Final Transcript

InterCall

Contents

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Corporate Participants

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AMEC – Director of Communications

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AMEC – Investor Relations

Presentation

Ian McHoul – *AMEC – CFO*

Good morning everybody and welcome to our Interim Management Statement conference call. I'm Ian McHoul the Chief Financial Officer of AMEC. With me today are Sue Scholes, who's the Director of Communications, and Nic Brooks from Investor Relations. Let me summarize to you where we are.

- Since the time of our full year results announcement, which was in early March, our trading in the three divisions has been in line with expectations. Order book has increased to £3.6 billion and as always is conservatively stated. We continue to expect a growing project pipeline as the year progresses and new order intake in the year-to-date is some 20% above the same period last year. On margins we are firmly on track to deliver our target for the year of 8.5%. We have completed two strategic acquisitions during the year so far, Entec Holdings in the UK, that's an environmental division, and Currie and Brown in Australia, as part of natural resources; both of these are integrating well. And, of course, our balance sheet remains strong with full year average net cash expected to be around £650 million, before further acquisitions of course. We've been awarded a number of significant contracts, and let me just highlight a few. Natural Resources were awarded the three-year extension of the Shell ONEgas joint venture contract in the Southern North Sea, worth €200 million a year for the joint venture.

In the deepwater space, we were awarded the front end engineering and design contract for Chevron's Mafumeira Sul project, offshore Angola.

In April, Power & Process was awarded the major EDF contract to provide support to EDF's architect engineering operation for the proposed delivery of four new EPR nuclear reactors at Hinkley Point and Sizewell in the UK.

And then finally in the water sector, recent Earth and Environmental project wins include the design and construction of a municipal waste water system in Miami, Arizona and the design and construction management of waterline and other facilities in Qatar for AFCEE – that's the US Air Force.

Looking ahead, improving market sentiment and recovery in key customers' capital expenditure is expected to continue to support the group's overall performance through 2010. The order book is expected to strengthen as the year progresses on the back of a solid project pipeline as I've said. And this gives us good visibility for the second half of 2010, into 2011 and beyond. Be aware though, as a consequence of this gradual build, the relative weighting of revenue and profit towards the second half of the year is expected to be higher than usual.

And finally, I'm not going to comment on the direction of the currency markets, but current market forecasts for sterling suggest a positive impact on full year results.

Before taking your questions, may I remind you that this conference call will be available today at our website at amec.com. So at this point I will be pleased to take your questions.

Questions and Answers

David Phillips - *HSBC*

Thanks, good morning everyone, a couple of questions. Firstly, just talking about your 2010 margin targets, it's very good to see that certainly things are moving in the right direction now. Which areas and divisions do you give greatest confidence for meeting your 8.5% margin this year? And secondly, I wonder if you could talk a bit more about your thoughts on the possible effect or impact that some of the new comments and plans from the coalition government, in terms of nuclear power, in terms of coal fire, in terms of CCS and so on and what you think that might mean for the timeframe for some new work for you? Thank you.

Ian McHoul – *AMEC – CFO*

Hi David. On margin targets, you saw our numbers last year – Natural Resources nearly 12%, Power & Process (P&P) 7%, Earth & Environmental (E&E) 7.8%. I think we feel 12% in NR is pretty high on the scale - industry leading - so I don't think we see too much upside there at all from Natural Resources, certainly in the near term. However, both in P&P and E&E, we do see significant opportunity for further growth there, both this year and going forward. So it's really those, the two smaller divisions where we see the upside.

On the coalition government, it's early days obviously - we've spent quite a lot of time with each of the parties individually trying to get views on their plans, details still emerging to some degree of where the coalition will come out. I think really it's steady as she goes. I think there's a big piece around nuclear and the new build. I don't think we expect it to be too badly impacted or too impacted at all from what was previously envisaged.

Sue Scholes - *AMEC – Director of Communications*

Yes, and I'd agree with that. I mean, it's being said that the plans are moving forward and being put into place, but the statements, the way it's being operated, the way that the Lib Dem's are allowing the vote to go ahead, even though their position historically has been anti-nuclear new-build, well, fingers crossed that it shouldn't affect anything that's planned and they are still rapidly accelerating and bringing forth plans to get it approved.

