MANAGING TODAY FOR TOMORROW.

THE ESSENCE OF OUR 1985 RESTRUCTURING PROGRAM.

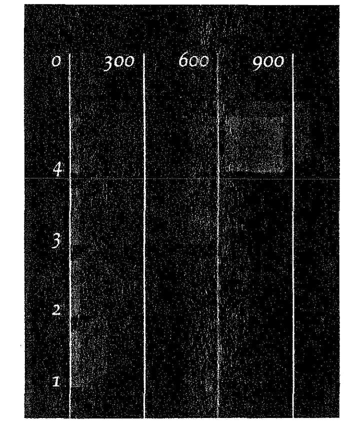
HAS POISED FLUOR FOR SUCCESS.

1985 ANNUAL REPORT

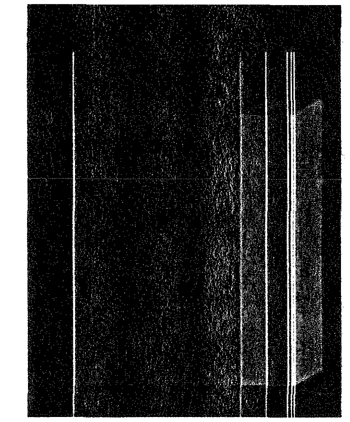
CONTENTS

COMPANY DESCRIPTION

Fluor Corporation and its subsidiary companies provide engineering, design, procurement, construction, project management, maintenance and training services to an extensive range of industrial, commercial, utility, natural resources, energy and government clients, worldwide. The company manages the exploration, development, production and marketing of natural resources—principally gold, silver, lead, zinc, tin, iron ore and coal. In addition, Fluor operates a real estate services business; offshore contract drilling services; and provides investment services to Fluor's engineering and construction and natural resources management operations.



Cumulative Asset Sales by Quarter — 1985/$ in millions



Revenues by Segment from Continuing Operations — 1985/percent
E&C 76.3%
Coal 11.4%
Metals 9.4%
Drilling 1.7%
Other 1.2%

in new orders, compared to $4.2 billion last year. Backlog at year-end was $5.1 billion, up 22 percent from $4.2 billion in 1984.

Backlog at the end of 1985 was comprised of 48 percent industrial/commercial projects, compared to 38 percent a year ago. Only 22 percent of backlog includes projects that are oil-price sensitive, down from 35 percent at year-end 1984. These two factors are evidence of Fluor's success in diversifying its client base.

Joint ventures are also adding momentum to our diversification efforts. For example, Fluor has entered into joint-venture agreements that will aid its penetration of the factory automation and municipal solid waste markets in the United States and the mining and petroleum markets in The People's Republic of China. Such alliances make increasing sense in today's world business environment.

Increasing productivity is a continuing priority. In the last two years, $20 million has been spent on computer-aided design equipment, software, pilot testing, training and installation. These systems have been operating throughout 1985 in three of our major engineering offices: We are an industry leader in this area and these systems will dramatically lower our costs and improve productivity.

All of these strategies are being executed in tandem with an intense cost-cutting campaign aimed at downsizing the E&C operations to better fit today's market. In the last 24 months, we have substantially reduced overhead costs and will continue to do so in 1986.

NATURAL RESOURCES

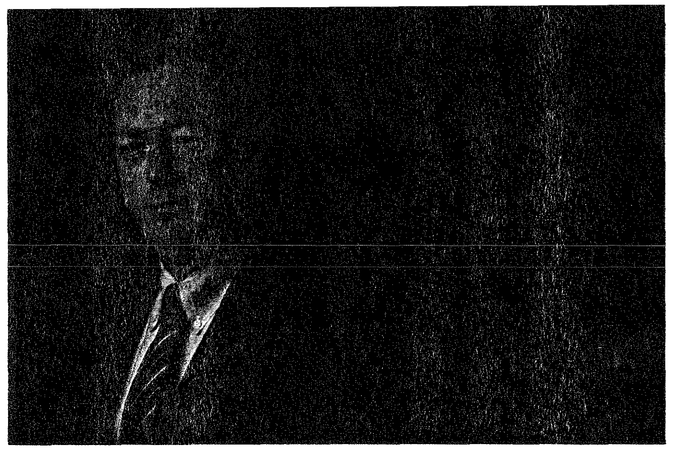
Impressive gains were made in cutting costs and increasing productivity in our natural resources operations. However, average prices for all the commodities that we produce were below 1984 levels. This factor, combined with a year-long coal strike, resulted in an unprofitable year for the group. The difficult environment in 1985 was harder on our key competitors, so we have been able to pick up market share.

Fluor has emerged from 1985 as one of the lowest-cost producers of natural resource products. To arrive at this position, we have endured prolonged labor disruptions and rigorous cost-cutting actions. As a result, productivity in lead and zinc has been increased substantially and the group's cost of doing business reflects this progress. We are now in a position where modest increases in commodity prices during 1986 can have a dramatic impact on the bottom line.

FINANCIAL STRENGTH

The long-term debt reduction goal, aimed at enhancing the company's financial strength and reducing annual interest expense, was also reached in 1985. At year-end, long-term debt stood at $259 million or 20 percent of total capitalization, a reduction of $466 million or 64 percent from a year ago. Over the last three years, long-term debt has been reduced by more than $750 million. Cash used for debt reduction has come mostly from the sale of real estate and oil and gas properties.

The company continues to enjoy an investment-grade credit rating, as a result of Fluor's financial strength and completion



John A. Wright
President and
Chief Operating Officer

of an aggressive debt reduction program in the face of difficult business conditions.

Cash dividends paid to shareholders in 1985 were 10 cents per share per quarter or 40 cents per share for the year.

Capital expenditures were $121 million in 1985 and will be under $100 million in 1986—more than adequate to provide modern cost-effective facilities for our operations.

MANAGEMENT SUCCESSION, NEW DIRECTORS

Orderly succession of Fluor's senior management team reached a major milestone shortly after the year closed.

In January 1986, John A. Wright was named President and Chief Operating Officer of Fluor Corporation. Buck Mickel, former President, was appointed Vice Chairman of the Board.

Mr. Wright has been a member of the Fluor Board since 1981 and is a member of the Executive Committee. Prior to his appointment as President, he served as Executive Vice President of Fluor Corporation and Chairman and CEO of St. Joe Minerals Corporation.

Mr. Mickel has been on the Board since 1977 and also serves on the Executive Committee.

The Fluor Board of Directors is fortunate to have attracted three distinguished new directors during the year: Caroline Leonetti Ahmanson, Chairman of Caroline Leonetti Ltd.; Bobby R. Inman, Chairman, President and Chief Executive Officer of Microelectronics and Computer Technology Corporation; and Ahmed A. Juffali, General Partner and Chief Executive of E. A. Juffali and Bros. of Saudi Arabia.

OUTLOOK

Managing today for tomorrow, the essence of our 1985 restructuring program, has poised Fluor for success. Fluor's primary strategic thrust will continue in our two core businesses and our priorities for 1986 are:

—Return to profitability.
—Enhance engineering and construction services capabilities.
—Accelerate penetration into new engineering and construction fields through intense marketing and tactical acquisitions.
—Sell partial interests in certain natural resources assets to improve returns and generate cash.
—Market Fluor's expertise in natural resources management.
—Reduce costs further to improve profit margins.
—Maintain the company's sound financial condition through improved asset management and asset turnover.

Fluor should deliver gradual improvement in performance at current market levels. As these markets recover, we would expect dramatic gains in our results.

January 17, 1986

D. S. Tappan Jr.

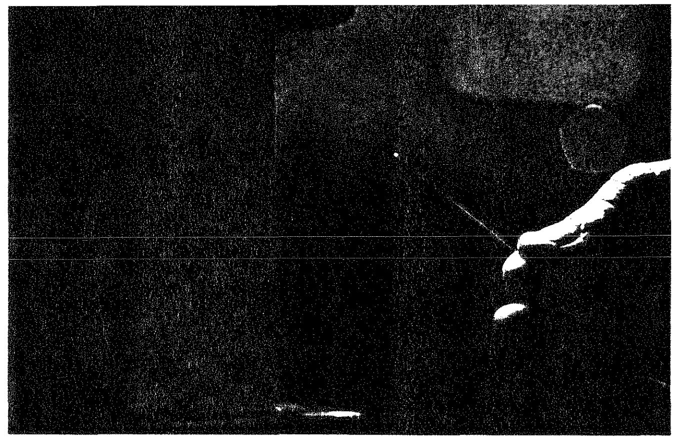
DAVID S. TAPPAN, JR.
Chairman of the Board and
Chief Executive Officer

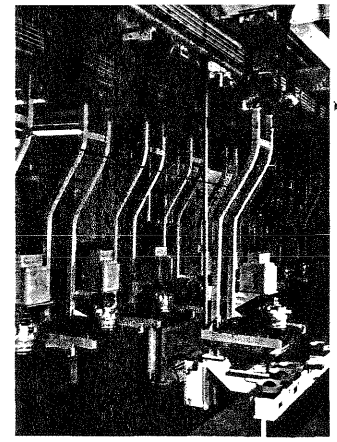
DR 2801059

HIGHLIGHTS

$ in thousands, except per share amounts/Years ended October 31	1985	1984	1983
FISCAL YEAR			
Revenues from continuing operations	$4,168,444	$4,301,777	$5,164,667
Earnings (loss) from continuing operations	(573,283)	(10,360)	82,002
Net earnings (loss)	(633,324)	1,008	27,700
Earnings (loss) per share			
Continuing operations	(7.25)	(.13)	1.04
Net earnings (loss)	(8.01)	.01	.35
Funds provided from (used by) continuing operations	(160,068)	61,960	291,557
Capital expenditures	121,216	285,514	301,835
Cash dividends per common share	$ .40	$ .60	$ .80
AT YEAR END			
Total assets	$2,796,364	$3,891,618	$4,084,920
Capitalization			
Long-term debt	259,064	724,777	720,007
Shareholders' equity	1,033,904	1,696,363	1,747,249
Total capitalization	$1,292,968	$2,421,140	$2,467,256
Percent of total capitalization			
Long-term debt	20.0	29.9	29.2
Shareholders' equity	80.0	70.1	70.8
Shareholders' equity per common share	$ 13.06	$ 21.49	$ 22.19
Number of employees	26,958	32,153	34,123

DR 2801060





TELECOMMUNICATIONS

Fluor is the designer of the largest cellular mobile radio telephone system in the Gulf of Mexico. Fluor is also providing management support services on a nationwide 23,000-mile fiber optics system for US Telecom. Fluor has a full-service capability in telecommunications systems integration. The company is completely independent from all equipment manufacturers, vendors and distributors, allowing for unbiased equipment selection.

FACTORY AUTOMATION

Daniel is combining its technical and project management capabilities with the automation and materials handling skills of The Allen Group to pursue contracts in factory automation. This automated, overhead monorail system (for which Allen holds the exclusive North American license) carries automotive parts between assembly stations.

OPERATIONS

Fluor's operations consist of two core businesses, engineering and construction services and natural resources management. Both operate worldwide.

The Engineering and Construction (E&C) group is comprised of five operations that serve clients in three regions. The Western Hemisphere is served by Fluor Engineers, Inc., Daniel International Corporation, and Fluor Constructors, Inc.; the Fluor-Daniel engineering & construction company headquartered in London serves Europe, Africa and the Middle East; and Fluor-Daniel Engineers & Constructors Ltd. headquartered in Hong Kong covers the Far East, including Australia. The combined engineering and construction operations offer total-responsibility capabilities, including project management, site selection, design, engineering, procurement, construction, maintenance and technical services.

The Natural Resources Management group includes St. Joe Minerals Corporation and 50 percent ownership of Massey Coal Company. Operations consist of exploration and development of new orebodies, mining, milling, smelting, refining and marketing. St. Joe also provides the mining industry with expertise in exploration, development, finance, operations, marketing and overall management.

Fluor's real estate businesses consist of Fluor Real Estate Services, Inc., and its subsidiary, Daniel Realty Corporation, both headquartered in Birmingham, Alabama.

Fluor's Venture Group, headquartered in Irvine, California, supports the Engineering and Construction and Natural Resources Management groups with investment services and project financing, and operates an offshore drilling business through Fluor Drilling Services.

ENGINEERING AND CONSTRUCTION

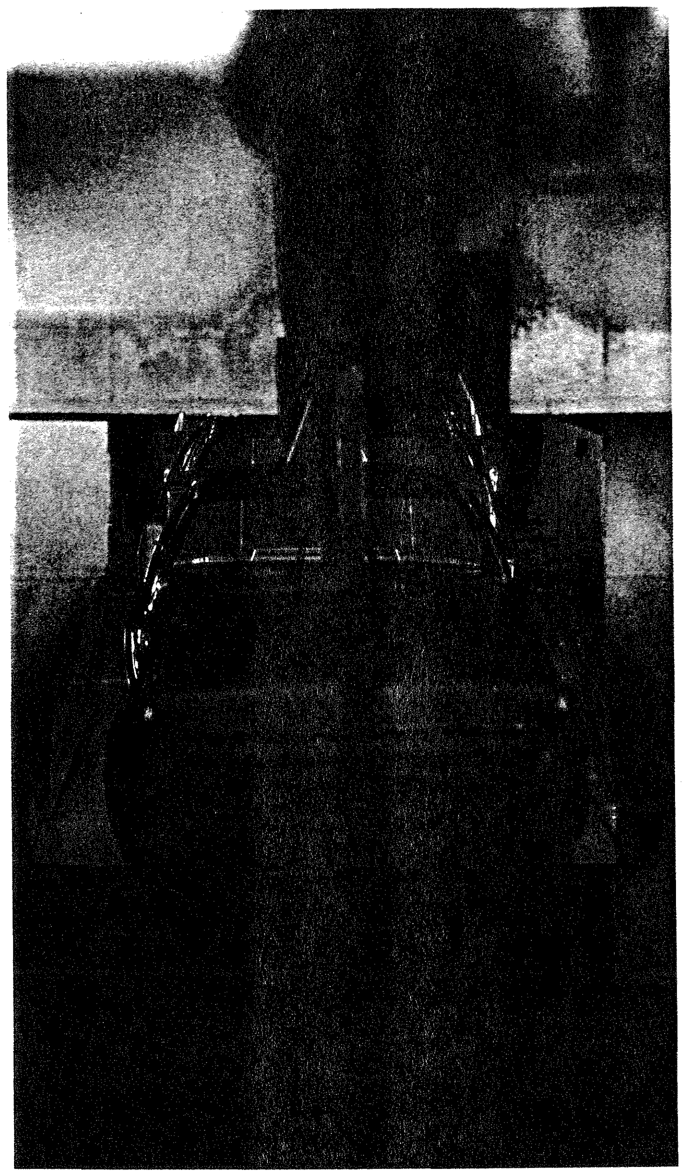
The trend in new orders for the past two years indicates that the recovery in the engineering and construction business is continuing. In 1985, new orders totaled $4.5 billion, slightly higher than the 1984 figure and more than three times the new orders for 1983. Backlog at year-end 1985 was $5.1 billion, up 22 percent from a year ago. A gradual increase in the backlog has been under way since the second quarter of 1984.

In response to a changing marketplace for engineering and construction services, Fluor Engineers, Inc. (FEI) has increased its

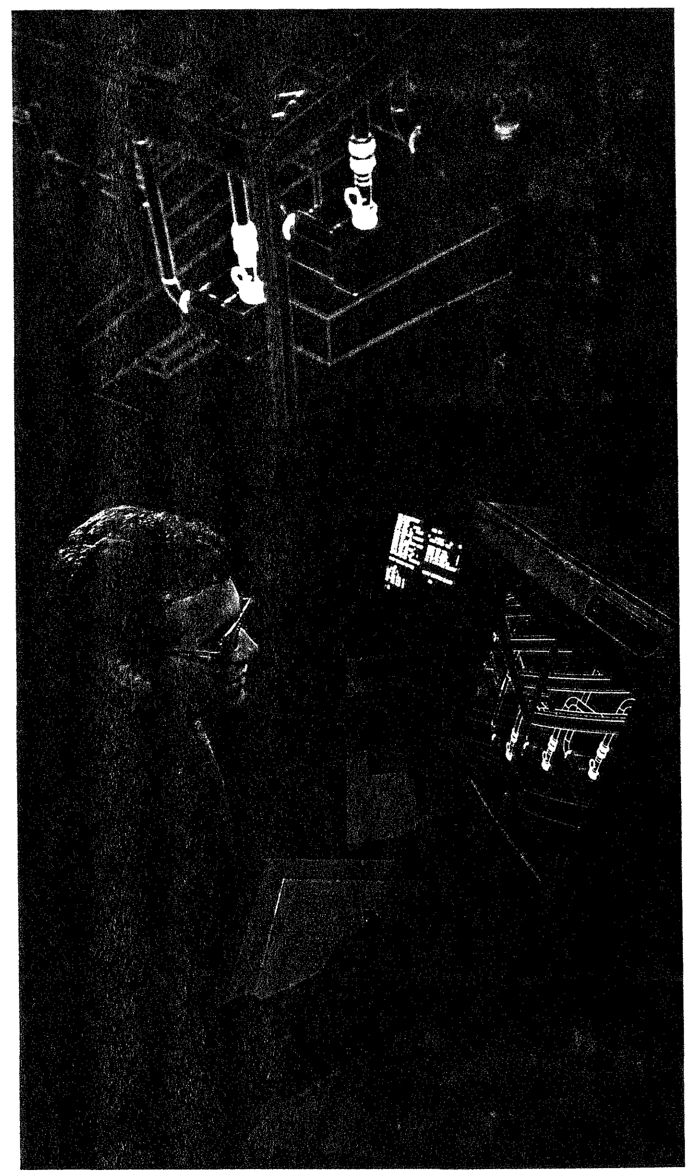
New awards in 1985 from the industrial sector included construction management on a technologically advanced automobile painting facility at an assembly plant in Georgia. Fluor's Daniel subsidiary, one of the nation's largest design/build contractors, is well into the construction phase of the plant, which will employ robotic technology and occupy approximately 500,000 square feet. Daniel has also been awarded design and construction management of an auto parts manufacturing facility in the Midwest and construction management of expansions to two other automobile manufacturing plants in Texas and Delaware.

The G.E.-Calma 3-D computer-assisted plant design system is demonstrated in this isometric of a bulk loading and unloading facility for a plastics plant in Alabama. Automation of the engineering process can be a major contributor to cost reduction. Three of Fluor's engineering locations are now fully operational on a total of 74 full-color, 3-D plant design workstations. Structural steel, concrete, piping, electrical, heating, ventilation, air conditioning and architectural designs all are included in the system's programming capability, as well as highly accurate materials takeoffs.

AUTOMOTIVE



PLASTICS



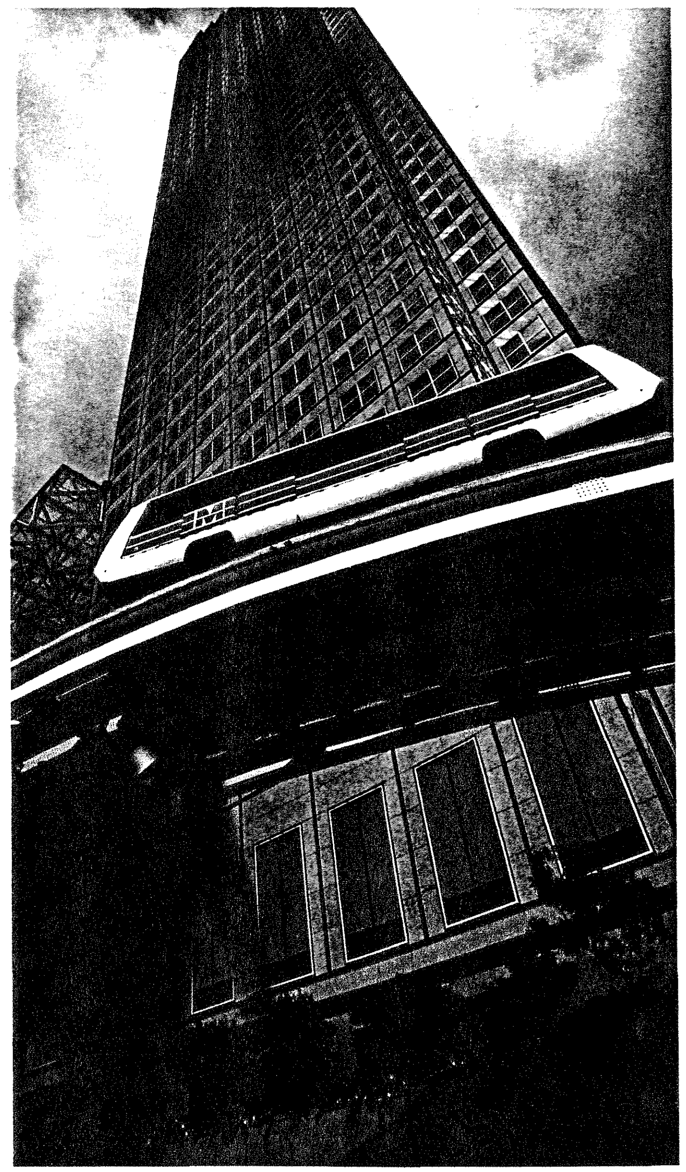
DR 2801062

Fluor, through its Daniel subsidiary, is providing design and construction management services in the renovation of this corn wet milling plant in Illinois, one of many projects Daniel has performed for the same client over the last seven years. Upon completion of the project, state-of-the-art technology will process whole-kernel corn into starch, syrups and sweeteners. The plant also will produce corn oil and animal feed ingredients.

