



Final Transcript



 InterCall®

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## Corporate Participants

**Ian McHoul**

*AMEC PLC - CFO*

**Sue Scholes**

*AMEC PLC – Director of Communications*

**Nicola-Jane Brooks**

*AMEC PLC – Investor Relations*

## Presentation

**Ian McHoul – AMEC PLC – CFO**

Good morning everybody and welcome to our Interim Management Statement Conference Call. I'm Ian McHoul, the Chief Financial Officer here at AMEC and with me are Sue Scholes, the Director of Communications, and Nic Brooks from IR. Hopefully you've all had a chance to have a look at our release so I won't repeat everything that's in there, but let me pick out a few key points before I open up for questions please.

Trading has continued to be strong and year-to-date has been towards the top end of expectations. There's been a good performance across all sectors in Natural Resources, but particularly oil sands. Power & Process continues to benefit from the strategic refocusing we've been doing and in Earth & Environmental the energy, mining and water sectors have been strong. We've continued to make operational efficiency gains and now expect our group EBITA margin for the year to be around nine percent, despite continuing margin pressure from the customer base. Our Order Book at £3.1 billion is up compared with October last year, but down somewhat from June. Let me explain this. Our new order intake in the period since June is significantly above last year, but sales in the period have been very strong and have outstripped order intake. In addition, we see reduced demand from National Grid in the US, following their recent regulatory discussions. Let me stress, this is in no way a reflection of our relationship with National Grid, and is not expected to materially influence trading in the short term, rather the action we've taken on the Order Book is consistent with our prudent approach. Our Balance Sheet remains strong with net cash at the end of October, of some £680 million and we continue to focus on value growth through acquisitions. I'm not going to run through each of our recent contract wins, you can read them for yourself in the release. But looking ahead, improving market sentiment and recovery in key customer's capital expenditure are expected to continue to

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support the group's overall performance. We're now firmly focused on revenue and EPS growth as we implement our Vision 2015 strategy.

Before taking your questions, can I remind you that this conference call is being recorded and will be available today at our website at AMEC.com and so at this point I'll be pleased to take any questions you may have. Operator, may I have the first question please.

## Questions and Answers

**Phil Lindsay – RBS**

Good morning Ian, it's Phil at RBS here. A couple of questions, first of all can you just provide a little more detail on the scope of reduction for the National Grid in the US please, I know it was a 1.7 billion programme covering two states, but I think your scope was just New York, what has the scope been reduced by and have you reduced your backlog accordingly?

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**Ian McHoul – AMEC PLC - CFO**

Phil, I'm not going to comment too much on what's happened with National Grid; their affairs are theirs and many of them are in the public arena, as you've seen. But yes, our work on the East Coast of the US with them is expected to come off. We see it coming off on the back of changes to scope on their infrastructure replacement programme, as it says in the release. So I can't be specific on what we're going to do or not going to do, but we just see overall demand decline and that's why we've reduced the Order Book accordingly.

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**Phil Lindsay – RBS**

There's more of an impact on 2011 as well, more than 2010.

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**Ian McHoul – AMEC PLC - CFO**

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Yes. I'm not going to give you a precise number, but if it was very significant we'd quote a number and if it was immaterial we wouldn't even be talking about it, so it's a modest, moderate sum. Because the sum is spread over three or four years, which is the way we normally do our Order Book, the impact in any one year is not material, particularly given everything else that's going on in the recovery in the marketplace. So is this welcome news? Well clearly it isn't welcome news, but we don't expect it to make a material dent in our financial numbers and furthermore, the relationship with National Grid continues to be good, we're still getting new work from them; we're still talking about further work, so that the relationship there is ongoing. What's happened just reflects a unique set of circumstances with the regulator for National Grid in the US.

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**Phil Lindsay – RBS**

Okay thanks. And just switching tracks to Natural Resources, I know you've discussed in recent presentations the positioning at the front end of several major deep water projects that were expected to reach FID, there's clearly been delays in this market, Macondo obviously hasn't helped, particularly with the Gulf of Mexico projects like Tubular Bells and Kodiak and I know the FID on the INPEX project in Australia was put back to the fourth quarter of next year, but what are you seeing elsewhere in that market, what can we expect there?

