

## Risk Management

**The Board of AMEC plc is responsible to shareholders for the management of the company and for the protection of its assets.**

In this capacity, it is ultimately responsible for implementing AMEC's systems of internal control and for reviewing their effectiveness. Whilst every effort is made to avoid unacceptable risk, there is inevitably a degree of risk attached to all AMEC's activities. These systems are designed to manage, rather than eliminate the risk of failure to achieve business objectives and consequently can provide reasonable, but not absolute, assurance against material mis-statement or loss.

### Principal Business Risks

The board, through its committees and at its regular meetings has a continuous process for identifying, evaluating and managing significant risks faced by AMEC. Principal business risks faced by AMEC are as follows :-

#### 1. Geopolitical and economic conditions

AMEC operates predominantly in the UK and North America and is therefore particularly affected by political and economic conditions in these markets. The company is not, however, dependent on one area of economic activity.

Changes in general economic conditions may influence customers' decisions on capital investment and/or asset

maintenance, which could lead to volatility in the development of AMEC's order intake. The risk associated with economic conditions resulting in a downturn and affecting demand for AMEC's services is addressed, as far as practicable, by seeking to maintain a balanced business portfolio. Central to this strategy is the development of capabilities to establish sustainable growth in new markets.

#### 2. Environmental and social risk

This area of risk management is growing in influence as the threat of climate change becomes more tangible through more extreme adverse weather conditions, flooding and water stress. In addition, AMEC's operations are subject to numerous local, national and international regulations and human rights conventions.

Breaches of, or changes in environmental or social standards, laws or regulations could expose AMEC to claims for financial compensation and adverse regulatory consequences, as well as damaging corporate reputation.

AMEC takes a pragmatic, integrated approach to managing environmental and social risks utilising existing business management systems to identify and mitigate such risks. For example, employment processes protect the human rights of the workforce, and the SHE Management system defines a standard for environmental management.

We seek to work with customers to minimise potentially adverse

impacts arising from projects during construction and operation of facilities.

As part of AMEC's strategic direction we are developing our capability in the renewables market as a provider of services to support this important growth area. Industrial and commercial activities over many years have left a legacy of pollution and waste. Utilising AMEC's extensive capabilities we are providing extensive services to improve our environment.

Please refer to the environmental section of the sustainability report for further information on climate change and environmental risk and opportunity.

### **3. Bidding Risk**

AMEC addresses the risk associated with bidding by a tender review process which addresses the threats and opportunities associated with each tender submitted. In 2007, the Delegated Authorities relating to tender submission were amended in order to place greater emphasis on the level of risk associated with tenders. The tender review process is kept under ongoing review in order to ensure that it continues to address the risk associated with bidding.

### **4. Information Technology**

AMEC is exposed to the risk that the IT systems on which it relies fail. AMEC has appropriate controls in place in order to mitigate the risk of systems failure, including systems back up procedures and disaster recovery plans.

Information technology is important to the effective and efficient running

of a complex organisation such as AMEC. To ensure we achieve maximum benefit for AMEC and its customers, we undertake appropriate assessment of the risks associated with the development, implementation and operational aspects of IT systems.

### **5. Security of Employees**

The personal security and safety of employees and contractors can be compromised due to their either being based, or travelling extensively on business in potentially hazardous locations. AMEC regards the safety and security of its employees as being of paramount importance, and this risk is mitigated by keeping security in relevant locations under continual review, and the hiring of a local specialist security company where appropriate.

### **6. Safety**

As a contracting organisation, AMEC is involved in activities which have the potential to cause injury to personnel. In order to control such risk and prevent harm to people, AMEC manages health and safety with the same degree of expertise and to the same standards as other core business activities. This is achieved through the setting of an effective health and safety policy and ensuring that effective leadership and organisational arrangements are in place to effectively deliver this policy. Performance is regularly reviewed against agreed targets and objectives in order to facilitate continuous improvement.

There is a significant commitment to training and education, and to

communication of lessons learned. High standards of SHE performance are required throughout our supply chains.

### **7. Credit**

AMEC is exposed to credit risk particularly in relation to customers. The credit risk associated with customers is addressed initially via contract payment terms, and, where appropriate, payment security. Credit control practices are applied thereafter during the project execution phase.

### **8. Pensions**

AMEC operates a number of defined benefit pension schemes, where careful judgement is required in determining the assumptions for future salary and pension increases, inflation, investment returns and member longevity. There is a risk of underestimating this liability and the pension schemes falling into deficit. This risk is mitigated by :-

- Maintaining relatively strong funding over time.
- Taking advice from independent qualified actuaries and other professional advisers.
- Agreeing appropriate investment policies with the schemes' trustees.
- Close monitoring of changes in the funding position, with reparatory action agreed with the trustees in the event that a sustained deficit emerges.

### **9. Project Execution Risk**

One of AMEC's significant risks is the risk of losses arising during the execution phase of projects. Various measures are in place in order to address the project execution risk, including the risk

management process, project reviews, internal audit of projects and the implementation of peer reviews. Lessons learned reviews provide valuable feedback on positive and negative aspects and future risks are mitigated through the transfer of knowledge acquired from such reviews via means such as AMEC's project academy.

### **2007 Risk Review**

Following a review of this process in 2007, quarterly risk review meetings comprising representatives from the businesses and functions have been instigated. These meetings discuss business and functional risks; the highest risks in terms of probability and impact are then elevated to the AMEC plc risk register. The plans for mitigation of such risks are also reviewed.

The risk management and internal control processes are complemented by an annual control risk self-assessment exercise carried out by the principal businesses. The results are reviewed by the board, through both the audit committee and the executive directors, and as part of the ongoing internal audit process.

For 2007, this self assessment exercise was undertaken for the continuing businesses; however discontinued businesses were subject to review and audit until such time as their disposal was concluded.

Finally the risk indicators were reviewed and it was concluded that their contribution to monitoring risk management processes was poor

and therefore their collection was discontinued.