Cumberland infirmary project, a £60 million private finance hospital in Carlisle. Here, AMEC is applying its comprehensive range of skills across all aspects of design and management of the project, from the structure through to the complex internal services.

Also progressing well is the Newcastle estate accommodation contract, a complex £160 million private finance contract, secured earlier in the year from the Department of Social Security. In all, the scheme will provide continuing work for AMEC's capital projects business for the next four years.

Utilising the group's pre-cast concrete expertise, AMEC completed two major contracts to design, supply and erect modular accommodation blocks for private finance prisons at Kilmarnock and Pucklechurch. AMEC also used an innovative approach to complete accommodation blocks for the Scottish Prison Service at Edinburgh and Perth.

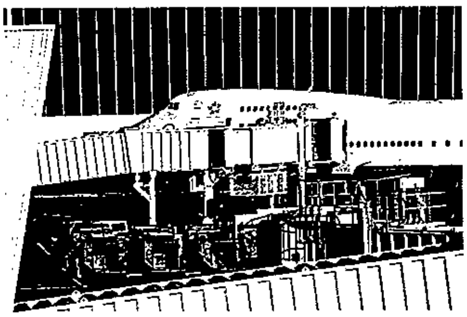
The capital projects business is also undertaking the detailed design and planning of other AMEC private finance projects including the £160 million scheme for the University College London Hospitals Trust which is expected to reach financial close during 1999.

New government work in the USA included renovation works at the Pentagon for the US Army Corps of Engineers.

Commercial projects
In partnership with Boots The Chemist in Nottingham, AMEC replaced a 27,000 square metre warehouse destroyed by fire in October 1997. Under a £30 million design and build contract, work started soon after the fire and a fully automated replacement warehouse was completed in record time, within 11 months.

AMEC secured steelwork orders for several major office buildings including one for the supply and erection of 7,000 tonnes for the Citibank headquarters in Canary Wharf.

AMEC also secured a £35 million contract for designing, developing, installing and commissioning the building services at City Point in London. Here, AMEC's innovative use of off-site fabrication and modularisation is adding value to the construction process.



JFK AIRPORT
AMEC FINISHED ITS U.S. $250 MILLION CONTRACT ON THE IMPRESSIVE NEW TERMINAL 1 BUILDING AT NEW YORK'S JFK INTERNATIONAL AIRPORT DURING THE YEAR AND MADE GOOD PROGRESS ON ITS U.S. $700 MILLION CONTRACT FOR THE INTERNATIONAL ARRIVALS TERMINAL, WHICH IS DUE FOR COMPLETION BY THE END OF 2000.

MARINE VAPOUR RECOVERY PROJECT
AS AN ALLIANCE PARTNER IN BP EXPLORATION'S SUCCESSFUL £50 MILLION ENVIRONMENTAL MARINE VAPOUR RECOVERY PROJECT AT HOUND POINT ON THE FORTH ESTUARY, AMEC PROVIDED A WIDE RANGE OF SERVICES COVERING PROCESS AND CIVIL ENGINEERING, MARINE AND PIPELINE CONSTRUCTION, MECHANICAL AND ELECTRICAL SERVICES AND PROJECT MANAGEMENT.

The group also secured a £12 million contract to design and construct all the building services at the new Chancery Court hotel in Holborn, London. And in Salford, Manchester, it won a £10 million contract to design and construct the services at Agecroft prison.

Transport infrastructure
In another private finance project, AMEC completed the £100 million A1(M) from Alconbury to Peterborough on time and within budget.

With its joint venture partner, AMEC also secured the civil engineering contract for the Thames to Medway section of the Channel Tunnel Rail Link – one of the first CTRL contracts to be awarded. Work on site is due to start in 1999.

Over the next ten years, as Railtrack's capital expenditure programme comes on line, rail offers considerable potential for AMEC's mechanical and electrical activity. Over £5 billion is due to be spent on schemes that include the Channel Tunnel Rail Link, the East Coast Main Line, Thameslink 2000 and the West Coast Main Line for part of which AMEC SPIE Rail Systems is already at work on development and design.

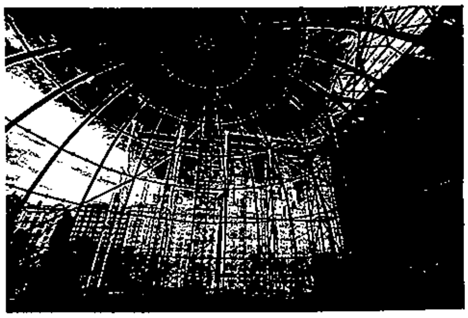
During the year, AMEC established a civil engineering capability in the USA. This market will provide a good source of future work with growing investment in many of the areas of activity in which the group is strongest. For example, the US government has allocated U.S. $218 billion over the next six years for repairing and rebuilding the country's transport facilities.

BUILDING STRONG LONG-TERM RELATIONSHIPS

OVERALL, IT IS EXPECTED THAT CAPITAL PROJECT ACTIVITIES WILL CONTINUE TO IMPROVE IN PROFITABILITY AS AMEC'S POLICY OF SELECTIVITY CONTINUES TO BEAR FRUIT AND UNPROFITABLE BUSINESS IS ELIMINATED.

MOST OF AMEC'S SHARE OF PROFIT FROM THE CAPITAL PROJECT ACTIVITY OF SPIE S.A. WAS EARNED OUTSIDE FRANCE, WITH THE FRENCH DOMESTIC MARKET, ALTHOUGH STARTING TO RECOVER, REMAINING DIFFICULT. HOWEVER, THE PROSPECTS FOR 1999 ARE BETTER, AS THE GENERAL BUILDING MARKET IN FRANCE BEGINS TO IMPROVE.

SHEARWATER
THE SHEARWATER DEVELOPMENT ALLIANCE, COMPRISING OF SHELL EXPRO, AMEC AND HEEREMA, OPERATES FROM AMEC'S LONDON OFFICES AND CONTROLS OVER 1,500 PEOPLE WORKING AT A RANGE OF LOCATIONS. AMEC'S RESPONSIBILITIES, WORTH OVER £300 MILLION, INCLUDE DESIGN AND FABRICATION OF TOPSIDES AND HOOK-UP AND COMMISSIONING.



NATURAL HISTORY MUSEUM, NEW YORK
AMEC WAS AWARDED A U.S. $100 MILLION CONTRACT ON THE AMERICAN MUSEUM OF NATURAL HISTORY IN NEW YORK. THE WORK INVOLVES CONSTRUCTION OF A NEW PLANETARIUM, THE 'HALL OF PLANET EARTH' AND NEW PUBLIC SPACE. ALSO INCLUDED IS A HIGHLY SOPHISTICATED FIRE SUPPRESSION SYSTEM.

2 SERVICES

THE RELENTLESS DEVELOPMENT OF THE OUTSOURCING MARKET IS PRESENTING MAJOR GROWTH OPPORTUNITIES BOTH FOR AMEC'S EXISTING SERVICE BUSINESSES AND FOR THE OVERALL CORPORATE DEVELOPMENT OF THE GROUP

AMEC'S KEY SERVICES

SERVICES BENEFITED FROM STRONG PROFIT GROWTH AND SUSTAINED MARGINS

[illegible] PROFIT FROM SPIE [illegible] FROM THE ELECTRICAL AND SMALL PROJECT [illegible] OF [illegible] TRINDEL WHICH IS GROWING ITS BUSINESS OUTSIDE FRANCE, PARTICULARLY IN HOLLAND, BELGIUM AND PORTUGAL

SERVICES	1998 £M	1997 £M
TURNOVER	859.9	778.9
OPERATING PROFIT	38.3	31.0
NET ASSETS	6.0	3.3

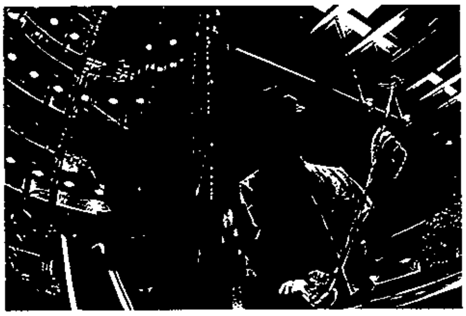
AMEC's services concentrate on the rail industry, offshore oil and gas, infrastructure and electrical sectors.

In these areas, AMEC's success depends on technical innovation and the constant development of skills and techniques to ensure better, more cost effective solutions. As services become more specialised, AMEC is able to add greater value, strengthen its client relationships and secure quality, long-term contracts.

In common with the capital projects business, the services operation is increasingly involved in partnerships and alliances. It currently serves around half the offshore facilities in the North Sea and many UK utility companies. As clients in these areas outsource more of their operations and maintenance, AMEC is well placed to secure increased orders.

Rail maintenance
AMEC's rail maintenance business produced a strong performance in 1998. In addition to its two existing maintenance contracts for Railtrack in the south east, it secured a new five-year contract for the West Anglia and North London lines. This covers track between London and Kings Lynn and North London and Richmond.

With Railtrack constantly looking for greater efficiency and lower costs, its maintenance contractors are seeking to improve their productivity by around 30 per cent, mainly by introducing new equipment and techniques. AMEC is setting the pace and by the end of 1998 had already invested significantly in developing new plant and equipment, with further commitments planned over the next three years. During the year, Railtrack



LONDON UNDERWRITING
AMEC PROVIDES A RANGE OF FACILITY SERVICES AT THE LONDON UNDERWRITING CENTRE IN THE HEART OF THE CITY. OPENED IN 1993, AND DESIGNED SPECIFICALLY TO PROVIDE A MARKET ENVIRONMENT FOR INSURANCE, THE CENTRE HOUSES APPROXIMATELY 40 COMPANIES.

awarded AMEC a £35 million contract to supply a fleet of unique multi-purpose vehicles for use on tracks throughout the country. These will be capable of removing leaves and ice, gritting rails and tackling fires.

In a further boost to efficiency, especially on busy lines, AMEC is developing track maintenance machines that can be deployed without having to close the adjacent tracks (as is normally the case at present). Other innovations introduced in 1998 include new rail bonding techniques and equipment for carrying out maintenance in areas unsuitable for conventional machines. The business has also developed a new lift access system which will make it easier to maintain tunnels.

Offshore oil and gas services
AMEC's offshore oil and gas services business provides engineering, maintenance and operations support for platforms and other assets, from start-up to decommissioning. During 1998, over 95 per cent of its work involved long-term partnerships or alliances. The business had an excellent year in 1998, securing a number of major new contracts and extending others.

New orders included a five year, operational support services contract covering all BP Exploration's assets in the southern North Sea. In all, this comprises 10 platforms and two onshore terminals. For Marathon Oil, AMEC secured a five year operational support services contract for the three platforms in the Brae field.

Extensions to existing contracts included a five year renewal to an operational support contract for two platforms in Mobil's Beryl field.

During 1998, AMEC was involved with around half of the UK's offshore facilities and six out of the 11 onshore oil and gas reception terminals. The trend in the industry is for clients to outsource more of their activities, with contractors potentially supplying up to 90 per cent of the personnel in any given facility. As the process continues, AMEC's involvement is set to increase.

Servicing gas installations has grown strongly in recent years and, in 1998, accounted for 45 per cent of AMEC's offshore services activity. In Norway, where AMEC has had a base for over five years, the oil and gas services business is well placed to benefit from the current healthy outlook in the Norwegian offshore industry.

Infrastructure services
1998 was a year of solid progress for AMEC's infrastructure services business. Both of its main activities – the management of clients' facilities and installation and maintenance work for utilities – benefited from a buoyant marketplace and strong growth in orders.

In 1998, AMEC's facilities management business grew by 25 per cent. The business intends to sustain the current growth rate and to double turnover in the next five years. In so doing, it will seek to benefit from the blue-chip client list of the entire group and AMEC's involvement in private finance projects.

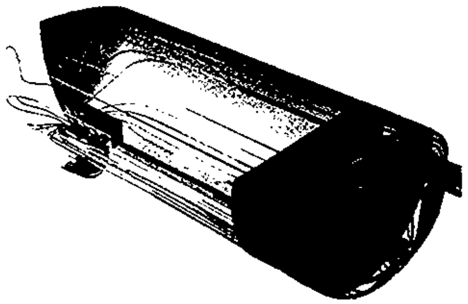
Although facilities management contracts typically run for only three years, AMEC has a strong record of keeping the business. In 1998 its contract renewal rate was an impressive 94 per cent.

In addition, AMEC secured a number of new contracts. These included additional work from existing clients such as London Regional Transport, the NEC and London's Centre Point. The long list of new clients included Kumagai Gumi, Lambeth Healthcare, Iveco Ford, Schroder Investment Management, British Telecom, Rhône-Poulenc and Cellnet.

In the utilities sector, AMEC undertakes engineering services in gas, water and telecommunications and aims to offer maximum value to its clients by constantly developing its technical capabilities.

This approach has helped to secure valuable long-term awards such as a new contract from Yorkshire Water which is scheduled to run for up to eight years and could be worth as much as £80 million. The award demonstrates a wider outsourcing trend on the part of UK water companies. In this case, water company personnel have become AMEC employees and the business now provides 24-hour emergency response cover.

Other new awards in 1998 include contracts with Severn Trent Water, Thames Water, Transco, ScottishPower and a major award from the National Grid.