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**Ian McHoul – AMEC PLC - CFO**

Overall the deep water market is good, with the oil price where it is at the moment, taking into account the restrictions to some degree that there have been in the Gulf of Mexico, the economic backdrop is stabilizing and elsewhere we're seeing a pretty decent investment; and that's true right across the upstream piece, not just deep water. If we look at our own situation, the Claire project is going exceptionally well, INPEX is going well, we've got good work there, we are hopeful of getting further work in both initiatives. Even in the Gulf of Mexico, where we've got good positions with BP, we would expect delays in those... but frankly, the field work we were doing is ongoing and we would expect those projects to move ahead.

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**Phil Lindsay – RBS**

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Thanks and just one follow-up quickly on cash conversion which was obviously weak in the first half, can you discuss your second half progress and full-year prospects for cash flow?

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**Ian McHoul** – *AMEC PLC - CFO*

The prospect for cash remains good. You're right that it was weaker in the first half on the back of strong revenue growth - and therefore working capital outflows. The progress is good and all our previous guides on cashes is repeatable - Q3 numbers are impacted by the final full-year dividend payment from last year, which was paid in July. Overall, working capital flows are good and I would expect high cash conversion.

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**Phil Lindsay** – *RBS*

Thank you Ian.

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**Andrew Dobbing** – *JP Morgan*

Yes, good morning Ian. Revenues from oil sands represented about 38% of Natural Resources in the first half of this year and you've highlighted continued strong growth in this part of your business, do you expect that share of Natural Resources to continue to grow for oil sands and can you confirm that profitability is better than the average for that division in both kind of the engineering and OPEX side of oil sands?

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**Ian McHoul** – *AMEC PLC - CFO*

Yes, oil sands was high in the first half and the current profile of oil sands reflects the timing in particular of the Kearl project which has been going gangbusters in the year. We see the market for oil sands as strong and (our accessible market) continuing to grow 5-10% over the next ten years or so. Because 2010 has been such a strong year for us on the back of Kearl, we would not expect that to continue to grow - in fact we really expect next year - just because of phasing and timing differences, to come off a bit in the oil sands. To be clear, that is not a reflection of the underlying trends in the marketplace or indeed our underlying position within it, it's just a

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reflection of the timing and phasing around Kearn. We're working with other customers too, they may fill the gap, but sitting here today we'd expect oil sands to come off in profile terms next year. In terms of margins - margins in the oil sands are pretty good, yes, but as you've seen quoted in our release right across the business, margins are under pressure and it's no different in the oil sands.

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**Andrew Dobbing** – *JP Morgan*

Okay, thanks very much. I have a second question. I guess we all know you guys are heavily incentivised to deliver strong margins for this year, how much of a recurring benefit do you think we should expect from the operational efficiencies you've highlighted? Certainly corporate costs fell quite sharply in H1, which of course is quite impressive. Do you expect those costs to continue to fall and will we see those operational efficiencies elsewhere in the P&L as well?

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**Ian McHoul** – *AMEC PLC - CFO*

Yes, I think operational efficiencies is kind of business as usual. We had the big 'Step Change' programme as you know, we had the 'Operational Excellence' programme and they delivered a quantum leap in our state of efficiency and those efficiencies are ongoing. We don't suddenly become inefficient again. Would I expect that the momentum of further efficiencies to continue at that scale? Obviously I wouldn't - but I think it's management's task to make ourselves constantly more efficient and take overhead out where we can and improve efficiency where we can. It's part of the overall task of moving margins ahead where we can and resisting customer margin pressure where we can. So you can expect to see efficiency improvements continuing. The overall shape of the P&L as a consequence of that clearly depends on the rate of revenue growth, the mix, and the push back from customers.

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**Andrew Dobbing** – *JP Morgan*

Thank you and just one very quick question to finish, it looks to me like the guidance you're providing of at least a nine percent margin for the full year, is implying some sequential revenue growth in the second half of the year, can you confirm that that's likely?

