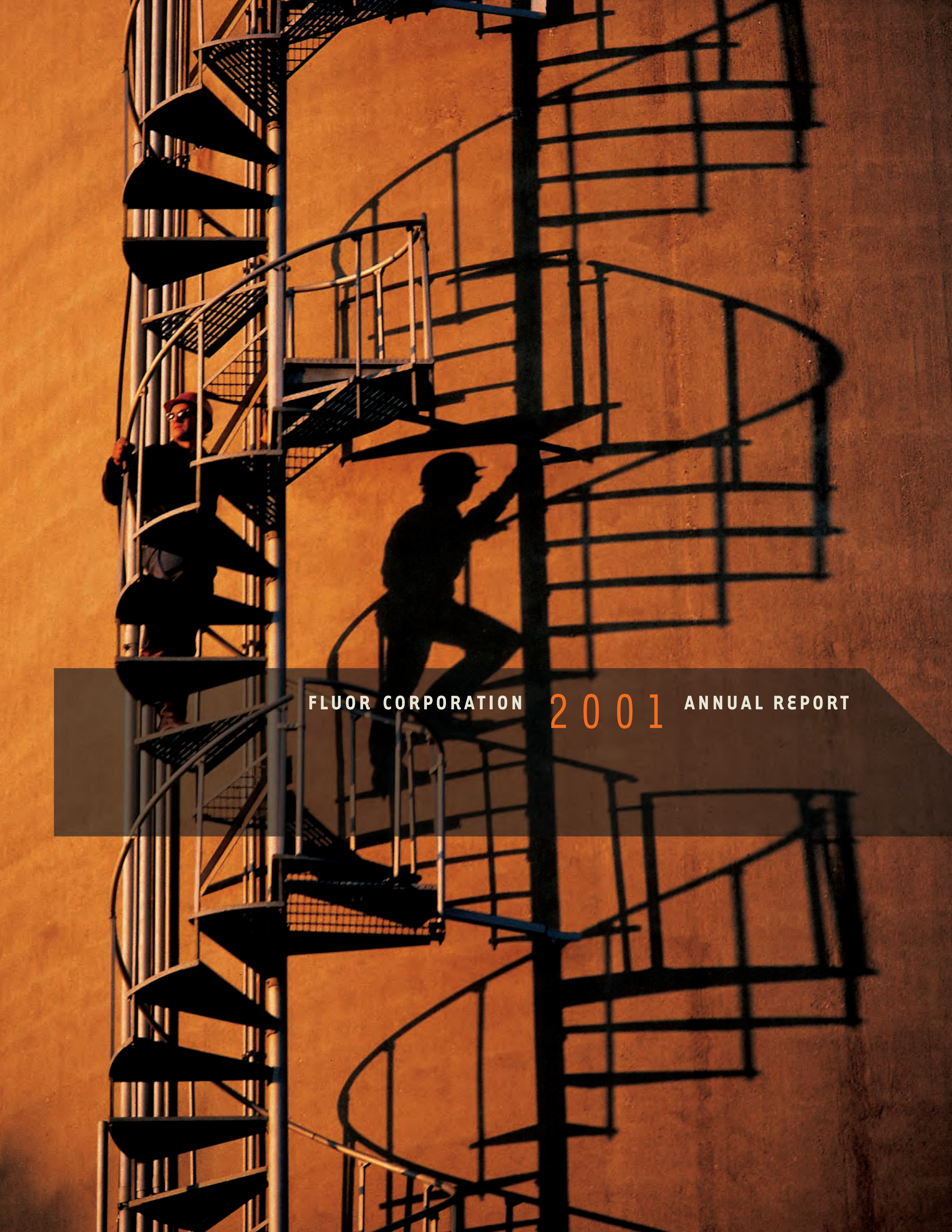


FLUOR CORPORATION 2001 ANNUAL REPORT

FINANCIAL HIGHLIGHTS

Year Ended	December 31, 2001	October 31, 2000	Percent Change
(in thousands, except per share amounts)			
Revenues	$ 8,972,161	$ 9,422,879	-5
Earnings from continuing operations	127,766	116,273	10
Earnings (loss) from discontinued operations	(108,356)	7,676	NM
Net earnings	19,410	123,949	-84
Diluted earnings (loss) per share			
Continuing operations	1.61	1.52	6
Discontinued operations	(1.36)	0.10	NM
Net earnings	0.25	1.62	-85
Return on average shareholders' equity	2.6%	7.7%	—
Capital expenditures—continuing operations	$ 148,426	$ 156,174	-5
New awards	10,766,600	9,644,200	12
Backlog	11,505,500	10,012,000	15
Cash dividends per common share	0.64	1.00	-36

At Period End	December 31, 2001	December 31, 2000	Percent Change
(in thousands, except per share amounts)			
Working capital	$ 39,909	$ (373,404)	NM
Total assets	3,091,162	2,700,561	14
Capitalization			
Short-term debt	38,442	227,585	-83
Long-term debt	17,594	17,576	—
Shareholders' equity	789,266	633,077	25
Total capitalization	$ 845,302	$ 878,238	-4
Total debt as a percent of total capitalization	6.6%	27.9%	—
Shareholders' equity per common share	$ 9.85	$ 8.49	16
Closing stock price	37.40	33.06	13
Salaried employees	21,140	20,315	4
Craft/hourly employees	30,173	27,876	8
Total employees	51,313	48,191	6

NM — Not meaningful

As discussed in the first footnote to the accompanying financial statements, on November 30, 2000 the shareholders approved a spin-off that separated the company into two publicly traded companies – a "new" Fluor and Massey Energy Company. In September 2001, the company adopted a plan to dispose of certain non-core construction equipment and temporary staffing businesses. The net assets and the 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.

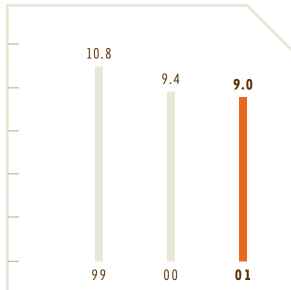
Note: The information contained in this annual report contains forward-looking statements regarding projected earning and margin levels for the calendar year 2002, market outlook, new awards, backlog levels, competition, the adequacy of funds to service debt and the implementation of new strategic initiatives. These forward-looking statements reflect the company's current analysis of existing information as of the date of this annual report. As a result, caution must be exercised in relying on forward-looking statements. Due to unknown risks, the company's actual results may differ materially from our expectations or projections. The factors potentially contributing to such differences include, among others:

- Changes in global business, economic, political and social conditions;
- The company's failure to receive anticipated new contract awards;
- Customer cancellations of, or scope adjustments to, existing contracts;
- The cyclical nature of many of the markets we serve and their vulnerability to downturns;
- Difficulties or delays incurred in the execution of construction contracts resulting in cost overruns or liabilities;
- Customer delays or defaults in making payments;
- Difficulties and delays incurred in the implementation of strategic initiatives;
- Risks and impacts resulting from the company's reverse spin-off transaction consummated November 30, 2000 involving Massey Energy Company;
- The impact of past and future environmental, health and safety regulations and lawsuits; and
- Competition in the global engineering, procurement and construction industry.

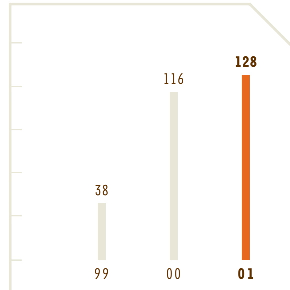
The forward-looking statements are also based on various operating assumptions regarding, among other things, overhead costs and employment levels that may not be realized. In addition, while most risks affect only future costs or revenues that the company anticipates it will receive, some risks may relate to accruals that have already been reflected in earnings. The company's failure to receive payments of these accrued earnings could result in charges against future earnings.

Additional information concerning factors that may influence the company's results can be found in its press releases and periodic filings with the Securities and Exchange Commission including the discussion under the heading "Item 1. Business-Other Matters-Company Business Risks" in the company's 10-K filed March 21, 2002. These filings are available publicly and upon request from Fluor's Investor Relations Department: (949) 349-3909. The company disclaims any intent or obligation to update its forward-looking statements.

REVENUES FROM CONTINUING OPERATIONS
(dollars in billions)

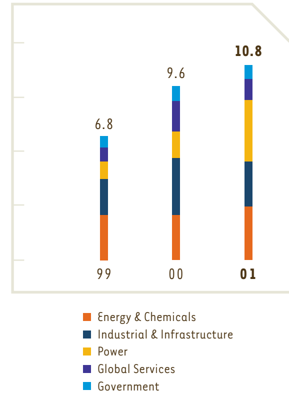


EARNINGS FROM CONTINUING OPERATIONS*
(dollars in millions)

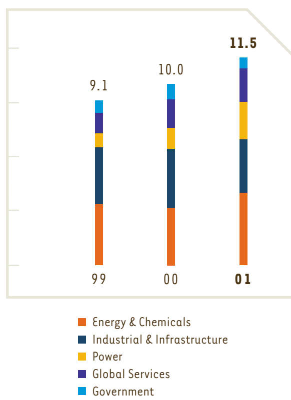


*Includes special provision of $101 million after tax recorded during 1999 and an $18 million after tax reversal recorded during 2000.

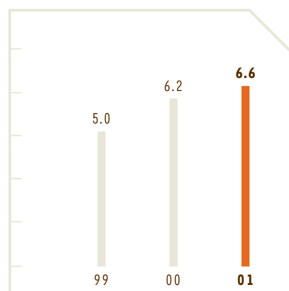
CONSOLIDATED NEW AWARDS
(dollars in billions)



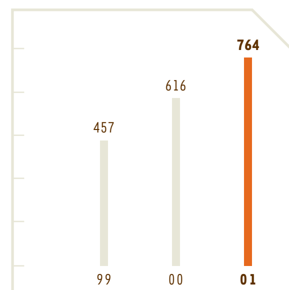
CONSOLIDATED BACKLOG
(dollars in billions)



CONSOLIDATED BACKLOG GROSS MARGIN %
(in percent)



CONSOLIDATED BACKLOG GROSS MARGIN $
(dollars in millions)



FLUOR CORPORATION 2001 ANNUAL REPORT

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Fluor Corporation is one of the world's largest, publicly owned engineering, procurement, construction and maintenance companies. Our exceptional record of dependability, expertise and safety distinguishes us in the industries we serve.

Our focus is to add value to each customer's business in ways that are important to that customer. We solve the problems — from the routine to the extraordinary. In the tradition of history's master builders, we design, execute and maintain the infrastructures that support progress and expansion of civilization.

ALAN L. BOECKMANN

DEAR FELLOW SHAREHOLDERS

OUTSTANDING PROGRESS HAS BEEN MADE OVER THE PAST TWO YEARS IN STRENGTHENING FLUOR'S BUSINESS OPERATIONS AND ESTABLISHING A SOLID FOUNDATION FOR EARNINGS GROWTH AND CREATION OF SHAREHOLDER VALUE. DURING 2001, WE INITIATED THE STRATEGIC ACTIONS TO COMPLETE OUR EXIT FROM NON-CORE BUSINESSES AND REFOCUS THE COMPANY ON STRENGTHENING NEW BUSINESS OPPORTUNITIES WITHIN OUR CORE COMPETENCIES OF ENGINEERING, PROCUREMENT, CONSTRUCTION AND MAINTENANCE, OR EPCM AS WE CALL IT.

Importantly, the market for engineering and construction services is in the early stages of a long-term upcycle. We firmly believe that our capabilities and experience position us better than any other competitor to capitalize on this major investment cycle that is just now getting underway.

In December, I was extremely honored to be appointed by the Board to the position of Chairman and Chief Executive Officer, effective February 6, 2002, succeeding Philip J. Carroll, Jr., who is retiring. We are grateful to Phil for his significant contributions in repositioning the company for improved future performance.

Importantly, the transition to the next generation of leadership throughout the company has been accomplished, our financial strength is excellent and our strategic focus is clear. I am looking forward with great enthusiasm to leading our highly capable management team and talented global work force in achieving the kind of performance that will make Fluor the undeniable leader in the global building and services marketplace as well as a superior investment for shareholders.

FINANCIAL PERFORMANCE

Fluor's financial performance in 2001 provides solid evidence that we are beginning to achieve our goal to deliver sustainable long-term earnings growth. Earnings from continuing operations, excluding unusual items, increased 23 percent to $143.0 million, or $1.81 per share, compared with earnings from continuing operations of $116.3 million, or $1.52 per share in fiscal 2000. New awards and backlog, which are leading indicators of future performance, also posted encouraging growth. New awards increased 12 percent to $10.8 billion for the year, while backlog grew 15 percent to $11.5 billion. Importantly, backlog gross margin increased to $764 million or 6.6 percent, a 24 percent increase in backlog gross margin compared with a year ago.

Despite these accomplishments and the positive investor reaction to the strategic actions taken, Fluor's stock price experienced significant volatility during the year. Highly optimistic investor sentiment early in 2001, fueled in large part by expectations for an extremely robust power market, was replaced with increasing pessimism in the latter half of the year. This was primarily due to growing concerns over slowing economic conditions that were exacerbated by the tragic events of September 11. Investor fears were then further heightened by the financial collapse of Enron, a major power producer, and its negative implications on the outlook for the power market, which was an area of strength for Fluor and others in our industry during the year.

Fluor's market diversity has long been a key strength in reducing the impact from the cyclical nature of individual markets and enhancing consistency of performance. We are optimistic about our business prospects and believe that an expected market rotation to a robust oil and gas market, continuing strength in life sciences, along with the beginning of a recovery in certain economically sensitive markets as the year progresses, will offset the softening outlook for power.

In fact, we remain convinced that the market for Fluor's EPCM services is in the early stages of a long-term capital investment cycle that will continue to unfold over the next three to five years. These market opportunities will be characterized by large, complex projects where few competitors can match Fluor's capabilities and experience. No one is better positioned to take full advantage of the expanding business opportunities that we see over the next several years. As a result, we believe that we are better positioned than ever before to deliver increasing shareholder value through strong earnings growth with high returns on capital.

STRATEGIC DIRECTION

With the successful reverse spin-off of Massey Coal completed at the end of 2000, we entered 2001 as a "new" Fluor. Building on our great heritage and strong brand reputation, we began the process of realigning our organization as a single, highly focused company to ensure that we were leveraging our resources to optimally capitalize on the growing momentum in our markets. As the year progressed, we worked to further refine our strategic plan and firmly establish the company's direction for the next several years.

Based on the continued strength in the outlook for our core business, we took action to reduce investments in higher-risk new ventures and exit non-strategic businesses. These actions improved the outlook for future earnings growth and cash flow with an immaterial impact to revenues. Importantly, these actions allowed additional resources to be refocused on the increasing growth opportunities within our core EPCM competencies.

As a result of this decision, Fluor recognized an after-tax loss in 2001 from discontinued operations of $108.6 million, or $1.36 per share, for disposal of non-strategic businesses. Included in this provision, which reduces to current fair value the assets being divested, were the AMECO® dealership operations and the non-EPCM portions of Fluor's temporary staffing business. Also included were provisions to exit certain AMECO markets in South America, as well as GlobEquip, a web-based business established to sell surplus heavy equipment.

Elimination of these non-core activities has now freed us to fully concentrate on what we do best — engineering, procurement, construction and maintenance services. With these final strategic actions behind us, our restructuring effort is now complete. As 2001 came to a close, we completed an internal realignment of our operations, consistent with achievement of the company's business objectives and financial performance goals. As a result, Fluor is now organized as five operating business segments, each with clear performance accountability. These segments are: Energy & Chemicals, Industrial & Infrastructure, Power, Global Services and Government Services.

Having clearly established our strategic direction, our corporate strategy going forward has four key elements — focus, portfolio management, selectivity and differentiation, as follows:

- Fluor will *focus* its people and financial resources on growing its differentiated offering to increase margins and market share within its core area of EPCM competency.
- Fluor will employ a *portfolio management* strategy within the EPCM market to optimize growth, diversify risk and minimize cyclicality.
- Fluor will *selectively* pursue only those opportunities that meet specific profit, risk and resource criteria.
- Fluor will *differentiate* its EPCM services by being the best in the world at dependability, expertise and safety.

We have extraordinary people and the best tools and processes in the EPCM business. Combined with sound strategies and our strong balance sheet, they enable us to leverage our strong position for new business opportunities. As we move into 2002, we must build on this positive momentum to grow Fluor in a disciplined manner to benefit all of our stakeholders.

FINANCIAL CONDITION

Fluor's financial condition continues to be exceptionally strong, with minimal debt and $573 million in cash and securities at year-end.

Fluor has maintained its strong "A" investment-grade credit rating and enjoys the strongest financial position of any publicly traded company in our industry. Fluor's financial strength is an increasingly important competitive advantage and ensures our ability to secure letters of credit and bonding capability critical to executing major projects for our clients.

OTHER MANAGEMENT CHANGES

In May, we were pleased to welcome D. Michael Steuert as senior vice president and chief financial officer. Mike joins us from Litton Industries where he served as senior vice president and chief financial officer.

In another management change, vice chairman Jim Stein retired from Fluor and its board of directors, effective January 2, 2002. We are grateful to Jim for the many contributions he made during his nearly 40-year career at Fluor. Jim provided great leadership in the variety of executive positions he held during his long tenure, and we wish him the best in his retirement.

ACKNOWLEDGEMENTS

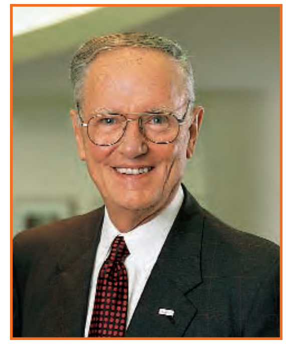
Congratulations are again in order to Fluor's employees for another outstanding year of safety performance. Safety remains a core value at Fluor and is a clear competitive differentiator. Fluor completed 2001 with an all-time record low of lost workdays, delivering safety performance during the year that was 66 times better than the national industry average.

Continuing its 50-year tradition of helping communities in need, the Fluor Foundation, along with Fluor employees around the world, donated both time and money to assist victims of the September 11 tragedy, along with a variety of other charitable giving throughout the year. In addition to Fluor employee contributions, the Fluor Foundation has contributed more than $90 million to education, community and cultural organizations throughout the world, since its creation in 1952.

I would like to thank our board of directors and employees for their outstanding contributions during the year. Their efforts were key to delivering improved financial performance and repositioning the company to ensure our resources and management attention are focused on the opportunities to create the greatest value for our shareholders.