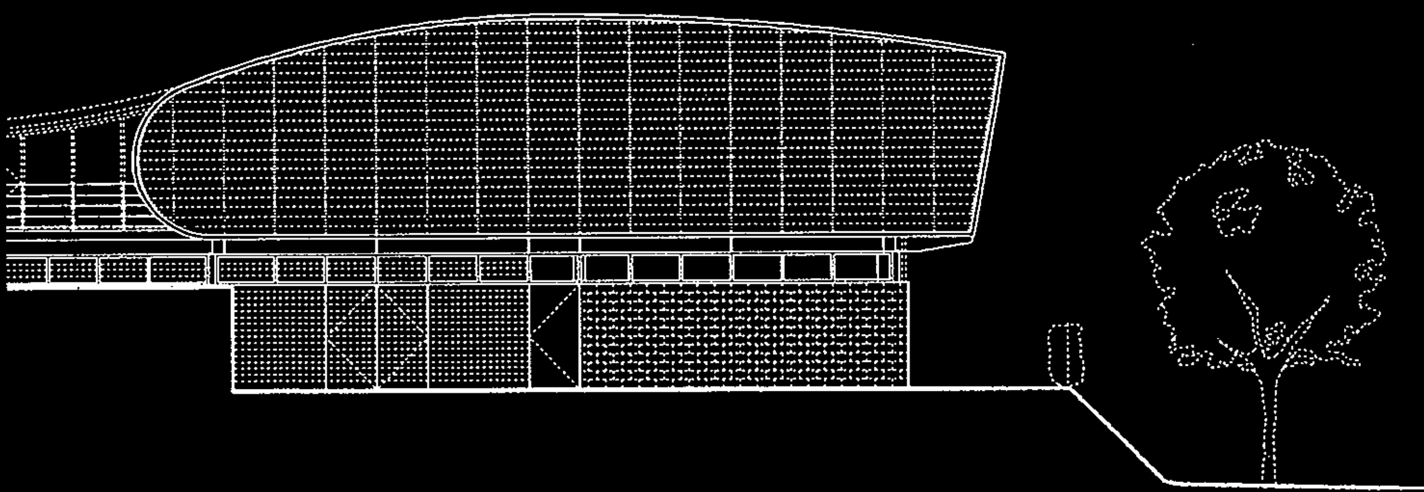
COMPUTATIONAL FLUID DYNAMICS
AMEC PROVIDES CLIENTS IN THE OIL AND GAS INDUSTRY WITH AN ADVANCED ANALYSIS CAPABILITY IN OPERATIONS SUPPORT. TECHNIQUES SUCH AS COMPUTATIONAL FLUID DYNAMICS ARE USED TO OPTIMISE EXISTING EQUIPMENT AND PROVIDE SOLUTIONS TO ENGINEERING PROBLEMS.

RAIL
AMEC'S RAIL MAINTENANCE BUSINESS EMPLOYS OVER 2,000 PEOPLE AND IS A LEADER IN THE MARKET WITH PARTICULAR SKILLS IN MAINTAINING BUSY SECTIONS OF TRACK SUCH AS CLAPHAM JUNCTION AND LONDON'S VICTORIA AND WATERLOO APPROACHES.

3 INVESTMENTS

WIDE PORTFOLIO OF PROJECTS SPANNING THE HEALTH, GOVERNMENT, PROPERTY AND INFRASTRUCTURE MARKETS. AMEC IS ONE OF THE LEADERS OF PRIVATE FINANCE PROJECTS. IT HAS ALSO BEEN PARTICULARLY SUCCESSFUL WITH MAJOR LAND AND PROPERTY REGENERATION SCHEMES IN PARTNERSHIP WITH LOCAL AUTHORITIES AND OTHER LANDOWNERS

[illegible]	1998 £M	[illegible]
TURNOVER	418.4	[illegible]
OPERATING PROFIT	17.6	[illegible]
[illegible]	158.9	[illegible]



DEPARTMENT OF SOCIAL SECURITY,
NEWCASTLE ESTATE

Project investments
The project investments business is responsible for AMEC's equity investments and for overseeing the group's involvement in private finance projects. As well as securing quality work for AMEC's capital projects and service businesses, private finance schemes provide the group with an investment portfolio capable of generating long-term income.

Good progress on AMEC's existing schemes was achieved in the year with both of AMEC's private finance road schemes operating smoothly. The second of these – the A1(M) between Alconbury and Peterborough – was completed and opened to traffic in October 1998.

In the health sector, the construction of the Cumberland infirmary at Carlisle is ahead of programme. This private finance hospital, which will open in summer 2000, will bring together all NHS acute care facilities in Carlisle, currently provided by three hospitals on two sites. Although good progress was also made on the University College London Hospitals project, a major London teaching hospital, which is now expected to reach financial close during 1999, overall profits from project investments were held back in the year as a result of expensed development costs on this project.

Work started during the year on AMEC's DSS Newcastle Estate private finance project and made good progress. AMEC is using the expertise gained on this project to target other private finance office accommodation projects in the public sector. It is also seeking to apply the private finance model to accommodation projects in the private sector.

In education, the government is committed to spending at least £10 billion over the next five years to develop a modern infrastructure for schools and colleges. AMEC has set up a separate unit to address the opportunities that may result.

The project investments business also expects new opportunities from the privatisation of the London Underground. With this in mind, AMEC has formed the TubeRail partnership with Brown & Root, Alstom and Tarmac.

Property development
A good performance by the property development business in 1998 puts AMEC in a strong position to continue generating quality earnings from its balanced portfolio of developments. The business specialises in large, partnership-based developments and is now expanding into private finance office accommodation projects and mixed-use urban renewal schemes.

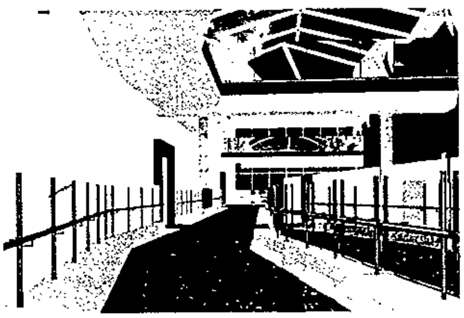
During the year, AMEC secured development options on a number of new locations and gained planning permission on two key sites. The first of these, Ashton Moss, is a 400-acre mixed-use business park at Ashton-under-Lyne in Manchester. The other is a 63-acre leisure and retail site alongside the A19 at Holystone in Tyneside.

Letting progressed well on Cheadle Royal business park in Manchester, where an agreement was signed with Regus, Europe's largest operator of serviced business centres.

There was also good progress in the centre of Manchester. At Smithfield, AMEC and Crosby Homes secured an innovative development involving residential, retail and commercial use and, at Havelock Mill, AMEC is set to expand the commercial centre of Manchester with the signing of a development agreement for the law firm Eversheds.

Durham City Council has selected AMEC as a preferred developer for its Heart of the City redevelopment scheme which sets out a vision for the city centre over the next 15 to 20 years. Under phase one, AMEC will create a £21 million leisure development with multiplex cinema, nightclub, restaurants and health club.

Fairclough Homes
Fairclough Homes made solid progress with turnover up 10 per cent at £200 million. The operating margin, at eight per cent, was similar to last year but held back due to restructuring costs associated with reduction from four regions to three. During the year, the business sold 1,717 new homes. The average selling price was up five per cent at £112,800 and the landbank – which continued to improve – stood at 3,762 plots by the year end.



CUMBERLAND INFIRMARY
WORK WAS WELL ADVANCED BY THE YEAR END ON AMEC'S 474 BED PRIVATE FINANCE HOSPITAL IN CARLISLE. THE NEW FACILITY WILL OPEN IN SUMMER 2000 AND WILL BRING TOGETHER ALL THE NHS ACUTE CARE FACILITIES, WHICH ARE CURRENTLY PROVIDED BY THREE HOSPITALS ON TWO SITES.

HOLYSTONE, TYNESIDE
PLANNING PERMISSION WAS RECEIVED DURING 1998 FOR A 63 ACRE LEISURE AND RETAIL SITE AT HOLYSTONE IN NORTH TYNESIDE, WHICH AMEC WILL DEVELOP JOINTLY WITH THE DUKE OF NORTHUMBERLAND ESTATE.

SPIE S.A. REPORTS GOOD PROFIT GROWTH

AMEC'S ASSOCIATE COMPANY, SPIE, ACHIEVED A STRONG PROFIT PERFORMANCE DURING 1998. IT WAS A PARTICULARLY SUCCESSFUL YEAR FOR THE SERVICE ACTIVITY AND ELECTRICAL AND ELECTROMECHANICAL CAPITAL PROJECTS. SPIE CONTINUED TO STRENGTHEN ITS POSITION IN EUROPE, WHICH ACCOUNTED FOR A RECORD 85 PER CENT OF NEW ORDERS.

SPREEBOGEN, BERLIN
SPIE WAS CHOSEN BY DEUTSCHE BAHN AG, THE GERMAN RAIL COMPANY, TO BUILD SPREEBOGEN, BERLIN'S NORTH-SOUTH RAIL LINE. THE COMPLEX PROJECT INVOLVES SIX TUNNELS FOR THE METRO, A COMMUTER RAILWAY AND AN URBAN MOTORWAY.

SPIE, in which AMEC holds a 41.6 per cent interest, is an electrical contracting and construction company which designs and implements capital projects and provides related services and maintenance. SPIE holds prominent world market status in such strategic skills as rail transportation systems, power generation and distribution, pipelines and underground projects.

Previously known as Spie Batignolles, the business changed its name to SPIE in 1998 to modernise its image, symbolise a new momentum and present itself as a united group of companies. The Spie Batignolles name has been retained but now applies only to the construction and civil engineering businesses.

SPIE is more and more selective in the business it pursues and its emphasis is increasingly on electrical and electromechanical engineering and services. These activities have grown strongly in recent years and in 1998 accounted for 67 per cent of new orders.

As forecast, SPIE's 1998 turnover was down on the previous year as the business continued to reduce its exposure to the French construction industry and to refocus on the electrical and electromechanical market. Net profit increased, however, and was well ahead of target.

On the Paris Météor, SPIE was involved in the new, fully automated No 14 line. Here it carried out three civil engineering contracts (including the tunnel under the Seine) as well as the track laying of the entire line, the supply of switchboards and the internal fixtures of the Bibliothèque-François Mitterrand station.

In the electrical and electromechanical sector, Spie Trindel continued to expand in Europe with the acquisition of the Portuguese company Oele. With flat demand in France, most of the year's growth came from Spie Trindel's subsidiaries in the rest of Europe – Belgium, the Netherlands and Portugal.

Also in the electrical sector, Spie Enertrans saw a fall in turnover, principally because of budget cuts in the French public sector, a trend which mainly affects the track laying and the power generation and transmission sectors. Nevertheless, net profit improved.

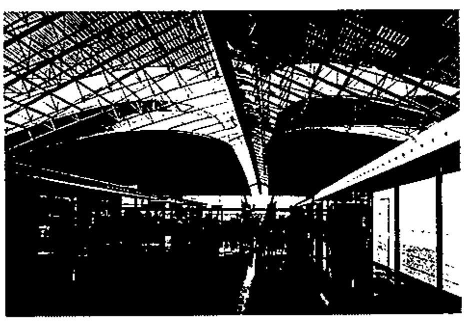
During the year, Spie Enertrans and Spie Batignolles were involved in the construction and electromechanical equipping of rail track, quays and stations on the Berlin Stadtbahn which opened in May and is used by the metro and by long-distance trains. Spie Enertrans and its local partners also equipped Tsing Yi station on the new metro line linking Hong Kong to the new Chek Lap Kok airport.

Through its close relationship with AMEC, SPIE is well placed to participate in the major capital expenditure programme planned for the United Kingdom rail industry over the next ten years.

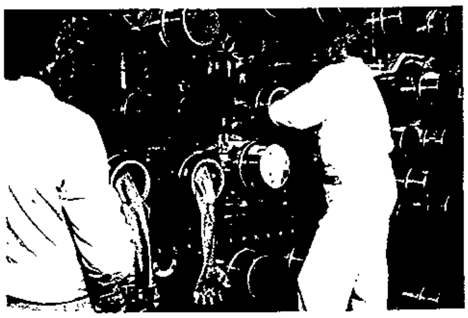
Spie Capag, the pipeline company that specialises in the oil, gas and water industries, saw a fall in new orders after the record level of 1997. Such fluctuations are typical of a business involved in large projects and have little bearing on medium and long-term turnover trends. Turnover was in fact higher than in 1997 and orders since the beginning of 1999 have more than restored projected levels of activity.

In the construction sector, Spie Batignolles' French regional and specialist subsidiaries again faced an extremely competitive market – particularly in Paris, the north and the east. In these demanding conditions, the subsidiaries continued to focus on high-quality business and to streamline their operations where appropriate. New orders and turnover were consequently down on 1997, though both were ahead of target.

March 1998 saw the inauguration of the Roissy airport terminal, constructed by Spie Batignolles, where an innovative construction method was designed comprising 18 concrete shells suspended from an arc-shaped metal frame to form the vault. Spie Trindel installed the lighting system.



FRANCE
SPIE DEVISED AN INNOVATIVE CONSTRUCTION METHOD FOR THE ROISSY 2F TERMINAL AT CHARLES DE GAULLE AIRPORT OUTSIDE PARIS. EACH VAULT INVOLVES 18 CONCRETE SHELLS SUSPENDED FROM AN ARC SHAPED METAL FRAME.



FRANCE
LONG-TERM MULTI-DISCIPLINARY MAINTENANCE AND SERVICES CONTRACT IN A COMPLEX BUILDING NETWORK FOR CEA-VALDUC IN FRANCE.

STRONG CASH POSITION MAINTAINED

[illegible]	£M
[illegible] AT 31 DECEMBER 1997	94.3
[illegible] FROM TRADING	27.2
[illegible] SHARE BUYBACK	(24.3)
NET CASH AT 31 DECEMBER 1998	97.2

SIMON BATEY
FINANCE DIRECTOR

A review of the trading of the group's businesses in 1998 is provided on pages 4 to 23. A review of the financial highlights affecting the results for the year is set out below.

The most significant change in the way the accounts are presented arises from the introduction of FRS9 'Associates and Joint Ventures'. The disclosures in the profit and loss account and balance sheet highlight the size and importance of the investments which the group has made in SPIE and several private finance special purpose companies. In respect of the latter, the group has continued its investments during the year by committing further funds of £13.2 million.

