FLUOR

1986

Annual Report

$ in thousands, except per share amounts/ Year ended October 31,	1986	1985	1984
FISCAL YEAR			
Revenues from continuing operations	$4,660,261	$4,097,218	$4,239,863
Loss from continuing operations	(28,026)	(553,672)	(6,758)
Net earnings (loss)	(60,443)	(633,324)	1,008
Earnings (loss) per share			
Continuing operations	(.35)	(7.00)	(.09)
Net earnings (loss)	(.76)	(8.01)	.01
Funds provided from (used by) continuing operations	53,619	(152,100)	47,913
Capital expenditures	91,619	121,216	285,514
Cash dividends per common share	$ .40	$ .40	$ .60
AT YEAR END			
Total assets	$2,565,393	$2,796,364	$3,891,618
Capitalization			
Long-term debt	519,439	259,064	724,777
Shareholders' equity	950,240	1,033,904	1,696,363
Total capitalization	$1,469,679	$1,292,968	$2,421,140
Percent of total capitalization			
Long-term debt	35.3	20.0	29.9
Shareholders' equity	64.7	80.0	70.1
Shareholders' equity per common share	$ 11.99	$ 13.06	$ 21.49
Number of employees	22,309	26,958	32,153

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COMPANY DESCRIPTION

Fluor Corporation is engaged in two core businesses: engineering and construction (E&C) services, and natural resources management. The company provides E&C services which include feasibility studies, concept design, project management, engineering, construction, procurement, and maintenance. These services are focused on five global business sectors: process, power, industrial, hydrocarbon, and government. The company also manages the exploration, development, production and marketing of natural resources—principally coal, gold, silver, lead, zinc, copper, tin, and iron ore.

DR 2801106

Dear Fellow Shareholder:

A year ago we reported on a major restructuring program undertaken to meet the challenge of a dramatically changed business environment. Our objective was to streamline the company, reduce costs and refocus our two core businesses to succeed in the prevailing economic climate.

Restructuring actions completed in 1986 offer both short- and long-term benefits:

- Fluor Engineers and Daniel International, the company's two main engineering and construction units, were blended into a single, more market-responsive, worldwide organization.
- Fluor's gold properties were consolidated into St. Joe Gold Corporation with 10 percent of the shares sold to the public for $39 million in gross proceeds.
- The sale of Fluor's Irvine complex was concluded with receipt of a final payment of $35 million. The facility was sold for a total price of $340 million in 1985.
- Fluor's offshore drilling services and real estate operations were sold for $39 million, essentially completing the disposition of the company's non-core businesses.
- Effective November 1986, the company's domestic lead operations were combined with those of Homestake Mining Company in a joint venture owned 57.5 percent by Fluor.

These actions, coupled with those taken last year, generated substantially improved results. The company reported a net loss of $60 million, or 76 cents per share for 1986, compared with a net loss of $633 million, or $8.01 per share for 1985. Restructuring actions included in 1986 results amounted to net gains of approximately $50 million, compared with net charges of approximately $400 million in 1985. Importantly, excluding the one-time financial effects of these restructurings, our two core businesses showed significant improvement.

While we are pleased that our restructuring program is delivering bottom-line improvements, we are disappointed that Fluor did not return to profitability this past year. The pace of our recovery was constrained because several key engineering and construction (E&C) markets continued to deteriorate and prices for most commodities sold by Fluor either declined or showed no improvement until late in the year. With new tax legislation now in place, oil prices stabilizing, most relevant commodity prices moving upward, and with the expectation of continued economic growth, we are looking forward to improved business conditions in 1987 and enhanced profit potential for Fluor.

STRATEGIC DIRECTION AND OBJECTIVES

Despite continuing challenges in our markets, we are confident that the strategy of narrowing the company's focus on its two core businesses will lead to superior results and return to shareholders.

Although cyclical, both the E&C and natural resources industries offer excellent long-term growth and profit potential. In E&C we are a leading, world-class service organization with superior marketing capability. The industries we serve are broadly diversified and our record of outstanding project management and execution on complex assignments, both large and small, is unsurpassed.

The basic strengths, track record and potential of Fluor's Natural Resources Management Group are equally impressive. Excellent management, exploration and development skills, backed by outstanding ore bodies and low production costs, continue to be hallmarks of the operation. Our leadership position in the marketplace is also enhanced by product and geographic diversification.

Management's ongoing restructuring program is dedicated to restoring both operations to superior levels of growth and profitability.

ENGINEERING AND CONSTRUCTION

The most significant accomplishment of the E&C group in 1986 was the blending of Fluor Engineers, Inc. and Daniel International into a single, worldwide organization—Fluor Daniel. The new group concentrates on five key business sectors—process, power, industrial, hydrocarbon and government.

This action, reflective of changes in the marketplace, signals a new philosophy for the company. It enables us to offer clients the fully integrated services of our E&C organization from each of our 54 offices located around the world as opposed to limiting certain offices to specific industries and markets.

We introduced the Fluor Daniel concept in the international marketplace in 1985. The move was well received by our clients and has allowed the company to secure contracts overseas which were not previously attainable.

Early indications are that the concept will be equally successful in the U.S. Our goal is to increase penetration of existing markets, move more rapidly into new markets, reduce costs, and increase flexibility so that we can adjust quickly to the changing needs of our clients.

Fluor's Engineering and Construction Group as a whole cut its losses in 1986 despite the performance of Fluor Constructors, the company's union construction arm. This unit, which is organized and operates independently of Fluor Daniel, experienced sizeable overruns this past year on contracts awarded under extremely competitive market conditions. The unit underwent a change in leadership and direction, and overruns are not expected to continue in 1987.

E&C bookings for the year totalled $3 billion compared with $4.5 billion in 1985. Backlog at year-end 1986 stood at $4.3 billion compared with $5.1 billion the prior year. Three of the five E&C business sectors experienced an improvement in backlog: power, process and government. These gains were offset by a continued downward trend in the Hydrocarbon Sector and a decline in the Industrial Sector which had achieved dramatic growth since 1983.

NATURAL RESOURCES

The Natural Resources Management Group reported an improvement of more than $80 million in operating results in 1986, compared with the prior year. This improvement excludes lead and coal write-offs taken in 1985. Coal operations achieved record operating profits and production despite a 10 percent decline in average prices; gold operations posted improved operating profits due largely to higher prices; and base metals operations showed a sizeable reduction in losses in the fourth quarter. These gains were also achieved as a result of our success in further reducing costs and improving productivity.

We also made progress against two important strategic goals in the natural resources area. First, the establishment of St. Joe Gold Corporation and the sale of 10 percent of its stock. This represents a meaningful step toward reducing the company's investment in certain assets to generate cash and improve returns. Second, the combining of our domestic lead operation with that of Homestake Mining Company offers two important benefits. As the major owner of the new enterprise—The Doe Run Company—we have leveraged the unique talents of our base metals management team. Also, the combination of our low-cost production with Homestake's high-grade producing properties creates a more flexible, cost-efficient operation. This combination can be competitive in today's lead market.

FINANCIAL STRENGTH

Maintaining the company's financial strength and flexibility was a key objective in 1986.

During July and August we completed approximately $250 million in domestic and foreign medium-term financings at effective interest rates ranging from 9.3 to 9.7 percent. The foreign issues were hedged to protect against currency fluctuations. Proceeds from these borrowings were used primarily to pay prior years' federal income tax obligations and associated interest.

Because we, in effect, repaid one interest bearing obligation with another, total interest bearing obligations of the company remained essentially unchanged. However, our long-term debt-to-total capitalization ratio was 35 percent at the end of 1986, versus 20 percent a year ago.

The company underwent its annual review with the major credit agencies and retained its investment quality rating.

Cash dividends paid to shareholders in 1986 were 10 cents per quarter or 40 cents per share for the year, the same as in 1985.

Capital expenditures totalled $92 million. In 1985, capital expenditures were $121 million. Investment levels of less than $100 million have proven ample to maintain high-quality, cost-effective facilities in the current business environment, so no change is planned for the coming year.

SOUTH AFRICAN OPERATIONS

In December, Fluor announced the divestment of its South African operations, selling 100 percent of the assets to an independent trust. Under the trust's ownership, operations will be directed by local management, enabling continued employment for the racially integrated work force.

In a December letter to shareholders, we pointed out that Fluor still believes sanctions and withdrawal of U.S. firms from South Africa are counterproductive to achieving a peaceful solution to the problems of racial inequality. But as uncertainties of continued operation in South Africa escalate, we felt that an orderly transfer of ownership at this time would be in the best interests of all concerned. We have retained a repurchase option on the assets sold and look forward to the day when we can return to that country as an equity owner and participate in its economic growth.

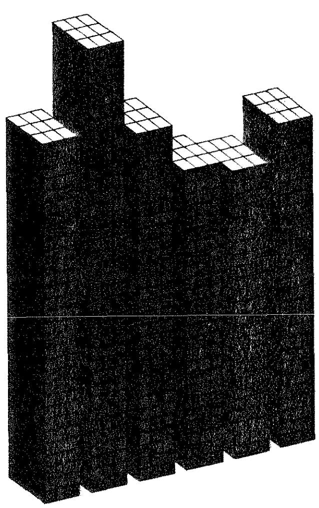
MANAGEMENT CHANGES

Fluor's board of directors lost three members and long-term, valued employees last year with the retirements of Vice Chairman Charles N. Cannon and Group Vice President and Chief Financial Officer George W. Mefferd, and the resignation of Executive Vice President Dean K. Allen.

In January 1987, Robert L. Guyett, formerly Vice President and Treasurer of The LTV Corporation, was appointed Senior Vice President and Chief Financial Officer of Fluor Corporation and was elected to the Executive Committee and board of directors. In addition, Allen E. Puckett, Chairman and CEO of Hughes Aircraft Company joined the board, and Joseph V. McKee, Jr. retired.

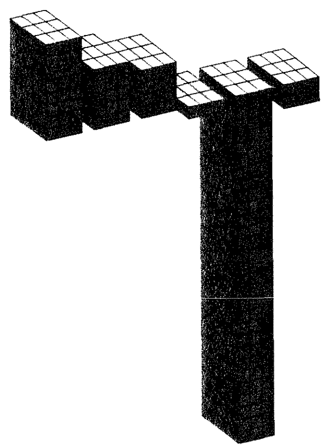
Fluor Corporation's board now includes 15 members, with nine outside and six inside directors.

Also in fiscal 1987, John A. Wright, President and Chief Operating Officer of Fluor Corporation and Chairman of St. Joe Minerals Corporation, a Fluor subsidiary, assumed the additional responsibilities of CEO for St. Joe Minerals and



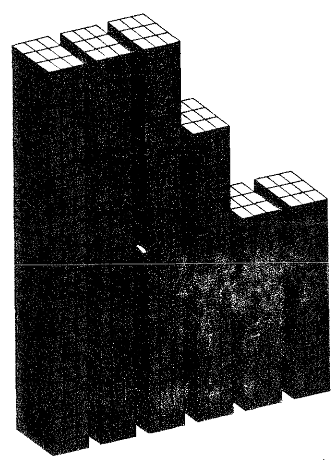
REVENUES FROM CONTINUING OPERATIONS ($ in billions)

1981	1982	1983	1984	1985	1986
5.1	6.4	5.1	4.2	4.1	4.7



EARNINGS (LOSS) PER SHARE FROM CONTINUING OPERATIONS ($)

1981	1982	1983	1984	1985	1986
1.98	1.27	1.05	(0.09)	(7.00)	(.35)



DIVIDENDS PER COMMON SHARE ($)

1981	1982	1983	1984	1985	1986
.80	.80	.80	.60	.40	.40

Chairman and CEO of St. Joe Gold Corporation, which is 90 percent owned by Fluor. In both positions, he replaces Peter J. Neff who resigned.

During fiscal 1986, Fluor Director Leslie G. McCraw assumed new responsibilities as President and Chief Executive Officer of Fluor Daniel. Mr. McCraw, who has been President and Chief Executive Officer of Daniel International, joined Fluor's board in 1984 and is a member of the Executive Committee.

Reporting to Mr. McCraw are Fluor Director Hugh K. Coble, Group President, International Operations; Gerald H. Glenn, Group President, Marketing and Sales; and Vince L. Kontny, Group President, U.S. Operations.

OUTLOOK

This has been a challenging year for Fluor, but we've made great strides in completing necessary restructuring actions and improving operating results of our two core businesses. Much remains to be done.

We intend to focus on the following objectives in 1987:

• Realize full benefits from the new Fluor Daniel organization's intensified global marketing efforts;
• Capitalize on the encouraging upward trend in commodity prices;
• Continue our corporate-wide cost containment efforts;
• Muster the superior talent of Fluor people in every part of the organization.

Throughout its 75-year history, Fluor has faced cyclical downturns and emerged each time stronger and more successful. The current slowdown, though prolonged, is no different.