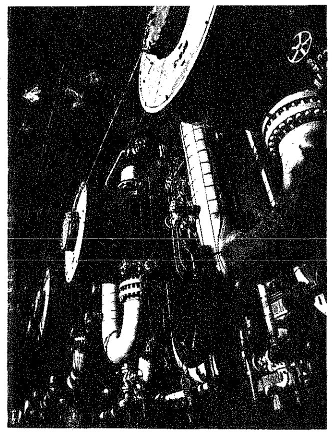
FOOD

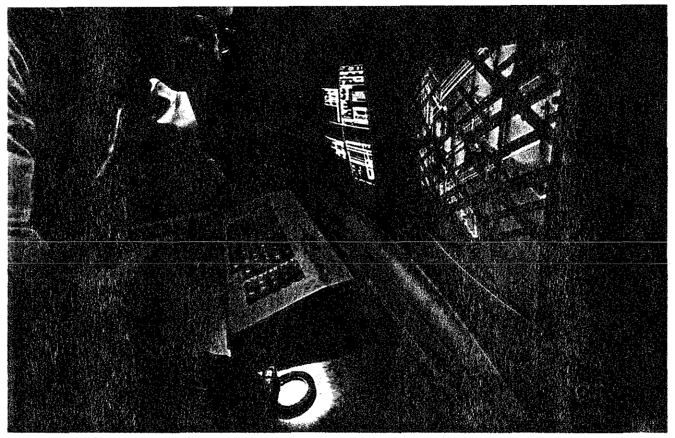
Fluor, through its Daniel subsidiary, has virtually completed construction management of an urban transit system in Miami, Florida. It is the first significant elevated fixed-guideway transit system to be built in the heart of a major metropolitan area in recent decades. The movement of 12 driverless METROMOVER vehicles is regulated by a computerized automatic command system that controls routing, speed, headways, precision stopping and acceleration of the vehicles.

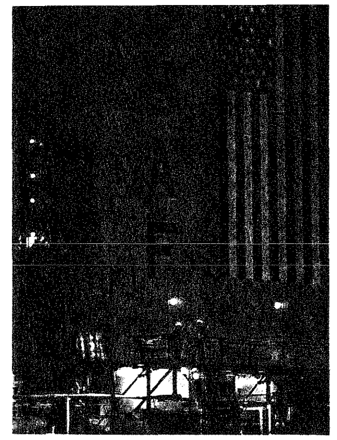
TRANSPORTATION



DR 2801063







GEOTHERMAL

Fluor engineered the world's first commercial-scale binary geothermal power plant. This complex alternative-energy project, the Heber Binary Geothermal Demonstration Power Plant in Southern California, generates 70,000 kilowatts of electricity from geothermal energy, with no environmental pollution.

BIOTECHNOLOGY

A plant which will be used to develop products for the pharmaceutical, food and chemical markets is being designed on the Intergraph 3-D computer system. Fluor's Daniel subsidiary is the designer and construction manager of this special-products facility in the northeastern U.S. Fluor's proven support systems include 2-D and 3-D computer-assisted design, worldwide procurement and cost and scheduling control systems. The company's experience includes design of building and equipment, design documentation, process validation and startup assistance for upscaling pilot plant processes to commercial production.

DEFENSE/AEROSPACE

Fluor developed designs for a wash-down system (foreground) for the Space Shuttle launch pad at the Vandenberg (California) Air Force Base. This project is one of a large number of defense/aerospace contracts awarded to Fluor in 1985, including work from virtually every major defense contractor in the West.

versatility. Its traditional sources of mega-projects —the energy producing industries—continue to be important customers for FEI. However, they represent only 22 percent of total backlog, compared to 87 percent 10 years ago. This is in line with Fluor's strategy to reduce the sensitivity of its E&C business to oil prices, which affect the supply of energy-related projects. Accordingly, FEI has extended its capabilities for complex, technical project management to other industries. This adjustment has been made easier because of the combined technical know-how of FEI and Daniel International, a Fluor subsidiary, and a major design/builder of industrial plants.

The Engineering and Construction group has increased the scope and depth of its market penetration in 1985 by booking contracts with more than 250 new clients and by expanding its services to existing clients.

Organizationally, the company reconfigured its E&C operations to more effectively serve three global regions. In the Western Hemisphere, Fluor Engineers, Daniel International and Fluor Constructors will work closely together, but as separate operations, to market the full range of Fluor services. The new Fluor-Daniel E&C companies headquartered in London, and in Hong Kong, each have a stand-alone capability. The company can now pursue new business from more than 45 sales and operations offices, worldwide. The reorganization has effectively decentralized the group's operations so that operating decisions are made in each respective region.

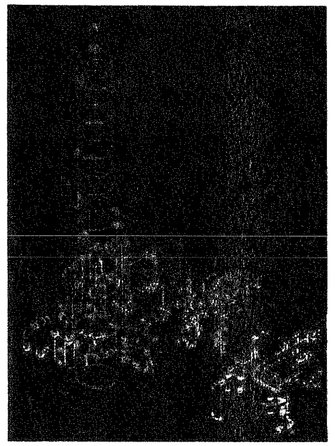
A major area of emphasis is the company's vigorous effort to cut costs and increase productivity. In the last 24 months, the E&C group has reduced overhead costs substantially, and additional reductions will be made in 1986. Automation of the design process is a major contributor to higher productivity. At year end, 3-D computer-assisted plant design systems were up and running on projects at three of Fluor's worldwide locations. In 1986, additional 3-D systems will be added to the network of engineering centers in the United States, Canada and Australia.

INDUSTRIAL AND COMMERCIAL

For the second year in a row, the general industrial/commercial sector led in new orders. And, for the first time in the history of the company, industrial/commercial projects represented the largest dollar share of year-end backlog.

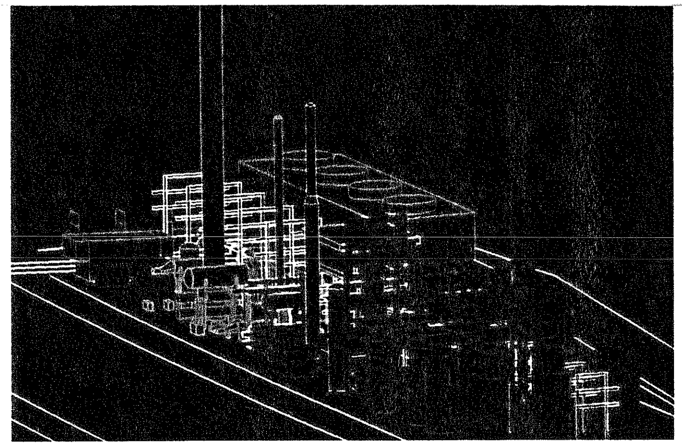
Daniel, one of the nation's largest open-shop design/build contractors in the industrial/commercial field, received new awards in key markets, including: automotive, pulp and paper, biotechnology, chemicals, pharmaceuticals, consumer products and commercial building. These awards included design/construction of the first phase of a billion-dollar, grass-roots pulp and paper facility in Georgia; design/construction of a 12-story high-rise office building in Maryland; construction management on a large research, manufacturing and office facility in Texas; and design/construction of an 800,000-square-foot paper products plant expansion in Maryland. Daniel's engineering capacity grew in 1985.

DR 2801064



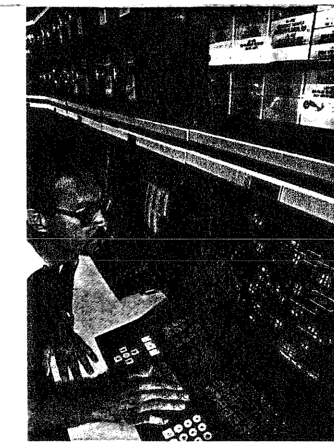
ENVIRONMENTAL

Detailed engineering is under way in a project to modify the sulfur recovery facilities at a refinery in California. Fluor is using its G.E.-Calma 3-D computer design system on the project.



REFINERIES

The phasedown of lead as a gasoline additive has resulted in the revamping of refinery processes. Fluor was awarded design and construction on two octane-enhancement units at refineries in Illinois and California, and is using the G.E.-Calma 3-D system in plant design. A section of the project is shown in this computer-generated isometric.



CONTROL SYSTEMS

Fluor is installing extensive, state-of-the art, computer-based distributed control systems at this refinery in Texas. The company's advanced process control services include studies, detailed engineering, procurement, construction, check-out and commissioning at both new and existing industrial plants.

Fluor Engineers also booked contracts to provide engineering services for such industrial/commercial clients as a wallboard manufacturing plant in the Midwest and a composite material manufacturing facility in California. New awards in chemicals included the first phase of a contract for a pesticide preparation facility in Texas; a contract in Ohio for a plasticizer feedstock plant; and the revamp of a polypropylene facility in Texas.

Fluor/Daniel's new orders included an award for a food products plant in China for an American manufacturer; and biotechnology and pharmaceutical facilities in Europe.

MAINTENANCE AND INDUSTRIAL SERVICES

There has been increasing opportunity for Fluor companies in the maintenance and industrial services area. Client companies more and more are contracting for their maintenance as a means of cutting costs. Sophisticated computerized parts inventory controls, maintenance scheduling and materials procurement integration, are all part of Daniel's full-service maintenance capability, along with labor relations and maintenance supervision. Currently Daniel provides over 8,000 contract maintenance personnel on more than 150 active maintenance projects, as well as quality control, inspection and testing services.

OIL AND GAS PRODUCTION

Important awards were received during 1985 in oil and gas production.

Offshore, Fluor was awarded engineering, design and cost studies related to three tension leg platforms for water depths up to 3,000 feet in the Gulf of Mexico; engineering, procurement and technical support in the fabrication of two offshore production platforms in Malaysia; and design and engineering services for a gas compression system on the King Salmon Platform offshore Alaska.

The world's largest offshore gas production pipeline, Statpipe, began delivering gas during 1985. Fluor is project services contractor for this $3 billion, 500-mile gas gathering system in the Norwegian sector of the North Sea.

Onshore production awards included enhancement of oil gathering facilities and engineering for a gas injection compressor station in Abu Dhabi. There were two additional increments in the phased-released Khuff natural gas transmission and treatment project in Saudi Arabia. Also, Fluor will be performing design and construction management on phases of a major crude oil pipeline project in the Middle East.

PROCESS PLANTS

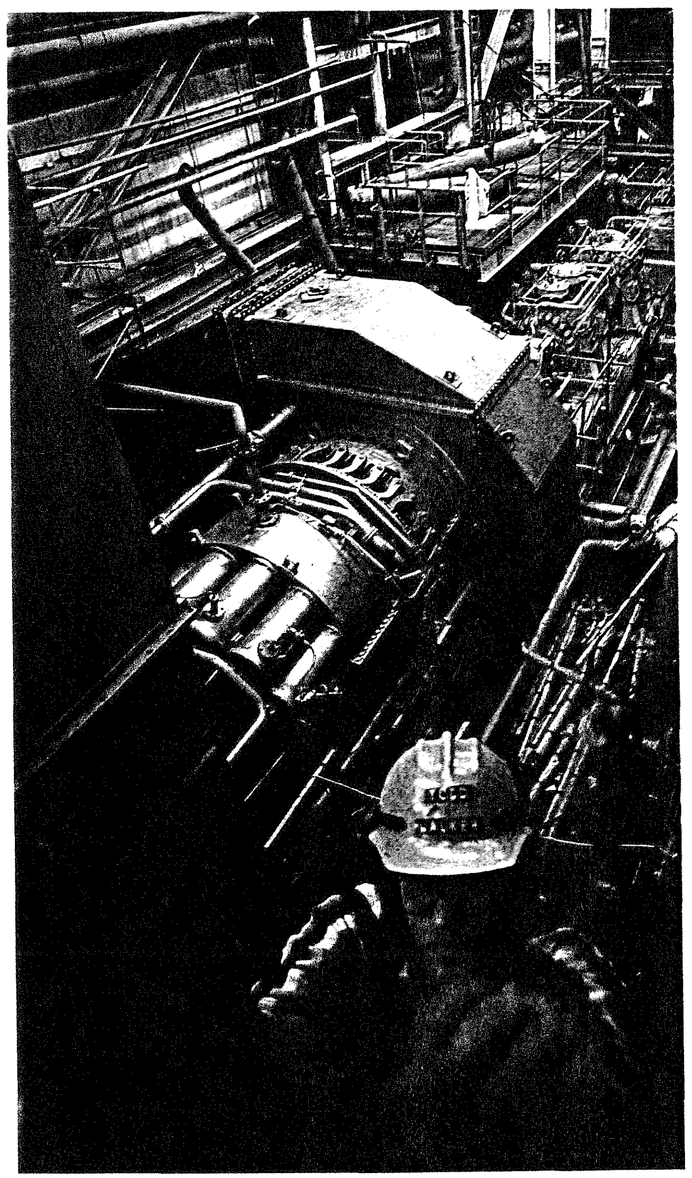
Domestic refinery contract awards continue to be dominated by upgrades and modernization of existing facilities. Fluor was contracted for the construction of a refinery expansion in California; engineering, procurement and construction management on octane-enhancement facilities in Illinois and Louisiana; and modernization of gas processing and catalytic cracking units to boost product yield at a refinery in Ohio.

The need for upgrading facilities to process heavier crude oil feedstocks has also led to new work in the U.S. and Canada. New orders included a coker revamp and instrumentation upgrade in

DR 2801065

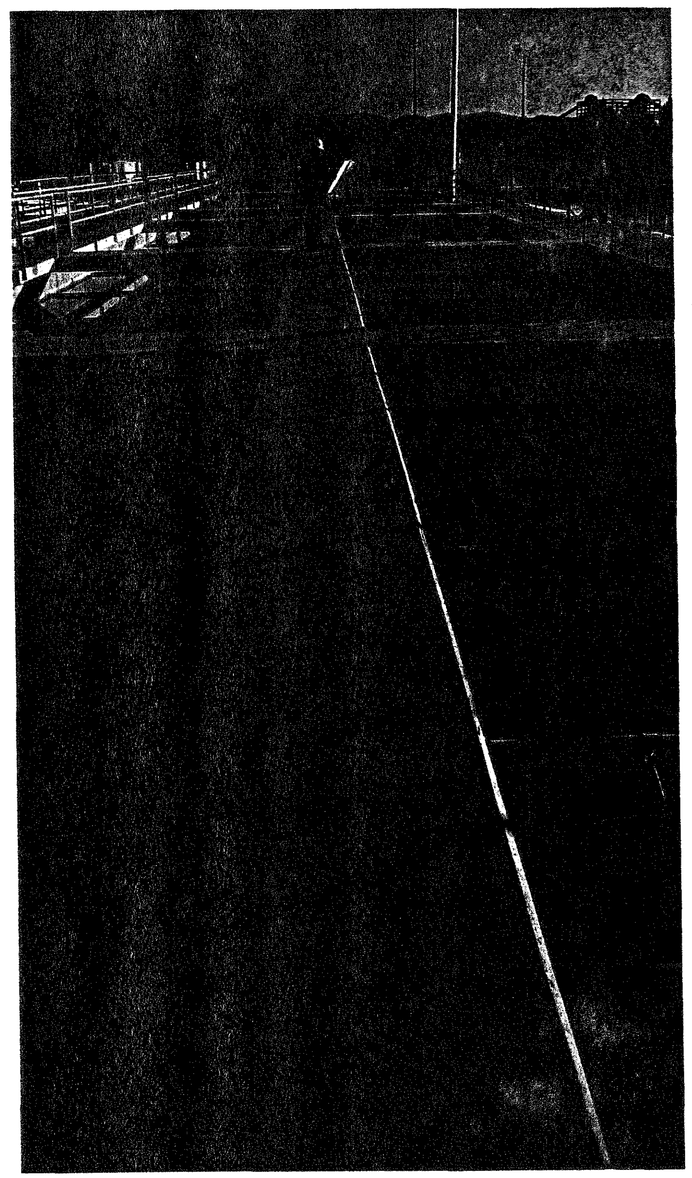
Oil and gas production in Alaska's North Slope includes the Lisburne oil field, currently under development. Fluor did preliminary and detailed engineering, procurement and construction support for a 100,000-barrels-per-day production facility there. Some of the modules for the facility were sealifted to Alaska in 1985. A second group of modules (below) for the huge project is being built by Daniel at a manufacturing yard in Oregon, and will be sealifted to the North Slope in 1986.

OIL & GAS PRODUCTION



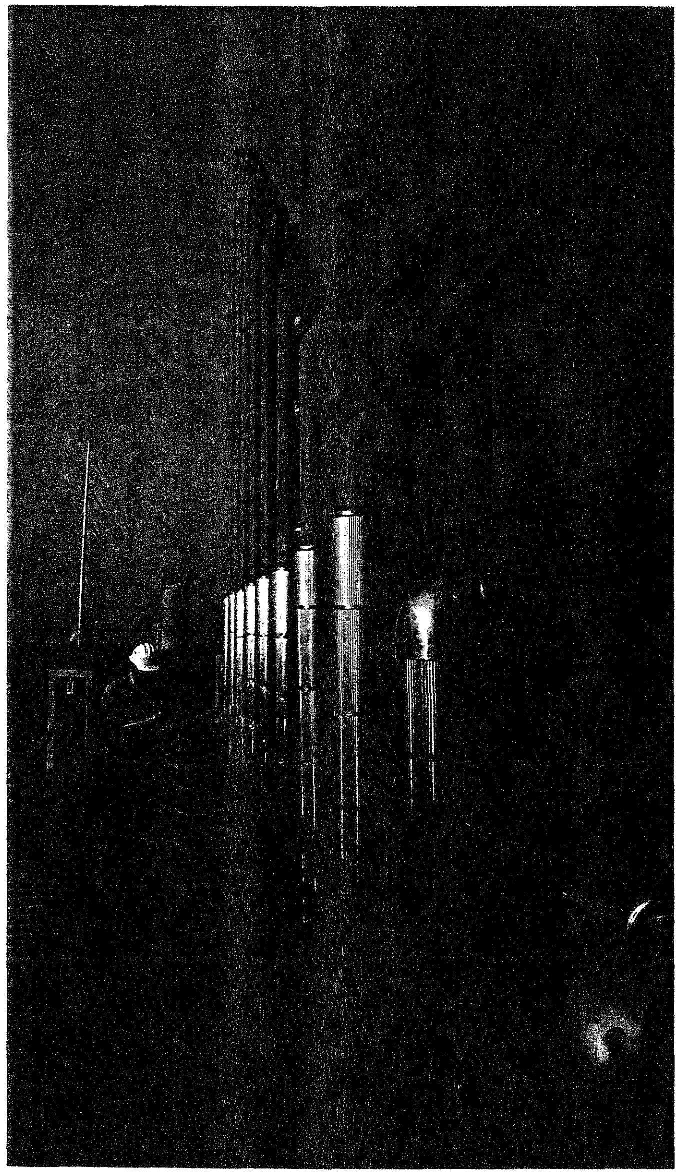
Fluor has recently been awarded two wastewater treatment projects in neighboring California counties. They include this expansion to a major metropolitan water reclamation facility. A second project, a grass-roots water reclamation plant, will have a processing capacity of three million gallons a day. Wastewater treatment facilities are a significant part of Fluor's new business in the infrastructure market. That sector continues to move ahead as a viable industry, near term, for engineering and construction services.