Lastly, let me extend my appreciation to our shareholders for their support and confidence in our company and its future. I am confident that Fluor has never been in a better position to deliver increasing shareholder value than it is today. I am truly excited about realizing our corporate vision to be the preeminent leader in the global building services marketplace based on our differentiated ability to deliver dependability, expertise, and safety performance to our customers.

Alan L. Boeckmann,
Chairman and Chief Executive Officer
March 12, 2002



PHILIP J. CARROLL, JR.
FORMER CHAIRMAN AND
CHIEF EXECUTIVE OFFICER
FLUOR CORPORATION

CHAIRMAN AND CEO PHIL CARROLL RETIRES

Phil Carroll, who joined Fluor in 1998 as Chairman and CEO, retired on February 6, 2002. The company and its board of directors are grateful to Phil for his significant contributions. He accomplished what he came to do and was instrumental in redirecting the company's strategy and increasing its focus on clients. He led the separation of Massey Coal from Fluor, creating significant value for shareholders of both companies. Fluor's improved financial performance is a result of his emphasis on fiscal discipline and focus on serving select clients for whom Fluor can deliver value. His work on succession planning and development of the next generation of management has ensured that the organization, its strategic focus and its leadership are well aligned to achieve Fluor's business objectives and financial goals. Phil's leadership during his tenure significantly contributed to positioning the company to deliver the kind of performance that will make Fluor an undeniable leader in the global building and services marketplace and a superior investment for shareholders.

FLUOR AT-A-GLANCE 2001

Over the past century, Fluor has become a trusted global business leader by providing exceptional expertise and technical knowledge across every phase of a customer's project. Consistently rated as one of the world's safest contractors, Fluor develops, executes, and maintains capital projects on schedule, within budget, and with operational excellence through its global work force of more than 50,000 in a network that reaches more than 25 countries on six continents.

Fluor will focus both its people and financial resources on growing its differentiated offerings to increase margins and market share within its area of core competency – the engineering, procurement, construction, and maintenance business.

At Fluor, our employees have a passion to build – we come from a legacy of master builders.

Purpose: We exist today to build and sustain the global community and create value for our stakeholders.

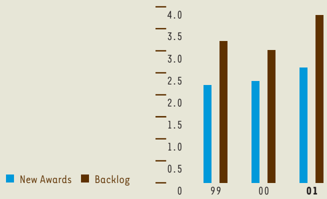
Vision: We aspire to be the preeminent leader in the global building and services marketplace by delivering world-class solutions.

Objectives: We must meet certain objectives to our shareholders, customers, employees, and communities to attain our vision.

Values: We behave and act with safety, integrity, teamwork, and excellence, which is inherent in everything we do.

Guiding Principles: We will continue to build upon principles that guide our actions – customers, people, knowledge, risk, accountability, and value.

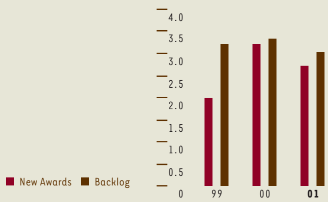
Energy & Chemicals (dollars in billions)



Markets Served
- Chemicals & Petrochemicals
- Gas Processing
- Oil & Gas Production
- Petroleum Refining
- Offshore Services
- Pipelines

Sample Clients
BASF, Bayer, BP, ChevronTexaco, Conoco, Dow, DuPont, Eastman Kodak, ExxonMobil, Pemex, Phillips Petroleum, Shell, Suncor Energy, Syncrude

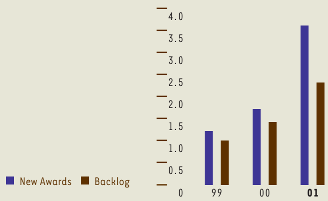
Industrial & Infrastructure (dollars in billions)



Markets Served
- Mining
- Manufacturing & Life Sciences
  - Biotechnology
  - Pharmaceuticals
  - Microelectronics
  - Consumer Products
- Commercial & Institutional
- Transportation
- Telecommunications

Sample Clients
Amgen, Astra Zeneca, BHP Billiton, Biogen, DeBeers, Eli Lilly, Frito-Lay, IBM, Intel, London Underground, Merck, Minera Escondida, Newmont Mining, Pfizer, Procter & Gamble, Rio Tinto Plc, Ritz-Carlton, Wyeth

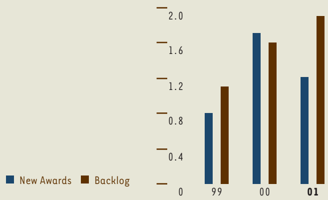
Power (dollars in billions)



Markets Served
- Fossil Fuels
- Cogeneration

Sample Clients
Duke Energy, FPL Energy, Panda Energy, Primary Energy, PSEG Global, Reliant Energy, SCE&G, Sempra

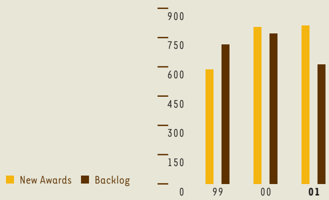
Global Services (dollars in billions)



Markets Served
- Operations & Maintenance
- Equipment
- Temporary Staffing
- Procurement

Sample Clients
AK Steel, Entergy, IBM, Kennecott, Nissan, Phillips Petroleum, TXU, Williams Group International

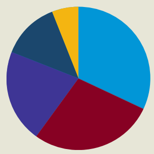
Government Services (dollars in millions)



Markets Served
- Energy
- Military & Defense
- Disaster Relief

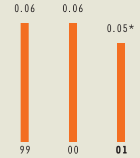
Sample Clients
Federal Emergency Management Agency (FEMA), United States Army, United States Department of Defense, United States Department of Energy, United States Navy

Operating Profit by Segment



- Energy & Chemicals 31%
- Industrial & Infrastructure 28%
- Power 21%
- Global Services 14%
- Government Services 6%

Fluor Safety Performance



* 66 times better than the national industry average

Consolidated Backlog by Region

- United States 65%
- Canada 11%
- Europe 11%
- Latin America 8%
- Middle East 2%
- Africa 1%
- Australia 1%
- Asia Pacific 1%

OPERATIONS REPORT

FLUOR'S OPERATING BUSINESSES DELIVERED SIGNIFICANTLY IMPROVED FINANCIAL PERFORMANCE IN 2001. OPERATING PROFITS ROSE 27 PERCENT TO $353 MILLION COMPARED WITH $279 MILLION IN FISCAL 2000, WHICH INCLUDED A PROVISION OF $60 MILLION FOR A PROJECT COST OVERRUN. REVENUES FROM CONTINUING OPERATIONS DECLINED TO $9 BILLION, COMPARED WITH $9.4 BILLION LAST YEAR. THIS REVENUE DECLINE REFLECTS FLUOR'S INCREASED SELECTIVITY AND A MIX CHANGE TO MORE ENGINEERING CONTENT. IN ADDITION, REPORTED REVENUES AND PROFITS TEND TO LAG THE TREND IN BACKLOG, WHICH ENCOURAGINGLY RESUMED GROWTH DURING 2001. AS A RESULT, REVENUES BEGAN TO SHOW A SEQUENTIAL INCREASE IN THE LAST QUARTER OF THE YEAR, AND THIS TREND IS EXPECTED TO CONTINUE.

New project awards increased 12 percent in 2001 to $10.8 billion, while backlog grew 15 percent to $11.5 billion. Importantly, gross margin in backlog increased 24 percent to $764 million, or 6.6 percent, from $616 million, or 6.2 percent in fiscal 2000.

At the end of the year, Fluor Corporation completed an internal realignment of its operations, consistent with achievement of the company's business objectives and financial performance goals. As a result, Fluor is now organized as five operating business segments, each with clear performance accountability. These segments are: Energy & Chemicals, Industrial & Infrastructure, Power, Global Services and Government Services.

ENERGY & CHEMICALS

Fluor's Energy & Chemicals business segment posted strong earnings growth in 2001, with operating profit increasing 29 percent to $110 million. New awards grew 15 percent to $2.6 billion, while backlog rose 29 percent to $3.8 billion.

The Energy & Chemicals group provides a full scope of differentiated engineering and construction services to a broad spectrum of energy-related industries, ranging from upstream oil and gas production to downstream processing in the refinery, petrochemical and chemical markets.

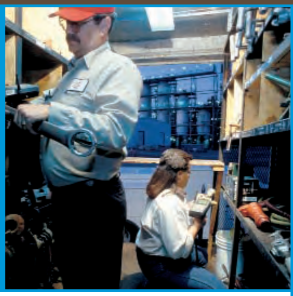
Economic factors, geopolitical considerations and environmentally driven regulations are converging to drive significant potential investment over the next several years in the global energy and chemical markets. Fluor's experience, expertise and global reach position the company extremely well for significant growth in this key market.

During 2001, Fluor was engaged in front-end engineering for a number of major upstream programs for the production of new oil and gas resources being developed around the world. While the terrorist attacks in September exacerbated a global economic downturn that dampened near-term energy demand and pricing, the size and complexity of these major capital programs cause global energy producers to design and execute their strategic investment plans based on a long-term view.

Energy demand is expected to grow steadily over the next five to ten years, particularly in a number of emerging economies. In addition, geopolitical developments have stimulated renewed focus on issues of energy independence and geographic diversity of supply. As a result, capital spending by major energy producers is increasingly concentrated on discovery and expansion of known reserves which tend to be located in difficult and remote environments. Fluor's capability and experience in executing projects in geographically challenging locations offer significant opportunity to provide differentiated value to clients.

Fluor has been performing front-end engineering for several of these large, multi-year upstream development programs which are located in such diverse areas as the Caspian Sea region, eastern Russia, west Africa and southeast Asia, as well as the Middle East. Fluor has also performed preliminary study work for the proposed Alaska Natural Gas Pipeline.

Quality execution and engineering innovation highlight Fluor's contribution to successful implementation of Phillips Petroleum's breakthrough S Zorb gasoline desulfurizing technology. The integrated project team demonstrated a passion to build this first-of-a-kind facility, located in Borger, Texas, which was accomplished in the near-record time of 18 months from concept to completion. ▲



Since 1995, AMECO has provided complete outsourcing for construction equipment, tools and vehicles to the Phillips Borger Refinery. AMECO acquired Phillips' construction equipment fleet and signed a five-year contract to provide a fully maintained equipment program on site. In early 2001, Phillips extended the contract with a five-year renewal. ▲ ▶

▲ Fluor recently completed Europe's first facility for the production of ultra-clean motor fuels for Ruhr Oel GmbH, Germany's largest refining company. Fluor provided EPC services for Auto Oil Program II, which utilizes Prime-G process technology at its new gasoline desulfurization plant in Gelsenkirchen, Germany.

Significant expansion of petrochemical capacity is also being planned in China to meet the increasing demand and to support continued economic growth and development of its industrial infrastructure.

Fluor's experience and strong technological expertise is also a key value differentiator in the active downstream refining market for clean fuels projects. Mandated by new environmental regulations, refiners in North America and Europe are making significant investments to produce cleaner-burning transport fuels. These projects involve complex process issues to determine the most cost-effective approach to meet the more stringent environmental requirements, along with other modifications to optimize the facility's overall product slate and throughput.

Since the feedstock used at refineries varies, as well as the range of products produced to meet differing regional market needs, a significant study effort is required at the outset of each project to develop the optimum solution and create the greatest value for clients. Fluor completed a number of these front-end studies during 2001. These projects are now moving into the full EPC implementation phase, which is expected to continue throughout the coming year.

Converging market forces of long-term demand growth supporting upstream reserve development, monetization of gas for alternative energy solutions and feedstocks to the petrochemical industry, and environmentally driven regulations in the transport fuels market, uniquely engage all aspects of Fluor's Energy & Chemicals business on a concurrent basis.

In the Middle East, there is an increasing focus to monetize abundant and inexpensive natural gas resources to fuel growing demand for power and produce greater value-added products in order to diversify and expand the region's economic base. As a result, several large petrochemical projects, which process natural gas into the basic building blocks for a variety of chemicals and plastics, are under development.

One of the largest construction projects underway in Alberta, Suncor Energy's CDN$3.4 billion Project Millennium, provided Fluor its smoothest operations startup in the petroleum refining industry. This massive expansion effort, now complete and in production, is expected to increase Suncor's oils sands production to 225,000 barrels per day, nearly doubling its current production level. ▼

ICA Fluor partnered with Stork Engineers & Contractors B.V. to assist Pemex Gas and Basic Petrochemicals with implementation of a sulfur reduction program in the southeast area of Mexico. The program included construction and revamping of multiple units in four different regions. The task force incorporated the best resources of Fluor and ICA Fluor with technical support from Stork and key client management and technical personnel. With this program Pemex achieved a 98.5 percent sulfur recovery, with tail gas treatment considerably reducing emissions to the atmosphere including a significant positive impact on the environment. ▼

▲ In a first-of-its-kind arrangement, the Saudi Industrial Venture Capital Group and Arabian Chevron Petrochemical Company Limited formed a limited liability partnership, Saudi Chevron Petrochemical, for world scale manufacture of benzene and cyclohexane. Fluor performed the front-end engineering and program management for the $650 million grassroots petrochemical project in Saudi Arabia, as well as the detailed EPCM for the off-plot facilities. The project was completed under schedule and recognized nationally for safety excellence.

▲ In 1997, Fluor began EPCM services for Eastman Kodak's program of projects in China. As part of Kodak's $1 billion investment, Fluor constructed three projects in different locations — two retrofit projects and a grassroots facility located on a 100-acre site in Xiamen. With the plant now in full production, and with a peak construction force in excess of 5,000 craftsmen, the project did not experience a single lost-time accident in 22 million work hours. The project team met the challenge of making this program a cornerstone for Kodak and Fluor's future success in China.

INDUSTRIAL & INFRASTRUCTURE

Fluor's Industrial & Infrastructure business segment serves five broad market areas: manufacturing and life sciences; commercial and institutional; mining and minerals; telecommunications; and, transportation. Operating profit in 2001 for Industrial & Infrastructure declined 16 percent to $97 million, primarily due to a significant downturn in the telecommunications industry and the effects of softening economic conditions on certain of the more economically sensitive segments of this market. New awards for Industrial & Infrastructure were $2.6 billion, a decline of 21 percent from the previous year. As a result, backlog decreased 11 percent to $3.0 billion from $3.3 billion in fiscal 2000.

Strong growth in the life sciences market during 2001, helped offset the negative impact of softening economic conditions and the global downturn in the technology sector on Fluor's work levels in the industrial and microelectronics manufacturing markets.

A long-time leader in serving the biotechnology industry, Fluor has leveraged its expertise and technical skills to establish a leading position in pharmaceuticals as well, and has now established strong relationships with leading companies across the entire life sciences market.

In addition to the expertise required for large-scale pharmaceutical manufacturing facilities, Fluor expanded its services to include assistance in the validation process. The pipeline of new and increasingly complex compounds seeking FDA approval is currently at record levels. This is driving strong growth in demand for Fluor's validation services, which are highly technical and critical to the licensing of new drugs. Additionally, successful commercial development of biological products has led to a significant increase in the size of biotechnology manufacturing facilities, where Fluor dominates.

During the year, Fluor expanded its geographic scope in the global life sciences market and is now working on projects in the U.K., Ireland and Europe, in addition to its strong continuing presence in North America and Puerto Rico.

Despite a significant decline in 2001 capital spending by the microelectronics manufacturing industry due primarily to excess capacity, Fluor continues to maintain strong relationships and perform work for major customers in this global market. Early indications of a recovery suggest renewed capital investment by the microelectronics industry beginning in the latter half of 2002.

Building on its strong market position in microelectronics, Fluor strengthened its technical capabilities to enhance productivity and add new product lines to existing facilities. Importantly, Fluor's specialized capabilities in this market have positioned it at the forefront for implementing 300 millimeter next-generation technology which is poised to replace the current 200 millimeter manufacturing capability.

In the more economically sensitive industrial and consumer products manufacturing sector, Fluor is highly focused on its core customers. While activity levels declined during 2001, Fluor's focus is on maintaining its strong client relationships and responding to their smaller capital program needs.

During 2001, Fluor selectively increased its focus on growing opportunities within the commercial and institutional facilities market. Fluor's significant capabilities, experience and expertise provide a strong competitive position in the market for highly technical facilities such as teaching and research laboratories, often associated with higher educational institutions or government facilities. These sophisticated laboratory facilities require specialized technical skills such as expertise in clean room environments and biohazardous facilities.

Fluor has a demonstrated track record of experience in these types of specialized technical capabilities that are also frequently required in its work on life sciences and microelectronics manufacturing facilities.

Fluor is also selectively pursuing large-scale commercial opportunities where its experience, relationships or execution capabilities provide a competitive advantage. For example, Fluor was awarded construction management services for the new Orange County Performing Arts Center in California, and has also recently won contracts for two major five-star destination resort hotels in the Caribbean.

Although slowing economic conditions during 2001 delayed the expected upturn in the global mining industry, Fluor continued to focus on strengthening its competitive position. The consolidation of major mining companies into fewer, but healthier organizations continued to shape the global mining industry. Fluor has strong relationships with several of the mining companies that have emerged as the leaders in the newly consolidated firms.

Importantly, this industry consolidation has also led to closer working alliances with mining contractors. For example, during 2001, Fluor was awarded a global services agreement with Newmont Mining, now the largest gold producer in the world. Other potential long-term service agreements are under negotiation with additional mining industry clients.

Although activity levels in the mining industry remained modest during the year, the improving financial health of the industry, along with significant study work during 2001, strongly supports an expected recovery in capital investment in the coming year. In anticipation of this market upturn, Fluor has been selectively strengthening its technical resources with world-class talent in targeted market areas. Key target markets include copper in South America, iron ore in Australia and oil sands in Canada.

During the year, Fluor was awarded a key project for a diamond treatment facility by DeBeers, the world's largest diamond producer. Fluor's success in winning this project in South Africa represents important progress in penetrating a new, targeted market area and positions the company for future work in a geographic region where significant mining activity is anticipated.

Market conditions in the telecommunications industry turned down swiftly and dramatically in early 2001. Benefiting from the company's diversity of end markets served, Fluor was able to react quickly and shift a significant portion of its resources to other currently attractive markets, while selectively focusing on remaining opportunities with key telecom clients.

