
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-K

(Mark One)



**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2003

or



**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from to

Commission file number 1-16129

FLUOR CORPORATION

(Exact name of registrant as specified in its charter)

Delaware

*(State or other jurisdiction of
Incorporation or organization)*

**One Enterprise Drive,
Aliso Viejo, California**

(Address of principal executive offices)

33-0927079

*(I.R.S. Employer
Identification Number)*

92656

(Zip Code)

(949) 349-2000

(Registrant's telephone number, including area code)

Title of Each Class

Name of Each Exchange on Which Registered

Common stock, \$.01 par value

New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:

None

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months, and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☐

Indicate by check mark whether the registrant is an accelerated filer (as defined in Exchange Act Rule 12b-2). Yes ☒ No ☐

Based upon the closing price of the registrant's common stock as of June 30, 2003, the aggregate market value of the common stock held by non-affiliates was \$2,772,295,010.

As of March 3, 2004, there were 83,025,390 shares of Fluor common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Part III incorporates certain information by reference from the registrant's definitive proxy statement for the annual meeting of shareholders to be held on April 28, 2004, which proxy statement will be filed no later than 120 days after the close of the registrant's fiscal year ended December 31, 2003.

FLUOR CORPORATION
INDEX TO ANNUAL REPORT ON FORM 10-K
For the Fiscal Year Ended December 31, 2003

	<u>Page</u>
<u>PART I</u>	
<u>Item 1.</u>	<u>Business</u>
<u>Item 2.</u>	<u>Properties</u>
<u>Item 3.</u>	<u>Legal Proceedings</u>
<u>Item 4.</u>	<u>Submission of Matters to a Vote of Security Holders</u>
<u>PART II</u>	
<u>Item 5.</u>	<u>Market for Registrant's Common Equity and Related Stockholder Matters</u>
<u>Item 6.</u>	<u>Selected Financial Data</u>
<u>Item 7.</u>	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>
<u>Item 7A.</u>	<u>Quantitative and Qualitative Disclosures About Market Risk</u>
<u>Item 8.</u>	<u>Financial Statements and Supplementary Data</u>
<u>Item 9.</u>	<u>Changes in and Disagreements with Accountants on Accounting and Financial Disclosure</u>
<u>Item 9A.</u>	<u>Controls and Procedures</u>
<u>PART III</u>	
<u>Item 10.</u>	<u>Directors and Executive Officers of the Registrant</u>
<u>Item 11.</u>	<u>Executive Compensation</u>
<u>Item 12.</u>	<u>Security Ownership of Certain Beneficial Owners and Management and Related Stockholders Matters</u>
<u>Item 13.</u>	<u>Certain Relationships and Related Transactions</u>
<u>Item 14.</u>	<u>Principal Accountant Fees and Services</u>
<u>PART IV</u>	
<u>Item 15.</u>	<u>Exhibits, Financial Statement Schedules and Reports on Form 8-K</u>
<u>Signatures</u>	<u>EXHIBIT 3.2</u>
<u>EXHIBIT 3.2</u>	<u>EXHIBIT 10.12</u>
<u>EXHIBIT 10.12</u>	<u>EXHIBIT 10.16</u>
<u>EXHIBIT 10.16</u>	<u>EXHIBIT 10.17</u>
<u>EXHIBIT 10.17</u>	<u>EXHIBIT 21</u>
<u>EXHIBIT 21</u>	<u>EXHIBIT 23</u>
<u>EXHIBIT 23</u>	<u>EXHIBIT 31.1</u>
<u>EXHIBIT 31.1</u>	<u>EXHIBIT 31.2</u>
<u>EXHIBIT 31.2</u>	<u>EXHIBIT 32</u>
<u>EXHIBIT 32</u>	

[Table of Contents](#)

From time to time, Fluor® Corporation makes certain comments and disclosures in reports and statements, including this report, or statements made by its officers or directors that are not based on historical facts and which may be forward-looking in nature. Under the Private Securities Litigation Reform Act of 1995, a “safe harbor” may be provided to us for certain of these forward-looking statements. We wish to caution readers that forward-looking statements, including disclosures which use words such as the company “believes,” “anticipates,” “expects,” “estimates” and similar statements, are subject to certain risks and uncertainties which could cause actual results of operations to differ materially from expectations.

Any forward-looking statements that we may make are based on our current expectations and beliefs concerning future developments and their potential effects on us. There can be no assurance that future developments affecting us will be those anticipated by us. Any forward-looking statements are subject to the risks and uncertainties that could cause actual results of operations, financial condition, cost reductions, acquisitions, dispositions, financing transactions, operations, expansion, consolidation and other events to differ materially from those expressed or implied in such forward-looking statements. We undertake no obligation to publicly update or revise any forward-looking statements. As a result, the reader is cautioned not to rely on these forward-looking statements. In addition, any forward-looking statements should be considered in context with the various disclosures made by us about our businesses, including without limitation the risk factors more specifically described below in Item 1. Business, under the heading “Company Risk Factors.”

Except as the context otherwise requires, the terms “Fluor” or the “Registrant” as used herein are references to Fluor Corporation and its predecessors and references to the “company”, “we”, “us”, or “our” as used herein shall include Fluor Corporation, its consolidated subsidiaries and divisions.

PART I

Item 1. Business

Fluor Corporation was incorporated in Delaware on September 11, 2000 prior to a reverse spin-off transaction which separated us from our coal business which now operates as Massey Energy Company. However, through various of our predecessors, we have been in business for more than 100 years. Our executive offices are located at One Enterprise Drive, Aliso Viejo, California 92656, telephone number (949) 349-2000.

The company itself is basically a holding company which owns the stock of a number of subsidiaries. It is through these subsidiaries that we perform our business. We operate globally, with offices in 25 countries across six continents. We define our business as providing engineering, procurement, construction and maintenance services. We serve a diverse set of industries ranging from oil and gas to power to industrial clients to the U.S. federal government. We also perform operations and maintenance activities for major industrial clients.

The company provides professional services on a global basis in the fields of engineering, procurement, construction and maintenance. During the first quarter of 2003, the company realigned certain operations to increase focus on the chemicals market. Projects in this market were formerly in the Energy & Chemicals segment and will now be executed and reported in the Industrial & Infrastructure segment. The Energy & Chemicals segment was renamed Oil & Gas and all prior periods have been restated to reflect this change.

We are aligned into five principal operating segments (each, a “segment”). The five segments are Oil & Gas, Industrial & Infrastructure, Government, Global Services and Power. Fluor Constructors International, Inc. which is organized and operates separately from our business segments, provides unionized management, construction and management services in the United States and Canada, both independently and as a subcontractor on projects to our segments.

A summary of our operations and activities by business segment and geographical area is set forth below.

Oil & Gas

The Oil & Gas segment is an integrated service provider offering a full range of design, engineering, procurement, construction and project management services to a broad spectrum of energy-related industries.

[Table of Contents](#)

We serve a number of specific industries which include upstream oil and gas production, and downstream refining and integrated petrochemicals. Our role in each project can vary, but may involve us providing front-end engineering, program management and final design services, construction management services, self-perform construction, or oversight of other contractors and the responsibility for the procurement of labor, materials, equipment and subcontractors. Our typical projects include new facilities, upgrades and revamps of existing facilities, fire and explosion rebuilds, expansions for refineries, pipeline and offshore facility installations, gas field and oil sands development, and Liquefied Natural Gas projects.

Industrial & Infrastructure

The Industrial & Infrastructure segment provides design, engineering, procurement and construction services to the manufacturing, life sciences, commercial and institutional, chemicals, mining, microelectronics, telecommunications and transportation sectors. We provide our clients with the resources of architecture, industrial design, engineering, construction, construction management and commissioning (including validation) for new construction and refurbishment of existing facilities. These projects often require state-of-the-art application of our client's process and intellectual knowledge. We focus on providing our clients with solutions to reduce and contain costs, and to compress delivery schedules. By doing so, our clients are able to begin to use their facilities on a quicker, more cost efficient basis.

Government

The Government segment is a leading provider of project management services to the United States government, particularly to the Department of Energy and the Department of Defense. This segment is presently providing environmental restoration, engineering, construction, site operations and maintenance services at two major Department of Energy project sites.

We also provide engineering and construction services, as well as contingency operations support to the Departments of Defense, State and Transportation and to agencies such as the Federal Emergency Management Agency. Our contingency operations activities, which support military logistical and infrastructure needs around the world, are evidenced by our recent task orders for the U.S. Army Central Command to upgrade military facilities and electrical infrastructure in Iraq. In January 2003, we acquired Del-Jen, Inc., a leading provider of outsourced services to the federal government. Del-Jen provides operations and maintenance services at military bases and education and training services to the Department of Labor, particularly through its Job Corps programs. In November 2003, we acquired the International Division of J.A. Jones Construction Company, focusing on the Department of States' embassy and consulate market. During fiscal 2003, we placed focus on successfully growing our Government business and we will continue to explore further growth and expansion opportunities in this segment.

Global Services

The Global Services segment brings together a variety of customized service capabilities that complement and support our core businesses. Service areas within this segment include operations and maintenance activities, construction and maintenance site services and industrial fleet outsourcing, plant turnaround services, temporary staffing, materials and subcontract procurement, and construction-related support. These markets are largely driven by the growing demand from clients to outsource non-core services. Global Services' activities in the operations and maintenance markets include providing facility management, maintenance, operations and asset management services to the oil and gas, chemicals and life sciences, fossil and nuclear power, and manufacturing industries. We are a leading supplier of integrated facility management services, including on-site maintenance and operation support services. In March 2003, we acquired five specialty operations and maintenance business groups from Philip Services Corporation. The acquired business groups provide operations and maintenance to domestic industrial facilities, particularly in the oil and gas, refining, chemicals, petrochemicals and power generation industries.

We also provide Site Services and Fleet Outsourcing through our American Equipment Company, Inc. ("AMECO") subsidiary. AMECO provides integrated construction equipment, tool and fleet outsourcing solutions on a global basis for construction projects and plant sites. With locations throughout North and South America, AMECO supports some of the largest construction projects and plant locations in the world.

[Table of Contents](#)

We serve the temporary staffing market through our TRS Staffing Solutions ("TRS") subsidiary. TRS is a global enterprise of staffing specialists that provide clients with recruiting and placement of temporary, contract and direct hire technical professionals. Our construction and global sourcing and supply organizations provide global resources, processes and technology, market knowledge and experience, and volume-leveraged pricing to the company and third parties.

Power

In the Power segment, we design and construct new power generation facilities, mostly in the fossil fuel power industry. We perform a full range of services, including engineering, procurement, construction, start-up, and maintenance. We also provide the design and installation of emissions equipment to comply with environmental guidelines. In addition, we have been successfully increasing the in-plant services we provide to the power market where, for example, we can assist clients in operational improvements, predictive and preventative maintenance and turbine fleet management. Previously, we performed the vast majority of our power work through our joint venture with Duke Energy. As the power market has cycled down over the past year from historical highs during 2001 and 2002, during fiscal 2003, we elected to discontinue this joint venture and will finish off the existing joint venture contracts. The Power segment also has responsibility for execution of our work in Mexico and Central America through ICA Fluor Daniel, a partnership between us and Grupo ICA.

Discontinued Coal Segment

On November 30, 2000 (the "Distribution Date"), Fluor Corporation ("Old Fluor"), a corporation incorporated in Delaware in 1978 as successor in interest to a California corporation of the same name incorporated in 1924, announced that it had completed a reverse spin-off transaction where Old Fluor's Coal segment, which previously operated under the name of A. T. Massey Coal Company, Inc. subsidiary, was separated from the other business segments of Old Fluor.

The separation of the two companies was accomplished through a tax-free dividend (the "Distribution") by Old Fluor of the company. As a result of the Distribution, we became a new entity comprised of all of Old Fluor's business segments, other than those involving the Coal segment (the "New Fluor Businesses"). Old Fluor, the continuing entity consisting of the Coal segment of Old Fluor, changed its name to Massey Energy Company ("Massey"). As a result, two publicly-traded companies were created: Massey Energy Company, and a "new" Fluor Corporation which is the company that is the subject of this report. Massey Energy is a publicly-traded company that is listed on the New York Stock Exchange as "MEE", and files its own reports with the Securities and Exchange Commission. Due to the relative significance of the New Fluor Businesses, the New Fluor Businesses have been treated as the "accounting successor" for financial reporting purposes, and the Coal segment has been classified by us as discontinued operations despite the legal form of the separation resulting from the Distribution.

Other Matters

Backlog

The following table sets forth the consolidated backlog of the Oil & Gas, Industrial & Infrastructure, Government, Global Services and Power segments at December 31, 2003 and 2002.

	December 31, 2003	December 31, 2002
	(In millions)	
Oil & Gas	\$ 3,420	\$ 2,336
Industrial & Infrastructure	3,273	4,182
Government	1,488	795
Global Services	1,821	1,555
Power	605	841
Total	\$ 10,607	\$ 9,709

[Table of Contents](#)

The following table sets forth the consolidated backlog of the Oil & Gas, Industrial & Infrastructure, Government, Global Services and Power segments at December 31, 2003 and 2002 by region.

	December 31, 2003	December 31, 2002
	(In millions)	
United States	\$ 5,041	\$ 5,608
Asia Pacific (Including Australia)	505	712
Europe, Africa and Middle East	3,871	1,570
The Americas	1,190	1,819
Total	\$ 10,607	\$ 9,709

Approximately one-third of backlog will not be performed in 2004.

For purposes of the preceding tables, the equipment, temporary staffing and global sourcing and procurement operations of our Global Services segment do not report backlog due to the short turnaround between the receipt of new awards and the recognition of revenue.

The dollar amount of the backlog is not necessarily indicative of our future earnings related to the performance of such work. Although backlog represents only business which is considered to be firm, there can be no assurance that cancellations or scope adjustments will not occur. Due to additional factors outside of our control, such as changes in project schedules, we cannot predict with certainty the portion of our December 31, 2003 backlog estimated to be performed subsequent to 2004.

For additional information with respect to our backlog, please refer to Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operation, below.

Types of Contracts

While the basic terms and conditions of the contracts that we perform may vary considerably, generally we perform our work under two groups of contracts: cost reimbursable, and guaranteed maximum and fixed price contracts. As of December 31, 2003, the following table breaks down the percentage and amount of revenue associated with these types of contracts for our existing backlog:

	2003 Backlog	
	(In millions)	
Cost Reimbursable	60%	\$6,332
Guaranteed Maximum and Fixed Price	40%	\$4,275

Under cost reimbursable contracts, the client reimburses our costs in developing a project and pays us a pre-determined fee or a fee based upon a percentage of the costs incurred in completing the project. Our profit may be in the form of a fee, a simple mark-up applied to labor costs incurred in the contract, or a combination of the two. The fee element may also vary. The fee may be an incentive fee based upon achieving certain performance factors, milestones or targets; it may be a fixed amount in the contract; or it may be based upon a percentage of the costs incurred.

Guaranteed maximum price contracts or GMAX contracts are performed in a manner similar to cost reimbursable contracts except that the total fee plus the total cost cannot exceed an agreed upon guaranteed maximum price. We can be responsible for some or all of the total cost of the project if the cost exceeds the guaranteed maximum price. Where the total cost is less than the negotiated guaranteed maximum price, we will receive the benefit of the cost savings based upon a negotiated agreement with the client.

Fixed price contracts include both negotiated fixed-price contracts and lump sum contracts. Under negotiated fixed price contracts, we are selected as contractor first, and then we negotiate price with the client. These types of contracts generally occur where we commence work before a final price is agreed upon. Under lump sum contracts, we bid on a contract based upon specifications provided by the client against competitors, agreeing to develop a project at a fixed price. Another type of fixed price contract is a so-called unit price contract under which we are paid a set amount for every "unit" of work performed. In some fixed price contracts, we can benefit from some of the savings depending upon whether the client is willing to bear some

[Table of Contents](#)

of the risk if the actual cost exceeds the contract award. As a result, if we perform well, we can benefit from cost savings; however, if the project does not proceed as originally planned, we cannot recover for cost overruns except in certain limited situations. Under most lump sum contracts, however, because the price paid by the client is not subject to any adjustment based upon changes to the actual cost of the project, while we benefit from all cost savings, we also bear the risk of cost overruns. Thus, these types of contracts can offer greater profit potential if cost savings are realized but also contain more inherent risk.

Our Government segment, as a prime contractor or a major subcontractor for a number of United States government programs, generally performs its services under cost reimbursable contracts although subject to applicable statutes and regulations. In many cases, these contracts include incentive-fee arrangements. The programs in question often take many years to complete and may be implemented by the award of many different contracts. Despite the fact that these programs are generally awarded on a multi-year basis, the funding for the programs is generally approved on an annual basis by Congress. The government is under no obligation to maintain funding at any specific level, or funds for a program may even be eliminated thereby significantly curtailing or stopping a program.

Some of our government contracts are known as Indefinite Delivery Indefinite Quantity agreements. Under these arrangements, we work closely with the government to define the scope and amount of work required based upon an estimate of the maximum amount that the government desires to spend. While the scope is often not initially fully defined or require any specific amount of work, once the project scope is determined, additional work may be awarded to us without the need for further competitive bidding.

Contracts and business with the government are also subject to a number of socio-economic and other requirements as well as certain procurement regulations. If a contractor fails to comply with the requirements and regulations, it could lead to suspension or even debarment from government contracting. Finally, government contracting and the continued funding of programs is also subject to a variety of factors beyond our control such as political developments both domestically and internationally, budget considerations and changes in procurement policies. Thus, many of our government contracts can be terminated at the discretion of the government generally with payment of compensation only for work and commitments made at the time of termination, along with an allowance for profit for work performed.

Competition

We are one of the world's larger providers of engineering, procurement and construction services. The markets served by our business are highly competitive and for the most part require substantial resources, particularly highly skilled and experienced technical personnel. A large number of companies are competing in the markets served by the business, including the Bechtel Group, Inc., the Shaw Group, Jacobs Engineering Group, Kellogg Brown & Root, Washington Group International and Foster Wheeler Corp.

In the engineering and construction arena, our competition is primarily centered on performance and the ability to provide the design, engineering, planning, management and project execution skills required to complete complex projects in a safe, timely and cost-efficient manner. Our engineering, procurement and construction business derives its competitive strength from our diversity, reputation for quality, technology, cost-effectiveness, worldwide procurement capability, project management expertise, geographic coverage and ability to meet client requirements by performing construction on either a union or an open shop basis, ability to execute projects of varying sizes, strong safety record and lengthy experience with a wide range of services and technologies.

The various markets served by the Global Services segment, while containing some similarities, tend also to have discrete issues particularly impacting that unit. Each of the markets we serve has a large number of companies competing in its markets. In the equipment sector, which operates in numerous markets, the equipment rental industry is highly fragmented and very competitive, with most competitors operating in specific geographic areas. The competition for larger capital project services is more narrow and limited to only those capable of providing comprehensive equipment, tool and management services. Temporary staffing is a highly fragmented market with over 1,000 companies competing nationally. The key competitive factors in this business line are price, service, quality, breadth of service, and the ability to retain qualified personnel and geographical coverage. The barriers to entry in operations and maintenance are both financially and logistically

[Table of Contents](#)

low with the result that the industry is highly fragmented with no single company being dominant. Competition is generally driven by reputation, price and the capacity to perform.

Key competitive factors in our Government segment are primarily centered on performance and the ability to provide the design, engineering, planning, management and project execution skills required to complete complex projects in a safe, timely and cost-efficient manner.

Raw Materials

Raw Materials and the components necessary for the conduct of our businesses are generally available from numerous sources. We do not foresee any unavailability of raw materials and components that would have a material adverse effect on our businesses in the near term.

Research and Development

While we engage in research and development efforts both on current projects and in the development of new products and services, during the past three fiscal years, we have not incurred costs for company-sponsored research and development activities which would be material, special or unusual in any of our business segments.

Environmental, Safety and Health Matters

We believe, based upon present information available to us, that our accruals with respect to future environmental costs are adequate and any future costs will not have a material effect on our consolidated financial position, results of operations or liquidity. Some factors, however could result in additional expenditures or the provision of additional accruals in expectation of such expenditures. These include the imposition of more stringent requirements under environmental laws or regulations, new developments or changes regarding site cleanup costs or the allocation of such costs among potentially responsible parties, or a determination that we are potentially responsible for the release of hazardous substances at sites other than those currently identified.

Number of Employees

The following table sets forth the number of employees of Fluor and its subsidiaries engaged in our continuing business segments as of December 31, 2003:

	Total Employees
Oil & Gas	4,832
Industrial & Infrastructure	3,228
Government	6,081
Global Services	11,925
Power	818
Other	2,127
TOTAL	29,011

With respect to our total number of employees, as of December 31, 2003 we had approximately 17,564 salaried employees and 11,447 craft and hourly employees. The number of craft and hourly employees varies in relation to the number and size of projects we have in process at any particular time. In addition, during fiscal 2003, we had a reduction in the amount of direct hire hourly work which has resulted in a decrease in employment.

Available Information

Our web site address is www.fluor.com. You may obtain free electronic copies of our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and all amendments to those reports on our "Investor Relations" portion of our website, <http://investor.fluor.com/Edgar.cfm>, under the heading "SEC Filings." These reports are available on our web site as soon as reasonably practicable after we

electronically file them with the Securities and Exchange Commission. These reports, and any amendments to them, are also available at the internet web site of the Securities and Exchange Commission, <http://www.sec.gov>.

Company Risk Factors

We bear the risk of cost overruns in approximately 40% of the dollar-value of our contracts. We may experience reduced profits or, in some cases, losses under these contracts if costs increase above our estimates.

We conduct our business under various types of contractual arrangements. In terms of dollar-value, the majority of our contracts allocate the risk of cost overruns to our client by requiring our client to reimburse us for our costs. Approximately 40% of the dollar-value of our contracts, however, are guaranteed maximum or lump sum contracts, where we bear a significant portion of the risk for cost overruns. Under these fixed-price contracts, contract prices are established in part on cost and scheduling estimates which are based on a number of assumptions, including assumptions about future economic conditions, prices and availability of labor, equipment and materials, and other exigencies. If these estimates prove inaccurate, or circumstances change, cost overruns may occur, and we could experience reduced profits or, in some cases, a loss for that project.

Our backlog is subject to unexpected adjustments and cancellations and is, therefore, an uncertain indicator of our future earnings.

As of December 31, 2003, our backlog was approximately \$10.6 billion. We cannot guarantee that the revenues projected in our backlog will be realized or, if realized, will result in profits. Projects may remain in our backlog for an extended period of time. In addition, project cancellations or scope adjustments may occur, from time to time, with respect to contracts reflected in our backlog. For example, during our third quarter in fiscal 2003, three projects totaling approximately \$750 million were removed from our backlog. One of the projects was cancelled and removed from our backlog as a result of financing difficulties; the other two projects were cancelled and removed from backlog as a result of our strategic decision to exit a particular market. These types of backlog reductions adversely affect the revenue and profit we actually receive from contracts reflected in our backlog. Future project cancellations and scope adjustments could further reduce the dollar amount of our backlog and the revenues and profits that we actually receive.

If we guarantee the timely completion or performance standards of a project, we could incur additional costs to cover our guarantee obligations.

In some instances and in many of our fixed-price contracts, we guarantee a customer that we will complete a project by a scheduled date. We sometimes provide that the project, when completed, will also achieve certain performance standards. If we subsequently fail to complete the project as scheduled, or if the project subsequently fails to meet guaranteed performance standards, we may be held responsible for cost impacts to the client resulting from any delay or the costs to cause the project to achieve the performance standards. In some cases, where we fail to meet performance standards, we may also be subject to agreed-upon liquidated damages. To the extent that these events occur, the total costs of the project would exceed our original estimates and we could experience reduced profits or, in some cases, a loss for that project.

The nature of our engineering and construction business exposes us to potential liability claims and contract disputes which may reduce our profits.

We engage in engineering and construction activities for large industrial facilities where design, construction or systems failures can result in substantial injury or damage to third parties. Any liability in excess of our insurance limits at locations engineered or constructed by us could result in significant liability claims against us, which claims may reduce our profits. In addition, if there is a customer dispute regarding our performance of project services, the customer may decide to delay or withhold payment to us. If we were ultimately unable to collect on these payments, our profits would be reduced. For example, in connection with disputes relating to our Hamaca Crude Upgrader Project, we had deferred approximately \$179.6 million of incurred costs, as of December 31, 2003. If we fail to obtain a favorable judgment or are unable to collect on

any awards from a favorable judgment in connection with the Hamaca disputes, our profits and financial condition could be materially and adversely affected.

We are vulnerable to the cyclical nature of the markets we serve.

The demand for our services and products is dependent upon the existence of projects with engineering, procurement, construction and management needs. Although downturns can impact our entire business, our telecommunications and mining markets exemplify businesses that are cyclical in nature and continue to be affected by a decrease in worldwide demand for the projects during the past year. Similarly, the Power segment, which services the power industry, has seen strong growth in the past few years due to previously unmet power needs and deregulation but is now seeing its business opportunities decrease relative to the last few years. Industries such as these and many of the others we serve have historically been and will continue to be vulnerable to general downturns and are cyclical in nature. As a result, our past results have varied considerably and may continue to vary depending upon the demand for future projects in these industries.

We maintain a workforce based upon current and anticipated workloads. If we do not receive future contract awards or if these awards are delayed, significant costs may result.

Our estimates of future performance depend on, among other matters, whether and when we will receive certain new contract awards. While our estimates are based upon our good faith judgment, these estimates can be unreliable and may frequently change based on newly available information. In the case of large-scale domestic and international projects where timing is often uncertain, it is particularly difficult to predict whether and when we will receive a contract award. The uncertainty of contract award timing can present difficulties in matching our workforce size with our contract needs. If an expected contract award is delayed or not received, we could incur costs resulting from reductions in staff or redundancy of facilities that would have the effect of reducing our profits.

We have international operations that are subject to foreign economic and political uncertainties. Unexpected and adverse changes in the foreign countries in which we operate could result in project disruptions, increased costs and potential losses.

Our business is subject to fluctuations in demand and to changing domestic and international economic and political conditions which are beyond our control. As of December 31, 2003, approximately 52% of our projected backlog consisted of engineering and construction revenues to be derived from facilities to be constructed in other countries; we expect that a significant portion of our revenues and profits will continue to come from international projects for the foreseeable future.

Operating in the international marketplace exposes us to a number of risks including:

- Abrupt changes in foreign government policies and regulations,
- Embargoes,
- United States government policies, and
- International hostilities.

The lack of a well-developed legal system in some of these countries may make it difficult to enforce our contractual rights. We also face significant risks due to civil strife, acts of war, terrorism and insurrection. Our level of exposure to these risks will vary with respect to each project, depending on the particular stage of each such project. For example, our risk exposure with respect to a project in an early development stage will generally be less than our risk exposure with respect to a project in the middle of construction. To the extent that our international business is affected by unexpected and adverse foreign economic and political conditions, we may experience project disruptions and losses. Project disruptions and losses could significantly reduce our revenues and profits.

Our government contracts may be terminated at any time. Also, if we do not comply with restrictions and regulations imposed by the government, our government contracts may be terminated and we may be unable

to enter into future government contracts. The termination of our government contracts could significantly reduce our expected revenues.

We enter into significant government contracts, from time to time, such as those that we have with the U.S. Department of Energy at Fernald and Hanford. Government contracts are subject to various uncertainties, restrictions and regulations, including oversight audits by government representatives and profit and cost controls. Government contracts are also exposed to uncertainties associated with congressional funding. The government is under no obligation to maintain funding at any specific level and funds for a program may even be eliminated.

In addition, government contracts are subject to specific procurement regulations and a variety of other socio-economic requirements. We must comply with these government regulations and requirements as well as various statutes related to employment practices, environmental protection, recordkeeping and accounting. If we fail to comply with any of these regulations, requirements or statutes, our existing government contracts could be terminated, and we could be temporarily suspended from government contracting or subcontracting. If one or more of our government contracts are terminated for any reason, or if we are suspended from government contract work, we could suffer a significant reduction in expected revenues. We also run the risk of the impact of government audits, investigations and proceedings, and so-called “qui tam” actions which, if an unfavorable result occurs, could impact our profits and financial condition, as well as our ability to obtain future government work.

Our international operations expose us to foreign currency fluctuations that could increase our U.S. dollar costs or reduce our U.S. dollar revenues.

Because our functional currency is the U.S. dollar, we try to denominate our contracts in United States dollars. However, from time to time our contracts are denominated in foreign currencies, which results in our foreign operations facing the additional risk of fluctuating currency values and exchange rates, hard currency shortages and controls on currency exchange. Changes in the value of foreign currencies could increase our U.S. dollar costs for, or reduce our U.S. dollar revenues from, our foreign operations. Any increased costs or reduced revenues as a result of foreign currency fluctuations could affect our profits.

Intense competition in the engineering and construction industry could reduce our market share and profits.

We serve markets that are highly competitive and in which a large number of multinational companies, such as the Bechtel Group, Inc., the Shaw Group, Jacobs Engineering Group, Kellogg Brown & Root, Washington Group International and Foster Wheeler Corp., compete. In particular, the engineering and construction markets are highly competitive and require substantial resources and capital investment in equipment, technology and skilled personnel. Competition also places downward pressure on our contract prices and profit margins. Intense competition is expected to continue in these markets, presenting us with significant challenges in our ability to maintain strong growth rates and acceptable profit margins. If we are unable to meet these competitive challenges, we could lose market share to our competitors and experience an overall reduction in our profits.

The success of our joint ventures depend on the satisfactory performance by our joint venture partners of their joint venture obligations. The failure of our joint venture partners to perform their joint venture obligations could impose on us additional financial and performance obligations that could result in reduced profits or, in some cases, significant losses for us with respect to the joint venture.

We enter into various joint ventures as part of our engineering, procurement and construction businesses, such as ICA/ Fluor Daniel, Duke/ Fluor Daniel and project specific joint ventures. The success of these and other joint ventures depend, in large part, on the satisfactory performance of our joint venture partners of their joint venture obligations. If our joint venture partners fail to satisfactorily perform their joint venture obligations as a result of financial or other difficulties, the joint venture may be unable to adequately perform or deliver its contracted services. Under these circumstances, we may be required to make additional investments and provide additional services to ensure the adequate performance and delivery of the contracted services. These additional obligations could result in reduced profits or, in some cases, significant losses for us with respect to the joint venture.

We could incur substantial tax liabilities if certain representations and warranties made by our predecessor-in-interest are inaccurate.

Prior to the reverse spin-off involving our former coal segment, our predecessor-in-interest received a ruling from the Internal Revenue Service that the reverse spin-off qualified as a tax-free spin-off under Section 355 of the Internal Revenue Code of 1986, as amended. The ruling was granted based upon certain representations made by our predecessor-in-interest. While we are not aware of any facts or circumstances that would cause those representations to be incorrect or incomplete, if those representations were inaccurate, it is possible that the ruling would no longer be valid. In such event, we could incur a significant corporate tax liability that could have a material adverse effect on our financial condition.

Past and future environmental, safety and health regulations could impose on us significant additional costs that reduce our profits.

We are subject to numerous environmental laws and health and safety regulations. Our projects can involve the handling of hazardous and other highly regulated materials which, if improperly handled or disposed of, could subject us to civil and criminal liabilities. It is impossible to reliably predict the full nature and effect of judicial, legislative or regulatory developments relating to health and safety regulations and environmental protection regulations applicable to our operations. The applicable regulations, as well as the technology and length of time available to comply with those regulations, continue to develop and change. In addition, past activities could also have a material impact on us. For example, when we sold our mining business formerly conducted through St. Joe Minerals Corporation, we retained responsibility for certain non-lead related environmental liabilities, but only to the extent that such liabilities were not covered by St. Joe's comprehensive general liability insurance. While we are not currently aware of any material exposure arising from our former St. Joe's business or otherwise, the costs of complying with rulings and regulations or satisfying any environmental remediation requirements for which we are found responsible could be substantial and could reduce our profits. We are also subject to a number of asbestos-related lawsuits.

If we experience delays and/or defaults in customer payments, we could be unable to recover all expenditures.

Because of the nature of our contracts, at times we commit resources to projects prior to receiving payments from the customer in amounts sufficient to cover expenditures on client projects as they are incurred. Delays in customer payments may require us to make a working capital investment. If a customer defaults in making its payments on a project in which we have devoted significant resources, it could have a material negative effect on our results of operations.

Our recent and any future acquisitions may not be successful.

We expect to continue to pursue select acquisitions of businesses. We cannot assure you that we will be able to locate suitable acquisitions or that we will be able to consummate any such transactions on terms and conditions acceptable to us, or that such transactions will be successful. Acquisitions may bring us into businesses we have not previously conducted and expose us to additional business risks that are different than those we have traditionally experienced. We also may encounter difficulties integrating acquisitions and successfully managing the growth we expect to experience from these acquisitions.

Conversion of our outstanding convertible securities will dilute the ownership interests of our existing stockholders and could adversely affect the market price of our common stock.

We may issue, from time to time, securities that are convertible into shares of our common stock. For example, we recently issued \$330 million aggregate principal amount of our 1.50% Convertible Senior Notes due 2024, which are convertible into an aggregate of 5,898,750 shares of our common stock at the initial conversion price of \$55.94. The conversion of these and other of our convertible securities into shares of our common stock will dilute the ownership interests of our existing stockholders. Any sales in the public market of the common stock issuable upon conversion of these convertible securities could adversely affect prevailing market prices of our common stock. In addition, the existence of our 1.50% Convertible Senior Notes due

[Table of Contents](#)

2024 could encourage short selling by market participants due to this dilution or to facilitate trading strategies involving the notes and our common stock.

Item 2. Properties

Major Facilities

Operations of Fluor and its subsidiaries are conducted in both owned and leased properties totaling approximately 7.0 million square feet. In addition, certain owned or leased properties of Fluor and its subsidiaries are leased or subleased to third party tenants. The following table describes the location and general character of the major existing facilities:

Location	Interest	Purpose
United States and Canada:		
Aliso Viejo, California	Leased	Executive offices, general office and engineering
Calgary, Canada	Leased	Fluor Canada operations
Charlotte, North Carolina		Duke/ Fluor Daniel operations and J.A. Jones
	Leased	International operations
Cincinnati, Ohio	Leased	General office and engineering
Greenville, South Carolina		General office, engineering, AMECO operations and undeveloped land
	Owned and Leased	General office, engineering and undeveloped land
Houston (Sugar Land), Texas	Owned and Leased	Government operations
Richland, Washington	Leased	Industrial & Infrastructure operations and general office
Rumford, Rhode Island	Leased	General office and engineering
San Juan, Puerto Rico	Leased	General office and engineering
Tucson, Arizona	Leased	General office and engineering
Vancouver, Canada	Leased	General office and engineering
The Americas:		
Caracas, Venezuela	Leased	General office and engineering
Mexico City, Mexico	Leased	ICA Fluor Daniel operations
Santiago, Chile	Owned	Fluor Chile operations
Europe, Africa and Middle East:		
Al Khobar, Saudi Arabia (Dhahran area)	Owned	Fluor Arabia operations
Asturias, Spain	Owned	Fluor Spain operations
Camberley, England	Owned and Leased	Fluor Limited operations
Gliwice, Poland	Owned	General office and engineering
Haarlem, Netherlands	Owned and Leased	General office and engineering
Sandton, South Africa	Leased	Fluor South Africa operations
Asia and Asia Pacific:		
Jakarta, Indonesia	Leased	Fluor Daniel Eastern, Inc. operations
Manila, Philippines	Owned	Fluor Daniel Inc. Philippines operations
Melbourne, Australia	Leased	Fluor Australia operations
New Dehli, India	Leased	Fluor Daniel India Private Ltd. operations
Perth, Australia	Leased	Fluor Australia operations

Item 3. Legal Proceedings

Fluor and its subsidiaries, as part of their normal business activities, are parties to a number of legal proceedings and other matters in various stages of development. While we cannot predict the outcome of these proceedings, in our opinion and based on reports of counsel, any liability arising from these matters individually and in the aggregate will not have a material adverse effect upon the consolidated financial position, or the results of operations of the company, after giving effect to provisions already recorded.