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**Ian McHoul – AMEC PLC - CFO**

Yes, what we reported in the first half was kind of a market where we see a gradual improving market and gradually improving customer activity and pipeline and a sales trend which wasn't, you know, shooting the lights out but was gradually picking up, so sort of a gentle curve of improvement and we saw underlying growth. If you strip our currency and you strip out acquisitions, we saw underlying revenue growth at the half year of six percent and the shape of the curve I've just described of 'gentle recovery' is still true. So you know, organic growth is there in the marketplace and it's there in our business and obviously our job is to make sure that continues.

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**Andrew Dobbing – JP Morgan**

Fantastic, thank you very much.

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**David Phillips – HSBC**

Thanks, morning everyone. A couple of questions on the offshore side on Natural Resources: firstly on the FPSO or topsides - an interesting award there in the North Sea you announced recently. I wonder, you know, there seems to be quite a lot on the horizon, you know, you take a sort of a couple year view out there, how you think about your position in terms of growing market share and whether you need to do any further investment to take some more business in that region. If we look at where the market is growing in terms of Brazil and West Africa and so on. And secondly, linked to that on the sub-sea and surf side, I know you've targeted this as an area for direct investments and possibly external investment as well, I wonder if you could talk about how that's going and whether you think you rather need to be a sooner buyer of capability in this space given what's on the horizon. Thanks.

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**Ian McHoul – AMEC PLC - CFO**

Let me start with the second one. On the surf front, clearly there are two big players in the market - both owned by competitors, so can we go out there and build a very big position? We

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can't, but what there is out there is a very large number of quite small players with quite high levels of expertise and good position, so what we are working hard on is taking long lists down to shorter lists and down to short lists and identifying targets that we're interested in picking up - and we're having some success with that. So the strategy on surf is around small targeted acquisition where we can bundle them together - and then targeted recruitment on individuals to build a sub-sea business.

Second, you talked about Brazil and West Africa; I think we do need to invest more in a generic way, if you like. As you know, we've got a strong balance sheet and we'll take on debt for the right acquisitions: Brazil, West Africa, Middle East and Australia. We're involved with the Maersk FPSO Project, which we announced last week, same with INPEX so there's a lot of activity out there and we want to get our share of that activity and increase our share where we can. So yes, I mean acquisitions and investment is a key part of what we're about.

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**David Phillips – HSBC**

Okay, I just want one quick follow-up. I just wondered from a very simple viewpoint, looking at some of the stuff you've announced you've won recently. What do you think is the most exciting really? I mean is it gas storage off Ireland, is it CCS with Grid or is it biomass in the US and that sort of thing?

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**Ian McHoul – AMEC PLC - CFO**

Well sort of yes, yes and yes really. You know, gas storage piece, you know, there's a couple of deals... there's the Providence Resources P.I.c. Ulysses salt cavern gas storage project, which is in today's release, there's also a Gateway gas storage deal which is early stage, but if that goes that could be a very, very major investment. So there's an awful lot going on, it's a massive field and there's huge opportunity there. The guys are trying to get funding and if that moves forward that'll be very exciting, but also, in the whole biofuels, renewables piece; it's really kicking off at the moment. The pipeline is there, we've announced some deals as you saw quite recently and if we look at our pipeline and deals that are there, there's an awful lot bubbling under now and this is largely in North American, getting contracts actually to the point where boards are ready to take the decision, it's still... the tendency is to move to the right, so the timing is less predictable, but we think this area is particularly exciting, yes.

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**David Phillips** – *HSBC*

Yes, okay, thanks Ian.

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**Fiona Maclean** – *Merrill Lynch*

Hi yes, it's Fiona at Merrill Lynch. I've got two questions. Firstly on your income from associates, you were suggesting at the first half results that the contribution in the second half would be somewhat lower, can you give us an update on how you see the performance in that segment in this part of the year that we're facing and then in terms of the result that you're suggesting from your updated guidance, is there going to be potentially any increase, or a bigger than normal increase, in your dividend payment that you would be announcing in March. Thank you.