Ian McHoul – *AMEC – CFO*

Yes, the way we see it - essentially the Lib Dem's are saying this is a point we're now going to have to concede, but the way for us to do it graciously is to have this vote. That's our interpretation more than anything else, but that's how we feel about it.

David Phillips - *HSBC*

Thanks a lot, very helpful.

Andrew Dobbing – *JP Morgan*

Good morning and good morning Sue. A quick question on where you're seeing opportunities in your kind of engineering businesses. Is it a lot of kind of early phase feasibility studies and engineering work or is there opportunity already to start getting involved in I guess bigger and potentially more valuable detailed engineering work? So I'm just trying to get a sense for, you know, the exposure in terms of what you're generating earnings from at the moment and exposure in terms of what you're bidding on which could drive earnings in the future. Thank you.

Ian McHoul – *AMEC – CFO*

Thanks Andrew and the answer to your question is both really. Clearly we spent a lot of time last year positioning ourselves in front engineering and design activities as you've seen. We would expect a great deal of that activity to move forward for sanction – and with us involved [i.e. moving into more detailed work]. So we see ourselves bearing the fruits of previous periods, our work in front of engineering, in addition of course there will be new projects kicking off. So I think, where we are in the cycle now, it's started to have a difficult year last year in the industry, we feel this year is... we wouldn't say buoyant at all, but we'll see a much better year from underlying activity and that will give us momentum through the year. But, in addition, to repeat, we would see ourselves getting benefits from some of the previous front end work that we did last year.

Andrew Dobbing – *JP Morgan*

It's fair to assume that they'll be some natural growth in the business as smaller front end contracts evolve into bigger detailed engineering contracts.

Ian McHoul – *AMEC – CFO*

Exactly and then you know the revenue shape last year, particularly in the Natural Resources business. We would expect that underlying position to be stronger this year - we would expect the underlying revenue to be improving as a consequence of just the things I've said and you've said.

Andrew Dobbins – *JP Morgan*

That's very kind. Thanks very much.

Phil Lindsay – *RBS*

Morning guys and girls. Couple of questions if I could. First of all, on the order book, are you able to give the split between the divisions and also can you make a comment - I know you're not going to disclose the value of the EDF contract - but perhaps you could give us a feel for how many years of that contract have actually been included over the order book. And the second question is really - is probably going to be a difficult one to answer, but you've said that new order intake year-to-date is kind of 20% above the prior year, would you be kind of disappointed if you didn't at least maintain that rate of order intake growth through the remainder of the year?

Ian McHoul – *AMEC – CFO*

Okay, two things, the order book split is in the RNS, you've got broadly Natural Resources £1.8bn, Power & Process £1.4bn, Earth & Environmental £0.3bn, and there's a £0.1bn rounding somewhere, so they're all up a little, they've all edged forwards a little, but I think the numbers are in the IMS.

On the EDF, I can be precise, the number we've talked about previously is £300 million. This is an 11 year contract at the minimum. There's potential extensions as we publicised previously. We would expect this to be something really rather major, but the first piece, the bit that's there now, is £300 actually we've talked about before and that's the number that's in the order book.

In terms of order intake up 20%, I guess I think that's probably right. I mean, disappointed (I'm not going to split hairs between if it's 15 or 20 or 25, but we expect...) you've seen what we said in the IMS and also what we said previously, we expect momentum to build through the year. In the ebb and flow from one month to the next the order intake is lumpy obviously, but I think it's a reasonable indication of how we feel, yes.

Phil Lindsay – *RBS*

Okay, that's helpful, thanks.

Fiona Maclean – *BAML*

Hi, it's Fiona at Merrill Lynch. Could I just ask about your M&A strategy? You've actually been pretty active over the last year or so in terms of small bolt-on acquisitions. Could you just confirm whether your strategy remains firmly in place and could you just give an indication on what specific areas you're looking to spend that money going forward for the rest of the year, given that you've already targeted a number of your key areas already. And also, could you give an indication on as to whether you expect to continue to make the same type of size acquisitions going forward and how much of that cash you'd be looking going to spend this year. Thank you.