In addition to the matters described above, we are involved in disputes with respect to the Hamaca Crude Upgrader Project located in Jose, Venezuela. We are part of a joint venture which is actively proceeding on a number of issues under binding arbitration to recover certain costs we have incurred with respect to this project. For additional information on the Hamaca disputes and certain other matters in dispute, see the section entitled "Matters in Dispute Resolution" in Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operation, below.

Item 4. Submission of Matters to a Vote of Security Holders

The company did not submit any matters to a vote of security holders during the fourth quarter of 2003.

PART II**Item 5. Market for Registrant's Common Equity and Related Stockholder Matters**

Our common stock is traded on The New York Stock Exchange under the symbol "FLR." The following table sets forth for the quarters indicated the high and low sales prices of our common stock, as reported in the Consolidated Transactions Reporting System, and the cash dividends paid per share of common stock.

	Common Stock Price Range		Dividends Per Share
	High	Low	
Year Ended December 31, 2003			
Fourth Quarter	\$40.54	\$34.60	\$ 0.16
Third Quarter	\$37.83	\$32.80	\$ 0.16
Second Quarter	\$36.48	\$33.20	\$ 0.16
First Quarter	\$34.99	\$27.18	\$ 0.16
Year Ended December 31, 2002			
Fourth Quarter	\$28.42	\$20.94	\$ 0.16
Third Quarter	\$37.66	\$24.00	\$ 0.16
Second Quarter	\$44.57	\$35.46	\$ 0.16
First Quarter	\$43.91	\$29.59	\$ 0.16

For each of the four quarters for the years ended December 31, 2003 and 2002, we have paid a \$0.16 per share cash dividend. We expect to pay comparable dividends in the future. However, any future cash dividends will depend upon our results of operations, financial condition, cash requirements, availability of surplus and such other factors as our board of directors may deem relevant. See "Risk Factors."

At March 3, 2004, there were 83,025,390 shares outstanding and approximately 10,489 shareholders of record of the company's common stock.

Additional information required by this item regarding our equity compensation plans as of December 31, 2003 is included under the subheading "Equity Compensation Plan Information" on page 27 of our Proxy Statement to be filed with the Commission pursuant to Regulation 14A within 120 days after the end of our fiscal year, and which information is incorporated herein by reference.

Item 6. Selected Financial Data

The following table presents selected financial data for the last five fiscal years. This selected financial data should be read in conjunction with the consolidated financial statements and related notes included in Item 8 of this Form 10-K. Amounts are expressed in millions, except for per share information:

	Year Ended December 31,			Year Ended October 31,	
	2003	2002	2001	2000	1999
CONSOLIDATED OPERATING RESULTS					
Revenues	\$ 8,805.7	\$9,959.0	\$ 8,972.2	\$ 9,422.9	\$10,752.3
Earnings from continuing operations before taxes	268.0	260.5	185.3	164.3	88.7
Earnings from continuing operations	179.5	170.0	127.8	116.3	38.2
Earnings (loss) from discontinued operations	(11.6)	(6.4)	(108.4)	7.7	66.0
Cumulative effect of change in accounting principle	(10.4)	—	—	—	—
Net earnings	157.5	163.6	19.4	124.0	104.2
Basic earnings (loss) per share					
Continuing operations	2.25	2.14	1.64	1.55	0.51
Discontinued operations	(0.15)	(0.08)	(1.39)	0.10	0.87
Cumulative effect of change in accounting principle	(0.13)	—	—	—	—
Net earnings	1.97	2.06	0.25	1.65	1.38
Diluted earnings (loss) per share					
Continuing operations	2.23	2.13	1.61	1.52	0.50
Discontinued operations	(0.15)	(0.08)	(1.36)	0.10	0.87
Cumulative effect of change in accounting principle	(0.13)	—	—	—	—
Net earnings	1.95	2.05	0.25	1.62	1.37
Return on average shareholders' equity	16.2%	19.4%	2.6%	7.7%	6.8%
Cash dividends per common share	0.64	0.64	0.64	1.00	0.80
CONSOLIDATED FINANCIAL POSITION					
Current assets	\$ 2,213.6	\$1,924.1	\$ 1,851.3	\$ 1,318.3	\$ 1,391.1
Current liabilities	1,829.1	1,756.2	1,862.7	1,570.3	1,834.2
Working capital	384.5	167.9	(11.4)	(252.0)	(443.1)
Property, plant and equipment, net	569.5	467.0	508.1	570.8	514.7
Total assets	3,449.5	3,142.2	3,142.5	4,958.4	4,886.1
Capitalization					
Short-term debt */**	221.5	—	38.4	88.7	20.7
Long-term debt **	44.6	17.6	17.6	17.6	17.5
Shareholders' equity	1,081.5	883.9	789.3	1,609.2	1,581.4
Total capitalization	1,347.6	901.5	845.3	1,715.5	1,619.7
Total debt as a percent of total capitalization	19.7%	2.0%	6.6%	6.2%	2.4%
Shareholders' equity per common share	13.17	11.02	9.85	21.25	20.80
Common shares outstanding at period end	82.1	80.2	80.1	75.7	76.0
OTHER DATA					
New awards	\$ 9,976.0	\$8,596.8	\$10,766.6	\$ 9,644.2	\$ 6,789.4
Backlog at year end	10,607.1	9,709.1	11,505.5	10,012.2	9,142.0
Capital expenditures — continuing operations	79.2	63.0	148.4	156.2	140.6
Cash provided by (used in) operating activities	(300.5)	195.7	621.8	186.1	572.6

* Includes commercial paper, loan notes, miscellaneous trade notes payable and the current portion of long-term debt.

** December 31, 2003 includes \$127.0 million in debt (\$100.0 million in short-term and \$27.0 million in long-term) from the consolidation of variable interest entities as prescribed by FASB Interpretation No. 46.

In November 2000, a spin-off distribution to shareholders was effected which separated then existing Fluor Corporation into two publicly traded companies — new Fluor ("Fluor" or the "company") and Massey Energy Company ("Massey"). Massey's results of operations for all periods prior to the spin-off are presented as discontinued operations.

In September 2001, the company adopted a plan to dispose of certain non-core construction equipment and temporary staffing businesses. The assets and liabilities (including debt) and results of operations of Massey and the non-core businesses for all periods presented have been reclassified and are presented as discontinued operations. In addition, the company changed to a calendar-year basis of reporting financial results in connection with the spin-off.

See Management's Discussion and Analysis on pages 14 to 28 and Notes to Consolidated Financial Statements on pages F-6 to F-34 for information relating to significant items affecting the results of operations.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

Introduction

The following discussion and analysis is provided to increase understanding of, and should be read in conjunction with, the consolidated financial statements and accompanying notes. For purposes of reviewing this document, "operating profit" is calculated as revenues less cost of revenues excluding: corporate administrative and general expense; interest expense; interest income; domestic and foreign income taxes; other non-operating income and expense items; earnings or loss from discontinued operations; and cumulative effect of change in accounting principle.

The company reports financial results on a calendar-year basis for all periods subsequent to December 31, 2000.

Accounting Pronouncements

Following is a discussion of the impact of recent accounting and financial reporting pronouncements that have been applied in the preparation of the company's consolidated financial statements and accompanying notes. This information is provided to assist in an understanding of the impact such changes have had on the company's financial reporting.

In August 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" (SFAS 144). Under SFAS 144, a component of a business that is held for sale is reported in discontinued operations if (i) the operations and cash flows will be, or have been, eliminated from the ongoing operations of the company and, (ii) the company will not have any significant continuing involvement in such operations. In the quarter ended September 30, 2001, the company adopted the provisions of SFAS 144 effective January 1, 2001.

In September 2001, the Board of Directors approved a plan to dispose of certain non-core operations of the company's construction equipment and temporary staffing businesses. An active program to consummate such disposal was completed in 2003 with the disposition of the last remaining operation in the construction equipment business. The operating results for discontinued operations are discussed later in this Management's Discussion and Analysis.

In June 2001, the Financial Accounting Standards Board issued Statements of Financial Accounting Standards No. 141, "Business Combinations" and No. 142, "Goodwill and Other Intangible Assets". These statements were effective for the company's calendar year 2002. Under the new rules, goodwill is no longer amortized, but is subject to annual impairment tests. During 2003, the company completed its annual goodwill impairment tests in the first quarter and has determined that none of the goodwill is impaired. Application of the non-amortization provisions resulted in an increase in earnings from continuing operations of \$3.4 million (\$0.04 per diluted share) in 2002 and 2003 compared with 2001.

In June 2002, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 146, "Accounting for Costs Associated with Exit or Disposal Activities" (SFAS 146). SFAS 146 requires that a liability for a cost associated with an exit or disposal activity be recognized when the liability is incurred. The Statement also establishes that fair value is the objective for initial measurement of the liability. SFAS 146 is effective for exit or disposal activities that are initiated after December 31, 2002. Application of this statement did not have a significant effect on the company's consolidated results of operations or financial position in 2003.

In November 2002, the Financial Accounting Standards Board issued FASB Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others" (FIN 45). FIN 45 expands on the accounting and disclosure requirements under existing accounting standards. It clarifies that a guarantor is required to recognize, at the inception of a guarantee, a liability for the fair value of the obligation. Disclosures required by the Interpretation are provided below in the Financial Position and Liquidity section of this Management's Discussion and Analysis and in the footnotes to the accompanying financial statements. The accounting requirements of the Interpretation are applicable to transactions entered into beginning January 1, 2003. Application of this Interpretation did not have a significant effect on the company's consolidated results of operations or financial position in 2003.

[Table of Contents](#)

In December 2003, the Financial Accounting Standards Board issued FASB Interpretation No. 46 (Revised), "Consolidation of Variable Interest Entities" (FIN 46-R). FIN 46-R provides the principles to consider in determining when variable interest entities must be consolidated in the financial statements of the primary beneficiary. In general, a variable interest entity is an entity used for business purposes that either (a) does not have equity investors with voting rights or (b) has equity investors that are not required to provide sufficient financial resources for the entity to support its activities without additional subordinated financial support. FIN 46-R requires a variable interest entity to be consolidated by a company if that company is subject to a majority of the risk of loss from the variable interest entity's activities or entitled to receive a majority of the entity's residual returns or both. A company that consolidates a variable interest entity is called the primary beneficiary of that entity.

Certain of the company's engineering office facilities are leased through arrangements involving variable interest entities. Beginning in 2003, the company now consolidates these entities in its financial statements as prescribed by FIN 46-R. At December 31, 2003, the effect of this consolidation resulted in an increase of \$100 million and \$27 million in reported short-term and long-term debt, respectively, and an increase in Property, Plant and Equipment of \$107 million. None of the terms of the leasing arrangements or the company's obligations as a lessee were impacted by this change in accounting. The cumulative impact of the difference in earnings, amounting to a charge of \$10.4 million net of tax, relating to prior years was reported in the first quarter of 2003 as the cumulative effect of a change in accounting principle. The company may also use variable interest entities from time to time to facilitate financing of various projects. There are no such financing entities in use at the present time.

Contracts that are executed jointly through partnerships and joint ventures are proportionally consolidated in accordance with Emerging Issues Task Force Issue 00-01, "Investor Balance Sheet and Income Statement Display under the Equity Method for Investments in Certain Partnerships and Other Ventures" (EITF 00-01) and Statement of Position 81-1, "Accounting for Performance of Construction Type and Certain Production Type Contracts" (SOP 81-1) issued by the American Institute of Certified Public Accountants. The company evaluates the applicability of FIN 46-R to partnerships and joint ventures at the inception of its participation to ensure its accounting is in accordance with the appropriate standards.

In April 2003 the FASB issued Statement of Financial Accounting Standard No. 149, "Amendments of Statement 133 on Derivative Instruments and Hedging Activities" (SFAS 149). SFAS 149 amends and clarifies accounting for derivative instruments embedded in other contracts, and for hedging activities under SFAS 133. SFAS 149 is effective for contracts entered into or modified and hedging relationships designated after June 30, 2003. The adoption of the provisions of SFAS 149 did not have a material effect on the company's consolidated financial statements.

On May 15, 2003, the FASB issued Statement of Financial Accounting Standards No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity" (SFAS 150). SFAS 150 establishes standards for classifying and measuring certain financial instruments that have characteristics of both liabilities and equity. SFAS 150 is effective for financial instruments entered into or modified after May 31, 2003. SFAS 150 did not have a material effect on the company's consolidated financial statements.

Discussion of Critical Accounting Policies

The company's discussion and analysis of its financial condition and results of operations is based upon its consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The company's significant accounting policies are described in notes accompanying the consolidated financial statements. The preparation of the consolidated financial statements requires management to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. Estimates are based on information available as of the date of the financial statements, and accordingly, actual results in future periods could differ from these estimates. Significant judgments and estimates used in the preparation of the consolidated financial statements apply the following critical accounting policies.

Engineering and Construction Contracts. Engineering and construction contract revenues are recognized on the percentage-of-completion method based on contract costs incurred to date compared with total

[Table of Contents](#)

estimated contract costs. This method of revenue recognition requires the company to prepare estimates of costs to complete contracts in progress. In making such estimates, judgments are required to evaluate contingencies such as potential variances in schedule and the cost of materials, labor costs and productivity, the impact of change orders, liability claims, contract disputes, or achievement of contractual performance standards. Changes in total estimated contract costs and losses, if any, are recognized in the period they are determined. The majority of the company's engineering and construction contracts provide for reimbursement of costs plus a fixed or percentage fee. In the highly competitive markets served by the company, there is an increasing trend for cost-reimbursable contracts with incentive-fee arrangements. As of December 31, 2003, approximately 60 percent of the company's backlog was cost reimbursable while approximately 40 percent was for guaranteed maximum, fixed or unit price contracts. In certain instances, the company has provided guaranteed completion dates and/or achievement of other performance criteria. Failure to meet schedule or performance guarantees or increases in contract costs can result in unrealized incentive fees or non-recoverable costs, which could exceed revenues realized from the project.

Claims arising from engineering and construction contracts have been made against the company by clients, and the company has made certain claims against clients for costs. The company recognizes certain significant claims for recovery of incurred costs when it is probable that the claim will result in additional contract revenue and when the amount of the claim can be reliably estimated. Unapproved change orders are accounted for in revenue and cost when it is probable that the costs will be recovered through a change in the contract price. In circumstances where recovery is considered probable but the revenues cannot be reliably estimated, costs attributable to change orders are deferred pending determination of the impact on contract price. Backlog in the engineering and construction industry is a measure of the total dollar value of work to be performed on contracts awarded and in progress. Although backlog reflects business that is considered to be firm, cancellations or scope adjustments may occur. Backlog is adjusted to reflect any known project cancellations, deferrals and revised project scope and costs, both upward and downward.

Engineering and Construction Partnerships and Joint Ventures. Certain contracts are executed jointly through partnerships and joint ventures with unrelated third parties. The company accounts for its interests in the operations of these ventures on a proportional consolidation basis. Under this method of accounting, the company consolidates its proportional share of venture revenues, costs and operating profits in the consolidated statement of earnings and generally uses the one-line equity method of accounting in the consolidated balance sheet. The most significant application of the proportional consolidation method is in the Power segment. This segment includes Duke/ Fluor Daniel and ICA Fluor Daniel.

The company's accounting for project specific joint venture or consortium arrangements is closely integrated with the accounting for the underlying engineering and construction project for which the joint venture was established. The company engages in project specific joint venture or consortium arrangements in the ordinary course of business to share risks and/or to secure specialty skills required for project execution. Frequently, these arrangements are characterized by a 50 percent or less ownership or participation interest that requires only a small initial investment. Execution of a project is generally the single business purpose of these joint venture arrangements. When the company is the primary contractor responsible for execution, the project is accounted for as part of normal operations and included in consolidated revenues using appropriate contract accounting principles.

Foreign Currency. The company generally limits its exposure to foreign currency fluctuations in most of its engineering and construction contracts through provisions that require client payments in U.S. dollars or other currencies corresponding to the currency in which costs are incurred. As a result, the company generally does not need to hedge foreign currency cash flows for contract work performed. Under certain limited circumstances, such foreign currency payment provisions could be deemed embedded derivatives. As of December 31, 2003, 2002 and 2001, the company had no significant foreign currency arrangements that constitute embedded derivatives in any of its contracts. Managing foreign currency risk on projects requires estimates of future cash flows and judgments about the timing and distribution of expenditures of foreign currencies.

The company generally uses forward exchange contracts to hedge foreign currency transactions where contract provisions do not contain foreign currency provisions or the transaction is for a non-contract-related expenditure. The objective of this activity is to hedge the foreign exchange currency risk due to changes in

[Table of Contents](#)

exchange rates for currencies in which anticipated future cash payments will be made. As of December 31, 2003, 2002 and 2001, the company did not have any significant forward exchange contracts. The company does not engage in currency speculation.

In connection with the Hamaca Crude Upgrader Project located in Jose, Venezuela, the company has incurred foreign currency exposures and related translation losses due to weakness in the Venezuelan Bolivar compared with the U.S. dollar. See additional discussion concerning the Hamaca project below under Results of Operations-Oil & Gas.

Deferred Taxes. Deferred tax assets and liabilities are recognized for the expected future tax consequences of events that have been recognized in the company's financial statements or tax returns. At December 31, 2003 the company had deferred tax assets of \$288.8 million which were partially offset by a valuation allowance of \$63.7 million and further reduced by deferred tax liabilities of \$40.5 million. The valuation allowance reduces certain deferred tax assets to amounts that are more likely than not to be realized. This allowance primarily relates to the deferred tax assets established for certain tax credit carryforwards, net operating and capital loss carryforwards for U.S. and non-U.S. subsidiaries, and certain project performance reserves. The company evaluates the realizability of its deferred tax assets by assessing its valuation allowance and by adjusting the amount of such allowance, if necessary. The factors used to assess the likelihood of realization are the company's forecast of future taxable income and available tax planning strategies that could be implemented to realize the net deferred tax assets. Failure to achieve forecasted taxable income in the applicable taxing jurisdictions could affect the ultimate realization of deferred tax assets and could result in an increase in the company's effective tax rate on future earnings.

Retirement Benefits. The company accounts for its defined benefit pension plans in accordance with Statement of Financial Accounting Standards No. 87, "Employers' Accounting for Pensions", as amended (SFAS 87). As permitted by SFAS 87, changes in retirement plan obligations and assets set aside to pay benefits are not recognized as they occur but are recognized over subsequent periods. Assumptions concerning discount rates, long-term rates of return on assets and rates of increase in compensation levels are determined based on the current economic environment in each host country at the end of each respective annual reporting period. The company evaluates the funded status of each of its retirement plans using these current assumptions and determines the appropriate funding level considering applicable regulatory requirements, tax deductibility, reporting considerations and other factors. Recent decreases in long-term interest rates have the effect of increasing plan liabilities and if expected returns on plan assets are not achieved, future funding obligations could increase substantially. Assuming no changes in current assumptions, the company expects to fund approximately \$30 to \$50 million for the calendar year 2004. If the discount rate were reduced by 25 basis points, plan liabilities would increase by approximately \$25 million.

Results of Operations

Summary of Overall Company Results

Revenue declined 12 percent in 2003 compared with 2002 primarily due to declines in the Power and Oil & Gas segments. Earnings from continuing operations increased 4.7 percent to \$2.23 per share in 2003 compared with \$2.13 per share in 2002. The increase in earnings is primarily attributable to reduced corporate administrative and general expense and a lower tax rate on earnings from continuing operations. Lower segment operating profit, primarily in the Power segment, and lower net interest income partially offset these improvements. The company has experienced a significant decline in Power segment revenue and earnings as most projects in the segment were completed and not replaced by new awards. The decline in new awards in the Power segment over the last two years reflects a cyclical downward trend in the demand for new power plant construction. Partially offsetting this trend in Power is an increasing trend for new awards in the Oil & Gas and Government segments. The company believes that the global oil and gas industry is in the early stages of a long-term cycle of investment that will continue to develop over the next three to five years. In addition, the trend for new awards in the Government segment have increased due to awards for work in Iraq as well as the completion of two niche acquisitions that improves the company's service offering to both the Department of Defense and Department of State.

Revenue increased 11 percent in 2002 compared with 2001 primarily due to an increase in the Oil & Gas segment. Earnings from continuing operations increased 32 percent to \$2.13 per share in 2002 compared with

[Table of Contents](#)

\$1.61 per share in 2001. This increase is partially due to a net \$15.2 million (\$0.19 per share) charge for stock price driven compensation plan expense in 2001 due to the increase in stock price primarily in the first quarter of the year. Excluding the stock price charge, the increase in earnings from continuing operations in 2002 compared with 2001 was 18.9 percent. This increase is primarily due to significantly improved operating profit performance in the Power segment as earnings were recognized on completed projects that were awarded in prior years.

The company had net earnings of \$1.95 per share in 2003 compared with \$2.05 in 2002 and \$0.25 in 2001. Results in 2003 were negatively impacted by a loss from discontinued operations of \$0.15 per share and a loss of \$0.13 per share for the cumulative effect of a change in accounting principle. Results in 2002 and 2001 include losses from discontinued operations of \$0.08 per share and \$1.36 per share, respectively. The results of discontinued operations is further discussed below. The loss from the cumulative effect of change in accounting principle is discussed above under Accounting Pronouncements.

Following is a discussion of the operating performance of each business segment, corporate administrative and general expense and other items.

The company provides professional services on a global basis in the fields of engineering, procurement, construction and maintenance. During the first quarter of 2003, the company realigned certain operations to increase focus on the chemicals market. Projects in this market were formerly in the Energy & Chemicals segment and will now be executed and reported in the Industrial & Infrastructure segment. The Energy & Chemicals segment was renamed Oil & Gas and all prior periods have been restated to reflect this change.

The company is organized into five business segments: Oil & Gas, Industrial & Infrastructure, Government, Global Services and Power. The Oil & Gas segment provides engineering and construction professional services for upstream oil and gas production, downstream refining and certain petrochemical markets. The Industrial & Infrastructure segment provides engineering and construction professional services for manufacturing and life sciences facilities, commercial and institutional buildings, mining, chemicals, telecommunications and transportation projects and other facilities. The Government segment provides project management engineering, construction, and contingency response services to the United States government. The Global Services segment includes operations and maintenance, construction equipment, temporary staffing and global sourcing and procurement services. The Power segment provides professional services to engineer and construct power generation facilities. Services provided by the Power segment are conducted through two joint ventures; Duke/ Fluor Daniel, a 50 percent owned partnership with Duke Energy, and ICA Fluor Daniel, a 49 percent owned joint venture with Grupo ICA, a Mexican company. The results of segment operations as reported herein have been conformed to the organizational alignment discussed above for all periods presented.

Oil & Gas. Revenue in the Oil & Gas segment amounted to \$2.6 billion for the year ended December 31, 2003 representing a decrease of 24 percent over revenue for the year ended December 31, 2002. Revenue for the 2002 period increased 54 percent compared with the year ended December 31, 2001. The decrease in revenue during 2003 reflects the completion of several projects during the year and revenue recognition from projects awarded in 2003 did not fully replace the revenue on the completed projects. The revenue increase in 2002 compared with 2001 reflects the increase in work performed on projects in the full execution stage compared with revenue primarily from front-end studies and preliminary engineering in the 2001 period. Operating profit margin in the Oil & Gas segment increased in 2003 to 4.6 percent compared with 3.7 percent in 2002 due to the higher content of project completions combined with improved execution performance. Operating profit margin in 2002 was lower than the 4.5 percent that was achieved in 2001 due to the impact of projects moving to full execution from the higher margin front-end studies and preliminary engineering work performed in 2001.

A major ongoing project in the Oil & Gas segment in 2003 is the Hamaca Crude Upgrader Project ("Hamaca") located in Jose, Venezuela. Hamaca is a \$1.1 billion lump sum project (including \$92 million of approved change orders) of Grupo Alvica ("GA"), a joint venture including Fluor Daniel (80 percent) and Inelectra C.A. (20 percent), to design and build a petroleum upgrader for a consortium of owners called Petrolera Ameriven ("PA") including Petroleos de Venezuela S.A. ("PDVSA"), ChevronTexaco and ConocoPhillips.

[Table of Contents](#)

The joint venture is actively pursuing two cost and schedule relief issues that were referred to arbitration in December 2001: the first is responsibility for costs arising from the site labor agreement for 2000 called "Acta Convenio" and the second relates to modifications and extra work arising from differing site soil conditions. The hearings on the fundamental cost differences between the earlier 1998 labor agreement and the 2000 Acta Convenio were held in April 2003. The site soil conditions issue was the subject of hearings in November 2002. There are no monetary cross-claims by PA in the arbitration. Events in Venezuela including a national strike in early 2003 have had a significant impact on the progress of the project. In accordance with the contract, the joint venture is entitled to cost and schedule relief for the impact of the national strike. A change order relating to the national strike in the approximate amount of \$340 million was submitted by GA. This action was followed by the filing of an arbitration claim relating to this issue in January 2004. A time schedule for the resolution of the claim will be established by the arbitration panel in the near future. Force majeure incidents occurring prior to the national strike also were the subject of arbitration hearings in October 2003.

The arbitration panel, by procedural order dated January 8, 2004, has ordered PA to refrain from taking any action to seek liquidated delay damages, making claim against or drawing down on a Letter of Credit, terminating the contract with GA, or making any demands pursuant to any guarantee provisions in the contract, pending completion of the site soil conditions issues. The award on the site soils conditions matter is anticipated in the near future. The client has conditionally accepted responsibility relating to the soil conditions and \$28 million of incurred costs has been paid. The amount of the claim for site soil conditions is \$159 million including the \$28 million conditional payment. The company is accounting for the additional costs incurred for the soil conditions matter as additional revenue as payments are received. The amount of the claim for Acta Convenio is \$210 million and no payments have been made by the client relating to this matter.

Incurred costs associated with Acta Convenio, soil conditions, the recent national strike and other claims are probable of being recovered and thus are being deferred. These costs will be recognized in revenue when a change order is approved or payment is received. As of December 31, 2003, incurred costs amounting to \$179.6 million have been deferred. Substantial additional costs are expected to be incurred as the project progresses and resolution of outstanding issues concerning the total amount to be awarded and schedule extensions are yet to be determined. If costs relating to Acta Convenio, soil conditions, the recent national strike or other claims are determined to be not recoverable, the company could face reduced profits or losses on this project, along with lower levels of cash and additional borrowings. The project remains subject to future disruptions that could result in additional costs and claims.

New awards in the Oil & Gas segment were \$3.7 billion in 2003 compared to \$1.9 billion in 2002. New project awards in 2003 include the Tengizchevroil ("TCO") project, a major oil and gas development in Kazakhstan. The TCO project was expected to be awarded in 2002 but was temporarily suspended due to funding considerations, which were resolved early in 2003. Also included in new awards in 2003 is the Sakhalin I program and construction management project led by ExxonMobil and a project for Lukoil, a major Russian oil company. New awards in the Oil & Gas segment were \$1.9 billion in 2002, a decline of 13 percent over 2001. The 2002 decline was primarily due to the previously mentioned temporary suspension of the TCO project. The large size and uncertain timing of complex, international projects can create variability in the segment's award pattern; consequently, future award trends are difficult to predict with certainty.

Backlog for the Oil & Gas segment increased to \$3.4 billion at December 31, 2003 compared with \$2.3 billion at December 31, 2002. This increase is due to the higher level of new awards in 2003 and the lower level of work performed on these new awards as they are in the early stages of project execution where activity is focused on engineering and project planning. Backlog declined to \$2.3 billion at December 31, 2002 compared with \$3.7 billion at December 31, 2001. The 2002 decline in backlog primarily is the result of the temporary suspension in 2002 of the TCO project that was awarded in early 2003 as discussed above.

Industrial & Infrastructure. The Industrial & Infrastructure segment had revenues of \$2.6 billion for the year ended December 31, 2003, an 8 percent increase compared with the previous year. This increase primarily reflects the higher volume of work performed on life sciences projects awarded in 2002 partially offset by lower volume of work performed on mining projects as a number of projects were completed in 2002

[Table of Contents](#)

and not replaced with new awards. The Industrial & Infrastructure segment had revenues of \$2.4 billion for the year ended December 31, 2002 essentially flat with the revenues for the year ended December 31, 2001.

Operating profit for the segment was impacted in both 2003 and 2002 by provisions relating to projects awarded in previous years. In 2003 operating profit was negatively impacted by a pre-tax provision of \$7.4 million relating to the write-down of an equity investment in a magnesium smelter project in Australia. The investment was committed in previous years as part of a consulting arrangement with the client where the company agreed to be compensated for its services in shares of the client's capital stock. Due to funding considerations, continued development of the project was suspended resulting in the client seeking bankruptcy protection. Because the company was not the execution contractor there was no impact on backlog or operating results from project execution.

A pre-tax \$26 million dispute resolution provision in 2002 primarily relates to an unfavorable arbitration ruling on the Verde Gold project in Chile, a gold ore processing facility completed in 1996. During the second quarter of 2002, the company recognized a loss provision of \$20 million representing the arbitration award plus applicable interest, less a \$3 million reserve provided in prior years. The company anticipates recovering a portion of the award from available insurance and has recorded \$6 million in expected insurance recoveries. The net impact on results of operations for 2002 was a charge of \$14 million.

The 2003 operating profit margin in the Industrial & Infrastructure segment was essentially flat with 2002. These results are substantially below results achieved in 2001 primarily due to the provisions discussed above. In 2003 margins were also lower due to the increased volume of construction management work and lack of project margin on projects that were removed from backlog which are discussed below.

New awards in the Industrial & Infrastructure segment were \$2.6 billion compared with \$3.5 billion in 2002. New awards in 2002 included a substantial award for the SH 130 toll road project in Texas. In addition, new awards in 2003 were lower than 2002 and 2001 due to continuing economic weakness in the mining, telecommunications and manufacturing markets reflecting overcapacity and poor commodity pricing in these industries.

Backlog for the Industrial & Infrastructure segment declined to \$3.3 billion compared with \$4.2 billion at December 31, 2002. Contributing to this decline was the removal of \$750 million for three projects that had been booked during the previous two years. One of these was a mining project that was removed due to considerations relating to ongoing financing. The other two were commercial projects that the company decided to not execute due to evolving changes in industry liability. The increase in backlog to \$4.2 billion at December 31, 2002 compared with \$3.1 billion as of December 31, 2001 reflects the strong increase particularly in life sciences and transportation awards in 2002.

Government. The Government segment had revenues of \$1.7 billion for the year ended December 31, 2003 compared with revenue of \$1.0 billion in 2002. This 78 percent increase is primarily due to the substantial increase in work performed for the Department of Defense on the Midcourse Missile Defense test bed facilities in Alaska, the Department of State for an embassy project in Brazil and new awards for task orders in Iraq. Also contributing to the increase was revenue from Del-Jen which was acquired early in 2003. Government segment revenue in 2002 increased 17 percent over revenue for the year ended December 31, 2001. The revenue increase in 2002 primarily reflects higher activity levels on projects being executed for the Department of Energy ("DOE"). Revenue in all periods includes work for ongoing environmental restoration, engineering, construction, site operations and maintenance services at two major DOE sites: the Fernald Environmental Management Project in Ohio and the Hanford Environmental Management Project in Washington.

Operating profit margin for the Government segment declined to 2.8 percent in 2003 compared with 3.1 percent in 2002. Contributing to this decline was the impact of a particularly high level of proposal activity during the year as the segment pursued a number of new opportunities. The operating profit margin of 3.1 percent in 2002 compares with 2.7 percent in 2001. This improvement is attributable to improved project execution and realization of performance incentives on the DOE contracts, activity on the Midcourse Missile Defense test bed facilities in Alaska and increased logistical support activities internationally. In addition, good performance on the Fernald contract led to a re-baselining of the project, which favorably impacted operating profit in 2003 and the last half of 2002. Many projects performed on behalf of U.S. government

[Table of Contents](#)

clients under multi-year contracts provide for annual funding. As a result, new awards for the Government segment reflect the annual award of work to be performed over the ensuing 12 months.

In January 2003, the company acquired Del-Jen, Inc. ("Del-Jen"), a leading provider of services to the Departments of Defense and Labor. The acquisition will expand the company's ability to provide services in the government outsourcing market. Del-Jen was acquired for \$33.3 million in cash of which \$24 million was recognized as goodwill and \$3.2 million was recognized as intangible assets.

In November 2003, the company acquired the International Division of J.A. Jones Construction Company ("J.A. Jones"), which provides design-build and construction services to the U.S. Government. This acquisition will further expand the company's portfolio of government business. The acquisition did not have a material impact on the company's consolidated financial statements.

Total assets in the Government segment increased to \$475 million at December 31, 2003 compared with \$128 million at December 31, 2002. The increase is primarily attributable to the acquisition of Del-Jen with total assets of \$60.4 million at December 31, 2003. In addition, the segment has unbilled fees totaling \$39.3 million related to the Fernald project. The project has moved into the closeout stage and contract terms provide that a portion of the earned fees will not be billed until project completion in 2007. Deferred fees recognized in revenue in 2003 and 2002 were \$21.9 million and \$6.0 million, respectively. Also contributing to the increase in segment assets was a significant increase in accounts receivable and contract work in progress relating to work performed in the Middle East.

Global Services. The Global Services segment had revenues of \$1.1 billion for the year ended December 31, 2003, up 15 percent compared with the year ended December 31, 2002. Revenue for 2002 was 6 percent lower than revenue for the year ended December 31, 2001. The increase in revenue in 2003 is partially due to the acquisition of Plant Performance Services ("P2S") at the end of the first quarter. The revenue decline in 2002 compared with 2001 primarily reflects the impact of increased selectivity to improve margins and depressed economic conditions resulting in lower operations and maintenance activity in the manufacturing sector.

Operating profit margin in the Global Services segment was 8.7 percent compared with 9.7 percent in 2002 and 4.9 percent in 2001. The reduced margin in 2003 is partially attributable to lower contribution from P2S and construction related services reflecting the lower volume in Power and Oil & Gas activities. The improvement in 2002 compared with the prior period is primarily attributable to the procurement services business which incurred substantial amounts of development and start-up expenses in 2001.

In March 2003, the company acquired five specialty operations and maintenance ("O&M") business groups from Philip Services Corporation. The acquired businesses, which were named Plant Performance Services ("P2S"), will expand and strengthen the O&M services business component of the Global Services segment and complement the company's core engineering, procurement and construction business. The business groups were acquired for \$21.2 million in cash which excluded working capital. During the period from the date of acquisition through December 31, 2003, approximately \$44 million of working capital has been provided to the business to fund operations. As of December 31, 2003, the allocation of the purchase price has not been finalized pending valuation of assets acquired through independent appraisals.

New awards in the Global Services segment for operations and maintenance projects were \$1.3 billion, an increase of 23 percent over 2002. This increase is primarily due to the contribution from P2S. The 17 percent decline in new awards in 2002 compared with 2001 is primarily attributable to increased selectivity and the depressed economic conditions in the manufacturing sector.

Backlog for the Global Services segment has been fairly stable at \$1.8 billion at December 31, 2003 compared with \$1.6 billion and \$1.9 billion as of December 31, 2002 and 2001, respectively. This relative stability is due in part to the multi-year nature of operations and maintenance contracts where consistent and efficient performance results in long-term client relationships. The equipment, temporary staffing and global sourcing and procurement operations do not report backlog due to the short turnaround between the receipt of new awards and the recognition of revenue. Accordingly, new awards and backlog for the segment relate to the operations and maintenance activities only.

