

AMEC plc INTERIM MANAGEMENT STATEMENT CONFERENCE CALL
12 NOVEMBER 2008

Speaker key

MA Maddie (operator)
SB Samir Brikho
MF Members of the Floor
IM Ian McHoul

SB Good morning everyone, and welcome to our interim management statement conference call. On the call today with me Ian McHoul, Chief Financial Officer, Sue Scholes, Director of Communications and Neil Jamieson, Director of Investor Relations. I hope that you have had an opportunity to look at our announcement issued earlier today. Since the time of our interim results announcement late August and despite extreme market turbulence we have continued to make solid progress. Demand for our services has remained strong, and trading performance continues to set new records as expected. We continue to see improvements in our divisional margins, and I confidently expect to deliver a group EBITA margin in excess of 6.5% this year. The quality of our order book continues to improve and we have a strong and diverse range of attractive prospects across the business, and our balance sheet is stronger than ever, following the disposal of the Wind Development business to Vattenfall in October. We continue to make strong progress in our Natural Resources division. Demand for our services has remained strong, and we continue to expect the division to deliver an EBITA margin of over 10% this year. Our clients continue to move forward with new projects. In the second half we have been awarded new contracts with a total value of £450 million. We have also seen the first contract to be awarded under the recently announced strategic alliance with BP, and we expect more to come. The Power and Process division continues to benefit from strength of spending in power generation, nuclear infrastructure refurbishment and clean up, and we expect to finalise the important Sellafield contract in two weeks time. We remain focused on margin improvement rather than revenue growth. I continue to expect an EBITA margin of around 6% this year for the division. And Earth and Environmental business has continued on its path of growth and performance improvement, and it is expected to deliver an EBITA margin of around 8% this year. The current economic environment has created uncertainty on any number of fronts, but extensive discussions with our clients give us measured confidence about the outlook on our chosen end markets. Across all of our business we have strong relationships with clients that are well focused and remain focused on long-term fundamentals. The spending plans reflect the continued need to invest in new sources of supply, together with maintenance and refurbishment of existing assets. We have a good geographical spread, a deliberate mix of opex and capex capability, and an Oil and Gas business with an 85% upstream. Our current list of prospective new contracts across the group remains strong and diverse. We continue to expect improvements on EBITA margin over the next two

years, driven by our own internal initiatives. The operational excellence programme is expected to be the major contributor to the achievement of our margins of 8.5% in 2010. And our financial position has never been stronger, giving us the stability to make further selective acquisitions that will improve our competitive position. And so, in summary, as the global economy battles forwards through the perfect storm, AMEC remains well positioned to make further progress. We acknowledge that things remain uncertain, however our chosen end markets continue to provide extensive prospects, and we remain confident that we will, through operational excellence, continue to improve our competitive position and levels of performance. Before taking your questions, can I remind you that this conference call will be available on demand later today on our website at amec.com, and so at this point I would be pleased to take your questions. Maddie, may I have the questions please?

MA The first question comes from the line of Alastair Stewart at Dresdner. Please go ahead.

MF The question really is on the long-term outlook for Oil and Gas in particular in investment. It is fair to say that overall investment will probably come under a certain amount of pressure, how much remains to be seen; but have you any examples of ways that you could either increase your market share or improve profitability against that background? The BP framework relationship is one possible way, but can you say whether you are near to any other framework contracts with Oil and Gas companies?

SB I will answer first regarding the BP. I think we are already being awarded a sturdy contract for BP Clair, and we hope to announce more soon; I cannot tell you the details but I can tell you that we are working on a number of prospects, and I hope that in the next months we will be able to make some certain announcements on that one. When it comes to the outlook about what is happening in the markets, we gave some indication of anticipated market growth at the time of the interims. We are doing some work internally on our views for 2009, and we hope, we think that the market will change. Broadly we still expect growth, though the rate of growth has probably slowed by a percentage point or so, but we will be coming back to you with some details once that analysis has been done, and after all the work which we are doing with our clients has been examined.

MF And in terms of you mentioned you hope to announce more soon, is that on the BP framework, or did you mean other frameworks with other producers?