Ian McHoul – *AMEC – CFO*

Hi Fiona. Yes, let me comment probably in reverse order there. I think from a size perspective we're not focused on any particular size of transaction. What we're interested in is making money on acquisitions that fit our strategy. So the first instance is going to be... and you've seen our vision 2015, you seen the countries where we're focusing on in terms of UK, in terms of North America, and then the new areas, or newer areas of South American, Middle East, Australia, Asia, so those are the geographies. You're right, what we've done until now, I guess over the last two, three, four years is very much around bolt-ons and that will continue. We will continue to make small-ish scale deals as bolt-ons to the business, so long as they... there's a good industrial case that the financials work, the returns are good, we look to target our ROC in the first or second year as we've said previously. Equally we will look at medium sized deals, £200 million; equally we will look at very, very large deals. So we're not tied by the size, we're tied by it being on strategy, a robust business case, and the financials working for us. Also, what we're doing of course is we're a people business, we buy people. People can walk out the door, so as well as the ticking of the box of all the harder measures is going to be a high degree of emotional fit, because when you buy assets that can walk out the door you've got to be very careful that they don't and that they're on side.

So I can't answer the question about how much do we think we're going to spend, because it depends on what's available at the right time on the right terms and the gestation period for some of these things can be shorter or longer. So I can't give you an indication of the scale. Equally, as we've said before, we're not restricted by cash, because if the need arose, we would take on borrowings to a modest degree. Just to reiterate, all the acquisitions we've done recently, the integration is going well, and that's the key part of the plans. You buy businesses to drive them for value and that means driving revenue from the combined organisations greater than the individual parts would have done previously and degree of cross integration as well. So I'm sorry if that doesn't give you a precise answer to your question, but that's how we see it.

Fiona Maclean – *BAML*

Okay - maybe you can give an indication in terms of pricing - have attitudes continued to change through the last few months? Do you still think you can do good quality deals?

Ian McHoul – *AMEC*

Yes, we still think we can do good value deals. I think the expectations of buyers and sellers [of businesses] have narrowed. Previously after the big financial hiatus the expectations were very different, the bid offer spread was too wide and deals didn't get done. I think those market values have clearly gone up, but the bid offer spread has come down, and furthermore, there is now improving transparency of the business. If you've got big gaps in expectation and poor transparency, you're not going to close that gap. Whereas now, there is a gap but there is greater transparency of the numbers and therefore it's easier to close that gap and therefore there's more chances that deals will get done.

Fiona Maclean – *Merrill Lynch*

Okay, that's it for me. Thank you.

Christyan Malek – *Deutsche Bank*

Hi, good morning guys. Just one question just regarding your point in the IMS around the skew of H2 versus H1, can you just elaborate on what were the drivers behind that. I mean, clearly you've got a pipeline that's perhaps moving towards H2 versus H1, but what are the drivers behind why it's higher than usual and is there anything to be concerned about?

Ian McHoul – *AMEC*

There's nothing to be concerned about. Typically we'll have a slight bias towards the second half, but look at the 09 reported numbers, the first half was about 49% revenue and about 45% EBITA, okay, that's how the business was shaped. Now because of the shape of the recovery - it's a gradual recovery - the momentum builds. All we're saying is that, rather than that 49%-45% shape, it'll be two or three percentage points off that in the first half and that... and that would be two or three additional points in the second half. So that's all we're talking about Christyan. It's just the shape of the recovery and where we are in the curve, it's not an ongoing structural feature, it's unique to this stage in the cycle.

Christian Malek – *Deutsche Bank*

And, in terms of key KPI's within the mix, is that a variable in that equation or is that just, you know, like-for-like every year, the same sort of level of booking?

Ian McHoul – *AMEC*

Yes, it's the same sort of level of booking. I mean, if you look back every year you'll see the stronger margins in the second half than the first half. There are two reasons for that. One is our self-help measures, cost efficiencies, step change, Operational Excellence, building through the year, so you get more in the second half than the first half, because they accumulate.

Then it's the booking of KPI's that you raise – with the majority of our contracts bias towards calendar year – and we cautiously book KPI's. There's more towards the end of the year than the start of the year. That hasn't changed. We're exactly consistent on how we book that. So the skewing of numbers is not a result of changes to the way we recognise KPI's, it purely reflects momentum in the market.