The increase in both net current assets and creditors due after one year reflects the accounting for the pre-sale of the Longbenton private finance project.

Shareholders' funds reflect the strong profit performance of the group; however, the effect of this is partially offset by the purchase and cancellation of preference shares which took place in the second half of the year.

Exceptional items
The exceptional items reported in the accounts are principally the profit on the sale of Egypt Gas Company in 1997 and a loss of £2.1 million on various fixed asset disposals in 1998.

Interest
The group's interest position, excluding joint venture interest, is positive for the first time in six years, reflecting the strong trading cash position.

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

Taxation
The tax charge, at 31.6 per cent, is slightly higher than the standard rate but will reduce next year in line with the expected reduction in the standard rate of corporation tax.

Cash flow
Cash flow within the business remains healthy. Good trading cash flows in 1998 enabled the group to fund private finance investments and buy back preference shares. No indication has been seen in the group's cash forecasts that economic or contract conditions are proving detrimental to the terms of trade within AMEC's principal markets.

At the year end the group had net cash of £97.2 million; however this position fluctuated throughout the year, dependent upon the timing of contract receipts and payments, corporate transactions, tax and dividend payments.

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

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

Accounting standards
As referred to above the consolidated balance sheet discloses the group's share of joint venture gross assets and gross liabilities. These are principally in respect of SPIE and increasingly the group's private finance investment portfolio.

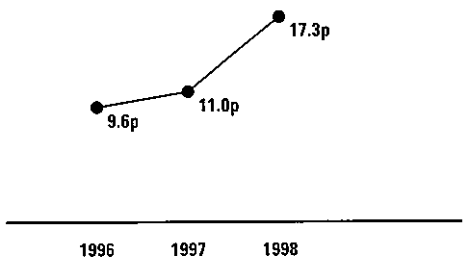
Earnings per share figures have been calculated in accordance with FRS14 'Earnings per Share' although this has not had a significant effect on the reported numbers.

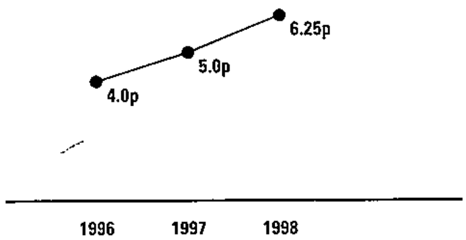
FRS10 'Goodwill and Intangible Assets' was also introduced in the year. Goodwill arising on any future acquisitions will be capitalised and amortised. The group has not, however, reinstated as an asset goodwill on past acquisitions previously written off to reserves.

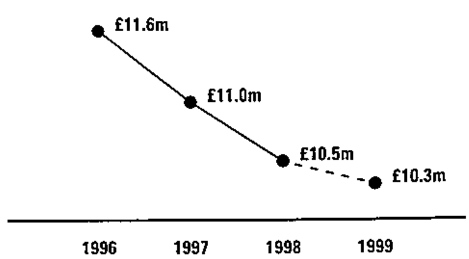
The group has analysed its results using a new segmental analysis, first presented in the interim announcement, which better reflects the shape and focus of the group going forward. It also provides a basis for demonstrating the nature and quality of the profit streams driving the overall improvement in the group's trading.

Euro
During the year subsidiaries influenced by European Monetary Union prepared plans to address the operational and financial impact of this development. The attributable costs were not significant.

Simon Batey
Finance director







EARNINGS PER SHARE
EARNINGS PER SHARE, BEFORE EXCEPTIONAL ITEMS, ON A DILUTED BASIS, ARE 17.3 PENCE, AN INCREASE OF 57 PER CENT OVER LAST YEAR. THE CALCULATION TAKES ACCOUNT OF THE ORDINARY SHARES THAT WOULD BE ISSUED ON CONVERSION OF THE REMAINING PREFERENCE SHARES AND THE EXERCISE OF SHARE OPTIONS.

DIVIDENDS PER ORDINARY SHARE
THE SUBSTANTIAL FURTHER IMPROVEMENT IN EARNINGS PER SHARE UNDERPINS THE BOARDS DECISION TO RECOMMEND A FINAL ORDINARY DIVIDEND OF 4.15 PENCE, MAKING A TOTAL DIVIDEND FOR 1998 OF 6.25 PENCE, AN INCREASE OF 25 PER CENT OVER LAST YEAR. DIVIDEND COVER, ON A PRE-EXCEPTIONAL BASIS, HAS INCREASED BY 27 PER CENT AND NOW STANDS AT 2.8 TIMES.

PREFERENCE SHARE BUY BACK
THE COMPANY ORIGINALLY TOOK THE POWER TO BUY BACK ITS PREFERENCE SHARES IN 1997 AND, TO DATE, 19 MILLION SHARES HAVE BEEN BOUGHT, BEING APPROXIMATELY 11 PER CENT OF THE ISSUED PREFERENCE SHARE CAPITAL. AS A RESULT, THE FIXED PREFERENCE DIVIDEND HAS REDUCED FROM £11.6 MILLION TO £10.5 MILLION AND WILL FURTHER REDUCE IN 1999 AS THE 1998 PURCHASES IMPACT ON A FULL YEAR.

CONTINUOUS IMPROVEMENT IN SAFETY AWARENESS

AS A LEADER IN ITS SECTOR, AMEC AIMS TO ENSURE SAFE SITES, A HEALTHY WORKPLACE AND PROPER PROTECTION FOR THE ENVIRONMENT, ITS EMPLOYEES AND SUB-CONTRACTORS AND THE COMMUNITIES IN WHICH IT OPERATES

WORKING IN A HAZARDOUS ENVIRONMENT DEMANDS A HIGH LEVEL OF SAFETY PLANNING AND PRACTICE, NOWHERE MORE SO THAN ON AMEC'S TRACKSIDE RAIL CONTRACTS.

Maintaining a high safety standard is a huge challenge in a group which operates in every area of construction from offshore to underground to high above the ground. But, thanks to AMEC's commitment and its strong team of safety professionals, in recent years, the group's accident rate has been, on average, consistently one third less than the industry norm.

Hand in hand with safety goes occupational health. Although relatively new in this industry, occupational health is high on the agenda of AMEC's management and safety team.

Over the last three years AMEC has undertaken a programme to identify, assess and rectify any activities likely to harm the health of its employees. The group's occupational health physician regularly attends the meetings of the safety controllers to keep AMEC informed on occupational health matters.

AMEC is also improving its environmental performance to the point where it often advises clients on the environmental effects of a project. It then seeks to carry out the project in an environmentally responsible way. Each year has seen fewer pollution incidents, better waste control, more recycling, quieter operations and better liaison with neighbours during construction.

Many subsidiaries now have ISO 14001 environmental accreditation and others are aiming to achieve it. AMEC is employing more environmental advisers, ensuring better communication on environmental matters and working towards uniform procedures and policies across the group.

The group's progress is underpinned by the high calibre of its 90 safety and environmental professionals and the commitment of AMEC's management from the top downwards. The board routinely discusses, as an agenda item, health, safety and environmental matters and the group safety and environmental controller's report. It takes action as necessary. AMEC's subsidiary boards are also required to discuss and act upon their controllers' monthly reports.

Training is central to AMEC's activity. Two mobile safety training units, owned by AMEC, attend sites and offer more than 35 safety courses, both theoretical and practical, approved by the Construction Industry Training Board. In addition, in the year, safety advisers in the subsidiaries trained over 2,000 AMEC staff while 168 directors and senior managers attended a five-day Managing Safely course, accredited by the Institution of Occupational Safety and Health. These courses are managed and presented in-house by AMEC's safety professionals.

AMEC is a leading participant in the oil and gas industry's 'step change in safety' initiative that was launched at the end of 1997 to achieve significant improvements in all aspects of safety across the offshore and onshore markets.

AMEC is also one of the first companies to become accredited by the Engineering Construction Industry Training Board to assess the competency of both its own and other organisations' work forces in occupational safety areas.

Examples of safety in action across the group include Didcot 'A' power station. The group has had a permanent presence on maintenance and repair at this site for over 30 years and was recently awarded the National Power Safety and Environmental award for 1998.

At BNFL's Sellafield site, the waste vitrification project, on which AMEC is main contractor, recently passed the two million man hours point without a reportable accident. This notable figure was achieved thanks to 21 accident-free months of work.

On project Orwell, in Ipswich, a partnering contract with Anglian Water, the project team was presented with Anglian Water's coveted 'Golden Helmet' award. AMEC's site was chosen over the water company's many other sites as being the best in terms of safety, environmental care and good housekeeping.

THE AMEC-TARMAC JOINT VENTURE BUILDING MANCHESTER AIRPORT'S SECOND RUNWAY HAS SEEN HIGH LEVELS OF ENVIRONMENTAL CARE WITH AROUND TEN PER CENT OF THE TOTAL £172 MILLION COST GOING ON ENVIRONMENTAL PROTECTION AND RESTORATION. THIS HAS INCLUDED CREATING NEW WOODLANDS AND RESCUING AND RELOCATING WILDLIFE, INCLUDING BATS, BADGERS AND NEWTS.

ROPED ACCESS WORK IS NOW AN EVERYDAY TOOL USED ON MAJOR PROJECTS AND AN AREA WHERE AMEC'S TOTAL COMMITMENT TO SAFETY IS CLEARLY DEMONSTRATED. INTENSIVE TRAINING AND CONSTANT MONITORING ARE A KEY FEATURE OF THE GROUP'S APPROACH TO SAFETY MATTERS.

THE BOARD

SYDNEY GILLIBRAND CBE
AGE 64, WAS APPOINTED A NON-EXECUTIVE DIRECTOR IN AUGUST 1995 AND BECAME NON-EXECUTIVE CHAIRMAN IN JULY 1997.
HE WAS PREVIOUSLY VICE-CHAIRMAN OF BRITISH AEROSPACE PLC AND IS A NON-EXECUTIVE DIRECTOR OF MESSIER-DOWTY INTERNATIONAL LIMITED AND OF ICL PLC. HE IS CHAIRMAN OF THE NOMINATIONS COMMITTEE.

PETER MASON
AGE 52, CHIEF EXECUTIVE, WAS APPOINTED TO THE BOARD IN MARCH 1996. HE WAS PREVIOUSLY CHAIRMAN AND CHIEF EXECUTIVE OF BALFOUR BEATTY LIMITED AND A DIRECTOR OF BICC PLC.

SIMON BATEY
AGE 45, WAS APPOINTED FINANCE DIRECTOR IN JUNE 1992.

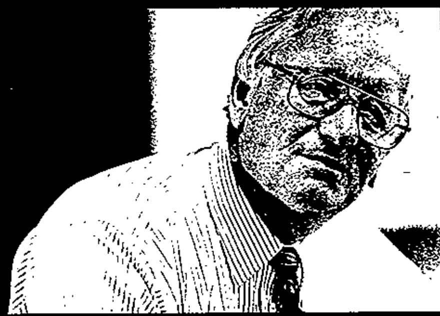
[illegible]
AGE 53, WAS APPOINTED AN EXECUTIVE DIRECTOR IN JULY 1993 AND BUSINESS DEVELOPMENT DIRECTOR IN JANUARY 1998.

[illegible]
AGE 54, WAS APPOINTED AN EXECUTIVE DIRECTOR IN FEBRUARY 1997. HE IS THE CHAIRMAN AND CHIEF EXECUTIVE OFFICER OF SPIE S.A.

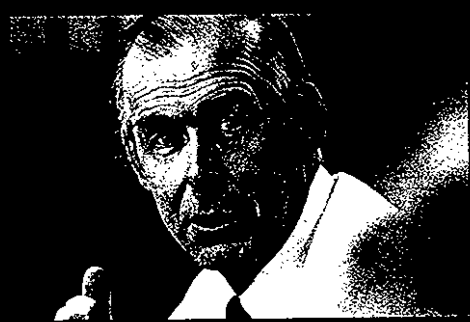
[illegible]
AGE 53, WAS APPOINTED A NON-EXECUTIVE DIRECTOR IN JUNE 1996. HE IS CHAIRMAN OF BOTH JZ EQUITY PARTNERS PLC AND THE INTERNATIONAL BIOTECHNOLOGY TRUST PLC. HE IS THE CHAIRMAN OF THE AUDIT COMMITTEE AND THE SENIOR NON-EXECUTIVE DIRECTOR.

DAVID ROBSON
AGE 53, WAS APPOINTED AN EXECUTIVE DIRECTOR IN AUGUST 1991 AND CHIEF OPERATING OFFICER IN JANUARY 1998.

JOHN EARLY
AGE 53, WAS APPOINTED AN EXECUTIVE DIRECTOR IN MARCH 1986. HE IS THE PROPERTY AND DEVELOPMENT DIRECTOR.



DR KEITH HUMPHREYS CBE
AGE 65, WAS APPOINTED A NON-EXECUTIVE DIRECTOR IN SEPTEMBER 1993. HE WAS PREVIOUSLY CHAIRMAN AND MANAGING DIRECTOR OF RHÔNE-POULENC LIMITED, THE UNITED KINGDOM SUBSIDIARY OF RHÔNE-POULENC S.A., AND IS A PAST PRESIDENT OF THE CHEMICAL INDUSTRIES ASSOCIATION. HE IS THE CHAIRMAN OF THE REMUNERATION COMMITTEE.



[illegible]
AGE 51, WAS APPOINTED AN EXECUTIVE DIRECTOR IN NOVEMBER 1994. HE IS THE COMMERCIAL DIRECTOR.

[illegible]
AGE 61, WAS APPOINTED A NON-EXECUTIVE DIRECTOR IN JUNE 1996. HE WAS PREVIOUSLY HEAD OF ENGINEERING AND RESEARCH WITH BRITISH PETROLEUM P.L.C. AND A BUSINESS BOARD MEMBER OF BP EXPLORATION, BP OIL AND BP CHEMICALS.