Despite the current downturn, the telecommunications industry remains a large, global market opportunity longer-term. Importantly, Fluor is now a well-recognized service provider, having demonstrated the effectiveness of its program management and technical capabilities in addressing the complex logistics required for multiple site telecommunications network installations. Although significant past investment has created overcapacity in many existing fiber optic networks, the connection to the final consumer is still required in many cases before telecommunications companies can improve the return on their investment. Fluor is selectively focusing on these opportunities to help targeted customers complete this final necessary step, referred to within the industry as "the last mile."

Additionally, Fluor also continues to selectively pursue active telecommunications prospects in the U.K. and Ireland where it has an established presence and can draw upon existing expertise and resources. Similarly, Fluor has signed an alliance agreement with Nortel and is currently assisting them with a network buildout in Canada.

Biogen's landmark multi-product facility, one of the largest biotech manufacturing facilities in the world, was completed in record time with Fluor providing total project services. Encompassing 250,000 square feet in Raleigh, North Carolina, the facility is setting new standards in the biotech industry for production cost efficiency, flexible multi-product operations, and modular design and construction. This project also significantly contributed to Fluor's achievement of four million work hours without a single lost-time incident in North Carolina. This milestone, encompassing projects for a number of clients, was recognized with the state's highest safety award. ▼ ▶

To facilitate the production of D2E7, a breakthrough product for the treatment of arthritis, Fluor delivered this $35 million expansion, including an 8,000 square-foot warehouse addition, for Abbott Bioresearch Center. The 37,000 square-foot manufacturing facility was retrofitted into an existing shell, with Fluor providing multiple levels of engineering services, including process engineering for cell culture, harvest and purification. ▼

Fluor led the financing, design and construction of the $324 million, 8.8-mile Route 895 Connector for the Virginia Department of Transporta-tion. Route 895 is the first capital project under the Commonwealth of Virginia Public-Private Transportation Act of 1995 that utilizes innovative financing of projects on which private developers and the state collaborate. The design-build project has two parallel high-level bridges crossing I-95 and the James River.

Fluor engaged in a public-private partnership (PPP) with the South Carolina Department of Transportation (SCDOT) as part of a massive road systems expansion effort. By entering into the first large-scale PPP in the U.S. to expedite road projects, the SCDOT plans to complete 200 construction projects in seven years. This accelerated program has put South Carolina in the fast lane, with the SCDOT and Fluor making a reality of projects that were on the state's wish list as long as 30 years ago.

Fluor leads the Infraspeed consortium that the Dutch government selected to design, build, finance, and maintain for a 25-year concession. With top speeds of 185 mph, the HSL-Zuid project will be the first high-speed rail connection between Amsterdam and the Belgian border. It is also the largest public-private partnership contract ever awarded by the Dutch government. When completed in 2006, the train will be a key development of the Trans-European Rail Network.

Opportunities for transportation projects, which utilize Fluor's unique skills in this market and fit its project selectivity criteria, continue to expand. Fluor's demonstrated track record of successful projects over the past several years, applying the innovative public/private partnership (PPP) business model, has firmly established the company as a major participant in this growth market.

Fluor specializes in the development, financing, design/build and program management of large, complex transportation projects. Targeted opportunities are principally major road projects in the U.S. and rail projects in the U.K. and Europe.

In the U.S., increased federal and state funding, along with growing political resolve to address much needed improvements and upgrades in the country's transportation infrastructure, has created attractive opportunities for Fluor. Serving as overall managing partner, a Fluor-led team was awarded the Legacy Parkway project in 2001, a $330 million limited-access highway in the greater Salt Lake City area.

Employing the PPP approach, another Fluor-led team secured project financing clearing the way to proceed with a high-speed rail project in The Netherlands. This landmark project, demonstrating successful use of the PPP business model to accelerate the development process of a major project, is the first of its kind in the European Union. The success of this approach has attracted significant interest by several other countries in the region to address their transportation upgrade requirements.

With an estimated £100+ billion of required upgrades to its rail system, the U.K. market represents a particularly significant opportunity for Fluor. Through its work on existing contracts with Britain's Railtrack and other activities in the U.K., Fluor has established a strong presence and important relationships in this target market.

POWER

Fluor's power business is primarily conducted through Duke/Fluor Daniel (D/FD), a 50/50 partnership, which capitalized on an extremely robust U.S. market in 2001. The company also executes power projects in Mexico and Central America through its joint-venture ICA Fluor. New power awards for the year were a record $3.6 billion, with backlog rising to an all-time high of $2.3 billion. Deregulation of the U.S. power industry combined with strong demand growth fueled significant investment in new power generation facilities. Operating profit for Fluor's power business improved significantly in 2001 to $74 million. This compares with essentially breakeven operating performance in fiscal 2000, which included a provision of $60 million for a project cost overrun.

As the end of 2001 approached, a variety of factors converged to significantly moderate the expected continuing pace of new power project awards. Softening wholesale electricity prices, the impact of weakened economic conditions, warmer-than-normal temperatures and the financial collapse of a major energy producer which damaged investor confidence, all had a negative impact on the ability of many merchant power developers to secure further financing for their projects.

Duke/Fluor Daniel (D/FD) met Texas Independent Energy's aggressive schedule and budget targets for the Guadalupe Power Project, one of the cleanest power plants in Texas, by working on a fast-track basis with commercial operation beginning in less than 18 months. D/FD provided complete turnkey EPC and start-up services for the 1,000-megawatt combined-cycle electric generation facility. ▲

◀ ▲ Duke/Fluor Daniel created a collaborative relationship with Liberty Electric Power, LLC to provide EPC services that met Liberty's criteria for a state-of-the-art, gas-fired, combined-cycle electric generating plant in Pennsylvania. This reliable and highly efficient facility was created with an equipment configuration to provide maximum flexibility for effective operations in the largest and most sophisticated, centrally dispatched electric control area in North America, servicing more than 23 million people.

Despite a reduced outlook for overall capital commitments to additional generating capacity, Fluor continues to see further opportunities for new power projects. While many of the leading developers of new power projects have been merchant energy companies whose ability to raise capital has been impaired, many of Fluor's power customers have tended to be the larger, more well funded development arms of integrated energy companies. These power producers, whose credit ratings and access to capital remain strong, are tending to view the current market situation as an opportunity to maximize their power generation portfolios.

While increased generating capacity currently under construction is expected to meet current demand in certain U.S. regional markets, additional capacity requirements are still needed in others, particularly in the western states. In addition, the dynamics of a deregulated U.S. power market are causing power producers to increasingly focus on the overall cost efficiency of their total generating capacity. As a result, a number of power producers are planning continued additions of new, cost-effective generating facilities that will replace older, more costly plants that are scheduled to be retired.

As the U.S. market moderates for new power projects, many of Fluor's power clients are positioning for power development opportunities in the international market. Fluor's power business is well positioned to move with these clients, drawing upon the company's global resources and experience outside the U.S.

Maintaining its focus on selectivity, Fluor's power business has established a growing presence in Europe and Australia and is poised to enter selected Latin American markets through an alliance agreement with a key client. Fluor's ability to expand seamlessly into the international market provides value to its clients and extends its ability to capitalize on a larger and longer-term market opportunity than many of its U.S.-based competitors.

GLOBAL SERVICES

Fluor's Global Services business segment brings together a variety of customized service capabilities that complement Fluor's core engineering and construction businesses and which capitalize on the continued growth trend of the outsourcing market. Markets served in the Global Services business are equipment and asset management solutions, maintenance services, temporary staffing services, and procurement services.

Operating profit for the Global Services business segment in 2001 declined to $50 million, compared with $63 million a year ago. The decline was primarily due to an unusual slowdown in the demand for maintenance services in the second half of the year.

AMECO, a full-service construction and industrial equipment business, is a leading provider of construction equipment site services and fleet outsourcing solutions for Fluor projects and its clients, as well as third-party industrial customers and contractors. Site Services[sm] provides a comprehensive equipment, tool and service program for construction sites and maintenance projects. AMECO's Fleet Outsourcing[sm] delivers differentiated value to industrial customers by offering more efficient and economical solutions to their equipment and fleet management needs and allowing them to focus on their core businesses.

As a result of Fluor's decision in 2001 to discontinue AMECO's U.S. dealership operations, AMECO realigned its marketing strategies and work processes during the year to enhance its focus and value proposition in its continuing business activities. By leveraging its extensive construction experience, AMECO Site Services is able to create added value through a customized bundle of services that optimizes craft and asset productivity and produces a total best value package, including flexible and innovative commercial terms.

This approach not only delivers differentiated value, but is also responsive to customers' increasing preference to consolidate vendors and have sole-source delivery of their equipment, tool and indirect material services.

In addition to the favorable business outlook for increasing Fluor project opportunities, AMECO is also pursuing additional growth prospects with third-party customers. AMECO is focused on selective opportunities to work with new customers who are looking for an integrated approach that meets their equipment services needs and delivers the total best value package. During the year, AMECO was awarded a renewable five-year contract with Williams Group, a major construction contractor in the eastern United States, to serve as the primary equipment, tool and site services provider.

AMECO's Fleet Outsourcing business targets expanding growth opportunities by capitalizing on the continuing trend by customers of outsourcing non-core functions. Typically, AMECO acquires an industrial customer's equipment fleet and associated personnel and then provides a comprehensive package of equipment and services designed to meet the customer's precise needs. Because AMECO has the ability to better leverage the assets and increase their utilization across a broader range of clients and markets, it is able to reduce overall costs for the customer, while providing increased flexibility by shifting a large fixed cost into a variable expense.

AMECO provides these Site Services and Fleet Outsourcing solutions with a strong focus on safety, which achieved industry-leading performance in 2001 with an all-time record low for OSHA recordable cases during the year.

Fluor provides high quality, value-based operations and maintenance (O&M) services to assist clients in reducing their O&M costs and improving operating efficiencies, to enhance the overall performance of their plant assets.

Services are provided globally, primarily focused on targeted industries and geographic regions that leverage Fluor's existing presence and client relationships and offer the most attractive opportunities for profitable growth. Targeted geographic regions include North America, Australia, Europe, and southeast Asia. Currently Fluor is focused on providing operations and maintenance services to the targeted industries of fossil and nuclear power, oil and gas, chemicals and metals. An additional area of emphasis and opportunity is expansion of facility management services to general manufacturing and commercial facilities in North America.

Fluor continues to benefit from the market trend to outsource operations and maintenance services as companies focus on their core competencies. To capitalize on the market's outsourcing growth potential and increase market share, Fluor selectively pursues client opportunities where the company can differentiate its services through value-based performance incentives. For example, following completion of a formal opportunity assessment process to determine potential cost savings and asset productivity improvement, a contract is structured wherein Fluor shares in the cost savings achieved through work process improvements that drive overall plant efficiency. Fluor's performance metrics include safety, client satisfaction, equipment availability and overall plant performance. Building on these value-based offerings, Fluor continually migrates up the clients' value chain by increasing the scope of responsibilities and services provided to expand the potential value added.

Consistent with its strategy of selectivity, the O&M sales effort is targeting opportunities that leverage Fluor's EPC client relationships. The objective is to achieve a seamless transition from the completion of an EPC project to the provision of ongoing O&M services once the facility begins operations.

A "follow the customer" strategy is utilized to selectively expand into new geographic areas where significant EPC project activity offers attractive O&M opportunities. To optimize the growth potential of these targeted marketing strategies, the O&M sales force has been reorganized by region to facilitate a focus on selling the full scope of Fluor's O&M and facility management services to targeted regions.

During 2001, Fluor restructured its temporary staffing business, consistent with the company's strategy to refocus its resources on strengthening opportunities within its core EPCM markets. As part of the company's action to exit non-strategic businesses, Fluor discontinued the non-EPCM portions of TRS Staffing Solutions and is pursuing the sale of these units.

As a result, TRS is again concentrating its focus on the growing opportunities within the global EPCM market. With its strong industry expertise, a large database of qualified people, and a well-established franchise, TRS is in an excellent position to capitalize on increasing project activity within Fluor, as well as opportunities outside the company.

During 2001, Fluor continued the development of a global procurement strategy, including a significant investment to enhance its global strategic sourcing and supply chain management capability. Procurement is a core competency of Fluor and is an integral component in delivering value to clients.

A discrete sourcing strategy was implemented during the year that capitalizes on Fluor's expertise in leveraging the company's global purchasing power on key indirect and capital goods categories. This results in pricing and scheduling benefits that enhance Fluor's competitive position. Additionally, these services can also be provided on a stand-alone basis to clients who are outsourcing their procurement function.

◀ ▼ Building on a 17-year alliance, Fluor provides services to more than 20 different facilities for TXU through its Operations & Maintenance (O&M) group and AMECO by providing program management, maintenance, equipment and tool solutions. One of the largest maintenance contracts in the utility industry, Fluor's O&M site team reached five million safe work hours during 2001 without a lost-time injury at TXU's Comanche Peak Nuclear Station – a milestone never before reached on a commercial nuclear maintenance and modification contract. Through work process improvements in the areas of equipment and tools, AMECO has been instrumental in dramatically reducing emergency outage response time from 48 to four hours.

Fernald is a 36-acre clean-up project of a former Cold War production area where uranium metal products for the nation's defense program were produced for nearly four decades. As part of the decontamination process at the former Metals Production Plant 5, Fluor Fernald's personnel, under contract with the U.S. Department of Energy (DOE), use power washers to clean the interior of the building before removing the exterior panels. As of December 2001, 99 of Fernald's 273 structures have been removed, including Plant 5, and all demolition is on track to be completed in 2004. During 2001, Fluor Fernald achieved 10 million safe work hours without a lost work day case and was awarded the DOE's Voluntary Protection Program STAR Status. ◄ ▼

Following extensive rioting and civil unrest in East Timor, Indonesia, Fluor provided logistics support for the construction of an airfield with helicopter facilities and associated administrative structures and living quarters for the U.S. Army Materials Command's Logistics Civil Augmentation Program. Over a period of four months, Fluor successfully mobilized the needed personnel, materials, and equipment to this remote site, demonstrating Fluor's rapid deployment, integrated logistics, and engineering support capabilities. ▼

▲ Fluor's Government Services has mobilized multi-disciplinary teams of professionals in support of FEMA recovery operations for disasters and emergencies including earthquakes, hurricanes, flooding, tornadoes, snow emergencies, and terrorist attacks. Fluor responded to FEMA's call for assistance on New York's World Trade Center, the largest emergency work disaster in FEMA history, with a team of professionals including public assistance coordinators, debris specialists, estimators, training specialists, and both technical and administrative resources.

GOVERNMENT SERVICES

Fluor's Government Services is a leading service provider to the federal market. While continuing to pursue new opportunities within the Department of Energy (DOE) where it is well established, the company is also executing a strategy to expand its penetration in the broader federal marketplace.

Operating profit for Fluor's Government Services business increased 37 percent to $22 million compared with fiscal 2000. New awards of $806 million were slightly ahead of the $800 million recorded a year ago. Due to Fluor's change to a calendar year in 2001, the annual funding for the two major DOE projects was booked into backlog during the third quarter of the year compared to the fourth quarter in fiscal 2000. As a result, backlog for Government Services at the end of 2001 reflected the work-off that occurred during the fourth quarter, producing a decline in backlog to $608 million, from $765 million at the end of fiscal 2000.

Fluor has built a highly successful track record of performance on its two principal contracts with the DOE to provide environmental remediation at former nuclear weapons sites at Hanford, Washington and Fernald, Ohio. With the award of multi-year renewals last year on both these projects, Fluor's Government Services business is now targeting further opportunities to provide site management services at additional DOE operating facilities.

Through expansion and increased penetration of the Department of Defense (DOD) and the Federal Agency marketplace, Fluor has the opportunity to participate in a larger, long-term market that offers sustainable, non-cyclical growth potential. To capitalize on these additional opportunities, Fluor is executing a strategy that leverages its commercial best practices and experience in this attractive market.

A key element of this strategy is establishing relationships with the major defense contractors to form integrated teams for new programs. For example, Fluor is currently teamed with Raytheon to provide services to the DOD for chemical threat reduction in the former Soviet Union.

Another attractive opportunity being targeted within the federal services market is with the Department of State (DOS) for renovation of embassies and consulates around the world due to increased security requirements. Since these renovations are to be funded through new budget allocations, this represents substantial new growth opportunity.

Fluor is also working to leverage its government contracting experience, systems and sales organization to capitalize on opportunities that utilize other Fluor capabilities and services not currently being provided to the federal government. For example, other possible market opportunities include new government facilities that could leverage Fluor's commercial and institutional facilities knowledge and experience.

FLUOR CONSTRUCTORS INTERNATIONAL

Fluor Constructors International, Inc. (FCII) is the union craft arm of Fluor Corporation, providing construction management and direct-hire construction expertise in support of Fluor's operating businesses in North America. Additionally, FCII supports the staffing of international construction projects and has employees working around the world.

FCII has executed projects in virtually every business sector, performing stand-alone construction and providing maintenance services to clients in the United States and Canada. The company has served a diverse range of government agencies as well. FCII is one of only a few construction and maintenance contractors to be ISO-9002 certified.