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**Ian McHoul** – *AMEC PLC – CFO*

Okay, on associates - the main associate is Sellafield, so we tend to think about that as the main piece. Now we've flagged all the way through since early in the year, we expect Sellafield numbers to be a little off last year just because it was year two and the benchmark's gone up. We did fantastically well in the first year against the performance base indicators and got paid out very well. Actually, we're doing very well this year as well, but the bar's been raised, so we would expect to be perhaps a little off, but only a little. So you know the momentum in Sellafield is very good, progress is good and we remain very pleased with that.

Dividends, obviously I can't comment on dividends particularly, as they are a matter for the board. The general thing I would say is - there's two ways of giving money to shareholders, [annual half yearly dividends and then there's a bigger buy back. My preferred route is to keep the twice yearly dividends moving in line with earnings, broadly, so you saw an 20% increase at the half year broadly in line with earnings, so that is the way I would expect half yearly dividends to move, broadly in line with earnings as we go forward. Anything over and above that will come through a process of looking over all our returns to shareholders and the management of the Balance Sheet in that regard, so I don't think you should expect a massive spike in half yearly dividends.

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**Fiona Maclean** – *Merrill Lynch*

Okay, thank you very much.

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**Martin Rats** – *Morgan Stanley*

Yes, two quick ones from me. With the backlog roughly stable year over year, would it be fair to expect relatively limited revenue growth going into next year? Over the last couple of years you've consistently done double digit revenue growth, except in 2009 of course, but with the backlog sort of hardly up compared to this time last year, it seems a bit of a stretch to kind of return to that trend or at least in terms of our forecasting. And secondly, would you expect that the EBITA margin of the second half of this year would be continued into 2011 or is there more of a seasonal pattern to it?

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**Ian McHoul** – *AMEC PLC – CFO*

Okay, thanks Martin. Will revenue be flat next year? Absolutely not. Let me just stand back a bit and talk about the Order Book. The Order Book movements are incredibly lumpy, okay? The Order Book is made up of two things broadly, it's made up of sales trends and it's made up of order intake. Now order intake can move incredibly lumpily when we happen to sign up big orders and when we don't. If you move from one month to the next or one quarter to the next, it can make a massive difference in the Order Book. Sales can be very uneven; we've talked about the Kearn project really ramping up this year and making trend differences there. So you know, I'd love to be able to say to you, Order Book growth or intake or even sales all move very smooth and it's easy to interpret. It just isn't like that. So if we stand back and look at the long-term movement in the Order Book, how does the long-term pipeline feel? It feels good. Customer activity feels good, the outlook for projects feels pretty good right now, so we would see that pipeline coming through into order - and coming through into sales growth next year. So I think if you look back at our Order Book last year around the same time, you'll see some up and down movements then, that's just how it goes. So, you should absolutely not assume that we're going to flatten revenues next year. You see in the IMS, there's a reference to focus on revenue growth and earnings growth and that's there for a reason.

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On margins, again if you look back, H2 is always much higher than H1. I think last year the difference was about 150 basis points. Now the reason for that is principally that we have a lot of contracts that have KPIs in them, performance based KPIs, on average they're based around calendar years, and so we don't recognize KPIs if we **think** we're going to get them, we recognize them when we've **got** them, so on balance we book KPI income in the second half - in December as it were, and that is what skews the margins. So we would expect H1 2011 to be down on H2 2010 and that's a totally normal trend. Look back at our numbers Martin and you'll see H2 is always stronger than H1.

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**Martin Rats** – *Morgan Stanley*

All right, thank you.

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**Christian Malek** – *Deutsche Bank*

Morning guys, just two questions if I may, the first on the backlog: before I ask the question, I'm assuming here that you've got a theoretical booking of revenue since end of first half to now that you've taken off, and then obviously with addition of contracts gets you to your backlog number that you've reported. So with that in mind, I guess you know, you've got to £3.1bn, the visibility in the oil and gas sector currently, in terms of project awards, should be improving, but we don't get the sense that there are major projects being awarded, so I guess in mind of that, whereabouts in this pipeline that you're referring to, gives you the confidence that you can raise that number from £3.1billion higher? And I guess higher than you were at the end of H1, because for that to happen, you've got to win something like £600 million worth of orders, in theory, to get about the £3.5billion number and just to reverse that, make the momentum you've got, so I'm perhaps asking the same question, but a different way.