Christian Malek – *Deutsche Bank*

Thank you very much.

Iain Armstrong – *Brewin Dolphin*

Good morning everybody. I've got two questions. One is in regards to two external factors which have taken place in the last few weeks. One is the BP disaster in the Gulf of Mexico and what impact that could have on your business and your relationship with BP going forward, and the second is the proposed change in Australian tax on mining, especially given you've targeted that area as an area for growth going forward.

Ian McHoul – *AMEC*

Okay thanks Iain. On the Gulf of Mexico, it's obviously a very difficult situation, a very sad situation with the loss of life there and the environmental aspects and our priority at this time is to insure that we offer all the help we can to BP. This isn't a site that we have worked and are working on, but we've extended an offer to BP to be involved in any way that want and we are standing by. What are the consequences for BP in the Gulf? That is uncertain at this time. We have a wide ranging relationship with BP in the Gulf as you know in the UK in the Caspian, so at a macro level we don't think they'll be any significant impact from this disaster on our operations. But say again, our priority in the near term is very much to help BP in any way we can or they would like us to.

On the Australian mining situation, it's remains to be seen. Obviously it's not a positive move, how... Will it be a major issue, will it be a minor issue, we're... we think it's more of a minor issue than a major one in terms of our business and our activity. But we have to wait and see.

Iain Armstrong – *Brewin Dolphin*

Well, I mean, there have been sort of, in terms of Australia, there has been some of the smaller drilling resource companies have come out and said, oh well, we're not going to go ahead with that project. You haven't seen anybody coming back to you and saying, well maybe that one was a bit of a peripheral project, we might not be able to go on with that, and therefore, you're engineering services may not be required.

Ian McHoul – *AMEC*

We have not seen that at this time. We haven't seen any customer deferrals or cancellations. Actually we're starting to see it pick up which is what we anticipated anyway, so the feeling in the GRD business is positive. It remains to be seen where it will turn, but we can be hopeful. And the other point is, now remember that we've got a very flexible workforce. We try to insure that our engineers are skilled in more than one discipline and capable of working across sectors. So, and that was the whole strategy, or part of the whole strategy of our buying GRD in the first place. It wasn't about buying into mining in Australia; it was about boosting our footprint in that part of the world to benefit from the growth of NR activities in general in that part of the world. So, you know, there is flexibility afforded us there.

Iain Armstrong – *Brewin Dolphin*

And just going back to BP, I mean, in terms of settling with guys to BP, they're not doing... they've said they're not doing any drilling in the Gulf of Mexico at the moment. Do you actually supply services in the Gulf of Mexico to them? In which case, are you being suspended from... or are you just carrying on with the contract, or what?

Ian McHoul – *AMEC*

Our activities with BP at the moment are FEED, Front End Engineering Design, and all our work is above water. So they're not going to go in for new drilling, that is, you know, at the moment is perfectly understandable, but it's not our core activity for them - it's not our activity at all for them. So that is why we feel that in the, you know, at the macro level this will have no real impact on our momentum.

Iain Armstrong – *Brewin Dolphin*

And it's not interrupting your negotiations with other possible deep offshore contracts, again people tend to think, well there's going to be a backlash in the Gulf of Mexico which could well impact other offshore areas with regards to regulations on safety, etc, which of course could be a positive for you overall, because presumably the oil companies are going to need more oil services.

Ian McHoul – *AMEC*

It could go either way. The fact is we haven't seen any interruption. We operate, as you know, a global business, a wide range of sectors, so I think we are... we have a cushion against any of these potential issues and interruptions; the business is well spread and balanced. But in any event, and say again, we have not seen any stalling of discussions.

Iain Armstrong – *Brewin Dolphin*

Right, and also one final one. Are you... you seem quite confident, you know, that despite having a Lib Dem as the energy minister and the nuclear power programme is going to continue, but with regard to the process going forward regards energy requirements in the UK, do you expect that there's going to be actually an even greater emphasis on alternatives with regard to wind, wave, etc, and to that, influence your M&A strategy going forward.?