WASTEWATER



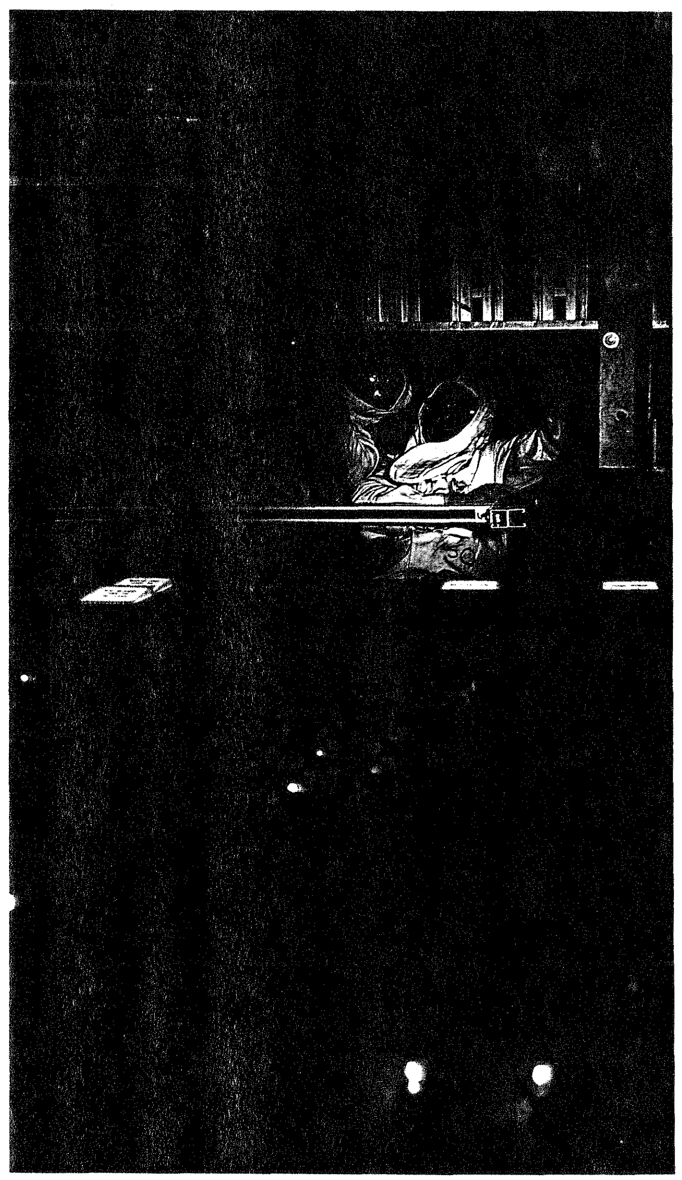
COGENERATION

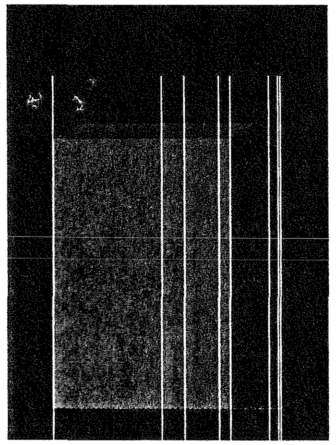
The 300-megawatt Kern County, California cogeneration facility engineered and built by Fluor began operations in the Kern River oil field during 1985. The project, a pioneering effort among California enhanced oil recovery operators, has led to a major second-phase contract to Fluor. The new facilities will generate electricity for a California utility, as well as steam for the recovery of highly viscous crude oil. Fluor has also won large cogeneration awards from two other oil producers and a number of smaller contracts for feasibility studies and reviews.



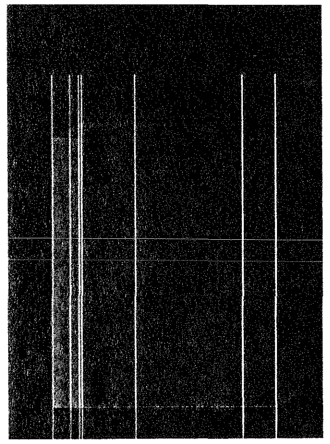
POWER MAINTENANCE

Fluor is providing plant modifications, enhancements and supplemental maintenance for a Florida nuclear power plant, an 860-megawatt facility. Fluor companies provide maintenance services to more than 100 power generating units, including more than 20 nuclear plants. Services range from maintenance scheduling and personnel management, to preventive, supplemental or total responsibility contract maintenance and major modification projects. The company also is a single source for quality assurance, quality control, testing and inspection services for all phases of a retrofit project.

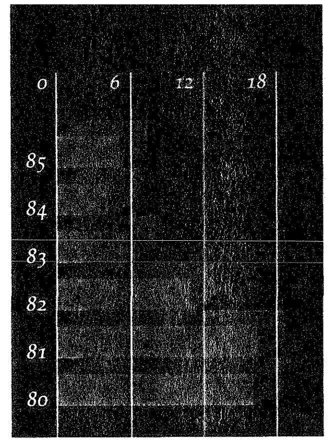




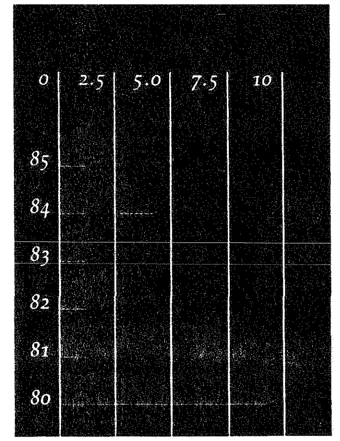
Backlog—1985 by Client Category, Energy vs. Non-Energy
■ Energy Users:
General Industrial/Commercial 48%
Chemical/Petrochemical 10%
Power 15%
Other 5%
■ Energy Producers:
Petroleum 17%
Oil/Gas Production 4%
Gas Processing 1%



Backlog—1975 by Client Category, Energy vs. Non-Energy
■ Energy Users:
Chemical/Petrochemical 8%
Mining and Metals 4%
Other 1%
■ Energy Producers:
Petroleum 24%
Gas Processing 48%
Synfuels 15%



Backlog/$ in billions



New Orders/$ in billions

Canada; and a major heavy crude upgrade project, also in Canada.

POWER

In the power industry, Fluor is offering services beyond the traditional design and build functions. These include: retrofits, maintenance, plant life extensions, technical and inspection services. In 1985, Fluor's awards included design of six buildings at a nuclear generating station in California; design and construction of a 39-megawatt hydroelectric plant in Arkansas (a joint project between Daniel and Southern Electric International, Inc.); development of an environmental compliance and audit program for a Nevada power company; engineering, design and procurement services for an air-quality protection project in Kentucky; and construction management services for a 160-megawatt atmospheric fluidized bed combustion demonstration plant in Tennessee.

DEVELOPING MARKETS

Developments in the telecommunications market were substantial. Gulf Cellular Associates, a joint venture between a subsidiary of U.S. West, Fluor and Gulf Star Communications, received construction permits from the Federal Communications Commission for a cellular mobile telephone system in the Gulf of Mexico. Fluor was also awarded the first phase of a 700-mile overhead fiber optic network for five utility companies in the Great Lakes area.

Transportation and infrastructure continues to move ahead. Daniel is well into program management on an eight-year, $2 billion project to build a health sciences center at the King Abdulaziz University in Saudi Arabia.

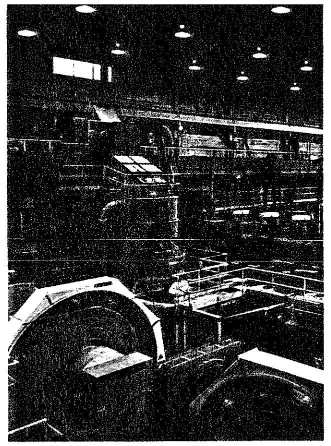
Daniel is pursuing waste-to-energy projects through two joint ventures with companies representing different approaches to that market. Fluor has been awarded port facility upgrading for a cement company in the U.S.; an airport modernization in Illinois; and numerous smaller projects.

In 1985, Fluor companies were also awarded contracts which represent important penetration into the defense/aerospace industry.

CHINA

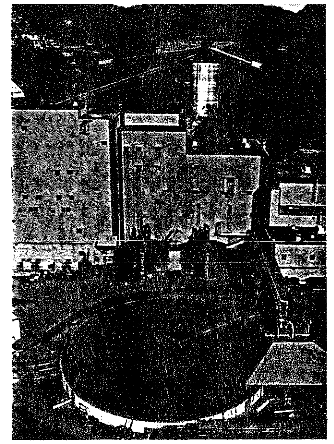
The market for engineering and construction services in China continues to improve. Fluor/Daniel has two joint ventures with the Chinese. One, negotiated in 1984, is with the China National Nonferrous Metals Industry Corporation, establishing Fluor as a qualified contractor for mining and metallurgical projects throughout China. The other agreement is a 50/50 joint venture with the China Petrochemical International Company on projects that will help modernize China's refining and petrochemical industries. Fluor has also announced an agreement with McDonnell Douglas Corporation to jointly pursue contracts to build airport facilities in China.

During 1985, Fluor was awarded a contract from the China National Technical Import Corporation on behalf of the Ministry of Petroleum Industry to provide engineering, procurement and construction services for a natural gas liquids recovery plant at the Liao He oil field in the PRC.



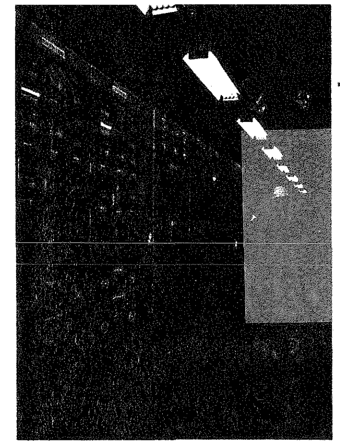
LEAD

Fluor's St. Joe Lead Company is the largest producer of lead in the United States with integrated mining, milling and smelting capabilities. Activities during 1985 focused on improving production efficiency and enhancing mine flexibility. These actions have reduced the costs of both feed materials and production.



COAL

Fluor owns a 50 percent interest in Massey Coal Company, a major domestic producer of high-quality, low-sulphur coal. Nearly 80 percent of 1985 coal sales were under long-term contract, a key strength of Massey's marketing strategy. During 1985, management concentrated on cost reductions and productivity improvements of its coal preparation plants.



GOLD

The control center at the mill in Fluor's El Indio gold-mining complex in Chile is state-of-the-art computerized equipment. The most modern processing systems assure maximum recovery of gold, silver and copper from the exceptionally high-grade ore there.

NATURAL RESOURCES MANAGEMENT

Fluor's Natural Resources Management group includes the domestic and international metals operations of St. Joe Minerals Corporation and 50 percent ownership of Massey Coal Company. St. Joe is the largest integrated producer of lead and zinc in the United States and is a producer of gold, silver, iron ore pellets and coal.

During 1985, the group has experienced declining prices in all of the minerals and metals it produces, and there continues to be industry-wide overcapacity. A major emphasis throughout the year was cost reduction. Accordingly, St. Joe is concentrating on finding higher-grade ore at existing mines and on strengthening its position as a leading low-cost producer by diversifying both geographically and in terms of product lines and services.

St. Joe offers superior natural resources management services on a stand-alone basis. The company is currently in various stages of negotiation with government and private mining interests in Saudi Arabia, China, Venezuela and Turkey.

EXPLORATION

St. Joe's worldwide exploration program is involved in expanding and diversifying the products and the geographic regions in which the company operates. Emphasis in 1985 was on precious metals. Several medium-size, low-grade orebodies with low capital requirements offer prospects for quick payback because of St. Joe's technological capabilities for extracting these precious metals. Exploration for gold accounted for 62 percent of worldwide exploration expenditures in 1985. Excellent precious metals prospects exist in several countries, and emphasis will be placed on development of those prospects in the advanced exploration stage.

Attractive prospects for significant new gold finds exist in Chile, where exploration continues at several sites in the vicinity of St. Joe's El Indio gold mine. During 1985, gold-bearing ore was produced from a number of orebodies in the Tambo area of the El Indio district.

TECHNOLOGY DEVELOPMENT

St. Joe's development of new technologies has also increased the company's market opportunities. For example, St. Joe has been developing a new technology—the flame reactor process—for the treatment of electric arc furnace dust, a by-product of the steel industry which has been listed as a hazardous waste by the Environmental Protection Agency. The flame reactor process not only converts the dust to a harmless slag, but also efficiently recovers zinc, lead and cadmium which can be used as feed materials at St. Joe's smelters. This technology has been successfully demonstrated during 1985.

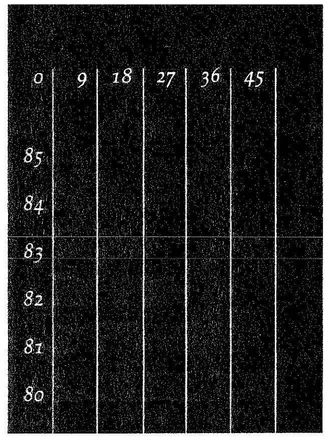
Among many other technologies under evaluation at St. Joe is a low-cost method for producing magnesium.

DOMESTIC METALS

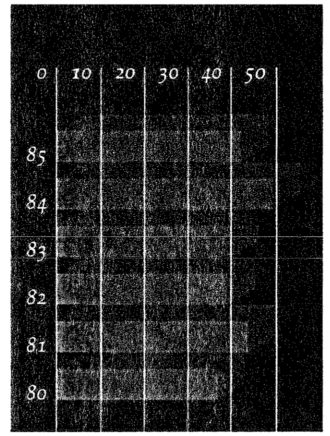
St. Joe's domestic operations include mining, milling and smelting of lead and zinc, as well as production of iron ore pellets, gold and silver. Average prices for lead have declined over the past year.

St. Joe has focused on productivity improvements in its lead oper-

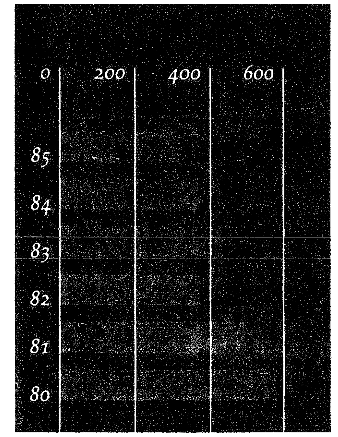
DR 2801069



Average Annual U.S. Producer Lead Price for Fiscal Years Ending October 31/cents per pound
Source: Metals Week



Average Annual U.S. Producer Zinc Price for Fiscal Years Ending October 31/cents per pound
Source: Metals Week



Average Annual Gold Price for Fiscal Years Ending October 31/ $ per troy ounce
Source: Metals Week

ations through process improvements and enhanced mine flexibility to reduce net product costs. The labor force in St. Joe's lead mines has also been reduced nearly 40 percent. A prolonged labor dispute at St. Joe's Missouri lead mines was settled in the first quarter of 1985 on terms that improved productivity.

In 1985, St. Joe sold 109,000 tons of zinc metal, a 38 percent increase over 1984. The increase reflects additional production from the National Zinc smelter, which was acquired in the fourth quarter of 1984. Average zinc metal prices declined in 1985.

The company's strategy is to optimize the integration of its zinc mining and smelting operations.

In St. Joe's iron ore business, prices averaged slightly below 1984. Volume was lower than last year, because of reduced demand.

INTERNATIONAL MINERALS
St. Joe's international operations are primarily based in South America. In 1985, they consisted of gold, silver and copper mining in Chile; lead and zinc mining, plus by-products of silver and copper in Peru and silver in Argentina; and tin in Brazil. Overall profits in these operations declined in 1985, because of lower prices and sales volumes.

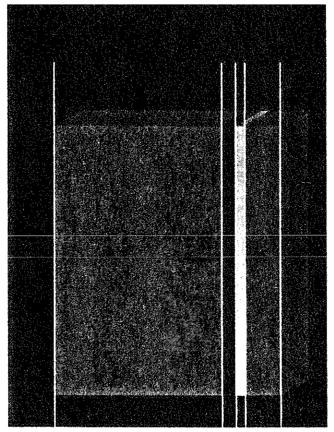
In Brazil, the Mocambo tin mining complex is a new operation for St. Joe. Commercial production starts in fiscal 1986, with production for the year projected near 1,000 tons of tin metal. Thirteen million cubic meters of ore have been designated as proven or probable reserves. St. Joe enjoys high-grade ore and low-cost production at Mocambo.

ST. JOE GOLD CORPORATION
As of November 1985, St. Joe's gold operations in the U.S., Canada and Chile were reorganized into a newly-formed company, St. Joe Gold Corporation. The new company includes two-thirds interest in the Yuba Placer gold-mining venture in California, new exploration sites in North America and 82 percent interest in the El Indio gold-mining complex in Chile. Approximately 10 percent of the new company is anticipated to be sold to the public. St. Joe will manage the company and own the remaining shares. St. Joe Gold has estimated reserves of 1.5 million ounces of gold and 14 million ounces of silver.

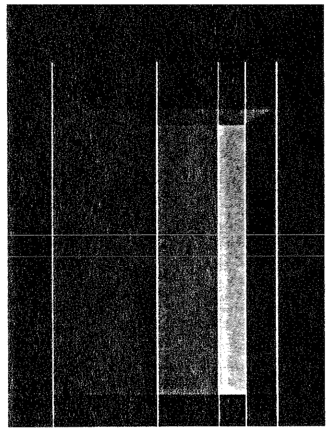
St. Joe's El Indio gold-mining complex has extraordinarily high ore grades. Increases in production of ore offset the gradual decline in average ore grades. As a result, St. Joe's gold production increased slightly in 1985 to 242,000 troy ounces.

In North America, the Yuba Placer operation increased St. Joe's gold production from 10,000 troy ounces in 1984 to 15,000 troy ounces in 1985. The company is currently engaged in active precious metals exploration projects in the western United States and the Black Hills of South Dakota. The company has identified gold at its Montgomery-Shoshone property in Nevada and at its Carbonate property in South Dakota. In addition to these, the company has approximately 15 active exploration projects in the U.S.

DR 2801070



U.S. Lead Metal Consumption by Market Segment—1985/percent
- *Batteries 73.8*
- *Pigments 6.1*
- *Gas Additives 4.1*
- *Other 16.0*



U.S. Zinc Metal Consumption by Market Segment—1985/percent
- *Galvanizing 46.5*
- *Die Casting 27.6*
- *Brass & Bronze 12.1*
- *Other 13.8*

Fluor has expanded its approach to the natural resources business by marketing its management expertise on a stand-alone basis to the natural resources industry, worldwide. Fluor's St. Joe Minerals subsidiary has a long history of experience in exploration; development; financial planning and execution; operations management; and marketing. The following pictures illustrate St. Joe's capabilities in each of these six essential services.

In Canada, current exploration is being conducted on 16 prospects.

COAL

St. Joe is 50 percent owner of Massey Coal Company, a major domestic producer and processor of steam and metallurgical coal. Massey's total coal reserves exceed one billion recoverable tons. The company also owns two export terminals and brokers coal for several other producers.

Sales of produced coal in 1985 were 19 million tons, down one million tons from 1984. The U.S. coal industry is improving, but at a gradual pace. Average prices for 1985 remained at about the same level as last year.

About 80 percent of Massey's coal sales to electric utilities are under long-term contracts supported by escalation clauses. The company achieved productivity gains through increased efficiency and the closing of high-cost mines. These improvements were more than offset by a year-long strike at several of the company's mines. Cost cutting will remain a priority during 1986.

In the fourth quarter of 1985, Fluor recorded a $212 million write-down in connection with pursuing the disposition of certain mines.

REAL ESTATE SERVICES

Fluor Real Estate Services, Inc., headquartered in Birmingham, Alabama, was founded in 1985 as a subsidiary of Fluor Corporation. Its principal subsidiary is Daniel Realty Corporation (DRC), founded in 1964, which has full-service real estate management, development and syndication expertise. During 1985, DRC was instrumental in the sale of three Fluor facilities in South Carolina and Texas, with combined market values in excess of $200 million. Fiscal 1985 was DRC's most profitable year.

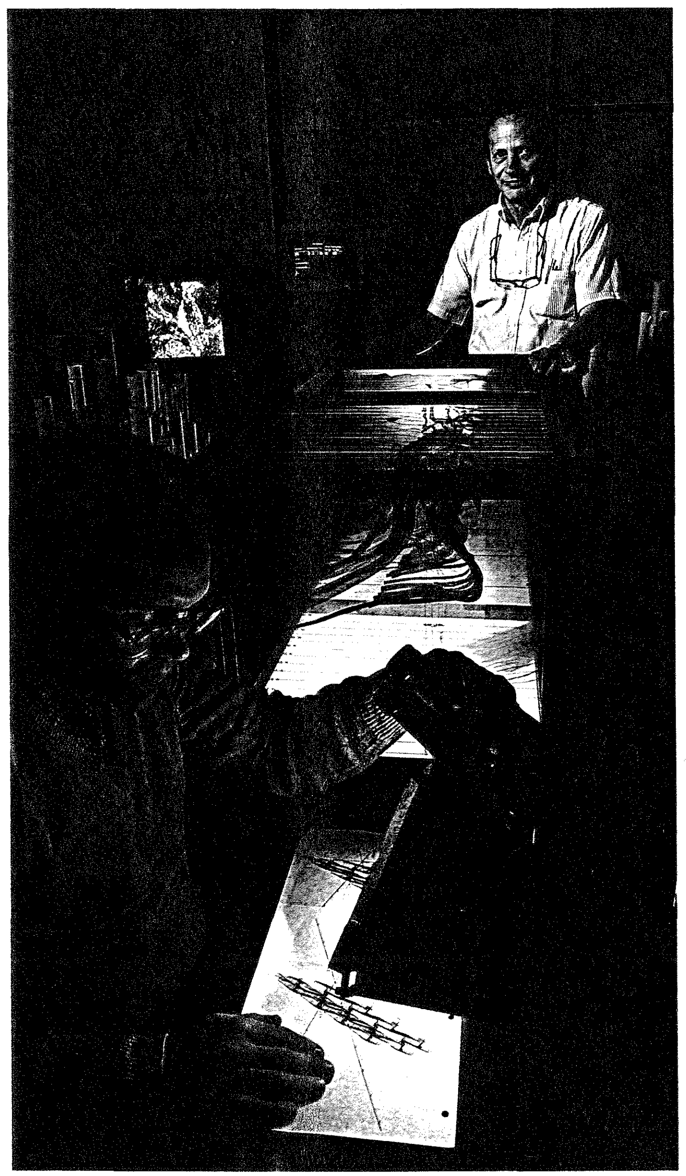
VENTURE GROUP

Fluor's Venture Group was established in 1984 to provide investment services support to the Engineering and Construction and Natural Resources Management groups. During 1985, the Venture Group increased its management staff to explore business opportunities at the earliest possible stage in fast-growing new markets. These included cogeneration, waste-to-energy, hazardous waste and telecommunications.