The company's nucleus of skills remains intact. Thanks to the hard work and dedication of our employees, Fluor enjoys the reputation of an industry leader and retains all the ingredients necessary for success:

• We're in the right business, serving industries that are an integral part of the global economy with an infinite diversity of markets.
• As a company, we have accumulated over the years a wealth of technological expertise unmatched by any competitor.
• We have demonstrated the determination and flexibility to change course dramatically in response to new opportunities.

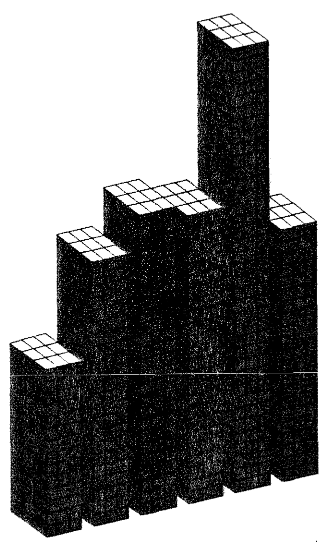
Fluor expanded rapidly in a period of explosive economic growth, and restructuring such a large organization to meet today's market challenges has not been easy.

But the most difficult tasks are behind us. Now we are ready to achieve our goal for 1987: success on the bottom line.

January 15, 1987

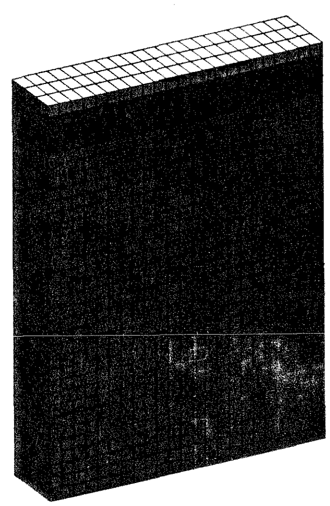
D. S. Tappan Jr.

David S. Tappan, Jr.
Chairman of the Board and
Chief Executive Officer



NET INTEREST EXPENSE ($ in millions)

1981	1982	1983	1984	1985	1986
29.1	51.2	57.4	55.7	85.0	48.3



REVENUES BY SEGMENT FROM CONTINUING OPERATIONS—1986

Other 1.0%
Metals 8.8%
Coal 11.1%
E&C 79.1%

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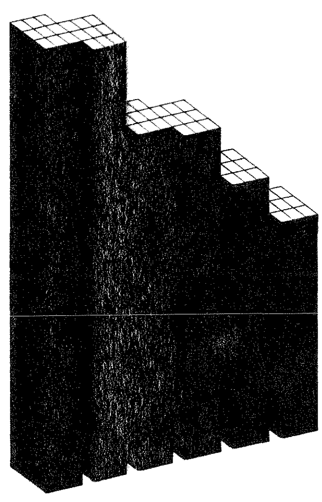
PARAGRAPH INDEX TO OPERATIONS REPORT



TOTAL EMPLOYEES (in thousands)

1981	1982	1983	1984	1985	1986
44.2	43.1	34.1	32.2	27.0	22.3

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OPERATIONS REPORT

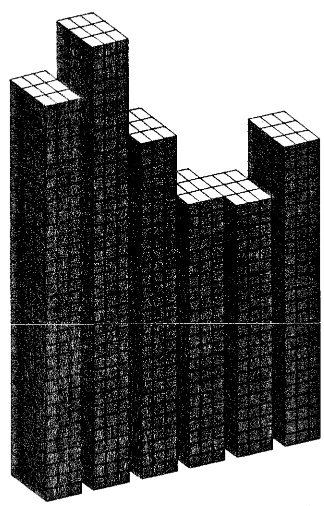
ENGINEERING AND CONSTRUCTION OVERVIEW

During 1986, Fluor Corporation subsidiaries, Fluor Engineers, Inc. and Daniel International Corporation, completed a major reorganization which combined the two entities into a single worldwide operating unit—Fluor Daniel. This reorganization, motivated by changing conditions in the marketplace, dramatically increases the group's flexibility. Fluor Daniel can now offer clients its fully integrated services from each of its 54 offices located around the world. These services include feasibility studies, concept design, project management, engineering, construction, procurement, and maintenance.

The new group is concentrating on five global business sectors: process, power, industrial, hydrocarbon and government. Fluor Daniel is now geared to respond immediately to client needs in each of these sectors.

The new organization is aggressively supported by the Fluor Venture Group, formed to provide or arrange financial backing for specific engineering and construction (E&C) projects, as well as selected activities of Fluor's Natural Resources Management Group.

Although certain E&C markets showed growth in 1986, the industry continued to suffer from the effects of a highly competitive business environment. Low economic growth, a sharp drop in oil prices, a too-strong dollar, and uncertainty regarding changes in U.S. taxes, all combined to slow the E&C industry's recovery.



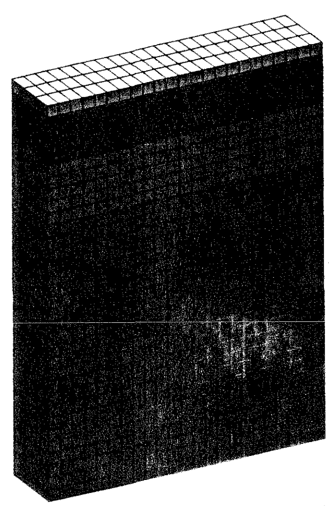
ENGINEERING AND CONSTRUCTION REVENUES ($ in billions)
1981 4.8 · 1982 5.4 · 1983 4.1 · 1984 3.2 · 1985 3.2 · 1986 3.7

FLUOR DANIEL'S PROCESS SECTOR

The Process Sector includes pharmaceuticals, fine and specialty chemicals, fibers, film, textiles, plastics, bulk chemicals, composites and biotechnology. These markets typically undergo broad cycles caused, in part, by fluctuating feedstock and energy costs, changes in currency exchange, and interest rates.

Most of the external factors that drive the Process Sector are now moving in a positive direction. Opportunities within this sector are enhanced by: automation and technology upgrades in fiber, film and fine chemical plants; development of new technologies for fine and specialty chemicals; and accelerated introduction of new products in plastics, composites, and pharmaceuticals.

Fluor Daniel has for many years enjoyed a superior record in providing services to the



BACKLOG BY BUSINESS SECTORS—1986
- Government 2.2%
- Process 14.2%
- Hydrocarbon 16.1%
- Power 24.0%
- Industrial 43.5%

domestic process industry and this reputation has spread internationally. Fluor Daniel offers a full range of services, from siting to design and construction, maintenance, technical services, and project finance. The sector has offices throughout the world, and a reputation for understanding the technologies used in the process industries.

In general, projects in the process industry tend to be smaller, and clients prefer a company which can provide more than one specialized service. The emphasis today is on getting more value for money spent.

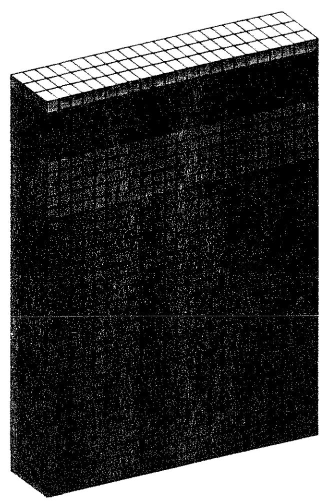
The pharmaceutical and biotechnology markets have not experienced cyclical downturns in recent years because of growing demand for new products. These businesses are expected to undergo moderate growth with most spending allocated to plant renovations, expansions, and research and development facilities. In addition to design and construction experience, pharmaceutical firms look for E&C companies that can also provide start-up assistance, maintenance, and validation services to meet federal requirements. Clients in this industry prefer companies familiar with their specific equipment and technologies.

Fine and specialty chemicals should see moderate growth in the U.S. and Western Europe, driven by demand from industries such as plastics, electronics and building products. Additional demand will come from the increasing use of special composites and engineered plastics in the automotive, computer, aerospace, and construction industries. In fine and specialty chemicals, clients prefer an E&C company that provides flexibility, and the ability to manage and deliver projects quickly.

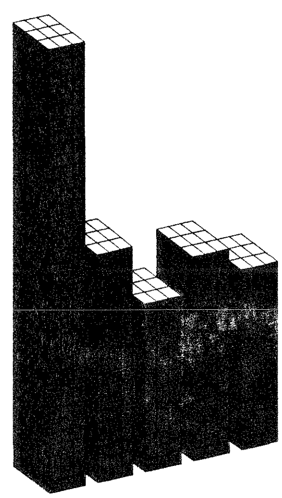
The fibers and film markets, while very price-sensitive in world competition, should remain stable. Clients in these fields prefer a contractor who can help them save money through productivity, automation and debottlenecking.

The outlook for the bulk chemical industry is stable, with little growth anticipated near-term.

Active 1986 Fluor Daniel projects in this sector include:
• Design and construction of a major engineered plastics project in Alabama.
• Evergreen E&C projects in the U.S. and Europe for a worldwide chemical producer.
• Design, construction and maintenance of over 20 pharmaceutical plants in Puerto Rico.
• E&C management for a film plant in Illinois.
• Design and construction of a special composites plant in California.
• Design, construction and maintenance of a major biotechnology facility in New York.
• E&C for a lysine plant in Iowa for a joint venture of Japanese and French companies.



NEW ORDERS BY BUSINESS SECTORS—1986
- Government 1.7%
- Hydrocarbon 12.2%
- Process 13.9%
- Power 20.7%
- Industrial 51.5%



BACKLOG ($ in billions)

1982	1983	1984	1985	1986
10.7	5.6	4.2	5.1	4.3

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FLUOR DANIEL'S POWER SECTOR

The Power Sector addresses domestic projects through five markets: new utility construction, support to existing utility plants, resource recovery, small hydroelectric facilities, and cogeneration.

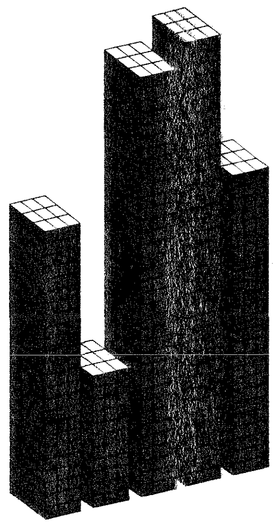
The U.S. power industry has changed dramatically in recent years. Demand for electricity is expected to grow at an average of two percent per year over the next decade. No nuclear plants have been ordered domestically since 1977 and plans for new construction of fossil-fuel plants (oil, coal, gas) are modest compared to a decade ago. Interest in smaller alternatives to traditional power sources will grow in importance because utilities are reluctant to build large, base-load facilities. E&C opportunities are centered on retrofitting existing plants, life extension programs, maintenance, and other operational plant services. Clients are interested in applying new technologies that help improve a facility's efficiency.

Fluor Daniel's Power Sector concentrates on services that add value to the clients' operations. They offer a range of services including: engineering, procurement, construction, maintenance, and equity participation. The Power Sector's project execution capability is located throughout the U.S. to serve power-generating markets. Fluor Daniel is capable of performing any size project and the company enjoys a sound reputation in the power industry.

The Power Sector also has expertise in an emerging technology called integrated gasification combined cycle—a method which can increase a plant's capacity at low risk, yet high efficiency. The technology allows a utility to bring new capacity on-line in increments consistent with its load-growth instead of a large power plant all at once. Also, the Power Sector has experience in building atmospheric fluidized bed combustion units, a technology that provides a practical method for generating energy from high-sulfur coals with a minimum of noxious emissions.

Fluor Daniel's services to the power industry are reflected in its active projects in 1986, including:

- Contracted maintenance work on lignite and gas plants in Texas.
- A contract to provide personnel to support a nuclear program in Tennessee.
- A total responsibility contract for a resource recovery project in Massachusetts, where it also has an ownership position through Fluor's Venture Group.
- Engineering and procurement for a coal-fired, 550-megawatt station in Kentucky.
- Operating plant maintenance at three new nuclear plants—one in Kansas, and two in Arkansas—and renewal work at a plant in South Carolina.



NEW ORDERS ($ in billions)

1982	1983	1984	1985	1986
2.9	1.2	4.2	4.5	3.0

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FLUOR DANIEL'S INDUSTRIAL SECTOR

The industrial engineering and construction market addressed by Fluor Daniel is divided into six markets: automotive and general manufacturing; aerospace, defense and electronics; heavy industries such as metals, machine tools and transportation; pulp and paper; foods and consumer products; and commercial.

Intense competition and a disinflationary economic climate have forced American industry to reduce production costs and increase productivity without sacrificing quality. Many manufacturers are emphasizing the modernization and upgrading of their plants instead of building new facilities.

Fluor Daniel's Industrial Sector has extensive capabilities in every major field of the domestic industrial market, with experience going back 50 years. The sector offers siting, environmental studies, conceptual design, engineering, construction, maintenance, training, and technical services. With the consolidation of Fluor and Daniel, the sector now serves industries worldwide, with particular emphasis on quality, scheduling, and cost systems designed to meet the needs of each job.