SB The reality actually is we don't make an announcement on all our projects and on all our agreements in the market. I was checking on this the other day and I saw that the level of announcements or the number of announcements are not covering more than 20% to 25% of the total business which we get. We are working on different alliances, I have mentioned that also in different meetings that I have had, but we have not made any public announcements more than the one we have with BP. But I hope in the future, after the agreements with our clients, we will be able to make

some announcement to give the shareholders and the market a better visibility on the business which we are doing.

MA The next question comes from the line of Alejandro Demichelis at Merrill Lynch.

MF Good morning. Alejandro Demichelis from Merrill Lynch. You mentioned that you are expecting the growth to decrease by one percentage point; is that over all Natural Resources business or is that just Oil and Gas? Can you give us some indication of what you are seeing in mining and so on?

SB We have been giving to the market at an early stage what will be the growth. If you remember from our earlier presentation we said that the Oil and Gas services are having a compound annual growth of 7% to 10%. The question is do we see that growth to come. If you take a look at the International Energy Agency they have been delivering a report I think today through some of the newspapers and they were saying that this is going to be maybe a temporary slowdown, but it is going to be a big run in the future. I don't know whether this is true or not, but what I know is that there is a big demand outside, the population of the world is not decreasing, there will still be a lot of infrastructure jobs needing to be done, and we could see maybe some temporary slowdown on some of the jobs. Now, our assessment, when we are speaking about the 1%, is actually referring to the whole group rather than referring to one specific market, because at the end of the day what we need to see is that we need, in order to be able to get a full text on what we are talking about, we need to know where AMEC is doing business, with whom they are doing business, and how are those clients going to change their behaviour of investment; and then we will be able to understand if that is a stress or still a good opportunity for AMEC. The clients which we are dealing with, especially when it comes to the Oil and Gas services, is that we are dealing with the big oil majors, we are doing business with the big national oil companies, and all these guys have a very solid balance sheet, and they would prefer to do further investment in the business rather than a big headed moving money from one bank to another bank overnight just to be sure that they are not losing their money overnight. So, we have a very good prospect list in our books. We check this on a daily basis. I have introduced in the company since some time, I call it a tsunami warning system, which is in a way a list which we update every week to understand if there is any change to our backlog, is there any change in the prospects we have, and is that influencing in any way our delivery for the 2008, 2009 and 2010. And doing that analysis, and I don't want to sound here too overconfident that everything is nice and rosy, but the reality is that in the businesses that we do we are not seeing any pushback yet; maybe this pushback will come but that pushback is not there yet.

MF Just as a follow up, now that we see some slowdown, even if it is not very much, do you expect an increase in competition from some of your peers?

SB Well, I mean some of my peers of course...it's the reality at the current stage just now everybody is still looking for engineers. It sounds weird, but that's the reality. We are still looking for engineers in many different places to employ, and we have been employing this year on an average basis, and the Natural Resource is an example, of something around 12% to 13%. Now, what we need to do is we need to maintain the atmosphere of stability in our workforce in order that if we see there are changes in the market we are able to do that. If you take a look at the workforce we have today in Natural Resources we have some 15% to 20% people who are contractors or who are working on a consulting basis with us. This gives us a high degree of flexibility so in case we see changes in the market we can adapt with them. What we see today that is very interesting is the level of competition where AMEC has been acting, we have not seen any pushback from our clients to say look, there are now more free engineers in the world, the prices are falling and we expect you to reduce the price. That has not happened yet. I'm not saying that will not happen, in order to make it very clear, but today I don't have the pushback yet.

MF And you haven't seen any kind of renegotiations?

SB No.

MF Okay, that's clear, thank you.

MA The next question comes from the line of Andrew Dobbie, Cazenove.

MF My question was about the flexibility of your workforce, but I think you just answered that.

SB And we have been clever actually taking a look at that. AMEC is not a manufacturing company; we are a people business, so we don't have any overhang from depreciation on machinery also. So, what we need to do, and that's what we have been doing, is we have a permanent mix of employees which are on contracts and full-time employees which are AMEC employees. And that will give us the flexibility. As I said before, around 80% of our resources are interchangeable, so that gives us a very high flexibility in doing business and shifting people from Natural Resources to Power and Process and vice versa.

MF That's good because I guess there is some nervousness in the market that if you do see a reduction then utilisation of your engineers you might have to hold on to them until demand returns, but I guess you can get rid of your contractors if you need to quite quickly, and I guess at a later stage re-employ them if you need to, so I guess that flexibility is quite positive.