[Table of Contents](#)

Power. The Power segment experienced a significant decline in revenue to \$759 million for the year ended December 31, 2003, compared with \$2.2 billion in 2002 and \$2.5 billion in 2001. This decline is due to the substantial work-off of nearly all projects in backlog that were awarded in prior years. As mentioned previously, the segment has experienced a substantial reduction in new awards over the last two years as demand for new power generation has diminished following a strong cycle of power plant construction activity.

Operating profit margin in the Power segment was a very strong 10.2 percent for the year ended December 31, 2003, compared with 4.9 percent in 2002 and 3.0 percent in 2001. The strong performance in 2003 is attributable to highly successful execution resulting in early completion of projects. Projects in the Power segment are primarily bid and awarded on a fixed price basis. This method of contracting exposes the segment to the risk of cost overruns due to factors such as material cost and labor productivity variances or schedule delays.

On July 9, 2003, the company jointly announced with Duke Energy Corporation the decision to terminate the Duke/ Fluor Daniel partnership ("D/ FD") as a result of the significant decline in the construction of new power plants. A joint plan among the partners is being developed to dissolve the business over the next two years. The dissolution is not expected to have a material impact on results of operations or financial position of the company. The company will continue to identify power generation opportunities and any prospective projects will be performed 100 percent by Fluor.

New awards in the Power segment were down substantially to \$485 million for the year ended December 31, 2003, compared with \$1.1 billion and \$3.6 billion in 2002 and 2001, respectively. The majority of new awards in 2003 will be executed by Fluor or ICA/ Fluor Daniel. Backlog for the Power segment decreased to \$605 million at December 31, 2003 compared with \$841 million and \$2.3 billion at December 31, 2002 and 2001, respectively. Most of the projects awarded in prior years have now been completed or will be completed in 2004. New award activity for the near term future is expected to be modest as existing capacity is expected to meet anticipated demand.

Corporate. Corporate administrative and general expenses totaled \$141.5 million for the year ended December 31, 2003. This compares with \$160.1 million for the year ended December 31, 2002 and \$167.0 million for the year ended December 31, 2001. The improvement in 2003 compared with 2002 is primarily due to the absence of charges relating to the reevaluation of the company's enterprise resource management ("ERM") system, recognition of a provision for a guarantee obligation and a provision to recognize impairment related to an investment in The Beacon Group Energy Investment Fund, L.P. that were recognized in 2002. Partially offsetting these charges in 2002 was recognition of a gain relating to the demutualization of an insurance company in which the company had an investment.

During 2002 significant cost reductions were realized as a result of the company's reevaluation of the scope of implementation and deployment of its ERM system (formerly known as Knowledge@Work). As part of this reevaluation effort the company altered the original ERM implementation plan and recognized a charge of \$13.0 million in 2002 for abandonment of certain system functionality and to adjust depreciation expense. This charge partially offset the impact of the cost reductions realized upon changing the implementation and deployment plan.

Stock based compensation expense in 2002 was \$25.3 million lower compared with 2001 primarily as a result of a significant increase in the trading price of the company's common stock during the first half of 2001. The impact of changes in the stock price in 2003 and 2002 did not have a significant impact on stock-based compensation expense as exercises, retirements and conversions have reduced the number of stock price sensitive units outstanding.

During 2002 overhead cost reductions were realized as a result of the early retirement of two former senior executives at the end of 2001 and the elimination of the Business Services and Other segment. This segment included the company's shared services operations. Shared services are grouped in corporate administrative and general expense for all periods presented.

Net interest income was \$3.2 million and \$6.4 million for the years ended December 31, 2003 and 2002, respectively, compared with net interest expense of \$0.9 for the year ended December 31, 2001. The reduction in net interest income in 2003 is the result of lower cash balances and increased short-term borrowings

compared with 2002. The increase in net interest income in 2002 compared with 2001 is primarily due to the elimination of short-term borrowings.

The effective tax rates on the company's continuing operations were 33.0 percent, 34.8 percent and 31.1 percent, for the years 2003, 2002 and 2001, respectively. The decrease in the tax rate in 2003 compared with 2002 is primarily due to the utilization of certain capital loss carryforwards coupled with reduced foreign losses without tax benefit. In addition, during 2003 the company had favorable tax return adjustments and settlements which were partially offset by an increase in valuation allowance to adjust net deferred tax assets to amounts that are more likely than not to be realized. The tax rate in 2001 compared with 2002 was lower due to the tax benefits from tax settlements and the utilization of foreign net operating loss carryforwards.

Matters in Dispute Resolution. During 2003, several matters on certain completed and in progress projects were in the dispute resolution process. The following discussion provides a background and current status of these matters:

Murrin Murrin

Disputes between Fluor Australia ("Fluor") and its client, Anaconda Nickel ("Anaconda"), over the Murrin Murrin Nickel Cobalt project located in Western Australia were partially resolved through arbitration during the third quarter of 2002. The first phase of the arbitration hearing was completed in May 2002 and a decision was rendered in September 2002 resulting in an award to Anaconda of A\$147 million (subsequently amended to A\$150 million [US\$84.0 million]) and an award to Fluor of A\$107 million [US\$59.9 million] for amounts owing from Anaconda under the contract. The company has recovered the first phase award plus substantially all defense costs incurred from available insurance.

On July 28, 2003, the Supreme Court of Victoria, Australia granted Anaconda's appeal of an issue that had been decided in favor of Fluor by the arbitration panel in the first phase. This decision sends the arbitration panel's denial of Anaconda's claim for the cost of a fifth autoclave train back to the panel for further reconsideration. Fluor has appealed the Supreme Court's decision to the State of Victoria Court of Appeal.

The second phase of the arbitration was heard in September 2003. A decision is expected in the third quarter of 2004. The company anticipates that any liability arising from proceedings under either the first or the second phase of arbitration, regardless of the outcome of the appeal, will be covered by available insurance.

Fluor Daniel International and Fluor Arabia Ltd. V. General Electric Company, et al U.S.D.C.,
Southern District Court, New York

In October 1998, Fluor Daniel International and Fluor Arabia Ltd. filed a complaint in the United States District Court for the Southern District of New York against General Electric Company and certain operating subsidiaries as well as Saudi American General Electric, a Saudi Arabian corporation. The complaint seeks damages in connection with the procurement, engineering and construction of the Rabigh Combined Cycle Power Plant in Saudi Arabia. Subsequent to a motion to compel arbitration of the matter the company initiated arbitration proceedings in New York under the American Arbitration Association international rules. The evidentiary phase of the arbitration has been concluded and a decision is expected in the second quarter of 2004.

Dearborn Industrial Project Duke/Fluor Daniel (D/FD)

The Dearborn Industrial Project (the "Project") started as a co-generation combined cycle power plant project in Dearborn, Michigan. The initial Turnkey Agreement, dated November 24, 1998, consisted of three phases. Commencing shortly after Notice to Proceed, the owner/operator, Dearborn Industrial Generation ("DIG"), issued substantial change orders enlarging the scope of the project.

The Project has been severely delayed with completion of Phase II. DIG has unilaterally taken over completion and operation of Phase II and is commissioning that portion of the plant. Shortly thereafter, DIG drew upon a \$30 million letter of credit which D/ FD expects to recover upon resolution of the dispute. D/ FD

retains lien rights (in fee) against the project. In October 2001, suit was commenced in Michigan State Court to foreclose on the lien interest.

In December 2001, DIG filed a responsive pleading denying liability and simultaneously served a demand for arbitration to D/ FD claiming, among other things, that D/ FD is liable to DIG for alleged construction delays and defective engineering and construction work at the Dearborn plant. The court has ordered the matter to arbitration. The lien action remains stayed pending completion of the arbitration of D/ FD's claims against DIG and DIG's claims against D/ FD. An arbitration panel has been appointed and the arbitration will likely proceed in early 2005.

Butinge Nafta Oil Terminal

On March 10, 2000, Butinge Nafta ("Nafta") commenced arbitration proceedings against Fluor Daniel Intercontinental ("FDI") concerning a bulk oil storage terminal (the "Facility") located in Lithuania alleging, among other issues, that FDI represented costs in excess of actual estimates. FDI engineered, procured and managed the construction of the Facility on a lump sum basis. On June 21, 2000, Fluor filed a separate arbitration against Nafta to recover delay/disruption damages caused by Nafta, as well as compensation for out of scope services. The first hearing on the merits of the case was conducted in late May 2001 with an additional hearing in June 2002. Final legal submissions and arguments were completed in September 2002. In June 2003, FDI was issued a favorable award on its claims and Nafta's major claims against FDI were dismissed with prejudice resulting in a net award to Fluor of \$4.6 million. The resolution of this matter did not have a material effect on results of operations.

Hamaca Crude Upgrader

See discussion regarding the Hamaca project above under Oil & Gas.

Strategic Reorganization Costs. In March 1999, the company reorganized its engineering and construction operations and recorded a special provision to cover direct and other reorganization related costs primarily for personnel, facilities and asset impairment adjustments. The plan was successfully implemented and carried out. As of December 31, 2003, the remaining unexpended reserve is \$1.5 million and relates to non-U.S. personnel costs that will be paid as follows: 2004 — \$0.8 million; 2005 — \$0.3 million; 2006 — \$0.2 million; 2007 — \$0.1 million; thereafter — \$0.1 million.

Discontinued Operations. In September 2001, the Board of Directors approved a plan to dispose of certain non-core operations of the company's construction equipment and non-EPC components of its temporary staffing businesses. An active program to consummate such disposal was initiated and is complete as of the end of 2003. Operating results for these non-core businesses have been reclassified and are reported as discontinued operations in the accompanying Consolidated Statement of Earnings.

During 2003 the last remaining dealership operation was sold generating proceeds of \$31.9 million. In 2002, the sale of one dealership subsidiary resulted in cash proceeds of \$45.9 million. Other dealership asset disposals during 2002 produced proceeds of \$51 million. In December 2001, the company sold one dealership entity for cash equal to its carrying value generating proceeds of \$25.7 million.

During the second quarter of 2002, the Australian operations of the temporary staffing operations of TRS were sold, resulting in cash proceeds of \$5.1 million. The temporary staffing industry experienced severe competition in 2002 due to depressed economic conditions, which resulted in significant erosion in the fair value of the TRS businesses that were sold. As a result, the company recognized adjustments to the carrying value of TRS's U.S. and U.K. based disposal groups. The sales of the U.S. and U.K. operations were completed in the fourth quarter of 2002 resulting in proceeds of \$2 million.

Disposal of AMECO operations in Argentina and Peru were finalized in 2002 resulting in proceeds of \$5.1 million primarily from collection of accounts receivable and sales of inventory and equipment.

Interest expense was not reclassified to discontinued operations in connection with the non-core businesses because disposal of these operations did not include any debt to be assumed by the buyers.

Revenue and the results of operations, including loss on disposal, for all discontinued operations are as follows:

	Year Ended December 31		
	2003	2002	2001
	(In thousands)		
Revenue			
Dealership operations	\$ 30,097	\$155,909	\$ 279,099
Other equipment operations	—	7,880	10,153
Temporary staffing operations	34	67,661	138,102
Total Revenue	\$ 30,131	\$231,450	\$ 427,354
Earnings (loss) from discontinued operations:			
Dealership operations	\$ 2,575	\$ 4,214	\$ 13,569
Other equipment operations	117	213	(1,787)
Temporary staffing operations	(404)	(4,036)	(9,898)
Earnings from discontinued operations before tax	2,288	391	1,884
Provision for taxes	800	891	1,632
Earnings (loss) from discontinued operations	\$ 1,488	\$ (500)	\$ 252
Loss on disposal before tax	\$ (7,386)	\$ (8,770)	\$(139,423)
Provision for taxes (tax benefit)	5,718	(2,909)	(30,815)
Loss on disposal	\$(13,104)	\$ (5,861)	\$(108,608)

The loss on disposal in all periods presented above is for impairment provisions to adjust the carrying value of the assets held for sale of the various individual non-core businesses to fair value. Impairment provisions for the equipment operations included adjustments to the carrying value of equipment inventories, fixed assets and goodwill. Impairment provisions for the temporary staffing operations primarily included adjustments to the carrying value of goodwill.

Financial Position and Liquidity

Cash used in operating activities in 2003 was primarily due to the significant use of cash to fund project operations. This compares to substantial cash provided by operating activities in 2002 and 2001. Significant cash was used in 2003 and 2002 to fund projects in the Power segment resulting in a reduction in advances from affiliate of \$212.8 million and \$282.1 million, respectively. These advances represent the company's proportional share of excess cash from Duke/ Fluor Daniel that was generated from client advance payments received in 2001 and prior years upon award of projects. The joint venture partners manage excess cash of Duke/ Fluor Daniel through these proportional advances. Client advances on Duke/ Fluor Daniel projects is a normal condition of contracts in the power industry where most of the projects are negotiated on a fixed price basis. As these projects progress, the expenditures for labor and materials is partially funded from these advance payments. A substantial number of projects were completed in 2003 and 2002 and the advances used to fund these completed projects were not replaced with new advances due to the significant reduction in new awards in the Power segment. The work-off of projects in progress and the significant reduction in new power industry awards experienced in 2003 and 2002 is expected to continue in the near term future and will further reduce total advances available to the company.

The company also used significant cash in 2003 to fund on-going work and the change orders that are in the dispute resolution process relating to the Hamaca project in Venezuela. The company is incurring substantial costs relating to the change orders for which it is not currently being paid pending resolution through arbitration. As of December 31, 2003, the company has \$179.6 million in deferred costs on this project, of which \$124.6 million was funded during 2003. On-going work on Hamaca not associated with change orders used approximately \$80 million of cash from advances received in prior years. Excluding the impact of the repayment of advances relating to power projects and the funding for the Hamaca project, cash

[Table of Contents](#)

was used to fund other changes in net operating assets and liabilities primarily associated with engineering and construction activities. Approximately \$44 million of working capital was provided to P2S which was acquired early in 2003. There was also a significant increase in operating assets and liabilities totaling approximately \$126 million relating to work in the Government segment primarily in connection with start-up activities on the CETAC and AFCAP projects in the Middle East as well as the Missile Defense work in Alaska. The projects in the Middle East required rapid deployment late in the fourth quarter of 2003 which resulted in substantial initial investment of working capital. In addition, early start-up activities and on-going progress on major Oil & Gas projects have also required investments in operating working capital. The levels of operating assets and liabilities vary from year to year and are affected by the mix, stage of completion and commercial terms of engineering and construction projects.

Cash used by operating activities is also impacted by contributions to the company's defined benefit retirement plans. Contributions in 2003 amounted to \$52 million compared with \$110 million and \$68 million in 2002 and 2001, respectively. The large contributions in 2002 and 2001 were due in part to lower than expected investment results on plan assets experienced in those and the two prior years coupled with the business objective to utilize available resources to maintain full funding of accumulated benefits in most of its plans. One plan is not fully funded and in 2003 the minimum pension liability amounts to \$28 million for this plan. The company recognized a minimum liability plus elimination of \$12 million of prepaid pension assets in 2002 resulting in an after-tax charge of \$29 million in the accumulated other comprehensive loss component of Shareholders' Equity.

During 2003 and 2002, the receipt of funds from insurance claims relating to the Murrin Murrin project amounted to \$84.1 million and \$35.4 million, respectively. As of December 31, 2003, amounts due from the insurance companies for claims submitted have been collected except for minor amounts of arbitration defense costs that are still in the payment process. Activities in 2002 associated with the disposal of certain discontinued equipment and temporary staffing businesses generated \$24 million of cash from liquidation of operating assets and liabilities, primarily from accounts receivable and inventories.

Cash utilized by investing activities in 2003 included capital expenditures of \$79.2 million for continuing operations and \$54.5 million for the acquisition of Del-Jen, P2S and J.A. Jones International which were partially offset by \$31.9 million in proceeds from the sale of the last discontinued equipment dealership operation. Cash provided by investing activities in 2002 was benefited by the sale and liquidation activities associated with discontinued operations. Sales of discontinued businesses generated \$101 million in proceeds from the liquidation of property, plant and equipment and sales of dealership and temporary staffing businesses. Partially offsetting these proceeds was capital expenditures of \$16 million primarily for the one remaining equipment dealership that was sold in 2003.

Capital expenditures for continuing operations primarily relate to the equipment operations in the Global Services segment that support engineering and construction projects. Capital expenditures were substantially lower in 2002 than in 2001 primarily as the result of substantial completion in 2001 of the SAP system component of the company's Enterprise Resource Management system. Capital expenditures in 2001 include expenditures for capital investments in construction equipment of \$60 million for continuing operations and \$52 million for discontinued operations. The decision to divest certain equipment operations substantially reduces the company's capital investment requirements. Capital expenditures in future periods will include equipment purchases for the equipment operations of the Global Services segment, facility renewal and refurbishment, and computer infrastructure in support of the company's substantial investment in automated systems.

As of December 31, 2003, primarily in response to a significant increase in funds required for project operations, the company borrowed \$121.5 million in the commercial paper market. The company can borrow up to \$300 million under unsecured committed revolving short- and long-term lines of credit with banks. These credit lines provide support for borrowings in the commercial paper market as needed for short-term liquidity to meet funding requirements for project operations. Liquidity is further provided by substantial customer advances on contracts in progress including the company's proportional share of excess cash that has been advanced to the company by Duke/ Fluor Daniel as well as the commercial paper borrowings. As customer advances and advances from Duke/ Fluor Daniel are used in project execution and not replaced by advances on new projects, the company's cash position will be reduced. Cash is also required and is being

provided to fund work performed on the Hamaca project in Venezuela. This project is incurring significant costs for work relating to change orders that are subject to arbitration proceedings. The requirements for operating liquidity could result in the need for additional short-term borrowings.

As of December 31, 2003, the company's outstanding debt consists of the above mentioned commercial paper and the 5.625 percent Municipal bonds totaling \$17.6 million. In addition, the company has debt associated with the lease financing on its facilities in Aliso Viejo and Calgary, as discussed above. The lease financing on the Aliso Viejo facility is due in December 2004 and is classified as a current liability as of December 31, 2003.

In February 2004, the company issued \$330 million of 1.5 percent Convertible Senior Notes due 2024. Proceeds from the Notes were used to pay off all outstanding commercial paper and obtain ownership of the Aliso Viejo engineering and corporate offices through payoff of the lease financing.

For the years ended December 31, 2003 and 2002, exchange rates for functional currencies for most of the company's international operations strengthened against the U.S. dollar resulting in unrealized translation gains that are reflected in the cumulative translation component of accumulated other comprehensive income (loss). Unrealized gains amounting to \$45.1 million and \$20.9 million in 2003 and 2002, respectively, relate to cash balances held in currencies other than the U.S. dollar. Because most of the cash held in foreign currencies will be used for project related expenditures in those currencies, the company's exposure to exchange gains and losses is considered nominal.

The company has a common stock buyback program, authorized by the Board of Directors, to purchase shares under certain market conditions. During 2003, the company purchased 94,000 shares for total consideration of \$2.7 million. The company purchased 726,000 and 39,000 shares of its common stock for total consideration of \$19.2 million and \$1.4 million in 2002 and 2001, respectively.

Cash dividends declared and paid in 2003, 2002 and 2001 were at the rate of \$0.64 per share. The payment and level of future cash dividends will be subject to the discretion of the company's Board of Directors.

The company has sufficient sources of funds to meet its anticipated operating needs. Cash on hand and short-and long-term lines of credit give the company significant operating liquidity. For the next 12 months, cash generated from operations supplemented by borrowings under credit facilities and the issuance of debt securities are expected to be sufficient to fund operations.

Off-Balance Sheet Arrangements. The company maintains a variety of commercial commitments that are generally made available to provide support for various commercial provisions in its engineering and construction contracts. The company has \$731 million in committed and uncommitted lines of credit to support letters of credit. In addition, the company has \$120 million in uncommitted lines for general cash management purposes. Letters of credit are provided to clients in the ordinary course of business in lieu of retention or for performance and completion guarantees on engineering and construction contracts. At December 31, 2003, the company had utilized \$355 million of its letter of credit capacity. The company also posts surety bonds primarily on state and local government projects to guarantee its performance on contracts.

Table of Contents

Contractual obligations at December 31, 2003 are summarized as follows:

	Total	Payments Due By Period			
		Under 1 year	1-3 years	4-5 years	Over 5 Years
\$ in millions					
Long-term Debt:					
5.625% Municipal Bonds	\$ 18	\$ —	\$ —	\$ —	\$ 18
Facilities financing ⁽¹⁾	127	100	27	—	—
Operating leases ⁽²⁾	271	31	49	32	159
Compensation related obligations	271	31	65	83	92
Pollution control bonds	10	2	5	3	—
Total	\$697	\$ 164	\$ 146	\$ 118	\$ 269

(1) Facilities in Aliso Viejo and Calgary are financed under capital leases and contain residual value guarantees totaling \$105 million.

(2) Operating leases are primarily for engineering and project execution office facilities in Sugar Land, Texas.

Guarantees. In the ordinary course of business, the company enters into various agreements providing financial or performance assurances to clients on behalf of certain unconsolidated subsidiaries, joint ventures and other jointly executed contracts. These agreements are entered into primarily to support the project execution commitments of these entities. The guarantees have various expiration dates ranging from mechanical completion of the facilities being constructed to a period extending beyond contract completion in certain circumstances. The maximum potential payment amount of an outstanding performance guarantee is the remaining cost of work to be performed by or on behalf of third parties under engineering and construction contracts. The amount of guarantees outstanding measured on this basis totals \$2.8 billion as of December 31, 2003. Amounts that may be required to be paid in excess of estimated costs to complete contracts in progress are not estimable. For cost reimbursable contracts amounts that may become payable pursuant to guarantee provisions are normally recoverable from the client for work performed under the contract. For lump sum or fixed price contracts, the amount payable under a guarantee is the cost to complete the contracted work less amounts remaining to be billed to the client under the contract. Remaining billable amounts could be greater or less than the cost to complete. In those cases where costs exceed the remaining amounts payable under the contract the company may have recourse to third parties, such as owners, co-venturers, subcontractors or vendors for claims.

Financial guarantees, made in the ordinary course of business on behalf of clients and others in certain limited circumstances, are entered into with financial institutions and other credit grantors and generally obligate the company to make payment in the event of a default by the borrower. Most arrangements require the borrower to pledge collateral in the form of property, plant and equipment which is deemed adequate to recover amounts the company might be required to pay. As of December 31, 2003, the company had extended financial guarantees on behalf of certain clients and other unrelated third parties totaling approximately \$8 million. The remaining outstanding amount of a financial guarantee for \$10 million of pollution control bonds related to zinc operations that were sold in 1987 has been recognized at the full amount of the underlying obligation. The obligation was recognized by a charge to earnings in 2002 due to the obligor's bankruptcy filing and inability to meet the current obligation on the bonds without financial assistance from the company.

Although inflation and cost trends affect the company, its engineering and construction operations are generally protected by the ability to fix costs at the time of bidding or to recover cost increases in cost reimbursable contracts. The company has taken actions to reduce its dependence on external economic conditions; however, management is unable to predict with certainty the amount and mix of future business.

Item 7A. Quantitative and Qualitative Discussions about Market Risk

The company invests excess cash in short-term securities that carry a floating money market rate of return. Debt instruments carry a fixed rate coupon on the \$17.6 million in long-term debt. The company does not currently use derivatives, such as swaps, to alter the interest characteristics of its short-term securities or

[Table of Contents](#)

its debt instruments. The company's exposure to interest rate risk on its long-term debt is not material. The company utilizes forward exchange contracts to hedge foreign currency transactions entered into in the ordinary course of business and does not engage in currency speculation. At December 31, 2003, the company had forward foreign exchange contracts of less than eighteen months duration, to exchange major world currencies for U.S. dollars. The total gross notional amount of these contracts at December 31, 2003 was \$53 million.

In 2001, the company issued a warrant for the purchase of 460,000 shares, at \$36.06 per share, of the company's common stock to a partner in the company's e-commerce procurement venture. Any compensation realized by the holder through exercise of the warrant will offset royalties otherwise payable under a five-year cooperation and services agreement.

Item 8. Financial Statements and Supplementary Data

The information required by this Item is submitted as a separate section of this Form 10-K. See Item 15, below.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

There have been no changes in, or disagreements with, accountants on accounting and financial disclosure.

Item 9A. Controls and Procedures

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and that such information is accumulated and communicated to our management including our chief executive officer and chief financial officer, as appropriate, to allow for timely decisions regarding required disclosure. Under the supervision and with the participation of our management, including our chief executive officer and chief financial officer, we conducted an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures, as defined in Rules 13a-15 and 15d-15 under the Securities Exchange Act of 1934, as of the end of the period covered by this report (the "Evaluation Date"). To maintain a cost-effective controls structure, management necessarily applied its judgment in assessing the costs and benefits of such controls and procedures, which, by their nature, can only provide reasonable assurance that our management's control objectives are met. In addition, the design of any system of control is based upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all future events, no matter how remote.

Based on this evaluation, our chief executive officer and chief financial officer concluded as of the Evaluation Date that our disclosure controls and procedures were effective in timely alerting them to material information relating to the company required to be included in our periodic SEC reports.

There were no significant changes in our internal controls or in other factors that could significantly affect these controls subsequent to the Evaluation Date. We have not identified any significant deficiencies or material weaknesses in our internal controls, and therefore there were no corrective actions taken.

PART III

Item 10. Directors and Executive Officers of the Registrant

The information required by paragraph (a), and paragraphs (c) through (h) of Item 401 of Regulation S-K (except for information required by paragraph (b) and (e) of Item 401 to the extent the required information pertains to our executive officers, which is set forth below) is hereby incorporated by reference from our definitive proxy statement for our 2004 annual meeting which will be filed with the Securities and Exchange Commission (the "Commission"). Disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is incorporated by reference from the information contained in the section entitled "Section 16(a) Beneficial Ownership Reporting Compliance" in the Corporate Governance portion of our Proxy Statement.

Executive Officers of the Registrant

Pursuant to the requirements of Item 401(b) and 401(e) of Regulation S-K, the following information is being furnished with respect to the company's executive officers:

Name	Age	Position with the Company ⁽¹⁾
Alan L. Boeckmann	55	Chairman and Chief Executive Officer
Stephen B. Dobbs	47	Group President, Infrastructure
Jeffery L. Faulk	53	Group President, Oil, Gas & Power
Lawrence N. Fisher	60	Chief Legal Officer and Secretary
H. Steven Gilbert	56	Senior Vice President, Human Resources and Administration
Kirk D. Grimes	46	Group President, Global Services
John L. Hopkins	49	Group President, Government
Robert A. McNamara	49	Group President, Industrial
D. Michael Steuert	55	Senior Vice President and Chief Financial Officer
Mark A. Stevens	51	Group Executive, Commercial Strategy & Risk

(1) Except where otherwise indicated, all references are to positions held with Fluor Corporation or one of its subsidiaries. All of the officers listed in the preceding table serve in their respective capacities at the pleasure of the Board of Directors.

Alan L. Boeckmann

Chairman and Chief Executive Officer, since February 2002; member of the Board since 2000; formerly, Chief Operating Officer from 2000; President and Chief Executive Officer, Fluor Daniel, from 1999; joined the company in 1979 with previous service from 1974 to 1977.

Stephen B. Dobbs

Group President, Infrastructure, since October 2003; President, Infrastructure from 2002; President, Transportation, from 2001; formerly Vice President, Sales, Infrastructure from 1999; formerly Division Manager, Infrastructure from 1998; joined the company in 1980.

Jeffery L. Faulk

Group President, Oil, Gas & Power, since October 2003; formerly President and Chief Executive Officer of Duke/ Fluor Daniel from 2001; formerly Senior Vice President Operations, Energy & Chemicals and Vice President Operations, Oil & Gas since 1996; joined the company in 1973.

Lawrence N. Fisher

Chief Legal Officer and Secretary since 1996; joined the company in 1974.

H. Steven Gilbert

Senior Vice President, Human Resources and Administration since February 2002; formerly, Senior Vice President, Business and Work Process Integration from 1999; joined the company in 1970.

Kirk D. Grimes

Group President, Global Services since October 2003; formerly, Group Executive, Oil & Gas from 2001; formerly President, Telecommunications from 1998; joined the company in 1980.

John L. Hopkins

Group President, Government since October 2003; formerly, Group Executive, Sales, Marketing and Strategic Planning from 2002; formerly Group Executive, Fluor Global Services from September 2001; formerly President and Chief Executive Officer, TradeMC, a developer and promoter of supplier networks for the procurement of capital goods from March 2000; Group President, Sales & Marketing from 1988; joined the company in 1984 as a result of the company's acquisition of Strategic Organizational Systems, Inc.

Robert A. McNamara

Group President, Industrial, since October 2003; formerly, Group Executive, Industrial & Infrastructure from 2002; formerly, Group Executive, Industrial since 2001; formerly, President, Manufacturing and Life Sciences from 1998; President, ADP Marshall, Inc., a construction subsidiary of the company which was acquired by the company in 1996, which he originally joined in 1978.

D. Michael Steuert

Senior Vice President and Chief Financial Officer since May 2001; formerly Senior Vice President and Chief Financial Officer, Litton Industries Inc, a major defense contractor from 1999 to 2001, and Senior Vice President and Chief Financial Officer, GenCorp Inc., a technology-based manufacturing company from 1994 to 1999; joined the company in May 2001.

Mark A. Stevens

Group Executive, Commercial Strategy & Risk since October, 2003; formerly Group Executive, Global Services from 2002; formerly Senior Executive, Sales, Marketing & Strategic Planning from 2001; formerly, President, Energy & Chemicals from 1997; joined the company in 1975.

Code of Ethics

We have long maintained and enforced a "Code of Business Ethics" which applies to all Fluor officers and employees, including our chief executive officer, chief financial officer, and principal accounting officer and controller. A copy of our Code of Business Ethics has been filed as an exhibit to this Form 10-K and has been posted on the investor relations portion of our website, at www.fluor.com. We have disclosed and continue to intend to disclose any changes or amendments to our code of ethics or waivers from our code of ethics applicable to our chief executive officer, chief financial officer, and principal accounting officer or controller by posting such changes or waivers to our website.

Item 11. Executive Compensation

Information required by this item is included in the Organization and Compensation Committee Report on Executive Compensation and Executive Compensation and Other Information sections of our Proxy Statement to be filed with the Commission pursuant to Regulation 14A within 120 days following the close of our fiscal year, which information is incorporated herein by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

Information required by this item is included in the Stock Ownership and Stock-Based Holdings of Executive Officers and Directors and Executive Compensation and Other Information sections of our Proxy Statement to be filed with the Commission pursuant to Regulation 14A within 120 days following the close of our fiscal year, which information is incorporated herein by reference.

Item 13. Certain Relationships and Related Transactions

Information required by this item is included in the Other Matters section of the Corporate Governance portion of our Proxy Statement to be filed with the Commission pursuant to Regulation 14A within 120 days following the close of our fiscal year, which information is incorporated herein by reference.

Item 14. Principal Accountant Fees and Services

Information required by this item is included in the Ratification of Appointment of Auditors section of our Proxy Statement to be filed with the Commission pursuant to Regulation 14A within 120 days following the close of our fiscal year, which information is incorporated herein by reference.

PART IV

Item 15. Exhibits, Financial Statement Schedules and Reports on Form 8-K

(a) Documents filed as part of this report:

1. Financial Statements:

Our consolidated financial statements at December 31, 2003 and December 31, 2002 and for each of the three years in the period ended December 31, 2003 and the notes thereto, together with the report of the independent auditors on those consolidated financial statements are hereby filed as part of this Report, beginning on page F-1.

2. Financial Statement Schedules:

No financial statement schedules are presented since the required information is not present or not present in amounts sufficient to require submission of the schedule, or because the information required is included in the consolidated financial statements and notes thereto.

3. Exhibits:

Exhibit	Description
3.1	Amended and Restated Certificate of Incorporation of the registrant ⁽¹⁾
3.2	Amended and Restated Bylaws of the registrant*
4.1	Indenture between Fluor Corporation and Bank of New York, as trustee dated as of February 17, 2004 ⁽⁸⁾
10.1	Distribution Agreement between the registrant and Fluor Corporation (renamed Massey Energy Company) ⁽²⁾
10.2	Tax Sharing Agreement between the Fluor Corporation and A.T. Massey Coal Company, Inc. ⁽³⁾
10.3	Special Retention Program, dated March 7, 2000, between Fluor Corporation and Alan L. Boeckmann ⁽¹⁾
10.4	Special Retention Program, dated September 12, 2000, between Fluor Corporation and Mark A. Stevens ⁽⁷⁾
10.5	Fluor Corporation 2000 Executive Performance Incentive Plan ⁽⁴⁾
10.6	Fluor Corporation 2000 Restricted Stock Plan for Non-Employee Directors ⁽⁵⁾
10.7	Fluor Corporation Executive Deferred Compensation Plan, as amended and restated effective January 1, 2002 ⁽⁶⁾
10.8	Fluor Corporation Deferred Directors' Fees Program, as amended and restated effective January 1, 2002 ⁽⁷⁾
10.9	Directors' Life Insurance Summary ⁽¹⁾
10.10	Fluor Executives' Supplemental Benefit Plan ⁽¹⁾
10.11	Fluor Corporation Retirement Plan for Outside Directors ⁽¹⁾
10.12	Executive Severance Plan*
10.13	2001 Key Employee Performance Incentive Plan ⁽⁶⁾
10.14	2001 Fluor Stock Appreciation Rights Plan ⁽⁶⁾
10.15	Fluor Corporation 2003 Executive Performance Incentive Plan ⁽⁷⁾
10.16	Code of Ethics and Business Conduct, as amended and restated*
10.17	Offer of Employment Letter dated May 7, 2001 from Fluor Corporation to D. Michael Steuert*
21	Subsidiaries of the registrant*

[Table of Contents](#)

Exhibit	Description
23	Consent of Independent Auditors*
31.1	Certification of Chief Executive Officer of Fluor Corporation pursuant to Rule 13a-14(a) or 15d-14(a) of the Securities Exchange Act of 1934
31.2	Certification of Chief Financial Officer of Fluor Corporation pursuant to Rule 13a-14(a) or 15d-14(a) of the Securities Exchange Act of 1934
32	Certification of Chief Executive Officer and Chief Financial Officer of Fluor Corporation pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 *

* New exhibit filed with this report.

- (1) Filed as the same numbered exhibit to the Registrant's Registration Statement on Form 10/ A (Amendment No. 1) filed on November 22, 2000 and incorporated herein by reference.
- (2) Filed as Exhibit 10.1 to the Registrant's report on Form 8-K filed on December 7, 2000 and incorporated herein by reference.
- (3) Filed as Exhibit 10.2 to the Registrant's report on Form 8-K filed on December 7, 2000 and incorporated herein by reference.
- (4) Filed as Exhibit 10.1 to the Registrant's report on Form 8-K filed on December 29, 2000 and incorporated herein by reference.
- (5) Filed as Exhibit 10.2 to the Registrant's report on Form 8-K filed on December 29, 2000 and incorporated herein by reference.
- (6) Filed as an exhibit to the Registrant's report on Form 10-K filed on March 21, 2002 and incorporated herein by reference.
- (7) Filed as an exhibit to the Registrant's report on Form 10-K filed on March 31, 2003 and incorporated herein by reference.
- (8) Filed as an exhibit to the Registrant's report on Form 8-K filed on February 17, 2004 and incorporated herein by reference.

(b) Reports on Form 8-K:

On October 3, 2003, we filed a current report on form 8-K to report a temporary suspension of trading under our Employee Benefit Plans, furnished under Items 7 and 11.