DR 2801071

Finding an orebody with mineral content that can be developed economically is the first critical step to bringing a successful mining operation on stream. St. Joe's exploration process combines the skills of veteran geologists with state-of-the-art technologies for locating and analyzing high-grade orebodies. The tools of exploration shown here include satellite-based remote sensing equipment, infrared photography, computer-enhanced imagery and mathematical and 3-D modeling. Geophysicists, statisticians and chemists are among the researchers who help locate and define mineral deposits.

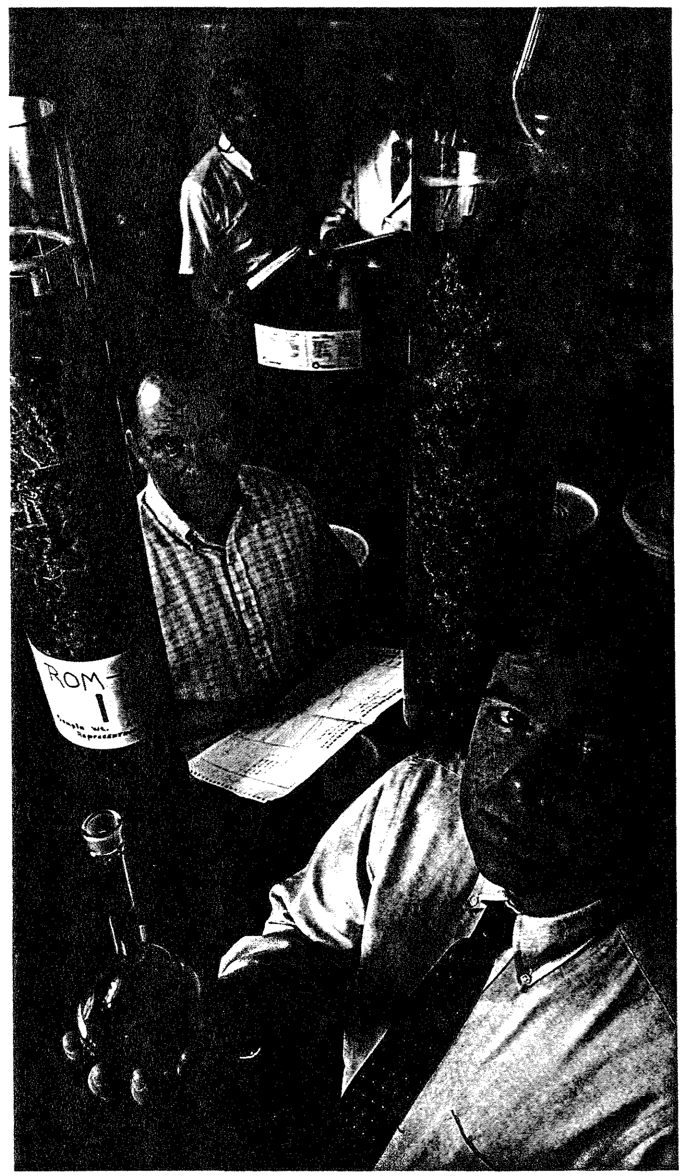
EXPLORATION



The development function takes a mining project from the conceptual stage through reserve verification to the design of process flowsheets and equipment specifications. The metallurgy of the orebody is tested, and processes are developed for extracting and recovering the desired minerals and metals. St. Joe's exploration geologists work with the metallurgists and mining engineers to find the most efficient processing methods.

Based on these findings, the commercial viability of the project can be assessed. The heap leach process, being analyzed here for use at a St. Joe gold property in Nevada, makes it possible to economically recover the gold from large amounts of low-grade ore.

DEVELOPMENT



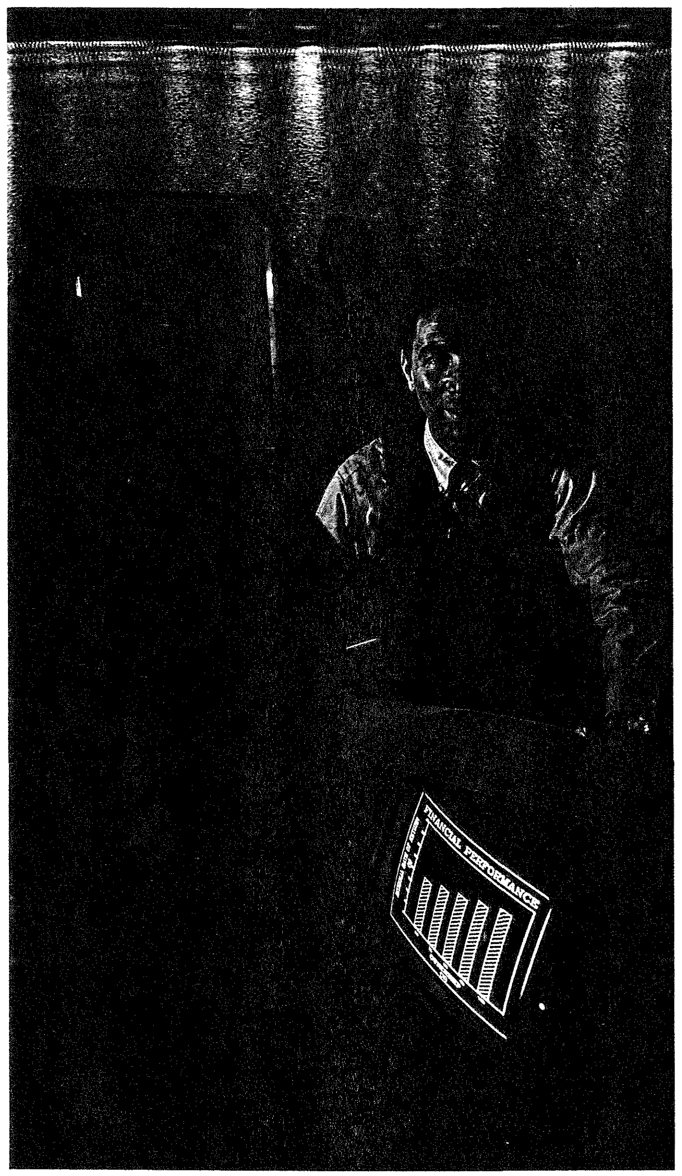
DR 2801072

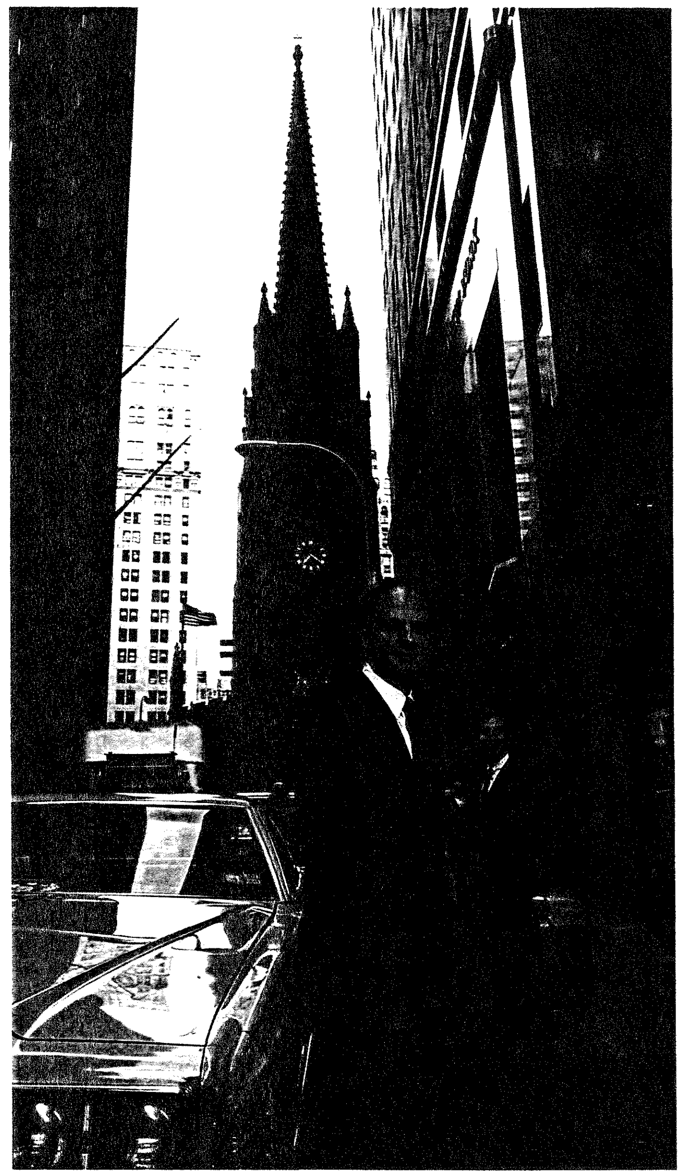
The first step in the decision to develop a mining complex is to ascertain that the project is financially viable at all points of an economic cycle. St. Joe's managers gather information from the exploration phase, evaluate it in the development phase and package it in a computer-generated financial model that helps them evaluate the project's investment merit. Best-case and worst-case scenarios are developed, based on analyses of all the factors that can influence profitability and cash flow. St. Joe's knowledge of mining, milling and smelting operations is a critical link to valid financial evaluations.

FINANCIAL MODELING

The development of a new mining operation requires a substantial, front-end investment that must be made on 20- to 30-year projections. It requires a sophisticated financial package. The macro side of finance in natural resources management involves developing the most plausible financial model to justify investment decisions. St. Joe's financial managers understand not only the elements that make a mining project viable and financially attractive, but also the workings of government, regulations and tax laws that could impact returns on investment.

PROJECT FINANCE

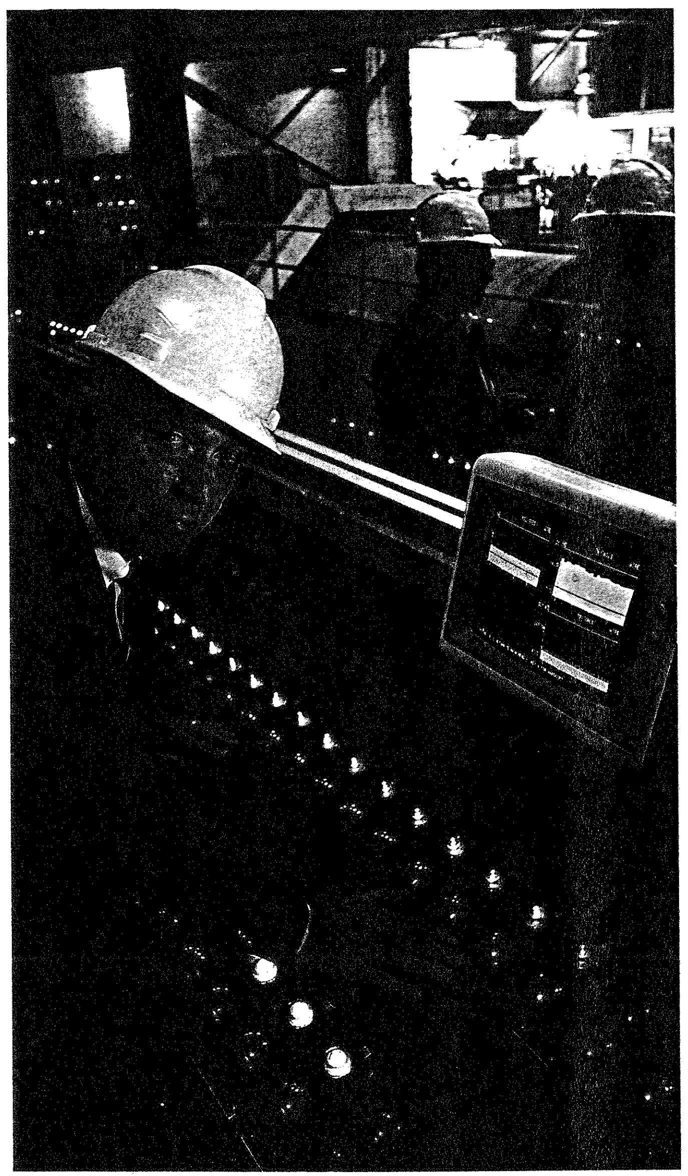




DR 2801073

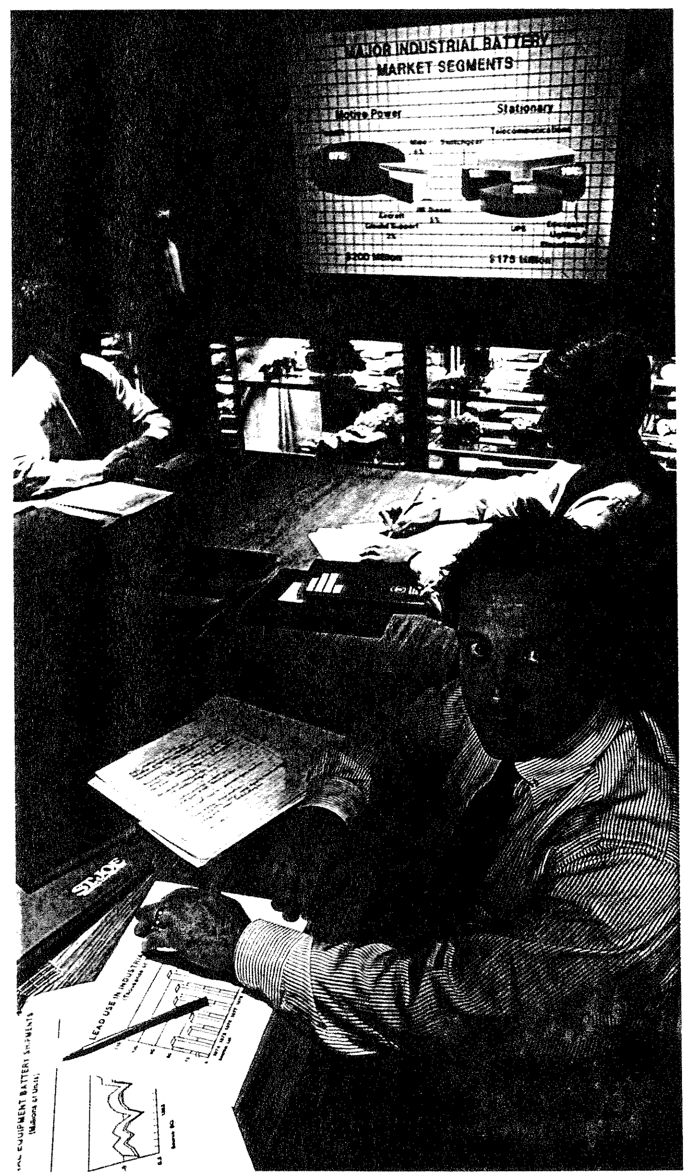
Optimum productivity through mine utilization, personnel management, process improvement, training, sophisticated controls, safety, maintenance scheduling—all are part of mining operations. St. Joe currently operates 10 mining, milling and smelting locations in the United States and six in other countries, in addition to numerous exploration sites. With more than 120 years' experience in natural resources management, the company is the largest integrated producer of lead and zinc in the United States and is a producer of gold, silver, tin, iron ore pellets and coal. Modern, computer-monitored equipment such as this St. Joe milling operation in Missouri help fortify the company's position as a leader in low-cost production.

OPERATIONS



St. Joe interprets supply and demand forecasts to achieve the best rate of production and the best ratio of contract to spot market sales. Pricing and consumption trends which affect the planning of operations also are defined through marketing research. Plant managers and marketing managers maintain constant communication to assure that the product in demand will be available when and where it is needed.

MARKETING



DR 2801074

ENGINEERING AND CONSTRUCTION

$ in thousands/Years ended October 31,	1985	1984	1983	1982	1981	1980
Work Performed	$3,438,327	$4,458,238	$6,335,741	$ 7,526,128	$ 7,295,853	$ 6,557,957
Revenues	3,179,308	3,205,987	4,104,454	5,384,723	4,812,191	4,129,766
Operating Profit (Loss)	(84,883)	94,604	210,676	228,587	227,980	184,382
New Orders	4,485,300	4,151,261	1,244,553	2,908,822	7,100,552	9,113,746
Backlog	$5,114,700	$4,194,247	$5,610,687	$10,711,815	$16,166,292	$15,917,558
Manpower	14,530	16,353	18,998	24,498	25,858	23,601

BACKLOG BY INDUSTRY AND LOCATION

$ in millions	$ 1985	%	$ 1984	%	$ 1983	%	$ 1982	%	$ 1981	%	$ 1980	%
General Industrial	1,474	28.8	927	21.9	145	2.6	371	3.4	636	3.9	358	2.2
Petroleum	847	16.6	737	17.4	1,254	22.1	2,217	20.5	3,287	20.1	2,431	15.1
Power	749	14.6	370	8.8	1,310	23.1	1,760	16.3	2,728	16.6	2,744	17.1
Paper	690	13.5	548	13.0	238	4.2	479	4.4	235	1.4	216	1.3
Chemical/Petrochemical	519	10.1	506	12.0	1,011	17.8	2,413	22.3	4,199	25.6	3,459	21.5
Commercial/Institutional	232	4.5	115	2.7	123	2.1	168	1.6	174	1.1	188	1.2
Oil and Gas Production	190	3.7	492	11.7	37	.7	124	1.1	95	.6	331	2.1
Gas Processing	50	1.0	133	3.1	738	13.0	1,634	15.1	1,945	11.9	2,979	18.5
Synfuels	44	.9	—	—	48	.9	215	2.0	831	5.1	1,921	11.9
Mining/Metals	8	.2	67	1.6	279	4.9	761	7.0	1,406	8.6	1,062	6.6
Other	312	6.1	329	7.8	487	8.6	684	6.3	850	5.1	405	2.5
Total Backlog	5,115	100.0	4,224	100.0	5,670	100.0	10,826	100.0	16,386	100.0	16,094	100.0
United States	4,072	79.6	2,868	67.9	2,579	45.5	4,695	43.4	7,075	43.2	6,423	39.9
Outside U.S.	1,043	20.4	1,356	32.1	3,091	54.5	6,131	56.6	9,311	56.8	9,671	60.1
Total Backlog	5,115	100.0	4,224	100.0	5,670	100.0	10,826	100.0	16,386	100.0	16,094	100.0
Backlog includes owners' cost of approximately	1%		8%		34%		35%		33%		28%	

Fluor earns a fee on this portion of backlog which will not ultimately be recorded as revenues.

COAL

$ in thousands/in thousands of short tons/ Years ended October 31,	1985	1984	1983	1982	1981	1980
Revenues	$ 475,051	$489,634	$437,455	$446,883	$130,974	*
Operating Profit (Loss)	$(223,038)	$ 14,800	$ (6,824)	$ 2,624	$ 9,155	*
Manpower	3,571	4,709	5,145	5,959	5,432	4,880
Steam Coal Produced	7,795	7,998	7,102	6,873	5,269	5,163
Metallurgical Coal Produced	1,730	2,168	2,084	2,155	1,787	1,826
Produced Coal Sold	9,528	9,982	9,192	8,837	7,054	7,010
Purchased Coal Sold	2,174	1,931	1,461	1,741	3,869	3,945

Represents 50% of Massey's operations for all periods, except manpower which is 100%.
*Financial data for St. Joe Minerals Corporation are included from the date of acquisition, August 3, 1981. Other information for St. Joe for periods prior to August 3, 1981 is shown for comparative purposes only.

DR 2801075

METALS

$ in thousands/Years ended October 31,	1985	1984	1983	1982	1981	1980
Revenues	$ 392,746	$433,741	$429,000	$440,019	$108,839	*
Operating Profit (Loss)	$(203,800)	$ (3,894)	$ 32,664	$ 46,203	$ 19,716	*
Manpower	7,743	9,236	8,000	8,232	8,045	7,462
INTERNATIONAL OPERATIONS						
(in short tons except as noted)						
Lead Content of Concentrates Sold	29,678	28,725	35,576	40,184	32,933	32,570
Zinc Content of Concentrates Sold	36,576	49,875	52,140	62,819	52,554	66,369
Copper Content of Products Sold	20,682	23,784	20,848	12,509	2,503	2,171
Gold Content of Products Sold (Troy Ounces)	274,831	293,514	361,588	368,081	171,023	130,586
Silver Content of Products Sold (Troy Ounces)	2,441,964	2,462,124	2,732,631	2,677,057	1,819,314	2,014,737
DOMESTIC OPERATIONS						
(in short tons except as noted)						
Lead Content of Concentrates Produced	172,781	137,618	215,984	207,776	168,317	239,171
Lead Metal Sold	177,772	169,080	220,823	205,573	170,638	199,573
Zinc Content of Concentrates Produced	71,602	76,862	87,315	77,947	59,592	58,162
Zinc Metal Equivalent Sold	146,732	113,738	100,459	75,207	46,212	50,172
Iron Pellets Sold (Gross Tons)	1,021,174	1,283,262	672,341	786,354	970,682	780,041
Silver Content of Products Sold (Troy Ounces)	716,178	657,766	609,658	702,359	751,459	930,992
Gold Content of Products Sold (Troy Ounces)**	15,417	10,423	7,199	—	—	—

*Financial data for St. Joe Minerals Corporation are included from the date of acquisition, August 3, 1981. Other information for St. Joe for periods prior to August 3, 1981 is shown for comparative purposes only.
**Represents 66⅔% ownership.