Can you say that with the positive backdrop that the visibility is there for you to see that momentum reverse or is it sort of a 'fingers-crossed' right now towards the end of this year?

And two on margin, I'm not understanding why in the end of H1 you had a grade of an eight point five and then three months later you're now saying nine, what is it between then and now that's given you that confidence to report nine percent, and within that, it is down to sort of contingencies being released, better execution, I guess the really crosses that question into next

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year, can you be confident you'll be growing margins into 2011 based on what you've done on efficiencies at the same kind of pace if pricing reverses, because you're still going to have margin pressure presumably from margin pressure leaves, but you know, if pricing pressure goes that margin should grow as well at a pretty good rate. Sort of long questions.

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**Ian McHoul – AMEC PLC – CFO**

There's a lot there. Just one thing to go back, you talked about negative momentum in the Order Book, we don't think we've got negative momentum. Order intake this year is very significantly ahead of order intake last year. Order intake in the first... in the four months since June, between June and October, is significantly ahead of order intake in the same period in 2009. So there is momentum in order intake. So that's absolutely the case. Now you know, we talk about the activity around customers and the pipeline, as we sit here today, I mean even in places that some might regard as less exciting like the North Sea, if we look at our project list for the North Sea and the pipeline, there's more there today than there has been for many years. So the outlook and momentum is positive. Other point to remember is, we don't do many really big scale projects; we are not lump sum activity. So, do we book half a billion here, a billion there? We don't. We tend to do much more smaller pieces than that and when we do, we book them cautiously. So, I take issue with the language there. So, I can't put definitive numbers on things. Do I think the Order Book will be higher at December than it is now? I do yes. Is that a guarantee? It isn't, but if I look at the trends within the business and what we're seeing and the discussions we're having with customers, what we know those customers are doing, we see good momentum out there and we see our ability being there to get a decent chunk of that business.

On margins - we've gone from eight and a half to nine, I'm not sure that that's so much of a jump. I think the things you talked about, you know, we continue to get improvements in our business, we're continuing to get efficiency gains, the executions are good, but inevitably I wouldn't say we've released contingencies as it were, but inevitably as the year moves forward, you know, the reporting accuracy should narrow in scope for things going wrong. As it narrows, we can be more precise in our guidances as the year comes to a close. So it's all those things, it's just momentum in the business and the proximity of the year end. You know, can we see margins going up and momentum continuing into 2011 and 12, that's a big question. Could they go up? The answer is yes, they could go up, the real question is - is it sensible for them to go up? I mean we've talked in Vision 2015 around a balance of revenue growth and margin accretion - of balancing those two together and say, which is the optimal mix to maximize EBITA and cash flow, you know, sitting there at nine percent, you know, our focus is much more around revenue I think.

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Do not take that as a cue that margins are going to collapse, they're absolutely not. If we can creep margins forward, we'll creep margins forward, but I think it's much more about revenue growth going forward into 2011 and 2012.

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**Christian Malek** – *Deutsche Bank*

Great, and I guess in that, would you say that the pricing pressure you're seeing from clients in the next two years, given the improvement of the macro and the visibility has gone up, would you say that that pricing pressure could reverse? Because that would be an important compound to growing your margins. You've managed the cost base very well, but not with pricing going the other way, that could compound to quite a higher, you know, to where I could see margins in a group level continue to rise? Does that make sense? Is that a scenario that you envisage?

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**Ian McHoul** – *AMEC PLC – CFO*

We're not assuming that no. If that happens, okay great, fantastic, but we're running our business on the basis that the customers don't one day turn around and say, you know, here's a few more quid. Now if the market booms and resources become scarce and prices move up, margins might expand, that's there. So you're clear, we are not assuming that, okay? We are running our business on cost efficiency and mix, focusing on the right activities with high skill requirement, high differentiation, high scope there for innovation and margin upside. We're looking to serve the customer in the area where the customers need skilled input and that's what's helping to drive and support our margins. So I say again, it's an important point, we're not assuming a massive expansion in margins going forward on the back of the changing market; if it happens, great.

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**Christian Malek** – *Deutsche Bank*

Brilliant, all right, thanks very much guys.

