

The Far Corners of the World: Increase Your Value From Global Procurement

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Today's Drivers for Change

Project Environment

- **Market Drivers**
 - **Market Outlook**
 - **Global Outlook**
- **Supply Base Impacts**
 - **Demand will exceed capacity**
 - **Cost, Schedule, and Performance**
- **Project Delivery Impacts**
 - **Supply Chain Impact**
 - **Increased Risk**
 - **Claims Mgmt Environment**

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Market Outlook

Current Business Environment

- Most of markets in positive business cycle
- Commodity prices and demand growth fueling investment
 - Led by Oil & Gas, Mining
 - Followed by Chemicals, Power
- High oil prices and depleting reserves driving upstream development
- Heavier crude, demand for products, and environmental regulations driving downstream development
- Natural gas prices high
 - Continuing investment in LNG
 - Major interest in coal-fired power generation
- Impact on Fluor Procurement:
 - Over the past ten years, Fluor's annual spend has averaged \$4B
 - In 2005, Fluor's spend was \$7.6B (\$1.5B equipment, \$2.1B materials, \$4B services)
 - 2006 projected spend is \$8B

- USA/Canada
- Middle East
- China/India
- Africa/Far East
- Latin America

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Market Analysis – Seller's Market

- **The workload has created a Supplier's Market**
 - The supply base will give priority to high value/margin orders and business certainty relationships
 - The supply base will abandon confusing, difficult, and/or complex orders
 - Mill and Shop capacity limitations will drive schedule, quality, and price impacts
 - Unproven new players will enter into the market supply base
 - Market volatility creates uncertainty and contingency costs
- **Increase in risk mitigation and contingency planning requirements**
- **Increase in supplier claims management and needed much earlier in the project lifecycle**
- **Market Dynamics leave projects' schedules and costs at risk**