The directors have pleasure in presenting the annual report and accounts for the year ended 31 December 1998.

Business review
Information on the businesses of the group, their development during the year and on the future outlook is contained on pages 1 to 25.

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

The profit for the financial year available to shareholders, amounting to £47.3 million (1997 – £44.7 million), is shown in the consolidated profit and loss account on page 37. The directors recommend that a final dividend of 4.15p (1997 – 3.25p) per ordinary share be paid which, together with the interim dividend of 2.1p (1997 – 1.75p), makes a total ordinary dividend for the year of 6.25p (1997 – 5.0p) per share. Ordinary dividends amounted to £13.0 million (1997 – £10.3 million) and preference dividends amounted to £10.5 million (1997 – £11.0 million).

The final dividend will be payable on 1 July 1999 to ordinary shareholders on the register at the close of business on 14 May 1999.

Articles of association
Resolutions 6, 7 and 8 to be proposed at the 1999 annual general meeting relate to amendments to the articles of association of the company in the following respects:-

Resolution 6 deals with the replacement of the existing articles 12.2.2(iv)(b), (c) and (d) with new articles relating to the authority of directors to allot shares and their ability to do so other than on a pre-emptive basis. The new articles enable the authority to be sought on a five year basis as opposed to the current 15 month basis.

Resolution 7 deals with the replacement of the existing article 84 with a new article relating to the retirement of directors by rotation. The Combined Code, published in June 1998, recommends that all directors retire and are subject to re-election at least every three years. Depending upon the number of directors on the board from time to time, the current article 84, requiring one third of the directors to retire each year, may mean that the Combined Code is not followed. Accordingly, it is proposed that the new article be substituted so as to comply with the Combined Code. There are also consequential amendments to articles 85, 89 and 90.

Resolution 8 deals with an amendment to article 4.4.1 which relates to the ability of the company to purchase its preference shares. The current article provides that the maximum price at which such shares can be purchased by the company is based upon the average of the middle market quotations during the 10 business days immediately prior to the date of purchase. Since the articles were last revised, the Listing Rules of the London Stock Exchange have been amended and now provide that purchases of convertible securities must not normally be made at a price more than five per cent above the average of the market values for the securities for five business days rather than 10 business days immediately preceding the date of purchase. The proposed amendment to the articles will ensure that article 4.4.1 is compliant with the Listing Rules. The amendment is also subject to the approval of a separate class meeting of preference shareholders convened for the same day.

Share capital
The present authorised and issued share capital of the company and movements during the year are set out in note 18 on page 51.

Resolutions 9 and 10 which will be proposed at the 1999 annual general meeting grant limited powers to the directors to allot the unissued share capital of the company and to issue shares for cash other than to existing shareholders.

The directors have no present intention of issuing any ordinary shares other than in respect of the conversion of preference shares and 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 11 grants authority to the directors to make market purchases of the company's preference shares within prescribed limits. The separate class meeting of preference shareholders convened for the same day will also need to approve this proposal.

Pursuant to the authority currently granted by shareholders, the directors purchased in the market, for an aggregate consideration of £10,946,006 (excluding charges and stamp duty), 10,474,400 preference shares between 30 June 1998 and 31 December 1998. This represented 6.4 per cent of the issued preference share capital.

Resolution 12 grants authority to the directors to make market purchases of the company's ordinary shares within prescribed limits. No such purchases were made in 1998.

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

Substantial interests
Notifications have been received by the company of the following shareholdings and the percentage interests which they represented as at the date of such notifications, in accordance with section 198 of the Companies Act 1985.

	Number	%
Ordinary shares		
FMR Corporation/ Fidelity International Limited	25,907,555	12.45
Prudential Corporation Limited/Scottish Amicable Life Assurance Society	10,713,211	5.22
Halifax plc/HCM (Holdings) Limited	8,083,143	3.96
Standard Life Assurance Company	7,782,630	3.81
Preference shares		
Phillips and Drew Fund Management Limited/UBS U.K. Holding Limited	25,373,500	16.57
M&G Group plc/ M&G Investment Management Limited	19,464,862	11.29

Dividend reinvestment plan
Due to changes in tax law, the directors concluded that it was no longer in the interests of the company to continue with the scrip dividend alternative and have discontinued the arrangement.

However, the convenience of the scrip dividend alternative, particularly for private shareholders, is recognised and the directors have, therefore, introduced a dividend reinvestment plan (the "DRIP") which is administered by the company's registrars.

The DRIP offers shareholders the opportunity to use the cash dividends received on shares to buy, in the market at competitive dealing costs, ordinary shares in the company. The DRIP is currently available for ordinary shareholders and is being introduced for preference shareholders.

Directors
Details of the directors of the company at the date of this report are set out on pages 28 and 29. All directors served throughout the year.

Mr S Gillibrand, Mr P J Mason and Mr J D Early retire by rotation in accordance with article 84 of the articles of association of the company and, being eligible, offer themselves for re-election. Mr Gillibrand has a contract with the company, as non-executive chairman, until 14 July 2000. Mr Mason and Mr Early each have employment contracts with the company terminable by two years' notice.

The beneficial interests in the share capital of the company of the directors holding office at 31 December 1998 were as follows:

	Number of shares as at 31 December 1998		Number of shares as at 1 January 1998	
	Ordinary shares	Preference shares	Ordinary shares	Preference shares
S Gillibrand	31,472	–	30,880	–
P J Mason	46,926	–	25,000	–
J D Early	20,889	2,200	8,715	2,200
D Robson	15,000	–	–	–
S G Batey	51,667	–	31,099	–
M K Eckersall	10,000	–	–	–
Dr K W Humphreys	9,448	–	5,345	–
G E Payne	29,229	–	10,000	–
J M Green-Armytage	–	–	–	–
J R Darley	17,161	–	5,161	–
J A Monville	–	–	–	–

Except for interests under share option schemes and the long-term incentive plan, details of which are contained in the report on remuneration and related matters on pages 35 and 36, no director at 31 December 1998 had any other interests, beneficial or otherwise, in the share capital of the company or any of its subsidiaries.

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

On 4 January 1999, Mr S Gillibrand, Mr S G Batey, Mr M K Eckersall, and Dr K W Humphreys acquired beneficial interests in 363, 579, 115 and 62 ordinary shares respectively, pursuant to the provisions of the dividend reinvestment plan, relating to the 1998 interim ordinary dividend. There were no other changes in the directors' interests in the share capital of the company between 31 December 1998 and 11 March 1999.

Employees
In 1998, AMEC employed on average 22,031 people worldwide. Details are given in note 6 on page 44.

The development of employees, to ensure that the group 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 business, all subsidiaries have well-established programmes for recruiting and developing graduates and other trainees. In 1998 the Sir Oswald Davies Memorial Award was established in memory of the first AMEC chairman. This is an annual scheme to recognise outstanding achievement by young people throughout the group.

It is the group's policy to consider for employment suitably qualified disabled people and to assist them in overcoming handicaps at work. The group 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. The group endeavours to retrain any employee who develops a disability during employment, wherever practicable.

Communication with employees is regarded by the group as an important ingredient in engendering the team spirit essential for success. Consultative procedures enable employees to discuss matters of mutual interest with management. Employees are informed about group affairs through various channels, including the group newspaper, *AMEC Times*. This publication is supplemented by newsletters produced by subsidiaries. The pensions consultative committee of the AMEC Staff Pension Scheme meets regularly and its meetings are reported in *Pension News*, which is distributed to all scheme members and pensioners.

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

Long-term incentive plan
Pursuant to the authority granted to the directors at last year's annual general meeting, a long-term incentive plan has been established for executive directors and other senior group executives. Awards of 1,121,663 ordinary shares, conditional upon the attainment of pre-determined performance criteria, were made on 12 June 1998. Details of awards to directors of the company and an outline of the performance criteria will be found on page 36 in the report on remuneration and related matters.

Corporate governance
The board of directors is responsible to shareholders for the management of the company and for the protection of its assets. The board meets formally at least 10 times a year.

The company complied throughout the applicable period with The Code of Best Practice as outlined in the Financial Aspects of Corporate Governance.

The company also complied, for the applicable period, with the relevant provisions of Section 1 of the Combined Code published in June 1998, save in respect of the requirements for the appointment of a senior independent non-executive director and for all directors to submit themselves for re-election at least every three years.

Mr J M Green-Armytage was appointed as the senior independent non-executive director on 18 November 1998.

Compliance with the Code provision relative to the re-election of directors requires an amendment to the articles of association of the company and such an amendment will be proposed at the 1999 annual general meeting.

Internal financial control

A review of the group's internal control systems will be undertaken in the light of Combined Code provision D.2.1 and reported on next year, after guidance from The Institute of Chartered Accountants in England and Wales' working party has been issued. In the interim, as permitted by the London Stock Exchange, the directors continue to report only on the group's internal financial control systems for which they are responsible.

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

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

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

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

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

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

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

Non-executive directors

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

The board's current policy with regard to non-executive directors is that appointments should be for a period of three years with provision for a review upon expiry. Any extended term, mutually acceptable to both the company and the director, will normally be for a period no greater than three years with no further renewal thereafter.

Board committees

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

The nominations committee, which comprises the chairman, the chief executive and the senior non-executive director, is chaired by Mr S Gillibrand. The committee reviews any proposed appointments of directors and makes recommendations to the board in relation to such appointments.

The remuneration committee, which comprises all of the non-executive directors, is chaired by Dr K W Humphreys. The committee determines the annual remuneration, performance related payments and other aspects of the terms and conditions of employment of the executive directors.

Going concern

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

Creditor payment policy

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

The company had 48 days' purchases outstanding at 31 December 1998 based on the average daily amount invoiced by suppliers during the year.

Donations

Group donations to United Kingdom charities amounted to £125,000.

Year 2000

The group is well advanced with regard to ensuring that its systems will be Year 2000 compliant by the target date of 31 March 1999. It also continues to review and take appropriate courses of action in respect of its relationships with sub-contractors, suppliers and clients where there may be Year 2000 implications.

Given the complexity of the issues, there is, however, no guarantee that Year 2000 will not cause some level of disruption.

Auditors

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

Post balance sheet event

An announcement was made on 9 March 1999 in respect of discussions with Centex International Homes Limited, a wholly owned subsidiary of Centex Corporation, concerning the possible sale of Fairclough Homes Limited.

By order of the board

M J Bardsley
Secretary
11 March 1999

Notes:

(i) The company was notified on 12 March 1999 by Schroder Investment Management Limited of an interest in 23,552,516 ordinary shares, being 11.27 per cent of the issued ordinary capital on that date.

(ii) There were no other changes in either the directors' interests or in the substantial interests in the share capital of the company between 11 March 1999 and 6 April 1999.

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

Remuneration committee
The remuneration committee determines, on behalf of the board, the annual remuneration, performance related payments and other aspects of the terms and conditions of employment of the executive directors.

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

- to pay market competitive salaries having regard to those prevailing in the employment market generally for a director of similar status and experience, the size and complexity of the role and any other factors (such as special expertise or market requirements necessary to acquire a new recruit) in order to provide a competitive package to attract and retain a high calibre of director; and

- to link an executive director to the long-term success of the group through appropriate and demanding incentive arrangements.

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

In 1998, the executive directors, except for Mr J A Monville, participated in an executive directors' annual incentive scheme which generated bonus payments calculated by reference to growth in earnings per ordinary share, as defined under the rules of the scheme, and the achievement of specific business targets and individual performance objectives.

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

No elements of remuneration other than base salary are pensionable.

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

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

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

There are no funded or unfunded unapproved arrangements in force.

Executive directors' employment contracts
Each executive director, except for Mr J A Monville, has an employment contract with a notice period of two years by either the company or the director.

The committee considers that employment contracts with such notice periods are justified for the current executive directors to enable the company to retain its high quality executives but will review the position with regard to notice periods for any new executive directors.

The unexpired terms of the employment contracts of executive directors retiring and offering themselves for re-election at the annual general meeting are detailed in the report of the directors on page 31.

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

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

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

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

Summary remuneration table

	Salary/ fee £000	Bonus £000	Benefits in kind(v) £000	Total 1998 £000	Total 1997 £000
Executive					
P J Mason	382(i)	160	19	561	521(i)
J D Early	178	80	12	270	258
D Robson	220	101	8	329	276
S G Batey	200	96	13	309	283
M K Eckersall	182	76	9	267	250
G E Payne	178	82	10	270	256
J A Monville	25(ii)	–	–	25	21(ii)
Non-executive					
S Gillibrand	150(iii)	–	22	172	145(iii)
Dr K W Humphreys	30	–	–	30	39
J M Green-Armytage	30	–	–	30	30
J R Darley	30	–	–	30	27
Sir Alan Cockshaw (to 14 July 1997)	–	–	–	–	136(iv)

Notes:

(i) Mr Mason's salary includes a taxable supplement in relation to earnings above the earnings cap for pension purposes of £49,260 (1997 – £45,760).

(ii) Mr Monville, chairman and chief executive of SPIE S.A., receives a fee for serving on the board of the company and does not participate in any of the incentive or benefit schemes of the group. His 1997 fee was in respect of the period from 26 February 1997 only.

(iii) Mr Gillibrand's fee includes an amount of £30,000 (1997 – £66,000) which was paid to him, in addition to his fee as non-executive chairman, in respect of additional duties undertaken by him.

(iv) Sir Alan Cockshaw, who retired as a director of the company on 14 July 1997, was retained by the group, through his management company, on a consultancy basis until 31 October 1998. Payments made in 1998 for his services under this arrangement, following his retirement, totalled £82,875 (1997 – £75,000). In addition, office and support services were made available to his management company in respect of the consultancy arrangement.

(v) The value of benefits in kind received during the year relates principally to the provision of a company car, life assurance cover and private medical expenses insurance, none of which is pensionable.

(vi) Details of executive share options exercised during the year are set out on page 35.