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**Kenan Najafov – Citi**

Hello, thank you for taking my question. Can I just ask you to summarize the outlook for the 2011 in terms of sales growth, and how much of those sales are secured in the current backlog? And second question - just a bit of a nit picking on Power & Process, here you mention that the division continues to make good progress on the older contracts that did not meet the revised criteria, I was wondering what you mean by 'good progress' and 'older contracts' please? Thank you.

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**Ian McHoul – AMEC PLC – CFO**

Okay, on the broader question of sales in 2011, I mean we're not going to give a sales forecast, you know, we never do and we won't. What I've tried to paint today and what I hope's been painted in the IMS is a situation where we're seeing improving organic trends within the marketplace, market activity picking up, pipelines improving, customer relationships that are good, proven execution, proven design and innovation skills, add all that together, we expect to see, you know, pretty reasonable underlying revenue growth. Not an expansion, not an expanding, exploding balloon of activity, but a gradually improving curve. To enhance that, to augment that, obviously we'll have growth through acquisitions, bolt-ons and medium-size and larger deals hopefully and that's what we can continue to focus on. So I'm not going to put a number on that for you.

On Power & Process, first very briefly the business has been refocused around a much more benign, risk averse contracting format in recent years. Back in 05/06 we signed a handful of contracts which were low margin, lump sum activity - and high risk. Those contracts frankly didn't perform very well and last year, in 2009, we took a £10 million loss on those four contracts, which is public news. The statement, the short sentence you've seen in the release there is to say, look, we continue to make progress on solving them, we're moving in the right direction, there is no more pain in the numbers from these contracts, we're not out of the woods yet, but I think they are under control.

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**Christian Malek** – *Deutsche Bank*

Thank you and can I just come back to my first question. In terms of the backlog, the current backlog phasing if you wish by the next two or three years, are you in a position to give any guidance on that?

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**Ian McHoul** – *AMEC PLC – CFO*

Yes, I mean broadly the way to think about our backlog - and we try and compile it consistently - at any one time roughly 40% of the backlog will be for execution in the following 12 months, 30% will be for execution in the 12 months after that, and the other 30% will be for execution in the 24 months after that, so that's roughly the shape of it. But what you also need to remember is an awful lot of our activity doesn't go through the Order Book, it's walk-in work, anything that goes through Earth & Environmental is very short-term contracts, one, two, three, four, five, six months, which might hit the Order Book at the reporting date or might not, so it's an indication of good health to some degree, but it's not the sole determiner of where revenue's going to be.

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**Christian Malek** – *Deutsche Bank*

Of course, thank you very much.

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**Ian Armstrong** – *Brewin Dolphin*

Good morning everybody. I just had a couple of questions, I think Christian sort of touched on some of the points I was trying to get behind, I just thought with the first one though, excuse me, the end statement you said going forward focus will shift more towards revenue and EPS growth, consistent with our Vision 2015 strategy, is that an indication that your business has been so strong this year that perhaps you're a little bit behind in terms of implementing the 2015 Vision?

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**Ian McHoul** – *AMEC PLC – CFO*

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No, it's not and apologies if that's how it might be implied and I think we're drawing a line. Back in 2006, we put margin targets down for the period up until 2010. So up until this year, the year that's coming to an end, the focus was on margin expansion because it's the margins that needed fixing.

Now, having got margins to a place where we are a lot more satisfied that we were, put it that way, we have a business that is under control in terms of converting top line to bottom line and is under control in terms of converting bottom line into cash, so the key financial parameters of the cash... of the profit profile, the financial profile I think are under control. So now, having got that, a business that's under control financially, how do we expand by getting bigger revenue growth? We think driving the margins hard to 10, 11, 12, 13 percent, which we could do, is probably sub-optimal because the revenue would go down sufficiently to overall the EBIT goes down, that's the point. So it's... we just think now it's much more of a growth gain than a margin expansion gain because the margin expansion has happened.