SB Yes, at least for 20% you can almost do it overnight, which is a great advantage here. And I don't think we would be seeing a reduction in the project on that rate. I'm measured confident that this is going to work well.

MA The next question comes from the line of Christian Malek from Deutsche Bank.

MF I guess it is very difficult to forecast or to sort of see slowdown before it occurs, and from what you are saying now you're not seeing that, but let's say we are in a drought for 12 months from today and you don't get any projects, the utilisations fall against that, isn't there a scenario where your clients start to actually negotiate the sort of roll over of pricing of your staff, and all this upside of margin that we are expecting starts to dissipate because they are just not going to pay you for the same price. \$140 oil versus \$60 oil, surely they are going to mark to market that with your people, who aren't necessarily as busy as they were. So, that is the first question, to what extent are you going to get margin dilution. The second question is regarding Oil Sands. It is one of the growth engines you have talked up in the past; we are starting to hear it not being mentioned as frequently. Are we seeing a total halt of projects there given the rhetoric from management? Or are you still confident that we are going to see project awarded related to current phased programmes that have yet to be completed?

SB I'll try to give my view on that. The first thing is that let's assume that your question is that what is the worst case scenario. Today we are continuing to monitor the market, talk to our customers, and remain cautiously optimistic. Now, there are a number of factors which can help to protect us from the impact of a downturn. First is that you need to think about the geographic presence which we have; we have a geographical spread of customers across the globe, especially in the Oil and Gas. You mentioned Oil Sands and I will mention that later on, which is about 22% in our first half in the Natural Resources revenue. If you take a look at our customer base, which I was also mentioning earlier, actually less than 5% of our customers are juniors or independents which could actually have a problem; all our other customers are either international or state owned Natural Resources companies, and they are well financed. If I take a look on the sectors, first on the Natural Resources, 85% of the Natural Resources are upstream business, and that is an area which has not been seeing any major cuts, compared to some businesses when you are in the downstream where you have a very different impact. If you take a look on our strategic split on our business in the Natural Resources, you remember my speech in 2006, at that time we had almost 80% capex and 20% opex. And I said look guys, I am a long-term CEO rather than a short-term CEO; if I was a short-term CEO I would only be doing the capex and not caring about the opex, and I would be improving the numbers even at a faster pace than anybody else. But how does it help me because in the case of a downturn, I said, I need to be prepared, and therefore I am pulling back and I'm enhancing our position in the opex. And people were listening to my speech and said but this is contradictory to your margin improvement programme, I said I have no other choice because I am looking to the long term. And today, as you have seen in 2007 where we have a 50% capex and a 50% opex, and in the first half of 2008 it was 55 capex and 45 opex, this is the time when we really can benefit from the strategy which we have done, because that now is giving us a good position with our clients, in order to continue to add value to the operation and giving them support to the assets. Now, if you take a look on the Oil Sands, of course we have been very disappointed to see the delay announced by Shell in the second phase of their expansion,

which is called expansion two, because we thought that this would be a good prospect for us in 2009 and onwards, but we have a lot of other opportunities in the Oil Sands. And I honestly tell you many of the companies in the Oil Sands are not making too many announcements anymore, not even in the Gulf of Mexico, or even in the Middle East, because people are getting very cautious, our clients are getting very cautious in order to speak about their investment, because they have competition, they are trying to see how they can make the best deals, they are not interested in sharing with the market how much higher they are or in which areas they believe are good areas. So, they are keeping a low profile, pushing us also to be on a low profile, because we cannot make any announcements if our clients do not agree that we are going to make an announcement. How are we going to make an announcement? So, there are a lot of things happening in the Oil Sands, but unfortunately none of that is getting quoted. The only way I say for an analyst or investor to understand what is happening in the Oil Sands, take a flight there and speak with the people in the bar, have a beer with someone and they will let you know what jobs they are working on. That is the only way, because you will never read this in the newspaper.

MF The first question hasn't really been answered in the sense that...okay, you mentioned opex being re-weighted, if we just carry through opex for the next 12 months clearly the margins are going to be re-weighted down, so in effect you will see margin dilution because you are going to have a higher weighting towards opex versus capex in a scenario where no projects are awarded for whatever reason over the next 12 months. So, my question is are you not going to see margin dilution in the next 12 months in that scenario. Secondly, relating to the cost plus contracts you have, I don't understand how, in an oil price that has halved in three months, an oil company is going to pay you the same price for the projects that you are about to roll out. Surely you are going to see some sort of elasticity across your supply chain and have to pay your people less, and that will again impact your margins. So, you've almost got a double whammy on your margins in the next 12 months, which may be temporary, but it's still...