OPERATING STATISTICS

NEW AWARDS BY SEGMENT

Year ended	December 31, 2001 Dollars	Percent	October 31, 2000 Dollars	Percent	October 31, 1999 Dollars	Percent
(in millions)						
Energy & Chemicals	$ 2,585	24%	$ 2,253	24%	$ 2,209	33%
Industrial & Infrastructure	2,572	24%	3,252	34%	2,040	29%
Power	3,582	33%	1,669	17%	1,154	17%
Global Services	1,222	11%	1,670	17%	804	12%
Government Services	806	8%	800	8%	582	9%
Total new awards	$10,767	100%	$ 9,644	100%	$ 6,789	100%
New awards gross margin	$ 754	7.0%	$ 666	6.9%	$ 500	7.4%

NEW AWARDS BY REGION

Year ended	December 31, 2001 Dollars	Percent	October 31, 2000 Dollars	Percent	October 31, 1999 Dollars	Percent
(in millions)						
United States	$ 8,248	77%	$ 5,944	62%	$ 4,195	62%
Asia Pacific (includes Australia)	182	2%	597	6%	415	6%
Europe, Africa, and Middle East	1,026	9%	803	8%	870	13%
Americas	1,311	12%	2,300	24%	1,309	19%
Total new awards	$10,767	100%	$ 9,644	100%	$ 6,789	100%

BACKLOG BY SEGMENT

Year ended	December 31, 2001 Dollars	Percent	October 31, 2000 Dollars	Percent	October 31, 1999 Dollars	Percent
(in millions)						
Energy & Chemicals	$ 3,823	33%	$ 2,971	30%	$ 3,173	35%
Industrial & Infrastructure	2,959	26%	3,320	33%	3,170	35%
Power	2,256	20%	1,365	13%	952	10%
Global Services	1,860	16%	1,591	16%	1,137	12%
Government Services	608	5%	765	8%	710	8%
Total backlog	$11,506	100%	$10,012	100%	$ 9,142	100%
Backlog gross margin	$ 764	6.6%	$ 616	6.2%	$ 457	5.0%

BACKLOG BY REGION

Year ended	December 31, 2001 Dollars	Percent	October 31, 2000 Dollars	Percent	October 31, 1999 Dollars	Percent
(in millions)						
United States	$ 7,515	65%	$ 5,680	57%	$ 5,008	55%
Asia Pacific (includes Australia)	219	2%	683	7%	998	11%
Europe, Africa, and Middle East	1,625	14%	861	8%	1,074	12%
Americas	2,147	19%	2,788	28%	2,062	22%
Total backlog	$11,506	100%	$10,012	100%	$ 9,142	100%

OPERATING STATISTICS

Year ended	December 31, 2001	October 31, 2000	October 31, 1999
(in millions)			
Revenues			
Energy & Chemicals	$2,529	$3,251	$ 4,075
Industrial & Infrastructure	2,115	2,903	3,841
Power	2,476	1,325	934
Global Services	1,017	1,196	1,079
Government Services	813	722	757
Corporate and other	22	26	66
Total revenues	$8,972	$9,423	$10,752
Operating profit			
Energy & Chemicals	$ 110	$ 85	$ 122
Industrial & Infrastructure	97	115	3
Power	74	—	41
Global Services	50	63	100
Government Services	22	16	15
Total operating profit	$ 353	$ 279	$ 281
Salaried employees	21,140	20,315	24,243

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SELECTED FINANCIAL DATA

	Year Ended December 31,	Year Ended October 31,				Two Months Ended December 31,	
	2001	2000	1999	1998	1997	2000	1999
(in millions, except per share amounts)							
CONSOLIDATED OPERATING RESULTS							
Revenues	$ 8,972.2	$ 9,422.9	$10,752.3	$11,857.8	$12,889.0	$1,782.0	$1,627.5
Earnings (loss) from continuing operations before taxes	185.3	164.3	88.7	193.8	99.0	(7.2)	22.3
Earnings (loss) from continuing operations	127.8	116.3	38.2	117.9	37.7	(4.1)	15.4
Earnings (loss) from discontinued operations	(108.4)	7.7	66.0	117.4	108.5	0.1	12.4
Net earnings (loss)	19.4	124.0	104.2	235.3	146.2	(4.0)	27.8
Basic earnings (loss) per share							
Continuing operations	1.64	1.55	0.51	1.50	0.45	(0.05)	0.21
Discontinued operations	(1.39)	0.10	0.87	1.49	1.31	—	0.16
Net earnings (loss)	0.25	1.65	1.38	2.99	1.76	(0.05)	0.37
Diluted earnings (loss) per share							
Continuing operations	1.61	1.52	0.50	1.49	0.45	(0.05)	0.20
Discontinued operations	(1.36)	0.10	0.87	1.48	1.30	—	0.16
Net earnings (loss)	$ 0.25	$ 1.62	$ 1.37	$ 2.97	$ 1.75	$ (0.05)	$ 0.36
Return on average shareholders' equity	2.6%	7.7%	6.8%	14.5%	8.7%	(3.8)%	5.2%
Cash dividends per common share	$ 0.64	$ 1.00	$ 0.80	$ 0.80	$ 0.76	$ —	$ —
CONSOLIDATED FINANCIAL POSITION							
Current assets	$ 1,851.3	$ 1,318.3	$ 1,391.1	$ 1,841.2	$ 1,822.4	$1,230.7	$1,249.8
Current liabilities	1,811.4	1,570.3	1,834.2	2,156.8	1,667.8	1,604.1	1,925.7
Working capital	39.9	(252.0)	(443.1)	(315.6)	154.6	(373.4)	(675.9)
Property, plant and equipment, net	508.1	570.8	514.7	513.0	544.3	573.0	528.8
Total assets	3,091.2	4,958.4	4,886.1	5,019.2	4,865.3	2,700.6	4,998.9
Capitalization							
Short-term debt*	38.4	88.7	20.7	200.2	26.9	227.6	92.8
Long-term debt	17.6	17.6	17.5	—	—	17.6	17.6
Shareholders' equity	789.3	1,609.2	1,581.4	1,525.6	1,741.1	633.1	1,614.0
Total capitalization	$ 845.3	$ 1,715.5	$ 1,619.7	$ 1,725.8	$ 1,768.0	$ 878.3	$1,724.4
Total debt as a percent of total capitalization	6.6%	6.2%	2.4%	11.6%	1.5%	27.9%	6.4%
Shareholders' equity per common share	$ 9.85	$ 21.25	$ 20.80	$ 20.19	$ 20.79	$ 8.49	$ 21.11
Common shares outstanding at period end	80.1	75.7	76.0	75.6	83.7	74.6	76.2
OTHER DATA							
New awards	$10,766.6	$ 9,644.2	$ 6,789.4	$ 9,991.9	$12,122.1	$1,037.1	$1,015.5
Backlog at period end	11,505.5	10,012.2	9,142.0	12,645.3	14,370.0	9,766.7	8,747.5
Capital expenditures—continuing operations	148.4	156.2	140.6	176.1	286.7	29.8	14.4
Cash provided by (used in) operating activities	$ 677.7	$ 193.2	$ 578.3	$ 702.5	$ 328.6	$ (66.6)	$ (0.9)

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

As discussed in the first footnote to the accompanying financial statements, on November 30, 2000 the shareholders approved a spin-off that separated the company into two publicly traded companies - a "new" Fluor and Massey Energy Company. 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 and has presented the above comparative operating results for the two months ended and financial position and other data as of December 31, 2000 and 1999 as a special transition period.

See Management's Discussion and Analysis on pages 23 to 30 and Notes to Consolidated Financial Statements on pages 35 to 48 for information relating to significant items affecting the results of operations.

MANAGEMENT'S DISCUSSION AND ANALYSIS

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: special provision; corporate administrative and general expense; interest expense; interest income; domestic and foreign income taxes; other non-operating income and expense items; and earnings or loss on disposal of discontinued operations.

The company changed to a calendar-year basis of reporting financial results effective January 1, 2001. For comparative purposes, the reported audited consolidated results of operations and cash flows for the 2000 and 1999 annual periods are for the twelve months ended October 31. As a requirement of the change in fiscal year, the company is reporting consolidated results of operations and cash flows for a special transition period for the two months ended December 31, 2000 (audited) compared with the two-months ended December 31, 1999 (unaudited). The comparative audited consolidated balance sheets are as of December 31, 2001 and 2000.

On November 30, 2000, a spin-off distribution to shareholders was effected which separated Fluor Corporation (Fluor) into two publicly traded companies — a "new" Fluor ("new Fluor" or the "company") and Massey Energy Company ("Massey"). The spin-off was accomplished through the distribution of 100% of the common stock of new Fluor to shareholders of existing Fluor. As a result, each existing Fluor shareholder received one share of new Fluor common stock for each share of existing Fluor common stock. Retained existing Fluor shares changed to Massey Energy Company shares. The company received a ruling from the Internal Revenue Service that the spin-off would be tax-free to its shareholders. Commencing December 1, 2000 the financial statements of the company no longer include Massey. Because of the relative significance of the company's operations to Fluor, the company was treated as the "accounting successor" for financial reporting purposes. Accordingly, Massey's results of operations for all periods presented have been reclassified and are presented as discontinued operations. See further discussion of Massey's results of operations below under Discontinued Operations.

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 on-going 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 has been initiated and is expected to be completed by the end of 2002. Management's plans call for these operations to be disposed of by sale of the operating unit or of the related assets

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 will be effective for the company's calendar year 2002. Under the new rules, goodwill will no longer be amortized, but will be subject to annual impairment tests. Application of the non-amortization provisions is expected to result in an increase in earnings from continuing operations of approximately $3.4 million ($0.04 per diluted share) per year. During 2002, the company will perform the first of the required impairment tests of goodwill and indefinite lived intangible assets associated with continuing operations and has not yet determined what the effect such tests will have on its results of operations or financial position. Any impairment charge resulting from these transitional impairment tests will be reflected as the cumulative effect of a change in accounting principle in the first quarter of 2002. The company does not expect the adoption of the statement to have a material impact on the earnings or financial position of the company.

Effective November 1, 2000, the company adopted Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities," (SFAS 133) as amended, which requires that all derivative instruments be reported on the balance sheet at fair value. The adoption of SFAS 133 did not have a material effect on the company's 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 footnotes 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. Management continually evaluates its estimates that are deemed critical to the determination of operating results including project costs (including claims and other contingencies), revenues and the progress of projects toward completion, the operations of engineering and construction partnerships and joint ventures, foreign currency transactions for contract costs and the operations of non-U.S. subsidiaries, and deferred taxes. Estimates are based on information available as of the date of the financial statements and, accordingly, actual results could differ from these estimates.

Management believes the following critical accounting policies affect its more significant judgments and estimates used in the preparation of the consolidated financial statements.

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 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 and labor, 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, 2001, approximately 45 percent of the company's backlog is 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. The company continues to focus on improving operating margins by enhancing selectivity in the projects it pursues, lowering overhead and improving project execution.

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 incurred in excess of the current contract provisions. 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.

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. This method of accounting results in the consolidation of the company's proportional share of venture revenues, costs and operating profits. The most significant application of the proportional consolidation method is in the Power segment. This segment includes Duke/Fluor Daniel and ICA Fluor.

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. Because the company is usually 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. At the November 1, 2000 implementation date and as of December 31, 2001 and 2000, 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 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 exchange rates for currencies in which anticipated future cash payments will be made. The company does not engage in currency speculation.

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, 2001 the company had deferred tax assets of $404 million partially offset by a valuation allowance of $53 million and further reduced by deferred tax liabilities of $74 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 project performance reserves and the net operating loss carryforwards of certain U.S. and non-U.S. subsidiaries. The company evaluates quarterly 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.

RESULTS OF OPERATIONS

At the end of 2001, the company implemented an internal realignment of its operations. As a result, the company is now organized into five business segments: Energy and Chemicals, Industrial and Infrastructure, Power, Global Services and Government Services. The Energy and Chemicals segment provides engineering and construction professional services for the upstream oil and gas production, refining, petrochemical, and specialty and fine chemicals. The Industrial and Infrastructure segment provides engineering and construction professional services for manufacturing and life sciences facilities, commercial and institutional buildings, mining, telecommunication and transportation projects and other facilities. 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, a 49 percent owned joint venture with Grupo ICA, a Mexican company. The Global Services segment includes operations and maintenance, equipment and temporary staffing services and the company's global sourcing and procurement services business. The Government Services segment provides project management services to the United States government.

The results of segment operations as reported herein have been conformed to the organizational alignment discussed above and is presented below on the new basis for all periods.

ENERGY & CHEMICALS Energy and Chemicals had revenues of $2.5 billion for the year ended December 31, 2001 representing a decrease of 22 percent over revenue for the year ended October 31, 2000. Revenue for the 2000 period declined 20 percent over the revenue for the year ended October 31, 1999. These revenue declines reflect the impact of the deferral of capital spending in the chemical and petrochemical industry and the effects of project selectivity. Operating profit margin in the Energy and Chemical segment showed significant improvement in 2001 compared with 2000 and 1999. This improvement to 4.3 percent compared with 2.6 percent in 2000 and 3.0 percent in 1999 is a result of the selectivity of projects undertaken and improved project execution.

New awards in the Energy and Chemicals segment were $2.6 billion in 2001, an improvement of 15 percent over 2000. New awards in 2000 were essentially flat compared with 1999. The 2001 improvement is attributable to increased awards for upstream oil and gas and clean-fuels projects for major oil companies. 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 Energy and Chemicals segment improved to $3.8 billion at December 31, 2001 compared with $3.0 billion and $3.2 billion as of October 31, 2000 and 1999, respectively. The 2001 improvement in backlog reflects the increase in 2001 new awards and lower level of work performed during 2001 due to several projects that are in the early stages of project execution where activity is focused on engineering and project planning.

INDUSTRIAL AND INFRASTRUCTURE The Industrial and Infrastructure segment had revenues of $2.1 billion for the year ended December 31, 2001 representing a decrease of 27 percent from the year ended October 31, 2000. Revenue for the 2000 period declined 24 percent compared with revenue for the year ended October 31, 1999. These declines in revenue reflect the impact of a slowdown in the world economy and the effects of project selectivity. Although operating profit declined 16 percent in 2001, the operating profit margin in the Industrial and Infrastructure segment showed an improvement in 2001 compared with 2000 and 1999. This improvement to 4.6 percent compared with 4.0 percent in 2000 and essentially break-even in 1999 is a result of the selectivity of projects undertaken and improved project execution. Contributing to the poor results in 1999 was a loss on a gold mine project in South America and an $84 million provision for process design problems that arose on the Murrin Murrin Nickel Cobalt project located in Western Australia. The company anticipates recovering a substantial portion of this amount and, accordingly, has recorded $64 million in expected insurance recoveries.

New awards in the Industrial and Infrastructure segment were $2.6 billion in 2001, a decline of 21 percent over 2000. New awards in 2000 improved 59 percent over 1999. The 2001 decline is primarily attributable to decreased awards for telecommunications and mining projects reflecting over capacity and poor commodity pricing in these industries, respectively, and an overall focus on project selectivity. Backlog for the Industrial and Infrastructure segment declined to $3.0 billion at December 31, 2001 compared with $3.3 billion and $3.2 billion as of October 31, 2000 and 1999, respectively. The 2001 decline reflects the decrease in 2001 new awards, the lower level of work performed during 2001 and the cancellation of a telecommunications project that resulted in the removal of $400 million from backlog.

POWER The Power segment had revenues of $2.5 billion for the year ended December 31, 2001 which amounts to an increase of 87 percent over revenue for the year ended October 31, 2000. Revenue for the 2000 period increased 42 percent over revenue for the year ended October 31, 1999. These increases in revenue reflect the impact of a significant increase in demand for power generation. Operating profit margin in the Power segment showed a significant improvement in 2001 compared with 2000. The results for 2000 were significantly impacted by the provision totaling $60 million on a Duke/Fluor Daniel project located in Dearborn, Michigan. The provision represents the company's equal share of the cost overruns on the project that were incurred due to a number of adverse factors, including labor productivity and substantial owner delays and scope of work changes. Operating profit margin was 3.0 percent in 2001 compared with break-even in 2000 primarily due to the Dearborn provision. The operating profit margin in 1999 was 4.4 percent. 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 unrecovered cost overruns due to factors such as material cost and labor productivity variances or schedule delays as experienced on the Dearborn project discussed above.

New awards in the Power segment were $3.6 billion in 2001 representing an increase of 115 percent over 2000. New awards in 2000 improved 45 percent over 1999. The 2001 increase is due to the significant increase in worldwide demand for power generation. It is estimated that Duke/Fluor Daniel was awarded approximately 40 percent of the dollar value of all new power generation projects awarded in the United States in 2001. Backlog for the Power segment increased to $2.3 billion at December 31, 2001 compared with $1.4 billion and $1.0 billion as of October 31, 2000 and 1999, respectively. These increases reflect the substantially higher level of new awards in each of the last two years.

GLOBAL SERVICES The Global Services segment had revenues of $1.0 billion for the year ended December 31, 2001, representing a decrease of 15 percent over revenue for the year ended October 31, 2000. Revenue for the 2000 period was higher by 11 percent compared with revenue for the year ended October 31, 1999. The revenue decline in 2001 primarily reflects the impact of depressed conditions and resulting lower operations and maintenance activity in the manufacturing sector. Operating profit margin in the Global Services segment showed a decline to 4.9 percent from 5.3 percent in 2000 and 9.3 percent in 1999. The decline in 2000 compared with 1999 is primarily attributable to the inclusion of the start-up expenses associated with the e-commerce procurement services business.

New awards in the Global Services segment for operations and maintenance projects were $1.2 billion in 2001, a decline of 27 percent over 2000. The decline in 2001 is primarily attributable to the depressed economic conditions in the manufacturing sector as mentioned above. Backlog for the Global Services segment improved to $1.9 billion at December 31, 2001 compared with $1.6 billion and $1.1 billion as of October 31, 2000 and 1999, respectively. Because of the nature of the services provided by certain operations in the Global Services segment, primarily related to equipment, temporary staffing and procurement services, a significant portion of this segment's activities are not includable in backlog.

GOVERNMENT SERVICES The Government Services segment had revenues of $0.8 billion for the year ended December 31, 2001, representing an increase of 13 percent over revenue for the year ended October 31, 2000. Revenue for the 2000 period was lower by 5 percent compared with revenue for the year ended October 31, 1999. The revenue increase in 2001 reflects higher activity levels on projects being executed for the Department of Energy (DOE). The Government Services segment is providing 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 Government Services improved to 2.7 percent from 2.2 percent in 2000 and 2.0 percent in 1999. This improvement is primarily attributable to improved project execution and realization of performance incentives on the DOE contracts.

These projects are being performed under multi-year contracts that provide for annual funding so new awards for the Government Services segment reflect the annual award of work to be performed over the ensuing 12 months. Backlog for Government Services has remained fairly stable primarily reflecting the work to be performed on the Fernald and Hanford projects.

CORPORATE Corporate administrative and general expenses totaled $167.0 million for the year ended December 31, 2001. This compares with $98.9 million for the year ended October 31, 2000 and $73.1 million for the year ended October 31, 1999. The increase in expense in 2001 is primarily due to stock price driven compensation expense of $23.4 million and $14.9 million for early retirement expenses for the company's Chairman and Chief Executive Officer and its Vice Chairman. In addition, costs for *Knowledge@Work*, the company's Enterprise Resource Management System, were $14.6 million higher in 2001 due to the implementation and deployment of the SAP system component of the overall *Knowledge@Work* project. The increase in corporate general and administrative expense in 2000 compared with 1999 is primarily due to the increase in *Knowledge@Work* costs.