Long-term incentive arrangements

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

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

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

The number of options held by directors under the Executive and Savings Related Share Option Schemes were as follows:

	As at 1 January 1998	Lapsed during the year	Exercised during the year	As at 31 December 1998	Option price (pence)	Market price on date of exercise (pence)	Exercise period
P J Mason	600,000			600,000	99.00		02/02/99 – 02/02/06
	451,388			451,388	144.00		02/04/00 – 02/04/07
J D Early	67,141	67,141		–	183.91		19/04/91 – 19/04/98
	100,000			100,000	218.00		08/05/94 – 08/05/01
	7,000			7,000	160.00		01/05/95 – 01/05/02
	26,000			26,000	60.00		18/10/98 – 18/10/05
	50,000			50,000	144.00		02/04/00 – 02/04/07
	2,860*			2,860*	90.00		01/09/99 – 29/02/00
D Robson	31,971	31,971		–	183.91		19/04/91 – 19/04/98
	10,440			10,440	222.22		05/05/92 – 05/05/99
	70,000			70,000	218.00		08/05/94 – 08/05/01
	86,000			86,000	160.00		01/05/95 – 01/05/02
	15,000		15,000(ii)	–	118.00	182.50	19/05/97 – 19/05/04
	200,000			200,000	60.00		18/10/98 – 18/10/05
	1,308*			1,308*	58.00		01/09/00 – 28/02/01
	5,060*			5,060*	90.00		01/09/01 – 28/02/02
S G Batey	25,578	25,578		–	183.91		19/04/91 – 19/04/98
	16,704		16,704(iii)	–	174.33	181.50	25/08/91 – 25/08/98
	10,440			10,440	222.22		05/05/92 – 05/05/99
	50,000			50,000	218.00		08/05/94 – 08/05/01
	50,000			50,000	160.00		01/05/95 – 01/05/02
	50,000			50,000	118.00		19/05/97 – 19/05/04
	200,000			200,000	60.00		18/10/98 – 18/10/05
	2,033*			2,033*	112.00		01/09/99 – 29/02/00
	1,308*			1,308*	58.00		01/09/00 – 28/02/01
	5,060*			5,060*	90.00		01/09/01 – 28/02/02
M K Eckersall	18,117	18,117		–	183.91		19/04/91 – 19/04/98
	10,440			10,440	222.22		05/05/92 – 05/05/99
	70,000			70,000	218.00		08/05/94 – 08/05/01
	87,000		30,000(iv)	57,000	160.00	191.00	01/05/95 – 01/05/02
	200,000			200,000	60.00		18/10/98 – 18/10/05
G E Payne	20,880			20,880	185.34		11/05/93 – 11/05/00
	15,000			15,000	218.00		08/05/94 – 08/05/01
	15,000		15,000(v)	–	160.00	180.00	01/05/95 – 01/05/02
	20,000		20,000(v)	–	118.00	180.00	19/05/97 – 19/05/04
	175,000			175,000	60.00		18/10/98 – 18/10/05
	5,395*	5,395*		–	139.00		01/09/97 – 28/02/98
	2,033*			2,033*	112.00		01/09/99 – 29/02/00
	1,308*			1,308*	58.00		01/09/00 – 28/02/01
	2,860*			2,860*	90.00		01/09/99 – 29/02/00

* Savings Related Scheme

Notes:

(i) No options were granted to any director during the year.
(ii) Gain on exercise £9,675.
(iii) Gain on exercise £1,198.
(iv) Gain on exercise £9,300.
(v) Aggregate gain on exercise £15,400.

In 1998, shareholders approved the introduction of a long-term incentive plan (the "plan"). The design of the plan took account of the provisions of Schedule A to the Combined Code.

The plan shares were purchased in the market on 4 June 1998 at 200p each and awards were made on 12 June 1998, as determined by the remuneration committee. The interests of the executive directors to whom awards were made under the plan were as follows:

	Number of restricted shares as at 31 December 1998
P J Mason	119,793
J D Early	64,628
D Robson	76,613
S G Batey	72,068
M K Eckersall	60,515
G E Payne	63,798

Notes:

(i) The award of restricted shares will vest only if pre-determined performance conditions are met. These performance conditions, which are measured over three years, require the total return to ordinary shareholders (share price growth plus re-invested dividends) to be ranked in the top quartile of a group of engineering, construction and building material comparator companies for an award to vest in full. If the company's performance is at the median, 25% of the award will vest. Between those two levels, the award will vest on a sliding scale. No awards will vest if the company's performance is below the median at the end of the measured period.

(ii) The total value of awards cannot exceed 75% of a participant's base annual salary in any year.

(iii) Participants in the long-term incentive plan will not receive further grants of options under the Executive Share Option Scheme.

The mid market price of the ordinary shares at 31 December 1998 was 178p ex-dividend (1997 – 117.5p ex-dividend).

The range of the mid market quotations for the ordinary shares during the year was 114p to 217p ex-dividend.

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 long-term incentive plan.

Directors' pension benefits

Pension benefits earned by the directors for the year ended 31 December 1998 were as follows:

	Increase in accrued pension for the year ended 31 December 1998 £000	Accrued entitlement as at 31 December 1998 £000	Accrued entitlement as at 31 December 1997 £000	Transfer value of increase of benefits £000
P J Mason	3	8	5	46
J D Early	9	77	66	168
D Robson	22	128	102	417
S G Batey	9	59	49	76
M K Eckersall	4	90	84	77
G E Payne	8	63	53	143

Notes:

(i) The increase in accrued pension for the year ended 31 December 1998 excludes any increase for inflation.

(ii) The pension entitlement shown is that which would be paid annually on retirement based on service to the end of the year.

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

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

By order of the board

M J Bardsley
Secretary
11 March 1999

Note:

Changes in directors' interests between 31 December 1998 and 6 April 1999 are detailed in the report of the directors.

CONSOLIDATED PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 1998

	Notes	1998 £ million	1997 £ million
Turnover:	2		
Group and share of joint ventures		3,392.8	3,370.9
Share of joint ventures' turnover		(670.9)	(596.6)
Group turnover		2,721.9	2,774.3
Cost of sales		(2,522.5)	(2,601.9)
Gross profit		199.4	172.4
Administrative expenses		(142.5)	(131.0)
Group operating profit		56.9	41.4
Share of operating profit in:			
Joint ventures		15.2	11.4
Associates		0.3	(0.2)
		15.5	11.2
Total operating profit	2 & 3	72.4	52.6
(Loss) profit on disposal of operations	4	(0.1)	23.9
Loss on disposal of fixed assets	4	(2.1)	–
Amounts written off investments	4	–	(3.0)
Profit on ordinary activities before interest		70.2	73.5
Net interest receivable (payable):	7		
Group		2.6	(3.2)
Joint ventures		(3.6)	(1.9)
		(1.0)	(5.1)
Profit on ordinary activities before taxation		69.2	68.4
Taxation on profit on ordinary activities	8	(21.9)	(23.7)
Profit for the financial year		47.3	44.7
Dividends on equity and non-equity shares	9	(23.5)	(21.3)
Retained profit for the year	10 & 19	23.8	23.4
Earnings per ordinary share:	11		
Before exceptional items:			
Basic		18.9p	10.2p
Diluted		17.3p	11.0p
After exceptional items:			
Basic		17.8p	16.5p
Diluted		16.5p	15.5p
Dividends per ordinary share	9	6.25p	5.0p

All items in the profit and loss account relate to continuing activities.

CONSOLIDATED BALANCE SHEET
AS AT 31 DECEMBER 1998

	Notes	1998 £ million	1997 £ million
Fixed assets			
Tangible assets	12	114.6	115.7
Investments:	13		
Joint ventures:			
Share of gross assets		644.4	563.4
Share of gross liabilities		(634.7)	(568.4)
		9.7	(5.0)
Associates		3.0	4.7
Other		3.2	0.3
Total investments		15.9	–
Total fixed assets		130.5	115.7
Current assets			
Stocks	14	209.2	200.4
Debtors: amounts falling due within one year	15	697.5	629.2
Debtors: amounts falling due after one year	15	107.9	54.4
Cash at bank and in hand		192.5	188.0
		1,207.1	1,072.0
Creditors: amounts falling due within one year	16	(980.0)	(882.2)
Net current assets		227.1	189.8
Total assets less current liabilities		357.6	305.5
Creditors: amounts falling due after one year	17	(147.9)	(110.7)
Net assets	2	209.7	194.8
Capital and reserves			
Called up share capital	18	181.0	184.6
Revaluation reserve	19	13.6	14.3
Capital redemption reserve	19	9.5	4.3
Profit and loss account	19	5.6	(8.4)
Shareholders' funds		209.7	194.8
Attributable to:			
Equity shareholders' funds		62.0	37.3
Non-equity shareholders' funds		147.7	157.5
		209.7	194.8

The accounts on pages 37 to 54 were approved by the board of directors on 11 March 1999 and were signed on its behalf by:

P J Mason
Director

S G Batey
Director

COMPANY BALANCE SHEET
AS AT 31 DECEMBER 1998

	Notes	1998 £ million	1997 £ million
Fixed assets			
Tangible assets	12	9.2	6.2
Investments:	13		
Subsidiaries		321.2	305.0
Joint ventures		8.9	0.1
Associates		3.1	3.1
Other		1.9	–
Total investments		335.1	308.2
Total fixed assets		344.3	314.4
Current assets			
Debtors: amounts falling due within one year	15	17.2	13.8
Debtors: amounts falling due after one year	15	24.2	19.3
Cash at bank and in hand		99.6	100.2
		141.0	133.3
Creditors: amounts falling due within one year	16	(57.2)	(33.5)
Net current assets		83.8	99.8
Total assets less current liabilities		428.1	414.2
Creditors: amounts falling due after one year	17	(28.0)	(26.0)
Net assets		400.1	388.2
Capital and reserves			
Called up share capital	18	181.0	184.6
Revaluation reserve	19	(0.7)	(0.7)
Capital redemption reserve	19	9.5	4.3
Special reserve	19	127.9	128.2
Profit and loss account	19	82.4	71.8
Shareholders' funds		400.1	388.2
Attributable to:			
Equity shareholders' funds		252.4	230.7
Non-equity shareholders' funds		147.7	157.5
		400.1	388.2

The accounts on pages 37 to 54 were approved by the board of directors on 11 March 1999 and were signed on its behalf by:

P J Mason
Director

S G Batey
Director

CONSOLIDATED CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 1998

	Notes	1998 £ million	1997 £ million
Net cash flow from operating activities	20	68.5	71.8
Dividends from joint ventures and associates		1.1	1.4
Returns on investments and servicing of finance			
Interest received		9.6	7.2
Interest paid		(6.9)	(9.9)
Dividends paid to non-equity shareholders		(9.9)	(11.2)
		(7.2)	(13.9)
Taxation		(10.6)	(5.1)
Capital expenditure			
Purchase of tangible fixed assets		(23.1)	(20.2)
Disposal of tangible fixed assets		9.6	9.9
		(13.5)	(10.3)
Acquisitions and disposals	23		
Purchase of subsidiaries		(1.8)	(3.3)
Purchase of joint ventures, associates and other investments		(16.3)	(27.7)
Disposal of subsidiaries		–	1.5
Disposal of joint ventures and associates		0.9	32.2
		(17.2)	2.7
Dividends paid to equity shareholders		(6.7)	(8.3)
Net cash flow before use of liquid resources and financing		14.4	38.3
Management of liquid resources		5.6	50.7
Financing			
Ordinary shares issued		1.3	1.2
Purchase and cancellation of preference shares		(11.1)	(7.9)
Net movement in loans		(0.6)	4.4
		(10.4)	(2.3)
Movement in cash	21	9.6	86.7

CONSOLIDATED STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES FOR THE YEAR ENDED 31 DECEMBER 1998

	1998 £ million	1997 £ million
Profit for the financial year	47.3	44.7
Exchange and other movements	(2.7)	1.3
Total recognised gains and losses for the financial year	44.6	46.0

NOTE OF HISTORICAL COST PROFITS AND LOSSES FOR THE YEAR ENDED 31 DECEMBER 1998

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

RECONCILIATION OF MOVEMENTS IN CONSOLIDATED SHAREHOLDERS' FUNDS FOR THE YEAR ENDED 31 DECEMBER 1998

	1998 £ million	1997 £ million
Profit for the financial year	47.3	44.7
Dividends	(23.5)	(21.3)
	23.8	23.4
Goodwill on acquisitions and disposals	(0.3)	(41.4)
Ordinary shares issued	5.2	1.2
Purchase and cancellation of preference shares	(11.1)	(7.9)
Exchange and other movements	(2.7)	1.3
Net addition to (reduction in) shareholders' funds	14.9	(23.4)
Shareholders' funds at 1 January	194.8	218.2
Shareholders' funds at 31 December	209.7	194.8

1 Accounting policies

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

Comparative figures have been restated to conform with the requirements of:

FRS 9 'Associates and Joint Ventures'. There is no impact on the results for the year or net assets; and

FRS 14 'Earnings per Share'.

A revised presentation of business information showing the nature of the group's turnover, profit streams and net assets has been adopted in the 1998 accounts. This reflects a more appropriate grouping of activities by which to understand the impact of different markets and their influences on the performance of the group. Comparative figures have been restated accordingly.

Basis of consolidation
The group accounts include the accounts of AMEC p.l.c. and all of its subsidiaries made up to 31 December each year and the group's share of the results and net assets of associates and joint ventures based on the equity and gross equity methods of accounting. Joint arrangements are accounted for using the proportional consolidation method.

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

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

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

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

Goodwill
Following the introduction of FRS10 'Goodwill and Intangible Assets', any goodwill arising on future acquisitions, representing the excess of the fair value of purchase consideration over the fair value of net assets acquired, will be capitalised and amortised over its estimated useful life.

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

Interest
Interest is written off to the profit and loss account as incurred by all subsidiaries in the group.