SB I have understood your question now. The first part of the question, as you remember...I'll give you some data. We have not been living all our lives with oil prices of \$147, this is only what happened in the peak in July 2008, and a lot of people have been saying is this the result of speculation or the result of real demand, and the real answer is maybe a mix of the both. The reality is if you take a look at one of the biggest fields in the world today, which is called Safaniya, which is 1.2 million barrels a day out of one field from Saudi Aramco, when Saudi Aramco made that decision to go for it the oil prices were less than \$13 per barrel, and that made sense to these guys. So, what I'm trying to say is that even if the price goes down to \$10 per barrel business continues, because when you have assets outside you need to continue with supporting the assets; you cannot just shut off the platforms and the installations and say I don't care about them. And then when you have a long-term view on this the oil companies need to think about how does it look to me in 30 years and 25 years from now, are the energy prices on a net present value minus inflation going to be lower or higher than it is today, and how does that influence my investment and my capex plan. Today if you look at on the

Exxon model with in excess of \$40 billion of cash, BP or Shell in excess of \$20 or \$25 billion of cash, they need to do something with their money, and there are opportunities in the world which are really actually exciting for these guys to continue their investment. So, I understand that you give the hypothetical case you have in case we don't see order intake, but that doesn't happen in my view, because we will be seeing continual growth but maybe not the same type of growth; and therefore we are saying we are measured confident about what is happening in the future. But then if you take are we able to enjoy the same type of profitability as we were having in the past, maybe not. But at the current stage when Alejandro was asking me the same question, I said I have not got the pushback yet on this. So, what we are doing today is we are monitoring the situation, discussing with our customers, analysing the situation about where we stand and how we are able to move that. Then don't underestimate the Operational Excellence. Today with the Operational Excellence, which is totally an internal programme in order to improve the qualification of our engineers, the way we work and the way we serve our customers, we will be able to make much more money, even with less profit on a top line, we will be able to keep more money in our pockets than we used to do in the past. So, in the worst case scenario, if these guys are going to bargain on us and nibble on us in the margins, but as we are improving our Operational Excellence, it is going to calm and balance it. And that is why I am so confident today to say I am going to deliver the 8.5% in 2010. And when I said that I knew that the market was in turbulence, but it is because of all the deep analysis we've been doing, because analysing the backlog, analysing the relationship, analysing the prospects which are coming, and I have been on a tour for four weeks just speaking with clients, I didn't do anything else than meeting clients, signing MOUs with new clients, building up new relationships and helping the relationships to be sure that the stream of business is continuing.

MF Not to harp on, but very quickly, it is fair to say and you admit that if no more projects happen for the 12 months your opex will be higher than your capex, your opex is a lower margin business, and therefore that could reduce margins?

SB But that is a hypothetical case, Christian.

MF But you admit that could happen?

SB But of course. If nobody does any business for the next three years then we close down; there's no question of that. But it is hypothetical because the Oil and Gas companies need to continue with their investment because they have a 30 year view rather than a one year view. If you take a look even on the Oil Sands, we haven't been on the Oil Sands overnight, we have been working now for the last 15 years, and it will not be finished before 15, 20 years from now before we can get the four million barrels out per day. It will take us time, so it is not a short-term investment; it's not an overnight thing. I agree, of course if we get no business then of course we close down.

MF It's not about no business; it is if there a pause in the system.

SB But as I said, and I am very honest and I'm very straightforward, I have no pushback yet. That is why I call it the tsunami warning system in our company for some time, and I have not seen a pushback yet, neither on projects nor on margins.

MA The next question comes from the line of Phil Lindsey of RBS.

MF The first question you talked around a lot already on the call, but it is really around the margin. It is encouraging to hear that you think you can get to the 2010 margin target based on what you're doing in terms of Operational Excellence, but there is clearly a market assumption within that. What is that market assumption, or what kind of a market would you need for you not to reach that target? The second question is on the Power and Process order book; that is down substantially year to date, about 35%, you have raised the gross margin, the minimum gross margin for that division, is there any indication there you are not able to win work at the type of margins that you're aspiring to? Also that order book, I'm assuming, does not include Sellafeld just yet; if that was put in what would that look like?