DRILLING

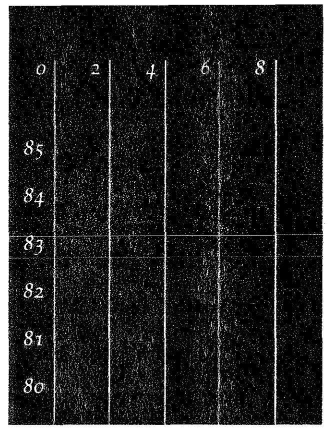
$ in thousands/Years ended October 31,	1985	1984	1983	1982	1981	1980
Revenues	$ 71,226	$ 61,914	$ 85,682	$127,499	$109,203	$85,374
Operating Profit (Loss)	$(31,259)	$ (1,675)	$ 4,132	$ 60,400	$ 39,687	$25,197
Average Rig Utilization Rate	79%	74%	71%	89%	96%	98%
Manpower	449	550	581	756	731	670

OTHER*

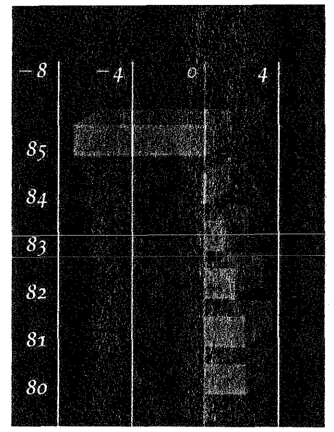
$ in thousands/Years ended October 31,	1985	1984	1983	1982	1981	1980
Revenues	$ 50,113	$110,501	$108,076	$115,611	$ 97,007	$64,343
Operating Profit (Loss)	$(28,899)	$(16,136)	$ 17,422	$ 20,788	$ 1,903	$ 7,618
Manpower	665	1,305	1,399	1,559	1,777	1,219

*Includes all intercompany eliminations.

DR 2801076



Revenues from Continuing Operations/$ in billions



Earnings (Loss) Per Share from Continuing Operations/dollars

FINANCIAL CONTENTS

MANAGEMENT'S DISCUSSION AND ANALYSIS

RESULTS OF OPERATIONS

The loss from continuing operations in 1985 was $573 million compared to a loss from continuing operations of $10 million in 1984 and earnings from continuing operations of $82 million in 1983. The related loss per share was $7.25 for 1985 compared to a loss per share of $.13 for 1984 and earnings per share of $1.04 for 1983. Revenues from continuing operations declined 3% in 1985 following a 17% decline in 1984. The 1985 results include substantial unusual and nonrecurring charges.

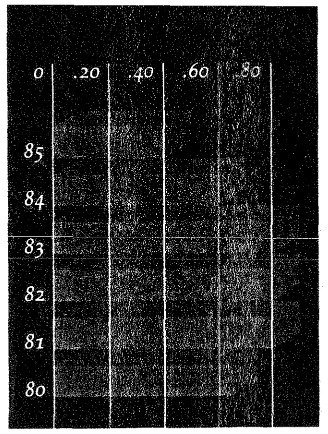
RESTRUCTURING ACTIVITIES

The continuation of depressed business conditions in the company's two core businesses required the company to develop a restructuring plan. The basis of this plan included the following decisions and actions: disposition of oil and gas investments, which no longer fit the corporate strategy; reduction of investment and activities in the depressed offshore drilling industry; sale and leaseback of major real estate holdings to realize appreciated values and raise cash; sale and sale/leaseback of various other assets; reduction of carrying values assigned to certain mineral properties; operating improvements and overhead reductions to meet increased competition; and utilization of cash raised to pay down debt, reducing interest expense and improving financial position.

During 1985, the company disposed of all of its oil and gas operations. In the second quarter, the company's interests in eighteen Gulf of Mexico oil and gas production tracts were sold for $80 million in cash. During the fourth quarter of 1985, all of the remaining oil and gas businesses were sold for approximately $190 million which resulted in an after-tax loss on sale of $51 million. At October 31, 1985, $60 million of the purchase price had been received with the balance received in the first quarter of 1986.

Due to continued depressed offshore oil exploration activity, management decided to dispose of three of its offshore drilling vessels. One drillship was sold during the fourth quarter and the other two drillships, which will be sold during 1986, have been written down to net realizable value and reclassified to net assets held for sale at October 31,

DR 2801077



Dividends Per Common Share/ dollars

1985. Results of operations include a pre-tax charge of $36 million to reduce the carrying value of these rigs to net realizable value.

Real estate sale and leaseback transactions included the company's Irvine, California headquarters and engineering center facility for $305 million, its Sugar Land, Texas engineering center for $161 million, its Daniel Centre engineering facility in Greenville, South Carolina for $43 million and its Melbourne, Australia office building for $11 million. The sale of the Irvine facility resulted in a pre-tax gain of $202 million of which $79 million was recognized. The remaining gain of $123 million will be recognized over the leaseback period. The company will receive an additional $35 million on the sale of the Irvine facility after July 31, 1986, if certain development approvals are obtained.

A review of the company's natural resource business during 1985 disclosed that the long-term business prospects of certain operations did not support the historical carrying values. The domestic lead operation has experienced decreasing sales volumes, commodity prices and operating profits since its acquisition in 1981. Based upon this condition and the prospect for continued depressed conditions in the domestic lead industry, during the fourth quarter the company wrote off the $138 million of excess of cost over net assets acquired allocated to lead operations.

In October 1985, the company wrote down its investment in certain Massey Coal Company mines to net realizable value and is pursuing disposition of certain of these properties. This write-down resulted in a charge to operations of $212 million consisting of reductions in property carrying values, a provision for disposal and a write-off of the allocated excess of cost over net assets acquired.

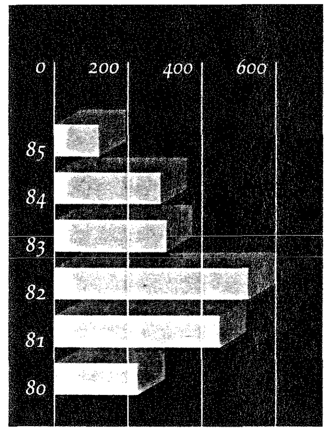
The company utilized a major portion of the cash proceeds from asset sales to extinguish $305 million of long-term debt prior to scheduled maturities. A net after-tax premium of $16 million on early extinguishment was incurred and has been classified as an extraordinary item in the Consolidated Statement of Operations.

ENGINEERING AND CONSTRUCTION

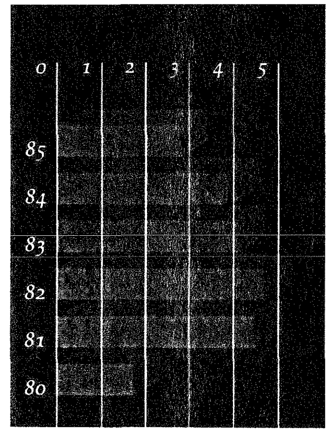
Contract awards for engineering and construction were at their highest level in four years. New awards increased in 1985 to $4.5 billion from $4.2 billion and $1.2 billion in 1984 and 1983, respectively. Backlog at October 31, 1985 was $5.1 billion compared to $4.2 billion and $5.6 billion at October 31, 1984 and 1983, respectively.

Engineering and construction experienced an operating loss of $85 million in 1985 compared to operating profits of $95 million and $211 million in 1984 and 1983, respectively. These operating results reflect higher relative indirect costs and lower margins due to continued severe industry-wide competitive pressures. Manpower was 11% lower in 1985 compared to 1984 and 14% lower in 1984 compared to 1983, reflecting continuing efforts to reduce indirect costs while diversifying into new markets.

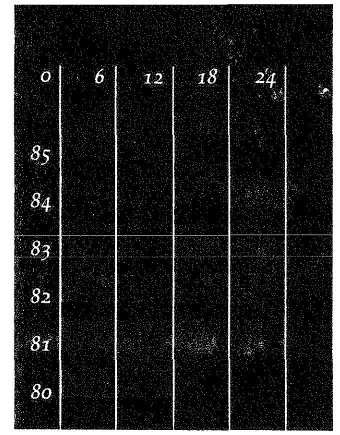
DR 2801078



Capital Expenditures/$ in millions



Total Assets/$ in billions



Shareholders' Equity Per Share/dollars

NATURAL RESOURCES
Metals operations incurred an operating loss of $204 million on revenues of $393 million in 1985, compared to an operating loss of $4 million on revenues of $434 million in 1984 and an operating profit of $33 million on revenues of $429 million in 1983. The operating loss in 1985 includes a nonrecurring charge of $138 million to write off the excess of cost over net assets acquired allocated to lead as discussed above and certain other write-offs, primarily relating to equipment no longer used in operations. Excluding these nonrecurring charges, the operating loss in 1985 was primarily the result of lower realized prices and volumes for most commodities sold, partially offset by lower operating costs compared to 1984.

Revenues and operating loss from coal operations in 1985 were $475 million and $223 million, respectively, compared to $490 million and an operating profit of $15 million in 1984. Revenues and operating loss in 1983 were $438 million and $7 million, respectively. The operating loss for 1985 includes a nonrecurring charge of $212 million related to the reduction in the carrying values of certain of the company's coal properties as discussed above. Excluding the nonrecurring charge, coal operations were adversely affected by the prolonged labor disruption at certain of the company's mines and a decreased demand for metallurgical coal.

DRILLING SERVICES AND OTHER OPERATIONS
Drilling Services revenues increased to $71 million in 1985 from $62 million in 1984 due to increased utilization of the drilling fleet. Utilization increased to 79% in 1985 from 74% in 1984, however, day rates continued at depressed levels throughout 1985 due to intense price competition resulting from the worldwide oversupply of offshore rigs. The operating loss for 1985 totaled $31 million, which included write-downs of $36 million related to the disposal of several drillships as discussed above. Results for 1984 and 1983 were an operating loss of $2 million and an operating profit of $4 million, respectively.

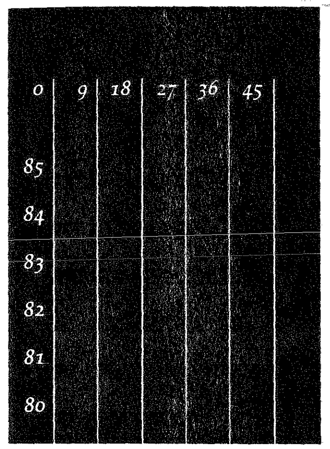
The operating loss for the residential and commercial construction operations increased to $12 million in 1985 compared to $8 million in 1984 due primarily to cost overruns and the disposition of these operations. Other operations also include nonrecurring charges of $7 million related to asset write-downs.

Increased interest expense in 1985 compared to 1984 reflects primarily interest accrued on taxes payable under a Closing Agreement with the Internal Revenue Service and lower capitalized interest.

The effective income tax benefit rate on the loss from continuing operations in 1985 was significantly lower than in the prior year. The difference between the effective rate and the statutory rate of 46 percent in 1985 is due primarily to amortization and write-downs of both property, plant and equipment bases differences and the excess of cost over net assets of acquired companies, and accruals and losses without tax benefit.

DISCONTINUED OPERATIONS
Discontinued operations in 1985 reflect a net of tax loss from discontinuance

DR 2801079



Total Employees/in thousands

of the oil and gas segment of $44 million including a $51 million after-tax loss from disposal. After-tax earnings for the oil and gas segment were $11 million in 1984 and a loss of $1 million in 1983. Included in the results for 1983 is an after-tax loss from discontinuance of the company's former Distribution Group of $53 million, including an after-tax provision of $26 million for losses incurred upon disposal. Divestiture of the Distribution Group was completed in 1984.

FINANCIAL POSITION AND LIQUIDITY

Funds used by continuing operations were $160 million in 1985 as compared to funds provided by continuing operations of $62 million and $292 million, in 1984 and 1983, respectively. This continued decline reflects the reduction in earnings experienced over the last four years and significant reductions in deferred taxes due to the completion of several major contracts and an agreement with the IRS whereby certain engineering and construction subsidiaries were required to use an accrual method of accounting for tax purposes beginning with fiscal year 1984. The net gain from the sale of the Irvine facility has been excluded from the determination of funds used by continuing operations.

In 1985, funds were used for payments to investors consisting of cash dividends on common stock of $32 million and interest expense, net of tax, of $62 million. Dividends were paid at the rate of $.10 per share per quarter for 1985.

Capital expenditures for 1985 were $121 million compared to $286 million and $302 million in 1984 and 1983, respectively. In 1985, the majority of capital expenditures related to the metals and coal segments and included equipment replacements and plant modifications at these segments, and general development work at certain Massey Coal Company mines and at the Mocambo tin project in Brazil.

Funds utilized by financing activities in 1985 amounted to $582 million compared to funds provided from financing activities of $127 million in 1984. The reduction in long-term debt of $624 million was accomplished primarily with the proceeds from sales of assets as described above. The long-term debt to capitalization ratio at October 31, 1985 was 20.0% compared to 29.9% and 29.2% at October 31, 1984 and 1983, respectively. Long-term debt (including current portion) consisted of 86% fixed rate debt and 14% variable rate debt at October 31, 1985.

The company has access to sufficient sources of funds to meet its operating needs. Short- and long-term lines of credit are maintained with banks and the company has an active commercial paper program which provides adequate operating liquidity. As of October 31, 1985, under the terms of the Massey joint venture agreement, net assets of $451 million, including $106 million of working capital, are restricted from distribution without the prior approval of the partners. Distributions of funds to the company as approved by the partners amounted to $15 million in 1985.

For a discussion of the effects of inflation, see pages 42 and 43.

DR 2801080

$ in millions, except per share amounts	1985	1984	1983	1982	1981	1980
OPERATING RESULTS						
Revenues from continuing operations	$4,168.4	$4,301.8	$5,164.7	$ 6,514.7	$ 5,258.2	$ 4,279.5
Earnings (loss) from continuing operations before income taxes	(626.8)	(18.9)	155.3	250.9	228.3	200.3
Earnings (loss) from continuing operations	(573.3)	(10.4)	82.0	133.5	131.6	110.7
Net earnings (loss)	(633.3)	1.0	27.7	152.8	158.9	133.6
Earnings (loss) per share						
Continuing operations	(7.25)	(.13)	1.04	1.70	2.34	2.29
Net earnings (loss)	(8.01)	.01	.35	1.94	2.82	2.76
Dividends per share						
Series B preferred	—	—	—	—	—	.75
Common	$ .40	$ .60	$ .80	$ .80	$ .80	$ .65
FINANCIAL POSITION						
Current assets	$1,057.2	$1,025.9	$1,146.0	$ 1,541.4	$ 1,460.9	$ 956.2
Current liabilities	1,020.7	1,016.4	1,090.2	1,488.4	1,296.1	775.2
Working capital	36.5	9.5	55.8	53.0	164.8	181.0
Property, plant and equipment, net	1,433.3	2,338.2	2,379.8	2,493.9	2,527.0	622.7
Total assets	2,796.4	3,891.6	4,084.9	4,701.0	4,491.3	1,726.6
Capitalization						
Long-term debt	259.1	724.8	720.0	1,009.9	1,104.8	79.3
Shareholders' equity	1,033.9	1,696.4	1,747.2	1,776.4	1,683.2	567.5
Total capitalization	$1,293.0	$2,421.2	$2,467.2	$ 2,786.3	$ 2,788.0	$ 646.8
Percent of total capitalization						
Long-term debt	20.0	29.9	29.2	36.2	39.6	12.3
Shareholders' equity	80.0	70.1	70.8	63.8	60.4	87.7
Shareholders' equity per common share	$ 13.06	$ 21.49	$ 22.19	$ 22.68	$ 21.55	$ 11.89
Common shares outstanding	79,138,897	78,945,585	78,746,717	78,327,685	78,092,814	47,718,300
OTHER DATA						
New orders received during year	$4,485.3	$4,189.2	$1,280.1	$ 2,916.8	$ 7,247.7	$ 9,317.3
Backlog at end of year	5,114.7	4,224.2	5,669.7	10,825.9	16,385.7	16,094.3
Capital expenditures	121.2	285.5	301.8	525.9	448.1	225.3
Depreciation, depletion and amortization for continuing operations	162.9	149.5	149.7	131.7	65.4	32.4
Funds provided from (used by) continuing operations	$ (160.1)	$ 62.0	$ 291.6	$ 335.6	$ 334.2	$ 222.5
Number of employees	26,958	32,153	34,123	43,111	44,170	27,304

Prior periods have been restated to exclude from continuing operations the oil and gas segment, which was sold in 1985. St. Joe Minerals Corporation is included on an equity basis for the period May 1, 1981, through August 2, 1981, and on a consolidated basis thereafter.

See Management's Discussion and Analysis on pages 22 to 25; Consolidated Statement of Operations on page 27, and Notes to Consolidated Financial Statements; Long-Term Debt on page 33; Income Taxes on pages 34 and 35; Sale of Assets and Provision for Losses on Revaluation of Lead and Coal Operations on page 37; and Quarterly Financial Data on page 47 for information relating to significant items affecting 1985 results of operations.

DR 2801081

CONSOLIDATED STATEMENT OF OPERATIONS

In thousands, except per share amounts/Years ended October 31,	1985	1984	1983
REVENUES			
Engineering and construction services	$3,179,308	$3,205,987	$4,104,454
Natural resources	867,797	923,375	866,455
Drilling and other	121,339	172,415	193,758
Total revenues	4,168,444	4,301,777	5,164,667
COST OF REVENUES			
Engineering and construction services	3,267,177	3,103,202	3,890,531
Natural resources	949,506	912,803	836,968
Drilling and other	184,261	197,501	171,594
Total cost of revenues	4,400,944	4,213,506	4,899,093
OTHER INCOME AND EXPENSE			
Corporate administrative and general expense	34,652	46,361	47,200
Gain on sale of Irvine facility	(78,834)	—	—
Write-down of investment in certain coal mines	211,578	—	—
Write-off of excess of cost over net assets of acquired companies allocated to lead operations	137,989	—	—
Interest expense (net of capitalized interest of $2,645, $12,822, and $16,800, respectively)	115,714	96,665	96,653
Interest income	(26,816)	(35,873)	(33,608)
Total costs and expenses	4,795,227	4,320,659	5,009,338
EARNINGS (LOSS) FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	(626,783)	(18,882)	155,329
INCOME TAX BENEFIT (EXPENSE)	53,500	8,522	(73,327)
EARNINGS (LOSS) FROM CONTINUING OPERATIONS	(573,283)	(10,360)	82,002
DISCONTINUED OPERATIONS			
Earnings (loss) from operations (net of income tax expense of $11,750 and $19,959 in 1985 and 1984 and an income tax benefit of $5,179 in 1983)	7,187	11,368	(28,302)
Loss on disposal of discontinued operations (net of income tax benefit of $27,050 in 1985 and $15,538 in 1983)	(50,867)	—	(26,000)
EARNINGS (LOSS) FROM DISCONTINUED OPERATIONS	(43,680)	11,368	(54,302)
EARNINGS (LOSS) BEFORE EXTRAORDINARY ITEM	(616,963)	1,008	27,700
Extraordinary item—premium on early extinguishment of debt (net of income tax benefit of $14,508)	(16,361)	—	—
NET EARNINGS (LOSS)	$ (633,324)	$ 1,008	$ 27,700
EARNINGS (LOSS) PER SHARE			
Continuing operations	$ (7.25)	$ (.13)	$ 1.04
Discontinued operations	(.55)	.14	(.69)
Extraordinary item	(.21)	—	—
Net earnings (loss)	$ (8.01)	$ .01	$ .35
SHARES USED TO CALCULATE EARNINGS (LOSS) PER SHARE	79,054	79,057	78,956

See Notes to Consolidated Financial Statements.

DR 2801082

CONSOLIDATED BALANCE SHEET

$ in thousands/at October 31,	*1985*	*1984*
ASSETS		
CURRENT ASSETS		
Cash and short-term investments	$ 50,702	$ 94,642
Notes receivable	151,246	86,653
Accounts receivable	350,906	352,231
Contract work in progress	268,788	211,840
Inventories	173,436	193,061
Net assets held for sale	37,101	40,143
Other current assets	25,058	47,310
Total current assets	1,057,237	1,025,880
PROPERTY, PLANT AND EQUIPMENT—AT COST		
Land	53,187	68,776
Buildings and improvements	219,432	490,273
Machinery and equipment	794,803	853,809
Drilling and marine equipment	138,706	225,839
Mining properties and mineral rights	744,366	817,594
Oil and gas properties	—	544,406
Construction in progress	15,774	20,482
	1,966,268	3,021,179
Less accumulated depreciation, depletion and amortization	532,946	682,933
Net property, plant and equipment	1,433,322	2,338,246
OTHER ASSETS		
Excess of cost over net assets of acquired companies, net of accumulated amortization of $42,031 and $49,901, respectively	237,757	423,085
Other	68,048	104,407
Total other assets	305,805	527,492
	$2,796,364	$3,891,618

DR 2801083

	1985	1984
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts and notes payable	$ 367,962	$ 263,922
Advance billings on contracts	78,521	77,553
Accrued salaries, wages and benefit plan liabilities	97,482	103,922
Other accrued liabilities	228,640	164,231
Current portion of long-term debt	39,698	95,767
Commercial paper to be retired with proceeds from asset sales	66,567	42,500
Income taxes currently payable	111,054	135,374
Deferred income taxes	30,774	133,121
Total current liabilities	1,020,698	1,016,390
LONG-TERM DEBT DUE AFTER ONE YEAR	259,064	724,777
OTHER NONCURRENT LIABILITIES		
Deferred income taxes	121,237	196,906
Deferred income	157,485	28,573
Other	203,976	228,609
Total other noncurrent liabilities	482,698	454,088
CONTINGENCIES AND COMMITMENTS		
SHAREHOLDERS' EQUITY		
Capital Stock		
Preferred—authorized 20,000,000 shares without par value, none issued		
Common—authorized 150,000,000 shares of $.62½ par value; issued and outstanding in 1985—79,138,897 shares and in 1984—78,945,585 shares	49,462	49,341
Additional capital	1,069,624	1,067,549
Retained earnings (deficit)	(67,878)	597,007
Unamortized executive stock plan expense	(9,429)	(10,310)
Cumulative translation adjustments	(7,875)	(7,224)
Total shareholders' equity	1,033,904	1,696,363
	$2,796,364	$3,891,618

See Notes to Consolidated Financial Statements.