On October 29, 2003, we filed a current report on form 8-K to file our press release dated October 28, 2003 and announcing financial information and results for the quarter ended September 30, 2003, furnished under Items 7 and 9 (pursuant to Item 12).

On December 3, 2003, we filed a current report on form 8-K to report a temporary suspension of trading under our Employee Benefit Plans, furnished under Items 7 and 11.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

FLUOR CORPORATION

By: /s/ D. MICHAEL STEUERT

D. Michael Steuert,
Senior Vice President
and Chief Financial Officer

March 15, 2004

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
Principal Executive Officer and Director:		
<u>/s/ ALAN L. BOECKMANN</u> Alan L. Boeckmann	Chairman of the Board and Chief Executive Officer	March 15, 2004
Principal Financial Officer:		
<u>/s/ D. MICHAEL STEUERT</u> D. Michael Steuert	Senior Vice President and Chief Financial Officer	March 15, 2004
Principal Accounting Officer:		
<u>/s/ VICTOR L. PRECHTL</u> Victor L. PrechtI	Vice President and Controller	March 15, 2004
Other Directors:		
<u>/s/ PETER J. FLUOR</u> Peter J. Fluor	Director	March 15, 2004
<u>/s/ DAVID P. GARDNER</u> David P. Gardner	Director	March 15, 2004
<u>/s/ JAMES T. HACKETT</u> James T. Hackett	Director	March 15, 2004
<u>/s/ KENT KRESA</u> Kent Kresa	Director	March 15, 2004

[Table of Contents](#)

Signature	Title	Date
<hr/> <i>/s/ VILMA S. MARTINEZ</i> <hr/> Vilma S. Martinez	Director	March 15, 2004
<hr/> <i>/s/ DEAN R. O'HARE</i> <hr/> Dean R. O'Hare	Director	March 15, 2004
<hr/> <i>/s/ JOSEPH W. PRUEHER</i> <hr/> Joseph W. Prueher	Director	March 15, 2004
<hr/> <i>/s/ ROBIN RENWICK</i> <hr/> Lord Robin Renwick, K.C.M.G.	Director	March 15, 2004
<hr/> <i>/s/ MARTHA R. SEGER</i> <hr/> Martha R. Seger	Director	March 15, 2004
<hr/> <i>/s/ SUZANNE H. WOOLSEY</i> <hr/> Suzanne H. Woolsey	Director	March 15, 2004

FLUOR CORPORATION
INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

Table of Contents	Page
Consolidated Statement of Earnings	F-2
Consolidated Balance Sheet	F-3
Consolidated Statement of Cash Flows	F-4
Consolidated Statement of Shareholders' Equity	F-5
Notes to Consolidated Financial Statements	F-6
Report of Independent Auditors	F-35

FLUOR CORPORATION
CONSOLIDATED STATEMENT OF EARNINGS

	Year Ended December 31		
	2003	2002	2001
	(In thousands, except per share amounts)		
TOTAL REVENUES	\$8,805,703	\$9,958,956	\$8,972,161
TOTAL COST OF REVENUES	8,399,477	9,544,785	8,618,972
OTHER (INCOME) AND EXPENSES			
Corporate administrative and general expense	141,465	160,097	166,961
Interest expense	10,109	8,925	25,011
Interest income	(13,329)	(15,375)	(24,103)
Total cost and expenses	8,537,722	9,698,432	8,786,841
EARNINGS FROM CONTINUING OPERATIONS BEFORE TAXES	267,981	260,524	185,320
INCOME TAX EXPENSE	88,526	90,548	57,554
EARNINGS FROM CONTINUING OPERATIONS	179,455	169,976	127,766
EARNINGS (LOSS) FROM DISCONTINUED OPERATIONS, NET OF TAXES	1,488	(500)	252
LOSS ON DISPOSAL, NET OF TAXES	(13,104)	(5,861)	(108,608)
CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE	(10,389)	—	—
NET EARNINGS	\$ 157,450	\$ 163,615	\$ 19,410
BASIC EARNINGS (LOSS) PER SHARE			
Continuing operations	\$ 2.25	\$ 2.14	\$ 1.64
Discontinued operations	(0.15)	(0.08)	(1.39)
Cumulative effect of change in accounting principle	(0.13)	—	—
Net earnings	\$ 1.97	\$ 2.06	\$ 0.25
DILUTED EARNINGS (LOSS) PER SHARE			
Continuing operations	\$ 2.23	\$ 2.13	1.61
Discontinued operations	(0.15)	(0.08)	(1.36)
Cumulative effect of change in accounting principle	(0.13)	—	—
Net earnings	\$ 1.95	\$ 2.05	\$ 0.25
SHARES USED TO CALCULATE EARNINGS PER SHARE			
Basic	79,796	79,344	77,801
Diluted	80,539	79,853	79,157

See Notes to Consolidated Financial Statements.

FLUOR CORPORATION
CONSOLIDATED BALANCE SHEET

	December 31, 2003	December 31, 2002
	(In thousands, except share amounts)	
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 496,502	\$ 753,367
Accounts and notes receivable	636,162	503,399
Contract work in progress	827,091	432,616
Deferred taxes	118,550	128,558
Other current assets	135,339	106,152
Total current assets	2,213,644	1,924,092
ASSETS OF DISCONTINUED OPERATIONS		
PROPERTY, PLANT AND EQUIPMENT	—	49,694
Land	62,143	43,523
Buildings and improvements	271,045	158,422
Machinery and equipment	602,454	581,218
Construction in progress	2,061	2,721
	937,703	785,884
Less accumulated depreciation	368,223	318,864
Net property, plant and equipment	569,480	467,020
OTHER ASSETS		
Goodwill	54,157	21,247
Investments	98,206	125,610
Deferred taxes	66,051	113,514
Pension assets	173,613	167,256
Other	274,331	273,718
Total other assets	666,358	701,345
	\$3,449,482	\$3,142,151
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES		
Trade accounts payable	\$ 571,535	\$ 452,613
Short-term debt	221,469	—
Advances from affiliate	44,548	257,330
Advance billings on contracts	489,057	524,661
Accrued salaries, wages and benefits	306,786	320,280
Other accrued liabilities	195,743	201,287
Total current liabilities	1,829,138	1,756,171
LIABILITIES OF DISCONTINUED OPERATIONS		
LONG-TERM DEBT DUE AFTER ONE YEAR	44,652	17,613
NONCURRENT LIABILITIES	494,158	461,080
CONTINGENCIES AND COMMITMENTS		
SHAREHOLDERS' EQUITY		
Capital stock		
Preferred — authorized 20,000,000 shares without par value, none issued	—	—
Common — authorized 150,000,000 shares (\$0.01 par value); issued and outstanding — 82,102,029 and 80,188,322 shares, respectively	821	802
Additional capital	415,078	357,432
Unamortized executive stock plan expense	(24,412)	(18,603)
Accumulated other comprehensive loss	(35,335)	(75,983)
Retained earnings	725,382	620,219
Total shareholders' equity	1,081,534	883,867

\$3,449,482

\$3,142,151

See Notes to Consolidated Financial Statements.

FLUOR CORPORATION
CONSOLIDATED STATEMENT OF CASH FLOWS

	Year Ended December 31		
	2003	2002	2001
	(in thousands)		
CASH FLOWS FROM OPERATING ACTIVITIES			
Net earnings	\$ 157,450	\$163,615	\$ 19,410
Adjustments to reconcile net earnings to cash provided by (used in) operating activities:			
Depreciation and amortization:			
Continuing operations	79,676	77,989	71,911
Discontinued operations	—	—	45,268
Cumulative effect of change in accounting principle, net	10,389	—	—
Deferred taxes	48,284	45,357	(17,128)
Retirement plan contribution in excess of accrual	(620)	(79,500)	(48,312)
Unbilled fees receivable	(21,940)	(5,999)	(10,382)
Special provision, net of cash payments	—	(1,558)	(7,054)
Provisions for impairment of assets	14,817	31,145	139,423
Changes in operating assets and liabilities, excluding effects of business acquisitions/dispositions	(672,822)	(23,562)	444,870
Insurance proceeds	84,055	35,411	—
Equity in earnings of investees	(114)	(13,186)	(14,910)
Other, net	287	(33,967)	(1,328)
Cash provided by (used in) operating activities	(300,538)	195,745	621,768
CASH FLOWS FROM INVESTING ACTIVITIES			
Capital expenditures:			
Continuing operations	(79,183)	(63,014)	(148,426)
Discontinued operations	(2,583)	(15,960)	(52,489)
Acquisitions, net	(54,531)	—	—
Investments, net	(13,895)	21,944	27,960
Proceeds from disposal of property, plant and equipment	26,065	63,041	51,930
Proceeds from sale of subsidiaries	31,926	50,955	25,696
Other, net	1,046	2,385	1,260
Cash provided (utilized) by investing activities	(91,155)	59,351	(94,069)
CASH FLOWS FROM FINANCING ACTIVITIES			
Cash dividends paid	(52,287)	(51,485)	(50,913)
Increase (decrease) in short-term borrowings, net	121,469	(38,175)	(188,636)
Proceeds from sale/leaseback transaction	—	—	127,000
Stock options exercised	28,502	14,851	144,577
Purchases of common stock	(2,691)	(19,199)	(1,404)
Other, net	(5,220)	(1,237)	(479)
Cash provided (utilized) by financing activities	89,773	(95,245)	30,145
Effect of exchange rate changes on cash	45,055	20,862	(7,040)
Increase (decrease) in cash and cash equivalents	(256,865)	180,713	550,804
Cash and cash equivalents at beginning of period	753,367	572,654	21,850
Cash and cash equivalents at end of period	\$ 496,502	\$753,367	\$ 572,654

See Notes to Consolidated Financial Statements.

FLUOR CORPORATION
CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY

	Shares	Amount	Additional Capital	Unamortized Executive Stock Plan Expense	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total
(In thousands, except per share amounts)							
BALANCE AT DECEMBER 31, 2000	74,609	\$ 746	\$167,869	\$ (32,411)	\$ (42,719)	\$539,592	\$ 633,077
Comprehensive income							
Net earnings	—	—	—	—	—	19,410	19,410
Foreign currency translation adjustment (net of deferred taxes of \$5,126)	—	—	—	—	(7,086)	—	(7,086)
Comprehensive income							12,324
Cash dividends (\$0.64 per share)	—	—	—	—	—	(50,913)	(50,913)
Exercise of stock options, net	5,565	55	144,522	—	—	—	144,577
Stock option tax benefit	—	—	35,170	—	—	—	35,170
Issuance of warrant	—	—	6,380	—	—	—	6,380
Amortization of executive stock plan expense	—	—	—	9,308	—	—	9,308
Purchases of common stock	(39)	—	(1,404)	—	—	—	(1,404)
Repurchase of restricted stock, net	(28)	—	423	324	—	—	747
BALANCE AT DECEMBER 31, 2001	80,107	801	352,960	(22,779)	(49,805)	508,089	789,266
Comprehensive income							
Net earnings	—	—	—	—	—	163,615	163,615
Foreign currency translation adjustment (net of deferred taxes of \$1,623)	—	—	—	—	2,538	—	2,538
Pension plan adjustment	—	—	—	—	(28,716)	—	(28,716)
Comprehensive income							137,437
Cash dividends (\$0.64 per share)	—	—	—	—	—	(51,485)	(51,485)
Exercise of stock options, net	618	6	14,845	—	—	—	14,851
Stock option tax benefit	—	—	2,799	—	—	—	2,799
Amortization of executive stock plan expense	—	—	—	10,433	—	—	10,433
Purchases of common stock	(726)	(7)	(19,192)	—	—	—	(19,199)
Repurchase of restricted stock, net	—	—	(1,237)	1,002	—	—	(235)
Issuance of restricted stock, net	189	2	7,257	(7,259)	—	—	—
BALANCE AT DECEMBER 31, 2002	80,188	802	357,432	(18,603)	(75,983)	620,219	883,867
Comprehensive income							
Net earnings	—	—	—	—	—	157,450	157,450
Foreign currency translation adjustment (net of deferred taxes of \$24,711)	—	—	—	—	38,650	—	38,650
Pension plan adjustment	—	—	—	—	1,998	—	1,998
Comprehensive income							198,098
Cash dividends (\$0.64 per share)	—	—	—	—	—	(52,287)	(52,287)
Exercise of stock options, net	1,101	12	28,490	—	—	—	28,502
Stock option tax benefit	—	—	3,652	—	—	—	3,652
Amortization of executive stock plan expense	—	—	—	12,526	—	—	12,526
Purchases of common stock	(94)	(1)	(2,690)	—	—	—	(2,691)
Repurchase of restricted stock, net	—	(2)	(5,218)	1,504	—	—	(3,716)
Conversion of restricted stock units	—	—	2,387	11,196	—	—	13,583
Issuance of restricted stock, net	907	10	31,025	(31,035)	—	—	—

BALANCE AT DECEMBER 31, 2003	82,102	\$ 821	\$415,078	\$ (24,412)	\$ (35,335)	\$725,382	\$1,081,534
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>

See Notes to Consolidated Financial Statements.

FLUOR CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Major Accounting Policies

Principles of Consolidation

The financial statements include the accounts of the company and its subsidiaries. The equity method of accounting is used for investment ownership ranging from 20 percent to 50 percent. Investment ownership of less than 20 percent is accounted for on the cost method. Certain contracts are executed jointly through partnerships and joint ventures with unrelated third parties. The company recognizes its proportional share of venture revenues, costs and operating profits in its consolidated statement of earnings and generally uses the one-line equity method of accounting in the consolidated balance sheet. The company evaluates the applicability of Financial Accounting Standards Board Interpretation No. 46 (Revised), "Consolidation of Variable Interest Entities" (FIN 46-R) (see Lease Obligations) to partnerships and joint ventures at the inception of its participation to ensure its accounting is in accordance with the appropriate standards.

As more fully described in the following Note, in September 2001, the company adopted a plan to dispose of certain non-core operations. As a result, certain non-core operations are presented as discontinued operations. All significant intercompany transactions of consolidated subsidiaries are eliminated. Certain amounts in 2001 and 2002 have been reclassified to conform with the 2003 presentation.

Use of Estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect reported amounts. These estimates are based on information available as of the date of the financial statements. Therefore, actual results could differ from those estimates.

Engineering and Construction Contracts

The company recognizes engineering and construction contract revenues using the percentage-of-completion method, based primarily on contract costs incurred to date compared with total estimated contract costs. Customer-furnished materials, labor and equipment, and in certain cases subcontractor materials, labor and equipment, are included in revenues and cost of revenues when management believes that the company is responsible for the ultimate acceptability of the project. Contracts are segmented between types of services, such as engineering and construction, and accordingly, gross margin related to each activity is recognized as those separate services are rendered. Changes to total estimated contract costs or losses, if any, are recognized in the period in which they are determined. Revenues recognized in excess of amounts billed are classified as current assets under contract work in progress. Amounts billed to clients in excess of revenues recognized to date are classified as current liabilities under advance billings on contracts. The company anticipates that substantially all incurred costs associated with contract work in progress at December 31, 2003 will be billed and collected in 2004. The company recognizes certain significant claims for recovery of incurred costs when it is probable that the claim will result in additional contract revenue and when the amount of the claim can be reliably estimated. Unapproved change orders are accounted for in revenue and cost when it is probable that the costs will be recovered through a change in the contract price. In circumstances where recovery is considered probable but the revenues cannot be reliably estimated, costs attributable to change orders are deferred pending determination of contract price.

Depreciation and Amortization

Additions to property, plant and equipment are recorded at cost. Assets are depreciated principally using the straight-line method over the following estimated useful lives: buildings and improvements — six to 50 years and machinery and equipment — one to 10 years. Leasehold improvements are amortized over the lives of the respective leases.

FLUOR CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

In June 2001, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 142, "Goodwill and Other Intangible Assets" (SFAS 142) effective for the company's calendar year 2002. Under SFAS 142, goodwill is no longer amortized but is subject to annual impairment tests. For purposes of impairment testing, goodwill is allocated to the applicable reporting units based on the current reporting structure. During 2003, the company completed its annual goodwill impairment tests in the first quarter and has determined that none of the goodwill is impaired. Application of the non-amortization provisions resulted in an increase in earnings from continuing operations of \$3.4 million (\$0.04 per diluted share) in 2003 and 2002 compared with 2001.

Income Taxes

Deferred tax assets and liabilities are recognized for the expected future tax consequences of events that have been recognized in the company's financial statements or tax returns.

Earnings Per Share

Basic earnings per share (EPS) is calculated by dividing earnings from continuing operations, loss from discontinued operations, cumulative effect of change in accounting principle and net earnings by the weighted average number of common shares outstanding for the period. Diluted EPS reflects the assumed conversion of all dilutive securities, consisting of employee stock options and restricted stock, equity forward contracts, and a warrant for the purchase of 460,000 shares.

For the period ended December 31, 2003, options to purchase 887,381 shares of common stock and 17,403 shares of unvested restricted stock were not included in the computation of diluted earnings per share because these securities are antidilutive. Antidilutive options and unvested restricted stock not included in the computation of diluted earnings per share for the period ended December 31, 2002 were 4,430,865 and 763,922, respectively, and 906,925 and 12,300, respectively for the period ended December 31, 2001.

The impact of dilutive securities on the company's EPS calculation is as follows:

Period Ended	Year Ended December 31		
	2003	2002	2001
	(Shares in thousands)		
Employee stock options/ restricted stock	633	509	1,340
Warrant	110	—	16
	743	509	1,356

Advances From Affiliate

Advances from affiliate relate to cash received by a joint venture entity from advance billings on contracts, which are made available to the partners. Such advances are classified as an operating liability of the company.

Derivatives and Hedging

The company uses forward exchange contracts to hedge certain foreign currency transactions entered into in the ordinary course of business. At December 31, 2003, the company had approximately \$53 million of foreign exchange contracts outstanding relating to engineering and construction contract obligations. The company does not engage in currency speculation. The forward exchange contracts generally require the company to exchange U.S. dollars for foreign currencies at maturity, at rates agreed to at inception of the contracts. If the counterparties to the exchange contracts (AA or A+ rated banks) do not fulfill their

FLUOR CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

obligations to deliver the contracted currencies, the company could be at risk for any currency related fluctuations. The contracts are of varying duration, none of which extend beyond December 2006. The company formally documents its hedge relationships at inception, including identification of the hedging instruments and the hedged items, as well as its risk management objectives and strategies for undertaking the hedge transaction. The company also formally assesses both at inception and at least quarterly thereafter, whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in the fair value of the hedged items. All existing fair value hedges are determined to be highly effective. As a result, the impact to earnings due to hedge ineffectiveness is immaterial for 2003, 2002 and 2001. The transition adjustment upon adoption was immaterial.

The company limits exposure to foreign currency fluctuations in most of its engineering and construction contracts through provisions that require client payments in U.S. dollars or other currencies corresponding to the currency in which costs are incurred. As a result, the company generally does not need to hedge foreign currency cash flows for contract work performed. Under certain limited circumstances, such foreign currency payment provisions could be deemed embedded derivatives under Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended (SFAS 133). As of December 31, 2003, 2002 and 2001, the company had no significant embedded derivatives in any of its contracts.

In April 2003 the FASB issued SFAS No. 149, "Amendments of Statement 133 on Derivative Instruments and Hedging Activities" (SFAS 149). SFAS 149 amends and clarifies accounting for derivative instruments embedded in other contracts, and for hedging activities under SFAS 133. SFAS 149 is effective for contracts entered into or modified after June 30, 2003, and for hedging relationships designated after June 30, 2003. The adoption of the provisions of SFAS 149 did not have a material effect on the company's consolidated financial statements.

Concentrations of Credit Risk

The majority of accounts receivable and all contract work in progress are from clients in various industries and locations throughout the world. Most contracts require payments as the projects progress or in certain cases advance payments. The company generally does not require collateral, but in most cases can place liens against the property, plant or equipment constructed or terminate the contract if a material default occurs. The company maintains adequate reserves for potential credit losses and such losses have been minimal and within management's estimates.

Stock Plans

The company accounts for stock-based compensation using the intrinsic value method prescribed by Accounting Principles Board (APB) Opinion No. 25, "Accounting for Stock Issued to Employees," and related Interpretations. Accordingly, compensation cost for stock options is measured as the excess, if any, of the quoted market price of the company's stock at the date of the grant over the amount an employee must pay to acquire the stock. Compensation cost for stock appreciation rights and performance equity units is recorded based on the quoted market price of the company's stock at the end of the period.

In December 2002, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 148, "Accounting for Stock-Based Compensation — Transition and Disclosure" (SFAS 148). This statement amends the disclosure requirements of SFAS No. 123, "Accounting for Stock-Based Compensation" (SFAS 123) to require more prominent disclosures in financial statements about the effects of stock-based compensation. The company adopted the provisions of SFAS 148 effective December 31, 2002.

Under APB Opinion No. 25, no compensation cost is recognized for the option plans where vesting provisions are based only on the passage of time. Had the company recorded compensation expense using the

FLUOR CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

accounting method recommended by SFAS 123, net earnings and diluted earnings per share would have been reduced to the pro forma amounts as follows:

	Year Ended December 31		
	2003	2002	2001
	(In thousands)		
Net earnings			
As reported	\$157,450	\$163,615	\$ 19,410
Stock-based employee compensation expense, net of tax	(8,577)	(8,340)	(10,514)
Pro forma	\$148,873	\$155,275	\$ 8,896
Basic net earnings per share			
As reported	\$ 1.97	\$ 2.06	\$ 0.25
Pro forma	\$ 1.86	\$ 1.95	\$ 0.11
Diluted net earnings per share			
As reported	\$ 1.95	\$ 2.05	\$ 0.25
Pro forma	\$ 1.84	\$ 1.94	\$ 0.11

Comprehensive Income (Loss)

SFAS No. 130, "Reporting Comprehensive Income," establishes standards for reporting and displaying comprehensive income and its components in the consolidated financial statements. The company reports the cumulative foreign currency translation adjustments and adjustments related to recognition of minimum pension liabilities as components of Accumulated other comprehensive income (loss). At December 31, 2003, Accumulated other comprehensive loss included cumulative foreign currency translation adjustments of \$8.6 million (net of deferred tax of \$5.5 million) and adjustments related to recognition of minimum pension liabilities of \$26.7 million (net of deferred taxes of \$11.5 million).

Throughout 2003, exchange rates for functional currencies for most of the company's international operations strengthened against the U.S. dollar resulting in unrealized translation gains that are reflected in the cumulative translation component of other comprehensive income. Most of these unrealized gains relate to cash balances held in currencies other than the U.S. dollar.

Discontinued Operations

In September 2001, the Board of Directors approved a plan to dispose of certain non-core elements of the company's construction equipment and temporary staffing operations. In June 2003, the company completed the sale of the last equipment dealership operation resulting in cash proceeds of \$31.9 million, which approximated its carrying value. Prior to completion of the sale, the company recorded an additional after-tax impairment provision in the first quarter of 2003 of \$13.5 million, which included adjustments to deferred taxes, to recognize further deterioration in its fair value due to continued severely depressed conditions in the equipment rental industry.

Results of operations for all periods presented have been reclassified and are presented as discontinued operations. Interest expense was not reclassified to discontinued operations in connection with the non-core businesses because it is not expected that disposal of those operations will include any debt to be assumed by the buyers.

FLUOR CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The revenues and earnings (loss) from discontinued operations are as follows:

	Year Ended December 31		
	2003	2002	2001
	(In thousands)		
Revenue			
Dealership operations	\$ 30,097	\$155,909	\$ 279,099
Other equipment operations	—	7,880	10,153
Temporary staffing operations	34	67,661	138,102
Total Revenue	\$ 30,131	\$231,450	\$ 427,354
Earnings (loss) from discontinued operations:			
Dealership operations	\$ 2,575	\$ 4,214	\$ 13,569
Other equipment operations	117	213	(1,787)
Temporary staffing operations	(404)	(4,036)	(9,898)
Earnings from discontinued operations before tax	2,288	391	1,884
Provision for taxes	800	891	1,632
Earnings (loss) from discontinued operations	\$ 1,488	\$ (500)	\$ 252
Loss on disposal before tax	\$ (7,386)	\$ (8,770)	\$(139,423)
Provision for taxes (tax benefit)	5,718	(2,909)	(30,815)
Loss on disposal	\$(13,104)	\$ (5,861)	\$(108,608)

The assets and liabilities of the discontinued operations consisted of the following:

	Period Ended December 31	
	2003	2002
	(In thousands)	
Accounts and notes receivable	\$ —	\$ 9,551
Inventories and other assets	—	10,905
Property, plant and equipment, net	—	29,238
Total assets of discontinued operations	\$ —	\$ 49,694
Accounts and notes payable	\$ —	\$ 10,093
Accrued and other liabilities	—	13,327
Total liabilities of discontinued operations	\$ —	\$ 23,420

In June 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities" (SFAS 146). SFAS 146 addresses financial accounting and reporting for costs associated with exit or disposal activities and nullifies Emerging Issues Task Force ("EITF") Issue 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)". SFAS 146 requires that a liability for a cost associated with an exit or disposal activity be recognized when the liability is incurred. The Statement also establishes that fair value is the objective for initial measurement of the liability. SFAS 146 is effective for exit or disposal activities that are initiated after December 31, 2002. Application of this statement did not have a significant effect on the company's consolidated results of operations or financial position.

FLUOR CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Business Investments and Acquisitions

From time to time, the company enters into investment arrangements, including joint ventures, that are related to its engineering and construction business. During 2001 through 2003, the majority of these expenditures related to ongoing investments in an equity fund that focuses on energy related projects and a number of smaller, diversified ventures.

In 2002, the company adopted SFAS No. 141, "Business Combinations" (SFAS 141). SFAS 141 requires that the purchase method of accounting be used for all business combinations initiated after June 30, 2001. SFAS 141 also includes guidance on the initial recognition and measurement of goodwill and other intangible assets arising from business combinations completed after June 30, 2001. Application of this statement did not have a significant effect on the company's consolidated results of operations or financial position.

In the first quarter of 2003, the company completed two niche acquisitions to strengthen and expand existing business segments.

In January 2003, the company acquired Del-Jen, Inc. ("Del-Jen"), a leading provider of services to the Departments of Defense and Labor. The acquisition will expand the company's ability to provide services in the government outsourcing market and will be reported in the company's Government segment. Del-Jen was acquired for \$33.3 million in cash. In connection with this acquisition, the company recorded goodwill of \$24.0 million and intangible assets of \$3.2 million. Goodwill is no longer amortized but is reviewed periodically for impairment in accordance with SFAS 142. The intangible assets are being amortized over useful lives ranging from three to seven years.

In March 2003, the company acquired five specialty operations and maintenance ("O&M") business groups from Philip Services Corporation. The acquired businesses, which have been named Plant Performance Services ("P2S"), will expand and strengthen the O&M services business component of the Global Services segment and complement the company's core engineering, procurement, and construction business. The business groups were acquired for \$21.2 million in cash. The seller retained the working capital for these businesses. During the period from the date of acquisition through December 31, 2003, approximately \$44 million of working capital has been provided to the business to fund normal operations. The company has obtained independent appraisals and is in the process of completing its determination of the fair values of the acquired assets. As of December 31, 2003, the allocation of the purchase price has not been finalized pending valuation of assets acquired.

In November 2003, the company acquired the International Division of J.A. Jones Construction Company (J.A. Jones), which provides design-build and construction services to the U.S. Government. This acquisition will further expand the company's portfolio of government business. J.A. Jones has been renamed J.A. Jones International (A Fluor Company) and is reported in the Government segment. The acquisition did not have a material impact on the company's consolidated financial statements.

The company's consolidated financial statements include the operating results of these businesses from the date of acquisition. Pro forma results of operations have not been presented because the effects of these acquisitions were not material on either an individual or aggregate basis to the company's consolidated results of operations.

In February 2004, the company acquired Trend Western Technical Corporation, a provider of logistics and operations services to military bases in the United States and Guam. The acquisition will further expand the service offering and the international reach of Del-Jen. The acquisition is not expected to have a material impact on the company's consolidated results of operations for 2004.

FLUOR CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Consolidated Statement of Cash Flows

Cash flows as shown in the Consolidated Statement of Cash Flows and changes in operating assets and liabilities shown below include the effects of discontinued operations on a consolidated basis, without separate identification and classification of discontinued operations.

Securities with maturities of 90 days or less at the date of purchase are classified as cash equivalents. Securities with maturities beyond 90 days, when present, are classified as marketable securities within current assets and are carried at fair value.

The changes in operating assets and liabilities as shown in the Consolidated Statement of Cash Flows comprise:

	Year Ended December 31		
	2003	2002	2001
	(In thousands)		
(Increase) decrease in:			
Accounts and notes receivable	\$ (129,232)	\$ 54,806	\$ 46,062
Contract work in progress	(394,475)	(49,361)	(18,514)
Inventories	(1,957)	36,666	29,053
Other current assets	(35,935)	(7,392)	(199)
Increase (decrease) in:			
Accounts payable	111,182	59,267	(80,273)
Advances from affiliate	(212,782)	(282,084)	374,816
Advance billings on contracts	(35,604)	100,419	113,003
Accrued liabilities	25,981	64,117	(19,078)
(Increase) decrease in operating assets and liabilities	<u>\$ (672,822)</u>	<u>\$ (23,562)</u>	<u>\$ 444,870</u>
Cash paid during the period for:			
Interest	\$ 10,028	\$ 8,780	\$ 30,072
Income taxes	\$ 22,962	\$ 46,485	\$ 52,631
Supplemental disclosure of noncash activity:			
Warrant issued	\$ —	\$ —	\$ 6,380
Non-cash investing and financing activities:			
Consolidation of leased property, plant and equipment	\$ (106,957)	\$ —	\$ —
Consolidation of lease financing	\$ 127,021	\$ —	\$ —

Strategic Reorganization Costs

In March 1999, the company reorganized its engineering and construction operations and recorded a special provision to cover direct and other reorganization related costs primarily for personnel, facilities and asset impairment adjustments. The plan was successfully implemented and carried out. As of December 31, 2003, the remaining unexpended reserve is \$1.5 million and relates to non-U.S. personnel costs that will be paid as follows: 2004 — \$0.8 million; 2005 — \$0.3 million; 2006 — \$0.2 million; 2007 — \$0.1 million; thereafter — \$0.1 million.

FLUOR CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Income Taxes

The income tax expense (benefit) included in the Consolidated Statement of Earnings is as follows:

	Year Ended December 31		
	2003	2002	2001
	(In thousands)		
Current:			
Federal	\$ 3,183	\$ 4,904	\$ —
Foreign	37,279	33,406	44,090
State and local	5,996	4,863	1,409
Total current	46,458	43,173	45,499
Deferred:			
Federal	38,770	34,027	(19,110)
Foreign	3,953	14,771	157
State and local	409	(3,441)	1,825
Total deferred	43,132	45,357	(17,128)
Total income tax expense	\$89,590	\$88,530	\$ 28,371

The income tax expense (benefit) applicable to continuing operations, discontinued operations and cumulative effect of change in accounting principle is as follows:

	Year Ended December 31		
	2003	2002	2001
	(In thousands)		
Provision for continuing operations:			
Current	\$54,756	\$ 56,249	\$ 45,499
Deferred	33,770	34,299	12,055
Total provision for continuing operations	88,526	90,548	57,554
Provision (benefit) for discontinued operations:			
Current	(8,298)	(13,076)	—
Deferred	14,816	11,058	(29,183)
Total provision (benefit) for discontinued operations	6,518	(2,018)	(29,183)
Provision for cumulative effect of change in accounting principle:			
Current	—	—	—
Deferred	(5,454)	—	—
Total provision for cumulative effect of change in accounting principle	(5,454)	—	—
Total income tax expense	\$89,590	\$ 88,530	\$ 28,371

FLUOR CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

A reconciliation of U.S. statutory federal income tax expense to income tax expense on earnings from continuing operations is as follows:

	Year Ended December 31		
	2003	2002	2001
	(In thousands)		
U.S. statutory federal tax expense	\$ 93,793	\$91,183	\$64,862
Increase (decrease) in taxes resulting from:			
Valuation allowance	19,471	—	—
State and local income taxes	4,163	4,214	1,950
Items without tax effect, net	1,440	10,066	9,251
Tax return adjustments and settlements	(22,279)	(6,671)	(5,823)
Foreign Sales Corporation tax benefit	(3,390)	(4,587)	(4,020)
Utilization of tax credits	(2,855)	—	—
Utilization of foreign loss carryforwards/ carrybacks	(939)	(2,218)	(7,678)
Utilization of domestic loss carryforwards/ carrybacks	(730)	—	—
Other, net	(148)	(1,439)	(988)
Total income tax expense — continuing operations	\$ 88,526	\$90,548	\$57,554

FLUOR CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Deferred taxes reflect the tax effects of differences between the amounts recorded as assets and liabilities for financial reporting purposes and the amounts recorded for income tax purposes. The tax effects of significant temporary differences giving rise to deferred tax assets and liabilities are as follows:

	December 31	
	2003	2002
	(In thousands)	
Deferred tax assets:		
Accrued liabilities not currently deductible:		
Employee compensation and benefits	\$ 58,289	\$ 53,335
Employee time-off accrual	41,155	44,228
Project performance and general reserves	36,829	35,148
Workers' compensation insurance accruals	22,190	29,155
Tax credit carryforwards	46,641	44,745
Tax basis of investments in excess of book basis	23,558	41,206
Net operating loss carryforwards	20,703	43,158
Capital loss carryforwards	10,271	6,718
Lease related expenditures	6,838	5,651
Translation adjustments	5,509	30,220
Impairment of assets held for sale or disposal	—	15,374
Other	16,802	10,043
	<u>288,785</u>	<u>358,981</u>
Valuation allowance for deferred tax assets	(63,670)	(61,711)
Deferred tax assets, net	<u>\$225,115</u>	<u>\$297,270</u>
Deferred tax liabilities:		
Tax on unremitted non-U.S. earnings	\$ (29,426)	\$ (26,712)
Book basis of property, equipment and other capital costs in excess of tax basis	(6,532)	(13,431)
Other	(4,556)	(15,055)
	<u>(40,514)</u>	<u>(55,198)</u>
Net deferred tax assets	<u>\$184,601</u>	<u>\$242,072</u>

The company has U.S. and non-U.S. net operating loss carryforwards of approximately \$42 million and \$20 million, respectively, at December 31, 2003. The utilization of the U.S. losses are subject to certain limitations. Of the \$42 million U.S. losses, \$36 million will expire in the years 2020 and 2021 while the remaining \$6 million will expire in the years 2004 and 2005. The non-U.S. losses largely relate to the company's operations in Australia, and can be carried forward indefinitely until fully utilized.

The company has U.S. and non-U.S. capital loss carryforwards of approximately \$18 million and \$12 million, respectively, at December 31, 2003. The U.S. capital loss will expire in 2006 whereas the non-U.S. losses may be carried forward indefinitely.

The company has foreign tax credit carryforwards of approximately \$39 million, of which \$6 million will expire in 2004, \$27 million in 2006, and \$6 million in 2007. The company also has alternative minimum tax credit carryforwards of approximately \$8 million, which will never expire.

The company maintains a valuation allowance to reduce certain deferred tax assets to amounts that are more likely than not to be realized. This allowance primarily relates to the deferred tax assets established for

FLUOR CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

foreign tax credit carryforwards, capital loss carryforwards, certain project performance reserves and the net operating loss carryforwards of U.S. and certain non-U.S. subsidiaries.

Residual income taxes of approximately \$5 million have not been provided on approximately \$14 million of undistributed earnings of certain foreign subsidiaries at December 31, 2003 because the company intends to keep those earnings reinvested indefinitely.