In the automotive industry, capital expenditures in 1986 were flat, but this market will continue to be an active source of new business for E&C companies. Most outlays have been for modernizations and other efficiency improvements.

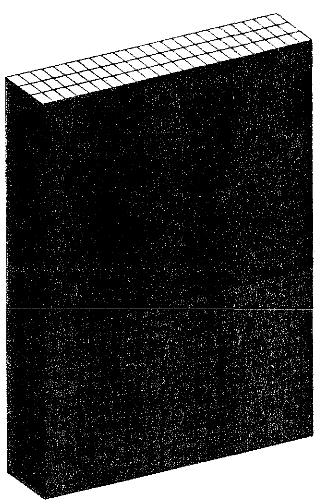
Structural changes among many aerospace firms are creating a more complex and diversified industry. An important trend is the increased emphasis by the Department of Defense on cost-cutting, improved reliability, and maintenance.

The metals industry's production is expected to remain flat, primarily because of severe competition from third-world nations.

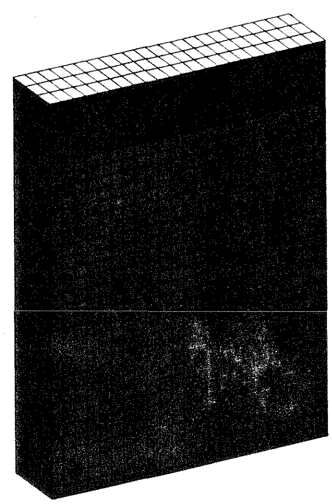
In pulp and paper, expenditures are largely for retrofits and upgrades to make existing plants more cost-effective.

The foods and consumer products market is stable, with capital spending aimed at increasing automation and capacity modernization to decrease operating costs.

As a result of the new tax bill, spending in the domestic commercial construction market is expected to fall, with office and hotel building experiencing the steepest decline. However, projects to build prisons are active with over 40 states under court order to improve or expand their correctional facilities.



BACKLOG: U.S. vs FOREIGN—1981
($ in millions)
Foreign 58% $9,311
Domestic 42% $6,855



BACKLOG: U.S. vs FOREIGN—1986
($ in millions)
Foreign 16% $704
Domestic 84% $3,587

Federal deficit concerns have reduced aid to transportation programs, but local and private investment funds are increasing.

Examples of the Industrial Sector's 1986 active projects include:

• A contract to provide design and construction services, training and automation support to an automobile plant in Georgia.
• Three construction management jobs for an aerospace company in California. The work includes an anechoic test chamber, metals processing building, and a radio frequency-shielded building.
• Construction of a maximum security prison in Texas.
• Design and construction of a large pulp and paper plant in Georgia.
• Project management services for a Michigan steel company.
• A series of construction management and equipment installation jobs in seven states for a food company.
• Design and construction of a food plant in North Carolina.
• Construction management for a hotel in South Carolina.
• Commercial maintenance for a naval base in South Carolina.
• A joint venture with The Allen Group of New York aimed at the factory automation systems market, with two projects underway.
• Design and construction support for automotive facilities in Ohio.
• A project to design facilities and equipment for an automobile electronics test facility in Michigan.
• Design and build responsibilities for an electronics plant in Malaysia.
• Construction management for a university and an airport in Saudi Arabia.

FLUOR DANIEL'S HYDROCARBON SECTOR

The Hydrocarbon Sector includes oil and gas production, petroleum refining, petrochemicals, pipelines, gas processing, synfuels, and mining. This industry is sluggish because oil prices collapsed from $26 per barrel to a low of $8. Although prices have been firming, uncertainty prevailed in 1986.

Oil and gas development activity in the U.S. has been hard hit by the drop in crude prices; in addition, oil companies are plagued with over-capacity in refining. In Canada, many projects have been delayed. Asia remains a primary exploration target, with key areas being Indonesia, Malaysia and The Peoples' Republic of China.

In the U.S. and Europe, investment will be centered in three areas: refinery up-grades to process heavy oil; lead phase-down or gasoline octane

enhancement; and more cogeneration projects, advanced controls, and other efficiency improvements to increase profit margins.

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Lower prices for oil—the feedstock for petrochemical plants—should impact that industry worldwide by stimulating increased capital expenditures in the near term. Retrofits of older facilities should be a growing segment of total petrochemical construction.

47
In pipelines, there is increased activity outside the U.S. for the first time in five years.

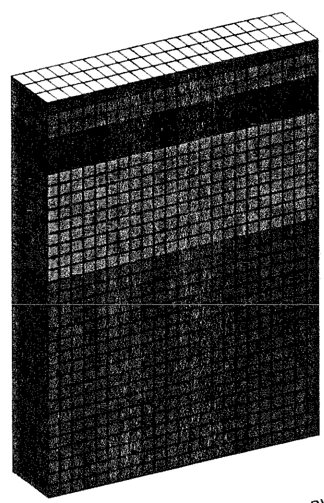
48
Low crude oil prices have kept the development of synthetic fuels at a low level. And in mining and plant construction, activity is expected to remain relatively flat for the short term though the outlook is improving for gold and coal projects.

49
Fluor Daniel's reputation in the hydrocarbon field is one of the best known and most respected in the world. During 1986, the organization was sized to match a contracting market, while retaining the core capabilities needed to grow quickly when the cycle turns up again.

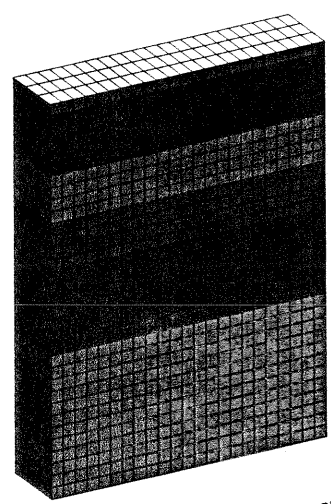
50
Despite weak activity, this market offers opportunities for E&C companies that can offer clients: in-depth understanding of new technologies to make hydrocarbon plants more efficient and productive; three-dimensional computer-aided design technology to reduce costs; small-job expertise; and the ability to mobilize and manage large projects.

51
Teaming relationships can be critical in today's competitive worldwide E&C market environment. Fluor Daniel recently joined with a French firm to engineer an 850-kilometer natural gas pipeline in Turkey.

52
Other examples of 1986 active projects in the Hydrocarbon Sector include:
• A contract to study the first phase of a 620-mile pipeline carrying gas from the South China Sea to Hainan Island and Guangdong Province in The Peoples' Republic of China.
• Phase one of the Olympic Dam copper, gold and uranium metallurgical plants and copper refinery in Australia.
• A joint venture management contractor project for phase two of a $650-million heavy oil refinery expansion in Canada.
• Continuing maintenance services for a large petrochemical complex in Saudi Arabia.
• Refinery modernization to improve process efficiencies and save energy for a client's



BACKLOG—1976 BY CLIENT CATEGORY, ENERGY VS. NON-ENERGY
Energy Users:
■ Other 1.0%
■ Chemical/Petrochemical 5.2%
Energy Producers:
■ Petroleum 9.7%
■ Solid Fuels 26.3%
■ Gas Processing 57.8%



BACKLOG—1986 BY CLIENT CATEGORY, ENERGY VS. NON-ENERGY
Energy Producers:
■ Gas Processing .8%
■ Petroleum 14.5%
Energy Users:
■ Chemical/Petrochemical 13.3%
■ Other 13.8%
■ Power 21.6%
■ General Industrial/Commercial 36.0%

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facilities in Texas, Indiana and Virginia.

- **An agreement to develop a 49-megawatt gas-fired cogeneration facility through Fluor's Venture Group. Fluor Daniel will do engineering, construction, operations, and maintenance of the plant.**
- **Engineering, procurement, and construction on two lead phase-down projects in California.**
- **Engineering and procurement assistance on an oil and gas production platform offshore Indonesia.**
- **Maintenance services at 20 separate locations in the U.S.**
- **Engineering, procurement, and construction management on an isomer unit in Norway.**
- **Completion of a Flexicoker in Holland.**
- **Refinery instrumentation modernization work in Australia, Saudi Arabia, and Africa.**

FLUOR DANIEL'S GOVERNMENT SECTOR

The Government Sector addresses a mature and intensely competitive market by providing a full range of services to federal, state, and local governments. U.S. federal government entities currently served by Fluor Daniel include: Department of Energy (DOE), Department of Defense (DOD), Department of Commerce (DOC), and Department of Transportation (DOT), including numerous branches within those departments.

The sector has strong capabilities in chemical processing, hazardous waste treatment, nuclear fuel cycle work, engineering, construction, operation, and maintenance services for technologically advanced facilities and systems integration in telecommunications.

The environmental services market has been expanding to meet government regulations that seek to comply with growing public concern. Political resolve to find a solution to the growing toxic waste problem in the U.S. is gaining momentum on federal, state, and local levels. Projects in environmental services will be funded by government and private monies.

To best penetrate the hazardous waste market, Fluor Daniel is pursuing teaming relationships with well-established waste management firms. Fluor Daniel offices are strategically located in proximity to states that produce more than 40 percent of the nation's hazardous waste, an important factor in the competition for government-funded projects.

In telecommunications, technological developments and the breakup of AT&T continue to drive the market. A major part of this growing sector is in E&C projects to replace thousands of miles of copper wiring with fiber optic cables worldwide.

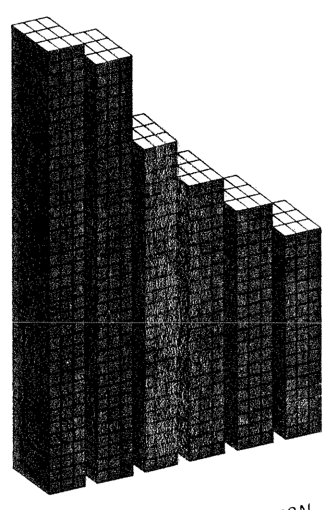
Fluor Daniel has routinely provided voice and data communications services for many projects over the years. In the spring of 1983, Fluor Daniel established its telecommunications services division to capitalize on this expertise. Fluor Daniel is an objective provider of a full range of telecommunications services for voice and data communications projects, as well as ongoing operations. These services include: project management and consulting, engineering, procurement, installation, systems integration, operations, and maintenance.

Nuclear fuel cycle contracts for DOE make up the largest segment of Fluor Daniel's Government Sector work. Markets include: uranium enrichment, fuel fabrication, spent fuel storage, fuel reprocessing, and nuclear waste processing, disposal and storage.

The Government Sector's advanced technology division has become a preeminent contractor in the engineering of DOE nuclear fuel cycle facilities. The company is also aggressively pursuing work with the DOD and is rapidly establishing its credentials with other government entities.

Fluor Daniel's 1986 active government projects include:

- Contracts for the DOD, including engineering services at Vandenburg Air Force Base, two U.S. Marine Corps Air Stations in California, and other Air Force and defense agency units.
- Support on a ground-based laser concept definition for technology identification, an important classified program being pursued by the Strategic Defense Initiative organization.
- Program management and inspection services for nearly 200 facilities for the National Weather Service.
- Project management oversight services for five projects in New York for the Urban Mass Transit Administration.
- Project management oversight for the Detroit People Mover.
- The first phase of architect-engineering services for conceptual design on the Hanford Waste Vitrification Plant in Washington.
- Architectural engineering for conceptual design for a nuclear waste salt repository.
- Recently completed design of a cellular radio system for the Gulf of Mexico.
- Management support services for a 23,000-mile nationwide fiber optic system.
- Work on portions of the U.S. Information Agency's modernization program for the Voice of America.



ENGINEERING AND CONSTRUCTION EMPLOYEES (in thousands)

1981	1982	1983	1984	1985	1986
25.9	24.5	19.0	16.4	14.5	12.1

NATURAL RESOURCES OVERVIEW

Fluor's Natural Resources Management Group, which is operated through St. Joe Minerals Corporation, returned to profitability in fiscal 1986 despite depressed economic conditions in the industry. Losses in base metals were reduced dramatically due to extensive cost cutting and improving prices; record operating profits were achieved in coal through productivity gains and higher volumes, despite lower prices; and earnings from gold were ahead of last year as a result of better prices.

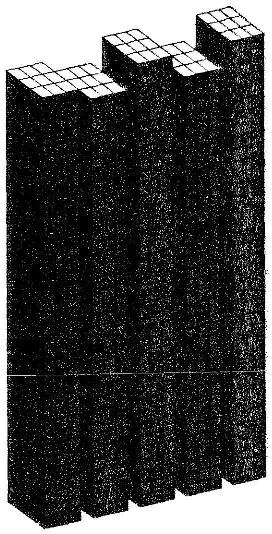
Natural resources produced by the group are principally coal, gold, silver, lead, zinc, copper, tin, and iron ore. Prices for these minerals have been generally depressed over the last five years.