DR 2801084

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

$ in thousands/Years ended October 31,	*1985*	*1984*	*1983*
FUNDS PROVIDED FROM OPERATIONS			
Earnings (loss) from continuing operations	$(573,283)	$ (10,360)	$ 82,002
Depreciation, depletion and amortization	162,900	149,486	149,714
Interest expense, net of tax	62,486	52,199	52,193
Deferred income taxes	(109,588)	(125,048)	(2,829)
Gain on sale of Irvine facility, net of tax	(55,720)	—	—
Write-down of investment in certain coal mines	211,578	—	—
Write-off of excess of cost over net assets of acquired companies	137,989	—	—
Other items, net	3,570	(4,317)	10,477
Funds provided from (used by) continuing operations	(160,068)	61,960	291,557
Earnings (loss) from discontinued operations	(43,680)	11,368	(54,302)
Depreciation, depletion and amortization	37,336	45,757	89,676
Deferred income taxes	(32,195)	4,598	11,084
Funds provided from (used by) discontinued operations	(38,539)	61,723	46,458
Funds provided from (used by) operations	(198,607)	123,683	338,015
Net decrease (increase) in operating working capital	72,909	(149,301)	207,678
Net funds available from (used by) operations	(125,698)	(25,618)	545,693
PAYMENTS TO INVESTORS			
Cash dividends paid	(31,561)	(47,281)	(62,868)
Interest expense, net of tax	(62,486)	(52,199)	(52,193)
Total payments to investors	(94,047)	(99,480)	(115,061)
INVESTMENT ACTIVITIES			
Additions to property, plant and equipment	(121,216)	(285,514)	(301,835)
Net book value of property, plant and equipment sold or retired (excluding Irvine facility)	630,455	131,179	181,595
Proceeds from sale of Irvine facility, net of tax	227,460	—	—
Decrease in net assets held for sale	3,042	86,960	40,797
Decrease in noncurrent notes receivable	—	21,500	47,527
Sale of investment in Peabody Holding Company	—	—	44,787
Other, net	17,731	(7,576)	59,739
Net funds provided (utilized) by investment activities	757,472	(53,451)	72,610
FINANCING ACTIVITIES			
Issuance of long-term debt	158,600	317,755	82,167
Reduction of long-term debt	(624,313)	(312,985)	(372,910)
Net increase (decrease) in borrowings due currently	(44,593)	67,708	(147,718)
Proceeds from (retirement of) nonrecourse oil and gas financing	(55,000)	55,000	—
Extraordinary item, net of tax	(16,361)	—	—
Net funds provided (utilized) by financing activities	(581,667)	127,478	(438,461)
Increase (decrease) in cash and short-term investments	(43,940)	(51,071)	64,781
Cash and short-term investments at beginning of period	94,642	145,713	80,932
Cash and short-term investments at end of period	$ 50,702	$ 94,642	$ 145,713

See Notes to Consolidated Financial Statements.

DR 2801085

CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY

$ in thousands, except per share amounts/Years ended October 31, 1983, 1984 and 1985

	Common Stock	Additional Capital	Retained Earnings (Deficit)	Unamortized Executive Stock Plan Expense	Cumulative Translation Adjustments	Total
BALANCES AT NOVEMBER 1, 1982	$48,955	$1,059,480	$ 680,285	$(12,301)	$ —	$1,776,419
Net earnings			27,700			27,700
Cash dividends ($.80 per share)			(62,868)			(62,868)
Exercise of stock options—net	173	2,980				3,153
Amortization of executive stock plan expense				3,021		3,021
Issuance of restricted stock—net	89	2,971		(3,236)		(176)
BALANCES AT OCTOBER 31, 1983	49,217	1,065,431	645,117	(12,516)		1,747,249
Net earnings			1,008			1,008
Cash dividends ($.60 per share)			(47,281)			(47,281)
Exercise of stock options—net	88	1,343				1,431
Amortization of executive stock plan expense				3,290		3,290
Issuance of restricted stock—net	36	775		(1,084)		(273)
Cumulative translation and related deferred tax adjustments as of November 1, 1983			(1,837)		(3,285)	(5,122)
Translation adjustment for the period					(3,939)	(3,939)
BALANCES AT OCTOBER 31, 1984	49,341	1,067,549	597,007	(10,310)	(7,224)	1,696,363
Net loss			(633,324)			(633,324)
Cash dividends ($.40 per share)			(31,561)			(31,561)
Exercise of stock options—net	81	1,182				1,263
Amortization of executive stock plan expense				1,838		1,838
Issuance of restricted stock—net	40	893		(957)		(24)
Translation adjustment for the period					(651)	(651)
BALANCES AT OCTOBER 31, 1985	$49,462	$1,069,624	$ (67,878)	$ (9,429)	$(7,875)	$1,033,904

See Notes to Consolidated Financial Statements.

DR 2801086

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 investments where ownership ranges from 20 percent to 50 percent and for corporate joint ventures. The company consolidates its 50 percent proportionate share of the accounts of Massey Coal Company. All significant intercompany transactions are eliminated.

Certain 1984 and 1983 amounts have been reclassified to conform with the 1985 presentation.

Engineering and Construction Contracts
The company recognizes revenues on engineering and construction contracts on the percentage-of-completion method, primarily based on contract costs incurred to date compared with total estimated contract costs, and on manhours incurred to date compared with total estimated manhours for the construction of certain power plants. Contracts are segmented between engineering and construction efforts and, accordingly, gross margin related to each activity is recognized as those separate services are rendered. Changes to total estimated contract costs or manhours and losses, if any, are recognized in the period they are determined. Revenues recognized in excess of amounts billed are classified as current assets under contract work in progress. It is anticipated that the incurred costs associated with contract work in progress at October 31, 1985, will be billed and collected in 1986. Amounts received from clients in excess of revenues recognized to date are classified as current liabilities under advance billings on contracts.

Exploration and Development
Metals—Costs incurred for exploration of minerals are generally expensed as incurred. Development expenditures to bring new mineral properties into production, comprising substantially all surface mine development and initial underground installations, are capitalized in mining properties and charged to expense on the straight-line method over periods approximating the life of the mine. Subsequent maintenance and underground development expenditures are charged to expense.

Coal—Development costs of specific coal properties, when expected to be significant, are capitalized in mining properties and depleted on the unit-of-production method.

Depreciation and Amortization
Depreciation on assets other than mining properties and mineral rights is provided using principally the straight-line method to amortize the cost of the assets over their estimated useful lives. Leasehold improvements are amortized over the lives of the respective leases. The excess of cost over net assets of acquired companies is being amortized on the straight-line method, primarily over 40 years.

Income Taxes
Deferred income taxes are provided for items taken into account in different periods for financial and tax reporting purposes. Such timing differences include the use of the completed-contract method of accounting for certain contracts, capitalized interest, accelerated depreciation, various accruals and deferred gains on property sales.

Investment and other tax credits are applied as a reduction of the provision for federal income taxes under the flow-through method of accounting.

Earnings Per Share
Earnings per share are based on the weighted average number of common and common equivalent shares outstanding in each period. Common equivalent shares include the potential dilution from the exercise of stock options when the effect of such options is dilutive.

Foreign Currency Translation
The effects of translating foreign subsidiaries' financial statements are recorded as a separate component of shareholders' equity. Net foreign currency exchange gains resulting from foreign currency transactions included in the determination of operating results were immaterial in 1985, and approximated $1,000,000 in 1984 and $24,000,000 in 1983.

Changes in cumulative translation adjustments for fiscal years 1985 and 1984 were as follows:

$ in thousands/at October 31,	*1985*	*1984*
Balance at beginning of year	$(7,224)	$(3,285)
Translation adjustments	(1,421)	(7,294)
Deferred income taxes on translation adjustments	770	3,355
Balance at end of year	$(7,875)	$(7,224)

DR 2801087

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

The company utilizes a cash flow format to present its consolidated statement of changes in financial position. Funds provided or used by operations include the effects of current and non-current deferred income taxes and exclude interest expense, net of tax. Short-term borrowings have been reflected as part of financing activities and interest expense, net of tax, has been reflected as funds used for payments to investors.

Changes in operating working capital as shown in the Consolidated Statement of Changes in Financial Position comprise the following:

$ in thousands/ Years ended October 31,	*1985*	*1984*	*1983*
(Increase) decrease in:			
Notes and accounts receivable	$(63,268)	$ (17,242)	$162,372
Contract work in progress and inventory	(37,323)	(7,413)	243,546
Other current assets	22,252	6,747	13,463
Increase (decrease) in:			
Accounts payable and accrued liabilities	174,600	(99,487)	(124,305)
Advance billings on contracts	968	(65,896)	(82,458)
Income taxes currently payable	(24,320)	33,990	(4,940)
Net (increase) decrease in operating working capital	$ 72,909	$(149,301)	$207,678

INVENTORIES

Inventories comprise the following:

$ in thousands/at October 31,	*1985*	*1984*
Coal, metals and processed minerals	$102,428	$102,366
Supplies and other	71,008	90,695
	$173,436	$193,061

Inventories are stated at the lower of cost (using the last in, first out [LIFO] method, except for inventories of supplies and other which are on the average cost method) or net realizable value.

At October 31, 1985 the current replacement cost of LIFO inventories did not exceed the related LIFO value. The current replacement cost of LIFO inventories at October 31, 1984 exceeded the related LIFO value by $4,766,000.

LONG-TERM DEBT

Long-term debt consisted of the following:

$ in thousands/at October 31,	*1985*	*1984*
Pollution control and industrial revenue bonds, 6% to 8.9%, due in varying amounts from 1988 through 2013 (net of unamortized discount of $7,788 and $8,194, respectively)	$113,791	$113,385
Notes, effective interest rate 12¼%, due in installments from 1987 through 1998 (net of unamortized discount of $9,631 and $10,504, respectively)	50,369	49,496
Serial zero coupon notes, effective interest rate 14.3%, due in installments through 1989 (net of unamortized discount of $10,515 and $31,443, respectively)	29,480	53,557
Eurodollar zero coupon debentures, effective interest rate 14%, due in 1990 (net of unamortized discount of $23,101 and $76,229, respectively)	28,358	70,748
Term loans, 9.3%, due in installments through 2000	26,800	28,500
Secured credit agreement, 1⅛% above LIBOR, due in installments through 1986	21,250	42,500
Promissory note, effective interest rate 15.6%	—	100,000
Eurodollar notes, 14% coupon rate, effective interest rate 13.5%	—	100,000
Commercial paper and promissory notes, average interest rate 9.6%	—	88,376
Term loan, effective interest rate 11.7%	—	50,000
Term loans, average interest rate of 11.2%	—	19,269
Notes, ½% to 1½% above LIBOR	—	15,562
Export credit agreement, 10⅛%	—	12,521
Other notes and mortgages	28,714	76,630
	298,762	820,544
Less: Current portion	39,698	95,767
	$259,064	$724,777

Maturities relating to long-term debt are as follows for the years ending October 31: 1987, $12,417,000; 1988, $16,373,000; 1989, $19,948,000; and 1990, $39,378,000.

The company utilized a major portion of the cash proceeds from asset sales to extinguish long-term debt prior to scheduled maturities. At October 31, 1985, a total of $304,788,000 of long-term debt had been extinguished prior to scheduled maturities at a net after-tax premium of $16,361,000. This premium has been classified as an extraordinary item in the Consolidated Statement of Operations.

DR 2801088

In October 1985, the company completed an "in-substance defeasance" on $63,090,000 of 14% Eurodollar notes then outstanding by placing in an irrevocable trust $72,870,000 of U.S. government securities to be used solely for satisfying scheduled payments of both interest and principal on the notes, which will be called in September 1986. The notes and U.S. government securities have been excluded from the Consolidated Balance Sheet at October 31, 1985. The premium on early extinguishment of the notes is included in the extraordinary item discussed above.

Pollution control bonds of $37,616,000 are subject to sinking fund installments commencing in 1989. $73,075,000 of the industrial revenue bonds represent the company's portion of such bonds issued for facilities of Massey Coal Company. All of the industrial revenue bonds are subject to mandatory redemption if certain tax exemption features of the bonds are disallowed.

The company has committed long-term lines of credit with banks from which it may borrow up to a maximum of $315,000,000 under revolving lines of credit which convert to four-year term loans. The company may use these lines of credit to support commercial paper borrowings and unsecured promissory notes. Commitment fees are paid on unused portions of the company's long-term lines of credit. At October 31, 1985, no amounts were outstanding under these lines.

At October 31, 1985, the company had $86,000,000 in unused short-term uncommitted lines of credit.

Borrowings under lines of credit and revolving credit agreements bear interest at prime, rates based on the London Interbank Offered Rate (LIBOR), domestic certificates of deposit, or other rates which are mutually acceptable to the banks and the company. Long-term debt (including current portion) consisted of 86% fixed rate debt and 14% variable rate debt at October 31, 1985.

The net book value of assets securing long-term debt of $51,227,000 was approximately $23,281,000 at October 31, 1985.

INCOME TAXES

The income tax benefit (expense) on earnings (loss) from continuing operations in the Consolidated Statement of Operations is composed of:

$ in thousands / Years ended October 31,	*1985*	*1984*	*1983*
Current			
Federal	$(64,950)	$ (87,417)	$ (4,014)
Foreign	(20,945)	(14,420)	(55,177)
State and local	(11,304)	(13,288)	(5,046)
Total current	(97,199)	(115,125)	(64,237)
Deferred			
Federal	154,453	138,853	6,358
Foreign	(8,636)	(19,371)	(14,152)
State and local	4,882	4,165	(1,296)
Total deferred	150,699	123,647	(9,090)
	$ 53,500	$ 8,522	$(73,327)

A reconciliation of statutory federal income tax to the income tax benefit (expense) on earnings (loss) from continuing operations follows:

$ in thousands / Years ended October 31,	*1985*	*1984*	*1983*
Statutory federal income tax benefit (expense) at 46%	$288,320	$ 8,685	$(71,451)
Reductions (increases) in taxes resulting from:			
Losses without tax benefit	(85,541)	(1,400)	(8,399)
Amortization and write-off of excess of cost over net assets of acquired companies	(84,231)	(5,167)	(6,651)
Amortization and write-down of property, plant and equipment bases differences	(47,092)	(8,798)	(6,893)
Capital gain benefit	17,440	589	1,036
Accruals without tax effect	(14,486)	1,947	163
Effect of foreign tax rates	(12,437)	(698)	—
State income taxes	(4,093)	(3,019)	(4,116)
Investment and other tax credits	2,643	4,504	10,771
Depletion	506	6,363	—
Indefinitely reinvested foreign earnings	—	5,267	9,469
Safe harbor tax leases	—	1,260	2,663
Other	(7,529)	(1,011)	81
	$ 53,500	$ 8,522	$(73,327)

DR 2801089

The difference between the statutory federal income tax rate and the actual tax rates applicable to discontinued operations is primarily attributable to the effect of foreign tax rates and losses without tax benefit. The rate difference applicable to the disposal of discontinued operations is primarily attributable to capital gain rates.

Deferred income tax benefit (expense) has been provided for timing differences from continuing operations as follows:

$ in thousands/ Years ended October 31,	1985	1984	1983
Use of different methods of accounting for construction contracts	$ 91,664	$152,321	$22,517
Accruals not currently reportable for tax purposes	31,166	1,973	1,344
Deferred gains on property sales	16,745	(1,514)	3,697
Accelerated depreciation	15,364	(11,729)	(8,104)
Capitalized interest	10,980	(3,513)	(8,195)
Residual tax on undistributed foreign earnings	(4,677)	(3,635)	—
Depreciation, depletion and amortization of natural resource properties	(2,976)	(11,894)	(15,698)
Deferred gains and losses from metal sales contracts	—	—	5,253
Other—net	(7,567)	1,638	(9,904)
	$150,699	$123,647	$ (9,090)

United States and foreign earnings (losses) from continuing operations before income taxes are as follows:

$ in thousands/ Years ended October 31,	1985	1984	1983
United States	$(610,796)	$ (80,970)	$ (21,700)
Foreign	(15,987)	62,088	177,029
	$(626,783)	$ (18,882)	$155,329

Residual income taxes have not been provided on approximately $57,450,000 of undistributed earnings of certain foreign subsidiaries at October 31, 1985 because the company intends to reinvest these earnings indefinitely.

In December 1984, the company and the Internal Revenue Service (IRS) entered into a Closing Agreement which requires certain, but not all, engineering and construction subsidiaries to change from the completed-contract method of accounting to an accrual method for tax purposes beginning with fiscal year 1984.

The IRS has recently completed its examination of the company's federal income tax returns for the fiscal years 1977, 1978 and 1979 and those of St. Joe Minerals Corporation through August 3, 1981, the date of acquisition by the company. The company is contesting issues raised by the IRS. Examinations of fiscal years 1980 through 1983 have commenced and no issues have yet been raised by the IRS. Management believes that the resolution of all tax issues will not have a material adverse effect on the company's consolidated financial position or results of operations.

LEASE OBLIGATIONS

Total rental expense amounted to $81,596,000 in 1985, $61,135,000 in 1984 and $66,518,000 in 1983. The company's lease obligations relate primarily to office and warehouse space, engineering facilities, data processing equipment, equipment used in connection with long-term construction contracts and other personal property.

As more fully described in the Note titled "Sale of Assets," the company completed sale and leaseback transactions during 1985 for its Sugar Land, Texas engineering facility and Irvine, California corporate headquarters and engineering center facility. The leaseback agreements provide for minimum lease terms of 20 and 10 years, respectively, with certain provisions for renewal options. The leaseback agreement for the Irvine facility also provides that the company may at its option annually release to the lessor ten percent of the space originally leased back.

The company was obligated under noncancelable leases for minimum rentals as follows:

$ in thousands/at October 31, 1985	Gross	Present Value*
1986	$ 84,151	$ 84,151
1987	79,586	71,059
1988	73,588	58,664
1989	68,465	48,732
1990	63,701	40,483
Thereafter	567,019	168,985
	$936,510	$472,074

*The present value of lease obligations is presented as supplementary information to reflect the impact on future lease commitments of the time-value of money, using a discount rate of twelve percent.

DR 2801090

STOCK PLANS

The company has five executive stock plans, the 1971 Fluor Stock Option Plan, the 1977 and 1981 Fluor Executive Stock Plans, the 1982 Fluor Incentive Stock Option Plan, and the St. Joe 1972 Non-Qualified Stock Option Plan, assumed on the date of the acquisition of St. Joe. These plans provide for grants of nonqualified or incentive options at prices equal to the fair market value of the company's common stock at date of grant.

The 1977 and 1981 Plans also provide for rights to acquire shares under restricted stock agreements at $.33⅓ per share under the 1977 Plan and at no charge under the 1981 Plan. Upon termination other than for reason of retirement, death or permanent disability of the recipient, the stock must be returned to the company for the amount originally paid, if any. At October 31, 1985, a total of 1,364,458 restricted shares had been awarded and a total of 44,077 shares were available for award as restricted stock.

In addition, the company has the 1979 and 1980 Fluor Stock Appreciation Rights Plans. On exercise, the holder of the rights receives the excess of market value of the rights on exercise date over the market value of the rights on grant date. Such market values are equal to the market value of the company's common stock. Changes in market value are accounted for currently as compensation expense.

Options and stock appreciation rights granted are generally exercisable one year after the date of grant or in installments of twenty-five percent per year commencing one year from date of grant. All options expire ten years after date of grant.

With respect to grants under the 1972 Plan, the optionee can elect to receive, in lieu of any or all shares, any combination of cash and shares having an aggregate value equal to the excess of market value of the underlying shares over the option price thereof.