SB I'll talk about P&P because I think that is an interesting one. First, the reduction which we have been seeing on the order book we announced already in 2006, and this reduction is deliberate and has been ongoing over the last two years, so this is nothing new. We have been very open with the market already in 2006 and said look, this business is not under control and I'm going to get it under control. I said the only way we can get it under control is to get the discipline, and that is what we have been doing. I told the market at that time you will be seeing a reduction and you will not be seeing any growth before the second half of 2009. I have kept my word, and I have not changed that yet. If there is a reason to change that you will be sure that I'm going to be the first one to tell you about it. So, the key priority in the P&P is to improve the margins rather than increase the revenues. The new business, which is now taken in the P&P business, has at least, as a minimum gross margin of 10% or better, and this is coming up from almost 6% to 8% to 10% in the last year. And the quality of the business that we are seeing now is being dramatically improving. Therefore if you take a look at where we started in 2006 we started with 2.9% margin and we are telling the market now two years later we have 6%; that is a great performance from the teams, more than doubling the margin, which I say is a great thing. Now, once we have got the discipline what we have been doing also is working very hard on the strategy, and how are we able to move the P&P business, businesses which we believe are going to be there for the long term where we have been building the skills and the talents in the organisation to be able to address those issues. Like what? Nuclear; we have seen for the last two years very little activity for the nuclear. It is now the time that we need to get a benefit out of that work. It is now the time that we will be seeing the benefit out of conserving the talent and further enhancement of the talent, because we did not get anything out of the guys in the past; we had very little revenues and we had less profit. And just to make a mention on the Sellafeld job, it is not a revenue project for us; actually we are going to do quite well out of the dividends. We told the market

already that there are no revenues on this in 2008 as Sellafield is coming late in 2008 so there are no revenues, so nothing coming out of that. In 2009 we will be seeing dividends coming out of that, and those dividends, once we get the contract signed, we are going to add this to the profits that we have. And in order to make it very clear it is not only the confidence that they are going to achieve 8.5% in 2010, whatever we are going to get out of Sellafield is going to be added to that 8.5%; that is the level of confidence which we have. And this level of confidence we have is not because we are arrogant, it's not because we are naïve, it is not that we are not sensitive to what is happening in the market, no; it is because of thorough analysis, deep...and you know me, I am an analyst, I analyse everything and I look at it and I take a sensitivity analysis and I balance it with other things and I ask what it means. And if I am not sure that I'm going to deliver the 8.5%, and if Sellafield comes in two weeks we will be adding that to the 8.5% then I'm not going to say it. I'm not going to shoot myself in the neck. I have been doing quite a good job for the last two years, I think I have established a good identity in the market; I'm not going to spoil it.

MA The next question comes from the line of Gordon Grey from Collins Stewart.

MF Firstly a question on this margin improvement in the backlog in Power and Process; to what extent is that absolutely locked in or to what extent is it potentially subject to variations and currency effects and the like? And secondly just a quick question on what the cash proceeds were for the sale of the UK Wind Development business.

SB For the first one, as you understand, what we did a couple of years ago is that in order to understand how we could be improving the Power and Process business and the margins I made a project list of all the projects and started to understand about how much the projects were as sold and how much the projects are at the current stage, what type of margin are they giving, and what would be the end life forecast. And when I was looking at that I saw that for many of these we are selling projects at around 13% and we are losing 2% to 3% down the road for the end life forecast, which tells us that there is a cost of poor quality of something around £40 to £60 million. Now, what I did as the first step was the increase the minimum gross margin, number one, but then you need to wait two years in order to get the benefit out of it. So, we said what can we do now in order to improve on the cost of poor quality. To give you an example we had one project for which we had been having a delay, and as it had liquidity damages we had been hitting the maximum liquidity damages. This is a client in the UK. And what we did is that I went back to the client and I said look, we have a multiple choice here, one choice is to say you know what guys, we have already achieved the maximum liquidity damages, we have no interest whatsoever to accelerate on this programme, we're not going to do any acceleration and actually the contrary, I'm going to pull out my guys and put them with someone else and do some jobs which we can get good money out of them. I said you are going to be the losers, and I'm going to pay you the liquidity damages, which is already in my calculation. But I said another way to do it is we could accelerate the programme, but then you need to forget about your liquidity damages and I will be giving you that free of charge. And what happened is that many of