Ten years ago, minerals prices spiraled upward on expectations of robust economic growth and prolonged shortages. However, as new capacity was coming on-line, the world economy went into a recession and inflation was replaced by disinflation. Demand and prices receded and minerals producers were left with overcapacity and excess inventories.

Lower commodity prices reduced the ability of developing nations to repay foreign debt and pay for imports. Many countries reacted by increasing commodity exports already in oversupply, further weakening prices. In addition, the strong dollar made U.S. minerals less competitive at home and abroad. In response to the growing glut of minerals, industrial nations cut back capacity and closed or sold inefficient operations.

Consumption patterns of base metals changed as growth in advanced industrialized nations increasingly shifted their economies into high technology and services industries. Technological innovations and new environmental laws also contributed to the displacement of some metals. In addition, low industrial growth rates and high real interest rates provided a powerful incentive to reduce costs by carrying less inventory.

The natural resources industries responded to these conditions by improving productivity and becoming more competitive. During 1986, inventory and capacity levels in the natural resources industries served by the group have been reduced sharply and consumption in industrialized economies has steadied.



NATURAL RESOURCES REVENUES
($ in millions)

1982	1983	1984	1985	1986
887	866	923	868	926

Natural resources operations were acquired by Fluor in August 1981.

COAL

Despite low prices, Fluor's 50 percent owned Massey Coal Company (the remaining 50 percent owned by Shell) reported record earnings and production in fiscal 1986.

Skyrocketing oil prices during the 1970s set off intense development of coal production capacity as a cheaper alternative to oil. U.S. production increased to 824 million tons in 1980, up 27 percent over 1975. That year, electric utilities accounted for 72 percent of coal consumption in the U.S. In order to offset spiraling oil prices, utilities increased their consumption of coal to 82 percent by 1980. However, as oil prices softened and the world economy slowed in the 1980s, the coal industry was left with excess capacity and weakening prices.

Declining oil prices in 1986 have encouraged some substitution of oil for coal, but it has been minor thus far. Downward pressure on coal prices has motivated the industry to become more efficient by improving productivity.

Massey produces mostly low-sulphur steam coal that meets the environmental standards of the 1977 Clean Air Act. Massey's mines are located in the eastern U.S., near transportation, and most of its coal is sold largely under long-term contracts to the power industry. The company also brokers coal.

In 1986, the Massey partnership sold a record 23 million tons of coal (excluding brokered coal), up four million tons from 1985. Operating costs were significantly cut through the closure of high-cost metallurgical mines, productivity gains, and the absence of 1985's strike.

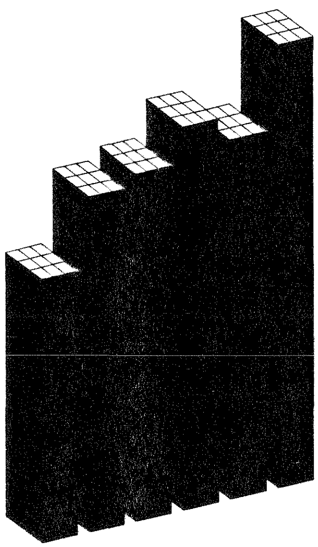
Despite a 10 percent drop in the average price per ton of coal, 1986 was one of Massey's best years. Some long-term contracts were renegotiated to accommodate declining prices, but increased tonnage or longer-term contracts were received in exchange.

GOLD

A combination of economic and political factors increased world gold prices during fiscal 1986. St. Joe Gold Corporation's average realized gold price for 1986 was $355 per ounce, up 11 percent from 1985's $320, the lowest price since 1979.

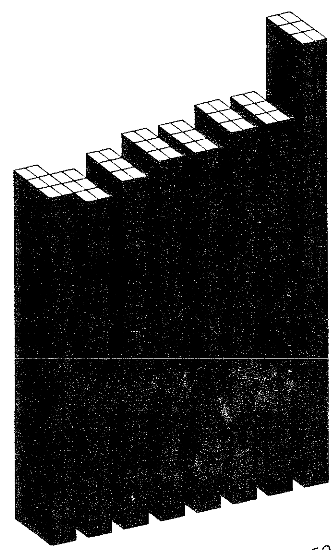
In early fiscal 1986, St. Joe Minerals Corporation combined its gold properties in the United States, Canada and Chile into one company, St. Joe Gold Corporation. In January 1986, St. Joe Gold sold three million shares at $13 per share, generating gross proceeds of $39 million. A total of 31 million shares are outstanding, 90 percent owned by Fluor.

St. Joe Gold holds an 83 percent interest in the El Indio gold mine in Chile, one of the five largest producing gold mines in the Western Hemisphere, and a two-thirds interest in the



PRODUCED COAL SOLD—
Represents 50 percent of Massey's operations (in millions of short tons)

1981	1982	1983	1984	1985	1986
7.1	8.8	9.2	10.0	9.5	11.6



AVERAGE QUARTERLY GOLD PRICE FOR FISCAL YEARS ENDING OCTOBER 31

1985				1986			
Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
322	309	317	326	331	342	345	406

Source: Metals Week

Yuba Placer Gold Company, a joint venture in California. The company also has interests in 28 active gold and platinum exploration sites in the U.S., Canada, and Chile.

St. Joe Gold plans to allocate $10 to $12 million per year for exploration over the next three to five years. Exploration expenditures in fiscal 1986 were $12 million, compared to $10 million for the previous year.

In March 1986, St. Joe Gold announced a discovery on its Golden Patricia property in northern Ontario, Canada. Feasibility studies, underground work, and additional drilling are underway and results are encouraging. Richmond Hill in the Carbonate District of South Dakota, also in the feasibility stage, shows promise for further development in 1987.

Gold at the El Indio mine consists of three ore types: direct smelting ore (DSO); milling ore; and heap-leach ore. DSO is a high grade ore that does not require mill processing prior to shipping to smelters.

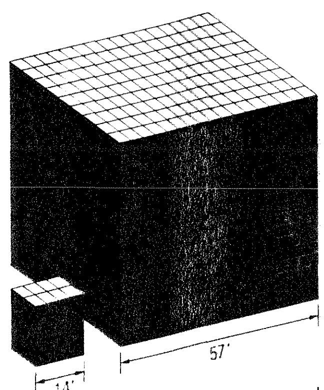
El Indio, representing about 95 percent of St. Joe's gold production, produced 280,700 ounces in fiscal 1986, compared with 294,300 ounces in fiscal 1985. The decline was due primarily to fewer tons mined of DSO, which was partially offset by an increase in milling ore production.

St. Joe Gold's net cash production cost in fiscal 1986 at El Indio was $147 per ounce—compared with $138 last year—among the lowest for Western Hemisphere mines.

In fiscal 1986, DSO averaged 4.97 ounces of gold per ton. DSO reserves are expected to last through fiscal 1989, though in declining grade. Milling ore is processed prior to shipment to smelters. The average grade of milling ore processed in 1986 was .29 ounces per ton. The mill has a capacity of 1,930 tons per day and will be expanded to 2,650 tons in fiscal 1987. Silver and copper by-products are also produced at El Indio.

Low-grade ore is processed by a low-cost recovery technique called heap leaching. Heap-leach processing facilities were constructed in 1986 at Tambo, five miles from El Indio. Tambo is expected to produce 10,000 ounces of gold in 1987 and 20,000 ounces in future years.

St. Joe Gold's California production was down from 15,100 ounces in 1985 to 12,800 ounces in 1986, primarily due to flooding from abnormally heavy rains. Work to improve efficiency and reduce costs is in progress.



WORLD GOLD PRODUCTION (feet, cubed)
In the history of mankind, it is estimated that only about 100,000 metric tons of gold (large cube) has been produced. Recent annual production is at about 1,000 metric tons (small cube).

96

DOMESTIC METALS

97

St. Joe Domestic Metals' operations produce lead, zinc, and silver as a by-product. In the last 10 years these industries have changed considerably. A shift to a disinflationary economy and fundamental changes in consumption patterns for lead and zinc have resulted in a major restructuring of these industries. Production cutbacks, capacity closures, and labor settlements have improved productivity and enhanced the ability of U.S. producers to compete against imports. St. Joe Domestic Metals also produces iron ore pellets.

98

In 1986, St. Joe significantly reduced operating losses in its domestic metals operations in the fourth quarter through cost cutting, productivity improvements, and higher prices toward the end of the year. Operating losses in 1986 were concentrated in the first three quarters. The impact of improving lead and zinc prices began flowing to the bottom line in the fourth quarter, bringing operating results to almost breakeven for that period.

100

Measured in inflation-adjusted dollars, zinc prices during 1986 were at their lowest since 1932. Similarly, the average price for lead during the first half of fiscal 1986 was the lowest in the 20th century.

101

The battery market accounts for about 70 percent of total lead consumption in the U.S. Lead in automobile batteries declined over the last 10 years, but has been increasing in industrial batteries. Lead as a gasoline additive was reduced from a peak of over 20 percent of the market in 1970 to less than three percent in 1986.

102

Total lead consumption in the U.S. is estimated to have declined by about one percent in calendar 1986 to approximately 1.2 million tons. About 11 percent was imported.

104

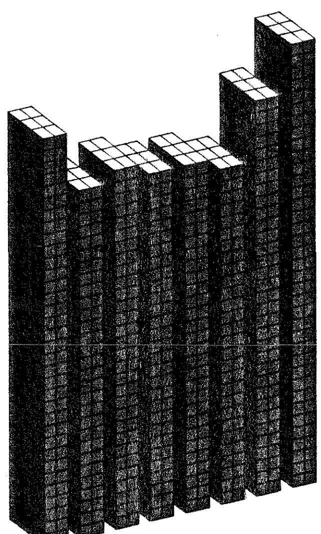
St. Joe sold 194,000 tons of lead in 1986, up nine percent over 1985. The average price for lead for the year was 19 cents per pound, about flat compared with 1985.

105

Effective November 1, 1986, St. Joe and Homestake Mining Company formed a joint venture combining their domestic lead operations into a partnership, The Doe Run Company, 57.5 percent owned by St. Joe and 42.5 percent by Homestake. St. Joe contributed its Herculaneum smelter, five mines, and three mills. Homestake contributed its Buick lead mine, mill, and smelter. All operations are in southeast Missouri.

106

Doe Run will achieve improved efficiencies by combining the high-grade ore reserves of the Buick mine with the high-capacity Herculaneum smelter.

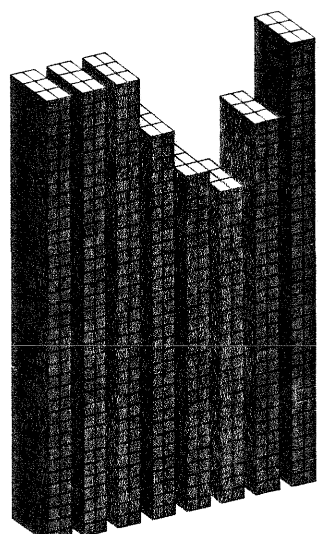


99

AVERAGE QUARTERLY U.S. PRODUCER LEAD PRICE FOR FISCAL YEARS ENDING OCTOBER 31 (cents per pound)

1985 Q1	Q2	Q3	Q4	1986 Q1	Q2	Q3	Q4
22.1	18.8	19.4	19.1	18.8	18.2	21.1	23.8

Source: Metals Week



103

AVERAGE QUARTERLY U.S. PRODUCER ZINC PRICE FOR FISCAL YEARS ENDING OCTOBER 31 (cents per pound)

1985 Q1	Q2	Q3	Q4	1986 Q1	Q2	Q3	Q4
43.4	43.6	43.4	37.8	33.3	31.4	36.4	43.5

Source: Metals Week

107
Weight reduction programs in the automobile industry in the 1970s replaced zinc diecastings with plastics and other materials. In 1985, the average car contained about 20 pounds of zinc compared to 45 pounds in 1976. However, in recent years, zinc consumption has been increasing for electrogalvanized steel for automobiles and galvanized steel in construction.

108
Zinc consumption in 1986 is estimated to be 940,000 tons in the U.S., up two percent from 1985. The U.S. imports 70 percent of the zinc metal it consumes.

109
In 1986, St. Joe sold 144,000 tons of zinc metal, up 32 percent. The average fiscal year price for zinc, however, was 34 cents per pound, over 17 percent below fiscal 1985. In addition, St. Joe sold about 35,000 tons of zinc metal equivalent.

110
Cost reduction was the main emphasis in 1986. Despite a year-long strike at the Balmat, New York, zinc mine, the facility operated at about 80 percent capacity and has begun to produce zinc concentrates at world-competitive prices.

112
St. Joe also produces iron ore pellets at its Pea Ridge mine in Missouri, primarily for the steel industry. Sales of pellets declined 43 percent in 1986 due to plant closures by a major customer who will be replaced in 1987, or operations will be restructured to produce alternate products and limited tonnage of iron ore pellets.