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**Ian Armstrong** – *Brewin Dolphin*

Right and in terms of the... and I know in 2015 you're talking about the various opportunities with regard to the amount of acquired growth versus organic growth, do you think that given that the – and I know you're assumption of over a hundred pence a share was based on neutral market conditions and it's probably too early for you to change your neutral market conditions assumption – but certainly in the last 12 months the oil and gas and also the commodity markets have been a lot stronger than they were this time last year.

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**Ian McHoul** – *AMEC PLC – CFO*

Yes, what's the question?

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**Ian Armstrong** – *Brewin Dolphin*

Do you think you can be less aggressive on the acquired growth because the organic part of the underlying business that you're doing is, if anything, much stronger than was originally thought?

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**Ian McHoul – AMEC PLC – CFO**

Okay, a couple of points: what we assumed was a return to neutral market conditions and are we in a massive buoyant market nowadays? Okay markets are better but there's still a degree of uncertainty around there. Look what happened in Q2 with the great debt crisis, that put everything on hold again, but it wobbles around, so are we getting better? For sure, markets are better. Is it a real raging bull market? Well I don't think so. So broadly the market shape is not terribly different from that which you might have imagined when we first communicated Vision 2015.

And to your second point, I don't think that's right. I mean organic growth sure, we want to take organic growth and that all comes through and that's great. You said does that mean we'll be less aggressive on acquisitions? The answer is no, I mean we see good opportunity for acquisition, we've got a strong Balance Sheet, we've got debt capacity if we need it and we want to use that to drive further value still, so I don't think we'll be going less aggressive on acquisitions. With a slightly frothier market, as you say, actually things start to become unlocked a little bit because you might think the time to buy is in the trough of the cycle, because valuations are low and that's fine and dandy except when the valuations are low no one wants to sell. So with a bit of heat in the market, that's typically when it gets more, you know, from an M&A perspective, gets more exciting, so there may be more opportunity.

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**Ian Armstrong – Brewin Dolphin**

I was just thinking maybe in terms of the way... I mean you're talking about... you're doing very well in nuclear and renewables etc., probably better than you thought you were going to do, would that be fair to say that? Then that mix is getting a little bit sexier so to speak versus...

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**Ian McHoul – AMEC PLC – CFO**

I don't think it's better than we thought we were going to be doing, certainly not in nuclear, we were well positioned in the contracts to work on our nuclear lines, which were around Sellafield, EDF, we're doing well, we thought we were doing well. It boils... it's not a... there's activity there, particularly in North American there's good activity, contracts, you know, lot's of activity, some

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signed up, some still moving to the right, so I don't think it's better than we thought, I think it's roughly in line. Okay? Could I sort of throw it open to somebody else if there's any other questions? Thank you. Come back at the end if you've got more questions to ask. Thanks Ian.

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**Ian Armstrong** – *Brewin Dolphin*

Thank you.

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**Amy Wong** – *UBS*

Hi, good morning. I have a question here on your comment on continued margin pressure from customers, you're also saying that you're upgrading your EBITA margins reflects improvements in operational performance, so can you give us some colour on kind of current trading, when you're entering negotiations with clients, I mean do you try to factor in more operational efficiencies to kind of maintain that flattish margin or are you actually possibly turning away projects that don't compensate you properly for you use of your resources?

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**Ian McHoul** – *AMEC PLC – CFO*

Yes, I mean, you could talk about that all day couldn't we? You know, we will always want compensation for our resources and it's a very wide spread... you think, well, we've got say nine percent, okay? There will be projects in there range at four or five and they'll be projects in there at 20, okay? So it's not like everything's in a ranged between seven and ten. There's a massive range of projects, so when we're doing projects we're talking about, well what's the risk? If it's low risk, really low risk, the margin can be lower. Is it high risk? In that case we want more. Is it very technical, very high capability requirement? We want more. How important is the customer, is it someone we're trying to build with and want to try and establish a relationship, establish credibility, establish a track record and therefore, you know, you want to get in and build from there. So there's a whole range of factors that go into determining margin on any particular role. Do operational efficiencies play a part of that? Yes, you know, we try and keep as many operational efficiencies as we can equally, you know, the client... we were under reimbursable contract, the client's know that we are getting more efficient and they want their share of that. That's why we put an awful lot of weight behind KPIs, we try and structure our performance such

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that we'll get a base reward, an average reward for an average performance, but then we have the opportunity to get upside against performance on predetermined KPIs, we find that works pretty successfully as a push back against margin pressure. Because you get the KPIs right, what the client wants is for you to max out on your KPIs, because if you've maxed out then they've got everything they want on their objectives. So I'm not sure I've answered your question, but it's... there's an awful lot in the margin mix.