our customers who had this type of situation agreed to that because they see the value in getting the plant relatively late but relatively on time rather than very much delayed. Now, by doing so we spend maybe half of the amount of liquidity damages, and by doing so we have been able to move relatively fast on the cost of poor quality. So, all of this is the way of discussions between us and our clients, and as we have been improving the relationships with our clients the clients continue to give us variation orders and orders that we can build on. Now, the currencies which we are working in the P&P actually we work most of the time in three currencies, either in the UK in UK pounds, or in Canada which is the Canadian dollar, or in the US which is the US dollar; we don't have any other type of currency exposure in the market. When it comes now to the Vattenfall we have been discussing with Vattenfall for a long time in order to sell our portfolio. We had a data room, there were a number of bidders and Vattenfall were the best, and they paid 126.5 million cash for the deal. But more important was actually to sign agreement with Vattenfall, and you know that Vattenfall is very interested and very aggressive in a way of doing projects in the world with much lower CO² emissions than anybody else. And it is their vision and our vision which get in line together here, and that is when we can benefit from it together. Now, I would like to give Ian also the chance to discuss with us the sale of the Wind portfolio and what is happening with the cash and what is happening with the money.

IM Let me add first of all something to what Samir said on currency. It is the case that we have three major currencies, as Samir said, sterling, US dollar and Canadian dollar; I think the key point for margin is we are pretty naturally hedged across the piece. So, revenues in any country are on the same currency as the cost in that currency, so we have natural hedges almost 100% across the business. So, the only real impact on currency is in translation of the P&L into sterling, which is obviously favourable given the strength of the North American currencies. On the Wind sale, the gross proceed, which is the number we published, was in the order of £126 million. There are some fees to come off that, and there are some very modest payments to partners where we had an obligation to pay small amounts in the event of selling the business. But the net cash is in the order of 115, probably 120 million, that kind of range, so it is virtually all of it.

SB If Christian is still on the line I was thinking about what one of your questions. You know that in the order book we have visibility for almost more than one year, so that means even in the next year if nothing happens in the business we can go for one year before we can get...we can live on that.

MA The next question comes from the line of Alex Brooks from UBS.

MF I've got a question on the average net cash position. You have disclosed some payments out in the second half, but I think I was anticipating a reasonably strong cash flow through the course of the second half, and I'm surprised that you are not pushing close to 700 million rather than 600 million. Are there any unusual movements or working capital changes that would mean that the operating cash would not be particularly strong in the second half?

IM No, not really. You are right to anticipate a pretty strong cash flow in the second half, that is a typical pattern. We said back at the half year that we would have an average net cash in excess of 600 and we have kept that number. It is just a question of arithmetic; the big in flow of 120 million on the Wind came in October, so on an average perspective we've only got that for two and a half months of the year, so what it does to the average is add maybe 20 to £25 million. So, we didn't want to split hairs, and therefore we quoted the same number as over 600 million. If you look at our year end cash, yes, we expect that to be well in excess of 700 million; but it is the averaging effect of the money coming in with only two and half months of the year to go.

MA The next question comes from the line of Fiona McLean from Citigroup.

MF Could you just talk about your share buyback programme and how much of that you've been executing in the second half, and where you stand against your total programme?

IM There have been no share buybacks in the second half. That is not to say we are ruling them in or out. Our plans very much at the moment are to keep our options open, keep flexibility in these very difficult credit markets, as you are aware. So, there is nothing much above 100 million number we've talked about before, but right now and since the half year there have been no further buybacks.

MA The next question comes from the line of Ian Armstrong from Brewin Dolphin.

MF I've got two questions. With the assumptions for the 8.5% margin by 2010 what are you assuming that your cash position will be, given the fact that interest rates have come down, so the actual rate you would get on your cash would be much less? And also with regards to the margin, Christian's point about if everything went to hell in a handcart next year, do you have some sort of tweaking you could do to Operational Excellence that would be able to offset some of that negative comment with regards to the underlying margin in the market?