United States and foreign earnings from continuing operations before taxes are as follows:

	Year Ended December 31		
	2003	2002	2001
	(In thousands)		
United States	\$113,038	\$116,481	\$ 41,263
Foreign	154,943	144,043	144,057
Total	\$267,981	\$260,524	\$185,320

Retirement Benefits

The company sponsors contributory and non-contributory defined contribution retirement and defined benefit pension plans for eligible employees. Contributions to defined contribution retirement plans are based on a percentage of the employee's compensation. Expense recognized for these plans of approximately \$72 million, \$68 million and \$37 million in the years ended December 31, 2003, 2002 and 2001, respectively, is primarily related to domestic engineering and construction operations. Contributions to defined benefit pension plans are generally at the minimum annual amount required by applicable regulations. During 2003, the company contributed \$31 million and \$21 million, respectively, to the domestic defined benefit cash balance plan and to non-U.S. pension plans in order to maintain full funding of benefits accumulated under the plan. Payments to retired employees under these plans are generally based upon length of service, age and/or a percentage of qualifying compensation. The defined benefit pension plans are primarily related to domestic and international engineering and construction salaried employees and U.S. craft employees.

In December 2003, the FASB issued SFAS No. 132 (revised December 2003), "Employers' Disclosures about Pensions and Other Postretirement Benefits" (SFAS 132-R). This statement amends the disclosure requirements of SFAS 132 to require more details about retirement plan assets, benefit obligations, cash flows and other relevant information. SFAS 132-R is effective for years ending after December 15, 2003, except certain benefit payment and international plan disclosures that are effective for fiscal years after June 15, 2004. New disclosures relating to international plans are included in the accompanying information. The adoption of the disclosure provisions of SFAS 132-R did not have a material effect on the company's consolidated financial statements.

FLUOR CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Net periodic pension expense for continuing operations defined benefit pension plans includes the following components:

	Year Ended December 31		
	2003	2002	2001
	(In thousands)		
Service cost	\$ 33,634	\$ 33,928	\$ 31,195
Interest cost	38,358	33,988	30,244
Expected return on assets	(40,318)	(44,252)	(41,249)
Amortization of transition asset	(758)	(1,690)	(1,808)
Amortization of prior service cost	(77)	36	34
Recognized net actuarial loss	20,999	8,958	1,352
Net periodic pension expense	\$ 51,838	\$ 30,968	\$ 19,768

The ranges of assumptions indicated below cover defined benefit pension plans in Australia, Germany, the United Kingdom, The Netherlands and the United States. These assumptions are as of each respective fiscal year-end based on the then current economic environment in each host country. The company uses December 31 as the measurement date for its plans.

	December 31		
	2003	2002	2001
For determining benefit obligations at year-end:			
Discount rates	5.50-6.00%	5.75-7.00%	6.25-7.75%
Rates of increase in compensation levels	3.00-4.00%	3.00-4.00%	3.50-4.00%
For determining net periodic cost for year:			
Discount rates	5.50-7.00%	5.75-7.00%	6.25-7.75%
Rates of increase in compensation levels	3.00-4.00%	3.00-4.00%	3.50-4.00%
Expected long-term rates of return on assets	5.00-8.00%	5.00-9.50%	5.00-9.50%

The following table sets forth the actual and target allocations of plan assets.

	Target Allocation	December 31	
		2003	2002
Asset category:			
Equity securities	60-70%	63%	66%
Debt securities	30-40%	28%	34%
Real estate	0%	0%	0%
Other	0%	9%	0%
Total		100%	100%

Plan assets include zero shares of the company's common stock.

Assumptions concerning discount rates, long-term rates of return on assets and rates of increase in compensation levels are determined based on the current economic environment in each host country at the end of each respective annual reporting period. The company evaluates the funded status of each of its retirement plans using these current assumptions and determines the appropriate funding level considering applicable regulatory requirements, tax deductibility, reporting considerations and other factors. Recent decreases in long-term interest rates have the effect of increasing plan liabilities and if expected returns on plan assets are not achieved, future funding obligations could increase substantially. Assuming no changes in

FLUOR CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

current assumptions, the company expects to fund approximately \$30 to \$50 million for the calendar year 2004. If the discount rate were reduced by 25 basis points, plan liabilities would increase by approximately \$25 million.

The investment of assets in defined benefit plans is based on the expected long-term capital market outlook. Asset return assumptions utilizing historical returns, correlations and investment manager forecasts are set forth for each major asset category including public domestic, international and global equities, private equities, government, corporate and emerging market debt. Investment allocations are determined by each Plan's Investment Committee and/or Trustees. Long-term allocation guidelines are set and expressed in terms of a target and target range allocation for each asset class to provide portfolio management flexibility. The asset allocation is diversified to maintain risk at a reasonable level without sacrificing return. Factors including the future growth in the number of plan participants and forecasted benefit obligations, inflation and the rate of salary increases are also considered in developing asset allocations and target return assumptions. In the case of certain foreign plans, asset allocations may be governed by local requirements. While most of the company's plans are not prohibited from investing in the capital stock of Fluor Corporation, there are no such directed investments at the present time.

The following table sets forth the change in benefit obligation, plan assets and funded status of the company's defined benefit pension plans.

	December 31	
	2003	2002
	(In thousands)	
Change in pension benefit obligation		
Benefit obligation at beginning of period	\$600,261	\$515,651
Service cost	33,634	33,928
Interest cost	38,358	33,988
Employee contributions	3,689	2,939
Currency translation	50,832	37,202
Actuarial loss	54,436	12,576
Benefits paid	(33,901)	(36,023)
Benefit obligation at end of period	\$747,309	\$600,261
Change in plan assets		
Fair value at beginning of period	\$533,567	\$503,839
Actual return (loss) on plan assets	89,333	(80,056)
Company contributions	52,458	110,468
Employee contributions	3,689	2,939
Currency translation	41,122	32,400
Benefits paid	(33,901)	(36,023)
Fair value at end of period	\$686,268	\$533,567
Funded status	\$ (61,041)	\$ (66,694)
Unrecognized net actuarial loss	245,924	247,805
Unrecognized prior service cost	(364)	(326)
Unrecognized net asset	(673)	(1,368)
Net amount recognized	\$183,846	\$179,417

The above table includes obligations and assets of certain discontinued operations for which the company retains responsibility.

FLUOR CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Amounts recognized in the consolidated balance sheet as of December 31, 2003 and 2002 are as follows:

	December 31	
	2003	2002
	(In thousands)	
Prepaid benefit cost	\$173,613	\$167,256
Accrued benefit cost	(27,935)	(28,862)
Accumulated other comprehensive income (loss)	38,168	41,023
Net amount recognized	<u>\$183,846</u>	<u>\$179,417</u>

The following table sets forth selected information for a non-U.S. plan with an accumulated benefit obligation in excess of plan assets as of December 31, 2003 and 2002:

	December 31	
	2003	2002
	(In thousands)	
Projected benefit obligation	\$148,104	\$120,194
Accumulated benefit obligation	132,907	109,043
Fair value of plan assets	104,972	80,181
Additional information:		
Increase (decrease) in minimum liability included in other comprehensive income (loss)	\$ (927)	\$ 28,862

In addition to the company's defined benefit pension plans, the company and certain of its subsidiaries provide health care and life insurance benefits for certain retired employees. The health care and life insurance plans are generally contributory, with retiree contributions adjusted annually. Service costs are accrued currently. The accumulated postretirement benefit obligation at December 31, 2003, 2002 and 2001 was determined in accordance with the current terms of the company's health care plans, together with relevant actuarial assumptions and health care cost trend rates projected at annual rates ranging from 10 percent in 2004 down to 5 percent in 2009 and beyond. The effect of a one percent annual increase in these assumed cost trend rates would increase the accumulated postretirement benefit obligation and the aggregate of the annual service and interest costs by approximately \$1.9 million and \$0.1 million, respectively. The effect of a one percent annual decrease in these assumed cost trend rates would decrease the accumulated postretirement benefit obligation and the aggregate of the annual service and interest costs by approximately \$1.8 million and \$0.1 million, respectively.

Net periodic postretirement benefit cost for continuing operations includes the following components:

	Year Ended December 31		
	2003	2002	2001
	(In thousands)		
Service cost	\$ —	\$ —	\$ —
Interest cost	2,243	2,055	2,009
Expected return on assets	—	—	—
Amortization of prior service cost	—	—	—
Actuarial adjustment	—	165	—
Recognized net actuarial (gain) loss	631	114	—
Net periodic postretirement benefit cost	<u>\$2,874</u>	<u>\$2,334</u>	<u>\$2,009</u>

FLUOR CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The following table sets forth the change in benefit obligation of the company's postretirement benefit plans for continuing operations:

	Year Ended December 31		
	2003	2002	2001
	(In thousands)		
Change in pension benefit obligation			
Benefit obligation at beginning of period	\$ 41,533	\$ 31,429	\$ 30,588
Service cost	—	—	—
Interest cost	2,243	2,055	2,009
Employee contributions	4,650	4,215	363
Actuarial (gain) loss	(4,588)	12,091	2,595
Benefits paid	(9,293)	(8,257)	(4,126)
Benefit obligation at end of period	\$ 34,545	\$ 41,533	\$ 31,429
Funded status	\$(34,545)	\$(41,533)	\$(31,429)
Unrecognized net actuarial loss	10,594	15,813	4,001
Accrued postretirement benefit obligation	\$(23,951)	\$(25,720)	\$(27,428)

The discount rate used in determining the postretirement benefit obligation was 6.00 percent at December 31, 2003 and 7.00 percent at December 31, 2002 and 2001.

On December 8, 2003, the Medicare Prescription Drug Improvement and Modernization Act of 2003 (the "Act") was signed into law. The impact of the Act is not reflected in any amounts disclosed in the financial statements or accompanying notes. The company is currently reviewing the effects the Act will have on its plans and expect to complete that review during 2004. In addition, the company is waiting for guidance from the United States Department of Health and Human Services on how the employer subsidy provision will be administered and from the FASB on how the impact of the Act should be recognized in the financial statements.

The preceding information does not include amounts related to benefit plans applicable to employees associated with certain contracts with the U.S. Department of Energy because the company is not responsible for the current or future funded status of these plans.

FLUOR CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Fair Value of Financial Instruments

The estimated fair value of the company's financial instruments are as follows:

	December 31, 2003		December 31, 2002	
	Carrying Value	Fair Value	Carrying Value	Fair Value
(In thousands)				
Assets:				
Cash and cash equivalents	\$ 496,502	\$496,502	\$ 753,367	\$753,367
Notes receivable, including noncurrent portion	18,933	18,933	18,077	18,033
Long-term investments	7,458	7,926	25,214	25,682
Liabilities:				
Commercial paper, loan notes and notes payable	221,469	221,469	—	—
Long-term debt, including current portion	44,652	46,095	17,613	18,857
Other noncurrent financial liabilities	15,413	15,413	14,728	14,728
Other financial instruments:				
Foreign currency contracts	147	147	(449)	(449)
Letters of credit	—	1,548	—	735
Lines of credit	—	446	—	672

Fair values were determined as follows:

The carrying amounts of cash and cash equivalents, short-term notes receivable, commercial paper, loan notes and notes payable approximate fair value because of the short-term maturity of these instruments.

Long-term investments are based on quoted market prices for these or similar instruments. Long-term notes receivable are estimated by discounting future cash flows using the current rates at which similar loans would be made to borrowers with similar credit ratings.

The fair value of long-term debt, including current portion, is estimated based on quoted market prices for the same or similar issues or on the current rates offered to the company for debt of the same maturities.

Other noncurrent financial liabilities consist primarily of deferred payments, for which cost approximates fair value.

Foreign currency contracts are estimated by obtaining quotes from brokers.

Letters of credit and lines of credit amounts are based on fees currently charged for similar agreements or on the estimated cost to terminate or settle the obligations.

Financing Arrangements

The company has unsecured committed revolving short- and long-term lines of credit with banks from which it may borrow for general corporate purposes up to a maximum of \$300 million. Commitment and facility fees are paid on these lines. At December 31, 2003, the company utilized \$121 million of its committed lines to support commercial paper. This debt bears interest at market rates for commercial paper instruments. The committed lines may also be used for borrowings which bear interest at prime rates based on the London Interbank Offered Rate ("LIBOR"), domestic certificates of deposit or other rates which are mutually acceptable to the banks and the company.

FLUOR CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The company has \$731 million in committed and uncommitted lines of credit to support letters of credit. At December 31, 2003, \$355 million of these lines of credit were used to support undrawn letters of credit. In addition, the company has \$120 million in uncommitted lines for general cash management purposes.

During the last quarter of 2003, the company issued commercial paper at a discount with a weighted average effective interest rate of 1.10 percent.

Short-term debt comprises:

	December 31	
	2003	2002
	(In thousands)	
Commercial paper	\$121,469	\$ —
Facilities financing	100,000	—
Total short-term debt	\$221,469	\$ —

Long-term debt comprises:

	December 31	
	2003	2002
	(In thousands)	
Facilities financing	\$27,021	\$ —
5.625% Municipal bonds	17,631	17,613
Total long-term debt	\$44,652	\$17,613

Certain of the company's engineering office facilities, located in Aliso Viejo, California and Calgary, Canada, are leased through arrangements involving variable interest entities. Beginning in 2003, the company consolidated these entities in its financial statements as prescribed by FIN 46-R.

At December 31, 2003, short-term and long-term debt included \$100 million and \$27 million, respectively, related to the consolidation of the Aliso Viejo and Calgary entities, respectively. The debt for these entities provides for interest only payments at interest rates based on a reference rate (LIBOR for the Aliso Viejo facility and Canadian banker's acceptance for the Calgary facility) plus a margin. Maturity on the debt coincides with the term of the leases, which expire in 2004 for facilities in Aliso Viejo and 2006 for facilities in Calgary. Rent payments are equal to the debt service on the underlying financing.

The municipal bonds are due June 1, 2019 with interest payable semiannually on June 1 and December 1 of each year, commencing December 1, 1999. The bonds are redeemable, in whole or in part, at the option of the company at a redemption price ranging from 100 percent to 102 percent of the principal amount of the bonds on or after June 1, 2009. In addition, the bonds are subject to other redemption clauses, at the option of the holder, should certain events occur, as defined in the offering prospectus.

On May 15, 2003, the FASB issued Statement of Financial Accounting Standards No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity (SFAS 150). SFAS 150 establishes standards for classifying and measuring certain financial instruments that have characteristics of both liabilities and equity. SFAS 150 is effective for financial instruments entered into or modified after May 31, 2003. SFAS 150 did not have a material effect on the company's consolidated financial statements.

On February 17, 2004, the company issued \$300 million in convertible senior notes due February 15, 2024 and received \$294 million, net of underwriting discounts. The notes bear interest at a rate of 1.50 percent with interest payable semi-annually on February 15 and August 15 of each year. On or after February 15, 2005, the notes are convertible, subject to adjustment in certain events, into approximately 5.9 million shares of the company's common stock at an initial conversion price of \$55.94 per share. Upon conversion, the

FLUOR CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

company has the right to deliver, in lieu of common stock, cash or a combination of cash and shares of the company's stock.

Holders of notes may require the company to purchase all of a portion of their notes on February 15, 2009, February 15, 2014 and February 15, 2019 at 100 percent of the principal amount plus accrued and unpaid interest. The company will pay the first put on February 15, 2009 in cash and subsequent puts in cash, stock or a combination thereof at its option. Subsequent to February 16, 2009, the notes are redeemable at the option of the company, in whole or in part, at 100 percent of the principal amount plus accrued and unpaid interest. In the event of a change of control of Fluor, each holder may require the company to repurchase the notes for cash, in whole or in part, at 100 percent of the principle amount plus accrued and unpaid interest.

Subsequent to receipt of proceeds from the issuance of the convertible senior notes the company repaid all outstanding commercial paper.

On February 17, 2004, the underwriters of the convertible senior notes exercised their over-allotment option to purchase an additional \$30 million in principal amount of notes. On February 19, 2004, the company received proceeds of \$29.4 million, net of underwriting discounts.

On February 27, 2004, the company exercised its option to purchase the Aliso Viejo engineering and office facilities using proceeds received from the issuance of the convertible senior notes.

Other Noncurrent Liabilities

The company maintains appropriate levels of insurance for business risks. Insurance coverages contain various deductible amounts for which the company provides accruals based on the aggregate of the liability for reported claims and an actuarially determined estimated liability for claims incurred but not reported. Other noncurrent liabilities include \$35 million and \$55 million at December 31, 2003 and 2002, respectively, relating to these liabilities.

The company has deferred compensation and retirement arrangements for certain key executives which generally provide for payments upon retirement, death or termination of employment. At December 31, 2003 and 2002, \$236 million and \$202 million were accrued under these plans and included in noncurrent liabilities.

At December 31, 2003 and 2002, \$28 million and \$29 million, respectively, were included in noncurrent liabilities relating to the minimum pension liability for a non-U.S. plan.

Stock Plans

The company's executive stock plans provide for grants of nonqualified or incentive stock options, restricted stock awards and stock appreciation rights ("SARS"). All executive stock plans are administered by the Organization and Compensation Committee of the Board of Directors ("Committee") comprised of outside directors, none of whom are eligible to participate in the plans. Option grant prices are determined by the Committee and are established at the fair value of the company's common stock at the date of grant. Options and SARS normally extend for 10 years and become exercisable over a vesting period determined by the Committee, which can include accelerated vesting for achievement of performance or stock price objectives.

During the year ended December 31, 2003, the company issued 1,085,950 nonqualified stock options and 51,500 SARS with annual vesting of 25%. During the year ended December 31, 2002, the company issued 736,660 nonqualified stock options and 34,300 SARS with annual vesting of 25%. During the year ended December 31, 2001, the company issued 1,040,298 nonqualified stock options and 48,750 SARS with annual vesting of 25%.

FLUOR CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Restricted stock awards issued under the plans provide that shares awarded may not be sold or otherwise transferred until restrictions have lapsed or performance objectives have been attained as established by the Committee. Upon termination of employment, shares upon which restrictions have not lapsed must be returned to the company. Restricted stock granted under the plans totaled 1,079,813 shares, 245,110 shares and 17,504 shares in the years ended December 31, 2003, 2002 and 2001, respectively. The weighted-average grant date fair value of restricted stock granted during the years ended December 31, 2003, 2002 and 2001 was \$29, \$30 and \$45 per share, respectively. Recorded compensation cost, net of tax, for restricted stock plans totaled \$7 million, \$4 million and \$6 million for the years ended December 31, 2003, 2002 and 2001, respectively.

For purposes of calculating the proforma stock-based compensation expense as presented in the table on page F-9, the following weighted-average assumptions were used for new grants:

	December 31		
	2003	2002	2001
Expected option lives (years)	5	6	6
Risk-free interest rates	3.00%	3.25%	4.74%
Expected dividend yield	2.21%	2.20%	1.75%
Expected volatility	42.06%	45.50%	48.30%

The fair value of each option grant is estimated on the date of grant by using the Black-Scholes option-pricing model. The weighted-average fair value of options granted during the years ended December 31, 2003, 2002 and 2001 was \$9, \$12 and \$20 per share, respectively.

The following table summarizes stock option activity:

	Stock Options	Weighted Average Exercise Price Per Share
Outstanding at December 31, 2000	9,355,124	\$ 27
Granted	1,040,298	44
Expired or canceled	(269,189)	34
Exercised	(5,564,921)	26
Outstanding at December 31, 2001	4,561,312	\$ 31
Granted	736,660	30
Expired or canceled	(97,421)	37
Exercised	(627,896)	24
Outstanding at December 31, 2002	4,572,655	\$ 31
Granted	1,085,950	29
Expired or canceled	(111,177)	43
Exercised	(1,101,406)	45
Outstanding at December 31, 2003	4,446,022	\$ 32
Exercisable at:		
December 31, 2003	2,693,830	\$ 32
December 31, 2002	3,400,858	\$ 30
December 31, 2001	3,299,216	\$ 27

FLUOR CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

At December 31, 2003, there are 4,510,924 shares available for future grant. Available for grant includes shares which may be granted as either stock options or restricted stock, as determined by the Committee under the company's various stock plans.

At December 31, 2003, there are 4,446,022 options outstanding with exercise prices between \$17 and \$45, with a weighted-average exercise price of \$32 and a weighted-average remaining contractual life of 3.1 years; 2,693,830 of these options are exercisable with a weighted-average exercise price of \$32. Of the options outstanding, 1,283,531 have exercise prices between \$17 and \$26, with a weighted-average exercise price of \$25 and a weighted-average remaining contractual life of 5.2 years; 1,280,054 of these options are exercisable with a weighted-average exercise price of \$25. The remaining 3,162,491 outstanding options have exercise prices between \$27 and \$45, with a weighted-average exercise price of \$31 and a weighted-average remaining contractual life of 5.8 years; 1,413,776 of these options are exercisable with a weighted-average exercise price of \$39.

Lease Obligations

Net rental expense for continuing operations amounted to approximately \$90 million, \$83 million and \$76 million in the years ended December 31, 2003, 2002 and 2001, respectively. The company's lease obligations relate primarily to office facilities, equipment used in connection with long-term construction contracts and other personal property.

During 2001, the company entered into a sale/leaseback arrangement for its engineering center in Sugar Land, Texas. The net proceeds from the sale were \$127 million resulting in a \$6 million gain on sale that was deferred and will be amortized over the initial lease term of 20 years. The lease contains four options to renew for five years each at the then-applicable fair market rent and the right of first offer to purchase the facility in the event the landlord desires to sell its interests. The lease has been accounted for as an operating lease and the rent payments are included in the below schedule of minimum rental obligations.

In December 2003, the FASB issued Interpretation No. 46 (revised December 2003), "Consolidation of Variable Interest Entities" (FIN 46-R). FIN 46-R provides the principles to consider in determining when variable interest entities must be consolidated in the financial statements of the primary beneficiary. In general, a variable interest entity is an entity used for business purposes that either (a) does not have equity investors with voting rights or (b) has equity investors that are not required to provide sufficient financial resources for the entity to support its activities without additional subordinated financial support. FIN 46-R requires a variable interest entity to be consolidated by a company if that company is subject to a majority of the risk of loss from the variable interest entity's activities or entitled to receive a majority of the entity's residual returns or both. A company that consolidates a variable interest entity is called the primary beneficiary of that entity.

The company also has operating leases for its corporate headquarters and engineering center in Aliso Viejo, California and an office in Calgary, Canada. The entities that own the facilities have debt issued by banks that is secured by leases of the facilities. The leases provide for the company to pay rent that is sufficient to provide debt service and a return to the equity interests. The leases contain residual value guarantees totaling \$105 million. . If the company defaults on the lease payments or were to fail to meet its obligations under the residual value guarantee, the lenders to and owners of the entities could proceed with recourse actions against the company to enforce payment. The company has no ownership interest in the companies that own the facilities but is deemed to be the primary beneficiary of the variable interests of these entities and has consolidated these interests in the company's financial statements in 2003 under the requirements of FIN 46-R. At December 31, 2003, the effect of this consolidation resulted in an increase of \$100 million and \$27 million in reported short-term and long-term debt, respectively, and an increase in Property, Plant and Equipment of \$107 million. None of the terms of the leasing arrangements or the company's obligations as a lessee were impacted by this change in accounting. The cumulative impact of the difference in earnings,

FLUOR CORPORATION**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

amounting to a charge of \$10.4 million net of tax, relating to prior years was reported in the first quarter of 2003 as the cumulative effect of a change in accounting principle.

On February 27, 2004, the company exercised its option to purchase the Aliso Viejo engineering and office facilities for the balance of debt outstanding using proceeds received from the issuance of convertible senior notes. At December 31, 2003, the company's balance sheet included \$100 million of outstanding short-term debt and buildings with a net book value of \$82 million in connection with the Aliso Viejo facility.

The company's obligations for minimum rentals under non-cancelable leases are as follows:

Year Ended December 31,	(In thousands)
2004	\$ 30,776
2005	28,365
2006	20,398
2007	16,705
2008	15,792
Thereafter	159,220

Contingencies and Commitments

The company and certain of its subsidiaries are involved in litigation in the ordinary course of business. The company and certain of its subsidiaries are contingently liable for commitments and performance guarantees arising in the ordinary course of business. Clients have made claims arising from engineering and construction contracts against the company, and the company has made certain claims against clients for costs incurred in excess of the current contract provisions. Recognized claims against clients amounted to \$16 million at both December 31, 2003 and 2002. Amounts ultimately realized from claims could differ materially from the balances included in the financial statements. The company does not expect that claim recoveries will have a material effect on its consolidated financial position or results of operations.

As of December 31, 2003, several matters on certain completed and in progress projects are in the dispute resolution process. The following discussion provides a background and current status of these matters:

Murrin Murrin

Disputes between Fluor Australia ("Fluor") and its client, Anaconda Nickel ("Anaconda"), over the Murrin Murrin Nickel Cobalt project located in Western Australia were partially resolved through arbitration during the third quarter of 2002. The first phase of the arbitration hearing was completed in May 2002 and a decision was rendered in September 2002 resulting in an award to Anaconda of A\$147 million (subsequently amended to A\$150 million [US\$84.0 million]) and an award to Fluor of A\$107 million [US\$59.9 million] for amounts owing from Anaconda under the contract. The company has recovered the first phase award plus substantially all defense costs incurred from available insurance.

On July 28, 2003, the Supreme Court of Victoria, Australia granted Anaconda's appeal of an issue that had been decided in favor of Fluor by the arbitration panel in the first phase. This decision sends the arbitration panel's denial of Anaconda's claim for the cost of a fifth autoclave train back to the panel for further reconsideration. Fluor has appealed the Supreme Court's decision to the State of Victoria Court of Appeal.

The second phase of the arbitration was heard in September 2003. A decision is expected in the third quarter of 2004. The company anticipates that any liability arising from proceedings under either the first or the second phase of arbitration, regardless of the outcome of the appeal, will be covered by available insurance.

FLUOR CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Fluor Daniel International and Fluor Arabia Ltd. v. General Electric Company, et al

U.S.D.C., Southern District Court, New York

In October 1998, Fluor Daniel International and Fluor Arabia Ltd. filed a complaint in the United States District Court for the Southern District of New York against General Electric Company and certain operating subsidiaries as well as Saudi American General Electric, a Saudi Arabian corporation. The complaint seeks damages in connection with the procurement, engineering and construction of the Rabigh Combined Cycle Power Plant in Saudi Arabia. Subsequent to a motion to compel arbitration of the matter the company initiated arbitration proceedings in New York under the American Arbitration Association international rules. The evidentiary phase of the arbitration has been concluded and a decision is expected in the second quarter of 2004.

Dearborn Industrial Project

Duke/Fluor Daniel (D/ FD)

The Dearborn Industrial Project (the "Project") started as a co-generation combined cycle power plant project in Dearborn, Michigan. The initial Turnkey Agreement, dated November 24, 1998, consisted of three phases. Commencing shortly after Notice to Proceed, the owner/operator, Dearborn Industrial Generation ("DIG"), issued substantial change orders enlarging the scope of the project.

The Project has been severely delayed with completion of Phase II. DIG has unilaterally taken over completion and operation of Phase II and is commissioning that portion of the plant. Shortly thereafter, DIG drew upon a \$30 million letter of credit which D/ FD expects to recover upon resolution of the dispute. D/ FD retains lien rights (in fee) against the project. In October 2001, suit was commenced in Michigan State Court to foreclose on the lien interest.

On December 12, 2001, DIG filed a responsive pleading denying liability and simultaneously served a demand for arbitration to D/ FD claiming, among other things, that D/ FD is liable to DIG for alleged construction delays and defective engineering and construction work at the Dearborn plant. The court has ordered the matter to arbitration. The lien action remains stayed pending completion of the arbitration of D/ FD's claims against DIG and DIG's claims against D/ FD. An arbitration panel has been appointed and the arbitration will likely proceed in early 2005.

Butinge Nafta Oil Terminal

On March 10, 2000, Butinge Nafta ("Nafta") commenced arbitration proceedings against Fluor Daniel Intercontinental ("FDI") concerning a bulk oil storage terminal (the "Facility") located in Lithuania alleging, among other issues, that FDI represented costs in excess of actual estimates. FDI engineered, procured and managed the construction of the Facility on a lump sum basis. On June 21, 2000, Fluor filed a separate arbitration against Nafta to recover delay/disruption damages caused by Nafta, as well as compensation for out of scope services. The first hearing on the merits of the case was conducted in late May 2001 with an additional hearing in June 2002. Final legal submissions and arguments were completed in September 2002. In June 2003, FDI was issued a favorable award on its claims and Nafta's major claims against FDI were dismissed with prejudice resulting in a net award to Fluor of \$4.6 million. The resolution of this matter did not have a material effect on results of operations.

Hamaca Crude Upgrader

The Hamaca Crude Upgrader Project (Hamaca) located in Jose, Venezuela. Hamaca is a \$1.1 billion lump sum project (including \$92 million of approved change orders) of Grupo Alvica ("GA"), a joint venture including Fluor Daniel (80 percent) and Inelectra C.A. (20 percent), to design and build a petroleum

FLUOR CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

upgrader for a consortium of owners called Petrolera Ameriven ("PA") including Petroleos de Venezuela S.A. ("PDVSA"), ChevronTexaco and ConocoPhillips.

The joint venture is actively pursuing two cost and schedule relief issues that were referred to arbitration in December 2001: the first is responsibility for costs arising from the site labor agreement for 2000 called "Acta Convenio" and the second relates to modifications and extra work arising from differing site soil conditions. The hearings on the fundamental cost differences between the earlier 1998 labor agreement and the 2000 Acta Convenio were held in April 2003. The site soil conditions issue was the subject of hearings in November 2002. There are no monetary cross-claims by PA in the arbitration. Events in Venezuela including a national strike in early 2003 have had a significant impact on the progress of the project. In accordance with the contract, the joint venture is entitled to cost and schedule relief for the impact of the national strike. A change order relating to the national strike in the approximate amount of \$340 million was submitted by GA. This action was followed by the filing of an arbitration claim relating to this issue in January 2004. A time schedule for the resolution of the claim will be established by the arbitration panel in the near future. Force majeure incidents occurring prior to the national strike also were the subject of arbitration hearings in October 2003.

The arbitration panel, by procedural order dated January 8, 2004, has ordered PA to refrain from taking any action to seek liquidated delay damages, making claim against or drawing down on a Letter of Credit, terminating the contract with GA, or making any demands pursuant to any guarantee provisions in the contract, pending completion of the site soil conditions issues. The award on the site soils conditions matter is anticipated in the near future. The client has conditionally accepted responsibility relating to the soil conditions and \$28 million of incurred costs has been paid. The amount of the claim for site soil conditions is \$159 million including the \$28 million conditional payment. The company is accounting for the additional costs incurred for the soil conditions matter as additional revenue as payments are received. The amount of the claim for Acta Convenio is \$210 million and no payments have been made by the client relating to this matter.

Incurred costs associated with Acta Convenio, soil conditions, the recent national strike and other claims are probable of being recovered and thus are being deferred. These costs will be recognized in revenue when a change order is approved or payment is received. As of December 31, 2003, incurred costs amounting to \$179.6 million have been deferred. Substantial additional costs are expected to be incurred as the project progresses and resolution of outstanding issues concerning the total amount to be awarded and schedule extensions are yet to be determined. If costs relating to Acta Convenio, soil conditions, the recent national strike or other claims are determined to be not recoverable, the company could face reduced profits or losses on this project, along with lower levels of cash and additional borrowings. The project remains subject to future disruptions that could result in additional costs and claims.

Following is a discussion of other litigation matters:

Asbestos Matters

The company is a defendant in various lawsuits wherein plaintiffs allege exposure to asbestos fibers and dust due to work that the company may have performed at various locations. The company has substantial third party insurance coverage to cover a significant portion of existing and any potential costs, settlements or judgments. No material provision has been made for any present or future claims and the company does not believe that the outcome of any actions will have a material adverse impact on its financial position, results of operations or cash flows. The company has resolved a number of cases to date, which in the aggregate have not had a material adverse impact.

FLUOR CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Securities Class Action Litigation

U.S.D.C., Central District, Southern Division, California

Plaintiffs in three separate lawsuits are alleging that certain Fluor officers and directors violated the Securities Exchange Act of 1934 by providing false or misleading statements about the company's business and prospects. These complaints purport to be class action complaints brought on behalf of purchasers of the company's stock during the period from May 22, 1996 through February 18, 1997. The company's initial motion to dismiss the action was granted by the court with leave to amend. The plaintiffs filed their amended complaint and the company moved the court to dismiss the new amended complaint. The Court granted the company's motion and dismissed plaintiff's action without leave to amend on July 10, 2002. Plaintiffs appealed the dismissal and the Ninth Circuit Court of Appeals has remanded the motion to the trial court with instructions to allow plaintiff an additional chance to plead additional claims.

None of the dispute resolution or litigation matters are expected to have a material effect on consolidated financial position or results of operations.

Guarantees

In November 2002 the FASB issued Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others" (FIN-45). FIN 45 elaborates on the disclosures to be made by a guarantor in its interim and annual financial statements about its obligations under certain guarantees that it has issued. FIN 45 requires a guarantor to recognize, at the inception of a guarantee, a liability for the fair value of the obligations undertaken in issuing the guarantee. The disclosure provisions of FIN 45 are effective for financial statements of periods ending after December 15, 2002. Additionally, the recognition of a guarantor's obligation should be applied on a prospective basis to guarantees issued after December 31, 2002. The adoption of the disclosure and recognition provisions of FIN 45 did not have a material effect on the company's Consolidated Financial Statements.

In the ordinary course of business, the company enters into various agreements providing financial or performance assurances to clients on behalf of certain unconsolidated subsidiaries, joint ventures and other jointly executed contracts. These agreements are entered into primarily to support the project execution commitments of these entities. The guarantees have various expiration dates ranging from mechanical completion of the facilities being constructed to a period extending beyond contract completion in certain circumstances. The maximum potential payment amount of an outstanding performance guarantee is the remaining cost of work to be performed by or on behalf of third parties under engineering and construction contracts. The amount of guarantees outstanding measured on this basis totals \$2.8 billion as of December 31, 2003. Amounts that may be required to be paid in excess of estimated costs to complete contracts in progress are not estimable. For cost reimbursable contracts amounts that may become payable pursuant to guarantee provisions are normally recoverable from the client for work performed under the contract. For lump sum or fixed price contracts, this amount is the cost to complete the contracted work less amounts remaining to be billed to the client under the contract. Remaining billable amounts could be greater or less than the cost to complete. In those cases where costs exceed the remaining amounts payable under the contract the company may have recourse to third parties, such as owners, co-venturers, subcontractors or vendors for claims.

Financial guarantees, made in the ordinary course of business on behalf of clients and others in certain limited circumstances, are entered into with financial institutions and other credit grantors and generally obligate the company to make payment in the event of a default by the borrower. Most arrangements require the borrower to pledge collateral in the form of property, plant and equipment which is deemed adequate to recover amounts the company might be required to pay. As of December 31, 2003, the company had extended financial guarantees on behalf of certain clients and other unrelated third parties totaling approximately \$8 million. A financial guarantee for \$10 million of pollution control bonds related to zinc operations that were sold in 1987 has been recognized at the full amount of the underlying obligation. The obligation was

FLUOR CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

recognized by a charge to earnings in 2002 due to the obligor's bankruptcy filing and inability to meet the current obligation on the bonds without financial assistance from the company.

Other Matters

In 2001, the company issued a warrant for the purchase of 460,000 shares at \$36.06 per share of the company's common stock to a partner in the company's e-commerce procurement venture. Any compensation realized by the holder through exercise of the warrant will offset royalties otherwise payable under a five-year cooperation and services agreement.