113
During 1986, development continued on St. Joe's flame reactor technology for the treatment of electric arc furnace dust, a hazardous waste by-product of the steel industry. The process produces a non-hazardous slag and recovers lead and zinc.

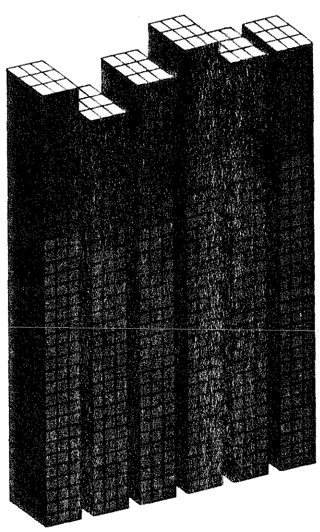
115
INTERNATIONAL MINERALS

116
St. Joe International's operation produces lead and zinc concentrates and by-product silver in Argentina; and tin in Brazil.

117
The Argentine lead and zinc industries have been plagued by price controls and increasing wages. These conditions should be improved in 1987 because of new legislation.

118
Lead and zinc concentrates are produced at St. Joe's Aguilar mine in Argentina. In 1986, St. Joe International sold 29,000 tons of lead concentrates and 33,000 tons of zinc concentrates. Costs were cut and recoveries improved.

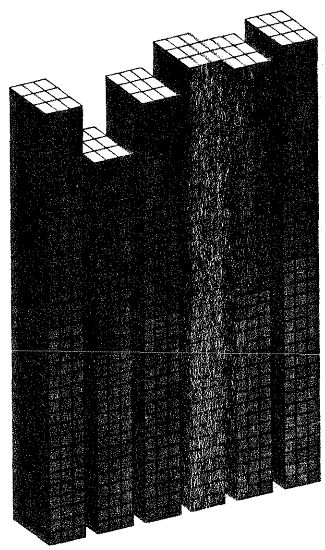
119
The tin market was disappointing in 1986. Artificially supported prices collapsed in October 1985 and, though they were firming in late 1986, worldwide inventories were still fairly high. Production from St. Joe's Mocambo tin mining complex in Brazil will begin in 1987.



111
U.S. LEAD METAL CONSUMPTION
BY MARKET SEGMENT
(thousands of short tons)

1981	1982	1983	1984	1985	1986
1,286	1,185	1,266	1,330	1,263	1,247

- Other
- Gas additives
- Pigments
- Batteries



114
U.S. ZINC METAL CONSUMPTION
BY MARKET SEGMENT
(thousands of short tons)

1981	1982	1983	1984	1985	1986
919	782	896	936	918	940

- Other
- Brass & Bronze
- Diecasting
- Galvanizing

OPERATING STATISTICS

ENGINEERING AND CONSTRUCTION

$ in thousands/ Year ended October 31,	1986	1985	1984	1983	1982	1981
Work Performed	$3,817,200	$3,438,327	$4,458,238	$6,335,741	$ 7,526,128	$ 7,295,853
Revenues	3,688,315	3,179,308	3,205,987	4,104,454	5,384,723	4,812,191
Operating Profit (Loss)	(75,607)	(84,883)	94,604	210,676	228,587	227,980
New Orders	2,992,200	4,485,300	4,151,261	1,244,553	2,908,822	7,100,552
Backlog	$4,291,400	$5,114,700	$4,194,247	$5,610,687	$10,711,815	$16,166,292
Manpower	12,068	14,530	16,353	18,998	24,498	25,858

BACKLOG BY INDUSTRY AND LOCATION

$ in millions	$ 1986	%	$ 1985	%	$ 1984	%	$ 1983	%	$ 1982	%	$ 1981	%
Process	610	14.2	536	10.5	324	7.7	120	2.1	157	1.5	224	1.4
Power	1,032	24.0	762	14.9	412	9.9	1,649	29.4	2,197	20.5	3,097	19.2
Industrial	1,865	43.5	2,453	48.0	1,690	40.3	506	8.9	1,051	9.8	1,145	7.0
Hydrocarbon	690	16.1	1,289	25.2	1,700	40.5	3,293	58.8	7,272	67.9	11,616	71.9
Government	94	2.2	75	1.4	68	1.6	43	.8	35	.3	84	.5
Total Backlog	4,291	100.0	5,115	100.0	4,194	100.0	5,611	100.0	10,712	100.0	16,166	100.0
United States	3,587	83.6	4,072	79.6	2,838	67.7	2,520	44.9	4,581	42.7	6,855	42.4
Outside U.S.	704	16.4	1,043	20.4	1,356	32.3	3,091	55.1	6,131	57.3	9,311	57.6
Total Backlog	4,291	100.0	5,115	100.0	4,194	100.0	5,611	100.0	10,712	100.0	16,166	100.0
Backlog includes owners' cost of approximately	1%		1%		8%		34%		35%		33%	

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/ Year ended October 31,	1986	1985	1984	1983	1982	1981*
Revenues	$516,943	$ 475,051	$489,634	$437,455	$446,883	$130,974
Operating Profit (Loss)	$ 49,310	$(223,038)	$ 14,800	$ (6,824)	$ 2,624	$ 9,155
Manpower	3,307	3,571	4,709	5,145	5,959	5,432
Steam Coal Produced	9,342	7,795	7,998	7,102	6,873	5,269
Metallurgical Coal Produced	2,175	1,730	2,168	2,084	2,155	1,787
Produced Coal Sold	11,620	9,528	9,982	9,192	8,837	7,054
Purchased Coal Sold	2,522	2,174	1,931	1,461	1,741	3,869

Represents 50% of Massey's operations for all periods, except manpower which is 100%.

*Financial data for St. Joe Minerals Corporation is included from the date of acquisition, August 3, 1981. Other information for St. Joe for the full fiscal year 1981 is shown for comparative purposes only.

OPERATING STATISTICS

METALS

$ in thousands/Year ended October 31,	1986	1985	1984	1983	1982	1981*
Revenues	$409,450	$ 392,746	$433,741	$429,000	$440,019	$108,839
Operating Profit (Loss)	$ (25,389)	$(203,800)	$ (3,894)	$ 32,664	$ 46,203	$ 19,716
Manpower	6,775	7,743	9,236	8,000	8,232	8,045

INTERNATIONAL MINERALS
(in short tons except as noted)

Lead Content of Concentrates Sold	28,997	29,678	28,725	35,576	40,184	32,933
Zinc Content of Concentrates Sold	33,218	36,576	49,875	52,140	62,819	52,554
Silver Content of Products Sold (Troy Ounces)	1,580,443	1,434,099	1,419,435	1,806,250	2,140,964	1,819,314

DOMESTIC METALS
(in short tons except as noted)

Lead Content of Concentrates Produced	186,975	172,781	137,618	215,984	207,776	168,317
Lead Metal Sold	193,849	177,772	169,080	220,823	205,573	170,638
Zinc Content of Concentrates Produced	56,434	71,602	76,862	87,315	77,947	59,592
Zinc Metal Equivalent Sold	179,081	146,732	113,738	100,459	75,207	46,212
Iron Pellets Sold (Gross Tons)	585,270	1,021,174	1,283,262	672,341	786,354	970,682
Silver Content of Products Sold (Troy Ounces)	990,768	716,178	657,766	609,658	702,359	751,459

GOLD**
(in troy ounces except as noted)

Gold Content of Products Sold	292,614	290,248	303,937	368,787	368,081	171,023
Silver Content of Products Sold	1,092,379	1,007,865	1,042,689	926,381	536,093	—
Copper Content of Products Sold (Short Tons)	21,223	20,055	19,915	16,186	8,350	—

*Financial data for St. Joe Minerals Corporation is included from the date of acquisition, August 3, 1981. Other information for St. Joe for the full fiscal year 1981 is shown for comparative purposes only.

**Reflects 100% of St. Joe Gold Corporation's operations without deduction for minority interest.

OTHER*

$ in thousands/Year ended October 31,	1986	1985	1984	1983	1982	1981
Revenues	$ 45,553	$ 50,113	$110,501	$108,076	$115,611	$ 97,007
Operating Profit (Loss)	$ 963	$ (28,899)	$ (16,136)	$ 17,422	$ 20,788	$ 1,903
Manpower	159	665	1,305	1,399	1,559	1,777

*Includes all intercompany eliminations.

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FINANCIAL CONTENTS

MANAGEMENT'S DISCUSSION AND ANALYSIS

RESULTS OF OPERATIONS

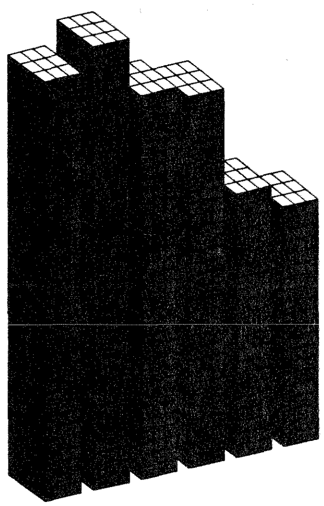
The loss from continuing operations was $28 million in 1986 compared with losses of $554 million in 1985 and $7 million in 1984. The related loss per share was $.35 for 1986 compared with $7.00 in 1985 and $.09 for 1984. Revenues from continuing operations increased 14% in 1986 following a 3% decline in 1985.

During 1986, the company continued to implement its restructuring plan. In the first quarter approximately 10 percent of the common stock of St. Joe Gold Corporation was sold in a public offering, resulting in net proceeds of $36 million and a nontaxable gain of $24 million. Final settlement of the Irvine facility sale transaction occurred in the third quarter and resulted in a pretax gain of $38 million.

In the fourth quarter, the company sold its real estate subsidiary, Daniel Realty Corporation (DRC), to DRC's management for $21 million, resulting in a pretax gain of $2 million. In addition, during the fourth quarter the company reached an agreement to dispose of its drilling services operations for $18 million, $8 million in cash with the balance in notes. The sale resulted in a pretax loss from disposal of $45 million.

ENGINEERING AND CONSTRUCTION

Engineering and Construction experienced an operating loss of $76 million in 1986 compared with $85 million in 1985 and an operating profit of $95 million in 1984. Operating results in 1986 reflect higher facility costs on buildings sold and leased back late in the third quarter of 1985, lower margins due to continued severe industry-wide competitive pressures, and losses incurred on several fixed price



TOTAL ASSETS ($ in billions)

1981	1982	1983	1984	1985	1986
4.5	4.7	4.1	3.9	2.8	2.6

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construction projects bid under extremely competitive conditions. Manpower was reduced 17% in 1986 and 11% in 1985, resulting in continuing reductions in indirect costs.

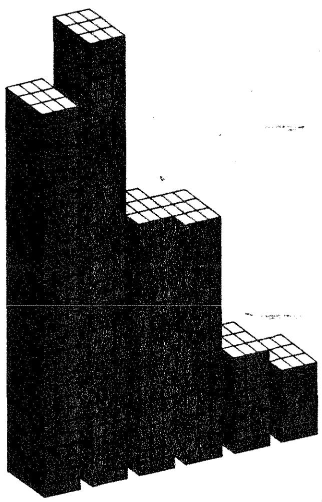
Contract awards for engineering and construction decreased in 1986 due to continued depressed business conditions and intense competition due to over-capacity in the industry. New awards decreased in 1986 to $3.0 billion from $4.5 billion in 1985 and $4.2 billion in 1984. Backlog at October 31, 1986 was $4.3 billion compared with $5.1 billion and $4.2 billion at October 31, 1985 and 1984, respectively. During the second quarter of 1986, backlog was increased by $554 million to include the estimated value of up to 36 months of work to be performed under certain maintenance contracts. This adjustment was not included in new awards.

Late in 1986, an internal management restructuring was completed that combined Fluor Engineers and Daniel International into a single operating organization. The new organization should facilitate increased market penetration and operating efficiency. Fluor Constructors continues to be organized and operated independently within the Engineering and Construction segment.

NATURAL RESOURCES

Metals operations incurred an operating loss of $25 million on revenues of $409 million in 1986, compared with an operating loss of $204 million on revenues of $393 million in 1985 and an operating loss of $4 million on revenues of $434 million in 1984. The 1985 operating loss includes a nonrecurring charge of $138 million to write off goodwill associated with the domestic lead operations. Operations in 1986 showed substantial improvement due to higher gold prices, higher volume and content of gold in products sold, and lower costs in lead, zinc and Argentine operations. These improvements were partially offset by lower realized prices for domestic lead and zinc for the first three quarters of the year.

Revenues and operating profit from coal operations in 1986 were $517 million and $49 million, respectively, compared with revenues of $475 million and an operating loss of $223 million in 1985. Revenues and operating profit in 1984 were $490 million and $15 million, respectively. The operating loss for 1985 includes a nonrecurring charge of $212 million related to the reduction to net realizable value of certain of the company's coal properties held for disposal. Operations in 1986 were improved due to settlement, in the first quarter, of a labor dispute that existed



CAPITAL EXPENDITURES ($ in millions)

1981	1982	1983	1984	1985	1986
448	526	302	286	121	92

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throughout 1985, lower operating costs, and higher volumes which combined to offset lower realized prices experienced during the year. Also, 1986 includes $17 million from reversals of reserves no longer required.