SB Let me take first the second question. You are completely right, that is what I said. If you take a look a little bit at our history, when we said the Step Change we were doing the Step Change at that time, we said there would be some costs and profits, and we said we were doing it this way to be benefiting out of this around 30 million, and then we came back with 35 million, and then we came back and said at least 40 million. I have always said that the Operational Excellence programme is actually much more aggressive than the one which is the Step Change. And I always said that there are more fruits to pick up on the tree than the ones we have been picking up from the ground. And now as we are getting fit we are able to do that. So, if we were not confident that we would be making the 8.5% we would say to the market that we were going to make the 8.5%. I just want to remind you that we have been agreeing also with our shareholders in May that the top team of AMEC, which is like about 20 to 30 people, are working actually for a target to achieve higher margins than the 8.5%.

And we will be getting further benefit out of that if we are able to do that. Now, in the current market prices or turbulences of course everything is becoming more difficult, but it is not impossible. That is why we are still working on that and we have not given up and we are not going to give up on this one. Now, the first question was what does the cash look like in 2010; well, I don't have that crystal ball and if I had that crystal ball I wouldn't tell you.

IM So, you are clear, the 8.5% does not assume the use of cash for some major acquisition and therefore boosting the numbers; the 8.5% is an organic number. Okay, it may include businesses, the usual type of bolt on acquisitions, but it doesn't assume we spend a great chunk of money on something that is going to expand the margins. As for the interest rates coming down, to remind you the 8.5% is an EBIT margin, so the rates coming down are not going to impact that target at all or the achievement of that target.

MF That is a fair point. This is a bit of a cheeky question, but I suppose it also depends which bank you've got your money in as well. If you are in one of the government guaranteed banks then obviously the interest rate gets passed on; but if it is at Barclays or HSBC at the moment you are still getting a higher rate because they are not passing the...

SB And if you are at Icelandic you get very, very high rate.

MF [Laughs] I'm not sure about that.

SB But what we did is as we've been installing a number of instruments in the organisation because of the current status we have we have also been having a number of people working on treasury. I would like Ian to tell us a little bit more about it, about how concerned we are about our 700 million cash, and what we are doing to make sure we're not going to lose it.

IM I mean, as of now, and I hope you agree it's the right thing to do, we've been putting security principle ahead of yield, and so we've made sure our money is spread across a wide range of very well rated banks. We monitor those ratings daily. Samir has his tsunami warning system on margins and customers; we have our tsunami warning systems on bank ratings. So, we are not into any fancy instruments chasing yield; we are absolutely with top banks widely spread, good ratings, on their balance sheets, not in any fancy money market instruments, so we keep it absolutely vanilla. As time goes by, the markets settle down, we'll obviously keep the situation under review, but right now I think we're as secure as anyone can be.

SB The amount that I think we have in any one location is about £60 million.

IM Correct. And most of them are a lot less than that.

MF Can I ask a quick question with regards to your employment prospects for next year? You've talked about the contractors who can be turned on and off, but your underlying no, we want to have the best army of engineers in the world, is that plan being impacted by what's going on?

SB No, to the contrary. I've actually just come from Aberdeen and I had a town hall with some 300 people and that was the theme; this is the best time when the best army of engineers make miracles, this is the time when we are going to make much more profit because we have a depreciation to our clients where nobody else believes that we have. That is why I said, that was the theme of the town hall discussion, this is the time when we are going to accelerate on this programme in order to be the best and beat the others.

MF Good to hear that. One more question on Earth and Environmental. You said that Canada has picked up quite nicely after the bad weather; what about the US though, given that the US economy really has tanked quite nastily in the last month or so?

SB I said that also in an earlier statement, I think we have had some businesses, for instance, in the cement industry in profit in the US, and have seen in that half of what it used to be in the past. What we've been doing is substituting that business and moving these people to work on biofuels, waste energy and other types of profits which have not been a core business of AMEC. And as we're moving more and more to renewables and to new types of fuels that is becoming exciting for us.

MF I wasn't sure if you actually answered Phil Lindsey's question on Power and Process. Was there any indication of no work being available at your required margin?

SB Sorry?

MF Given that you've now got very strict rules with regards to the gross margin for new business he asked if there was indication that there isn't any work out there at the margin you are trying to get it at. I know you are deliberately not going for low margin business, and that is why the order book is still falling; but actually I think you were making the statement that revenues were actually starting to stabilise.