The company's operations are subject to and affected by federal, state and local laws and regulations regarding the protection of the environment. The company maintains reserves for potential future environmental costs where such obligations are either known or considered probable, and can be reasonably estimated.

The company believes, based upon present information available to it, that its reserves with respect to future environmental costs are adequate and such future costs will not have a material effect on the company's consolidated financial position, results of operations or liquidity. However, the imposition of more stringent requirements under environmental laws or regulations, new developments or changes regarding site cleanup costs or the allocation of such costs among potentially responsible parties, or a determination that the company is potentially responsible for the release of hazardous substances at sites other than those currently identified, could result in additional expenditures, or the provision of additional reserves in expectation of such expenditures.

Operations by Business Segment and Geographical Area

The company provides professional services on a global basis in the fields of engineering, procurement, construction and maintenance. During the first quarter of 2003, the company realigned certain operations to increase focus on the chemicals market. Projects in this market were formerly in the Energy & Chemicals segment and will now be executed and reported in the Industrial & Infrastructure segment. The Energy & Chemicals segment was renamed Oil & Gas and all prior periods have been restated to reflect this change.

Following the realignment, operations are now organized in five industry segments: Oil & Gas, Industrial & Infrastructure, Government, Global Services and Power. The Oil & Gas segment provides engineering and construction professional services for upstream oil and gas production, downstream refining, and certain petrochemicals markets. The Industrial & Infrastructure segment provides engineering and construction professional services for manufacturing and life sciences facilities, commercial and institutional buildings, mining, chemicals, telecommunications and transportation projects and other facilities. The Government segment provides project management, engineering, construction, and contingency response services to the United States government. The Global Services segment includes operations and maintenance, equipment and temporary staffing services and the company's global sourcing and procurement services business. The Power segment provides professional services to engineer, construct and maintain power generation facilities. Services provided by the Power segment are primarily conducted through two jointly owned groups; Duke/ Fluor Daniel, 50 percent owned partnerships with Duke Energy, and ICA Fluor Daniel, 49 percent jointly owned companies with Grupo ICA, a Mexican company.

On July 9, 2003, the company jointly announced with Duke Energy Corporation the decision to terminate the Duke/ Fluor Daniel partnership relationship as a result of the significant decline in the construction of new power plants. A joint plan among the partners is being developed to dissolve the business over the next two years. The dissolution is not expected to have a material impact on results of operations or financial position of the company. The company will continue to identify power generation opportunities and any prospective projects will be performed 100 percent by Fluor.

FLUOR CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

All segments except Global Services and Government provide design, engineering, procurement and construction services on a world-wide basis to an extensive range of industrial, commercial, utility, natural resources and energy clients. Services provided by these segments include: feasibility studies, conceptual design, detail engineering, procurement, project and construction management and construction.

The Global Services segment provides a variety of services including: equipment services and outsourcing for construction and industrial needs; repair, renovation, replacement, predictive and preventative services to commercial and industrial facilities; and productivity consulting services and maintenance management to the manufacturing and process industries. In addition, Global Services provides temporary staffing specializing in technical, professional and administrative personnel for projects in all segments.

The reportable segments follow the same accounting policies as those described in the summary of major accounting policies. Management evaluates a segment's performance based upon operating profit. Intersegment revenues are insignificant. The company incurs costs and expenses and holds certain assets at the corporate level which relate to its business as a whole. Certain of these amounts have been charged to the company's business segments by various methods, largely on the basis of usage.

Engineering services for international projects are often performed within the United States or a country other than where the project is located. Revenues associated with these services have been classified within the geographic area where the work was performed.

FLUOR CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Operating Information By Segment

	Year Ended December 31		
	2003	2002	2001
	(in millions)		
External revenues			
Oil & Gas	\$2,647	\$3,482	\$2,257
Industrial & Infrastructure	2,598	2,400	2,387
Government	1,694	952	813
Global Services	1,108	961	1,017
Power	759	2,164	2,476
Corporate and other	—	—	22
Total external revenues	\$8,806	\$9,959	\$8,972
Operating profit			
Oil & Gas	\$ 121	\$ 129	\$ 102
Industrial & Infrastructure	63	55	105
Government	48	30	22
Global Services	97	93	50
Power	77	107	74
Total operating profit	\$ 406	\$ 414	\$ 353
Depreciation and amortization			
Oil & Gas	\$ —	\$ —	\$ 1
Industrial & Infrastructure	—	—	2
Government	1	—	—
Global Services	40	40	35
Power	—	—	—
Corporate and other	39	38	34
Total depreciation and amortization	\$ 80	\$ 78	\$ 72
Total assets *			
Oil & Gas	\$ 509	\$ 331	\$ 379
Industrial & Infrastructure	447	469	384
Government	475	128	85
Global Services	388	318	395
Power	104	116	91
Corporate and other	1,526	1,730	1,599
Total assets *	\$3,449	\$3,092	\$2,933
Capital expenditures			
Oil & Gas	\$ —	\$ —	\$ —
Industrial & Infrastructure	—	—	—
Government	—	—	—
Global Services	57	46	60
Power	—	—	—
Corporate and other	22	17	88
Total capital expenditures	\$ 79	\$ 63	\$ 148

* Continuing operations only

FLUOR CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Reconciliation of Segment Information to Consolidated Amounts

	Year Ended December 31		
	2003	2002	2001
	(In millions)		
CONTINUING OPERATIONS			
Total segment operating profit	\$ 406	\$ 414	\$ 353
Corporate administrative and general expense	141	160	167
Interest (income) expense, net	(3)	(7)	1
Earnings from continuing operations before taxes	\$ 268	\$ 261	\$ 185

	At December 31	
	2003	2002
	(In millions)	
TOTAL ASSETS		
Total assets for reportable segments	\$3,449	\$3,092
Assets of discontinued operations	—	50
Total assets	\$3,449	\$3,142

Enterprise-Wide Disclosures

	Revenues from Continuing Operations			Total Assets	
	Year Ended December 31			At December 31	
	2003	2002	2001	2003	2002
	(In millions)				
United States*	\$5,473	\$6,515	\$6,323	\$2,016	\$1,923
Canada	560	1,620	1,412	159	150
Asia Pacific (includes Australia)	333	226	287	114	160
Europe	1,001	810	423	492	450
Central and South America	1,069	546	379	576	344
Middle East and Africa	370	242	148	92	65
Assets of discontinued operations	—	—	—	—	50
	\$8,806	\$9,959	\$8,972	\$3,449	\$3,142

* Includes export revenues to unaffiliated customers of \$0.6 billion, \$0.8 billion and \$0.1 billion in the years ended December 31, 2003, 2002 and 2001, respectively.

FLUOR CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Quarterly Financial Data (Unaudited)

The following is a summary of the quarterly results of operations:

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
	(In thousands, except per share amounts)			
Year ended December 31, 2003				
Revenues	\$2,076,959	\$2,243,400	\$2,120,815	\$2,364,529
Cost of revenues	1,980,261	2,146,339	2,023,254	2,249,623
Earnings from continuing operations before taxes	60,648	66,087	65,072	76,174
Earnings from continuing operations	40,925	42,986	44,124	51,420
Cumulative effect of change in accounting principle	(10,389)	—	—	—
Net earnings	16,912	44,994	44,124	51,420
Basic earnings (loss) per share				
Continuing operations	0.52	0.54	0.55	0.64
Discontinued operations	(0.17)	0.02	—	—
Cumulative effect of change in accounting principle	(0.13)	—	—	—
Net earnings	0.22	0.56	0.55	0.64
Diluted earnings (loss) per share				
Continuing operations	0.51	0.54	0.55	0.63
Discontinued operations	(0.17)	0.02	—	—
Cumulative effect of change in accounting principle	(0.13)	—	—	—
Net earnings	0.21	0.56	0.55	0.63
Year ended December 31, 2002				
Revenues	\$2,506,609	\$2,536,113	\$2,451,215	\$2,465,019
Cost of revenues	2,420,045	2,439,409	2,336,284	2,349,047
Earnings from continuing operations before taxes	53,625	66,946	73,691	66,262
Earnings from continuing operations	36,181	43,011	46,057	44,727
Net earnings	41,190	42,975	31,249	48,201
Basic earnings (loss) per share				
Continuing operations	0.46	0.54	0.58	0.56
Discontinued operations	0.06	—	(0.19)	0.05
Net earnings	0.52	0.54	0.39	0.61
Diluted earnings (loss) per share				
Continuing operations	0.45	0.54	0.58	0.56
Discontinued operations	0.06	—	(0.19)	0.05
Net earnings	0.51	0.54	0.39	0.61

FLUOR CORPORATION
REPORT OF INDEPENDENT AUDITORS

Board of Directors and Shareholders

Fluor Corporation

We have audited the accompanying consolidated balance sheets of Fluor Corporation at December 31, 2003 and 2002, and the related consolidated statements of earnings, cash flows, and shareholders' equity for each of the three years in the period ended December 31, 2003. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Fluor Corporation at December 31, 2003 and 2002, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2003, in conformity with accounting principles generally accepted in the United States.

As discussed in the Financing Arrangements note to the consolidated financial statements, effective January 1, 2003, the company adopted Financial Accounting Standards Board Interpretation No. 46, "Consolidation of Variable Interest Entities."

/s/ ERNST & YOUNG LLP

Orange County, California

January 28, 2004,
except for the Financing Arrangements and
Lease Obligations notes, as to which the date is
February 27, 2004

FLUOR CORPORATION

EXHIBIT INDEX

Exhibit	Description
3.1	Amended and Restated Certificate of Incorporation of the registrant ⁽¹⁾
3.2	Amended and Restated Bylaws of the registrant*
4.1	Indenture between Fluor Corporation and Bank of New York, as trustee dated as of February 17, 2004 ⁽⁸⁾
10.1	Distribution Agreement between the registrant and Fluor Corporation (renamed Massey Energy Company) ⁽²⁾
10.2	Tax Sharing Agreement between the Fluor Corporation and A.T. Massey Coal Company, Inc. ⁽³⁾
10.3	Special Retention Program, dated March 7, 2000, between Fluor Corporation and Alan L. Boeckmann ⁽¹⁾
10.4	Special Retention Program, dated September 12, 2000, between Fluor Corporation and Mark A. Stevens ⁽⁷⁾
10.5	Fluor Corporation 2000 Executive Performance Incentive Plan ⁽⁴⁾
10.6	Fluor Corporation 2000 Restricted Stock Plan for Non-Employee Directors ⁽⁵⁾
10.7	Fluor Corporation Executive Deferred Compensation Plan, as amended and restated effective January 1, 2002 ⁽⁶⁾
10.8	Fluor Corporation Deferred Directors' Fees Program, as amended and restated effective January 1, 2002 ⁽⁷⁾
10.9	Directors' Life Insurance Summary ⁽¹⁾
10.10	Fluor Executives' Supplemental Benefit Plan ⁽¹⁾
10.11	Fluor Corporation Retirement Plan for Outside Directors ⁽¹⁾
10.12	Executive Severance Plan*
10.13	2001 Key Employee Performance Incentive Plan ⁽⁶⁾
10.14	2001 Fluor Stock Appreciation Rights Plan ⁽⁶⁾
10.15	Fluor Corporation 2003 Executive Performance Incentive Plan ⁽⁷⁾
10.16	Code of Ethics and Business Conduct, as amended and restated*
10.17	Offer of Employment Letter dated May 7, 2001 from Fluor Corporation to D. Michael Steuert*
21	Subsidiaries of the registrant*
23	Consent of Independent Auditors*
31.1	Certification of Chief Executive Officer of Fluor Corporation pursuant to Rule 13a-14(a) or 15d-14(a) of the Securities Exchange Act of 1934
31.2	Certification of Chief Financial Officer of Fluor Corporation pursuant to Rule 13a-14(a) or 15d-14(a) of the Securities Exchange Act of 1934
32	Certification of Chief Executive Officer and Chief Financial Officer of Fluor Corporation pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002*

* New exhibit filed with this report.

(1) Filed as the same numbered exhibit to the Registrant's Registration Statement on Form 10/ A (Amendment No. 1) filed on November 22, 2000 and incorporated herein by reference.

(2) Filed as Exhibit 10.1 to the Registrant's report on Form 8-K filed on December 7, 2000 and incorporated herein by reference.

(3) Filed as Exhibit 10.2 to the Registrant's report on Form 8-K filed on December 7, 2000 and incorporated herein by reference.

(4) Filed as Exhibit 10.1 to the Registrant's report on Form 8-K filed on December 29, 2000 and incorporated herein by reference.

(5) Filed as Exhibit 10.2 to the Registrant's report on Form 8-K filed on December 29, 2000 and incorporated herein by reference.

(6) Filed as an exhibit to the Registrant's report on Form 10-K filed on March 21, 2002 and incorporated herein by reference.

(7) Filed as an exhibit to the Registrant's report on Form 10-K filed on March 31, 2003 and incorporated herein by reference.

(8) Filed as an exhibit to the Registrant's report on Form 8-K filed on February 17, 2004 and incorporated herein by reference.

Amended and Restated
BYLAWS
(as amended October 28, 2003)
OF
FLUOR CORPORATION
(a Delaware corporation)

ARTICLE I

OFFICES

Section 1.01 Registered Office. The registered office of FLUOR CORPORATION (hereinafter called the "Corporation") in the State of Delaware shall be at 9 East Loockerman Street, City of Dover, County of Kent, 19901 and the name of the registered agent at that address shall be National Registered Agents, Inc.

Section 1.02 Principal Office. The principal office for the transaction of the business of the Corporation shall be at One Enterprise Drive, Aliso Viejo, California 92656. The Board of Directors (hereinafter called the "Board") is hereby granted full power and authority to change said principal office from one location to another.

Section 1.03 Other Offices. The Corporation may also have an office or offices at such other place or places, either within or without the State of Delaware, as the Board may from time to time determine or as the business of the Corporation may require.

ARTICLE II

MEETINGS OF STOCKHOLDERS

Section 2.01 Annual Meetings. Annual meetings of the stockholders of the Corporation for the purpose of electing directors and for the transaction of such other proper business as may come before such meetings may be held at such time, date and place as the Board shall determine by resolution.

Section 2.02 Special Meetings. Special meetings of the stockholders of the Corporation for any purpose or purposes may be called at any time by the Board or by a committee of the Board which has been duly created by the Board and whose powers and authority, as provided in a resolution of the Board or in the Bylaws of the Corporation, include the power to call such meetings, but such special meetings may not be called by any other person or persons; provided, however, that if and to the extent that any special meeting of stockholders may be called by any other person or persons specified in any provisions of the Certificate of Incorporation or any amendment thereto or any certificate filed under Section 151(g) of the General Corporation Law of the State of Delaware (or its successor statute as in effect from time to time hereafter), then

1

such special meeting may also be called by the person or persons, in the manner, at the times and for the purposes so specified.

Section 2.03 Place of Meetings. All meetings of the stockholders shall be held at such places, within or without the State of Delaware, as may from time to time be designated by the person or persons calling the respective meeting and specified in the respective notices or waivers of notice thereof.

Section 2.04 Notice of Stockholder Business and Nominations.

(A) Annual Meetings of Stockholders. (1) Nominations of persons for election to the Board of Directors of the Corporation and the proposal of business to be considered by the stockholders may be made at an annual meeting of stockholders only (a) pursuant to the Corporation's notice of meeting (or any supplement thereto), (b) by or at the direction of the Board of Directors or (c) by any stockholder of the Corporation who was a stockholder of record of the Corporation at the time the notice provided for in this Section 2.04 is delivered to the Secretary of the Corporation, who is entitled to vote at the meeting and who complies with the notice procedures set forth in this Section 5.

(2) For nominations or other business to be properly brought before an annual meeting by a stockholder pursuant to clause (c) of paragraph (A)(1) of this Section 2.04, the stockholder must have given timely notice thereof in writing to the Secretary of the Corporation and any such proposed business other than the nominations of persons for election to the Board of Directors must constitute a proper matter for stockholder action. To be timely, a stockholder's notice shall be delivered to the Secretary at the principal executive offices of the Corporation not later than the close of business on the ninetieth day nor earlier than the close of business on the one hundred twentieth day prior to the first anniversary of the preceding year's annual meeting (provided, however, that in the event that the date of the annual meeting is more than thirty days before or more than seventy days after such anniversary date, notice by the stockholder must be so delivered not earlier than the close of business on the one hundred twentieth day prior to such annual meeting and not later than the close of business on the later of the ninetieth day prior to such annual meeting or the tenth day following the day on which public announcement of the date of such meeting is first made by the Corporation). In no event shall the public announcement of an adjournment or postponement of an annual meeting commence a new time period (or extend any time period) for the giving of a stockholder's notice as described above. Such stockholder's notice shall set forth: (a) as to each person whom the stockholder proposes to nominate for election as a director all information relating to such person that is required to be disclosed in solicitations of proxies for election of directors in an election contest, or is otherwise required, in each case pursuant to Regulation 14A under the Securities Exchange Act of 1934, as amended (the "Exchange Act") and Rule 14a-11 thereunder (and such person's written consent to being named in the proxy statement as a nominee and to serving as a director if elected); (b) as to any other business that the stockholder proposes to bring before the meeting, a brief description of the business desired to be brought before the meeting, the text of the proposal or business (including the text of any resolutions proposed for consideration and in the event that such business includes a proposal to amend the Bylaws of the Corporation, the language of the proposed amendment), the reasons for conducting such business at the meeting and any material

2

interest in such business of such stockholder and the beneficial owner, if any, on whose behalf the proposal is made; and (c) as to the stockholder giving the notice and the beneficial owner, if any, on whose behalf the nomination or proposal is made (i) the name and address of such stockholder, as they appear on the Corporation's books, and of such beneficial owner, (ii) the class and number of shares of capital stock of the Corporation which are owned beneficially and of record by such stockholder and such beneficial owner, (iii) a representation that the stockholder is a holder of record of stock of the Corporation entitled to vote at such meeting and intends to appear in person or by proxy at the meeting to propose such business or nomination, and (iv) a representation whether the stockholder or the beneficial owner, if any, intends or is part of a group which intends (a) to deliver a proxy statement and/or form of proxy to holders of at least the percentage of the Corporation's outstanding capital stock required to approve or adopt the proposal or elect the nominee and/or (b) otherwise to solicit proxies from stockholders in support of such proposal or nomination. The foregoing notice requirements shall be deemed satisfied by a stockholder if the stockholder has notified the Corporation of his or her intention to present a proposal at an annual meeting in compliance with Rule 14a-8 (or any successor thereof) promulgated under the Exchange Act and such stockholder's proposal has been included in a proxy statement that has been prepared by the Corporation to solicit proxies for such annual meeting. The Corporation may require any proposed nominee to furnish such other information as it may reasonably require to determine the eligibility of such proposed nominee to serve as a director of the Corporation.

(3) Notwithstanding anything in the second sentence of paragraph (A)(2) of this Section 2.04 to the contrary, in the event that the number of directors to be elected to the Board of Directors of the Corporation at an annual meeting is increased and there is no public announcement by the Corporation naming the nominees for the additional directorships at least one hundred days prior to the first anniversary of the preceding year's annual meeting, a stockholder's notice required by this Section 2.04 shall also be considered timely, but only with respect to nominees for the additional directorships, if it shall be delivered to the Secretary at the principal executive offices of the Corporation not later than the close of business on the tenth day following the day on which such public announcement is first made by

the Corporation.

(B) Special Meetings of Stockholders. Only such business shall be conducted at a special meeting of stockholders as shall have been brought before the meeting pursuant to the Corporation's notice of meeting. Nominations of persons for election to the Board of Directors may be made at a special meeting of stockholders at which directors are to be elected pursuant to the Corporation's notice of meeting (1) by or at the direction of the Board of Directors or (2) provided that the Board of Directors has determined that directors shall be elected at such meeting, by any stockholder of the Corporation who is a stockholder of record at the time the notice provided for in this Section 2.04 is delivered to the Secretary of the Corporation, who is entitled to vote at the meeting and upon such election and who complies with the notice procedures set forth in this Section 2.04. In the event the Corporation calls a special meeting of stockholders for the purpose of electing one or more directors to the Board of Directors, any such stockholder entitled to vote in such election of directors may nominate a person or persons (as the case may be) for election to such position(s) as specified in the Corporation's notice of meeting, if the stockholder's notice required by paragraph (A) (2) of this Section 2.04 shall be delivered to the Secretary at the principal executive offices of the Corporation not earlier than the

3

close of business on the one hundred twentieth day prior to such special meeting and not later than the close of business on the later of the ninetieth day prior to such special meeting or the tenth day following the day on which public announcement is first made of the date of the special meeting and of the nominees proposed by the Board of Directors to be elected at such meeting. In no event shall the public announcement of an adjournment or postponement of a special meeting commence a new time period (or extend any time period) for the giving of a stockholder's notice as described above.

(C) General. (1) Only such persons who are nominated in accordance with the procedures set forth in this Section 2.04 shall be eligible to be elected at an annual or special meeting of stockholders of the Corporation to serve as directors and only such business shall be conducted at a meeting of stockholders as shall have been brought before the meeting in accordance with the procedures set forth in this Section 2.04. Except as otherwise provided by law, the chairman of the meeting shall have the power and duty (a) to determine whether a nomination or any business proposed to be brought before the meeting was made or proposed, as the case may be, in accordance with the procedures set forth in this Section 2.04 (including whether the stockholder or beneficial owner, if any, on whose behalf the nomination or proposal is made solicited (or is part of a group which solicited) or did not so solicit, as the case may be, proxies in support of such stockholder's nominee or proposal in compliance with such stockholder's representation as required by clause (A) (2) (c) (iv) of this Section 2.04) and (b) if any proposed nomination or business was not made or proposed in compliance with this Section 2.04, to declare that such nomination shall be disregarded or that such proposed business shall not be transacted. Notwithstanding the foregoing provisions of this Section 5, if the stockholder (or a qualified representative of the stockholder) does not appear at the annual or special meeting of stockholders of the Corporation to present a nomination or business, such nomination shall be disregarded and such proposed business shall not be transacted, notwithstanding that proxies in respect of such vote may have been received by the Corporation.

(2) For purposes of this Section 2.04, "public announcement" shall include disclosure in a press release reported by the Dow Jones News Service, Associated Press or comparable national news service or in a document publicly filed by the Corporation with the Securities and Exchange Commission pursuant to Section 13, 14 or 15(d) of the Exchange Act.

(3) Notwithstanding the foregoing provisions of this Section 2.04, a stockholder shall also comply with all applicable requirements of the Exchange Act and the rules and regulations thereunder with respect to the matters set forth in this Section 2.04. Nothing in this Section 2.04 shall be deemed to affect any rights (a) of stockholders to request inclusion of proposals in the Corporation's proxy statement pursuant to Rule 14a-8 under the Exchange Act or (b) of the holders of any series of Preferred Stock to elect directors pursuant to any applicable provisions of the certificate of incorporation.

Section 2.05 Notice of Meetings. Except as otherwise required by law,

the certificate of incorporation or the Bylaws, notice of each meeting of the stockholders, whether annual or special, shall be given not less than 10 nor more than 60 days before the date of the meeting to each stockholder of record entitled to vote at such meeting by delivering a notice thereof to him or her personally, or by depositing such notice in the United States mail, in a postage prepaid

4

envelope, directed to him or her at his or her post office address furnished by him or her to the Secretary of the Corporation for such purpose or, if he or she shall not have furnished to the Secretary his or her address for such purposes or if otherwise consented to by such stockholder, then at his or her post office address last known to the Secretary, or by transmitting a notice thereof to him or her at such address by means of electronic transmission. Except as otherwise expressly required by law, no publication of any notice of a meeting of the stockholders shall be required. Every notice of a meeting of the stockholders shall state the place, date and hour of the meeting, and, in the case of a special meeting, shall also state the purpose or purposes for which the meeting is called. Notice of any meeting of stockholders shall not be required to be given to any stockholder who shall have waived such notice and such notice shall be deemed waived by any stockholder who shall attend such meeting in person or by proxy, except a stockholder who shall attend such meeting for the express purpose of objecting, at the beginning of the meeting, to the transaction of any business because the meeting is not lawfully called or convened. Except as otherwise expressly required by law, notice of any adjourned meeting of the stockholders need not be given if the time and place thereof are announced at the meeting at which the adjournment is taken.

Section 2.06 Quorum. Except in the case of any meeting for the election of directors summarily ordered as provided by law, the holders of record of a majority of the voting power of the shares of stock of the Corporation entitled to be voted thereat, present in person or by proxy, shall constitute a quorum for the transaction of business at any meeting of the stockholders of the Corporation or any adjournment thereof. In the absence of a quorum at any meeting or any adjournment thereof, the holders of a majority of the voting power of the stockholders present in person or by proxy and entitled to vote thereat or, in the absence thereof of all the stockholders, any officer entitled to preside at, or to act as secretary of, such meeting may adjourn such meeting from time to time. At any such adjourned meeting at which a quorum is present any business may be transacted which might have been transacted at the meeting as originally called.

Section 2.07 Voting.

(a) Except as otherwise provided by or pursuant to the provisions of the certificate of incorporation, each stockholder entitled to vote at any meeting of stockholders shall be entitled to one vote for each share of stock held by such stockholder which has voting power upon the matter in question. Each stockholder shall, at each meeting of the stockholders, be entitled to vote in person or by proxy each share or fractional share of the stock of the Corporation having voting rights on the matter in question and which shall have been held by him or her and registered in his or her name on the books of the Corporation:

(i) on the date fixed pursuant to Section 6.05 of the Bylaws as the record date for the determination of stockholders entitled to notice of and to vote at such meeting, or

(ii) if no such record date shall have been so fixed, then (a) at the close of business on the day next preceding the day on which notice of the meeting shall be given or (b) if notice of the meeting shall be waived, at the close of business on the day next preceding the day on which meeting shall be held.

5

(b) Shares of its own stock belonging to the corporation or to another corporation, if a majority of the shares entitled to vote in the election of directors of such other corporation is held, directly or indirectly, by the corporation, shall neither be entitled to vote nor be counted for quorum purposes; provided, however, that the foregoing shall not limit the right of the corporation or any subsidiary of the corporation to vote stock, including but

not limited to its own stock, held by it in a fiduciary capacity. Persons holding stock of the Corporation in a fiduciary capacity shall be entitled to vote such stock. Persons whose stock is pledged shall be entitled to vote, unless in the transfer by the pledgor on the books of the Corporation such person has expressly empowered the pledgee to vote thereon, in which case only the pledgee, or such person's proxy, may represent such stock and vote thereon. Stock having voting power standing of record in the names of two or more persons, whether fiduciaries, members of a partnership, joint tenants, tenants in common, tenants by the entirety or otherwise, or if two or more persons have the same fiduciary relationship respecting the same shares, shall be voted in accordance with the provisions of the General Corporation Law of the State of Delaware.

(c) Any such voting rights may be exercised by the stockholder entitled thereto in person or by his or her proxy or by his or her attorney thereunto authorized and delivered to the secretary of the meeting; provided, however, that no proxy shall be voted or acted upon after three years from its date unless said proxy shall provide for a longer period. The attendance at any meeting by a stockholder who may theretofore have given a proxy shall not have the effect of revoking the same unless he or she shall in writing so notify the secretary of the meeting prior to the voting of the proxy. At all meetings of stockholders for the election of directors a plurality of the votes cast shall be sufficient to elect. All other elections and questions shall, unless otherwise provided by the certificate of incorporation, these by-laws, the rules or regulations of any stock exchange applicable to the corporation, or applicable law or pursuant to any regulation applicable to the corporation or its securities, be decided by the affirmative vote of the holders of a majority in voting power of the shares of stock of the corporation which are present in person or by proxy and entitled to vote thereon. The vote at any meeting of the stockholders on any question need not be by ballot, unless so directed by the chairman of the meeting. On a vote by ballot each ballot shall be signed by the stockholder voting, or by his or her proxy, if there be such proxy, and it shall state the number of shares voted.

Section 2.08 List of Stockholders. The Secretary shall prepare and make, at least ten (10) days before every meeting of stockholders, a complete list of the stockholders entitled to vote at the meeting, arranged in alphabetical order, and showing the address of each stockholder and the number of shares registered in the name of each stockholder. Such list shall be open to the examination of any stockholder, for any purpose germane to the meeting, as required by applicable law. Except as otherwise provided by law, the stock ledger shall be the only evidence as to who are the stockholders entitled to examine the stock ledger, the list of stockholders or the books of the corporation, or to vote in person or by proxy at any meeting of stockholders.

Section 2.09 Inspectors of Election. The corporation may, and shall if required by law, in advance of any meeting of stockholders, appoint one or more inspectors of election, who may be employees of the corporation, to act at the meeting or any adjournment thereof and to make a written report thereof. The corporation may designate one or more persons as alternate

inspectors to replace any inspector who fails to act. In the event that no inspector so appointed or designated is able to act at a meeting of stockholders, the person presiding at the meeting shall appoint one or more inspectors to act at the meeting. Each inspector, before entering upon the discharge of his or her duties, shall take and sign an oath to execute faithfully the duties of inspector with strict impartiality and according to the best of his or her ability. The inspector or inspectors so appointed or designated shall (i) ascertain the number of shares of capital stock of the corporation outstanding and the voting power of each such share, (ii) determine the shares of capital stock of the corporation represented at the meeting and the validity of proxies and ballots, (iii) count all votes and ballots, (iv) determine and retain for a reasonable period a record of the disposition of any challenges made to any determination by the inspectors, and (v) certify their determination of the number of shares of capital stock of the corporation represented at the meeting and such inspectors' count of all votes and ballots. Such certification and report shall specify such other information as may be required by law. In determining the validity and counting of proxies and ballots cast at any meeting of stockholders of the corporation, the inspectors may consider such information as is permitted by applicable law. No person who is a candidate for an office at an election may serve as an inspector at such election

ARTICLE III

BOARD OF DIRECTORS

Section 3.01 General Powers. The property, business and affairs of the Corporation shall be managed by the Board.

Section 3.02 Number. The authorized number of Directors of the Corporation shall be eleven and such authorized number shall not be changed except by a Bylaw or amendment thereof duly adopted by the stockholders in accordance with the Certificate of Incorporation or by the Board amending this Section 3.02.

Section 3.03 Election of Directors. The directors shall be elected by the stockholders of the Corporation, and at each election the persons receiving the greatest number of votes, up to the number of directors then to be elected, shall be the persons then elected. The election of directors is subject to any provisions contained in the Certificate of Incorporation relating thereto, including any provisions for a classified board.

Section 3.04 Mandatory Retirement. The Chairman of the Board and the President and any former Chairman of the Board and any former President, if serving as a director of the Corporation at age 72, shall retire from the Board at the end of the calendar year in which his or her 72nd birthday occurs. Each other employee or former employee of the Corporation or its subsidiaries serving as a director of the Corporation at age 65 shall retire from the Board at the end of the calendar year in which his or her 65th birthday occurs unless the Chairman of the Board recommends and the Board approves his or her continued service as a non-employee director. Each other employee of the Corporation or its subsidiaries under age 65 serving as a director of the Corporation who elects to take early retirement or who for any other reason is no longer an officer of the Corporation or its subsidiaries shall retire from the Board as of the date he or she ceases to be an officer unless the Chairman of the Board recommends and the Board

7

approves his or her continued directorship. Each non-employee director of the Corporation serving at age 72 shall retire from the Board at the end of the calendar year in which his or her 72nd birthday occurs. For purposes of this Section, "end of the calendar year" shall include the period ending with the seventh day of January next following.

Section 3.05 Resignations. Any director of the Corporation may resign at any time by giving written notice to the Board or to the Secretary of the Corporation. Any such resignation shall take effect at the time specified therein, or, if the time be not specified, it shall take effect immediately upon its receipt; and, unless otherwise specified therein, the acceptance of such resignation shall not be necessary to make it effective.

Section 3.06 Vacancies. Except as otherwise provided in the Certificate of Incorporation, any vacancy in the Board, whether because of death, resignation, disqualification, an increase in the number of directors, or any other cause, shall be filled solely by the affirmative vote of a majority of the remaining directors then in office, even though less than a quorum of the Board. Any director so chosen shall hold office until the next election of the class for which such director shall have been chosen and until such director's successor shall be elected and qualified. No decrease in the number of directors shall shorten the term of any incumbent director.

Section 3.07 Place of Meeting, etc. The Board may hold any of its meetings at such place or places within or without the State of Delaware and at such times as the Board may from time to time determine. Directors may participate in any regular or special meeting of the Board by means of conference telephone or other communications equipment pursuant to which all persons participating in the meeting of the Board can hear each other, and such participation shall constitute presence in person at such meeting.

Section 3.08 First Meeting. The Board shall meet as soon as practicable after each annual election of directors and notice of such first meeting shall not be required.

Section 3.09 Regular Meetings. Regular meetings of the Board may be

held at such times as the Board shall from time to time by resolution determine. If any day fixed for a meeting shall be a legal holiday at the place where the meeting is to be held, then the meeting shall be held at the same hour and place on the next succeeding business day not a legal holiday. Except as provided by law, notice of regular meetings need not be given.

Section 3.10 Special Meetings. Special meetings of the Board may be called at any time by the Chairman of the Board or the President or by any two directors, to be held at the principal office of the Corporation, or at such other place or places, within or without the State of Delaware, as the person or persons calling the meeting may designate. Notice of all special meetings of the Board shall be given to each director by two days' service of the same by telegram, by letter, or personally. Such notice may be waived by any director and any meeting shall be a legal meeting without notice having been given if all the directors shall be present thereat or if those not present shall, either before or after the meeting, sign a written waiver of notice of, or a consent to, such meeting or shall after the meeting sign the approval of the

8

minutes thereof. All such waivers, consents or approvals shall be filed with the corporate records or be made a part of the minutes of the meeting.

Section 3.11 Quorum and Manner of Acting. Except as otherwise provided in the Bylaws or by law, the presence of a majority of the whole Board of Directors shall constitute a quorum for the transaction of business at any meeting of the Board, and all matters shall be decided at any such meeting, a quorum being present, by the affirmative votes of a majority of the directors present. In the absence of a quorum, a majority of directors present at any meeting may adjourn the same from time to time until a quorum shall be present. Notice of any adjourned meeting need not be given. The directors shall act only as a Board, and the individual directors shall have no power as such.

Section 3.12 Action by Consent. Unless otherwise restricted by the certificate of incorporation or these by-laws, any action required or permitted to be taken at any meeting of the Board of Directors, or of any committee thereof, may be taken without a meeting if all members of the Board of Directors or such committee, as the case may be, consent thereto in writing or by electronic means, and such consents are filed with the minutes of proceedings of the Board of Directors or such committee.

Section 3.13 Compensation. No stated salary need be paid directors, as such, for their services, but, by resolution of the Board, a fixed sum and expenses of attendance, if any, may be allowed for attendance at each regular or special meeting of the Board or an annual directors' fee may be paid; provided that nothing herein contained shall be construed to preclude any director from serving the Corporation in any other capacity and receiving compensation therefore. Members of special or standing committees may be allowed like compensation for attending committee meetings.

Section 3.14 Committees. The Board may, by resolution passed by the Board, designate one or more committees, each committee to consist of one or more of the directors of the Corporation. Former employees of the Corporation or its subsidiaries who are no longer officers of the Corporation or its subsidiaries, if serving as a director of the Corporation, shall not be eligible to serve as a member of any committee of the Board. Except as otherwise provided in the Board resolution designating a committee, the presence of a majority of the authorized number of members of such committee shall be required to constitute a quorum for the transaction of business at any meeting of such committee. Any such committee, to the extent provided in the resolution of the Board, shall have and may exercise all the powers and authority of the Board in the management of the business and affairs of the Corporation, and may authorize the seal of the Corporation to be affixed to all papers which may require it; but no such committee shall have any power or authority in reference to amending the Certificate of Incorporation, adopting an agreement of merger or consolidation, recommending to the stockholders the sale, lease or exchange of all or substantially all of the Corporation's property and assets, recommending to the stockholders a dissolution of the Corporation or a revocation of the dissolution, or amending the Bylaws of the Corporation; and unless the resolution of the Board expressly so provides, no such committee shall have the power or authority to declare a dividend or to authorize the issuance of stock. Any such committee shall keep written minutes of its meetings and report the same to the Board at the next regular meeting of the Board.