Ian McHoul – *AMEC*

I think the majority of the green energies that we're involved in executing, and I'm talking about bioprocesses – wind, wave, etc – the majority of that activity at the moment is in North America, where the funding structures are clearer and more robust. It laterally developed in the UK because the funding hasn't necessarily been there, if that changes, then that would be great, that's a positive. It's a sector that we've clearly targeted as core for us - a core growth opportunity for us. If it, say again, if it picks up in the UK as a consequence of political change then that would be great. Could that bring on new targets and acquisitions, well of course, yes.

Iain Armstrong – *Brewen Dolphin*

Okay, thank you.

Henry Tarr – *Goldman Sachs*

Hi there. I just wanted to ask a quick question on the average net cash for the year, which you put at £650. I think you started the year at about £740 and have spent around £80 on acquisitions, are you not generating any operating cash this year or am I missing something?

Ian McHoul – *AMEC*

Yes, morning Henry. The shape of the cash flow is heavily biased negatively for the first half, so forget acquisitions for the moment. In general, we have significantly weaker cash flow in the first half structurally. Very simplistic, if you imagine winter down time at the end of the year into Q1, as it builds up, as the business starts to ramp up, that's when you get working capital in flows later in the year, so lower activity around the northern hemisphere winter, equals working capital outflow and it comes back into the second half of the year. In addition, around 65-70% of our tax bill flows out in the first half and that's just a function of the regimes where we do business. That is, it was true last year, it was true the year before; it will be true this year. Absolutely we will generate operating cash, but there is a bias against the first half and that drives down the average from the year end number. In addition of course, we've spent in the year to date, I don't know, getting on £100 million in acquisitions anyway. So that's what you see reflected in the numbers. Overarching all of that, as you saw last year, was an absolute priority for the business to focus on cash. Cash is where, I think historically, we've been a little off the pace in terms of best practice. There's an absolute will and desire now to improve cash flow across the business and, you know, there is no reason over the long term where profit and cash are... cash conversion from that profit should be about the same, there might be a small gap for working capital expansion, but it will be modest.

Henry Tarr – *Goldman Sachs*

Okay, great. So year end net cash could be significantly higher than the year average.

Ian McHoul – *AMEC*

Yes, it goes down in the year and then up again by the year end, that's the shape of it.

Henry Tarr – *Goldman Sachs*

All right, that's great, thanks.

Operator

Your next question comes from Andrew Whittock, Oriel Securities. Please ask your question.

Andrew Whittock – *Oriel Securities*

Yes, good morning everyone. Two questions and I think I'll just follow up on that cash one to start off with. Just in terms of working capital movements Ian, you're talking about a strong improvement through the second half; will that involve any further investments in working capital? Should we expect any unusual movements in the cash? And I did wonder if that was what was driving your average cash guidance for the year? And sort of related to the improvement that you're experiencing at the moment, would I be right in thinking that you have the capacity within your existing labour force to handle that and that therefore you don't foresee any constraints holding back the rate of growth going forward?

Ian McHoul – *AMEC*

Thanks Andrew. No, the answer to your first question, there are no unusual movements in working capital, the shape of the numbers is entirely driven by the factors I just was discussing in answer to Henry's question. So no, there are no funnies in them, it's just normal seasonality.

On the growth curve and capacity, it won't be a constraint - obviously we have the ability to take on more people and we do, you know, every day, every week we're recruiting. We would expect to build that over the coming months and years in line with the growth expectations. Could it become a constraint? Well I guess, yes, but all of our processes internally are focused on insuring that it doesn't in terms investment in the recruitment, the development, the training, etc. So we're not expecting it to become a constraint.

Andrew Whittock – *Oriel Securities*

Right. Thanks Ian.

Operator

We have no further questions. So if you wish to continue.

Ian McHoul – *AMEC*

Okay, well thank you for listening everyone. Before we close, let me just summarize the key points as we have them. Trading in the year to date is very firmly in line with expectations. You've seen the order book improve; we'd expect to see the order book to continue to strengthen as the year progresses. We remain firmly on track to deliver our EBITA target of 8.5%, as I've said, and of course our financial position remains strong and we will continue to prioritise selective value-enhancing acquisitions. Thank you all very much indeed.

Operator

This concludes your conference for today. Thank you all for participating and you may now disconnect.