The group has, however, investments in joint ventures which are involved in private finance initiative long-term projects to construct assets and operate them on behalf of the public sector. In view of the nature of these projects, interest directly incurred in funding the construction programme until the relevant assets are brought into operational use is capitalised.

Leases
Operating lease costs are charged to the profit and loss account in the period in which they are incurred.

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

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

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

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

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

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

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

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

	Total turnover 1998 £ million	Total turnover 1997 £ million	Total operating profit (loss) 1998 £ million	Total operating profit (loss) 1997 £ million	Net assets (liabilities) 1998 £ million	Net assets (liabilities) 1997 £ million
Class of business:						
Capital projects	2,172.5	2,383.2	20.6	9.5	(46.0)	(69.4)
Services	859.9	778.9	38.3	31.0	6.0	6.3
Housing and project investments	418.4	252.7	17.6	16.2	158.9	166.2
Internal trading	(58.0)	(43.9)	–	–	–	–
Corporate costs	–	–	(4.1)	(4.1)	–	–
Net cash	–	–	–	–	97.2	94.3
Unallocated net liabilities	–	–	–	–	(6.4)	(2.6)
	3,392.8	3,370.9	72.4	52.6	209.7	194.8
Geographical origin:						
United Kingdom	2,066.2	2010.3	69.6	54.4	100.7	141.9
Rest of Europe	600.5	714.3	1.7	(3.6)	39.2	6.2
Americas	501.7	460.9	2.0	0.2	(24.0)	(39.4)
Rest of the world	224.4	185.4	3.2	5.7	3.0	(5.6)
Corporate costs	–	–	(4.1)	(4.1)	–	–
Net cash	–	–	–	–	97.2	94.3
Unallocated net liabilities	–	–	–	–	(6.4)	(2.6)
	3,392.8	3370.9	72.4	52.6	209.7	194.8

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

The group's share of trading results of joint ventures was as follows:

	SPIE S.A. 1998 £ million	SPIE S.A. 1997 £ million	Others 1998 £ million	Others 1997 £ million	Total 1998 £ million	Total 1997 £ million
Turnover:						
Capital projects	324.8	284.9	4.0	2.9	328.8	287.8
Services	330.0	289.8	1.3	7.2	331.3	297.0
Housing and project investments	–	–	10.8	11.8	10.8	11.8
	654.8	574.7	16.1	21.9	670.9	596.6
Operating profit:						
Capital projects	7.0	4.7	(0.3)	(0.4)	6.7	4.3
Services	7.4	5.0	(0.6)	3.4	6.8	8.4
Housing and project investments	–	–	1.7	(1.3)	1.7	(1.3)
	14.4	9.7	0.8	1.7	15.2	11.4
Interest	(2.4)	(2.2)	(1.2)	0.3	(3.6)	(1.9)
Profit before tax	12.0	7.5	(0.4)	2.0	11.6	9.5
Taxation	(3.8)	(5.9)	1.8	(0.6)	(2.0)	(6.5)
Profit after tax	8.2	1.6	1.4	1.4	9.6	3.0

3 Total operating profit

Total operating profit is stated after charging:

	1998 £ million	1997 £ million
Depreciation	15.9	16.3
Operating lease payments:		
Land and buildings	12.0	13.5
Plant and equipment	9.9	7.2
Fees paid to auditors and their associates:		
Audit fees:		
KPMG Audit Plc	0.8	0.8
Other auditors	0.1	0.1
Non-audit fees relating to acquisitions, disposals, taxation and other services:		
KPMG Audit Plc (taxation – £0.6 million and other services – £0.1 million)	0.7	0.5
Other auditors (all relating to taxation)	0.1	–

4 Exceptional items

	1998 £ million	1997 £ million
(Loss) profit on disposal of operations:		
Capital projects	–	(1.2)
Services	(0.1)	25.1
	(0.1)	23.9
Loss on disposal of fixed assets	(2.1)	–
Amounts written off investments	–	(3.0)
	(2.2)	20.9

5 Directors' remuneration and related matters

	1998 £	1997 £
Directors' emoluments	2,293,872	2,242,057
Gains on exercise of share options	35,573	146

The aggregate emoluments of the highest paid director were £561,287 (1997 – £521,287). He had no gains on the exercise of share options in 1998 or 1997.

More detailed information concerning directors' remuneration, including their pension benefits and long-term incentive arrangements, is set out in the report on remuneration and related matters on pages 33 to 36.

6 Staff costs

	1998 £ million	1997 £ million
Wages and salaries	532.1	541.0
Social security costs	48.1	47.9
Other pension costs	12.4	8.8
	592.6	597.7

The average number of people employed during the year was as follows:

	1998 Number	1997 Number
Capital projects	14,460	16,807
Services	6,918	6,273
Housing and project investments	653	614
	22,031	23,694

7 Net interest payable

	1998 £ million	1997 £ million
Interest payable and similar charges:		
Group:		
Bank loans and overdrafts	(7.3)	(11.1)
Other loans	(0.1)	(0.1)
Other charges	(0.4)	–
	(7.8)	(11.2)
Joint ventures	(3.7)	(2.8)
	(11.5)	(14.0)
Interest and similar income receivable:		
Group:		
Bank and short-term deposits	7.0	6.7
Other income	3.4	1.3
	10.4	8.0
Joint ventures	0.1	0.9
	10.5	8.9
Net interest payable	(1.0)	(5.1)

The group's share of interest capitalised by joint ventures on private finance initiative long-term projects amounted to £4.6 million (1997 – £5.7 million).

8 Taxation on profit on ordinary activities

	1998 £ million	1997 £ million
Corporation tax at 31.0% (1997 – 31.5%)	21.3	19.8
Double taxation relief	(0.7)	(0.7)
Joint ventures	2.0	6.5
Overseas' taxation	0.8	1.1
Surplus advance corporation tax written back	–	(3.9)
	23.4	22.8
Taxation (over) under provided in previous years	(1.5)	0.9
	21.9	23.7

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

9 Dividends on equity and non-equity shares

	1998 pence per share	1997 pence per share	1998 £ million	1997 £ million
Equity shares:				
Ordinary shares:				
Interim paid	2.10	1.75	4.4	3.6
Final proposed	4.15	3.25	8.6	6.7
	6.25	5.00	13.0	10.3
Non-equity shares:				
Convertible redeemable preference shares:				
Paid 1 May 1998	3.25	3.25	5.2	5.6
Paid 1 November 1998	3.25	3.25	5.0	5.6
FRS 4 finance adjustment	–	–	0.3	(0.2)
	6.50	6.50	10.5	11.0
Dividends on equity and non-equity shares			23.5	21.3

The amount to be waived by the Trustees of the long-term incentive plan in respect of the final ordinary dividend is £46,500 (1997 – £nil).

10 Retained profit for the year

	1998 £ million	1997 £ million
Retained by the company	15.1	0.5
Retained by subsidiaries	(1.2)	20.1
Retained by joint ventures and associates	9.9	2.8
	23.8	23.4

11 Earnings per ordinary share

Earnings per ordinary share are calculated on the following bases. In order to appreciate the effect of exceptional items on the reported earnings additional calculations have been presented.

	1998 Earnings £ million	1998 Ordinary shares million	1998 Earnings per share pence	1997 Earnings £ million	1997 Ordinary shares million	1997 Earnings per share pence
Basic earnings before exceptional items	39.0	206.4	18.9	20.8	204.6	10.2
Exceptional items	(2.2)	–		20.9	–	
Attributable tax on exceptional items	–	–		(8.0)	–	
Basic earnings after exceptional items	36.8	206.4	17.8	33.7	204.6	16.5
Basic earnings before exceptional items	39.0	206.4	18.9	20.8	204.6	10.2
Share options	–	3.1		–	2.7	
Employee share and incentive schemes	–	2.5		–	1.2	
Preference shares	10.5	74.7		11.0	79.9	
Diluted earnings before exceptional items	49.5	286.7	17.3	31.8	288.4	11.0
Exceptional items	(2.2)	–		20.9	–	
Attributable tax on exceptional items	–	–		(8.0)	–	
Diluted earnings after exceptional items	47.3	286.7	16.5	44.7	288.4	15.5

12 Tangible assets

	Land and buildings £ million	Plant and equipment £ million	Total £ million
Group:			
Cost or valuation:			
At 1 January 1998	83.0	172.3	255.3
Exchange and other movements	0.5	(0.1)	0.4
Additions and transfers	2.4	21.6	24.0
Disposals and transfers	(4.5)	(25.2)	(29.7)
At 31 December 1998	81.4	168.6	250.0
Depreciation:			
At 1 January 1998	8.5	131.1	139.6
Exchange and other movements	–	(0.1)	(0.1)
Provided during the year	1.8	14.1	15.9
Disposals and transfers	(1.5)	(18.5)	(20.0)
At 31 December 1998	8.8	126.6	135.4
Net book value:			
At 31 December 1998	72.6	42.0	114.6
At 31 December 1997	74.5	41.2	115.7

12 Tangible assets continued

	Land and buildings £ million	Plant and equipment £ million	Total £ million
Company:			
Cost or valuation:			
At 1 January 1998	6.2	2.5	8.7
Additions and transfers	3.0	0.1	3.1
Disposals and transfers	(0.1)	–	(0.1)
At 31 December 1998	9.1	2.6	11.7
Depreciation:			
At 1 January 1998	0.9	1.6	2.5
Provided during the year	0.1	0.2	0.3
Disposals and transfers	0.1	(0.4)	(0.3)
At 31 December 1998	1.1	1.4	2.5
Net book value:			
At 31 December 1998	8.0	1.2	9.2
At 31 December 1997	5.3	0.9	6.2

	Group 1998 £ million	Group 1997 £ million	Company 1998 £ million	Company 1997 £ million
The net book value of land and buildings comprised:				
Freehold	65.5	67.2	6.4	3.7
Long leasehold	3.6	4.1	–	–
Short leasehold	3.5	3.2	1.6	1.6
	72.6	74.5	8.0	5.3
The cost or valuation of land and buildings comprised:				
Cost	22.6	22.9	1.9	1.9
Valuation 1989	0.9	0.9	0.4	0.4
Valuation 1994	57.9	59.2	6.8	3.9
	81.4	83.0	9.1	6.2

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

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

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

	Group 1998 £ million	Group 1997 £ million	Company 1998 £ million	Company 1997 £ million
Cost	55.3	57.3	9.8	5.9
Depreciation	(16.5)	(16.3)	(4.8)	(1.5)
Net book value	38.8	41.0	5.0	4.4

Freehold land held by the group amounting to £20.0 million (1997 – £21.0 million) (company – £2.2 million (1997 – £1.1 million)) has not been depreciated.

13 Investments (held as fixed assets)

	1998 £ million	1997 £ million
Company:		
Investments in subsidiaries:		
Shares at cost less amounts written off	646.1	546.4
Amounts owed by subsidiaries	94.3	86.5
Amounts owed to subsidiaries	(419.2)	(327.9)
	321.2	305.0

Principal group companies are listed on pages 58 and 59.

	Joint ventures £ million	Associates £ million	Other investments £ million	Total £ million
Group:				
Net book value:				
At 1 January 1998	(5.0)	4.7	0.3	–
Exchange and other movements	0.3	(0.1)	–	0.2
Additions and transfers	16.4	–	3.4	19.8
Net movement in share of reserves	9.6	0.3	–	9.9
Amounts written off	–	–	(0.5)	(0.5)
Dividends received	(1.1)	–	–	(1.1)
Disposals and transfers	(10.5)	(1.9)	–	(12.4)
At 31 December 1998	9.7	3.0	3.2	15.9
Represented by:				
Shares at cost less amounts written off	45.5	3.1	3.2	51.8
Share of post acquisition reserves	(35.8)	(0.1)	–	(35.9)
	9.7	3.0	3.2	15.9
Company:				
Net book value:				
At 1 January 1998	0.1	3.1	–	3.2
Additions and transfers	13.2	–	2.3	15.5
Amounts written off	–	–	(0.4)	(0.4)
Disposals and transfers	(4.4)	–	–	(4.4)
At 31 December 1998	8.9	3.1	1.9	13.9

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

	SPIE S.A. 1998 £ million	SPIE S.A. 1997 £ million	Others 1998 £ million	Others 1997 £ million	Total 1998 £ million	Total 1997 £ million
Fixed assets	74.6	70.7	24.5	0.7	99.1	71.4
Current assets	406.1	366.3	146.8	125.7	552.9	492.0
Share of gross assets	480.7	437.0	171.3	126.4	652.0	563.4
Loans to group companies	–	–	(7.6)	–	(7.6)	–
Group share of gross assets	480.7	437.0	163.7	126.4	644.4	563.4
Liabilities due within one year or less	(424.0)	(401.3)	(44.0)	(42.8)	(468.0)	(444.1)
Liabilities due after more than one year	(52.2)	(39.9)	(123.8)	(94.6)	(176.0)	(134.5)
Share of gross liabilities	(476.2)	(441.2)	(167.8)	(137.4)	(644.0)	(578.6)
Loans from group companies	–	–	9.3	10.2	9.3	10.2
Group share of gross liabilities	(476.2)	(441.2)	(158.5)	(127.2)	(634.7)	(568.4)
Share of net assets (liabilities)	4.5	(4.2)	5.2	(0.8)	9.7	(5.0)

13 Investments (held as fixed assets) continued

There is a commitment to invest a total of £19.3 million (1997 – £32.4 million) in various PFI projects of which £0.4 million (1997 – £7.2 million) will be equity investment and £18.9 million (1997 – £25.2 million) will be subordinated debt.

Included within other investments is £1.9 million (1997 – £ nil) in respect of a holding of 1,121,663 ordinary shares of 50p each in the company, held by the trustees of the long-term incentive plan. The cost of these shares is being written off to the profit and loss account over the period between the date of the awards and the vesting of the shares. The market value of these shares at 31 December 1998 was £2.0 million (1997 – £ nil).