The previously discussed 2001 realignment of the company's segment operations eliminated the Business Services and Other segment, which included the company's shared services operations. These operations are now grouped in corporate administrative and general expense. Prior periods have been reclassified to conform to the 2001 basis of reporting.

Net interest expense was $0.9 million in the year ended December 31, 2001 compared with $14.7 and $2.2 million in the year ended October 31, 2000 and 1999, respectively. The reduction in net interest expense in the 2001 period is primarily due to a reduction in short-term borrowings resulting from the significant cash advances received from clients on projects at Duke/Fluor Daniel. Excess cash from the partnership is proportionally distributed to the partners and is thereby available for general corporate purposes until needed to fund project operations. (See discussion in the Financial Position and Liquidity section of this Management's Discussion and Analysis).

The effective tax rates of the company's continuing operations, exclusive of the special provision were 31.1 percent, 32.8 percent and 32.6 percent, for the years 2001, 2000 and 1999 respectively. The

2001 tax rate reflects the tax benefits from certain tax settlements and the utilization of foreign net operating loss carryforwards. These favorable tax rate variances were partially offset by a decrease in tax benefits attributable to the foreign sales corporation as a result of the continuing migration of engineering activity overseas.

During fiscal 2000, the company recorded a nonrecurring charge of $19.3 million relating to the write-off of certain assets and the loss on the sale of a European-based consulting business.

STRATEGIC REORGANIZATION COSTS In March 1999, the company reorganized its engineering and construction operations and recorded a special provision of $136.5 million to cover direct and other reorganization related costs primarily for personnel, facilities and asset impairment adjustments. In October 1999, $19.3 million of the special provision was reversed into earnings as a result of lower than anticipated severance costs for personnel reductions in certain overseas offices. Overall, the plan was successfully implemented and carried out resulting in the elimination of 5,000 jobs and the exit of certain non-strategic locations and businesses. During 2000, $17.9 million of the special provision was reversed into earnings due to a change in the plan resulting in the decision to retain ownership and remain in the company's current office location in Camberley, U.K. As of December 31, 2001, the remaining unexpended reserve is $3.3 million and primarily relates to non-U.S. personnel costs that will be paid over an extended number of years.

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 temporary staffing businesses. An active program has been initiated to consummate such disposal and is expected to be completed by the end of 2002.

The operating results of the non-core business have been reclassified and are reported as discontinued operations. In addition to the non-core operations, Massey is also reported as discontinued operations for periods prior to the spin-off.

In December 2001, the company sold Stith Equipment, one of the AMECO dealership entities, for cash equal to its carrying value as adjusted at the time the non-core operations were declared for sale.

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

	Year Ended		
(in thousands)	December 31, 2001	October 31, 2000	October 31, 1999
Revenue			
Dealership operations	$ 279,099	$ 321,979	$ 338,734
Other equipment operations	10,153	23,571	22,036
Temporary staffing operations	138,102	201,725	221,300
Massey	—	1,085,833	1,083,030
Total Revenue	$ 427,354	$1,633,108	$1,665,100
Earnings (Loss) from Discontinued Operations:			
Dealership operations	$ 13,569	$ (19,087)	$ 11,241
Other equipment operations	(1,787)	(3,165)	(3,086)
Temporary staffing operations	(9,898)	186	(20,248)
Massey	—	96,115	139,378
Operating profit	1,884	74,049	127,285
Interest expense, net	—	27,857	30,306
Earnings from operations before tax	1,884	46,192	96,979
Provision for taxes	1,632	14,301	30,967
Earnings from discontinued operations	$ 252	$ 31,891	$ 66,012
Loss on disposal before tax	$(139,423)	$ (24,215)	$ —
Tax benefit	(30,815)	—	—
Loss on disposal	$(108,608)	$ (24,215)	$ —

Revenues and results of operations for the equipment and staffing operations have declined each year since 1999 as a result of worsening economic conditions in the markets served by these businesses. The loss in the dealership operations in 2000 was primarily the result of a $21 million provision to adjust accounts receivable and equipment inventory to fair value at one of the dealership locations that is experiencing intense competition in the market it serves.

The loss on disposal in 2001 includes $115.6 million 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.

The $24.2 million loss on disposal in 2000 relates to the cost associated with the spin-off of Massey. These charges include legal, audit and consulting fees, employment agreement settlement costs, debt placement fees and other expenses. The results of operations for Massey includes interest expense based on the actual interest for debt obligations (including the 6.95% Senior Notes and up to $230 million of commercial paper).

FINANCIAL POSITION AND LIQUIDITY

The increase in cash provided by operating activities in 2001 compared with 2000 is primarily due to cash provided by operating assets and liabilities. The largest contributor to cash from operating assets and liabilities in 2001 is the $374.8 million increase in advances from affiliate. These advances represent the company's proportional share of excess cash from Duke/Fluor Daniel that was generated from client advance payments on contracts in progress. The joint venture partners manage all excess cash of Duke/Fluor Daniel through these proportional advances. Such advances contributed $51 million in 2000 and $113 million in 1999 to cash provided by operating activities. Client advances on Duke/Fluor Daniel projects is a normal condition in 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 will be partially funded from these advance payments. Accordingly, the work-off of projects in progress and the expected moderation in new power industry awards in 2002 and beyond could reduce total advances available to the company by as much as $200 million to $300 million (the company's proportional share) ratably over the next 12 months.

Excluding the impact of the advances from Duke/Fluor Daniel, operating assets and liabilities contributed $66 million in 2001 and used $340 million in 2000 and $23 million in 1999 of cash provided by operating activities. The changes in cash provided by operating activities is primarily due to the changes in net operating assets and liabilities associated with engineering and construction activities. 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 utilized by investing activities in 2001 was substantially reduced from the levels in 2000 and 1999 primarily as a result of reduced capital expenditures. The spin-off of Massey and the decision to divest certain equipment operations substantially reduces the company's capital investment requirements. Capital expenditures in 2001 includes expenditures for capital investments in construction equipment of $60 million for continuing operations and $51 million for discontinued operations. Capital expenditure levels were $339 million in 2000 and $364 million in 1999 for discontinued equipment and coal operations. Coal operations were discontinued as a result of the spin-off of Massey on November 30, 2000 so there were no capital expenditures for coal in 2001. On-going investment in the *Knowledge@Work* system, which is now largely completed, resulted in capital expenditures of $62 million in 2001. Capital expenditures for *Knowledge@Work* in 2000 was $67 million, compared with $29 million in 1999. 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.

Investing activities also includes a $63 million contribution to the company's defined retirement cash balance plan. This contribution was made to partially offset lower than expected investment results due to depressed financial markets in 2001 and to maintain full funding of benefits accumulated under the plan. Proceeds from the sale of property, plant and equipment were lower in 2001 than in 2000 and 1999 as reduced turnover of construction equipment at the AMECO dealerships reflected slowing economic conditions over the last two years.

Cash flow from financing activities in 2001 includes significant cash generated from a sale-leaseback transaction and the exercise of stock options. The sale-leaseback of the company's Sugar Land, Texas engineering center generated $127 million in proceeds. Stock option exercises generated $144.6 million in proceeds and resulted in the issuance of 5.6 million shares of company stock. The cash generated from the sale-leaseback, stock option exercises and advances of excess cash from Duke/Fluor Daniel discussed above all substantially contributed to the $550.8 million increase in cash in 2001 and enabled the company to eliminate all outstanding commercial paper borrowings.

Liquidity is currently being 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. The company's outstanding debt consists of only $38.4 million in short-term borrowings and long-term debt of $17.6 million. The company has access to the commercial paper market from which it may borrow up to $350 million which is supported with lines of credit from banks.

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 $930 million in short-term committed and uncommitted lines of credit to support letters of credit. In addition, the company has $121 million in uncommitted lines for general cash management purposes. Letters of credit are provided to clients in the ordinary course of the contracting business in lieu of retention or for performance and completion guarantees on engineering and construction contracts. The company also posts surety bonds to guarantee its performance on contracts.

Commercial commitments outstanding as of December 31, 2001 are summarized below:

Commercial Commitment[1]	Total Amount Committed	Amount of Commitment Expiration Per Period: Under 1 Year	1–3 years	4–5 years	Over 5 years
$ in millions					
Lines of Credit[2]:					
Revolving Credit Facility	$ 38	$ —	$38	$—	$ —
Letters of Credit[3, 4]	299	261	31	1	6
Guarantees	27	4	4	—	19
Surety Bonds	344	332	12	—	—
Total	$708	$597	$85	$1	$25

Notes:

[1] All commercial commitments are unsecured.

[2] Does not include $350 million of unused commercial paper back-up line of credit. There were no amounts outstanding under this line as of December 31, 2001.

[3] Does not include $388.4 million of unused capacity under a $400 million letter of credit facility. This facility provides that default occurs if the company's credit rating falls below investment grade. In that event, the company would be required to post collateral for all outstanding letters of credit.

[4] Does not include other unused lines of $243 million for letters of credit and $121 million for general cash management purposes.

Contractual obligations at December 31, 2001 are summarized below:

Contractual Obligations	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
Operating Leases[1]	340	47	74	36	183
Total	$358	$47	$74	$36	$201

[1] Operating lease commitments are primarily for engineering and project execution office facilities in Sugar Land, Texas, Aliso Viejo, California and Calgary, Canada. The lease agreements in Aliso Viejo and Calgary contain residual value guarantees totaling $110 million.

The company has a common stock buyback program, authorized by the Board of Directors, to purchase shares under certain market conditions. During 2001 the company purchased 39,000 shares of its common stock for a total consideration of $1.4 million and in the year ended October 31, 2000 repurchased 747,000 shares for a total of $23 million. These purchases do not include 1,850,000 shares of its common stock repurchased through the settlement of a forward purchase contract on November 30, 2000 in connection with the spin-off of Massey.

Cash dividends in 2001 amounted to $50.9 million ($0.64 per share) compared with $76 million ($1.00 per share) and $60.7 million ($0.80 per share) in the years ended October 31, 2000 and 1999, respectively. No dividends were paid in the transition period that resulted from the change in fiscal year. The dividends declared in 2001 were adjusted commensurate with the Massey spin-off. This dividend policy is consistent with the dividend policy of Fluor prior to the spin-off of Massey. The payment and level of future cash dividends will be subject to the discretion of the company's board of directors.

The company has on hand and access to sufficient sources of funds to meet its anticipated operating needs. Cash on hand and short- and long-term lines of credit (see Commercial Commitment table above) give the company significant operating liquidity.

Although inflation and the cyclical nature of the industry 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 most contracts. Although the company has taken actions to reduce its dependence on external economic conditions, management is unable to predict with certainty the amount and mix of future business.

FINANCIAL INSTRUMENTS

The company's investment securities carry a floating money market rate of return. Debt instruments carry a fixed rate coupon on the $17.6 million in long-term debt and floating LIBOR rates on the $38 million in bank debt. The company does not currently use derivatives, such as swaps, to alter the interest characteristics of its investment securities or 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 not to engage in currency speculation. At December 31, 2001 and October 31, 2000, 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, 2001 was $10 million and at October 31, 2000 was $71 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. At December 31, 2001, no amounts were accruable under the royalty agreement.

SUPPLEMENTAL DISCUSSION AND ANALYSIS OF TRANSITION PERIOD RESULTS OF OPERATIONS

The company changed its fiscal year to December 31 from October 31 following the spin-off of Massey. As a requirement of the change in fiscal period, the following discussion and analysis covers the two-month transition period ended December 31, 2000 with the two months ended December 31, 1999.

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. Results of operations for the discontinued businesses have been reclassified and are presented as discontinued operations.

Revenues for the two-month period ended December 31, 2000 increased 9 percent compared with the same period of 1999. Net loss from continuing operations for the two-month period ended December 31, 2000 was $4.1 million compared with net earnings of $15.5 million for the same period of 1999. Operating results for the two months ended December 31, 2000 were impacted by an unusual compensation charge totaling $24.0 million after tax. In connection with the reverse spin off of Massey Energy Company, all stock-based compensation plans were adjusted to preserve the value of such plans on the date of the distribution. The charge reflects the impact of the increase in the "new" Fluor stock price from the date of conversion to December 31, 2000.

DISCONTINUED OPERATIONS

The spin-off of Massey was consummated on November 30, 2000. Actual operating results of Massey for the month of November 2000 was a loss of $0.7 million, which was in line with the amount accrued as of October 31, 2000, the company's former fiscal year-end. The results of discontinued operations for the equipment and temporary staffing businesses were essentially break-even in the 2000 period compared with net earnings of $3.2 million in the 1999 period. The decrease is primarily due to depressed economic conditions in the markets served by those operations.

FINANCIAL POSITION AND LIQUIDITY

Cash used by operating activities was $66.6 million during the two-month period ended December 31, 2000, compared with cash used by operating activities of $0.9 million during the same period in 1999. This change is primarily due to the lower level of earnings during the 2000 period, combined with reduced depreciation and amortization following the spin-off of Massey and the payment of costs associated with the transaction during the 2000 period.

Cash utilized by investing activities totaled $18.1 million during the two-month period ended December 31, 2000 compared with $102.1 million during the same period in 1999. The 1999 amount includes $94.8 million of capital expenditures for discontinued operations.

Cash provided by financing activities totaled $37.1 million during the two-month period ended December 31, 2000 compared with $109.0 million for the same period in 1999. During 2000, the company increased its short-term borrowings by $138.9 million, including increases in commercial paper of $132.3 million and notes payable to banks of $6.5 million. On November 30, 2000, prior to the spin-off of Massey, the company settled a forward purchase contract for 1,850,000 shares of common stock entered into in connection with its 1997/1998 share repurchase program for cash of $101.2 million.

CONSOLIDATED STATEMENT OF EARNINGS

(in thousands, except per share amounts)	Year Ended December 31, 2001	Year Ended October 31, 2000	Year Ended October 31, 1999	Two Months Ended December 31, 2000	Two Months Ended December 31, 1999 (unaudited)
TOTAL REVENUES	$8,972,161	$9,422,879	$10,752,285	$1,781,986	$1,627,498
TOTAL COST OF REVENUES	8,618,972	9,162,941	10,471,166	1,740,671	1,588,917
OTHER (INCOME) AND EXPENSES					
Special provision	—	(17,919)	117,200	—	—
Corporate administrative and general expense	166,961	98,874	73,062	43,585	15,259
Interest expense	25,011	26,315	18,972	6,808	2,853
Interest income	(24,103)	(11,619)	(16,789)	(1,846)	(1,790)
Total cost and expenses	8,786,841	9,258,592	10,663,611	1,789,218	1,605,239
EARNINGS (LOSS) FROM CONTINUING OPERATIONS BEFORE TAXES	185,320	164,287	88,674	(7,232)	22,259
INCOME TAX EXPENSE (BENEFIT)	57,554	48,014	50,499	(3,155)	6,795
EARNINGS (LOSS) FROM CONTINUING OPERATIONS	127,766	116,273	38,175	(4,077)	15,464
EARNINGS FROM DISCONTINUED OPERATIONS, NET OF TAXES	252	31,891	66,012	54	12,364
LOSS ON DISPOSAL, NET OF TAXES	(108,608)	(24,215)	—	—	—
NET EARNINGS (LOSS)	$ 19,410	$ 123,949	$ 104,187	$ (4,023)	$ 27,828
BASIC EARNINGS (LOSS) PER SHARE					
Continuing operations	$ 1.64	$ 1.55	$ 0.52	$ (0.05)	$ 0.21
Discontinued operations	(1.39)	0.10	0.86	—	0.16
Net earnings (loss)	$ 0.25	$ 1.65	$ 1.38	$ (0.05)	$ 0.37
DILUTED EARNINGS (LOSS) PER SHARE					
Continuing operations	$ 1.61	$ 1.52	$ 0.52	$ (0.05)	$ 0.20
Discontinued operations	(1.36)	0.10	0.85	—	0.16
Net earnings (loss)	$ 0.25	$ 1.62	$ 1.37	$ (0.05)	$ 0.36
SHARES USED TO CALCULATE EARNINGS (LOSS) PER SHARE					
Basic	77,801	75,256	75,228	74,098	75,565
Diluted	79,157	76,365	75,929	74,098	76,163

See Notes to Consolidated Financial Statements.