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Drivers for Change



Raw Material Price Escalation

Nuovo
Pignone
Odessa
Conmec
Allis
Chalmers
Thermodyne

GE

BJ
IR
Dresser
Worthington
Durco

Flowsolve

Siderca
Dalmine
NKK
Tamsa
Hylsamex
Confab
Tavsa

enaris



Supplier Consolidation

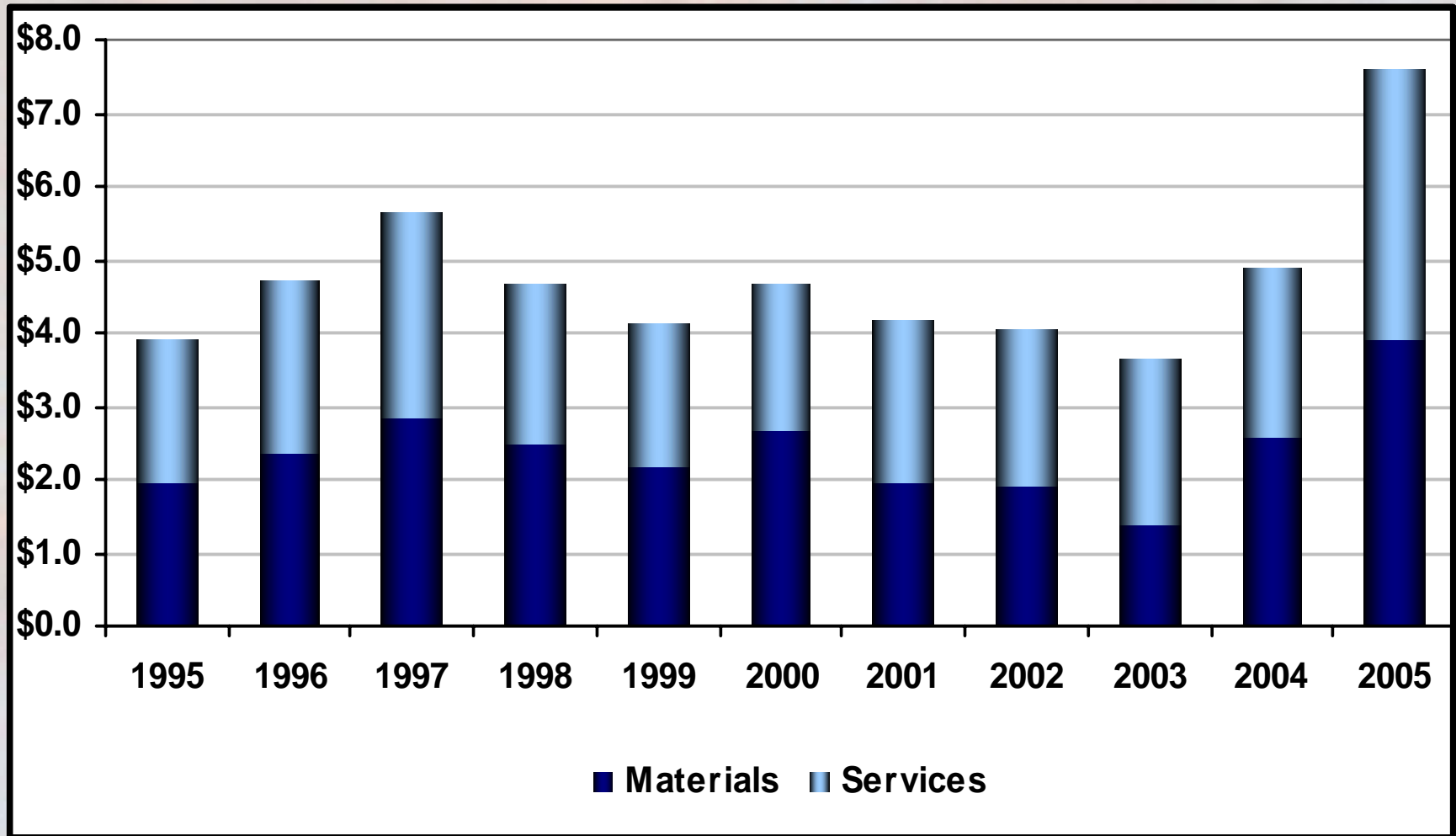


Global Capital Expenditure on the Rise

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Fluor Ten-Year Spend Volume

Worldwide Project Materials & Services Commitments



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Materials Market Outlook

Industry Project Execution Issues

- Escalating Price of Materials and Equipment
- Schedule Uncertainty
- Consolidation of Enterprises
- Reduced Capacity/Increased Demand
- Resources Experience and Bandwidth (Age of Work Force)
- Project Management Depth and Experience
- Vendor Data
- Outsourcing Technical and Materials to Unproven Sources
- Material Shortages
- Capital Costs
- Life Cycle Costs

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Risk Mitigation Strategies

Supply Market Risk

- Escalation
- Shop Production Capacities
- Supply v. Demand
- Supplier Selectivity

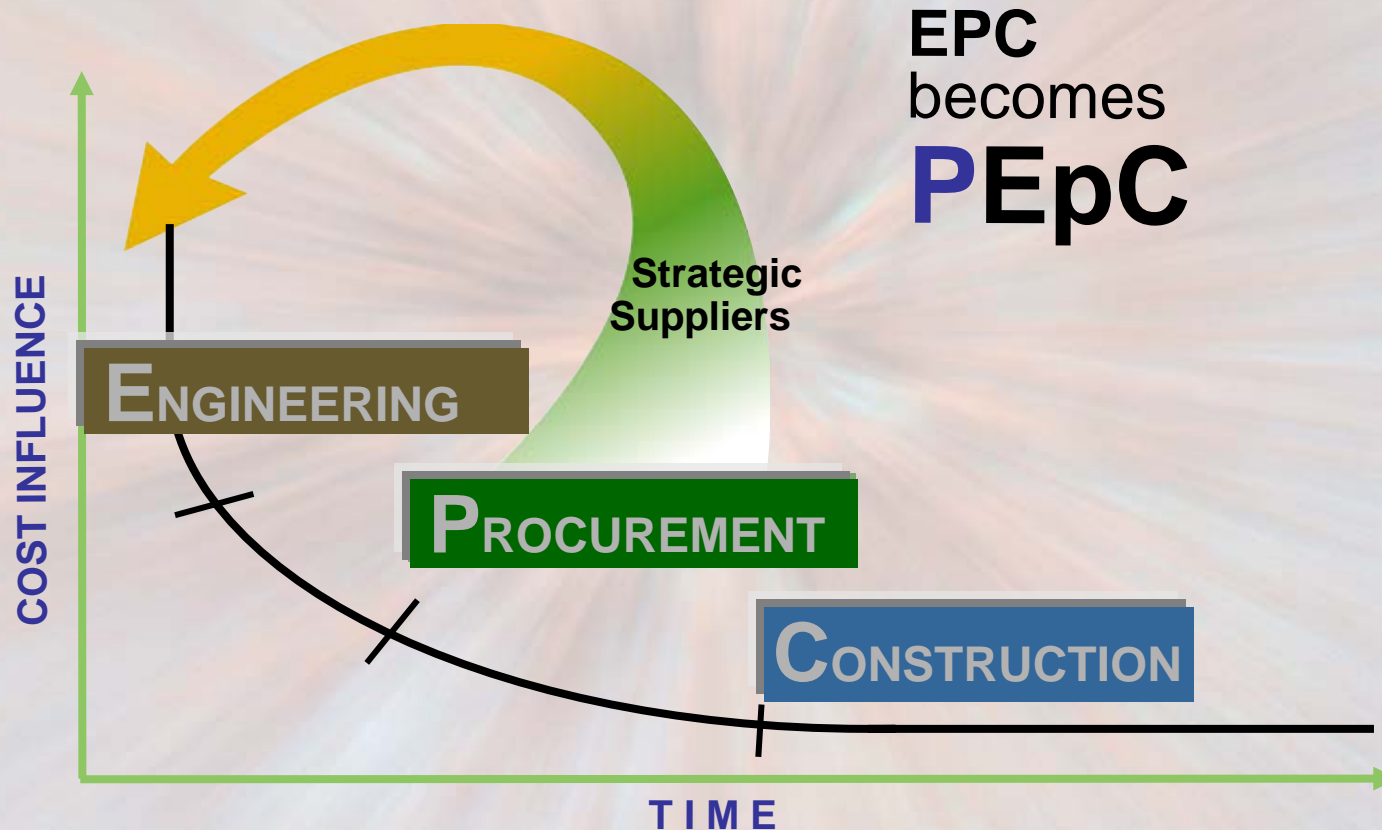


Risk Mitigation Strategies

- Market/Sourcing Intelligence
- Escalation Management
- Contract Language
- Proposal Strategy Development
- Proposal & Project Execution Strategy Development
- Supplier/Subcontractor Alliances
- Low Cost Country Sourcing (LCCS)
- Logistics & Export/Import Compliance

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Supplier Integration The PEpC Process



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Procurement Value Challenges & Deliverables

- Price Certainty
- Schedule Certainty
- Quality
- HSE
- Resources

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