The following table summarizes stock option and stock appreciation rights ("SAR") activity for the two years ended October 31, 1985:

	Shares	*Price Per Share*	*SAR*	*Value Per Right*
October 31, 1983 Outstanding	2,293,342	$ 6–37	474,677	$18–37
Granted	319,036	17–21	21,895	17
Expired or cancelled	(98,316)	17–37	(41,448)	18–37
Exercised	(170,171)	6–22	(6,205)	18
October 31, 1984 Outstanding	2,343,891	6–37	448,919	17–34
Granted	1,074,717	16–17	420,826	16–18
Expired or cancelled	(94,812)	17–34	(20,932)	17–34
Exercised	(246,141)	6–18	(1,825)	18
October 31, 1985 Outstanding	3,077,655	$11–37	846,988	$16–34
Exercisable at:				
October 31, 1984	1,791,212	$ 6–37	188,451	$18–34
October 31, 1985	1,835,557	$11–37	286,116	$17–34
Available for grant at:				
October 31, 1984	1,602,861		585,555	
October 31, 1985	622,956		185,661	

RETIREMENT PLANS

The company and certain of its subsidiaries have contributory and noncontributory profit-sharing and pension plans covering substantially all of their employees. Expense for these plans approximated $50,000,000 in 1985, $55,000,000 in 1984 and $79,000,000 in 1983.

As of the dates indicated below, accumulated plan benefits and plan net assets for the defined benefit retirement plans of certain subsidiaries and the proportionate share of a corporate joint venture are as follows:

$ in thousands/at November 1,	*1984*	*1983*
Actuarial present value of accumulated plan benefits		
Vested	$128,633	$119,535
Nonvested	10,387	12,014
	$139,020	$131,549
Net assets available for benefits	$159,073	$152,528

The actuarial present value of accumulated plan benefits was determined using assumed rates of return ranging from 5 to 9 percent.

In addition to providing pension benefits, the company and certain of its subsidiaries provide health care and life insurance benefits for retired employees. The cost of retiree health care and life insurance benefits is recognized as expense when paid. For fiscal year 1985 these costs were approximately $3,000,000.

DR 2801091

CONTINGENCIES, COMMITMENTS AND RESTRICTIONS

The company is 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 contract coverage. In the opinion of management, finalization of these matters will not have a material adverse effect on the company's consolidated financial position or results of operations.

At October 31, 1985, $460,000,000 of net assets of subsidiaries, including $106,000,000 of working capital, have restrictions which affect the ability to transfer them to the parent company in the form of loans, advances, or dividends. A substantial portion of these restricted net assets relate to the requirement of the Massey Coal Company joint venture agreement to obtain approval of both parties prior to the transfer of joint venture assets.

SALE OF ASSETS

During 1985, the company completed sale and leaseback transactions for its Irvine, California headquarters and engineering center facility for $305,000,000, its Sugar Land, Texas engineering center for $161,000,000, its Daniel Centre engineering facility in Greenville, South Carolina for $42,500,000 and its Melbourne, Australia office building for $11,000,000. The sale of the Irvine facility resulted in a pre-tax gain of $202,000,000, of which $79,000,000 has been included in the results of operations for the year ended October 31, 1985. The remaining gain of $123,000,000 will be recognized over the leaseback period. The company will receive an additional $35,000,000 on the sale of the Irvine facility after July 31, 1986, if certain development approvals are obtained.

PROVISION FOR LOSSES ON REVALUATION OF LEAD AND COAL OPERATIONS

During 1985, the company reviewed the long-term business prospects of the lead business. Based on the deterioration in lead sales and operating profits since the acquisition of St. Joe in 1981 and the prospects for continued depressed conditions in the domestic lead business, the excess of cost over net assets acquired allocated to lead operations of $138,000,000 was written off in the fourth quarter.

In October 1985, the company wrote down its investment in certain Massey Coal Company mines to net realizable value and is pursuing disposition of certain of these properties. This write-down resulted in a charge to operations during the fourth quarter of $212,000,000 consisting of reductions in property carrying values, a provision for disposal and a write-off of the allocated excess of cost over net assets acquired.

OPERATIONS BY BUSINESS SEGMENT AND GEOGRAPHIC AREA

The engineering and construction business segment includes the subsidiaries engaged in the design, engineering, procurement, construction and maintenance of complex facilities for petroleum, industrial, utility, commercial and institutional clients. The metals business segment includes the subsidiaries engaged in the mining and processing of lead, zinc, gold and other metals. Grouped in other are those business segments that comprise less than 10% of the revenues, operating profits and identifiable assets of all business segments combined.

Intersegment and interarea revenues are accounted for on a cost-plus-fee basis.

Identifiable assets are those tangible and intangible assets used in operations in each of the business segments and geographic areas. Corporate assets are principally cash, short-term investments and property, plant and equipment.

Sales to customers in foreign countries from domestic operations comprise less than 10% of total revenues in each of the last three years.

Contracts with a major customer accounted for $668,140,000 of 1983 engineering and construction revenues. During 1985 and 1984 no single customer accounted for more than 10 percent of revenues.

The oil and gas business segment, which was sold in 1985, included the subsidiaries engaged in the exploration, development and production of oil and gas. Revenues, operating profit and depreciation, depletion and amortization have been restated to exclude the amounts related to the oil and gas business segment.

DR 2801092

OPERATIONS BY BUSINESS SEGMENT	Revenues			Operating Profit (Loss)		
$ in millions	1985	1984	1983	1985	1984	1983
Engineering and Construction	$3,179.3	$3,206.0	$4,104.5	$ (84.9)	$94.6	$210.7
Coal	475.1	489.6	437.5	(223.0)	14.8	(6.8)
Metals	392.7	433.7	429.0	(203.8)	(3.9)	32.6
Drilling Services	71.2	61.9	85.7	(31.3)	(1.7)	4.1
Other	50.1	110.5	108.0	(28.9)	(16.1)	17.4
Continuing Operations	$4,168.4	$4,301.7	$5,164.7	$(571.9)	$87.7	$258.0

	Identifiable Assets			Capital Expenditures			Depreciation, Depletion and Amortization		
$ in millions	1985	1984	1983	1985	1984	1983	1985	1984	1983
Engineering and Construction	$ 679.6	$ 949.0	$ 894.4	$ 14.1	$ 84.4	$ 97.1	$ 27.1	$ 30.4	$ 28.2
Coal	803.5	999.7	991.6	27.4	83.6	41.5	48.0	42.8	42.3
Metals	989.3	1,208.5	1,195.8	36.6	56.2	32.3	66.3	63.1	55.4
Drilling Services	108.6	174.6	181.5	2.6	10.9	5.3	12.2	9.7	12.9
Corporate and Other	98.5	168.8	185.0	7.8	5.5	12.9	9.3	3.4	10.9
Continuing Operations	2,679.5	3,500.6	3,448.3	88.5	240.6	189.1	162.9	149.4	149.7
Discontinued Operations	116.9	391.0	636.6	32.7	44.9	112.7	37.3	45.8	89.7
	$2,796.4	$3,891.6	$4,084.9	$121.2	$285.5	$301.8	$200.2	$195.2	$239.4

OPERATIONS BY GEOGRAPHIC AREA	Revenues			Operating Profit (Loss)			Identifiable Assets		
$ in millions	1985	1984	1983	1985	1984	1983	1985	1984	1983
United States	$3,426.3	$3,287.6	$3,423.3	$(533.3)	$ 47.5	$ 90.1	$2,284.9	$3,141.4	$3,183.3
Middle East	106.5	293.1	721.5	1.2	8.7	26.9	54.0	98.9	112.3
South America	125.7	155.3	250.7	10.7	36.3	100.8	272.7	304.4	375.4
Africa	112.7	119.1	192.0	(28.2)	11.3	18.9	42.5	61.6	57.2
Europe	269.3	234.0	113.3	(17.9)	(.9)	1.3	93.9	141.4	239.4
Other	127.9	212.6	463.9	(4.4)	(15.2)	20.0	48.4	143.9	117.3
	$4,168.4	$4,301.7	$5,164.7	$(571.9)	$ 87.7	$258.0	$2,796.4	$3,891.6	$4,084.9

Identifiable assets of discontinued operations by geographic area are included in the United States.

The following table reconciles operating profit (loss) with earnings (loss) from continuing operations before income tax:

$ in millions/ Years ended October 31,	1985	1984	1983
Operating profit (loss) from continuing operations	$(571.9)	$ 87.7	$258.0
Minority interests	(2.8)	(7.1)	(17.0)
Interest—net	(88.9)	(60.8)	(63.0)
Equity in earnings and gain on sale of Peabody Holding Company	—	—	18.0
Gain on sale of Irvine facility	78.8	—	—
Corporate administrative and general expense	(34.7)	(46.4)	(47.2)
Other items, net	(7.3)	7.7	6.5
Earnings (loss) from continuing operations before income tax	$(626.8)	$(18.9)	$155.3

DISCONTINUED OPERATIONS—DISTRIBUTION GROUP
During 1983, the company adopted a plan to dispose of the Distribution Group through sale or liquidation. The company completed the disposition of the Distribution Group during 1984. Included in discontinued operations in the Consolidated Statement of Operations in 1983 is an after-tax loss from disposal of the Distribution Group of $26,000,000 and a loss from operations of $27,000,000, net of an income tax benefit of $23,000,000.

DR 2801093

DISCONTINUED OPERATIONS—OIL AND GAS

During the fourth quarter of 1985, the company adopted a plan to dispose of its oil and gas operations. The total sales price for the operation was approximately $190,000,000 of which $60,000,000 had been received at October 31, 1985. The remaining balance of $130,000,000 was received during the first quarter of 1986.

In March 1985, the company sold, at no gain or loss, its interests in eighteen oil and gas properties in the Gulf of Mexico for $80,000,000.

Revenues from discontinued oil and gas operations were $84,877,000, $99,400,000 and $135,800,000 for 1985, 1984 and 1983, respectively.

Oil and gas operations were accounted for under the full cost method of accounting. Depreciation, depletion and amortization were provided on the unit-of-production method based upon proved reserves.

Oil and gas financial and statistical information is presented to provide a historical perspective of these operations.

$ in millions, except per equivalent barrel amounts	*Total*	*United States*	*United Kingdom*	*Argentina*	*Greece*	*Other Foreign*
1985						
Property acquisition costs[a]	$ .6	$ .5	—	$ —	$ —	$ .1
Exploration costs[a]	6.4	6.2	—	—	—	.2
Development costs[a]	10.0	4.0	—	.7	2.7	$ 2.6
Depletion, depreciation and amortization per equivalent barrel of oil produced[b]	$ 7.89	$ 9.42	—	$ 3.06	$13.66	N/A
1984						
Capitalized costs at October 31						
Proved properties	$ 523.5	$341.5	$ —	$ 45.0	$ 92.9	$ 44.1
Unproved properties	20.9	—	—	—	—	20.9
Accumulated depletion, depreciation and amortization at October 31	(185.1)	(71.7)	—	(20.4)	(30.1)	(62.9)
Property acquisition costs[a]	.7	.7	—	—	—	—
Exploration costs[a]	18.4	11.1	.1	—	.3	6.9
Development costs[a]	9.3	3.8	.2	1.1	—	$ 4.2
Depletion, depreciation and amortization per equivalent barrel of oil produced[b]	$ 7.29	$ 7.72	$11.33	$ 3.76	$11.06	N/A
1983						
Capitalized costs at October 31						
Proved properties	$ 600.6	$326.2	$ 67.7	$ 44.3	$ 93.4	$ 69.0
Unproved properties	14.9	—	—	—	—	14.9
Accumulated depletion, depreciation and amortization at October 31	(183.5)	(64.6)	(26.4)	(14.5)	(16.5)	(61.5)
Property acquisition costs[a]	52.5	51.3	.1	—	—	1.1
Exploration costs[a]	40.4	19.3	1.0	—	1.4	18.7
Development costs[a]	16.9	6.8	1.0	.4	2.6	$ 6.1
Depletion, depreciation and amortization per equivalent barrel of oil produced[b]	$ 7.78	$ 6.34	$15.89	$ 3.01	$10.14	N/A

(a) Capitalized.
(b) Includes the production of oil and natural gas. Natural gas is converted to equivalent barrels of oil at a rate of six thousand cubic feet of gas to one barrel of oil.

DR 2801094

ESTIMATED PROVED RESERVES OF OIL AND GAS *unaudited*
The following tables present the company's estimates of its proved oil and gas reserves. Oil reserves, which included condensate and natural gas liquids, are stated in millions of barrels and gas reserves are stated in billions of cubic feet.

	Total		United States		United Kingdom	Argentina		Greece		Other Foreign	
	Oil	Gas	Oil	Gas	Oil	Oil	Gas	Oil	Gas	Oil	Gas
Balance, November 1, 1982	30.7	163.9	8.4	80.8	5.5	6.8	66.5	8.0	2.3	2.0	14.3
Revisions of previous estimates	(1.1)	13.7	.6	2.2	(.1)	(1.6)	10.0	(.3)	1.2	.3	.3
Extensions, discoveries and other additions	2.3	4.3	.2	3.6	—	—	—	—	—	2.1	.7
Sale of reserves-in-place	(.6)	(11.8)	(.6)	(11.8)	—	—	—	—	—	—	—
Production	(4.3)	(12.0)	(.9)	(7.0)	(1.3)	(.5)	(4.9)	(1.0)	(.1)	(.6)	—
Balance, October 31, 1983	27.0	158.1	7.7	67.8	4.1	4.7	71.6	6.7	3.4	3.8	15.3
Revisions of previous estimates	.2	(1.5)	.1	(1.0)	—	—	—	(.4)	(.9)	.5	.4
Extensions, discoveries and other additions	.5	8.2	.4	8.2	—	—	—	—	—	.1	—
Sale of reserves-in-place	(6.0)	(12.0)	—	—	(4.0)	—	—	—	—	(2.0)	(12.0)
Production	(3.4)	(10.9)	(.8)	(5.8)	(.1)	(.8)	(4.9)	(1.3)	(.2)	(.4)	—
Balance, October 31, 1984	18.3	141.9	7.4	69.2	—	3.9	66.7	5.0	2.3	2.0	3.7
Revisions of previous estimates	.6	(6.3)	.1	(3.7)	—	—	—	—	—	.5	(2.6)
Extensions, discoveries and other additions	2.8	111.2	.1	4.9	—	2.7	105.1	—	—	—	1.2
Sale of reserves-in-place	(18.7)	(236.3)	(6.8)	(64.6)	—	(5.8)	(167.2)	(4.1)	(2.2)	(2.0)	(2.3)
Production	(3.0)	(10.5)	(.8)	(5.8)	—	(.8)	(4.6)	(.9)	(.1)	(.5)	—
Balance, October 31, 1985*	—	—	—	—	—	—	—	—	—	—	—
NET PROVED DEVELOPED OIL AND GAS RESERVES											
Balance, October 31, 1982	28.8	135.1	7.9	64.8	4.2	6.8	66.5	8.0	2.3	1.9	1.5
Balance, October 31, 1983	22.5	138.0	7.3	58.9	2.3	4.4	61.5	6.7	3.4	1.8	14.2
Balance, October 31, 1984	17.7	123.0	7.3	60.3	—	3.4	56.7	5.0	2.3	2.0	3.7
Balance, October 31, 1985*	—	—	—	—	—	—	—	—	—	—	—

*All oil and gas reserves were sold as of October 31, 1985.

DR 2801095

RESULTS OF OPERATIONS FOR OIL AND GAS PRODUCING ACTIVITIES

The following summarizes the operating results of oil and gas producing activities:

$ in millions/Years ended October 31,	*Total*	*United States*	*United Kingdom*	*Argentina*	*Greece*	*Other Foreign*
1985						
Revenues from the sale of oil, gas and natural gas liquids	$ 84.9	$ 37.2	—	$ 8.2	$ 26.5	$ 13.0
Less: Production (lifting) costs	(19.2)	(7.6)	—	(2.7)	(4.5)	(4.4)
Depletion, depreciation and amortization and valuation provisions	(37.3)	(17.0)	—	(4.7)	(13.0)	(2.6)
	28.4	12.6	—	.8	9.0	6.0
Income taxes	(11.5)	(4.8)	—	—	(3.1)	(3.6)
Results of operations from oil and gas producing activities, excluding corporate overhead and interest costs	$ 16.9	$ 7.8	—	$ .8	$ 5.9	$ 2.4
1984						
Revenues from the sale of oil, gas and natural gas liquids	$ 99.4	$ 34.2	$ 4.3	$11.2	$ 35.8	$ 13.9
Less: Production (lifting) costs	(21.7)	(8.4)	(1.0)	(2.2)	(5.5)	(4.6)
Depletion, depreciation and amortization and valuation provisions	(45.2)	(13.9)	(1.7)	(5.9)	(13.6)	(10.1)
	32.5	11.9	1.6	3.1	16.7	(.8)
Income taxes	(8.6)	(3.7)	(.7)	—	(4.1)	(.1)
Results of operations from oil and gas producing activities, excluding corporate overhead and interest costs	$ 23.9	$ 8.2	$ .9	$ 3.1	$ 12.6	$ (.9)
1983						
Revenues from the sale of oil, gas and natural gas liquids	$135.8	$ 43.8	$ 37.8	$ 6.2	$ 30.7	$ 17.3
Less: Production (lifting) costs	(33.7)	(12.1)	(7.2)	(1.9)	(6.9)	(5.6)
Depletion, depreciation and amortization and valuation provisions	(82.2)	(11.8)	(20.9)	(4.0)	(10.8)	(34.7)
	19.9	19.9	9.7	.3	13.0	(23.0)
Income taxes	(12.2)	(7.3)	(3.9)	—	(3.8)	2.8
Results of operations from oil and gas producing activities, excluding corporate overhead and interest costs	$ 7.7	$ 12.6	$ 5.8	$ .3	$ 9.2	$(20.2)

STANDARDIZED MEASURE OF DISCOUNTED FUTURE NET CASH FLOWS RELATING TO PROVED RESERVES *unaudited*

The following standardized measure of discounted future net cash flows and changes therein are presented in compliance with Statement of Financial Accounting Standards No. 69. During 1985, the company sold its oil and gas operations and as a result, the company no longer has oil and gas reserves.

The information was computed by applying then current prices of oil and gas (with consideration of price changes only to the extent provided by contractual arrangements) to then estimated future production of proved oil and gas reserves as of October 31, 1984 and 1983, less estimated future expenditures (based on current costs) to be incurred in developing and producing the proved reserves, and assuming continuation of then existing economic conditions. Income taxes were based on year-end statutory rates adjusted for permanent differences. Amounts were discounted by ten percent per annum.

DR 2801096

STANDARDIZED MEASURE OF DISCOUNTED FUTURE NET CASH FLOWS RELATING TO PROVED RESERVES *unaudited*

$ in millions	*Total*	*United States*	*United Kingdom*	*Argentina*	*Greece*	*Other Foreign*
As of October 31, 1984						
Future cash inflows based on year-end prices	$651.7	$370.5	—	$63.1	$151.6	$ 66.5
Future production and development costs based on year-end costs	184.0	71.1	—	25.5	49.3	38.1
	467.7	299.4	—	37.6	102.3	28.4
Future income tax expenses based on year-end effective tax rates	88.7	50.2	—	—	28.8	9.7
Future net cash flows	379.0	249.2	—	37.6	73.5	18.7
Ten percent annual discount for estimated timing of cash flows	128.1	95.8	—	12.3	12.1	7.9
Standardized measure of discounted future net cash flows relating to proved reserves	$250.9	$153.4	—	$25.3	$ 61.4	$ 10.8
As of October 31, 1983						
Future cash inflows based on year-end prices	$998.5	$400.2	$108.7	$73.7	$236.2	$179.7
Future production and development costs based on year-end costs	273.6	80.8	40.6	22.4	66.9	62.9
	724.9	319.4	68.1	51.3	169.3	116.8
Future income tax expenses based on year-end effective tax rates	194.5	68.5	19.8	8.5	48.5	49.2
Future net cash flows	530.4	250.9	48.3	42.8	120.8	67.6
Ten percent annual discount for estimated timing of cash flows	184.9	99.0	11.4	14.7	30.3	29.5
Standardized measure of discounted future net cash flows relating to proved reserves	$345.5	$151.9	$ 36.9	$28.1	$ 90.5	$ 38.1

SUMMARY OF CHANGES IN STANDARDIZED MEASURE OF DISCOUNTED FUTURE NET CASH FLOWS RELATING TO PROVED RESERVES *unaudited*

$ in millions/Years ended October 31,	*1985*	*1984*	*1983*
Discounted future net cash flows at beginning of year	$ 250.9	$345.5	$ 408.2
Discoveries, extensions and other additions, and improved recovery, net of future production and development costs	16.1	14.0	22.3
Sales and transfers of oil and gas produced, net of production costs	(65.7)	(77.7)	(102.3)
Net changes in prices and development and production costs	(95.2)	(39.2)	1.5
Development costs incurred during the period	8.8	8.2	5.7
Revision of previous quantity estimates	13.5	(.7)	12.6
Changes resulting from sales of reserves-in-place	(218.1)	(60.6)	(25.8)
Increase in present value due to passage of one year	31.0	47.2	55.8
Net change in income taxes	58.7	29.4	21.3
Other, including the effect of changes in estimated rates of production	—	(15.2)	(53.8)
Balance at end of year	$ —	$250.9	$ 345.5

SUPPLEMENTAL FINANCIAL INFORMATION ON CHANGING PRICES *unaudited*

The company's financial statements are prepared in accordance with generally accepted accounting principles, which include the concept of historical cost. Under this concept, inventories and property, plant and equipment generally are recorded and reported at the amounts originally paid and do not reflect subsequent changes in (1) the general purchasing power of the dollar, (2) the current cost of replacing the asset, or (3) the amount for which the asset could be sold—its market value.