CONSOLIDATED BALANCE SHEET

(in thousands, except share amounts)	December 31, 2001	December 31, 2000
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 572,654	$ 21,850
Accounts and notes receivable	565,525	606,145
Contract work in progress	393,380	364,338
Deferred taxes	210,104	116,753
Other current assets	109,664	121,620
Total current assets	1,851,327	1,230,706
ASSETS OF DISCONTINUED OPERATIONS	208,951	414,542
PROPERTY, PLANT AND EQUIPMENT		
Land	39,797	57,708
Buildings and improvements	158,469	305,556
Machinery and equipment	423,818	442,399
Construction in progress	179,394	117,606
	801,478	923,269
Less accumulated depreciation, depletion and amortization	293,374	350,236
Net property, plant and equipment	508,104	573,033
OTHER ASSETS		
Goodwill, net of accumulated amortization of $24,907 and $21,368, respectively	22,277	24,792
Investments	92,018	96,166
Deferred taxes	66,714	82,452
Other	341,771	278,870
Total other assets	522,780	482,280
	$3,091,162	$2,700,561
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES		
Trade accounts payable	$ 382,528	$ 451,823
Short-term debt	38,442	227,585
Advances from affiliate	527,904	153,088
Advance billings on contracts	423,996	309,764
Accrued salaries, wages and benefits	263,012	283,786
Other accrued liabilities	175,536	178,064
Total current liabilities	1,811,418	1,604,110
LIABILITIES OF DISCONTINUED OPERATIONS	58,111	43,911
LONG-TERM DEBT DUE AFTER ONE YEAR	17,594	17,576
NONCURRENT LIABILITIES	414,773	401,887
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 — 80,106,715 and 74,609,050 shares, respectively	801	746
Additional capital	352,960	167,869
Unamortized executive stock plan expense	(22,779)	(32,411)
Accumulated other comprehensive income (loss)	(49,805)	(42,719)
Retained earnings	508,089	539,592
Total shareholders' equity	789,266	633,077
	$3,091,162	$2,700,561

See Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

	Year Ended			Two Months Ended	
(in thousands)	December 31, 2001	October 31, 2000	October 31, 1999	December 31, 2000	December 31, 1999 (unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES					
Net earnings (loss)	$ 19,410	$ 123,949	$ 104,187	$ (4,023)	$ 27,828
Adjustments to reconcile net earnings (loss) to cash provided by operating activities:					
Depreciation and amortization:					
Continuing operations	71,911	84,033	100,051	14,105	12,541
Discontinued operations	45,268	227,655	218,153	8,593	36,586
Deferred taxes	(17,128)	(2,651)	29,268	(15,423)	2,515
Special provision, net of cash payments	(7,054)	(36,619)	85,410	—	—
Provisions for impairment of assets and pre-tax loss on discontinued operations	139,423	—	—	—	—
Provisions for impairment/abandonment of joint ventures and investments	—	42,793	—	—	—
Provision for spin-off transaction expenses, net of cash payments	—	21,762	—	(13,493)	—
Changes in operating assets and liabilities, excluding effects of business acquisitions/dispositions	440,363	(288,081)	90,828	(68,102)	(80,052)
Equity in (earnings) losses of investees	(14,910)	14,800	(44,651)	(6,062)	(3,619)
Other, net	445	5,592	(4,991)	17,781	3,279
Cash provided by (used in) operating activities	677,728	193,233	578,255	(66,624)	(922)
CASH FLOWS FROM INVESTING ACTIVITIES					
Capital expenditures:					
Continuing operations	(148,426)	(156,174)	(140,640)	(29,807)	(14,373)
Discontinued operations	(52,489)	(339,392)	(363,694)	(6,557)	(94,753)
Retirement plan contribution	(63,000)	—	—	—	—
Investments, net	27,960	28,384	(4,688)	2,895	(5,765)
Proceeds from sale of property, plant and equipment	51,930	92,966	105,154	15,250	14,122
Proceeds from sale of dealership	25,696	—	—	—	—
Contributions to deferred compensation trusts	—	—	(8,160)	—	—
Net assets held for sale, including cash	—	—	36,300	—	—
Other, net	1,260	(12,681)	549	130	(1,299)
Cash utilized by investing activities	(157,069)	(386,897)	(375,179)	(18,089)	(102,068)
CASH FLOWS FROM FINANCING ACTIVITIES					
Cash dividends paid	(50,913)	(75,983)	(60,692)	—	—
Increase (decrease) in short-term borrowings, net	(188,636)	150,116	(299,212)	138,852	107,508
Proceeds from sale/leaseback transaction	127,000	—	—	—	—
Proceeds from (payments on) long-term debt, net	—	—	16,951	—	—
Stock options exercised	144,577	5,829	10,760	39	1,645
Purchases of common stock	(1,404)	(23,003)	—	(101,233)	—
Other, net	(479)	(3,483)	(1,813)	(521)	(112)
Cash provided (utilized) by financing activities	30,145	53,476	(334,006)	37,137	109,041
Increase (decrease) in cash and cash equivalents	550,804	(140,188)	(130,930)	(47,576)	6,051
Cash and cash equivalents at beginning of period	21,850	209,614	340,544	69,426	209,614
Cash and cash equivalents at end of period	$ 572,654	$ 69,426	$ 209,614	$ 21,850	$ 215,665

See Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY

(in thousands, except per share amounts)	Common Stock Shares	Common Stock Amount	Additional Capital	Unamortized Executive Stock Plan Expense	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total
BALANCE AT OCTOBER 31, 1998	75,573	$ 47,233	$ 199,077	$(22,633)	$(29,911)	$1,331,843	$1,525,609
Comprehensive income							
Net earnings	—	—	—	—	—	104,187	104,187
Foreign currency translation adjustment (net of deferred taxes of $4,910)	—	—	—	—	(7,841)	—	(7,841)
Comprehensive income							96,346
Cash dividends ($0.80 per share)	—	—	—	—	—	(60,692)	(60,692)
Exercise of stock options, net	304	190	10,570	—	—	—	10,760
Stock option tax benefit	—	—	1,989	—	—	—	1,989
Amortization of executive stock plan expense	—	—	—	7,517	—	—	7,517
Issuance of restricted stock, net	157	98	6,208	(6,463)	—	—	(157)
BALANCE AT OCTOBER 31, 1999	76,034	47,521	217,844	(21,579)	(37,752)	1,375,338	1,581,372
Comprehensive income							
Net earnings	—	—	—	—	—	123,949	123,949
Foreign currency translation adjustment (net of deferred taxes of $5,931)	—	—	—	—	(8,648)	—	(8,648)
Comprehensive income							115,301
Cash dividends ($1.00 per share)	—	—	—	—	—	(75,983)	(75,983)
Exercise of stock options, net	148	92	5,737	—	—	—	5,829
Stock option tax benefit	—	—	334	—	—	—	334
Amortization of executive stock plan expense	—	—	—	5,597	—	—	5,597
Purchases of common stock	(747)	(467)	(22,536)	—	—	—	(23,003)
Issuance of restricted stock, net	308	193	10,728	(11,111)	—	—	(190)
BALANCE AT OCTOBER 31, 2000	75,743	47,339	212,107	(27,093)	(46,400)	1,423,304	1,609,257
Comprehensive income							
Net loss	—	—	—	—	—	(4,023)	(4,023)
Foreign currency translation adjustment (net of deferred taxes of $2,948)	—	—	—	—	3,681	—	3,681
Comprehensive income							(342)
Exercise of stock options, net	1	—	39	—	—	—	39
Amortization of executive stock plan expense	—	—	—	1,236	—	—	1,236
Purchases of common stock	(1,850)	(18)	(101,215)	—	—	—	(101,233)
Spin-off adjustment	388	—	—	3,927	—	(879,689)	(875,762)
Par value adjustment to $0.01	—	(46,578)	46,578	—	—	—	—
Issuance of restricted stock, net	327	3	10,360	(10,481)	—	—	(118)
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

See Notes to Consolidated Financial Statements.

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.

As more fully described in the following Note, on November 30, 2000, shareholders approved a spin-off distribution that separated the company into two publicly traded entities. Also discussed in the following Note is the adoption of a plan in September 2001 to dispose of certain non-core operations. As a result of these actions, the company's Coal related business and certain non-core operations are presented as discontinued operations. All significant intercompany transactions of consolidated subsidiaries are eliminated. Certain amounts in 1999 and 2000 have been reclassified to conform with the 2001 presentation.

The company changed its fiscal year end from October 31 to December 31 and as a requirement of this change, the results for November and December 2000 are reported as a separate transition period.

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, 2001 will be billed and collected in 2002. 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.

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 — three to 50 years and machinery and equipment — two to 10 years. Leasehold improvements are amortized over the lives of the respective leases. Goodwill is amortized on the straight-line method over periods not longer than 40 years.

In June 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets" (SFAS 142). Under SFAS 142, goodwill and intangible assets with indefinite lives are no longer amortized but are reviewed at least annually for impairment. The company will be required to adopt SFAS 142 effective January 1, 2002 and expects to perform the first of the required impairment tests of goodwill and indefinite lived intangible assets in the first quarter of 2002. Any impairment charge resulting from these transitional impairment tests will be reflected as the cumulative effect of a change in accounting principle in the first quarter of 2002. The company does not expect the adoption of the statement to have a material impact on the earnings or financial position of the company.

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, earnings from discontinued operations and net earnings (loss) 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.

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

Period Ended	December 31, 2001	October 31, 2000	October 31, 1999	December 31, 2000	December 31, 1999
(shares in thousands)					(unaudited)
Employee stock options/restricted stock	1,340	54	107	—	136
Equity forward contract	—	1,055	594	—	462
Warrant	16	—	—	—	—
	1,356	1,109	701	—	598

INVENTORIES Inventories are stated at the lower of cost or market using specific identification or the average cost method. Inventories are included in other current assets in the accompanying consolidated balance sheet and comprise:

	December 31, 2001	December 31, 2000
(in thousands)		
Equipment for sale/rental	$17,354	$22,911
Supplies and other	25,626	26,376
	$42,980	$49,287

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 Effective November 1, 2000, the company adopted Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities," (SFAS 133) as amended, which requires that all derivative instruments be reported on the balance sheet at fair value. The adoption of SFAS 133 did not have a material effect on the company's financial statements.

The company uses forward exchange contracts to hedge certain foreign currency transactions entered into in the ordinary course of business. At December 31, 2001, the company had approximately $10 million of foreign exchange contracts outstanding relating to 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 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 March 2004. 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 2001 and the two months ended December 31, 2000. The transition adjustment upon adoption was immaterial.

Prior to November 1, 2000, unrealized gains and losses on forward exchange contracts were deferred and included in the measurement of the related foreign currency transaction. The amount of any gain or loss on these contracts for the years ended October 31, 2000 and 1999 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 SFAS 133. At the November 1, 2000 implementation date and as of December 31, 2001 and 2000, the company had no significant embedded derivatives in any of its contracts.

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.

COMPREHENSIVE INCOME Statement of Financial Accounting Standards No. 130, "Reporting Comprehensive Income," establishes standards for reporting and displaying comprehensive income and its components in the consolidated financial statements. For the company, the only other component of accumulated other comprehensive income is the change in the cumulative foreign currency translation adjustments recorded in shareholders' equity.

DISCONTINUED OPERATIONS

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 on-going 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.

NON-CORE 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. An active program to consummate such disposal has been initiated and is expected to be completed by the end of 2002. Management's plans call for these operations to be disposed of by sale of the operating unit or of the related assets. The operations to be disposed of include the following:

- Dealership operations of AMECO
- AMECO subsidiaries in Peru and Argentina
- GlobEquip, LLC
- TRS, except for the onsite recruiting services operations that support operations in the U.S. and U.K.

Results of operations for the non-core businesses 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.

In December 2001, the company sold Stith Equipment, one of the AMECO dealership entities, for cash equal to its carrying value as adjusted at the time the non-core operations were declared for sale.

MASSEY ENERGY COMPANY On November 30, 2000, a spin-off distribution to shareholders was effected which separated Fluor Corporation (Fluor) into two publicly traded companies — a "new" Fluor ("new Fluor" or the "company") and Massey Energy Company ("Massey"). The spin-off was accomplished through the distribution of 100% of the common stock of new Fluor to shareholders of existing Fluor. As a result, each existing Fluor shareholder received one share of new Fluor common stock for each share of existing Fluor common stock and retained their shares in existing Fluor, whose name was changed to Massey Energy Company. The company received a ruling from the Internal Revenue Service that the spin-off would be tax-free to its shareholders. Commencing December 1, 2000 the financial statements of the company no longer include Massey. Because of the relative significance of the company's operations to Fluor, the company was treated as the "accounting successor" for financial reporting purposes. Accordingly, Massey's results of operations for all periods presented have been reclassified and are presented as discontinued operations.

In connection with the spin-off, the 6.95% Senior Notes due March 1, 2007 remained an obligation of Massey. In addition, Massey issued $278 million of commercial paper, the proceeds of which were transferred to the company. Interest expense on the 6.95% Senior Notes and up to $230 million of commercial paper has been reclassified to discontinued operations to recognize the impact that the debt would have on Massey's results of operations.

Net earnings for the year ended October 31, 2000 includes a $24.2 million loss on disposal associated with the spin-off. The

The revenues and earnings (loss) from discontinued operations related to non-core operations and Massey are as follows:

	Year Ended			Two Months Ended	
	December 31, 2001	October 31, 2000	October 31, 1999	December 31, 2000	December 31, 1999
(in thousands)					(unaudited)
Revenue					
Dealership operations	$ 279,099	$ 321,979	$ 338,734	$49,826	$ 48,709
Other equipment operations	10,153	23,571	22,036	2,472	3,134
Temporary staffing operations	138,102	201,725	221,300	32,235	43,388
Massey	—	1,085,833	1,083,030	—	176,566
Total Revenue	$ 427,354	$1,633,108	$1,665,100	$84,533	$271,797
Earnings (Loss) from Discontinued Operations:					
Dealership operations	$ 13,569	$ (19,087)	$ 11,241	$ 1,607	$ 2,589
Other equipment operations	(1,787)	(3,165)	(3,086)	275	316
Temporary staffing operations	(9,898)	186	(20,248)	(1,752)	2,050
Massey	—	96,115	139,378	—	17,804
Operating profit	1,884	74,049	127,285	130	22,759
Interest expense, net	—	27,857	30,306	—	5,545
Earnings from discontinued operations before tax	1,884	46,192	96,979	130	17,214
Provision for taxes	1,632	14,301	30,967	76	4,850
Earnings from discontinued operations	$ 252	$ 31,891	$ 66,012	$ 54	$ 12,364
Loss on disposal before tax	$(139,423)	$ (24,215)	$ —	$ —	$ —
Tax benefit	(30,815)	—	—	—	—
Loss on disposal	$(108,608)	$ (24,215)	$ —	$ —	$ —

charges include legal, audit and consulting fees, employment agreement settlement costs, debt placement fees and other expenses of the spin-off.

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

At Period End	December 31, 2001	December 31, 2000
(in thousands)		
Accounts and notes receivable	$ 47,996	$ 74,691
Inventories and other assets	54,272	152,008
Property, plant and equipment, net	106,683	187,843
Total assets of discontinued operations	$208,951	$414,542
Accounts and notes payable	$ 21,090	$ 34,028
Accrued and other liabilities	37,021	9,883
Total liabilities of discontinued operations	$ 58,111	$ 43,911

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 1999 through 2001, 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 June 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards 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.

BUSINESS DISPOSITIONS

During fiscal 2000, the company recorded a nonrecurring charge of $19.3 million relating to the write-off of certain assets and the loss on the sale of a European-based consulting business.

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 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			Two Months Ended	
	December 31, 2001	October 31, 2000	October 31, 1999	December 31, 2000	December 31, 1999
(in thousands)					(unaudited)
(Increase) decrease in:					
Accounts and notes receivable	$ 57,355	$ (3,009)	$ 25,972	$ (1,909)	$(29,145)
Contract work in progress	(28,406)	(22,923)	180,698	72,985	10,034
Inventories	40,462	35,876	(49,473)	(9,853)	8,969
Other current assets	80,186	(43,376)	(16,054)	(24,516)	(62,115)
Increase (decrease) in:					
Accounts payable	(80,273)	(108,616)	(173,345)	(47,161)	(58,163)
Advances from affiliate	374,816	51,433	113,379	(11,724)	(27,232)
Advance billings on contracts	113,003	(169,501)	18,557	(84,633)	53,906
Accrued liabilities	$(116,780)	(27,965)	(8,906)	38,709	23,694
(Increase) decrease in operating assets and liabilities	$ 440,363	$(288,081)	$ 90,828	$ (68,102)	$(80,052)
Cash paid during the period for:					
Interest	$ 30,072	$ 60,455	$ 47,558	$ 6,023	$ 6,293
Income taxes	$ 52,631	$ 58,637	$ 52,025	$ 3,099	$ 571
Supplemental disclosure of noncash activity:					
Warrant issued	$ 6,380	$ —	$ —	$ —	$ —

SPECIAL PROVISION AND COST REDUCTION INITIATIVES

In March 1999, the company announced a new strategic direction, including a reorganization of the operating units and administrative functions of its engineering and construction segment. In connection with this reorganization, the company recorded in the second quarter of fiscal year 1999 a special provision of $136.5 million pre-tax to cover direct and other reorganization related costs, primarily for personnel, facilities and asset impairments.

Under the reorganization plan, approximately 5,000 jobs were eliminated. The provision included amounts for personnel costs for certain affected employees who were entitled to receive severance benefits under established severance policies or by government regulations. Additionally, outplacement services were provided on a limited basis to some affected employees.

The provision also included amounts for asset impairment, primarily for property, plant and equipment; intangible assets (goodwill); and certain investments. The asset impairments were recorded primarily because of the company's decision to exit certain non-strategic geographic locations and businesses. The carrying values of impaired assets were adjusted to their current market values based on estimated sale proceeds, using either discounted cash flows or contractual amounts. The special provision also contains lease termination costs for remaining lease obligations on closed offices and other settlement costs. The company closed 15 non-strategic offices worldwide and consolidated and downsized other office locations.

In October 1999, $19.3 million of the special provision was reversed into earnings as a result of lower than anticipated severance costs for personnel reductions in certain overseas offices. In the second quarter of 2000, $17.9 million of the provision for asset impairment was reversed into earnings as a result of the company's decision to retain ownership and remain in its current office location in Camberley, U.K.

The following table summarizes the status of the company's reorganization plan as of December 31, 2001 and 2000 and October 31, 2000:

(in thousands)	Personnel Costs	Asset Impairments	Lease Termination Costs	Other	Total
Balance at October 31, 1999	$ 25,235	$ 23,346	$ 9,707	$ 186	$ 58,474
Cash expenditures	(11,763)	—	(6,853)	—	(18,616)
Non-cash activities	(3,732)	(5,427)	—	(186)	(9,345)
Provision reversal	—	(17,919)	—	—	(17,919)
Balance at October 31, 2000	9,740	—	2,854	—	12,594
Cash expenditures	(685)	—	(1,958)	—	(2,643)
Balance at December 31, 2000	9,055	—	896	—	9,951
Cash expenditures	(6,115)	—	(581)	—	(6,696)
Balance at December 31, 2001	$ 2,940	$ —	$ 315	$ —	$ 3,255

The special provision liability as of December 31, 2001 and 2000 and October 31, 2000 is included in other accrued liabilities. The remaining liability consists primarily of personnel costs for non-U.S. operations. The liability associated with abandoned lease space is being amortized as an offset to lease expense over the remaining life of the respective leases starting on the dates of abandonment.