14 Stocks

	1998 £ million	1997 £ million
Group:		
Development land and work in progress	193.0	183.5
Raw materials and consumables	8.0	10.0
Other work in progress	3.7	1.9
Finished goods and goods for resale	4.5	5.0
	209.2	200.4

15 Debtors

	Group 1998 £ million	Group 1997 £ million	Company 1998 £ million	Company 1997 £ million
Debtors: amounts falling due within one year:				
Amounts recoverable on contracts	231.2	234.1	–	–
Trade debtors	425.0	358.0	0.2	0.8
Amounts owed by subsidiaries	–	–	10.3	6.6
Amounts owed by joint ventures and associates	3.2	6.8	–	–
Other debtors	24.0	15.9	4.6	3.5
Prepayments and accrued income	14.1	14.4	2.1	2.9
	697.5	629.2	17.2	13.8
Debtors: amounts falling due after one year:				
Amounts recoverable on contracts	–	6.9	–	–
Trade debtors	80.2	19.6	–	–
Other debtors	3.8	10.4	1.1	2.5
Prepayments and accrued income	23.9	17.5	23.1	16.8
	107.9	54.4	24.2	19.3
Total debtors	805.4	683.6	41.4	33.1

16 Creditors: amounts falling due within one year

	Group 1998 £ million	Group 1997 £ million	Company 1998 £ million	Company 1997 £ million
Bank loans and overdrafts	47.0	24.6	4.4	2.7
Payments on account	114.4	90.4	–	–
Trade creditors	675.7	629.9	2.8	3.2
Amounts owed to joint ventures and associates	0.9	0.2	–	–
Corporation tax	11.7	8.6	15.4	7.5
Other taxation and social security costs	30.1	33.5	5.7	0.7
Other creditors	29.2	26.1	10.2	3.6
Accruals and deferred income	56.5	57.1	4.2	4.0
Dividends	14.5	11.8	14.5	11.8
	980.0	882.2	57.2	33.5

17 Creditors: amounts falling due after one year

	Group 1998 £ million	Group 1997 £ million	Company 1998 £ million	Company 1997 £ million
Loans repayable:				
Between one and two years	0.3	0.3	–	–
Between two and five years	48.0	44.0	28.0	23.6
After five years	–	24.8	–	–
	48.3	69.1	28.0	23.6
Trade creditors	95.8	33.6	–	–
Amounts owed to joint ventures and associates	0.1	2.4	–	2.4
Other creditors	0.5	2.9	–	–
Accruals and deferred income	3.2	2.7	–	–
	147.9	110.7	28.0	26.0
Loans are denominated in:				
Pounds sterling	19.9	44.9	–	–
German marks	24.2	19.9	24.0	19.6
US dollars	3.6	3.6	3.6	3.6
Norwegian krone	0.4	0.4	0.4	0.4
Other currencies	0.2	0.3	–	–
	48.3	69.1	28.0	23.6

Interest payments on all loans vary with market rates. At 31 December 1998, the average rate payable on all loans was 6.2% (1997 – 6.8%).

Loans to the group amounting to £47.9 million (company – £28.0 million) mature within one year (1997 – group £68.6 million and company £23.6 million). They represent advances against facilities available to the group until at least March 2003 (1997 – March 2003) under which such loans may be refinanced on a continuing basis.

18 Share capital

The authorised share capital of the company was £250.0 million (1997 – £250.0 million).

	1998 £ million	1997 £ million
Group and company:		
Allotted, called up and fully paid:		
Equity share capital:		
Ordinary shares of 50p each	104.4	102.6
Non-equity share capital:		
6.5p (net) cumulative convertible redeemable preference shares of 50p each	76.6	82.0
	181.0	184.6

Movements in share capital during the year were as follows:

	Ordinary shares number	Ordinary shares £ million	Preference shares number	Preference shares £ million
Group and company:				
At 1 January 1998	205,243,407	102.6	163,869,706	82.0
Conversion of preference shares to ordinary shares	148,419	0.1	(304,266)	(0.2)
Scrip dividends	2,255,267	1.1	–	–
Exercise of savings related share options	114,683	0.1	–	–
Exercise of executive share options	1,118,436	0.5	–	–
Purchase and cancellation of preference shares	–	–	(10,474,400)	(5.2)
At 31 December 1998	208,880,212	104.4	153,091,040	76.6

Preference shares

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

Voting

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

Income and capital

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

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

Conversion

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

Redemption

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

18 Share capital continued

Share options

No options were granted under the terms of the AMEC Savings Related Share Option Scheme. During the year, options were granted in respect of 75,439 ordinary shares under the terms of the AMEC Executive Share Option Scheme 1995.

The number of share options outstanding at 31 December 1998 was as follows:

	Option price per ordinary share (pence)	Number of shares
Savings Related Share Option Scheme		
Normally exercisable in the period between:		
September 1999 and February 2000	112.00	1,448,875
September 1999 and February 2000	90.00	694,894
September 2000 and February 2001	58.00	1,453,778
September 2001 and February 2002	90.00	3,098,877
Executive Share Option Schemes		
Normally exercisable in the period between:		
May 1992 and May 1999	222.22	156,600
May 1993 and May 2000	185.34	41,760
May 1994 and May 2001	218.00	985,000
May 1995 and May 2002	160.00	692,500
May 1997 and May 2004	118.00	150,000
October 1998 and October 2005	60.00	1,376,000
February 1999 and February 2006	99.00	600,000
June 1999 and June 2006	114.00	94,000
September 1999 and September 2006	98.00	124,000
April 2000 and April 2007	144.00	1,051,388
September 2000 and September 2007	140.50	50,000
March 2001 and March 2008	153.50	75,439

Currently there are 1,960 participants in the Savings Related Scheme and 78 participants in the Executive Schemes.

During the year, under the provisions of the Savings Related Scheme, 114,683 ordinary shares were allotted at varying prices from 58p to 139p for a total consideration of £110,277. Under the provisions of the Executive Scheme, 1,118,436 shares were allotted at varying prices from 60p to 185.34p for a total consideration of £1,193,672.

The market value of the ordinary shares at 31 December 1998 was 178p ex-dividend (1997 – 117.5p ex-dividend).

19 Reserves

	Share premium account £ million	Revaluation reserve £ million	Capital redemption reserve £ million	Special reserve £ million	Profit and loss account £ million*	Total reserves £ million
Group:						
At 1 January 1998	–	14.3	4.3	–	(8.4)	10.2
Exchange and other movements	0.1	(0.7)	–	–	(2.6)	(3.2)
Ordinary shares issued in respect of share options	0.7	–	–	–	–	0.7
Scrip dividends	(0.8)	–	–	–	3.9	3.1
Purchase and cancellation of preference shares	–	–	5.2	–	(11.1)	(5.9)
Retained profit for the year	–	–	–	–	23.8	23.8
At 31 December 1998	–	13.6	9.5	–	5.6	28.7
Company:						
At 1 January 1998	–	(0.7)	4.3	128.2	71.8	203.6
Exchange and other movements	0.1	–	–	–	2.7	2.8
Ordinary shares issued in respect of share options	0.7	–	–	–	–	0.7
Scrip dividends	(0.8)	–	–	(0.3)	3.9	2.8
Purchase and cancellation of preference shares	–	–	5.2	–	(11.1)	(5.9)
Retained profit for the year	–	–	–	–	15.1	15.1
At 31 December 1998	–	(0.7)	9.5	127.9	82.4	219.1

Cumulative goodwill written off to reserves amounted to £167.2 million (1997 – £166.9 million). Of this amount, £45.8 million related to joint ventures, associates and unincorporated businesses (1997 – £45.8 million).

20 Reconciliation of total operating profit to net cash flow from operating activities

	1998 £ million	1997 £ million
Total operating profit	72.4	52.6
Share of operating profit in joint ventures and associates	(15.5)	(11.2)
Depreciation of fixed assets	15.9	16.3
Increase in stocks	(8.8)	(19.3)
(Increase) decrease in debtors	(125.2)	2.2
Increase in creditors	129.7	30.1
Exchange and other movements	–	1.1
Net cash flow from operating activities	68.5	71.8

21 Reconciliation of net cash flow to movement in net cash

	1998 £ million	1997 £ million
Movement in cash	9.6	86.7
Cash flow from movement in debt	0.6	(4.4)
Cash flow from movement in liquid resources	(5.6)	(50.7)
Change in cash resulting from cash flows	4.6	31.6
Acquisitions and disposals of loans	–	0.1
Exchange and other movements	(1.7)	1.3
Movement in net cash in the year	2.9	33.0
Net cash at 1 January	94.3	61.3
Net cash at 31 December	97.2	94.3

22 Analysis of net cash

	At 1 January 1998 £ million	Cash flow £ million	Other non-cash movements £ million	Exchange and other movements £ million	At 31 December 1998 £ million
Cash at bank and in hand	118.3	10.7	–	(0.4)	128.6
Overdrafts	(13.6)	(1.1)	(0.4)	0.1	(15.0)
		9.6			
Debt due within one year	(11.0)	(21.0)	0.1	(0.1)	(32.0)
Debt due after one year	(69.1)	21.6	0.3	(1.1)	(48.3)
		0.6			
Liquid financial instruments	69.7	(5.6)	–	(0.2)	63.9
	94.3	4.6	–	(1.7)	97.2

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

23 Acquisitions and disposals

The cash flow in respect of the purchase of subsidiaries related to contingent consideration paid in respect of a prior year acquisition. Goodwill of £0.3 million arose in 1998 as a result of additional contingent consideration becoming payable.

The purchase of joint ventures, associates and other investments principally relates to investments in various private finance initiative long-term projects.

The consideration received in respect of the disposal of joint ventures and associates related to deferred consideration in respect of a prior year disposal.

24 Capital commitments

	Group 1998 £ million	Group 1997 £ million	Company 1998 £ million	Company 1997 £ million
Contracted but not provided in accounts	4.1	7.0	–	0.6

25 Lease commitments

Current annual commitments payable under non-cancellable operating leases expiring:

	Land and buildings 1998 £ million	Land and buildings 1997 £ million	Plant and equipment 1998 £ million	Plant and equipment 1997 £ million
Group:				
Under one year	3.6	1.8	4.1	2.0
Between two and five years	9.5	7.5	6.1	5.9
After five years	5.6	5.4	–	–
	18.7	14.7	10.2	7.9
Company:				
Between two and five years	1.7	1.8	–	–
After five years	0.1	0.4	–	–
	1.8	2.2	–	–

26 Contingent liabilities

	Group 1998 £ million	Group 1997 £ million	Company 1998 £ million	Company 1997 £ million
Guarantees given in respect of borrowings of group companies	1.1	1.7	91.2	96.7

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.

27 Pension arrangements

The group operates a number of pension schemes for United Kingdom and overseas employees. All United Kingdom members are in defined benefit schemes. Contributions paid by employees and employers are held in funds that are separate from the group's finances and which are administered by trustees. The total pension cost for the group was £12.4 million (1997 – £8.8 million).

A prepayment of pension costs of £23.1 million (1997 – £16.8 million) is included in note 15 – Debtors: amounts falling due after one year – on page 49. Pension costs are assessed in accordance with the advice of independent qualified actuaries.

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

28 Related party transactions

During the year, the value of services rendered, goods sold and sales of fixed assets to joint ventures, associates and joint arrangements amounted to £24.8 million, £1.5 million and £146.5 million respectively (1997 – £44.8 million, £7.7 million and £nil respectively).

At 31 December 1998, the amounts owed by joint ventures, associates and joint arrangements for services rendered and goods sold amounted to £4.5 million and £0.7 million respectively (1997 – £13.0 million and £1.2 million respectively).

STATEMENT OF DIRECTORS' RESPONSIBILITIES FOR THE PREPARATION OF ACCOUNTS

The following statement should be read in conjunction with the report of the auditors set out on page 56.

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

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

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

We have audited the accounts on pages 37 to 54.

Respective responsibilities of directors and auditors
The directors are responsible for preparing the annual report including, as described on page 55, the accounts. Our responsibilities, as independent auditors, are established by Statute, the Auditing Practices Board, the Listing Rules of the London Stock Exchange and by our profession's ethical guidance.

We report to you our opinion as to whether the accounts give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the accounts, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit or if information specified by law or the Listing Rules regarding directors' remuneration and transactions with the company is not disclosed.

We review whether the statement on pages 31 and 32 reflects the company's compliance with those provisions of the Combined Code specified for our review by the London Stock Exchange and we report if it does not. We are not required to form an opinion on the effectiveness of the company's corporate governance procedures or its internal controls.