In conformity with the Statement of Financial Accounting Standards No. 33, the company is presenting selected supplemental information adjusted for changes in specific prices (current cost).

The company is affected by inflation but certain factors serve to mitigate its impact. The company's position is protected within its engineering and construction and contract drilling operations

DR 2801097

MINERAL RESERVES AND OPERATING STATISTICS *unaudited*

Information relating to mineral reserves and milling, production and realized product prices follows:

	1985			1984			
Short tons and troy ounces in thousands	*United States*	*Argentina*	*Chile*[i]	*United States*	*Argentina*	*Australia*[d]	*Chile*[i]
Reserves (tons)							
Lead	62,573[a]			63,188[a]			
Zinc	4,147[b]			7,861[b]			
Iron Ore	184,643[a]			186,174[a]			
Metallurgical Coal	160,927[b/c]			150,952[b/c]			
Steam Coal	375,497[b/c]			380,897[b/c]			
Foreign Milling Ore		5,305[b]	5,178[b]		5,794[b]	808[a]	4,984[b]
Direct Smelting Ore			42[b]				53[b]
Average Grade of Ore Reserves[e]							
Lead	5.0	5.7		5.0	6.0	2.8	
Zinc	13.6	7.1		11.1	6.9	7.8	
Iron Ore	55.5			55.5			
Copper			4.8			2.0	5.0
Direct Smelting Ore—Silver			4.1				4.3
Direct Smelting Ore—Gold			4.5				5.9
Foreign Milling Ore—Silver		3.6	3.2		3.6	1.0	3.4
Foreign Milling Ore—Gold			0.3				0.3
Ore Milled (tons)							
Lead	3,536			2,936			
Zinc	586			739			
Iron Ore	1,982			2,191			
Foreign Milling Ore		636	666		634	334	577
Metal Content of Concentrates Produced (tons)[f]							
Lead	173	29		138	30	5	
Zinc	72	35		77	36	18	
Iron Ore	800			955			
Copper			19			4	19
Direct Smelting Ore—Silver			81				57
Direct Smelting Ore—Gold			124				119
Foreign Milling Ore—Silver		1,448	914		1,422	305	936
Foreign Milling Ore—Gold			170				161
Coal Produced (tons)							
Metallurgical	1,730			2,168			
Steam	7,795			7,998			
Average Realized Prices (per ton)							
Lead Metal	$377			$494			
Zinc Metal	816			950			
Zinc Concentrates		$191		427[g]	$208	$177	
Iron Ore Pellets	32			33			
Lead Concentrates		$328[g]			$570[g]	52	
Copper Concentrates						$132	
Metallurgical Coal	39			40			
Steam Coal	$ 41			$ 40			
Gold/Silver Bearing Copper Concentrates			$ 513				$ 589
Dearsenified Gold/Silver Bearing Copper Concentrates			946				1,178
Doré Bullion (per kilogram)			1,943				3,795
Direct Smelting Ore			$1,201				$1,660

(a) Proven.

(b) Proven and Probable.

(c) Represents proportionate share of reserves and production of Massey Coal Company. Does not include proportionate share of reserves related to the company's 10 percent interest in Peabody Holding Company, which was sold in 1983.

(d) Represents proportionate share of reserves of joint venture. All of the company's Australian mining operations were sold during the first quarter of 1985.

(e) Stated as % except silver and gold which are stated in troy ounces per ton.

(f) Stated in tons except silver and gold which are stated in troy ounces.

(g) Price reflects silver content in concentrates.

(h) Reflects only three months of operations.

(i) Reflects 100% of Chilean operations without deduction of minority interest.

DR 2801099

due to its ability to recover cost increases as a result of price escalation provisions in many of its contracts. Most of the company's natural resource products are internationally traded commodities and prices for those products are established by factors which are beyond the control of management. However, management believes the company's substantial position in natural resources provides a significant hedge against any adverse long-term effects of inflation. Inflation also affects the company in other ways, particularly through increases in the cost of property, plant and equipment.

Current cost estimates are necessarily based upon numerous assumptions and subjective judgments. Although management believes that the estimates have been developed in a reasonable manner and are in compliance with the requirements of Statement No. 33, it should be recognized that the data should be viewed as experimental and partial and may be of only limited value because of the high degree of imprecision inherent in the estimation process. It also does not include all of the effects of inflation or other economic, competitive, social or regulatory factors that influence the decisions and operations of a worldwide company. The current cost method assumes that existing assets can be replaced in kind, which is not necessarily true with respect to the company's mining assets. Management cautions against the use of this information for estimating the total inflationary effect on future costs.

Current cost information reflects assets and expenses associated with the use or sale of assets at their current cost at the balance sheet date or at the date of use or sale. Information on a current cost basis was determined for each class of goods being measured using a combination of externally generated indices and direct pricing.

The statement of continuing operations adjusted for changing prices compares the results of operations as reported in the financial statements with the results restated on a current cost basis. Only cost of sales and depreciation, depletion and amortization have been adjusted. Sales and all other operating expenses are considered to reflect the average price levels for the year, and accordingly, have not been adjusted. The income tax benefit remains unchanged because present tax laws do not allow deductions related to inflation adjustments. The gain from decline in the purchasing power of net amounts owed measures the gain from holding monetary liabilities in excess of monetary assets. Since a gain in purchasing power does not represent the receipt of cash, it should not be considered as providing funds for reinvestment or dividend distribution.

STATEMENT OF CONTINUING OPERATIONS ADJUSTED FOR CHANGING PRICES *unaudited*

$ in millions/ Year ended October 31, 1985	*As Reported in Primary Statements*	*Adjusted for Changes in Specific Prices (October 31, 1985 dollars)*
Revenues	$4,168.4	$4,168.4
Depreciation, depletion and amortization	162.9	168.2
Other costs of revenues, net	4,632.3	4,635.8
Loss before income taxes	(626.8)	(635.6)
Income tax benefit	53.5	53.5
Loss from continuing operations	$ (573.3)	$ (582.1)
Gain from decline in purchasing power of net amounts owed		$ 36.7
Inventories and property, plant and equipment		$1,878.4
Increase in general inflation of inventories and property, plant and equipment		$ 78.6
Effect of increase in specific prices		22.2
Excess of increase in general inflation over increase in specific prices		$ 56.4

SELECTED DATA ADJUSTED FOR EFFECT OF INFLATION *in average 1985 dollars unaudited*

$ in millions, except per share amounts/Years ended October 31,	*1985*	*1984*	*1983*	*1982*	*1981*
Revenues from continuing operations	$4,168.4	$4,457.7	$5,575.5	$7,268.1	$6,275.0
Amounts adjusted for changes in specific prices					
Earnings (loss) from continuing operations	(582.1)	(58.5)	64.1	99.7	145.5
Earnings (loss) per share from continuing operations	(7.36)	(.74)	.81	1.27	2.59
Net assets at end of year	1,319.8	2,362.7	2,388.8	2,667.3	2,581.9
Gain from decline in purchasing power of net amounts owed	36.7	58.8	46.2	88.8	65.4
Cash dividends declared per share	$ .40	$ .62	$ .86	$ .89	$ .96
Market price per share at end of year	13¾	16¾	18⅛	23	32⅞

DR 2801098

1983				1982				1981[h]			
United States	Argentina	Australia[d]	Chile[i]	United States	Argentina	Australia[d]	Chile[i]	United States	Argentina	Australia[d]	Chile[i]
62,056[a]				62,294[a]				64,067[a]			
8,378[b]				10,063[b]				10,678[b]			
187,888[a]				196,484[a]				100,182[a]			
99,083[b/c]				142,836[b/c]				146,321[b/c]			
420,253[b/c]				386,188[b/c]				341,415[b/c]			
	6,221[b]	1,296[b]	5,048[b]		6,494[b]	2,094[b]	4,694[b]		6,558[b]	2,494[b]	3,433[b]
			66[b]				69[b]				77[b]
5.0	5.8	2.9		5.0	6.0	3.2		5.1	6.2	3.1	
11.3	6.9	8.8		10.9	6.9	9.5		10.8	7.6	9.0	
55.5				56.0				56.1			
		1.8	5.0			1.9	5.1			1.9	3.5
			3.8				3.3				3.4
			6.8				7.3				8.2
	3.5	1.2	3.6		3.6	1.4	3.6		3.7	1.4	4.3
			0.3				0.3				0.4
4,599				4,590				1,205			
765				684				142			
1,230				1,487				459			
	668	344	544		668	392	423		167	88	
216	32	6		208	34	8		57	8	2	
88	37	22		78	37	26		16	9	6	
530				643				195			
		4	16			4	8			1	
			60				61				24
			206				236				42
	1,564	342	855		1,695	464	455		458	149	
			170				145				
2,084				2,155				602			
7,102				6,873				1,697			
$391				$520				$764			
772				746				909			
357[g]	$197	$142		313[g]	$232	$171		366[g]	$192	$195	
25				32				35			
	$580[g]	36			$501[g]	81			$562[g]	186	
		$185				$184				$224	
43				48				48			
$ 39				$ 40				$ 37			
			$1,096				$1,427				
			1,939				2,607				
			2,905				3,668				
			$2,930				$2,546				$3,356

DR 2801100

MANAGEMENT'S REPORT

The accompanying consolidated balance sheet and the related consolidated statements of operations, changes in financial position and shareholders' equity have been prepared in conformity with generally accepted accounting principles, and we believe that they present fairly the company's 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, a system of internal controls, designed to protect the company's assets and properly record transactions and events as they take place, has been developed and maintained. This system of internal controls is supported by an extensive program of internal audits.

The Board of Directors pursues its responsibility for financial information through its Audit Committee, which is composed of Directors who are not employees. Both the internal auditors and the independent auditors have free access to the Audit Committee and periodically the Committee meets with them and with management in order to monitor the accounting affairs of the company.

At the recommendation of the Audit Committee, Arthur Young and Company has been selected by the Board of Directors, and approved by the Shareholders, to serve as independent certified public accountants for the company. Arthur Young & Company provides expert advice on the application of generally accepted accounting principles and has the responsibility of examining and rendering an objective, independent opinion on management's financial statements.

George W. Metferd
Group Vice President
and Chief Financial Officer

William M. Hofacre
Vice President and Controller

AUDITORS' OPINION

Board of Directors and Shareholders
Fluor Corporation

We have examined the accompanying consolidated balance sheet of Fluor Corporation at October 31, 1985 and 1984, and the related consolidated statements of operations, changes in financial position and shareholders' equity for each of the three years in the period ended October 31, 1985.
Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.
The accounts of Massey Coal Company, a 50% owned joint venture, were examined by other independent auditors; insofar as our opinion on the consolidated financial statements relates to such assets and operations, which constituted 17% and 11% in 1985, 14% and 11% in 1984 and 13% and 8% in 1983 of consolidated assets and revenues, respectively, it is based solely on their reports.

In our opinion, based on our examinations and the reports of other independent auditors, the accompanying consolidated financial statements present fairly the consolidated financial position of Fluor Corporation at October 31, 1985 and 1984, and the consolidated results of operations and changes in financial position for each of the three years in the period ended October 31, 1985, in conformity with generally accepted accounting principles applied on a consistent basis during the period.

Orange County, California
December [illegible], 1985

DR 2801101

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

$ in thousands, except per share amounts **1985**	*First Quarter*	*Second Quarter*	*Third Quarter*[(a)]	*Fourth Quarter*[(b)]
Revenues from continuing operations	$ 927,478	$1,107,761	$ 975,439	$1,157,766
Gross margin (loss)	(20,259)	(21,332)	(32,162)	(158,747)
Earnings (loss) from continuing operations before income taxes	(54,976)	(58,681)	15,981	(529,107)
Earnings (loss) from continuing operations	(34,846)	(41,311)	12,952	(510,078)
Earnings (loss) from discontinued operations:				
Operations	2,281	1,854	2,285	767
Disposal	—	—	—	(50,867)
Extraordinary item	—	—	(6,642)	(9,719)
Net earnings (loss)	(32,565)	(39,457)	8,595	(569,897)
Earnings (loss) per share:				
Continuing operations	(.44)	(.52)	.16	(6.45)
Extraordinary item	—	—	(.08)	(.13)
Net earnings (loss)	$ (.41)	$ (.50)	$ .11	$ (7.21)

1984	*First Quarter*	*Second Quarter*	*Third Quarter*	*Fourth Quarter*
Revenues from continuing operations	$1,112,537	$1,128,678	$1,047,846	$1,012,716
Gross margin (loss)	53,498	34,333	21,275	(20,835)
Earnings (loss) from continuing operations	13,751	959	(172)	(24,898)
Earnings from discontinued operations	2,694	3,528	2,093	3,053
Net earnings (loss)	16,445	4,487	1,921	(21,845)
Earnings (loss) per share:				
Continuing operations	.18	—	—	(.31)
Net earnings (loss)	$ .21	$ .05	$ .03	$ (.28)

(a) Third Quarter 1985 earnings include a pre-tax gain of $78,834,000 resulting from the company's sale of its Irvine, California headquarters and engineering center facility.

(b) Fourth Quarter 1985 results include pre-tax charges of $419,057,000 relating to the company's restructuring activities, $47,184,000 of pre-tax nonrecurring adjustments and a lower than expected tax benefit on the loss from continuing operations.

PRINCIPAL SUBSIDIARIES AND DIVISIONS

Engineering and Construction

FLUOR ENGINEERING AND CONSTRUCTION GROUP, INC.
Irvine, California

DANIEL INTERNATIONAL CORPORATION Greenville, South Carolina
- **DANIEL ENGINEERING AND TECHNICAL SERVICES COMPANY**
- **DANIEL INTERNATIONAL COMPANY**
  - **CARIBBEAN DIVISION**
- **DANIEL MAINTENANCE AND INDUSTRIAL SERVICES COMPANY**
- **DANIEL POWER COMPANY**
- **DANIEL U.S. OPERATIONS COMPANY**
  - **INDUSTRIAL & COMMERCIAL GROUP**
  - **PROCESS GROUP**
  - **PULP & PAPER GROUP**

FLUOR ENGINEERS, INC. Irvine, California
- **FLUOR TECHNOLOGY, INC.**, Irvine, California
- **CHICAGO DIVISION** Chicago, Illinois
- **HOUSTON ENGINEERING CENTER** Sugar Land, Texas
- **NORTHERN CALIFORNIA DIVISION** Redwood City, California
- **FLUOR CANADA LTD.** Calgary, Alberta, Canada

FLUOR CONSTRUCTORS INTERNATIONAL, INC. Irvine, California
- **FLUOR CONSTRUCTORS, INC.** Irvine, California
- **FLUOR CANADA CONSTRUCTORS, INC.** Calgary, Alberta, Canada

FLUOR-DANIEL ENGINEERS & CONSTRUCTORS, LTD. Hong Kong
- **FLUOR AUSTRALIA PTY. LIMITED** Melbourne, Victoria, Australia
- **DANIEL INTERNATIONAL (MALAYSIA) SDN. BHD.** Kuala Lumpur, Malaysia

FLUOR-DANIEL INTERNATIONAL LONDON London, England
- **DANIEL INTERNATIONAL (SAUDI ARABIA) LTD.** Jeddah, Saudi Arabia
- **DANIEL INTERNATIONAL GmbH** Wiesbaden, West Germany
- **FLUOR ARABIA LIMITED** Al-Khobar, Saudi Arabia
- **FLUOR (GREAT BRITAIN) LIMITED** London, England
- **FLUOR GmbH** Dusseldorf, West Germany
- **FLUOR NEDERLAND B.V.** Haarlem, The Netherlands
- **FLUOR ENGINEERS S.A. (PTY)** Johannesburg, South Africa

Natural Resources Management

ST. JOE MINERALS CORPORATION
Clayton, Missouri
- **A. T. MASSEY COAL COMPANY, INC.** Richmond, Virginia
- **ST. JOE DOMESTIC METALS CORPORATION** Clayton, Missouri
- **ST. JOE GOLD CORPORATION** Clayton, Missouri
- **ST. JOE INTERNATIONAL CORPORATION** Clayton, Missouri

OTHER OPERATIONS

AMERICAN EQUIPMENT COMPANY, INC. Greenville, South Carolina

FLUOR DRILLING SERVICES, INC. New Orleans, Louisiana

FLUOR REAL ESTATE SERVICES, INC. Birmingham, Alabama
- **DANIEL REALTY CORPORATION** Birmingham, Alabama

FLUOR VENTURE GROUP, INC. Irvine, California

DR 2801102

DIRECTORS

DAVID S. TAPPAN, JR.
Chairman of the Board and Chief Executive Officer (1952)

CAROLINE L. AHMANSON
Chairman of the Board of Caroline Leonetti, Ltd., Director of Walt Disney Productions (1985)

DEAN K. ALLEN
Executive Vice President (1962)

CHARLES N. CANNON
Vice Chairman of the Board (1961)

HUGH K. COBLE
Chairman and CEO of Fluor-Daniel International (1966)

PETER J. FLUOR
President of Texas Crude, Inc., oil and gas production (1984)

WILLIAM R. GRANT
Chairman of the Board of MacKay-Shields Financial Corporation (1982)

BOBBY R. INMAN
President and Chief Executive Officer of Microelectronics and Computer Technology Corporation, Admiral U.S. Navy (Retired) (1985)

AHMED A. JUFFALI
General Partner and Chief Executive of E. A. Juffali and Bros. (1985)

SIBRAND JURRIAANS
Retired, former partner of Pierson, Heldring & Pierson, investment and commercial bankers (1964)

ROBERT V. LINDSAY
Director and President of J. P. Morgan & Co. Incorporated and Morgan Guaranty Trust Company of New York (1982)

LESLIE G. McCRAW
President and CEO of Daniel International Corporation (1977)

JOSEPH V. McKEE, JR.
Retired, former Chairman of the Board of National Union Electric (1982)

GEORGE W. MEFFERD
Group Vice President and Chief Financial Officer (1974)

BUCK MICKEL
Vice Chairman of the Board (1977)

LOUIS H. WILSON
General, U.S. Marine Corps (Retired) and former Commandant of the Marine Corps (1979)

JOHN A. WRIGHT
President and Chief Operating Officer (1981)

EXECUTIVE COMMITTEE
David S. Tappan, Jr., Chairman
Dean K. Allen
Charles N. Cannon
George W. Mefferd
Buck Mickel
John A. Wright

AUDIT COMMITTEE
William R. Grant, Chairman
Bobby R. Inman
Peter J. Fluor
Sibrand Jurriaans
Louis H. Wilson

COMPENSATION COMMITTEE
Louis H. Wilson, Chairman
William R. Grant
Sibrand Jurriaans
Robert V. Lindsay
Joseph V. McKee, Jr.

NOMINATING COMMITTEE
David S. Tappan, Jr., Chairman
Peter J. Fluor
William R. Grant
Sibrand Jurriaans
Robert V. Lindsay
Louis H. Wilson

OFFICERS

CORPORATE EXECUTIVE OFFICERS

DAVID S. TAPPAN, JR.
Chairman of the Board and Chief Executive Officer (1952)

JOHN A. WRIGHT
President and Chief Operating Officer (1981)

BUCK MICKEL
Vice Chairman of the Board (1977)

CHARLES N. CANNON
Vice Chairman of the Board (1961)

DEAN K. ALLEN
Executive Vice President (1962)

GEORGE W. MEFFERD
Group Vice President and Chief Financial Officer (1974)

P. JOSEPH TRIMBLE
Senior Vice President—Law and Tax (1972)

EXECUTIVE OFFICERS OF OPERATING SUBSIDIARIES

C. PATRICK BEDFORD
President and CEO, Fluor Constructors International, Inc. (1978)

HUGH K. COBLE
Chairman and CEO, Fluor-Daniel International (1966)

ROBERT M. DeGARMO
President and CEO, Fluor Real Estate Services, Inc. (1977)

PETER DeMAY
President and CEO, Fluor-Daniel Engineers & Constructors, Ltd. (1980)

VINCENT L. KONTNY
President and CEO, Fluor Engineers, Inc. (1965)

LESLIE G. McCRAW
President and CEO, Daniel International Corporation (1977)

PETER J. NEFF
President and CEO, St. Joe Minerals Corporation (1981)

OTHER OFFICERS

CHARLES J. BRADLEY
Vice President—Human Resources and Administration (1958)

JAMES R. BYRON
Vice President—Government Relations (1963)

DAVID R. COPLEY
Vice President and Treasurer (1975)

LAWRENCE N. FISHER
Vice President—Corporate Law (1974)

J. ROBERT FLUOR II
Vice President—Corporate Relations (1967)

GUNTHER E. HERING
Vice President—Corporate Development and Strategic Planning (1975)

WILLIAM M. HOFACRE
Vice President and Controller (1984)

WILBUR J. HOLLEMAN
Vice President—Tax (1975)

RICHARD D. PAUL
Vice President—Financial and Operational Evaluation (1968)

NAD A. PETERSON
Senior Vice President and Secretary (1967)

JAMES O. ROLLANS
Vice President—Corporate Communications (1982)

GERALD B. SINYKIN
Vice President—Medical Services (1979)

WILLIAM D. TRAMMELL
Vice President—Project Finance (1968)

DR 2801103

Photography: Lonnie Duka Lithography: George Rice & Sons Typography: CAPCO Printed in U.S.A.