INCOME TAXES

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

	Year Ended			Two Months Ended	
	December 31, 2001	October 31, 2000	October 31, 1999	December 31, 2000	December 31, 1999
(in thousands)					(unaudited)
Current:					
Federal	$ —	$ 17,864	$ 5,931	$ 5,216	$ 1,088
Foreign	44,090	42,736	43,012	6,835	7,012
State and local	1,409	4,366	3,255	293	1,030
Total current	45,499	64,966	52,198	12,344	9,130
Deferred:					
Federal	(19,110)	(12,082)	26,872	(17,302)	2,723
Foreign	157	7,829	(2,641)	1,529	(511)
State and local	1,825	1,602	5,037	350	303
Total deferred	(17,128)	(2,651)	29,268	(15,423)	2,515
Total income tax expense (benefit)	$ 28,371	$ 62,315	$81,466	$ (3,079)	$11,645

The income tax expense (benefit) applicable to continuing operations and discontinued operations is as follows:

	Year Ended			Two Months Ended	
	December 31, 2001	October 31, 2000	October 31, 1999	December 31, 2000	December 31, 1999
(in thousands)					(unaudited)
Provision for continuing operations:					
Current	$ 45,499	$ 68,880	$ 71,453	$ 13,370	$ 7,996
Deferred	12,055	(20,866)	(20,954)	(16,525)	(1,201)
Total provision for continuing operations	57,554	48,014	50,499	(3,155)	6,795
Provision for discontinued operations:					
Current	—	(3,916)	(19,255)	(1,026)	1,134
Deferred	(29,183)	18,217	50,222	1,102	3,716
Total provision for discontinued operations	(29,183)	14,301	30,967	76	4,850
Total income tax expense (benefit)	$ 28,371	$ 62,315	$ 81,466	$ (3,079)	$11,645

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

	Year Ended			Two Months Ended	
	December 31, 2001	October 31, 2000	October 31, 1999	December 31, 2000	December 31, 1999
(in thousands)					(unaudited)
U.S. statutory federal tax expense (benefit)	$64,862	$57,500	$31,036	$(2,531)	$ 7,791
Increase (decrease) in taxes resulting from:					
Items without tax effect, net	7,460	5,067	29,263	1,695	3,460
State and local income taxes	1,950	920	2,602	418	888
Excess foreign rates	—	345	857	1,057	—
Utilization of foreign loss carryforwards	(7,678)	(538)	(1,038)	(2,044)	(771)
Foreign Sales Corporation tax benefit	(4,020)	(5,975)	(6,342)	(498)	(1,266)
Tax settlements	(5,823)	(3,075)	(2,269)	—	(3,075)
Utilization of prior year tax credits	—	(4,657)	(635)	(1,305)	(211)
Adjustment for prior year tax accruals	—	(971)	(3,003)	—	—
Other, net	803	(602)	28	53	(21)
Total income tax expense (benefit) — continuing operations	$57,554	$48,014	$50,499	$(3,155)	$ 6,795

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, 2001	December 31, 2000
(in thousands)		
Deferred tax assets:		
Net operating loss carryforwards	$ 72,143	$ 23,420
Accrued liabilities not currently deductible:		
Project performance and general reserves	59,457	35,633
Employee compensation and benefits	48,574	74,294
Vacation accrual	46,612	48,520
Workers' compensation insurance accruals	30,516	34,607
Translation adjustments	31,843	26,717
Impairment of assets held for sale or disposal	30,815	—
Tax credit carryforwards	28,133	7,578
Tax basis of investments in excess of book basis	24,687	31,459
Lease related expenditures	6,814	2,142
Capital loss carryforwards	5,761	6,528
Net operating loss carryforwards from SMA companies	4,183	6,117
Other	14,552	7,253
Total deferred tax assets	404,090	304,268
Valuation allowance for deferred tax assets	(52,960)	(53,370)
Deferred tax assets, net	351,130	250,898
Deferred tax liabilities:		
Tax on unremitted non-U.S. earnings	(29,396)	(28,376)
Book basis of property, equipment and other capital costs in excess of tax basis	(27,785)	(12,735)
Other	(17,131)	(10,582)
Total deferred tax liabilities	(74,312)	(51,693)
Net deferred tax assets	$276,818	$199,205

The company has U.S. and non-U.S. net operating loss carryforwards of $163 million and $62 million, respectively. The U.S. net operating loss carryforward exclusive of losses attributable to acquired subsidiaries will expire in 2021. The non-U.S. net operating losses can be carried forward indefinitely until fully utilized. The non-U.S. losses primarily relate to the company's operations in Australia.

In September 2001, TradeMC Inc. ("TradeMC") was merged into Fluor Global Sourcing, Inc. ("FGSI"), a wholly owned subsidiary of the company, in a qualified tax-free statutory merger. Concurrently with the merger, FGSI changed its name to TradeMC. As a result of the merger, the company owns 82% of TradeMC. On the effective date of the merger, TradeMC had a net operating loss carryforward of approximately $31 million, which will expire in the years 2020 and 2021. The utilization of such loss carryforward will be limited to the taxable profits of TradeMC.

In 1997, the company acquired the SMA Companies which had net operating loss carryforwards of approximately $47 million. The company has utilized approximately $12 million of the loss carryforwards, and made an election in its 1997 consolidated federal tax return to waive approximately $23 million of losses which otherwise would have expired without future tax benefit. The remaining loss carryforwards of approximately $12 million expire in the years 2004 and 2005. The utilization of such loss carryforwards is subject to stringent limitations under the Internal Revenue Code.

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 certain project performance reserves and the net operating loss carryforwards of TradeMC and certain non-U.S. subsidiaries. In 2001, the increase in the valuation allowance attributable to the TradeMC loss carryforward is substantially offset by decreases relating to the utilization of net operating loss carryforwards in the United Kingdom and Australia as a result of recent project awards and an improved profitability outlook.

Residual income taxes of approximately $8 million have not been provided on approximately $20 million of undistributed earnings of certain foreign subsidiaries at December 31, 2001, 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, 2001	October 31, 2000	October 31, 1999
(in thousands)			
United States	$ 41,263	$ 7,999	$68,201
Foreign	144,057	156,288	20,473
Total	$185,320	$164,287	$88,674

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 $37 million, $46 million and $48 million in the years ended December 31, 2001 and October 31, 2000 and 1999, respectively, is primarily related to domestic engineering and construction operations. Effective January 1, 1999, the company replaced its domestic defined contribution retirement plan with a defined benefit cash balance plan. Contributions to defined benefit pension plans are generally at the minimum annual amount required by applicable regulations. During 2001, the company contributed the maximum allowable ($63 million) to the defined benefit cash balance plan in order to partially offset lower than expected investment results and 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.

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

	Year Ended			Two Months Ended
	December 31, 2001	October 31, 2000	October 31, 1999	December 31, 2000
(in thousands)				
Service cost	$ 31,195	$ 35,168	$ 31,919	$ 5,929
Interest cost	30,244	26,068	16,101	4,911
Expected return on assets	(41,249)	(41,059)	(30,751)	(6,936)
Amortization of transition asset	(1,808)	(1,917)	(2,132)	(298)
Amortization of prior service cost	34	46	281	5
Recognized net actuarial loss (gain)	1,352	(541)	922	(21)
Net periodic pension expense	$ 19,768	$ 17,765	$ 16,340	$ 3,590

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.

	December 31, 2001	December 31, 2000	October 31, 2000
Discount rates	6.25–7.75%	6.00–7.75%	6.00–7.75%
Rates of increase in compensation levels	3.50–4.00%	3.50–3.75%	3.50–3.75%
Expected long-term rates of return on assets	5.00–9.50%	5.00–9.50%	5.00–9.50%

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

	Year Ended December 31, 2001	Year Ended October 31, 2000	Two Months Ended December 31, 2000
(in thousands)			
Change in pension benefit obligation			
Benefit obligation at beginning of period	$448,485	$408,660	$425,245
Service cost	31,195	35,168	5,929
Interest cost	30,244	26,068	4,911
Employee contributions	1,931	1,441	360
Currency translation	(10,530)	(46,482)	16,233
Actuarial loss	40,743	25,220	2,154
Benefits paid	(26,417)	(24,830)	(6,347)
Benefit obligation at end of period	$515,651	$425,245	$448,485
Change in plan assets			
Fair value at beginning of period	$502,649	$518,356	$491,288
Actual return (loss) on plan assets	(28,656)	43,949	(3,252)
Company contributions	68,080	7,152	955
Employee contributions	1,931	1,441	360
Currency translation	(13,748)	(54,780)	19,705
Benefits paid	(26,417)	(24,830)	(6,407)
Fair value at end of period	$503,839	$491,288	$502,649
Funded status	$(11,812)	$ 66,043	$ 54,164
Unrecognized net actuarial loss	126,340	4,822	15,265
Unrecognized prior service cost	(329)	(183)	(331)
Unrecognized net asset	(2,877)	(4,802)	(4,833)
Pension assets	$111,322	$ 65,880	$ 64,265

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

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, 2001 and 2000 and October 31, 2000 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 12 percent in 2002 down to 5 percent in 2006 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 $1.3 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 $1.0 million and $0.1 million, respectively.

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

	Year Ended			Two Months Ended
	December 31, 2001	October 31, 2000	October 31, 1999	December 31, 2000
Service cost	$ —	$ —	$ —	$ —
Interest cost	2,009	1,865	1,632	375
Expected return on assets	—	—	—	—
Amortization of prior service cost	—	—	—	—
Recognized net actuarial gain	—	(329)	(458)	—
Net periodic postretirement benefit cost	$2,009	$1,536	$1,174	$375

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

	Year Ended		Two Months Ended
	December 31, 2001	October 31, 2000	December 31, 2000
(in thousands)			
Change in postretirement benefit obligation			
Benefit obligation at beginning of period	$ 30,588	$ 25,658	$ 29,316
Service cost	—	—	—
Interest cost	2,009	1,865	375
Employee contributions	363	309	54
Actuarial loss	2,595	4,974	1,457
Benefits paid	(4,126)	(3,490)	(614)
Benefit obligation at end of period	$ 31,429	$ 29,316	$ 30,588
Funded status	$(31,429)	$(29,316)	$(30,588)
Unrecognized net actuarial (gain) loss	4,001	(51)	1,406
Accrued postretirement benefit obligation	$(27,428)	$(29,367)	$(29,182)

The discount rate used in determining the postretirement benefit obligation was 7.00 percent at December 31, 2001 and 7.75 percent at both December 31, 2000 and October 31, 2000.

Amounts shown above at October 31, 2000 exclude the accrued benefit obligation of approximately $68.6 million relating to discontinued operations.

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.

FAIR VALUE OF FINANCIAL INSTRUMENTS

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

	December 31, 2001		December 31, 2000	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
(in thousands)				
Assets:				
Cash and cash equivalents	$572,654	$572,654	$ 21,850	$ 21,850
Notes receivable, including noncurrent portion	26,262	26,229	31,374	40,146
Long-term investments	46,656	47,124	58,057	58,515
Liabilities:				
Commercial paper, loan notes and notes payable	38,442	38,442	227,585	227,585
Long-term debt, including current portion	17,594	17,915	17,576	17,370
Other noncurrent financial liabilities	12,898	12,898	11,329	11,329
Other financial instruments:				
Foreign currency contracts	273	273	81	81
Letters of credit	—	1,196	—	956
Lines of credit	—	788	—	1,063

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 $388 million. Commitment and facility fees are paid on these lines. At December 31, 2001, amounts outstanding under the committed and uncommitted lines of credit were $38 million. Borrowings under these lines of credit bear interest at prime or 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.

The company has $930 million in short-term committed and uncommitted lines of credit to support letters of credit. At December 31, 2001, $299 million of these lines of credit were used to support undrawn letters of credit. In addition, the company had $121 million in uncommitted lines for general cash management purposes.

Short-term debt comprises:

	December 31, 2001	December 31, 2000
(in thousands)		
Commercial paper	$ —	$191,720
Bank borrowings	38,175	35,091
Trade notes payable	267	774
	$38,442	$227,585

The company's commercial paper was issued at a discount with a weighted-average effective interest rate of 5.33 percent during the first half of 2001. The company had no commercial paper outstanding during the second half of 2001 and at December 31, 2001.

Long-term debt comprises:

	December 31, 2001	December 31, 2000
(in thousands)		
5.625% Municipal bonds	$17,594	$17,576

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.

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 $55 million and $62 million at December 31, 2001 and 2000, 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, 2001 and 2000, $197 million and $184 million were accrued under these plans and included in noncurrent liabilities.

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. For the year ended December 31, 2001, the company issued 1,040,298 nonqualified stock options and 48,750 SARS with annual vesting of 25%.

During the year ended October 31, 2000, the company issued 1,581,790 nonqualified stock options and 58,880 SARS that vest 100 percent at the end of four years, with accelerated vesting based upon the price of the company's stock, and also issued 52,660 stock options with annual vesting of 25%. During the year ended October 31, 1999, the company issued 1,021,810 nonqualified stock options and 122,900 SARS that vest over four years and 58,000 nonqualified stock options, with 25 percent vesting upon issuance and the remaining awards vesting in installments of 25 percent per year commencing one year from the date of grant.

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 17,504 shares, 351,630 shares and 197,257 shares in 2001, 2000 and 1999, respectively.

As permitted by Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" (SFAS No. 123), the company has elected to continue following the guidance of APB Opinion No. 25, "Accounting for Stock Issued to Employees," for measurement and recognition of stock-based transactions with employees. Recorded compensation cost for these plans totaled $9 million, $3 million and $8 million for the years ended December 31, 2001 and October 31, 2000 and 1999, respectively, and $1 million for the two months ended December 31, 2000. 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 accounting method recommended by SFAS No. 123, net earnings and diluted earnings per share would have been reduced to the pro forma amounts as follows:

Year Ended	December 31, 2001	October 31, 2000	October 31, 1999
(in thousands)			
Net earnings			
As reported	$19,410	$123,949	$104,187
Pro forma	8,896	115,098	95,297
Diluted net earnings per share			
As reported	$ 0.25	$ 1.62	$ 1.37
Pro forma	0.11	1.51	1.26

The fair value of each option grant is estimated on the date of grant by using the Black-Scholes option-pricing model. The following weighted-average assumptions were used for new grants:

	December 31, 2001	October 31, 2000	October 31, 1999
Expected option lives (years)	6	6	6
Risk-free interest rates	4.74%	6.03%	4.51%
Expected dividend yield	1.75%	1.74%	1.38%
Expected volatility	48.30%	39.81%	33.76%

The weighted-average fair value of options granted during the years ended December 31, 2001 and October 31, 2000 and 1999 was $20, $18 and $15, respectively.

The following table summarizes stock option activity:

	Stock Options	Weighted Average Exercise Price Per Share
Outstanding at October 31, 1998	4,707,457	$47
Granted	1,079,810	43
Expired or canceled	(256,145)	47
Exercised	(303,736)	35
Outstanding at October 31, 1999	5,227,386	47
Granted	1,634,450	44
Expired or canceled	(617,624)	47
Exercised	(147,751)	39
Outstanding at October 31, 2000	6,096,461	46
Spin-off conversion adjustment	3,978,375	—
Expired or canceled due to spin-off	(673,030)	46
Expired or canceled	(45,582)	48
Exercised	(1,100)	35
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
Exercisable at:		
December 31, 2001	3,299,216	$27
December 31, 2000	7,493,971	27
October 31, 2000	3,352,234	49
October 31, 1999	3,407,398	49

In connection with the separation of Massey from Fluor, all outstanding options were adjusted to preserve the value of such options on the date of the distribution, including the conversion of options held by Massey employees to options for shares of Massey.

At December 31, 2001, there are 4,227,708 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, 2001, there are 4,561,312 options outstanding with exercise prices between $17 and $45, with a weighted-average exercise price of $31 and a weighted-average remaining contractual life of 4.1 years; 3,299,216 of these options are exercisable with a weighted-average exercise price of $27. Of the options outstanding, 2,878,681 have exercise prices between $17 and $26, with a weighted-average exercise price of $25 and a weighted-average remaining contractual life of 6.2 years; 2,527,385 of these options are exercisable with a weighted-average exercise price of $25. The remaining 1,682,631 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 5.0 years; 771,831 of these options are exercisable with a weighted-average exercise price of $36.

LEASE OBLIGATIONS

Net rental expense for continuing operations amounted to approximately $76 million, $80 million and $77 million in the years ended December 31, 2001 and October 31, 2000 and 1999, 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.

The company also has operating leases for its corporate headquarters and engineering center in California and an office in Calgary, Canada. The leases contain options to purchase the properties during the terms of the leases and contain aggregate residual value guarantees of $110 million.

The company's obligations for minimum rentals under noncancelable leases are as follows:

Year Ended December 31,	
(in thousands)	
2002	$ 47,133
2003	43,690
2004	30,076
2005	19,714
2006	16,105
Thereafter	183,464

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. 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 incurred in excess of the current contract provisions. Recognized claims against clients amounted to $84 million and $73 million at December 31, 2001 and 2000, respectively. 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.

Disputes have arisen between a Fluor Daniel subsidiary and its client, Anaconda Nickel, which primarily relate to the process design of the Murrin Murrin Nickel Cobalt project located in Western Australia. Both parties have initiated the dispute resolution process under the contract. Results for the year ended October 31, 1999 include a provision totaling $84 million for the alleged process design problems. If and to the extent that these problems are ultimately determined to be the responsibility of the company, the company anticipates recovering a substantial portion of this amount from available insurance and, accordingly, has also recorded $64 million, plus applicable legal fees, in expected insurance recoveries. The company vigorously disputes and denies Anaconda's allegations of inadequate process design.

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, 2001, the company had extended financial guarantees on behalf of certain clients and other unrelated third parties totaling approximately $27 million.

In connection with its 1997/1998 share repurchase program, the company entered into a forward purchase contract for 1,850,000 shares of its common stock at a price of $49 per share. The contract matured on November 30, 2000 in connection with the spin-off and was settled for cash of $101.2 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.

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.

In connection with the Massey spin-off, Massey retained all contingent liabilities related to its business, including environmental matters.

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. In 2002, the company reorganized the alignment of its operations into five industry segments: Energy and Chemicals, Industrial and Infrastructure, Power, Global Services and Government Services. The Energy and Chemicals segment provides engineering, procurement, construction and project management to energy-related industries including upstream oil and gas production and processing in refinery, and petrochemical and chemical markets. The Industrial and Infrastructure segment provides engineering, procurement and construction for the manufacturing and life sciences, commercial and institutional, telecommunications, mining and transportation markets. The Power segment includes the company's 50 percent proportional interest in Duke/Fluor Daniel and its 49 percent in the ICA/Fluor joint venture. The Global Services segment includes operations and maintenance, equipment and temporary staffing services. The Government Services segment provides project management services to the federal government primarily in environmental restoration at two former nuclear processing facilities for the Department of Energy.

All segments except Global Services and Government Services 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.