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

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

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

Opinion
In our opinion, the accounts give a true and fair view of the state of affairs of the company and the group as at 31 December 1998 and of the profit of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc
Chartered accountants
Registered auditor
Manchester
11 March 1999

KPMG Audit Plc

	1998 £ million	1997 £ million	1996 £ million	1995 £ million	1994 £ million
Summarised consolidated results					
Total turnover	3,392.8	3,370.9	2,911.7	2,645.5	2,155.7
Profit on ordinary activities before exceptional items and taxation	71.4	47.5	37.7	24.7	23.1
Exceptional items	(2.2)	20.9	(10.5)	(8.8)	(3.1)
Profit on ordinary activities before taxation	69.2	68.4	27.2	15.9	20.0
Taxation on profit on ordinary activities	(21.9)	(23.7)	(6.0)	(2.0)	(2.3)
Profit for the financial year	47.3	44.7	21.2	13.9	17.7
Dividends on equity and non-equity shares	(23.5)	(21.3)	(19.7)	(17.7)	(17.6)
Retained profit (loss) for the year	23.8	23.4	1.5	(3.8)	0.1
Basic earnings per ordinary share	17.8p	16.5p	4.7p	1.1p	3.1p
Dividends per ordinary share	6.25p	5.0p	4.0p	3.0p	3.0p
Summarised consolidated balance sheets					
Assets employed:					
Fixed assets	130.5	115.7	137.7	151.1	159.8
Net current assets	227.1	189.8	172.6	228.3	276.5
	357.6	305.5	310.3	379.4	436.3
Financed by:					
Share capital	181.0	184.6	188.3	188.2	187.4
Reserves	28.7	10.2	29.9	31.1	46.0
Shareholders' funds	209.7	194.8	218.2	219.3	233.4
Loans	48.3	69.1	49.3	112.0	129.4
Other creditors	99.6	41.6	42.8	48.1	73.5
	357.6	305.5	310.3	379.4	436.3

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

PRINCIPAL GROUP COMPANIES AT 31 DECEMBER 1998

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

Capital projects	
AMEC Civil Engineering Limited	Civil engineering
AMEC Mining Limited	Opencast mining
AMEC International Construction Limited (operating outside the United Kingdom)	International construction
AMEC Construction Limited	Construction
AMEC Construction Scotland Limited	Construction and civil engineering
AMEC Mechanical and Electrical Services Limited	Mechanical and electrical engineering and services
AMEC Process and Energy Limited – Capital projects	Engineering, construction, fabrication and project management
AMEC BKW Limited	Engineering, construction and project management
*AMEC Process and Energy A/S (Norway)	Engineering, construction and project management
AMEC Manufacturing and Services Limited	Manufacturing and services
CV Buchan Limited	Precast concrete manufacture
Watson Steel Limited	Steelwork fabrication
*AMEC Australia Pty Limited (Australia) (note 1)	Mechanical and electrical engineering
*AMEC Electrical and Mechanical Engineers Limited (Hong Kong)	Mechanical and electrical engineering
*AMEC Mechanical and Electrical Engineers Pte Limited (Singapore)	Mechanical and electrical engineering
*Gebruder Kittelberger GmbH & Co. (Germany)	Building and civil engineering
*Morse Diesel International Inc. (USA)	Construction management
*Morse Diesel Civil LLC (USA) (80%) (note 2)	Civil engineering
Services	
AMEC Process and Energy Limited – Services	Engineering and services
AMEC Rail Limited	Railway infrastructure services
AMEC Infrastructure Services Limited	Infrastructure services
AMEC Facilities Limited	Facilities management and services
AMEC Power Limited	Power transmission and distribution
AMEC Utilities Limited	Ducting and pipeline installation and maintenance
Denco Limited	Building services equipment manufacture
Housing and project investments	
Fairclough Homes Group Limited	Residential property development
Fairclough Homes Limited	Residential property development
AMEC Project Investments Limited	Private finance initiatives
AMEC Developments Limited	Commercial property development

Group services	
AMEC Plant & Transport Limited (formerly AMEC Services Limited)	Plant and transport
AMEC Finance Limited	Group finance
AMEC Property and Overseas Investments Limited	Group investments
*AMEC S.A. (France)	Group investments
*Atlantic Services Limited (Bermuda)	Insurance
Joint ventures and associates	
*SPIE S.A. (France) (41.6%) (note 3)	Electrical contracting and construction
*AMEC Power (Asia) Limited (Thailand) (49% – A shares and B shares and 22% – C Shares) (note 4)	Civil engineering, power transmission and distribution
AMEC SPIE Rail Systems Limited (50%) (note 5)	Railway infrastructure capital projects and services
*Gulliver Consolidated Limited (Zimbabwe) (34.8%) (note 6)	Civil engineering, power transmission and distribution
Health Management (Carlisle) plc (50%) (note 7)	Private finance initiative operators
Newcastle Estate Partnership Holdings Limited (50%) (note 8)	Private finance initiative operators
Ringway Developments plc (21% – B shares) (note 9)	Commercial property development
Road Management Group Limited (25%) (note 10)	Private finance initiative operators

Notes:

1. The issued share capital of AMEC Australia Pty Limited is 62,930,001 ordinary shares of A$1 each and 2,500 non-cumulative redeemable preference shares of A$1 each.
2. The issued share capital of Morse Diesel Civil LLC is 1,000 common shares of US$1 each.
3. The issued share capital of SPIE S.A. is 9,127,501 ordinary shares of FF100 each.
4. The issued share capital of AMEC Power (Asia) Limited is 1,020,000 A ordinary shares of baht 10 each, 980,000 B ordinary shares of baht 10 each and 3,774,785 C ordinary shares of baht 10 each.
5. The issued share capital of AMEC SPIE Rail Systems Limited is 2,000,000 ordinary shares of £1 each.
6. The issued share capital of Gulliver Consolidated Limited is 9,694,253 shares of 50 Zimbabwean cents each.
7. The issued share capital of Health Management (Carlisle) plc is 50,000 ordinary shares of £1 each.
8. The issued share capital of Newcastle Estate Partnership Holdings Limited is 1,000,000 ordinary shares of £1 each.
9. The issued share capital of Ringway Developments plc is 7,000,000 A shares of £1 each and 7,286,000 B shares of £1 each.
10. The issued share capital of Road Management Group Limited is 25,335,004 ordinary shares of £1 each.
11. The company has representation on the board of each principal group company.

Notice is hereby given that the 1999 annual general meeting of AMEC p.l.c. will be held in the Lancaster Suite, New Century House, Corporation Street, Manchester M60 5AZ on Wednesday 26 May 1999, at 12 noon, for the following purposes:

1 To receive the accounts and the reports of the directors and the auditors for the year ended 31 December 1998 and to declare a final dividend of 4.15p per ordinary share (Resolution 1).

2 To re-elect directors:

Mr S Gillibrand, Mr P J Mason and Mr J D Early, who retire by rotation in accordance with article 84 of the articles of association of the company (Resolutions 2, 3 and 4).

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

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

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

(A) As a special resolution (Resolution 6):

That the articles of association of the company be and they are hereby amended by the deletion of existing articles 12.2.2 (iv) (b) (c) and (d) and the substitution therefor of new articles 12.2.2 (iv) (b) (c) and (d) as follows:

"(b) 'prescribed period' means any period (not exceeding five years on any occasion) for which the authority and powers conferred by paragraph 12.2.1 above are renewed by a Resolution of the Company stating the Section 80 Amount for such period.

(c) 'the Section 80 Amount' shall be that stated in the relevant Resolution renewing or extending the authority conferred by paragraph 12.2.1 above for such period or any increased amount fixed by Resolution of the Company in General Meeting:

(d) 'the Section 89 Amount' shall be that stated in the relevant Special Resolution renewing or extending the power conferred by paragraph 12.2.2 above for such period or any increased amount fixed by Special Resolution of the Company in General Meeting."

(B) As a special resolution (Resolution 7):

That the articles of association of the company be and they are hereby amended with effect from the end of the meeting by:

(i) The deletion of existing article 84 and the substitution therefor of a new article 84 as follows:

"At each Annual General Meeting all those Directors who were elected or last re-elected at or before the Annual General Meeting held in the third calendar year before the current year shall retire from office by rotation."

(ii) The deletion of the first two sentences of article 85.

(iii) The deletion of the following words in the penultimate sentence of article 89:

"and any person so appointed shall be treated for the purpose of determining the time at which he or any other Director is to retire by rotation as if he had become a Director on the day on which the Director in whose place he is appointed was last elected a Director."

(iv) The deletion of the following words from the end of article 90:

"but shall not be taken into account in determining the numbers of Directors who are to retire by rotation at such meeting."

(C) As a special resolution (Resolution 8):

That, subject to the passing at a meeting of the holders of the company's 6.5p (net) cumulative convertible redeemable preference shares of 50p each (preference shares) of an extraordinary resolution in the terms set out in the notice of meeting of the holders of such shares convened for 26 May 1999, the articles of association of the company be and they are hereby amended by the deletion of the word 'ten' in line six of article 4.4.1 and its replacement with the word 'five'.

(D) As an ordinary resolution (Resolution 9):

That the authority conferred on the directors by article 12.2.1 of the articles of association of the company be renewed for either the period of five years ending on 26 May 2004 (if Resolution 6 is passed) or for the period ending on the date of the Annual General Meeting in 2000 or on 26 August 2000 whichever is the earlier (if Resolution 6 is not passed) and for such period the Section 80 Amount should be £34,879,214.

(E) As a special resolution (Resolution 10):

That, subject to the passing of Resolution 9 set out in the notice of annual general meeting dated 23 April 1999, the authority conferred on the Directors by article 12.2.2 of the articles of association of the company be renewed for the period of either five years ending on 26 May 2004 (if Resolution 6 is passed) or for the period ending on the date of the Annual General Meeting in 2000 or on 26 August 2000 whichever is the earlier (if Resolution 6 is not passed) and for such period the Section 89 amount should be £5,222,005.

(F) As a special resolution (Resolution 11):

That, subject to the passing at a meeting of the holders of the company's 6.5p (net) cumulative convertible redeemable preference shares of 50p each (preference shares) of an extraordinary resolution in the terms set out in the notice of meeting of the holders of such shares convened for 26 May 1999, the company be and is hereby unconditionally and generally authorised for the purpose of section 166 of the Companies Act 1985 to make market purchases (as defined in section 163 of that Act) of preference shares in the capital of the company provided that:

(i) the maximum number of preference shares which may be purchased is 15,309,104;

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

(iii) the maximum price which may be paid for a preference share is an amount (exclusive of expenses) not exceeding the lesser of:
a) 105 per cent of the average of the middle market quotations of the preference shares as derived from the London Stock Exchange Daily Official List for the five business days immediately preceding the day on which such preference share is contracted to be purchased; and
b) 105 per cent of the average of such quotations for the 10 business days immediately preceding the day on which such preference share is contracted to be purchased; and

(iv) this authority shall expire at the conclusion of the annual general meeting of the company held in 2000 or, if earlier, on 26 August 2000 (except in relation to the purchase of shares the contract for which was concluded before the expiry of such authority and which might be executed, wholly or partly, after such expiry) unless such authority is renewed prior to such time.

(G) As a special resolution (Resolution 12):

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

(i) the maximum number of ordinary shares which may be purchased is 20,927,528;

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

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

(iv) this authority shall expire at the conclusion of the annual general meeting of the company held in 2000 or, if earlier, 26 August 2000 (except in relation to the purchase of shares the contract for which was concluded before the expiry of such authority and which might be executed, wholly or partly, after such expiry) unless such authority is renewed prior to such time.

By order of the board

M J Bardsley
Secretary
23 April 1999

Notes:

1 Resolution 6, which is a special resolution, amends the articles of association to reflect a relaxation by the ABI of their requirements in respect of the duration of the authority of directors to allot the unissued share capital of the company and of the disapplication of pre-emption rights. The duration of both will be increased from 15 months to five years.

2 Resolution 7, which is a special resolution, amends the articles of association of the company so that they will be consistent with the recently introduced Combined Code regulations in respect of the retirement by rotation of directors.

3 Resolution 8, which is a special resolution, amends the articles of association to bring them into line with the requirements of the London Stock Exchange Listing Rules for the purchase of the company's convertible preference shares.

4 Resolution 9 is proposed in accordance with the provisions of Section 80 of the Companies Act 1985 and renews the authority given to the directors at last year's annual general meeting to issue shares in the company, up to a nominal amount of £34,879,214, being approximately one third of the total issued ordinary share capital as at 19 March 1999, until either 26 May 2004 if Resolution 6 is passed or until the earlier of the Annual General Meeting held in 2000 or 26 August 2000 if it is not passed.

5 Resolution 10, which is a special resolution proposed in accordance with Section 89 of the Companies Act 1985, renews the power given to the directors at last year's annual general meeting to allot further shares for cash, other than by way of a rights issue, up to a nominal amount of £5,222,005, being approximately five per cent of the total issued ordinary share capital as at 31 December 1998, until either 26 May 2004 if Resolution 6 is passed or until the earlier of the annual general meeting held in 2000 or 26 August 2000 if it is not passed.

6 Resolution 11, which is a special resolution, renews the authority given to the directors at last year's annual general meeting and enables the company to purchase up to 10 per cent of the preference shares of the company in issue as at 19 March 1999.

7 Resolution 12, which is a special resolution, renews the authority given to the directors at last year's annual general meeting and enables the company to purchase up to 10 per cent of the ordinary shares of the company in issue as at 19 March 1999.

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

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

Stockbroking commission will be payable at the following rate:

1.0 per cent on the first £3,000 consideration and 0.5 per cent thereafter.

Minimum commission £9.50.

Further information may be obtained from:

NatWest Stockbrokers Limited
Corporate and Employee Services
AMEC information
55 Mansell Street
FREEPOST
London E1 8BR
Telephone: (0171) 895 5448

This note has been approved for the purposes of Section 57 of the Financial Services Act 1986 by NatWest Stockbrokers Limited, a member of the London Stock Exchange, regulated by the Securities and Futures Authority.

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

Financial calendar

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

Interim report for the half year ended 30 June	September
Preliminary announcement for the year ended 31 December	March
Annual report and accounts for the year ended 31 December	April

Copies of the interim reports and preliminary announcements notified to the London Stock Exchange are available on the Internet at www.amec.co.uk. They, and copies of the annual report and accounts, are also available upon written request from: AMEC p.l.c., Group Communications Department, 1 Golden Lane, London EC1Y 0RR. A mailing list is maintained for those who wish to register for copies of future preliminary announcements to be sent to them.

Annual general meeting	May
Payment of dividends	
Interim ordinary dividend	January
Final ordinary dividend	July
Convertible preference dividends	1 May and 1 November

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 registrars, IRG plc, directly at the address below.

Dividend reinvestment plan
A dividend reinvestment plan (the "DRIP") has been introduced by the company for the convenience of ordinary shareholders who would prefer the company to utilise their dividends for the purchase, on their behalf, of additional ordinary shares of the company instead of receiving cash dividends.

A similar scheme will also be introduced for preference shareholders for the 1 May 1999 dividend.

The DRIP provides for ordinary 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:

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

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