SB Yes, that is what I said. We believe that we are able to grow this business relatively soon. In the second half of 2009 we will see things moving. We are now, I call it dumping, all the projects which we used to have and now going through different types of projects which is different types of engineering and different types of margins. If I take a look at the stream of projects which are coming up, they are very healthy projects, wisely selected and going to be good.

MA We have one last question from the line of Alejandro Demichelis from Merrill Lynch.

MF Maybe you can give us an indication of your current backlog, how much is for execution in 2009, how much is for execution in 2010 and beyond? And the second question is maybe you can give us some comment on your views on M&A, especially now that valuations have come down so much.

SB If I take a look on the Natural Resources, which we have roughly a single order book of 1.3 billion, and you will be seeing some 800 million is in 2009 and it goes on. To give you a flavour of what is happening in the company, when you take a look on the E&E business, this E&E business, which is now growing actually, and this is a very short-term contract which is in three months, and you see that we have been able to build up on this business and we are growing quite fast. So, we have quite a good mix between short and long term. That was what I meant also to Christian, even if I call it the crap hits the fan, but we can still actually go for a long time before we need to stop our work, which is quite good. The second question is on the M&A. It is very interesting because the whole thing has changed now. We have totally new situations. I was looking at some of the E&C companies, on what happened to them, even the big peers, and you see CBI has lost almost 80% of their value, Worley Parsons has almost lost 70% of its value, KBR have lost almost 70% of its value from year to date, AMEC has also lost about some 38% value; so there are quite big changes in the industry, which actually provide us with a lot of new opportunities which did not exist in the past. There are a lot of small companies, whether they are publicly listed or not today, which are actually at almost 20% or 25% of original value. And if you believe in the fundamentals of the business even if you pay double the value this would be quite a good business. Now, we are monitoring the situation very, very closely, we have a number of advisors, we have a lot of good ideas about what is happening in the market, and I think soon it will be the time that maybe we can use some of this [unclear] which we have to do a selective acquisition in areas to improve the strategic alliance, the strategic push we have in AMEC and to improve our geographical presence and to improve the talents and the skills.

MA We have one last question from Tian Cheng from HSBC.

MF Can you talk about the intensity of the working capitals across your three divisions, and how this working capital is going to change going forward into next year? What percentage of this kind of project based revenue of your business now? And is there any net impact because your project partners or sub contractors have been affected by the credit availability, which may cause delay in the execution of the projects going forward?

SB On the first one, the working capital, if you take a look on our balance sheet we have very little working capital. I think it is about £80 million to £85 million, which is very little actually. The business we have is mainly engineering business, so we don't have any fixed assets, we don't have any manufacturing units, we don't have any yards where we have a lot of locked assets. That is why if you take a look at return on capital employed that would be quite a lot because it is not so much. This is normal work we do within the engineering theme, so we do not see any major issues there. When it



comes to the risk we are taking, whether it is a customer default or whether it is a contractor or sub contractor default, what we do is...I don't know how much you know about AMEC but two years ago when I came to AMEC I introduced a very rigorous risk management, I have improved the whole risk procedures, and I said I am going to be sharing the risk management team. I do risk reviews with the team, we do have a very, very strong look on how the performance of our clients are, how solid they are, whether they are able to pay us or not. But as I said before, many of our clients are oil majors are big national oil companies, and we do less than 5% with small independents, so we are not taking that kind of risk. Now, when it comes to the contractors and sub contractors we also have very rigorous processes in order to take a look that we are assured that we are getting the services that we are paying for, and up to now it has been working quite well. But it is a result of the process we follow, and I call it a normal way of working.

MA We have no further questions so I will hand you back to your host to conclude today's conference.

SB First thank you ladies and gentlemen for your interest in AMEC and your continued support. My key message today is that we have a record year to date trading performance, we are confident in our margins, we are expecting a margin in excess of 6.5% for 2008, and we are confident of the 8.5% in 2010. We have good growth in our businesses, led by our Natural Resources; the order book there is plus 12%. We continue to see strong and diverse range of attractive prospects coming up, which is very good. The 2008 average cash is expected to be more than 600 million, and Ian explained how the average cash works. And we are looking to the future with a measured confidence, and we are monitoring situations, but I believe that we are in a good way to build up the best army of engineers, and we will be able to bring value and create value for our customers. Thank you very much for your attention and your calls.

Call ended at 0930am