OTHER

Reduced interest expense reflects the significantly reduced average level of debt outstanding during 1986 and lower interest rates on outstanding borrowings compared with 1985 and 1984.

The effective income tax benefit rate on the loss from continuing operations varies from 46% primarily due to the recognition of a nontaxable gain on the sale of St. Joe Gold common stock, capital gain rates applied to the gain from final settlement of the Irvine facility sale, partially offset by nondeductible amortization of property, plant and equipment bases differences, and goodwill.

The difference between the effective rate in 1985 and the statutory rate of 46% is primarily due to amortization and writedowns of both property, plant and equipment bases differences and goodwill, and accruals and losses with no tax benefit.

FINANCIAL POSITION AND LIQUIDITY

Funds provided by continuing operations were $54 million in 1986 compared with funds used of $152 million in 1985. In 1984, funds provided from continuing operations were $48 million. These amounts exclude the impact of the sales of the Irvine facility and the St. Joe Gold common stock, the proceeds of which are included in investment activities.

In 1986, funds were used for payments to investors consisting of cash dividends on common stock of $32 million and interest, net of tax, of $40 million. Dividends were paid at the rate of $.10 per share per quarter for 1986.

Capital expenditures for 1986 were $92 million compared with $121 million in 1985 and $286 million in 1984. In 1986, the majority of capital expenditures related to the metals and coal segments and included acquisitions of new mining properties, general mine development work, equipment replacements, and plant modifications.

In the fourth quarter of 1986 the company issued approximately $250 million of medium-term notes in the U.S., Switzerland, and Germany. Both of the foreign issues have been hedged through currency exchange agreements that fix the obligations in U.S. dollars at effective interest rates of 9.5% for the German borrowing and 9.3% for the Swiss borrowing. Proceeds from these borrowings were used primarily to fund payment of approximately $138 million of federal income tax obligations (including associated interest) which were accelerated as a result of the company's Closing Agreement of December 1984 with the Internal Revenue Service. The balance of the proceeds from the debt offerings are being utilized to repay other interest bearing obligations, to fund capital expenditures, and for general corporate purposes.

Since the net proceeds of the borrowings were used primarily to pay interest-bearing tax obligations, total interest-bearing obligations did not change significantly. Working capital was $265 million at October 31, 1986 compared with $37 million at October 31, 1985. This increase of $228 million is primarily due to the borrowings discussed above and a federal income tax refund of approximately $100 million. The tax refund results from the carryback of the 1986 tax loss and is expected to be received during the second quarter of fiscal 1987.

The long-term debt to capitalization ratio at October 31, 1986 was 35% compared with 20% and 30% at October 31, 1985 and 1984, respectively. At October 31, 1986, all long-term debt bears interest at fixed rates.

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 access to a commercial paper program which provides adequate operating liquidity. As of October 31, 1986, under the terms of the Massey joint venture agreement, net assets of $470 million, including $72 million of working capital, are restricted from distribution without the approval of the partners. During 1986 the company received cash distributions of $32 million from Massey.

As of November 1, 1986, the company contributed all of the assets of its domestic lead business to a joint venture. The company's net asset investment of approximately $414 million, including $25 million of working capital, which represents a 57.5 percent interest in the joint venture, will be restricted from distribution without the consent of the partners.

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

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SELECTED FINANCIAL DATA

$ in millions, except per share amounts	1986	1985	1984	1983	1982	1981
OPERATING RESULTS						
Revenues from continuing operations	$4,660.3	$4,097.2	$4,239.9	$5,079.0	$6,387.3	$5,149.0
Earnings (loss) from continuing operations before income taxes	(69.7)	(591.5)	(12.1)	157.0	198.8	192.9
Earnings (loss) from continuing operations	(28.0)	(553.7)	(6.8)	82.7	99.6	111.3
Net earnings (loss)	(60.4)	(633.3)	1.0	27.7	152.8	158.9
Earnings (loss) per share						
Continuing operations	(.35)	(7.00)	(.09)	1.05	1.27	1.98
Net earnings (loss)	(.76)	(8.01)	.01	.35	1.94	2.82
Dividends per share	$ .40	$ .40	$ .60	$ .80	$ .80	$ .80
FINANCIAL POSITION						
Current assets	$ 922.1	$1,057.2	$1,025.9	$1,146.0	$1,541.4	$1,460.9
Current liabilities	656.8	1,020.7	1,016.4	1,090.2	1,488.4	1,296.1
Working capital	265.3	36.5	9.5	55.8	53.0	164.8
Property, plant and equipment, net	1,301.8	1,433.3	2,338.2	2,379.8	2,493.9	2,527.0
Total assets	2,565.4	2,796.4	3,891.6	4,084.9	4,701.0	4,491.3
Capitalization						
Long-term debt	519.4	259.1	724.8	720.0	1,009.9	1,104.8
Shareholders' equity	950.2	1,033.9	1,696.4	1,747.2	1,776.4	1,683.2
Total capitalization	$1,469.6	$1,293.0	$2,421.2	$2,467.2	$2,786.3	$2,788.0
Percent of total capitalization						
Long-term debt	35.3	20.0	29.9	29.2	36.2	39.6
Shareholders' equity	64.7	80.0	70.1	70.8	63.8	60.4
Shareholders' equity per common share	$ 11.99	$ 13.06	$ 21.49	$ 22.19	$ 22.68	$ 21.55
Common shares outstanding	79,271,954	79,138,897	78,945,585	78,746,717	78,327,685	78,092,814
OTHER DATA						
New orders received during year	$2,992.2	$4,485.3	$4,151.3	$1,244.6	$2,908.8	$7,100.6
Backlog at end of year	4,291.4	5,114.7	4,194.2	5,610.7	10,711.8	16,166.3
Capital expenditures	91.6	121.2	285.5	301.8	525.9	448.1
Depreciation, depletion and amortization for continuing operations	123.4	150.8	139.7	136.8	122.1	56.9
Funds provided from (used by) continuing operations	$ 53.6	$ (152.1)	$ 47.9	$ 276.1	$ 272.2	$ 300.5
Number of employees	22,309	26,958	32,153	34,123	43,111	44,170

Prior periods have been restated to exclude from continuing operations the drilling services segment, which was discontinued in 1986. St. Joe Minerals Corporation is included on an equity basis for 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 and Quarterly Financial Data for information relating to significant items affecting the results of operations.

CONSOLIDATED STATEMENT OF OPERATIONS

Fluor Corporation

In thousands, except per share amounts / Year ended October 31,	1986	1985	1984
REVENUES			
Engineering and construction services	$3,688,315	$3,179,308	$3,205,987
Natural resources	926,393	867,797	923,375
Other	45,553	50,113	110,501
Total revenues	4,660,261	4,097,218	4,239,863
COST OF REVENUES			
Engineering and construction services	3,759,612	3,267,177	3,103,202
Natural resources	906,672	949,506	912,803
Write-down of investment in certain coal mines	—	211,578	—
Write-off of excess of cost over net assets of acquired businesses allocated to lead operations	—	137,989	—
Other	44,741	81,666	133,882
Total cost of revenues	4,711,025	4,647,916	4,149,887
OTHER INCOME AND EXPENSE			
Corporate administrative and general expense	32,532	34,652	46,361
Gain on sale of common stock of St. Joe Gold Corporation	(24,102)	—	—
Gain on sale of Irvine facility	(37,779)	(78,834)	—
Interest expense (net of capitalized interest of $2,364, $2,645 and $12,822, respectively)	72,552	111,777	91,561
Interest income	(24,241)	(26,814)	(35,872)
Total costs and expenses	4,729,987	4,688,697	4,251,937
LOSS FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	(69,726)	(591,479)	(12,074)
INCOME TAX BENEFIT	41,700	37,807	5,316
LOSS FROM CONTINUING OPERATIONS	(28,026)	(553,672)	(6,758)
DISCONTINUED OPERATIONS			
Earnings (loss) from operations (net of income tax benefit (expense) of $11,160, $3,943 and $(16,753), respectively)	(8,070)	(12,424)	7,766
Loss on disposal of discontinued operations (net of income tax benefit of $20,650 and $27,050, respectively)	(24,347)	(50,867)	—
EARNINGS (LOSS) FROM DISCONTINUED OPERATIONS	(32,417)	(63,291)	7,766
EARNINGS (LOSS) BEFORE EXTRAORDINARY ITEM	(60,443)	(616,963)	1,008
Extraordinary item—premium on early extinguishment of debt (net of income tax benefit of $14,508)	—	(16,361)	—
NET EARNINGS (LOSS)	$ (60,443)	$ (633,324)	$ 1,008
EARNINGS (LOSS) PER SHARE			
Continuing operations	$ (.35)	$ (7.00)	$ (.09)
Discontinued operations	(.41)	(.80)	.10
Extraordinary item	—	(.21)	—
Net earnings (loss)	$ (.76)	$ (8.01)	$ .01
SHARES USED TO CALCULATE EARNINGS (LOSS) PER SHARE	79,248	79,054	79,057

See Notes to Consolidated Financial Statements.

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CONSOLIDATED BALANCE SHEET

$ in thousands/at October 31,	1986	1985
ASSETS		
CURRENT ASSETS		
Cash and short-term investments	$ 96,331	$ 50,702
Notes receivable	13,528	151,246
Accounts receivable	340,368	350,906
Income taxes receivable	102,000	—
Contract work in progress	185,739	268,788
Net assets held for sale	12,830	37,101
Inventories	148,106	173,436
Other current assets	23,236	25,058
Total current assets	922,138	1,057,237
PROPERTY, PLANT AND EQUIPMENT—AT COST		
Land	52,989	53,187
Buildings and improvements	228,022	219,432
Machinery and equipment	814,333	794,803
Mining properties and mineral rights	760,436	744,366
Drilling and marine equipment	—	138,706
Construction in progress	19,069	15,774
	1,874,849	1,966,268
Less accumulated depreciation, depletion and amortization	573,028	532,946
Net property, plant and equipment	1,301,821	1,433,322
OTHER ASSETS		
Excess of cost over net assets of acquired businesses, net of accumulated amortization of $47,610 and $43,446, respectively	230,632	237,757
Other	110,802	68,048
Total other assets	341,434	305,805
	$2,565,393	$2,796,364

	1986	1985
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts and notes payable	$ 261,610	$ 367,962
Advance billings on contracts	62,261	78,521
Accrued salaries, wages and benefit plan liabilities	83,030	97,482
Other accrued liabilities	206,130	228,640
Current portion of long-term debt	14,667	39,698
Commercial paper to be retired with proceeds from asset sales	—	66,567
Income taxes currently payable	25,486	111,054
Deferred income taxes	3,613	30,774
Total current liabilities	656,797	1,020,698
LONG-TERM DEBT DUE AFTER ONE YEAR	519,439	259,064
OTHER NONCURRENT LIABILITIES		
Deferred income taxes	93,334	121,237
Deferred income	133,888	157,485
Other	211,695	203,976
Total other noncurrent liabilities	438,917	482,698
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 1986—79,271,954 shares and in 1985—79,138,897 shares	49,545	49,462
Additional capital	1,070,845	1,069,624
Deficit	(160,022)	(67,878)
Unamortized executive stock plan expense	(6,736)	(9,429)
Cumulative translation adjustments	(3,392)	(7,875)
Total shareholders' equity	950,240	1,033,904
	$2,565,393	$2,796,364

See Notes to Consolidated Financial Statements.