Section 3.15 Officers of the Board. The Board shall have a Chairman of the Board and may, at the discretion of the Board, have a Vice Chairman and other officers. The Chairman of the Board and the Vice Chairman shall be appointed from time to time by the Board, unless such positions are elected offices of the Corporation, currently filled, and shall have such powers and duties as shall be designated by the Board.

ARTICLE IV

OFFICERS

Section 4.01 Officers. The officers of the Corporation shall be a Chairman of the Board, a Chief Executive Officer, a Secretary, a Treasurer and such other officers as may be appointed by the Board as the business of the Corporation may require. Officers shall have such powers and duties as are permitted or required by law or as may be specified by or in accordance with resolutions of the Board. Any number of offices may be held by the same person. Unless the Board shall otherwise determine, the Chairman of the Board shall be the Chief Executive Officer of the Corporation. In the absence of any contrary determination by the Board, the Chief Executive Officer shall, subject to the power and authority of the Board, have general supervision, direction and control of the officers, employees, business and affairs of the Corporation.

Section 4.02 Election and Term. The officers of the Corporation shall be elected annually by the Board. The Board may at any time and from time to time elect such additional officers as the business of the Corporation may require. Each officer shall hold his or her office until his or her successor is elected and qualified or until his or her earlier resignation or removal.

Section 4.03 Removal and Resignation. Any officer may be removed, either with or without cause, by a majority of the directors at the time in office, at any regular or special meeting of the Board. Any officer may resign at any time by giving notice to the Board. Such resignation shall take effect at the time specified in such notice or, in the absence of such specification, at the date of the receipt by the Board of such notice. Unless otherwise specified in such notice, the acceptance of such resignation shall not be necessary to make it effective.

Section 4.04 Vacancies. Any vacancy occurring in any office of the Corporation by death, resignation, removal or otherwise, shall be filled in the manner prescribed in these Bylaws for the regular appointment to such office.

ARTICLE V

CONTRACTS, CHECKS, DRAFTS, BANK ACCOUNTS, ETC.

Section 5.01 Execution of Contracts. The Board, except as in the Bylaws otherwise provided, may authorize any officer or officers, agent or agents, to enter into any contract or execute any instrument in the name and on behalf of the Corporation, and such authority may be

10

general or confined to specific instances; and unless so authorized by the Board or by the Bylaws, no officer, agent or employee shall have any power or authority to bind the Corporation by any contract or engagement or to pledge its credit or to render it liable for any purpose or in any amount.

Section 5.02 Checks, Drafts, etc. All checks, drafts or other orders for payment of money, notes or other evidence of indebtedness, issued in the name of or payable to the Corporation, shall be signed or endorsed by such person or persons and in such manner as, from time to time, shall be determined by resolution of the Board. Each such person shall give such bond, if any, as the Board may require.

Section 5.03 Deposit. All funds of the Corporation not otherwise employed shall be deposited from time to time to the credit of the Corporation in such banks, trust companies or other depositories as the Board may select, or as may be selected by any officer or officers, assistant or assistants, agent or agents, or attorney or attorneys of the Corporation to whom such power shall have been delegated by the Board. For the purpose of deposit and for the purpose

of collection for the account of the Corporation, the Chief Executive Officer, the President or the Treasurer (or any other officer or officers, assistant or assistants, agent or agents, or attorney or attorneys of the Corporation who shall from time to time be determined by the Board) may endorse, assign and deliver checks, drafts and other orders for the payment of money which are payable to the order of the Corporation.

Section 5.04 General and Special Bank Accounts. The Board may from time to time authorize the opening and keeping of general and special bank accounts with such banks, trust companies or other depositories as the Board may select or as may be selected by any officer or officers, assistant or assistants, agent or agents, or attorney or attorneys of the Corporation to whom such power shall have been delegated by the Board. The Board may make such special rules and regulations with respect to such bank accounts, not inconsistent with the provisions of the Bylaws, as it may deem expedient.

ARTICLE VI

SHARES AND THEIR TRANSFER

Section 6.01 Certificates for Stock. Every owner of stock of the Corporation shall be entitled to have a certificate or certificates, to be in such form as the Board shall prescribe, certifying the number and class of shares of the stock of the Corporation owned by him or her. The certificates representing shares of such stock shall be numbered in the order in which they shall be issued and shall be signed in the name of the Corporation by the President and by the Secretary. Any or all of the signatures on the certificates may be a facsimile. In case any officer, transfer agent or registrar who has signed or whose facsimile signature has been placed upon any such certificate shall thereafter have ceased to be such officer, transfer agent or registrar before such certificate is issued, such certificate may nevertheless be issued by the Corporation with the same effect as though the person who signed such certificate, or whose facsimile signature shall have been placed thereupon, were such officer, transfer agent or registrar at the date of issue. A record shall be kept of the respective names of the persons, firms or corporations owning the

11

stock represented by such certificates, the number and class of shares represented by such certificates, respectively, and the respective dates thereof, and in case of cancellation the respective dates of cancellation. Every certificate surrendered to the Corporation for exchange or transfer shall be cancelled, and no new certificate or certificates shall be issued in exchange for any existing certificate until such existing certificate shall have been so cancelled, except in cases provided for in Section 6.04 of the Bylaws.

Section 6.02 Transfers of Stock. Transfers of shares of stock of the Corporation shall be made only on the books of the Corporation by the registered holder thereof, or by his or her attorney thereunto authorized by power of attorney duly executed and filed with the Secretary, or with a transfer clerk or a transfer agent appointed as provided in Section 6.03 of the Bylaws, and upon surrender of the certificate or certificates for such shares properly endorsed and the payment of all taxes thereon. The person in whose name shares of stock stand on the books of the Corporation shall be deemed the owner thereof for all purposes as regards the Corporation. Whenever any transfer of shares shall be made for collateral security, and not absolutely, such fact shall be stated expressly in the entry of transfer if, when the certificate or certificates shall be presented to the Corporation for transfer, both the transferor and the transferee request the Corporation to do so.

Section 6.03 Regulations. The Board may make such rules and regulations as it may deem expedient, not inconsistent with the Bylaws, concerning the issue, transfer and registration of certificates for shares of the stock of the Corporation. It may appoint, or authorize any officer or officers to appoint, one or more transfer clerks or one or more transfer agents and one or more registrars, and may require all certificates for stock to bear the signature or signatures of any of them.

Section 6.04 Lost, Stolen, Destroyed, And Mutilated Certificates. In any case of loss, theft, destruction, or mutilation of any certificate of stock, another may be issued in its place upon proof of such loss, theft, destruction, or mutilation and upon the giving of a bond of indemnity to the Corporation in such form and in such sum as the Board may direct; provided, however, that a new certificate may be issued without requiring any bond when, in the judgment of

the Board, it is proper so to do.

Section 6.05 Fixing Date for Determination of Stockholders of Record. In order that the Corporation may determine the stockholders entitled to notice of or to vote at any meeting of stockholders or any adjournment thereof, or entitled to receive payment of any dividend or other distribution or allotment of any rights, or entitled to exercise any rights in respect of any other change, conversion or exchange of stock or for the purpose of any other lawful action, the Board may fix, in advance, a record date, which shall not be more than 60 nor less than 10 days before the date of such meeting, nor more than 60 days prior to any other action. If, in any case involving the determination of stockholders for any purpose other than notice of or voting at a meeting of stockholders, the Board shall not fix such a record date, the record date for determining stockholders for such purpose shall be the close of business on the day on which the Board shall adopt the resolution relating thereto. A determination of stockholders entitled to notice of or to vote at a meeting of stockholders shall apply to any adjournment of such meeting; provided, however, that the Board may fix a new record date for the adjourned meeting.

12

ARTICLE VII

MISCELLANEOUS

Section 7.01 Seal. The Board shall provide a corporate seal, which shall be in the form of a circle and shall bear the name of the Corporation and words and figures showing that the Corporation was incorporated in the State of Delaware and the year of incorporation.

Section 7.02 Waiver of Notices. Whenever notice is required to be given by the Bylaws or the Certificate of Incorporation or by law, the person entitled to said notice may waive such notice in writing, either before or after the time stated therein, and such waiver shall be deemed equivalent to notice.

Section 7.03 Fiscal Year. The fiscal year of the Corporation shall end on the 31st day of December of each year.

Section 7.04 Amendments. The Bylaws, or any of them, may be rescinded, altered, amended or repealed, and new Bylaws may be made, (i) by the Board, by vote of a majority of the number of directors then in office as directors, acting at any meeting of the Board, or (ii) by the vote of the holders of not less than 80% of the total voting power of all outstanding shares of voting stock of the Corporation, at any annual meeting of stockholders, without previous notice, or at any special meeting of stockholders, provided that notice of such proposed amendment, modification, repeal or adoption is given in the notice of special meeting. Any Bylaws made or altered by the stockholders may be altered or repealed by the Board or may be altered or repealed by the stockholders.

13

FLUOR CORPORATION AND SUBSIDIARIES
MANAGEMENT MANUAL

Section:	Human Resources	Directive:	460
			Page 1 of 8
Subject:	EXECUTIVE SEVERANCE PLAN	Effective:	10/27/03
Applies To:	Fluor Corporation	Supersedes:	12/31/02

OBJECTIVE

To provide severance compensation to eligible executives of Fluor Corporation and designated subsidiaries collectively, the "company", who leave the company, depending on the circumstances and conditions leading to termination.

ELIGIBILITY

Executives of Fluor Corporation and designated subsidiaries actively at work who are participants in the Fluor Corporation and Subsidiaries Executive Incentive Compensation Plan and who execute the required settlement and release agreement in exchange for the severance.

DEFINITIONS

For the purpose of the Plan, the following definitions apply:

A. VOLUNTARY SEPARATION

Action taken by an executive for personal reasons, to seek other employment, to accept another position, for failure to return at conclusion of leave, or to voluntarily retire.

B. INVOLUNTARY SEPARATION

1. Action taken by the company due to reduction in force resulting from reorganization or reduced workload or other similar circumstances whereby the executive's services are no longer required on the job. Executives involuntarily separated who meet the retirement criteria may elect retirement.
2. Action taken by the company when an executive has a qualifying disability under the Americans with Disabilities Act, or a similar disability statute, and is unable to perform his/her essential job functions with or without reasonable accommodation.

This Fluor Corporation policy is subject to modification or revision in part or in its entirety to reflect changes in conditions subsequent to the effective date of this policy.

FLUOR CORPORATION AND SUBSIDIARIES
MANAGEMENT MANUAL

Section:	Human Resources	Directive:	460
			Page 2 of 8
Subject:	EXECUTIVE SEVERANCE PLAN	Effective:	10/27/03
Applies To:	Fluor Corporation	Supersedes:	12/31/02

C. INVOLUNTARY DISCHARGE

Action taken by the company for reasons other than stated in Paragraph B. above including but not limited to absenteeism, misconduct, insubordination, appearing at work under the influence of a controlled substance or alcohol, unethical

behavior, disclosure of confidential information, sexual harassment, employment discrimination, unsatisfactory performance, or violation of any company policy.

D. OFFICER

An executive who is a vice president or above of Fluor Corporation, Fluor Enterprises Inc., or Fluor Constructors, Inc., who participates in the Fluor Corporation and subsidiaries Executive Incentive Compensation Plan.

E. COMPLETED YEARS OF ACCUMULATED SERVICE

A period of accumulated service with the company, subject to the limitation set forth under Procedure, A.4.c.

F. BENEFICIARY

The beneficiary designated by the executive under the Fluor Corporation Employee's Retirement Plan, or, if no such designation has been made, then as designated under the Group Life/Health Insurance Plan unless the executive otherwise makes a beneficiary designation on the form provided by the executive's corporate employer, or, in the absence of any designation, the administrator or executor of the executive's estate.

PROCEDURE

A. SEVERANCE PAY

1. Voluntary Separation

This Fluor Corporation policy is subject to modification or revision in part or in its entirety to reflect changes in conditions subsequent to the effective date of this policy.

Exhibit 10.12

FLUOR CORPORATION AND SUBSIDIARIES
MANAGEMENT MANUAL

The company will not provide severance pay nor prorated Incentive Compensation (Paragraph A under "Definitions").

Section:	Human Resources	Directive:	460
			Page 3 of 8
Subject:	EXECUTIVE SEVERANCE PLAN	Effective:	10/27/03
Applies To:	Fluor Corporation	Supersedes:	12/31/02

2. Involuntary Separation

Severance pay will be based on current base salary and total completed years of accumulated service as follows:

a. Officers

1. Two weeks' severance pay for each completed year of accumulated service up to 52 weeks.
2. Minimum eight weeks' severance.

b. Non-Officer Executives

1. Two weeks' severance pay for each completed year of accumulated service up to 26 weeks.
2. Minimum four weeks' severance.

3. Involuntary Discharge
 - a. The company will not provide severance pay nor consider proration of Incentive Compensation (Paragraph C, Definitions).
4. Limitations
 - a. Maximum severance pay will be 52 weeks for officers, 26 weeks for non-officer executives.
 - b. Minimum severance pay will be eight weeks for officers, four weeks for non-officer executives.
 - c. The total completed years of accumulated service calculated for a severance payment may only be used one time in severance calculations.
 - d. For executives involuntarily separated and placed on Leave of Absence in Lieu of Layoff, severance pay will be based on completed years of accumulated service up to the effective date of the Leave of Absence.
 - e. Officers in policy making positions who meet retirement criteria will receive severance pay as follows:

This Fluor Corporation policy is subject to modification or revision in part or in its entirety to reflect changes in conditions subsequent to the effective date of this policy.

Exhibit 10.12

FLUOR CORPORATION AND SUBSIDIARIES
MANAGEMENT MANUAL

Section:	Human Resources	Directive:	460
			Page 4 of 8
Subject:	EXECUTIVE SEVERANCE PLAN	Effective:	10/27/03
Applies To:	Fluor Corporation	Supersedes:	12/31/02

1. Officers who meet the minimum retirement income requirement set forth by federal law, excluding any amount payable under this Plan, will receive severance pay for only the period from the date of termination until January 2 following the officer's 65th birthday subject to the limitation set forth under Procedure, A.2.a.
 2. Officers who do not meet the minimum retirement income requirement set forth by federal law, computed excluding any amount payable under this Plan, will receive severance pay as determined under Procedure, A.2.a.
- f. In the case of involuntary separation due to an executive's inability to perform his/her essential job functions with reasonable accommodation, the executive's severance pay amount will be reduced by the expected entitlements under Fluor's short-term and

long-term disability for the number of weeks determined under Procedure A.2.a and b. If the actual entitlements received by the employee are less than that deducted from severance pay, the employee will be paid the difference for the period of weeks for which the employee received severance. This provision is not intended to affect any state or federal benefits to which the executive may be entitled.

- g. In cases where the executive is entitled to legislated severance pay in non-U.S. countries, executive's severance pay amount will be reduced by any legislated severance payments required of the company that are calculated with reference to the number of weeks determined under Procedure A.2.a and b.
- 5. Severance pay will be paid in a lump sum, or at the discretion of the company, annual installments over a period not to exceed the total number of weeks determined under Paragraph A.2.a. and b. above.
- 6. In event of an executive's death prior to payment of the entire entitlement, payment may be made to the designated beneficiary in one lump sum or by continuation of installments at the discretion of the executive's corporate employer.

This Fluor Corporation policy is subject to modification or revision in part or in its entirety to reflect changes in conditions subsequent to the effective date of this policy.

Exhibit 10.12

FLUOR CORPORATION AND SUBSIDIARIES
MANAGEMENT MANUAL

Section:	Human Resources	Directive:	460
			Page 5 of 8
Subject:	EXECUTIVE SEVERANCE PLAN	Effective:	10/27/03
Applies To:	Fluor Corporation	Supersedes:	12/31/02

B. INCENTIVE COMPENSATION

(As defined in the Executive Incentive Compensation Plan,
Fluor Corporation and Subsidiaries Management Manual)

- 1. Voluntary Separation

The company will not provide a prorated incentive award.
- 2. Involuntary Separation

Incentive Compensation may be considered based on the number of completed months of service during the current fiscal year prior to termination and consistent with the administration of the Plan during the year of termination.
- 3. Involuntary Discharge

The company will not provide a prorated incentive award.

C. COMPANY AUTOMOBILES

In company locations where officers/directors may be assigned company-owned automobiles, the following will

apply:

a. Voluntary Separation

Officers/directors who voluntarily retire will be presented with the automobile that is currently assigned as a gift.

b. Involuntary Separation

Officers/directors who are requested to take early retirement will be presented with the automobile which is currently assigned as a gift.

This Fluor Corporation policy is subject to modification or revision in part or in its entirety to reflect changes in conditions subsequent to the effective date of this policy.

Exhibit 10.12

FLUOR CORPORATION AND SUBSIDIARIES
MANAGEMENT MANUAL

Section:	Human Resources	Directive:	460
			Page 6 of 8
Subject:	EXECUTIVE SEVERANCE PLAN	Effective:	10/27/03
Applies To:	Fluor Corporation	Supersedes:	12/31/02

c. Involuntary Discharge

Officers/directors will not be given an automobile, and it will not be available for purchase.

D. CLUB MEMBERSHIP

Company memberships will not be awarded to an executive regardless of reason for termination.

E. AUTOMOBILE ALLOWANCE

1. In locations where executives receive a car allowance/insurance, the following will apply:

a. Voluntary Separation

The company will not provide a car allowance/insurance.

b. Involuntary Separation

The company will not provide a car allowance/insurance.

c. Involuntary Discharge

The company will not provide a car allowance/insurance.

F. INSURANCE COVERAGE

Applicable insurance coverage, i.e., group health, long-term disability, executive health, etc., will cease on date of termination. Where applicable, departing executive may elect continued coverage through the Consolidated Omnibus Budget Reconciliation Act (COBRA).

This Fluor Corporation policy is subject to modification or revision in part or in its entirety to reflect changes in conditions subsequent to the effective date of this policy.

FLUOR CORPORATION AND SUBSIDIARIES
MANAGEMENT MANUAL

Section:	Human Resources	Directive:	460
			Page 7 of 8
Subject:	EXECUTIVE SEVERANCE PLAN	Effective:	10/27/03
Applies To:	Fluor Corporation	Supersedes:	12/31/02

G. TIME OFF WITH PAY (TOWP) PROGRAM

Balance will be paid at time of termination.

H. STOCK BASED AWARDS

1. Voluntary Separation

Upon qualified retirement, awards may become 100 percent vested.

2. Involuntary Separation

Upon qualified retirement, awards may become 100 percent vested.

3. Involuntary Discharge

Vested portion may be exercised.

I. LONG TERM INCENTIVE (LTI) PROGRAM

Applicable cash awards under the long-term incentive program will not be prorated for any reason, except death or total and permanent disability.

J. WAIVERS

A settlement agreement and release form must be obtained from employees in exchange for severance benefits. No severance benefit will be due employees unless a settlement and release agreement provided by the company has been properly and timely executed.

K. OUTPLACEMENT

In-house outplacement services are available.

This Fluor Corporation policy is subject to modification or revision in part or in its entirety to reflect changes in conditions subsequent to the effective date of this policy.

FLUOR CORPORATION AND SUBSIDIARIES
MANAGEMENT MANUAL

Section:	Human Resources	Directive:	460
			Page 8 of 8
Subject:	EXECUTIVE SEVERANCE PLAN	Effective:	10/27/03
Applies To:	Fluor Corporation	Supersedes:	12/31/02

L. PLAN TERMINATION

This Plan will expire December 31, 2006. Any executive whose employment terminates after the Plan expires, will not be eligible for participation in the Plan. Further, no benefits will accrue or be payable under the Plan after Plan Termination.

M. EXCEPTION

Approved by the Chief Executive Officer of Fluor Corporation.

This Fluor Corporation policy is subject to modification or revision in part or in its entirety to reflect changes in conditions subsequent to the effective date of this policy.

FLUOR HUMAN RESOURCES POLICY _____
POLICY/PROCEDURE

THIS FLUOR ENTERPRISES, INC. POLICY IS SUBJECT TO MODIFICATION OR REVISION IN PART OR IN ITS ENTIRETY TO REFLECT CHANGES IN CONDITIONS SUBSEQUENT TO THE EFFECTIVE DATE OF THIS POLICY.

SUBJECT: BUSINESS ETHICS AND CONDUCT

HR-148
EFFECTIVE DATE: 02-04-04
SUPERSEDES: 03-03-03

I. POLICY

Employees are expected to adhere to the highest standards of business ethics and to conduct themselves and Fluor's business in a manner that will safeguard the company's reputation and retain the respect of its shareholders and all who associate with Fluor. No one in Fluor may give any order or directive that would violate the principle of strict adherence to the law, regulations governing company activities, or this policy. Fluor has additional policies in place that supplement and support the standards of conduct in this policy. Employees are expected to adhere to these and all other company policies as well.

II. PROCEDURES

A. CONFLICTS OF INTEREST AND MISAPPROPRIATION OF CORPORATE OPPORTUNITIES:

1. Employees must avoid circumstances giving rise to potential bias due to conflicting personal interests and investments not consistent with the employee's performance of company business. In addition, employees are prohibited from taking for themselves opportunities related to Fluor's business, using Fluor's property, information, or position for personal gain, or competing with Fluor for business opportunities.
2. The company recognizes that the complexities of personal and company interests may occasionally result in situations where employees feel compelled to excuse themselves from a particular transaction because of inability to preclude the appearance of bias or the occurrence of personal gain at the expense of the company. To facilitate the avoidance of such circumstances and to protect both employees and the company, all potential personal conflicts and all opportunities that relate to Fluor's business must be disclosed in writing upon initial employment with the company, at the time of the recertification of this policy, and at any other time in the course of employment when potential conflict situations or opportunities that relate to Fluor's business arise.
3. Employees must disclose to their supervisors, management, Human Resources, or the Ethics Hotline (see Section III of this policy) circumstances, investments, interests, or affiliations which could reasonably be expected to:
 - a. Create the appearance of personal gain at company expense (including, but not limited to, opportunities that relate to Fluor's business);
 - b. Create the appearance of preferential treatment or lack of impartiality;
 - c. Impede company economy or efficiency;
 - d. Result in a loss of independence and objectivity;
 - e. Reflect poorly on the company or its clients; or

UNITED STATES HUMAN RESOURCES POLICIES

Exhibit 10.16

HR-148

EFFECTIVE DATE: 02-04-04

FLUOR HUMAN RESOURCES POLICY

POLICY/PROCEDURE

THIS FLUOR ENTERPRISES, INC. POLICY IS SUBJECT TO MODIFICATION OR REVISION IN PART OR IN ITS ENTIRETY TO REFLECT CHANGES IN CONDITIONS SUBSEQUENT TO THE EFFECTIVE DATE OF THIS POLICY.

SUBJECT: BUSINESS ETHICS AND CONDUCT

- f. Have the effect of diminishing the trust and confidence of the public, the government, our clients, or other employees in the company.
- 4. Employees must notify a supervisor, member of management, or member of Human Resources before accepting membership on any for-profit board of directors.
- 5. Officers must disclose any circumstances, investments, interests, or affiliations described in Section II.A.3. (a) through (f) of this policy to the Senior Vice President Law. Officers must notify the Senior Vice President Law before accepting membership on any board of directors, whether of a charitable organization, or otherwise.
- B. CONFIDENTIAL INFORMATION: Many aspects of Fluor's business, with the exception of those normally found in the public domain, are confidential and proprietary information and are only to be shared with co-workers on a need-to-know basis. This includes, but is not necessarily restricted to, technologies and concepts, financial position, construction or expansion plans, computer programs, process data, bid data, and employee histories / pay, or any business plans of Fluor's clients, partners, customers, suppliers, and contractors. All employees are required to sign an agreement in which they agree not to disclose confidential information belonging to Fluor, its clients, or others with whom it does business. Furthermore, Fluor recognizes the confidentiality of business data and no employee shall seek to obtain such data through collusion, bribery, or any illegal or unethical means.
- C. ANTI-TRUST: Employees will not engage in any practice that restricts trade and, as such, violates anti-trust regulations, such as giving to, accepting from, or discussing with a competitor, unpublished competitive data (prices or terms and conditions of sales agreements). Employees may not enter into any agreement or plan that would restrict competition.
- D. ACCURATE RECORD-KEEPING AND REPORTING: Fluor's books, records, accounts, and reports must accurately reflect its transactions, and must be subject to an adequate system of internal controls and disclosure controls to promote the highest degree of integrity. Reports and documents that Fluor files with or submits to the Securities and Exchange Commission, and other public communications, should contain full, fair, accurate, timely, and understandable disclosure.
- E. POLITICAL CONTRIBUTIONS AND ACTIVITIES: Participation and involvement in public issues, including political activities, are on the individual's own behalf and not on behalf of the company. Employees may also, if they so choose, make voluntary contributions to political causes which are solicited without direction or coercion. Any such contribution or failure to contribute shall not advantage or disadvantage the employee.
- F. GOVERNMENT CONTRACTING: The statutes and regulations governing business with or for governmental entities are complex and impose different and special requirements from those applicable to the private sector.

Failure to comply with these requirements may be a criminal offense. The company has specific business conduct standards for this area. Any questions regarding compliance should be referred to Fluor's Legal Services Group.

- G. BOYCOTT: Employees shall not engage in any organized effort on behalf of the company to punish an organization by refusing to buy, sell, or use its products or services. It is illegal for Fluor or employees acting on its behalf to participate in or cooperate with boycotts conducted by countries other than the

UNITED STATES HUMAN RESOURCES POLICIES

Exhibit 10.16

HR-148

EFFECTIVE DATE: 02-04-04

FLUOR HUMAN RESOURCES POLICY _____
POLICY/PROCEDURE

THIS FLUOR ENTERPRISES, INC. POLICY IS SUBJECT TO MODIFICATION OR REVISION IN PART OR IN ITS ENTIRETY TO REFLECT CHANGES IN CONDITIONS SUBSEQUENT TO THE EFFECTIVE DATE OF THIS POLICY.

SUBJECT: BUSINESS ETHICS AND CONDUCT

United States. When an issue over a boycott arises, employees are expected to contact Fluor's Legal Services Group.

- H. INSIDER TRADING: Trading on inside information about a corporation's securities or conveying such inside information to others ("tipping") or suggesting that anyone purchase or sell a corporation's securities while in possession of inside information is strictly prohibited by law. An employee who, during the course of his or her employment, has come into possession of material non-public information relating to Fluor or any other corporation, including any of its clients, may not buy or sell the securities of that corporation or direct anyone to purchase such securities on his or her behalf. In addition, an employee may not tip non-public information relating to Fluor or any other corporation to members of the employee's immediate family or others.
- I. CORPORATE ASSETS: Employees are expected to respect the company's assets as they would their own. Corporate assets take many forms (land, buildings, equipment, etc.), and support daily work (desks, tools, computers, telephones, etc.).
- J. FAIR DEALING: Employees should deal fairly with Fluor's customers, suppliers, competitors, and employees. No employee should take unfair advantage of anyone through manipulation, concealment, abuse of confidential, privileged or proprietary information, or misrepresentation of material facts.
- K. BRIBES, PAYOFFS AND GRATUITIES: Employees must not bribe or make payoffs to anyone, nor may they accept anything of more than nominal value from anyone with whom Fluor does business (suppliers, contractors, clients, etc.).
- L. COPYRIGHTS: In accordance with United States law, no employee shall make unauthorized copies of copyrighted materials such as books, magazines, newspapers, periodicals, computer programs, or user manuals.
- M. COMPLIANCE WITH LAWS AND REGULATIONS: Employees shall comply with all applicable laws and regulations including those applicable to the conduct of business with governmental bodies, which include, but are not limited to, those regarding cost accounting, time charging, national security, procurement, and discrimination.

III. COMMUNICATIONS AND REPORTING

- A. ENCOURAGING OPEN COMMUNICATION: No policy can anticipate every situation that may arise. Accordingly, this policy is not meant to be

all-inclusive, but rather is intended to serve as a source of guiding principles and to encourage communication and dialogue between employees and supervisors concerning standards of conduct addressed in the policy. Employees are encouraged to discuss with any supervisor, manager, or member of Human Resources questions about particular circumstances that may implicate the provisions of this policy.

- B. REPORTING OBLIGATIONS: Employees who believe that Fluor's standards are not being practiced are required to report the circumstances to their supervisors, managers, or a member of Human Resources. Retaliation for reports of misconduct by others made in good faith is prohibited by law, and Fluor will not permit retaliation of any kind against any employee who reports misconduct in good faith.

UNITED STATES HUMAN RESOURCES POLICIES

Exhibit 10.16

HR-148
EFFECTIVE DATE: 02-04-04

FLUOR HUMAN RESOURCES POLICY

POLICY/PROCEDURE

THIS FLUOR ENTERPRISES, INC. POLICY IS SUBJECT TO MODIFICATION OR REVISION IN PART OR IN ITS ENTIRETY TO REFLECT CHANGES IN CONDITIONS SUBSEQUENT TO THE EFFECTIVE DATE OF THIS POLICY.

SUBJECT: BUSINESS ETHICS AND CONDUCT

- C. ETHICS HOTLINE: In the event that an employee does not want to report internally, the company has an Ethics Hotline which is managed by an external organization specializing in compliance and reporting issues. Employees may call the hotline at 1-800-223-1544 to report potential legal, ethical, accounting, or auditing violations or concerns. Any calls to the Ethics Hotline may be made anonymously, although employees are encouraged to identify themselves so that a full confidential investigation is possible.

IV. COMPLIANCE

- A. VIOLATIONS: Violation of this policy by any employee may result in disciplinary action, up to and including termination. Civil charges against the employee may also be filed.

B. SIGNATURES AND REAFFIRMATIONS

1. Newly hired employees will sign and receive copies of Fluor Human Resources Policy, HR-148, Business Ethics and Conduct.
2. Employees will recertify their adherence to Policy HR-148 as required.

V. EXCEPTIONS

None

UNITED STATES HUMAN RESOURCES POLICIES

May 7, 2001

Mr. D. Michael Steuert
2956 Morvale Drive
Thousand Oaks, CA 91361

Dear Michael,

We are pleased to extend to you an offer of employment as Senior Vice President and Chief Financial Officer of Fluor Corporation. All of us that have had the opportunity to visit with you are confident that we will benefit from your years of experience and are sure that you will find Fluor Corporation a challenging and enjoyable environment in which to work. We will work with you to determine a mutually agreeable start date.

SALARY

Your starting salary will be \$500,000 annually.

ANNUAL INCENTIVE

As a member of the Executive Management Team you will be in a "must review" category for annual incentive consideration each year based upon your individual performance as well as the performance of the Corporation. Your target incentive amount is 65% of your base salary or \$325,000, and you will have the potential to earn from zero to twice this amount based on your individual performance and the overall results of the corporation. Our fiscal year is January 1st through December 31st, with incentives paid the following March. Your first year bonus will be prorated based on actual months worked.

NEW HIRE AWARD

We will recommend to the Organization and Compensation Committee of Fluor Corporation that we provide you the following awards:

LTI CASH 2001 - 2003 PROGRAM

You will be recommended for participation in the current LTI cash program covering FY 2001-2003 with a three-year targeted cash award of \$300,000. Performance objectives for the cash portion of this three-year program will be established each fiscal year. At the end of each fiscal year, the Organization and Compensation Committee will evaluate the performance results of Fluor Corporation. If the objectives are achieved a payout with a performance rating of 0 to 2 times will be paid to you based on one-third of your target cash award (\$100,000) each year.

Initialed_____

Mr. D. Michael Steuert
May 7, 2001
Page 2

RESTRICTED STOCK

A restricted stock grant of 3,600 shares vesting 25% (900 shares) per year beginning one year from date of hire. You will receive dividends and voting rights on these shares.

RESTRICTED UNITS

A restricted unit grant of 2,400 units vesting 25% (600 shares) per year beginning one year from date of hire.

LONG-TERM INCENTIVES

In December we will recommend to the Organization and Compensation Committee the grant of a Long-Term Incentive (LTI) award valued at \$1,000,000. This award will be comprised of non-qualified stock options, restricted shares, restricted tandem units, and a cash award which you have the potential to earn from zero to twice this cash amount based on targeted Company performance (based on current design).

SEVERANCE / POST RETIREMENT SUPPLEMENTAL BENEFIT PAYMENT

If you are involuntarily separated from the Company for any reason, except for cause, the Company will provide you with one year's pay at your then current base salary.

If you continue your employment to early or normal retirement, the Company has agreed to pay you one year's pay, at your then current base salary, as a supplemental retirement benefit.

AUTOMOBILE ALLOWANCE

You will be provided a monthly automobile allowance of \$1,400. Automobile insurance will be provided for one automobile at no expense to you.

CLUB MEMBERSHIP

As a senior level executive you will be eligible for a club membership at a club of your choice, within reason, and with the final approval of Alan Boeckmann. The Company will pay the annual dues and business related expenses.

PERSONAL FINANCIAL PLANNING

You will be reimbursed for financial planning services during your first two years of employment and the year of retirement up to a maximum of \$15,000 per year.

TAX SERVICES

Annual tax planning services will be reimbursed up to a maximum of \$4,000 per year.

Initialed _____

Mr. D. Michael Steuert
May 7, 2001
Page 3

ESTATE ENHANCEMENT PROGRAM

You will be eligible to participate in a program which allows you to use deferred compensation to make payments on a life insurance policy which can be held in trust and provides a tax advantage vehicle for survivors/beneficiaries.

RELOCATION

Should you sell your current residence and move to the Aliso Viejo area, you will be reimbursed for travel, moving, relocation and buy/sale expenses in accordance with the attached Personnel Policy (HR-121). Should you voluntarily terminate your employment with the company (except when caused by death or permanent total disability) within one year from your relocation date you will be required to reimburse to the company 100% of those costs previously transmitted. The company will provide you full tax gross up protection for Federal and State personal income tax liability for costs associated with your move to the Aliso Viejo, California area.

TEMPORARY HOUSING

The company will provide you with a company provided apartment for up to six months. This can be extended with Alan Boeckmann's approval.

EXECUTIVE DEFERRED COMPENSATION PROGRAM (EDCP)

You will be eligible to participate in this program from date of hire. Two deferral options are available to help you reduce your tax obligations and plan for financial security: the Deferred Salary account and the Deferred Incentive Award account. Participation is entirely voluntary. Amounts deferred under this program may be deferred until termination, retirement or for a specified period of time of one year or more and will accrue monthly interest based on the allocation of your Executive Deferred

Compensation Program balance among the available crediting options.
Participation in this program is subject to continued Executive status.

SALARIED EMPLOYEE'S SAVINGS INVESTMENT PLAN 401(K)

You will be eligible immediately to participate in the 401(k) Plan. You may elect to defer up to 16% of your base monthly salary. After one year of service the company match is discretionary. In 2001 the company is matching 100% (dollar for dollar) on the first 4% for eligible employees. If you elect, you may rollover the funds from a qualified plan and constitute a rollover contribution under applicable IRS Code.

FLUOR CORPORATION DEFINED RETIREMENT PLAN

You will be eligible to participate in the Fluor Corporation Defined Retirement Plan after completing one year of service. Once eligible, the company credits your account with a percentage of pay based on you age and years of service as of January 1 of the plan year. The vesting schedule for participants is 100% after five years of service.