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**Amy Wong – UBS**

That's very helpful insight, thanks Ian.

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**Tao Li – Credit Suisse**

Good morning, can you hear me? Hi, I just want to... you've mentioned backlog in Power & Process, you've mentioned top line, I just want to move back to margin, could you remind us, is there any reason why that Power & Process margin can't get up to a level somewhere to the Natural Resources margin just now and specifically I suppose what I'm getting around to is, Neil's been in charge of that revenue stream for a short while and you talk about ironing out the inefficiencies, what exactly does that entail?

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**Ian McHoul – AMEC PLC – CFO**

I think the answer to your question, could P&P get up to NR? I think the answer is no realistically. I mean to come back to the same thing - could it? We could, but it would probably be the wrong thing to do. There's quite a lot of activity in P&P where the sectors are inherently less complex, there's more competition. I mean if you think about T&D or conventional power, the work there is less complex and therefore more competition equals lower margins. Now, you know, T&D is a classic example, the work there... the volumes have the potential to be pretty good, infrastructures are weak and need replacing, the work is reasonably low risk, therefore for reasonable volume, for low risk, we'll happily accept a lower margin. Why would we turn that business away, it's good cash flow. So to turn it away, if we turned it away then overall our P&P margins would go up and that'd be great but we'd make less money. So I think, you know, we do not see Power & Process margins getting up there with NR. Turn it the other way around, if we

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look at nuclear, nuclear in terms of the real... the top piece of the nuclear sector is very high spec and therefore the margins are very good. You know, we wouldn't want to stop everything and just do nuclear and end up with super margins in P&P because overall it would be sub-optimal. So it's that mix that determines the overall margin.

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**Tao Li** – *Credit Suisse*

Roger, thanks.

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**Ian Armstrong** – *Brewin Dolphin*

Thanks Ian, just very quickly on the backlog, the mix of the first half was very skewed towards the CAPEX rather than the OPEX, has that changed a bit in the second half and do you expect that to change in 2011?

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**Ian McHoul** – *AMEC PLC – CFO*

It'll vary. I think the key points I guess, as we become higher scale, greater scale and greater number of territories as we expand, I think the weight will probably move more towards CAPEX because that's where a lot of the opportunity is. However, we continue to see OPEX as a key part of the equation. There's good money to be made in OPEX as I explained just now, you know, some of the work is less sexy I guess, but you know, the margins reflect that and the margin reflects the risk profile, plus it enables you to continue to build customer relationships. So there may be a move towards CAPEX based on increased internationalization, but OPEX will remain an important part of the mix for us.

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**Ian Armstrong** – *Brewin Dolphin*

Okay and very quickly, GRD is that profitable now, because it was break even in the first half?

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**Ian McHoul** – *AMEC PLC – CFO*

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Yes, GRD's had an improved performance, the business is integrated now, the retrench we had in the first half are done, business is stabilized, the Order Book and pipeline are picking up, so yes, the second half will be into profitability, yes.

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**Ian Armstrong** – *Brewin Dolphin*

Thank you.

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**Operator**

And another reminder, it's \*1 to ask a question please. You seem to have no further questions at this time sir, please continue.

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**Ian McHoul** – *AMEC PLC – CFO*

All right, well thank you very much for joining us today everybody. Let me just summarize the key points for you. I think they largely speak for themselves. Year-to-date trading clearly from our point of view is towards the top end of expectations and we now expect to deliver a group EBITA margin as we said of around nine percent for the full year. Our financial position as you can see remains strong and we will continue to prioritize selected value enhancing acquisitions and we are firmly focused on the implement of our Vision 2015 strategy. So thank you all very much indeed. Bye-bye.

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**Operator**

Thank you ladies and gentlemen, that does conclude our conference for today, thank you for participating, you may all disconnect.