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CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

Fluor Corporation

$ in thousands/Year ended October 31,	1986	1985	1984
FUNDS PROVIDED FROM OPERATIONS			
Loss from continuing operations	$ (28,026)	$(553,672)	$ (6,758)
Depreciation, depletion and amortization	123,386	150,786	139,747
Interest expense, net of tax	39,178	60,360	49,443
Deferred income taxes	(7,763)	(99,169)	(129,202)
Gain on sale of Irvine facility, net of tax	(27,079)	(55,720)	—
Gain on sale of common stock of St. Joe Gold Corporation	(24,102)	—	—
Amortization of deferred gain on asset sales	(23,597)	(7,822)	(1,000)
Write-down of investment in certain coal mines	—	211,578	—
Write-off of excess of cost over net assets of acquired businesses	—	137,989	—
Other items, net	1,622	3,570	(4,317)
Funds provided from (used by) continuing operations	53,619	(152,100)	47,913
Earnings (loss) from discontinued operations	(32,417)	(63,291)	7,766
Depreciation, depletion and amortization	5,864	49,450	55,365
Deferred income taxes	(47,301)	(42,614)	8,752
Interest expense, net of tax	1,213	2,126	2,887
Funds provided from (used by) discontinued operations	(72,641)	(54,329)	74,770
Funds provided from (used by) operations	(19,022)	(206,429)	122,683
Net decrease (increase) in operating working capital	(85,305)	72,909	(149,301)
Net funds used by operations	(104,327)	(133,520)	(26,618)
PAYMENTS TO INVESTORS			
Cash dividends paid	(31,701)	(31,561)	(47,281)
Interest expense, net of tax	(40,391)	(62,486)	(52,330)
Total payments to investors	(72,092)	(94,047)	(99,611)
INVESTMENT ACTIVITIES			
Additions to property, plant and equipment	(91,619)	(121,216)	(285,514)
Net book value of property, plant and equipment sold or retired (excluding Irvine facility)	104,296	630,455	131,179
Proceeds from sale of Irvine facility, net of tax	27,079	227,460	—
Proceeds from sale of common stock of St. Joe Gold Corporation	35,700	—	—
Decrease in net assets held for sale	24,271	3,042	86,960
Decrease (increase) in noncurrent notes receivable	(50,281)	(71)	16,326
Other, net	7,205	25,624	(1,271)
Net funds provided (utilized) by investment activities	56,651	765,294	(52,320)
FINANCING ACTIVITIES			
Issuance of long-term debt	264,983	158,600	317,755
Reduction of long-term debt	(4,608)	(624,313)	(312,985)
Net increase (decrease) in borrowings due currently	(94,978)	(44,593)	67,708
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	165,397	(581,667)	127,478
Increase (decrease) in cash and short-term investments	45,629	(43,940)	(51,071)
Cash and short-term investments at beginning of period	50,702	94,642	145,713
Cash and short-term investments at end of period	$ 96,331	$ 50,702	$ 94,642

See Notes to Consolidated Financial Statements.

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CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY

Fluor Corporation

$ in thousands, except per share amounts/ Year ended October 31, 1984, 1985 and 1986	Common Stock	Additional Capital	Retained Earnings (Deficit)	Unamortized Executive Stock Plan Expense	Cumulative Translation Adjustments	Total
BALANCES AT NOVEMBER 1, 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 ($.40 per share)			(31,561)			(31,561)
Exercise of stock options—net	81	1,182				1,263
Amortization of executive stock plan expense				1,838		1,838
Issuance of restricted stock—net	40	893		(957)		(24)
Translation adjustment for the period					(651)	(651)
BALANCES AT OCTOBER 31, 1985	49,462	1,069,624	(67,878)	(9,429)	(7,875)	1,033,904
Net loss			(60,443)			(60,443)
Cash dividends ($.40 per share)			(31,701)			(31,701)
Exercise of stock options—net	67	991				1,058
Amortization of executive stock plan expense				3,003		3,003
Issuance of restricted stock—net	16	230		(310)		(64)
Translation adjustment for the period					4,483	4,483
BALANCES AT OCTOBER 31, 1986	$49,545	$1,070,845	$(160,022)	$ (6,736)	$(3,392)	$ 950,240

See Notes to Consolidated Financial Statements.

MAJOR ACCOUNTING POLICIES

PRINCIPLES OF CONSOLIDATION

The financial statements include the accounts of the company and its subsidiaries. The equity method of accounting is used for 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 1985 and 1984 amounts have been reclassified to conform with the 1986 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, 1986, will be billed and collected in 1987. 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 over periods approximating the life of the mine, on the straight-line method for base metals and on the unit-of-production method for precious metals. Subsequent maintenance and underground development expenditures are charged to expense as incurred.

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

DEPRECIATION AND AMORTIZATION

Depreciation of 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 businesses is being amortized on the straight-line method, primarily over 40 years.

INCOME TAXES

Deferred income taxes are provided for items recognized 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 (LOSS) PER SHARE

Earnings (loss) 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. Changes in the cumulative translation adjustments were as follows:

$ in thousands/Year ended October 31,	1986	1985	1984
Balance at beginning of year	$(7,875)	$(7,224)	$(3,285)
Translation adjustments	8,301	(1,421)	(7,294)
Deferred income taxes on translation adjustments	(3,818)	770	3,355
Balance at end of year	$(3,392)	$(7,875)	$(7,224)

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 noncurrent 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/Year ended October 31,	1986	1985	1984
Decrease (increase) in:			
Notes, accounts and income taxes receivable	$ 46,256	$ (63,268)	$ (17,242)
Contract work in progress and inventory	108,379	(37,323)	(7,413)
Other current assets	1,822	22,252	6,747
Increase (decrease) in:			
Accounts payable and accrued liabilities	(139,934)	174,600	(99,487)
Advance billings on contracts	(16,260)	968	(65,896)
Income taxes currently payable	(85,568)	(24,320)	33,990
Net decrease (increase) in operating working capital	$ (85,305)	$ 72,909	$(149,301)

INVENTORIES

Inventories comprise the following:

$ in thousands/at October 31,	1986	1985
Coal, metals and processed minerals	$ 77,335	$ 102,428
Supplies and other	70,771	71,008
Total	$ 148,106	$ 173,436

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.

RETIREMENT BENEFITS

Certain subsidiaries of the company have noncontributory defined benefit plans. Under these plans payments to retired employees are generally based upon their length of service and a percentage of qualifying compensation. These plans are generally funded at the minimum annual amount required by applicable regulations.

RETIREMENT BENEFITS continued

Net periodic pension cost includes the following components:

$ in thousands/Year ended October 31,	1986
Service costs—benefits earned during the period	$ 6,832
Interest cost on projected benefit obligation	14,462
Net amortization and deferral	22,572
Less—income and gain on assets invested	(39,777)
Net periodic pension cost	4,089
Early retirement program cost	2,812
Pension expense	$ 6,901

The following assumptions were used in the determination of net periodic pension cost:

Discount rates	8–9 %
Rates of increase in compensation levels	5–7½%
Expected long-term rate of return on assets	8–9 %

The company adopted Statement of Financial Accounting Standards No. 87 "Employers' Accounting for Pensions" in 1986. The effect of this change was to decrease net pension expense approximately $2,900,000 for the year ended October 31, 1986. Pension expense for defined benefit plans was $9,300,000, and $10,500,000 for 1985 and 1984, respectively.

The following table sets forth the funded status of the defined benefit plans:

$ in thousands/at October 31,	1986	1985
Actuarial present value of benefit obligations:		
Vested benefit obligation	$ 141,355	$ 131,901
Nonvested benefit obligation	9,784	9,024
Accumulated benefit obligation	$ 151,139	$ 140,925
Plan assets at fair values (primarily listed stocks and bonds)	$217,748	$184,474
Projected benefit obligation	184,125	170,537
Plan assets in excess of projected benefit obligation	33,623	13,937
Unrecognized net (gain) loss	(21,648)	—
Unrecognized net asset at implementation	(18,983)	(20,259)
Pension liability recognized in the Consolidated Balance Sheet	$ (7,008)	$ (6,322)

Massey Coal Company participates in multiemployer defined benefit pension plans for its union employees. Pension expense related to these plans was $1,000,000, $900,000, and $4,200,000 in 1986, 1985 and 1984, respectively.

The company also sponsors defined contribution retirement plans covering eligible employees. Contributions are based on a percentage of employees' compensation. Expense recognized for these plans approximated $36,400,000, $39,800,000 and $40,300,000 in 1986, 1985 and 1984, respectively.

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. These costs were $3,500,000 and $3,000,000 for 1986 and 1985, respectively.

DISCONTINUED OPERATIONS

During the fourth quarter of 1986, the company adopted a plan to dispose of its drilling services segment. During November 1986, the operation was sold for $17,500,000, $7,500,000 in cash with the balance payable in equal installments over the three years ending in 1994. Revenues from drilling operations were $18,400,000, $71,200,000 and $61,900,000 in 1986, 1985 and 1984, respectively.

During 1985, the company adopted a plan to dispose of its oil and gas segment for an aggregate sales price of $270,000,000. The company completed the disposition of this segment during 1986. Revenues from oil and gas operations were $84,900,000 and $99,400,000 in 1985 and 1984, respectively.

The following table summarizes the earnings (loss) from discontinued operations:

$ in thousands/Year ended October 31,	1986	1985	1984
Earnings (loss) from operations:			
Oil and gas (net of income tax expense of $11,750 in 1985 and $19,959 in 1984)	$ —	$ 7,187	$11,368
Drilling services (net of income tax benefit of $11,160, $15,693 and $3,206, respectively)	(8,070)	(19,611)	(3,602)
	(8,070)	(12,424)	7,766
Loss on disposal:			
Oil and gas (net of income tax benefit of $27,050)	—	(50,867)	—
Drilling services (net of income tax benefit of $20,650)	(24,347)	—	—
Earnings (loss) from discontinued operations	$(32,417)	$(63,291)	$ 7,766

LONG-TERM DEBT

Long-term debt comprises:

$ in thousands/at October 31,	1986	1985
Pollution control and industrial revenue bonds, 6% to 8.9%, due in varying amounts from 1989 through 2013 (net of unamortized discount of $7,290 and $7,788, respectively)	$114,289	$113,791
Notes, effective interest rate 9.7%, due in 1993	100,000	—
Swiss Franc financing, with a currency exchange agreement fixing the repayments in U.S. dollars at an effective interest rate of 9.3%, due in 1993	90,964	—
Deutsche mark financing, with a currency exchange agreement fixing the repayments in U.S. dollars at an effective interest rate of 9.5%, due in 1996	74,019	—
Notes, effective interest rate 12¼%, due in installments through 1998 (net of unamortized discount of $8,651 and $9,631, respectively)	51,349	50,369
Eurodollar zero coupon debentures, effective interest rate 14%, due in 1990 (net of unamortized discount of $18,988 and $23,101, respectively)	32,471	28,358
Serial zero coupon notes, effective interest rate 14.3%, due in installments through 1989 (net of unamortized discount of $6,815 and $10,515, respectively)	25,680	29,480
Term loans, 9.3%, due in installments through 2000	25,100	26,800
Secured credit agreement, 1⅛% above LIBOR	—	21,250
Other notes and mortgages	20,234	28,714
	534,106	298,762
Less: Current portion	14,667	39,698
Long-term debt due after one year	$519,439	$259,064

Maturities relating to long-term debt are as follows for the years ending October 31: 1988, $17,400,000; 1989, $21,800,000; 1990, $43,500,000; and 1991, $8,100,000.

LONG-TERM DEBT continued

Pollution control bonds of $38,100,000 are subject to sinking fund installments commencing in 1989. $73,100,000 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.

At October 31, 1986, the company had long-term lines of credit with banks from which it may borrow up to a maximum of $325,000,000 under revolving lines of credit which convert to four-year term loans. Subsequent to October 31, 1986 the company lowered its long-term lines of credit to $230,000,000. 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 these lines. At October 31, 1986, no amounts were outstanding under these lines. At October 31, 1986, the company had $122,600,000 in unused short-term 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. All long-term debt (including current portion) outstanding at October 31, 1986 bears interest at fixed rates.

The net book value of assets securing long-term debt of $50,300,000 was approximately $22,400,000 at October 31, 1986.

During 1985, the company utilized a major portion of the cash proceeds from asset sales to extinguish long-term debt prior to scheduled maturities. A total of $304,800,000 of long-term debt was extinguished prior to scheduled maturities at a net after-tax premium of $16,361,000. This premium is classified as an extraordinary item in the 1985 Consolidated Statement of Operations.

During 1985, the company completed an "in-substance defeasance" on $63,100,000 of 14% Eurodollar notes by placing in an irrevocable trust $72,900,000 of U.S. government securities to be used solely for satisfying scheduled payments of both interest and principal on the notes. During September 1986 the notes were redeemed.