OPERATING INFORMATION BY SEGMENT

	Year Ended			Two Months Ended
	December 31, 2001	October 31, 2000	October 31, 1999	December 31, 2000
(in millions)				
External revenues				
Energy & Chemicals	$2,529	$3,251	$ 4,075	$ 952
Industrial and Infrastructure	2,115	2,903	3,841	412
Power	2,476	1,325	934	—
Global Services	1,017	1,196	1,079	229
Government Services	813	722	757	180
Corporate and other	22	26	66	9
Total external revenue	$8,972	$9,423	$10,752	$1,782
Operating profit				
Energy & Chemicals	$ 110	$ 85	$ 122	$ 19
Industrial and Infrastructure	97	115	3	7
Power	74	—	41	—
Global Services	50	63	100	13
Government Services	22	16	15	2
Total operating profit	$ 353	$ 279	$ 281	$ 41
Depreciation and amortization				
Energy & Chemicals	$ 1	$ 2	$ 2	$ —
Industrial and Infrastructure	2	2	2	—
Power	—	—	—	—
Global Services	35	42	38	7
Government Services	—	—	—	—
Corporate and other	34	38	58	7
Total depreciation and amortization	$ 72	$ 84	$ 100	$ 14
Total assets				
Energy & Chemicals	$ 414	$ 439	$ 516	$ 363
Industrial and Infrastructure	380	490	508	502
Power	9	5	5	8
Global Services	395	378	359	375
Government Services	85	64	67	76
Corporate and other	1,599	1,022	958	962
Total assets	$2,882	$2,398	$ 2,413	$2,286
Capital expenditures				
Energy & Chemicals	$ —	$ —	$ —	$ —
Industrial and Infrastructure	—	—	—	—
Power	—	—	—	—
Global Services	60	38	87	6
Government Services	—	—	—	—
Corporate and other	88	118	54	24
Total capital expenditures	$ 148	$ 156	$ 141	$ 30

RECONCILIATION OF SEGMENT INFORMATION TO CONSOLIDATED AMOUNTS

	Year Ended			Two Months Ended
	December 31, 2001	October 31, 2000	October 31, 1999	December 31, 2000
(in millions)				
CONTINUING OPERATIONS				
Total segment operating profit	$353	$279	$281	$41
Special provision	—	(18)	117	—
Loss on sale of European consulting business	—	19	—	—
Corporate administrative and general expense	167	99	73	43
Interest expense, net	1	15	2	5
Earnings (loss) from continuing operations before taxes	$185	$164	$ 89	$ (7)

	December 31, 2001	December 31, 2000
(in millions)		
TOTAL ASSETS		
Total assets for reportable segments	$2,882	$2,286
Assets of discontinued operations	209	415
Total assets	$3,091	$2,701

ENTERPRISE-WIDE DISCLOSURES

	Revenues from Continuing Operations			Total Assets	
	December 31, 2001	October 31, 2000	October 31, 1999	December 31, 2001	December 31, 2000
(in millions)					
United States*	$6,323	$5,919	$ 6,178	$1,815	$1,569
Canada	1,412	1,421	855	161	114
Asia Pacific (includes Australia)	287	783	1,521	194	186
Europe	423	668	1,169	255	142
Central and South America	379	481	786	397	214
Middle East and Africa	148	151	243	60	61
Assets of discontinued operations	—	—	—	209	415
	$8,972	$9,423	$10,752	$3,091	$2,701

*Includes export revenues to unaffiliated customers of $0.1 billion in the year ended December 31, 2001 and $0.4 billion and $1.4 billion in the years ended October 31, 2000 and 1999, respectively.

MANAGEMENT'S AND INDEPENDENT AUDITORS' REPORTS

MANAGEMENT

The company is responsible for preparation of the accompanying consolidated balance sheet and the related consolidated statements of earnings, cash flows and shareholders' equity. These statements have been prepared in conformity with generally accepted accounting principles and management believes that they present fairly the company's consolidated financial position and results of operations. The integrity of the information presented in the financial statements, including estimates and judgments relating to matters not concluded by fiscal year end, is the responsibility of management. To fulfill this responsibility, an internal control structure designed to protect the company's assets and properly record transactions and events as they occur has been developed, placed in operation and maintained. The internal control structure is supported by an extensive program of internal audits and is tested and evaluated by the independent auditors in connection with their annual audit. The Board of Directors pursues its responsibility for financial information through an Audit Committee of Directors who are not employees. The internal auditors and the independent auditors have full and free access to the Committee. Periodically, the Committee meets separately with the independent auditors and with internal audit without management present to discuss the results of their audits, the adequacy of the internal control structure and the quality of financial reporting.

ALAN L. BOECKMANN
Chairman of the Board and
Chief Executive Officer

D. MICHAEL STEUERT
Senior Vice President and
Chief Financial Officer

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, 2001 and 2000, and the related consolidated statements of earnings, cash flows, and shareholders' equity for the year ended December 31, 2001, the two months ended December 31, 2000 and each of the two years in the period ended October 31, 2000. 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, 2001 and 2000, and the consolidated results of its operations and its cash flows for the year ended December 31, 2001, the two months ended December 31, 2000 and each of the two years in the period ended October 31, 2000, in conformity with accounting principles generally accepted in the United States.

Ernst + Young LLP

Orange County, California
January 28, 2002

QUARTERLY FINANCIAL DATA

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

(In thousands, except per share amounts)[1]	First Quarter	Second Quarter[2]	Third Quarter	Fourth Quarter
Year ended December 31, 2001				
Revenues	$1,911,224	$2,227,360	$2,198,626	$2,634,951
Cost of revenues	1,818,686	2,137,165	2,113,777	2,549,344
Earnings from continuing operations before taxes	22,336	51,126	66,016	45,842
Earnings from continuing operations	16,484	35,119	44,761	31,402
Net earnings (loss)	11,192	34,239	(54,514)	28,493
Basic earnings (loss) per share				
Continuing operations	0.22	0.45	0.57	0.40
Discontinued operations	(0.07)	(0.01)	(1.26)	(0.04)
Net earnings (loss)	0.15	0.44	(0.69)	0.36
Diluted earnings (loss) per share				
Continuing operations	0.21	0.44	0.56	0.39
Discontinued operations	(0.07)	(0.01)	(1.24)	(0.03)
Net earnings (loss)	$ 0.14	$ 0.43	$ (0.68)	$ 0.36
Year ended October 31, 2000				
Revenues	$2,606,170	$2,092,941	$2,546,746	$2,177,022
Cost of revenues	2,529,926	2,017,098	2,508,486	2,107,431
Special provision	—	(17,919)	—	—
Earnings from continuing operations before taxes	52,020	63,849	8,077	40,341
Earnings from continuing operations	36,761	43,984	7,151	28,377
Net earnings (loss)	52,252	51,042	33,338	(12,683)
Basic earnings (loss) per share				
Continuing operations	0.49	0.58	0.09	0.38
Discontinued operations	0.20	0.10	0.35	(0.55)
Net earnings (loss)	0.69	0.68	0.44	(0.17)
Diluted earnings (loss) per share				
Continuing operations	0.48	0.57	0.09	0.37
Discontinued operations	0.21	0.09	0.35	(0.54)
Net earnings (loss)	$ 0.69	$ 0.66	$ 0.44	$ (0.17)

[1] All periods have been restated to present certain non-core businesses discussed in the Notes to Consolidated Financial Statements as discontinued operations.

[2] In April 2000, the company reversed into earnings $17.9 million, a reserve no longer required, due to changes in its 1999 reorganization plan.

BOARD OF DIRECTORS

Pictured from Left to Right: Alan L. Boeckmann, James C. Stein, Thomas L. Gossage, Vilma S. Martinez, Admiral Bobby R. Inman, Governor Carroll Campbell, Jr., Dr. Martha R. Seger, Philip J. Carroll, Jr., James O. Rollans, James T. Hackett, Dr. David P. Gardner, Dean R. O'Hare, Lord Robin Renwick, Peter J. Fluor.

ALAN L. BOECKMANN

53, is chairman of the board and chief executive officer. He also serves as a director of Burlington Northern Santa Fe. (2001) (1)

GOVERNOR CARROLL CAMPBELL, JR.

61, is the former president and chief executive officer of the American Council of Life Insurers and the former two-term Governor of South Carolina. Governor Campbell is a director of AVX Corporation, Norfolk Southern Corporation, and Wackenhut Corporation. (1995) (2)(3)(4)

PHILIP J. CARROLL, JR.

64, is the retired chairman of the Board and chief executive officer. He also serves as a director of Boise Cascade Corporation and Vulcan Materials Company. (1998)

PETER J. FLUOR

54, is chairman and chief executive officer of Texas Crude Energy, Inc., and served as Fluor's non-executive chairman of the Board during fiscal 1998. He also serves as a director of Ocean Energy Corporation and JPMorgan Chase Houston. (1984) (1)(2)(4)(5)

DR. DAVID P. GARDNER

68, is chairman of the board of trustees of the J. Paul Getty Trust in Santa Monica, California, and is president emeritus of both the University of California and the University of Utah. Dr. Gardner is also a director of Waddell & Reed Family of Funds. (1988) (1)(4)(5)(6)

THOMAS L. GOSSAGE

67, is the retired chairman (1996) and former president and chief executive officer of Hercules Incorporated. Mr. Gossage also serves as a director of The Dial Corporation, Alliant Techsystems Inc., and Hercules, Inc. (1997) (3)(4)(5)

JAMES T. HACKETT

48, chairman, president and chief executive officer of Ocean Energy. Mr. Hackett is also a director of Ocean Energy, New Jersey Resources Corporation, Temple-Inland, and Kaiser Aluminum Corporation. (2001) (2)(3)(4)

ADMIRAL BOBBY R. INMAN

70, U.S. Navy (retired), is a managing director of Gefinor Ventures, holds the Lyndon B. Johnson Centennial Chair in National Policy at the University of Texas, and is former director of the National Security Agency and deputy director of the Central Intelligence Agency. He is also a director of Massey Energy, Science Applications International, SBC Communications, and Temple-Inland. (1985) (1)(4)(5)(6)

VILMA S. MARTINEZ

58, is a partner at the law firm of Munger, Tolles & Olson, and the former president and general counsel for the Mexican-American Legal Defense and Educational Fund (MALDEF). Ms. Martinez is also a director of Anheuser-Busch Companies, Inc., Burlington Northern Santa Fe Corporation, United California Bank, and Shell Oil Company. (1993) (1)(2)(4)(6)

DEAN R. O'HARE

59, is chairman and chief executive officer of The Chubb Corporation. He is also a director of H.J. Heinz Company. (1997) (2)(4)(5)

LORD ROBIN RENWICK

64, is vice chairman, Investment Banking, for J. P. Morgan (Europe), and former British Ambassador to the United States of America (1991-95). He is also a director of British Airways, BHP Billiton, Richemont, and South African Breweries Plc. (1997) (3)(4)(6)

JAMES O. ROLLANS

59, is group executive, Investor Relations and Corporate Communications. He also serves as a director of Cupertino Electric and Flowserve Corporation. (1997)

DR. MARTHA R. SEGER

69, is a distinguished visiting professor of Finance at South Carolina State University and former member of the Board of Governors of the Federal Reserve System. She is also a director of Kroger, Massey Energy, Unisource Energy/Tucson Electric, and Xerox. (1991) (1)(3)(4)(6)

JAMES C. STEIN

58, is the retired vice chairman. (1997)

Years in parentheses indicate the year each director was elected to the board. Except as indicated, all positions are with the company.

(1) Executive Committee Alan L. Boeckmann, Chairman
(2) Audit Committee Peter J. Fluor, Chairman
(3) Finance Committee Martha R. Seger, Chairman
(4) Governance Committee David P. Gardner, Chairman
(5) Organization and Compensation Committee Bobby R. Inman, Chairman
(6) Public Policy Committee Vilma S. Martinez, Chairman

OFFICERS

ALAN L. BOECKMANN
Chairman of the Board and Chief Executive Officer (1979)

SENIOR OFFICERS

LAWRENCE N. FISHER
Senior Vice President-Law and Secretary (1974)

H. STEVEN GILBERT
Senior Vice President, Human Resources and Administration (1970)

KIRK D. GRIMES
Group Executive, Energy & Chemicals (1980)

JOHN A. HOPKINS
Group Executive, Sales, Marketing and Strategic Planning (1984)

ROBERT A. MCNAMARA
Group Executive, Industrial and Infrastructure (1978)

RONALD W. OAKLEY
Group Executive, Strategic Operations (1979)

RONALD G. PETERSON
Group Executive, Government Services (1995)

JAMES O. ROLLANS
Group Executive, Investor Relations and Corporate Communications (1982)

D. MICHAEL STEUERT
Senior Vice President and Chief Financial Officer (2001)

MARK A. STEVENS
Group Executive, Global Services (1975)

OTHER CORPORATE OFFICERS

STEPHEN F. HULL
Vice President and Treasurer (1996)

RONALD E. PITTS
President, Fluor Constructors International (1976)

VICTOR L. PRECHTL
Vice President and Controller (1981)

J. CLAY THOMPSON
Senior Vice President, Global Construction (1967)

MIN-YING C. TSENG
Vice President, Tax (2000)

Years in parentheses indicate the year each officer or executive joined the company.

SHAREHOLDERS' REFERENCE

Common Stock Information

At February 28, 2002, there were 80,336,316 shares outstanding and approximately 10,901 shareholders of record of Fluor's common stock.

The following table sets forth for the periods indicated the cash dividends paid per share of common stock and the high and low sales prices of such common stock as reported in the Consolidated Transactions Reporting System.

	Dividends Per Share	Price Range High	Low
Year Ended December 31, 2001			
First Quarter	$0.16	46.84	31.82
Second Quarter	0.16	62.65	40.97
Third Quarter	0.16	45.49	35.30
Fourth Quarter	0.16	46.98	35.40
	$0.64		
Two Months Ended December 31, 2000			
	–	42.00	32.08
Fiscal Year Ended October 31, 2000*			
First Quarter	$0.25	48.50	37.25
Second Quarter	0.25	39.94	24.19
Third Quarter	0.25	36.56	29.69
Fourth Quarter	0.25	35.00	29.00
	$1.00		

*Reflects dividends paid and value of Fluor stock prior to reverse spin-off of Massey Coal.

Form 10-K

A copy of the Form 10-K, which is filed with the Securities and Exchange Commission, is available upon request. Write to:

Senior Vice President-Law
Fluor Corporation
One Enterprise Drive
Aliso Viejo, California 92656
(949) 349-2000

Registrar and Transfer Agent

Mellon Investor Services LLC
400 South Hope Street
Fourth Floor
Los Angeles, California 90071

and

Mellon Investor Services LLC
85 Challenger Road
Ridgefield Park, NJ 07660

For change of address, lost dividends, or lost stock certificates, write or telephone:

Mellon Investor Services LLC
P. O. Box 3315
South Hackensack, NJ 07606-1915
Attn: Securityholder Relations
(877) 870-2366

Requests may also be submitted via e-mail by visiting their web site at www.chasemellon.com

Independent Auditors

Ernst & Young LLP
18111 Von Karman Avenue
Irvine, California 92612

Annual Stockholders' Meeting

Annual report and proxy statement are mailed about April 1. Fluor's annual meeting of shareholders will be held at 9:00 a.m. on May 8, 2002 at the The Houstonian Hotel, Club & Spa, 111 N. Post Oak Lane, Houston, Texas.

Duplicate Mailings

Shares owned by one person but held in different forms of the same name result in duplicate mailing of shareholder information at added expense to the company. Such duplication can be eliminated only at the direction of the shareholder. Please notify Mellon Investor Services in order to eliminate duplication.

Stock Trading

Fluor's stock is traded on the New York Stock Exchange. Common stock domestic trading symbol: FLR.

Company Contacts

Shareholders May Call
(888) 432-1745

Shareholder Services

Lawrence N. Fisher
(949) 349-6961

Investor Relations

Lila J. Churney
(949) 349-3909

Fluor's investor relations activities are dedicated to providing investors with complete and timely information. All investor questions are welcome.

Web Site Address

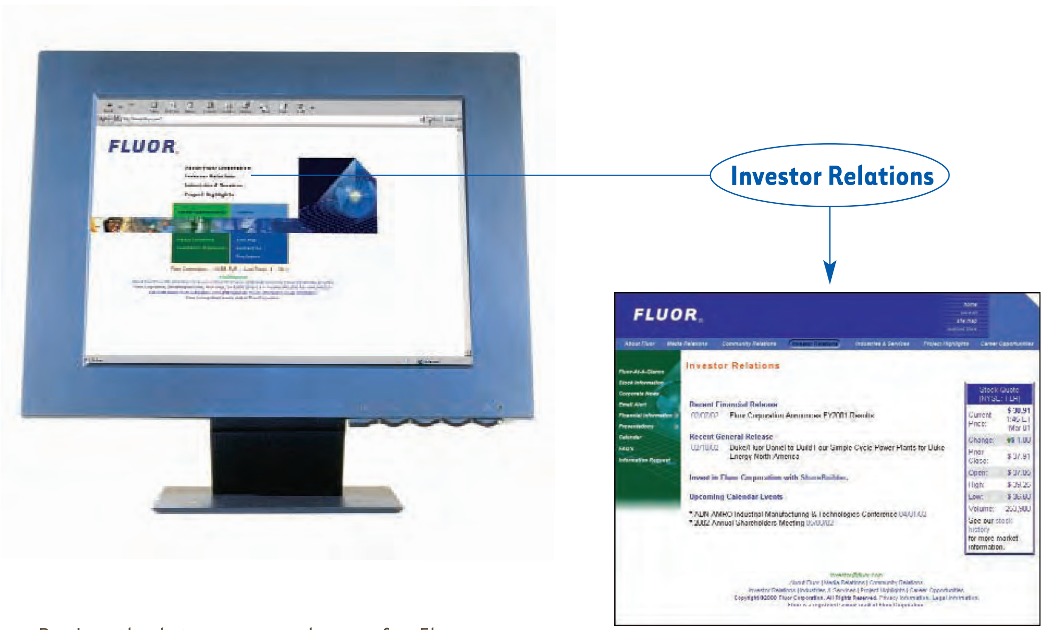
www.fluor.com

Investor Email

Investor@fluor.com

Fluor Corporation
One Enterprise Drive
Aliso Viejo, CA 92656

Features available to you on
www.fluor.com



- Review the latest news releases for Fluor as well as a six-year archive
- Find Fluor's latest stock price
- Compare Fluor's stock performance versus the S&P 500
- Find several years of financial publications available for downloading or online viewing, including annual reports, fact books and SEC filings
- Review recent presentations by management to the investor community online
- Listen to conference calls live and replays online
- Find fundamental financial information, ratios and trading statistics
- Register online to receive alerts via e-mail for new presentations, news releases, publications and events
- Review answers to Frequently Asked Questions