FLUOR CORPORATION PERFORMANCE PLAN

You will be eligible to participate in the Fluor Corporation Performance Plan after one year of service. Based on financial performance, the Company will make an annual contribution to an account in your name. You will manage the investment of your contributions among several varied investment funds. The amount of the contribution will depend on the overall financial performance of the Company and employees will receive awards based on percentage of base salary. The vesting schedule for participants is 100% after five years of service.

Initialed_____

Mr. D. Michael Steuert
May 7, 2001
Page 4

FLUOR CORPORATION PERFORMANCE PLAN

You will be eligible to participate in the Fluor Corporation Performance Plan after one year of service. Based on financial performance, the Company will make an annual contribution to an account in your name. You will manage the investment of your contributions among several varied investment funds. The amount of the contribution will depend on the overall financial performance of the Company and employees will receive awards based on percentage of base salary. The vesting schedule for participants is 100% after five years of service.

COMPANY-PAID PHYSICAL EXAMINATION PROGRAM

As a member of the Management Team, you will be provided an annual physical examination at company expense. You will be notified by the company physician when it is time to schedule your physical. Participation in this program is subject to continued Executive status.

GROUP HEALTH, LIFE, AND LONG-TERM DISABILITY INSURANCE COVERAGE

Your share of the cost for a standard group health insurance will be 0.5% of your base salary up to a maximum of \$186.28 per month. Your share of the cost for group dental insurance is 0.1% of your base salary up to a maximum of \$18.20 a month. Additionally, you may, at your option, cover your dependents on our group health care and life insurance plans for a monthly premium. You may also purchase additional life insurance.

EXECUTIVE HEALTH CARE

Eligibility in this program is immediate and will provide reimbursement for health care expenses to you and your dependents which exceed covered charge payments under Option 1 of the Fluor Employee's Health Care Plan. Items generally covered by this Plan include:

1. Deductibles and co-insurance

2. Reasonable and customary charges not covered under Option 1, and

3. Charges for private rooms

TIME OFF WITH PAY (TOWP)

TOWP accrues on each day worked from the date of hire at the rate of 3.54 hours per week, or 184 hours/23 days per year. In addition, we will credit your TOWP account with 160 hours.

Initialed_____

Mr. D. Michael Steuert

May 7, 2001

Page 5

CHANGE OF CONTROL

A Change of Control plan is ready for immediate implementation should the Chairman and the Board of Directors choose to implement it. Presently, there are no individual executive change-of-control agreements in place. However, there is change of control language included in the plan documents that govern our Executive Deferred Compensation Plan and Stock-Based Award Agreements.

OTHER

The Immigration Reform and Control Act of 1986 requires Fluor to verify and record both your identity and right to work in the United States. Accordingly, this offer of employment is contingent on your being able to satisfy the above-mentioned law on or before your first day of work. Further, the EMT status of a position is discretionary and subject to change.

In addition, this offer is conditional upon your successful completion of a pre-employment drug screen, conducted by the company. We recommend that you not resign your current position until a satisfactory drug test result is received. Please contact Dr. Sam Elias at (949) 831-1776 to schedule an appointment. The offer is also conditional on positive responses on completing the reference checks.

Furthermore, as with most companies, the employment relationship with Fluor Corporation is based on the mutual consent of you and the Company. Accordingly, either you or Fluor Corporation can terminate the employment relationship at will, without cause or advance notice. While Fluor Corporation's benefits and policies may be changed from time to time, this letter reflects our entire agreement concerning our at-will relationship.

Initialed_____

Mr. D. Michael Steuert

May 7, 2001

Page 6

We look forward to your joining the Company and are sure that your employment with Fluor Corporation will be both successful and rewarding for you. If you have any further questions, please call me at (949) 349-3047. We would appreciate your returning a signed copy of this offer letter to me as soon as possible. An additional copy is enclosed for your records.

Sincerely,

/s/ Lisa Glatch

Lisa Glatch

Senior Vice President

Human Resources and Administration

Fluor Corporation

ACCEPTED BY:

REPORT DATE:

/S/ D. MICHAEL STEUERT

MAY 21, 2001

D. MICHAEL STEUERT

DATE

LG:OLS:ch

cc: Alan Boeckmann
Lew Smith

Initialed_____

FLUOR CORPORATION SUBSIDIARIES(1)

[Note: Roman numerals below denote the level of the subsidiary. For example, "I" represents a first tier subsidiary of Fluor Corporation; "II" represents a second tier subsidiary, etc.]

SUBSIDIARY NAME -----	PERCENT HOLDING -----	ORGANIZED UNDER LAWS OF -----
I AMERICAN EQUIPMENT COMPANY, INC.		
II AMECO Services Inc.	100.0000	South Carolina
II Ameco Services, S. de R.L. de C.V.	100.0000	Delaware
II American Construction Equipment Company, Inc.	72.6016	Mexico
III AMECO Holdings, Inc.	100.0000	California
IV AMECO Caribbean, Inc.	100.0000	California
IV Ameco Mexico Administration y Servicios, S. de R.L. de C.V.	100.0000	California
IV Ameco Mining Services S.R.L.	99.0000	Argentina
IV Ameco Peru S.A.C.	0.8357	Peru
IV AMECO Project Services, Inc.	100.0000	Philippines
IV Ameco Pty Ltd.	100.0000	Australia
IV Ameco Services S.R.L.	99.0000	Argentina
IV Ameco Services, S. de R.L. de C.V.	3.0992	Mexico
III Ameco Mexico Administration y Servicios, S. de R.L. de C.V.	99.8000	Mexico
III Ameco Mining Services S.R.L.	1.0000	Argentina
III Ameco Peru S.A.C.	99.1643	Peru
III Ameco Services S.R.L.	1.0000	Argentina
III Ameco Services, S. de R.L. de C.V.	24.2992	Mexico
II BWJ, LLC	100.0000	Delaware
II GlobEquip LLC	100.0000	Delaware
II Palmetto Seed Capital Ltd. Partnership	7.3529	South Carolina
II SMA Equipment, LLC	100.0000	Delaware
II Vantage Information Systems, Inc.	100.0000	Delaware
I FLUOR CONSTRUCTORS INTERNATIONAL, INC.	100.0000	California
II Fluor Constructors Canada Ltd.	100.0000	New Brunswick
III Fluor Canada Partners	25.0000	Alberta
II Fluor Constructors Indiana Limited Partnership	1.0000	Indiana
II Fluor Constructors Indonesia, Inc.	100.0000	California
II Fluor Management and Technical Services, Inc.	100.0000	California
III Fluor Constructors Indiana Limited Partnership	99.0000	Indiana
I FLUOR ENTERPRISES, INC.	100.0000	California
II Caribbean Thermal Electric, LLC	49.0000	Delaware
II Claiborne Fuels, Inc.	100.0000	California
III Claiborne Fuels, L.P.	1.0000	Delaware
IV Louisiana Energy Services, L.P.	0.8472	Delaware
II Daniel International Corporation	100.0000	South Carolina
III Daniel Navarra, S.A.	100.0000	Spain
III Fluor Daniel Engineering, Inc.	100.0000	Ohio
III Fluor Management Company L.P.	46.0676	Delaware
II DAX Industries, Inc.	5.0000	Texas
II Del-Jen, Inc.	100.00	California
II Duke/Fluor Daniel	49.9999	North Carolina
II Efdée Connecticut Architects, Inc.	100.0000	Connecticut

SUBSIDIARY NAME -----	PERCENT HOLDING -----	ORGANIZED UNDER LAWS OF -----
II Efdée Engineering Professional Corporation	100.0000	North Carolina
II Efdée Mississippi Architects, A Professional Corporation	100.0000	Mississippi
II Efdée New York Engineers & Architects P.C.	100.0000	New York
II Enceee Architecture Services, P.C.	100.0000	North Carolina
II ESSI, LLC	33.3333	Delaware
III ESSI Limited	100.0000	England
II eTech Solutions, Inc.	100.0000	Nevada
II Evergreen Equipment and Personnel Leasing, Inc.	100.0000	Rhode Island
II F&F Infrastructure, LLC	50.0000	Colorado
II FD Architects & Engineers Corporation	100.0000	New Jersey
II FD Mexico, Inc.	100.0000	Delaware
II FD/MK Limited Liability Company	60.0000	Delaware
II FDEE Consulting, Inc.	100.0000	California
II FDHM, Inc.	100.0000	California
II Fluor (Nigeria) Limited	100.0000	Nigeria
II Fluor A&E Services, Inc.	100.0000	California
II Fluor Abadan Limited	100.0000	Bermuda
II Fluor Alaska, Inc.	100.0000	Alaska
II Fluor Ames Kraemer, LLC	40.0000	Delaware
II Fluor Atlantic Limited	100.0000	Bermuda

II Fluor Australia Pty Ltd	100.0000	Australia
III Civil and Mechanical Maintenance Pty. Ltd.	100.0000	Australia
III Fluor Daniel Constructors Pty. Ltd.	100.0000	Australia
III Fluor Global Services Australia Pty Ltd	100.0000	Australia
IV Fluor Maintenance Services Pty Ltd	100.0000	Australia
IV Fluor Operations and Maintenance Services Pty Ltd	100.0000	Australia
IV Fluor Services Pty Ltd	100.0000	Australia
III Fluor Power Services Pty Ltd.	100.0000	Australia
IV Duke/Fluor Daniel Australia Partnership	50.0000	Australia
III Karratha Engineering Services Pty Ltd	100.0000	Australia
III PT Signet Indonesia	10.0000	Indonesia
III Signet Holdings Pty Ltd	100.0000	Australia
IV PT Signet Indonesia	90.0000	Indonesia
IV Signet Engineering Pty Ltd	100.0000	Australia
V Signet Ingenieria S.A. .	1.0000	Chile
VI Constructora Lequena S.A.	100.0000	Chile
IV Signet Ingenieria S.A.	99.0000	Chile
V Constructora Lequena S.A.	100.0000	Chile
IV Signet International Holdings Pty. Ltd.	100.0000	Australia
IV Tengis Design Services Pty Ltd	100.0000	Australia
IV Westquip Australia Pty Ltd	100.0000	Australia
III TRS Staffing Solutions (Australia) Pty Ltd	100.0000	Australia
II Fluor Canada Ltd.	100.0000	New Brunswick
III Fluor Canada Partners	75.0000	Alberta
III Fluor Daniel International Services Inc.	10.0000	Barbados
III Fluor Daniel Wright Ltd.	100.0000	New Brunswick
IV Wright Engineers (Chile) Limitada	95.0000	Chile
IV Wright Engineers Limitada Peru	35.0000	Peru
III TRS Staffing Solutions (Canada) Inc.	100.0000	Canada
III Wright Engineers (Chile) Limitada	5.0000	Chile
II Fluor Chile, Inc.	100.0000	California
III Ameco Chile S.A.	99.0000	Chile
III Fluor Chile Ingenieria y Construccion S.A.	99.0000	Chile
IV Jaakko-Poyry - Fluor Daniel Chile SA	75.0000	Chile
III Ingenieria y Construcciones Fluor Daniel Chile Limitada	99.1000	Chile
II Fluor Colombia Limited	100.0000	Delaware

2

SUBSIDIARY NAME	PERCENT HOLDING	ORGANIZED UNDER LAWS OF
-----	-----	-----
II Fluor Continental Limited	100.0000	Bermuda
II Fluor Daniel (Japan) Inc.	100.0000	Japan
II Fluor Daniel (Malaysia) Sdn. Bhd.	100.0000	Malaysia
II Fluor Daniel (NPOS), Inc.	100.0000	Delaware
II Fluor Daniel Alumatech, Inc.	100.0000	Delaware
II Fluor Daniel America, Ltda.	100.0000	California
II Fluor Daniel Brasil, Ltda.	99.9983	Brazil
II Fluor Daniel Caribbean, Inc.	100.0000	Delaware
III DMIS, Inc.	100.0000	South Carolina
III Duke/Fluor Daniel Caribbean, S.E.	0.2500	Puerto Rico
III Fluor Daniel Export Services, Inc.	100.0000	Delaware
III Fluor Daniel International (Malaysia) Sdn. Bhd.	100.0000	Malaysia
III Fluor Daniel Maintenance Services, Inc.	100.0000	Delaware
III Fluor Daniel Services Corporation	100.0000	Delaware
III Fluor Facility & Plant Services, Inc.	100.0000	South Carolina
II Fluor Daniel China, Inc.	100.0000	California
II Fluor Daniel China Services, Inc.	100.0000	California
II Fluor Daniel China Technology, Inc.	100.0000	California
II Fluor Daniel Coal Services International, Inc.	100.0000	Delaware
III Duke/Fluor Daniel International	49.9999	Nevada
IV D/FD Foreign Sales Corporation	75.0000	Barbados
IV Duke/Fluor Daniel Caribbean, S.E.	99.0000	Puerto Rico
III Duke/Fluor Daniel LLC	49.9999	Nevada
III Power Construction Services Pty Ltd	50.0000	Australia
II Fluor Daniel Construction Company	100.0000	California
II Fluor Daniel Development Corporation	100.0000	California
III Crown Energy Company	100.0000	New Jersey
III Fluor Daniel Modesto, Inc.	100.0000	California
IV Wilmore/Fluor Modesto LLC	50.0000	California
III Fluor Daniel Temecula, Inc.	100.0000	California
IV Fluor Daniel Ada, Inc.	50.0000	Idaho
III Fluor Daniel Tempe, Inc.	100.0000	California
IV Ciudad Del Lago, LLC	50.0000	Delaware
IV Fluor Daniel Ada, Inc.	50.0000	Idaho
III Gloucester Limited, Inc.	100.0000	California
III Gloucester Limited II, Inc.	100.0000	California
III San Diego Expressway L.P.	3.9300	California
III Tarrant Energy, Inc.	100.0000	California
II Fluor Daniel Eastern, Inc.	100.0000	California
III P.T. Fluor Daniel Indonesia	80.0000	Indonesia
IV PT. AMECO Servicindo	99.0000	Indonesia
II Fluor Daniel Energy Investments, Inc.	100.0000	Delaware
III The Beacon Group Energy Investment Fund, L.P.	7.5920	Delaware
II Fluor Daniel Engineers & Constructors, Inc.	100.0000	Delaware
III Davy Kinhill Fluor Daniel (PNG) Pty Ltd.	37.5000	Papua N. Guinea
III Fluor Daniel Project Consultants (Shenzhen) Co., Ltd.	100.0000	P.R.C.
II Fluor Daniel Engineers & Constructors, Ltd.	100.0000	California
II Fluor Daniel Engineers & Consultants Ltd.	100.0000	Mauritius
III Fluor Daniel India Private Limited	80.0000	India
II Fluor Daniel Environmental Strategies, Inc.	100.0000	Delaware
II Fluor Daniel Espana, S.A.	100.0000	California
III Daniel International (Saudi Arabia) Ltd.	50.0000	Saudi Arabia
III Fluor Arabia Limited	50.0000	Saudi Arabia

II Fluor Daniel Eurasia, Inc.	100.0000	California
II Fluor Daniel Europe B.V.	100.0000	Netherlands
III ASI Advanced Solutions International BV	5.0000	Netherlands
IV ASI Consulting UK Limited	100.0000	England
IV ASI International Services Limited	100.0000	England
III Fluor Daniel Belgium, N.V.	100.0000	Belgium

3

SUBSIDIARY NAME	PERCENT HOLDING	ORGANIZED UNDER LAWS OF
-----	-----	-----
III Fluor Daniel B.V.	100.0000	Netherlands
IV Fluor Daniel Consultants B.V.	100.0000	Netherlands
IV Fluor Infrastructure B.V.	100.0000	Netherlands
V Infrasppeed Holdings B.V.	7.1000	Netherlands
VI Infrasppeed B.V.	100.0000	Netherlands
V Infrasppeed Maintenance B.V.	11.0000	Netherlands
V Infrasppeed EPC Consortium V.O.F.	8.9000	Netherlands
V Poort van Den Bosch B.V.	10.0000	Netherlands
V Poort van Den Bosch V.O.F.	10.0000	Netherlands
IV Prochem S.A.	19.0000	Poland
IV TRS Staffing Solutions B.V.	100.0000	Netherlands
III Fluor Daniel E&C LLC	100.0000	Russia
III Fluor Daniel Eastern Services B.V.	100.0000	Netherlands
III Fluor, S.A.	3.9200	Spain
III Fluor S.A.	99.6200	Poland
II Fluor Daniel Florida Rail, Inc.	100.0000	Delaware
II Fluor Daniel Global Limited	100.0000	Guernsey
III Fluor Daniel Global Contracting Limited	100.0000	Guernsey
III Fluor Daniel Global Placement Limited	100.0000	Guernsey
III Fluor Daniel Global Placement Services Limited	100.0000	Guernsey
III Fluor Daniel Global Services Limited	100.0000	Guernsey
III Fluor Daniel Global Support Services Limited	100.0000	Guernsey
III Fluor Daniel Global TRS Limited	100.0000	Guernsey
III Fluor Daniel Global TRS Services Limited	100.0000	Guernsey
II Fluor Daniel GmbH	100.0000	Germany
II Fluor Daniel Holdings, Inc.	100.0000	California
III Fluor Daniel Global Services Private Limited	100.0000	India
II Fluor Daniel Illinois, Inc.	100.0000	Delaware
III D/FD Bridgeport Operations, LLC	49.9999	Delaware
III D/FD Cokenergy Operations, LLC	49.9999	Delaware
III D/FD Operating Services, LLC	49.9999	Delaware
III DFD California Operations	49.0000	California
III Duke/Fluor Daniel	49.9999	North Carolina
IV D/FD Enterprises, LLC	100.0000	Delaware
IV D/FD Equipment Company LLC	100.0000	Delaware
IV D/FD Grays Harbor, LLC	100.0000	Delaware
IV D/FD Kentucky Mountain Power, LLC	100.0000	Delaware
IV D/FD Operating Plant Services, LLC	100.0000	Delaware
IV D/FD Plant Services, LLC	100.0000	Delaware
IV D/FD Ventures, LLC	100.0000	Delaware
IV Turbine Fleet Management, LLC	100.0000	Delaware
III Fluor Iran	9.8000	Iran
II Fluor Daniel India, Inc.	100.0000	California
II Fluor Daniel Indiana Limited Partnership	1.0000	Indiana
II Fluor Daniel International Services Inc.	90.0000	Barbados
II Fluor Daniel Latin America, Inc.	100.0000	California
III Grupo Alvida USA, LLC	80.0000	Delaware
III Grupo Empresarial Alvida, S.A.	80.0000	Venezuela
IV Grupo Alvida SCS	0.1000	Venezuela
III Servicios Cuyuni, E.T.T., C.A.	80.0000	Venezuela
II Fluor Daniel Mexico S.A.	100.0000	California
III ICA-Fluor Daniel, S. de R.L. de C.V.	49.0000	Mexico
III TRS International Group, S. de R.L. de C.V.	0.0954	Mexico
II Fluor Daniel Mining & Metals, Ltd.	100.0000	California
III Ameco Chile S.A.	1.0000	Chile
III Fluor Chile Ingenieria y Construccion S.A.	1.0000	Chile

4

SUBSIDIARY NAME	PERCENT HOLDING	ORGANIZED UNDER LAWS OF
-----	-----	-----
IV Jaakko-Poyry - Fluor Daniel Chile SA	75.0000	Chile
III Ingenieria y Construcciones Fluor Daniel Chile Limitada	0.9000	Chile
II Fluor Daniel Overland Express, Inc.	100.0000	Delaware
II Fluor Daniel Overseas, Inc.	100.0000	California
III Arctic Pacific Contractors International, L.L.C.	50.0000	Delaware
III PFD International LLC	50.0000	Delaware
II Fluor Daniel P.R.C., Ltd.	100.0000	California
II Fluor Daniel Pacific, Inc.	100.0000	California
III Fluor Daniel-AMEC Philippines, Inc.	50.0000	Philippines
II Fluor Daniel Power B.V.	100.0000	Netherlands
III Duke/Fluor Daniel B.V.	50.0000	Netherlands

II Fluor Daniel Pulp & Paper, Inc.	100.0000	California
III Fluor Daniel Indiana Limited Partnership	99.0000	Indiana
II Fluor Daniel Real Estate Services, Inc.	100.0000	South Carolina
II Fluor Daniel Sales Corporation	100.0000	Barbados
II Fluor Daniel South America Limited	100.0000	California
II Fluor Daniel South East Asia, Ltd.	100.0000	California
II Fluor Daniel Technical Services, Inc.	100.0000	Texas
II Fluor Daniel Telecommunications Corporation	100.0000	California
II Fluor Daniel Thailand Holdings Corporation	100.0000	California
III Fluor Iran	9.8000	Iran
II Fluor Daniel Thailand, Ltd.	100.0000	California
II Fluor Daniel Venture Group, Inc.	100.0000	California
III CommTech Technology Partners IV, a California Limited Partnership	1.0835	California
III Fluor Daniel Asia, Inc.	100.0000	California
IV Duke/Fluor Daniel International Services	49.9999	Nevada
V D/FD Foreign Sales Corporation	25.0000	Barbados
V D/FD International Services Brazil Ltda.	100.0000	Brazil
V Duke/Fluor Daniel Caribbean, S.E.	0.5000	Puerto Rico
V Duke/Fluor Daniel International Services (Trinidad) Limited	100.0000	Trinidad
IV P.T. Fluor Daniel Indonesia	20.0000	Indonesia
V P.T. AMECO Servicindo	99.0000	Indonesia
IV P.T. Nusantara Power Services	40.0000	Indonesia
III Micogen Inc.	100.0000	California
III Micogen Limited I, Inc.	100.0000	California
III Micogen Limited II, Inc.	100.0000	California
III Soli-Flo LLC	25.0000	Delaware
IV Soli-Flo, Inc.	100.0000	California
V Soli-Flo Material Transfer, L.P.	1.0000	California
V Soli-Flo Partners, L.P.	1.0000	California
III Soli-Flo Material Transfer, L.P.	24.7500	California
III Soli-Flo Partners, L.P.	24.7500	California
III Springfield Resource Recovery, Inc.	100.0000	Mass.
IV Springfield Resource Recovery Limited Partnership	10.0000	Mass.
III Springfield Resource Recovery Limited Partnership	90.0000	Mass.
II Fluor Daniel, a Professional Architectural Corporation	100.0000	Louisiana
II Fluor Daniel, Inc. - Philippines	100.0000	Philippines
II Fluor, S.A.	96.0000	Spain
II Fluor Distribution Companies, Inc.	100.0000	California
II Fluor Engineering Corporation	100.0000	Michigan
II Fluor Engineers, Inc.	100.0000	Delaware
II Fluor Enterprises Group, Inc.	100.0000	Delaware
II Fluor Federal Services, Inc.	100.0000	Washington
III Fluor Federal, Inc.	100.0000	Washington
II Fluor Federal Services, LLC	100.0000	Delaware
III Alutiiq Federal Services Limited Liability Company	49.0000	Alaska

SUBSIDIARY NAME	PERCENT HOLDING	ORGANIZED UNDER LAWS OF
-----	-----	-----
III Alutiiq-Fluor Constructors, LLC	49.0000	Alaska
III Fluor Hawaii, LLC	10.0000	Hawaii
II Fluor Federal Services NWS, Inc.	100.0000	Washington
II Fluor Fernald, Inc.	100.0000	California
III Fluor Environmental Resources Management Services, Inc.	100.0000	Delaware
II Fluor Global Sourcing and Supply Inc.	82.0000	Delaware
III Fluor Acquisition, LLC	100.0000	Delaware
II Fluor Government Group International, Inc.	100.0000	Delaware
II Fluor Gulf Communications, Inc.	100.0000	California
II Fluor Hanford, Inc.	100.0000	Washington
III CBV/CCSi, LLC	23.0540	Delaware
III CBV/Mundo, LLC	71.0500	Delaware
III CBV/Mundo II, LLC	28.1500	Delaware
III CBV/Vivid, LLC	28.4000	Delaware
III Columbia Basin Ventures LLC	36.3400	Delaware
II Fluor Indonesia, Inc.	100.0000	California
II Fluor Industrial Services, Inc.	100.0000	Delaware
II Fluor Intercontinental, Inc.	100.0000	California
III Dominican Republic Combined Cycle, LLC	49.0000	Delaware
III Fluor Daniel Brasil, Ltda.	0.0017	Brazil
III Fluor Daniel Nigeria Limited	60.0000	Nigeria
III Fluor Iran	9.8000	Iran
III Fluor Middle East, LLC	100.00	Delaware
IV FluorAMEC, LLC	51.00	Delaware
IV FluorAMEC Enterprises, LLC	51.00	Delaware
III Grupo Alvica SCS	79.9200	Venezuela
III J. A. Jones International, LLC	100.0000	Delaware
III NWKC LLC	50.0000	Delaware
II Fluor International Limited	100.0000	Bermuda
II Fluor International Limited	100.0000	England
III Aptech Fluor Daniel (Private) Limited	50.0000	Zimbabwe
III Arctic Pacific Contractors (UK) Limited	50.0000	England
III ASI Advanced Solutions International BV	95.0000	Netherlands
IV ASI Consulting UK Limited	100.0000	England
IV ASI International Services Limited	100.0000	England
III Citylink Telecommunications Holdings Limited	18.0000	England
IV Citylink Telecommunications Limited	100.0000	England
III Fluor Caspian Services Limited	100.0000	England
III Fluor Industrial Services Limited	100.0000	England
IV Team-Sel International Limited	99.9999	England
V Fluor Industrial Support Services Limited	99.9950	England
VI TA Engineering Services (Tunisia)		

Limited	100.0000	England
III Fluor Industrial Support Services Limited	0.0050	England
III Fluor Limited	100.0000	England
III Fluor Ocean Services Limited	100.0000	England
III KDPC Limited	50.0000	England
III MerseyTram Link Limited	100.0000	England
III Offshore Renewable Energy Alliance Limited	100.0000	England
III PFD (UK) Limited	50.0000	England
III Team-Sel International Limited	0.0001	England
IV Fluor Industrial Support Services Limited	99.9950	England
IV TA Engineering Services (Tunisia) Limited	100.0000	England
III TRS Management Resources Limited	100.0000	England
IV Ambit Technology Limited	100.0000	England
IV Hotel Accounts Resources Limited	100.0000	England
IV MRG Human Resources Limited	100.0000	England

6

SUBSIDIARY NAME -----	PERCENT HOLDING -----	ORGANIZED UNDER LAWS OF -----
IV SAP Services Limited	100.0000	England
IV Times Computer Services Limited	100.0000	England
IV Times Group Limited	100.0000	England
IV TRS Management Resources (Services) Ltd.	100.0000	England
V David Chorley Associates Limited	100.0000	England
III TRS Staffing Solutions (U.K.) Limited	100.0000	England
II Fluor International, Inc.	100.0000	California
III Fluor Mideast Limited	100.0000	California
II Fluor Iran	70.6000	Iran
II Fluor Ireland Limited	100.0000	Ireland
III Fluor Daniel - E-E-L Limited	50.0000	Ireland
II Fluor Maintenance Services, Inc.	100.0000	California
III Norfolk Maintenance Corporation	100.0000	California
II Fluor Mideast Limited	100.0000	Bermuda
II Fluor NE, Inc.	100.0000	Arizona
III ADP Marshall Contractors, Inc.	100.0000	Delaware
III ADP Marshall Limited	100.0000	Ireland
III ADF/FD of Nevada, Inc.	100.0000	Nevada
III M&W/Marshall, a Joint Venture	50.0000	Oregon
II Fluor Nuclear Services, Inc.	100.0000	Ohio
II Fluor Plant Services International, Inc.	100.0000	California
II Fluor Properties Limited	100.0000	England
II Fluor Real Estate Services, Inc.	100.0000	Delaware
II Fluor Reinsurance Investments, Inc.	100.0000	Delaware
III International Insurance Advisors, Inc.	10.7672	Delaware
III International Insurance Investors, L.P.	10.7672	Bermuda
II Fluor Services International, Inc.	100.0000	Nevada
II Fluor Technical Services Limited	100.0000	California
II Fluor Texas, Inc.	100.0000	Texas
II Fluor US Services, Inc.	100.0000	Delaware
II Fluor Virginia, Inc.	100.0000	Delaware
II FMC Holding Company LLC	100.0000	Delaware
III Fluor Management Company L.P.	20.5277	Delaware
II FRES, Inc.	100.0000	Delaware
II Fru-Con/Fluor Daniel Joint Venture	50.0000	Missouri
II Indo-Mauritian Affiliates Limited	100.0000	Mauritius
III Fluor Daniel India Private Limited	20.0000	India
II Lone Star Infrastructure, LLC	45.0000	Delaware
II Lone Star Infrastructure, Joint Venture	45.0000	Texas
II Micogen Limited III, Inc.	100.0000	California
III Claiborne Fuels, L.P.	99.0000	Delaware
III Louisiana Energy Services, L.P.	10.2659	Delaware
II Middle East Fluor	100.0000	California
II Nutmeg Valley Resources, Inc.	100.0000	California
II Plant Performance Services International Ltd	100.0000	Bermuda
III Fluor International Nigeria Limited	60.0000	Nigeria
II Plant Performance Services LLC	100.0000	Delaware
III Plant Performance Services, Inc.	100.0000	California
III P2S, LLC	100.0000	Delaware
II Platte River Constructors, Ltd.	49.0000	Ohio
II Saddleback Constructors	27.0000	Delaware
II Signet Technology Inc.	100.0000	Colorado
II Soli-Flo LLC	25.0000	Delaware
III Soli-Flo, Inc.	100.0000	California
IV Soli-Flo Material Transfer, L.P.	1.0000	California
IV Soli-Flo Partners, L.P.	1.0000	California

7

SUBSIDIARY NAME -----	PERCENT HOLDING -----	ORGANIZED UNDER LAWS OF -----
II Soli-Flo Material Transfer, L.P.	24.7500	California
II Soli-Flo Partners, L.P.	24.7500	California
II Stanhope Management Services Limited	100.0000	England
II Strategic Organizational Systems Enterprises, Inc.	100.0000	California

III Strategic Organizational Systems Environmental Engineering Division, Inc.	100.0000	Texas
II TDF, Inc.	100.0000	California
III Barringford Ltd.	100.0000	B. Virgin Isles
IV Bishopsford Engineering AG	100.0000	Switzerland
IV Fluor Daniel Engineers SA (PTY) Limited	100.0000	Liechtenstein
V Trans-Africa Projects Ltd.	50.0000	Mauritius
V Trans-Africa Projects (Pty) Ltd.	50.0000	R. South Africa
IV Fluor SA (Pty) Limited	100.0000	Liechtenstein
V Fluor Global Plant Services (Proprietary) Ltd.	100.0000	R. South Africa
V Rhus Investments (PTY) Ltd.	100.0000	R. South Africa
IV TRS Staffing Solutions SA (Pty) Ltd.	100.0000	B. Virgin Isles
III Fluor Properties (PTY) Ltd.	100.0000	R. South Africa
II Valley Corridor Constructors	30.0000	Colorado
II Valley Infrastructure Group, LLC	40.0000	Delaware
II Venezco, Inc.	100.0000	California
II Williams Brothers Engineering Company	100.0000	Delaware
III Fluor Daniel Argentina, Inc.	100.0000	Delaware
III Williams Brothers Engineering Limited	100.0000	England
III Williams Brothers Engineering Pty Ltd	100.0000	Australia
III Williams Brothers Process Services, Inc.	100.0000	Delaware
II WODECO Nigeria Limited	60.0000	Nigeria
I FLUOR HOLDING COMPANY LLC	100.0000	Delaware
II Compania Mineria San Jose Del Peru S.A.	99.0000	Peru
II Fluor Management Company L.P.	33.4047	Delaware
II Global Builders Insurance Ltd.	100.0000	Bermuda
II Mineral Resource Development Corporation	100.0000	Delaware
III Compania Mineria San Jose Del Peru S.A.	1.0000	Peru
III St. Joe ErzbergbauGesellschaft GmbH	16.6667	Austria
III St. Joe Minerals Corporation y Cia.	0.0125	Brazil
II Pinnacle Insurance Company, Inc.	100.0000	Hawaii
II Robil International Corporation	100.0000	Delaware
II St. Joe Egypt Exploracion Corp.	100.0000	Delaware
II St. Joe ErzbergbauGesellschaft GmbH	83.3333	Austria
II St. Joe Exploracion Minera, Inc.	100.0000	Delaware
II St. Joe Luisito de Oro, Inc.	100.0000	Delaware
II St. Joe Minerals Corporation y Cia.	99.9875	Brazil
I TRS STAFFING SOLUTIONS, INC.	100.0000	South Carolina
II TRS International Group, S. de. R.L. de C.V.	99.9046	Mexico
II TRS International Payroll Co.	100.0000	Texas
II TRS Staffing Solutions Caribbean, Inc.	100.0000	Puerto Rico

(1) Does not include certain subsidiaries which if considered in the aggregate as a single subsidiary, would not constitute a significant subsidiary

CONSENT OF INDEPENDENT AUDITORS

We consent to the incorporation by reference in the Registration Statement (Form S-8 No. 333-52992) pertaining to the Fluor Corporation 2000 Executive Performance Incentive Plan and the Fluor Corporation 2000 Restricted Stock Plan for Non-Employee Directors, the Registration Statement (Form S-8 No. 333-63868) pertaining to the Fluor Daniel Craft Employees 401(k) Retirement Plan, the Registration Statement (Form S-8 No. 333-63870) pertaining to Fluor Corporation Salaried Employees' Savings Investment Plan, the Registration Statement (Form S-8 No. 333-63872) pertaining to TRS 401(k) Retirement Plan, the Registration Statement (Form S-8 No. 333-63858) pertaining to AMECO and Subsidiaries Salaried Employees 401(k) Retirement Plan, the Registration Statement (Form S-8 No. 333-63860) pertaining to DMIS, Inc. Nissan Maintenance Project Retirement & Savings Plan, the Registration Statement (Form S-8 No. 333-63862) pertaining to Fluor Corporation Employees' Performance Plan, the Registration Statement (Form S-8 No. 333-63864) pertaining to TRS Salaried Employees' 401(k) Retirement Plan, the Registration Statement (Form S-8 No. 333-67000) pertaining to 2001 Key Employee Performance Incentive Plan, the Registration Statement (Form S-8 No. 333-84790) pertaining to the Fluor Executive Deferred Compensation Program, the Registration Statement (Form S-8 No. 333-105308) pertaining to the Fluor Corporation 2003 Executive Performance Incentive Plan, and the Registration Statement (Form S-8 No. 333-105309) pertaining to the Fluor Corporation Deferred Directors' Fees Program of our report dated January 28, 2004 (except for the Financing Arrangements and Lease Obligations notes, as to which the date is February 27, 2004), with respect to the consolidated financial statements of Fluor Corporation included in the Annual Report (Form 10-K) for the year ended December 31, 2003.

Ernst & Young LLP

Orange County, California
March 12, 2004

FLUOR CORPORATION
CERTIFICATION PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Alan L. Boeckmann, certify that:

1. I have reviewed this annual report on Form 10-K of Fluor Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures at the end of the period covered by this report based on such evaluation; and
 - c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) fourth fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

By: /s/ ALAN L. BOECKMANN

Alan L. Boeckmann,
Chairman of the Board and
Chief Executive Officer

Date: March 15, 2004

Date: March 15, 2004

- the Annual Report of the Company on Form 10-K for the period ended December 31, 2003 fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934; and
- the information contained in such report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Alan L. Boeckmann,
*Chairman of the Board and
Chief Executive Officer*

D. Michael Steuert,
Senior Vice President
and Chief Financial Officer

* A signed original of this written statement required by Section 906 has been provided to Fluor Corporation and will be retained by Fluor Corporation and furnished to the Securities and Exchange Commission or its staff upon request.