INCOME TAXES

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

$ in thousands/Year ended October 31,	1986	1985	1984
Current			
Federal	$ 66,363	$ (74,610)	$ (95,324)
Foreign	(34,981)	(16,559)	(13,873)
State and local	(8,246)	(11,304)	(13,288)
Total current	23,136	(102,473)	(122,485)
Deferred			
Federal	9,896	144,034	143,007
Foreign	5,999	(8,636)	(19,371)
State and local	2,669	4,882	4,165
Total deferred	18,564	140,280	127,801
Total income tax benefit	$ 41,700	$ 37,807	$ 5,316

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

$ in thousands/Year ended October 31,	1986	1985	1984
Statutory federal income tax benefit at 46%	$32,074	$272,080	$ 5,554
Reductions (increases) in taxes resulting from:			
Capital gain rate differential	13,210	18,022	589
Nontaxable gain on sale of St. Joe Gold common stock	11,087	—	—
Effect of foreign tax rates	(9,989)	(12,386)	(684)
Amortization and write-down of property, plant and equipment bases differences	(8,314)	(47,092)	(8,798)
Earnings (losses) without tax effect	7,787	(85,540)	(1,205)
Depletion	7,088	506	6,363
Indefinitely reinvested foreign earnings	(7,000)	—	5,267
Investment and other tax credits	5,312	2,461	4,121
Amortization and write-off of excess of cost over net assets of acquired businesses	(3,142)	(84,132)	(5,069)
State income taxes	(1,392)	(4,093)	(3,019)
Accruals without tax effect	(1,093)	(14,486)	1,947
Safe harbor tax leases	—	—	1,260
Other—net	(3,928)	(7,533)	(1,010)
Total	$41,700	$ 37,807	$ 5,316

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 taxes, losses without tax benefit, and capital gain rates. 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/Year ended October 31,	1986	1985	1984
Residual tax on undistributed foreign earnings	$14,652	$ (4,677)	$ (3,635)
Accruals not currently reportable for tax purposes	7,776	27,202	1,094
Use of different methods of accounting for construction contracts	(4,033)	91,664	152,321
Accelerated depreciation	(3,789)	9,019	(6,831)
Depreciation, depletion and amortization of natural resource properties	3,710	(2,976)	(11,894)
Deferred gains on property sales	811	16,745	(1,514)
Capitalized interest	107	10,870	(3,378)
Other—net	(670)	(7,567)	1,638
Total	$18,564	$140,280	$127,801

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

$ in thousands/Year ended October 31,	1986	1985	1984
United States	$(112,630)	$(604,790)	$ (77,063)
Foreign	42,904	13,311	64,989
Total	$ (69,726)	$(591,479)	$ (12,074)

Residual income taxes have not been provided on approximately $42,200,000 of undistributed earnings of certain foreign subsidiaries at October 31, 1986 because the company intends to reinvest these earnings indefinitely.

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INCOME TAXES
continued

Foreign tax credit carryforwards of approximately $35,900,000 are available to reduce future federal income taxes. If not used, the credits will expire as follows: 1987, $300,000; 1988, $10,200,000; 1989, $14,000,000; 1990, none; and 1991, $11,400,000.

The Internal Revenue Service (IRS) has completed its examination of the company's federal income tax returns for the fiscal years 1977 through 1979 and those of St. Joe Minerals Corporation through August 3, 1981, the date of acquisition by the company. The company is contesting certain issues raised by the IRS. Examinations of fiscal years 1980 through 1983 have commenced and no material adjustments have yet been proposed 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.

Most of the provisions of the Tax Reform Act of 1986 are not applicable to the company until fiscal year 1988. The new tax law is not expected to have a material effect on the consolidated financial position or results of operations of the company. Further, the Proposed Statement of Financial Accounting Standards—"Accounting for Income Taxes" would not require material adjustment to the company's deferred income tax liabilities.

LEASE OBLIGATIONS

Total rental expense amounted to $93,000,000, $81,600,000 and $61,100,000 in 1986, 1985 and 1984, respectively. The company's lease obligations relate primarily to engineering and office facilities, data processing equipment, equipment used in connection with long-term construction contracts and other personal property. The company was obligated under noncancellable leases for minimum rentals as follows:

$ in thousands/at October 31, 1986	Gross	Present Value*
1987	$ 81,564	$ 81,564
1988	79,921	72,656
1989	71,996	59,497
1990	64,956	48,802
1991	58,202	39,752
Thereafter	517,132	182,129
Total	$873,771	$484,400

*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 ten percent.

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 prospects for 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, resulting in a charge to operations of $212,000,000, consisting of reductions in property carrying values, provisions for disposal and a write-off of the allocated goodwill. The company is continuing to pursue disposition of certain of these mines. Based upon further review of mines identified in 1985 for disposal, a decision was made in 1986 to retain certain of these mines and, accordingly, provisions for disposal of $17,000,000 were reversed and are included in 1986 results of operations.

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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 Executive 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 the 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, 1986, a total of 1,407,358 restricted shares had been awarded and a total of 18,925 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 are generally exercisable one year after the date of grant or in installments of twenty-five percent per year commencing one year from the date of grant. All options expire ten years after the date of grant.

With respect to grants under St. Joe's 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:

	Shares	Price Per Share	SAR	Value Per Right
Outstanding at October 31, 1984	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
Outstanding at October 31, 1985	3,077,655	11–37	846,988	16–34
Granted*	885,053	13–16	584,515	13
Expired or cancelled*	(1,198,723)	11–37	(658,155)	16–34
Exercised	(129,095)	11–22	(4,549)	18
Outstanding at October 31, 1986	2,634,890	$11–34	768,799	$13–34
Exercisable at:				
October 31, 1985	1,835,557	$11–37	286,116	$17–34
October 31, 1986	1,758,691	$11–34	195,208	$13–34
Available for grant at:				
October 31, 1985	622,956		185,661	
October 31, 1986	872,093		259,301	

*Includes 882,053 shares and 584,515 SARs cancelled in 1986 at prices ranging from $16 to $34, all of which were regranted at $13.

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,

SALE OF ASSETS
continued

its engineering facility in Greenville, South Carolina for $43,000,000 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 was included in the results of operations for the year ended October 31, 1985. The remainder of $123,000,000 is being recognized over the lease-back period. In 1986 the company recognized an additional pretax gain of $38,000,000, relating to the completion of the Irvine facility sale.

During the fourth quarter of fiscal 1986, the company sold its real estate subsidiary, Daniel Realty Corporation (DRC), to DRC's management for $21,000,000, resulting in a pretax gain of $2,000,000.

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, 1986, $480,000,000 of net assets of subsidiaries, including $72,000,000 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 all parties prior to the transfer of joint venture assets.

SUBSEQUENT EVENT

Effective November 1, 1986, the company contributed all of the assets of its domestic lead business to a joint venture with Homestake Mining Company. The joint venture, named The Doe Run Company, is owned 57.5% by Fluor and 42.5% by Homestake.

Under the terms of the joint venture agreement, Fluor's net asset investment in its domestic lead business at November 1, 1986 of approximately $414,000,000, including $25,000,000 of working capital, will be restricted from distribution without the consent of the partners.

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 industrial, commercial, utility, natural resource, energy and government clients. The coal business segment consists of the company's interest in Massey Coal Company. 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 businesses that comprise less than 10 percent of the revenues, operating profits and identifiable assets of all business segments combined.

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

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

Contracts with one major customer accounted for $573,800,000 or 16 percent of 1986 engineering and construction revenues. In 1985 and 1984 no single customer accounted for more than 10 percent of total revenues.

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OPERATIONS BY BUSINESS SEGMENT

$ in millions	Revenues 1986	Revenues 1985	Revenues 1984	Operating Profit (Loss) 1986	Operating Profit (Loss) 1985	Operating Profit (Loss) 1984
Engineering and Construction	$3,688.3	$3,179.3	$3,206.0	$(75.6)	$ (84.9)	$ 94.6
Coal	516.9	475.1	489.6	49.3	(223.0)[a]	14.8
Metals	409.5	392.7	433.7	(25.4)	(203.8)[b]	(3.9)
Other	45.6	50.1	110.6	1.0	(28.9)	(16.1)
Continuing operations	$4,660.3	$4,097.2	$4,239.9	$(50.7)	$(540.6)	$ 89.4

$ in millions	Identifiable Assets 1986	Identifiable Assets 1985	Identifiable Assets 1984	Capital Expenditures 1986	Capital Expenditures 1985	Capital Expenditures 1984	Depreciation, Depletion and Amortization 1986	Depreciation, Depletion and Amortization 1985	Depreciation, Depletion and Amortization 1984
Engineering and Construction	$ 582.3	$ 679.6	$ 949.0	$25.6	$ 14.1	$ 84.4	$ 21.3	$ 27.1	$ 30.4
Coal	789.8	803.5	999.7	26.9	27.4	83.6	37.3	48.0	42.8
Metals	940.9	989.3	1,208.5	35.2	36.6	56.2	61.4	66.3	63.1
Corporate and Other	239.6	98.5	168.8	3.4	7.8	5.5	3.4	9.4	3.4
Continuing operations	2,552.6	2,570.9	3,326.0	91.1	85.9	229.7	123.4	150.8	139.7
Discontinued operations	12.8	225.5	565.6	.5	35.3	55.8	5.9	49.4	55.5
	$2,565.4	$2,796.4	$3,891.6	$91.6	$121.2	$285.5	$129.3	$200.2	$195.2

OPERATIONS BY GEOGRAPHIC AREA

$ in millions	Revenues 1986	Revenues 1985	Revenues 1984	Operating Profit (Loss) 1986	Operating Profit (Loss) 1985	Operating Profit (Loss) 1984	Identifiable Assets[c] 1986	Identifiable Assets[c] 1985	Identifiable Assets[c] 1984
United States	$3,945.0	$3,397.4	$3,256.8	$ (79.4)	$ (528.1)	$ 45.9	$2,062.2	$2,284.9	$3,141.4
Middle East	91.6	106.5	293.1	.3	1.2	8.7	59.6	54.0	98.9
South America	138.9	125.7	155.1	31.6	10.7	39.1	312.2	272.7	304.4
Africa	57.9	83.0	97.1	2.7	(22.8)	(.4)	—	42.5	61.6
Europe	304.9	269.3	234.0	1.6	(17.9)	(.9)	73.8	93.9	141.4
Other	122.0	115.3	203.8	(7.5)	16.3	(3.0)	57.6	48.4	143.9
	$4,660.3	$4,097.2	$4,239.9	$ (50.7)	$ (540.6)	$ 89.4	$2,565.4	$2,796.4	$3,891.6

[a] Includes a charge of $212,000,000 consisting of reductions in property carrying values, a provision for disposal of certain coal properties and a write-off of the allocated goodwill.

[b] Includes a charge of $138,000,000 relating to the write-off of goodwill allocated to lead operations.

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

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

$ in millions/Year ended October 31,	1986	1985	1984
Operating profit (loss) from continuing operations	$(50.7)	$(540.6)	$ 89.4
Interest—net	(48.3)	(85.0)	(55.7)
Gain on sale of Irvine facility	37.8	78.8	—
Gain on sale of St. Joe Gold common stock	24.1	—	—
Minority interests	(3.5)	(2.8)	(7.1)
Corporate administrative and general expense	(32.5)	(34.7)	(46.4)
Other items, net	3.4	(7.2)	7.7
Loss from continuing operations before income tax	$(69.7)	$(591.5)	$(12.1)

Shareholders
Fluor Corporation

The company is responsible for preparation of the accompanying consolidated balance sheet and the related consolidated statements of operations, changes in financial position and shareholders' equity. They have been prepared in conformity with generally accepted accounting principles, which have been applied on a consistent basis, and management believes that they present fairly the company's consolidated financial position and results of operations. The integrity of the information presented in the financial statements, including estimates and judgments relating to matters not concluded by fiscal year end, is the responsibility of management. To fulfill this responsibility, an accounting system and related systems 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 and tested and evaluated by the independent auditors in connection with their annual audit.

The Board of Directors pursues its responsibility for financial information and review through an Audit Committee of Directors who are not employees. The internal auditors and the independent auditors have full and free access to the Committee. Periodically the Committee meets with them without management present to discuss the results of their examinations, the adequacy of internal accounting controls and the quality of financial reporting.

Board of Directors and
Shareholders
Fluor Corporation

We have examined the accompanying consolidated balance sheet of Fluor Corporation at October 31, 1986 and 1985, 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, 1986. 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 19% and 11% in 1986, 17% and 11% in 1985 and 14% and 11% in 1984 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, 1986 and 1985, and the consolidated results of operations and changes in financial position for each of the three years in the period ended October 31, 1986, in conformity with generally accepted accounting principles applied on a consistent basis during the period.

Arthur Young & Company

Orange County, California
December 5, 1986

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unaudited

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

Short tons and troy ounces in thousands	1986 United States	1986 Argentina	1986 Chile[h]	1985 United States	1985 Argentina	1985 Chile[h]
Reserves (tons)[i]						
Lead	62,302[a]			62,573[a]		
Zinc	3,771[b]			4,147[b]		
Iron Ore	183,468[a]			184,643[a]		
Metallurgical Coal	92,749[b/c]			160,927[b/c]		
Steam Coal	444,158[b/c]			375,497[b/c]		
Foreign Milling Ore		5,237[b]	6,102[b]		5,305[b]	5,178[b]
Direct Smelting Ore			51[b]			42[b]
Heap Leach Ore			3,106[b]			
Average Grade of Ore Reserves[e]						
Lead	4.9	5.6		5.0	5.7	
Zinc	12.7	7.3		13.6	7.1	
Iron Ore	55.5			55.5		
Copper			4.5			4.8
Direct Smelting Ore—Silver			3.4			4.1
Direct Smelting Ore—Gold			5.3			4.5
Foreign Milling Ore—Silver		3.5	2.8		3.6	3.2
Foreign Milling Ore—Gold			.2			0.3
Heap Leach Ore—Gold			.1			
Ore Milled (tons)						
Lead	3,573			3,536		
Zinc	283			586		
Iron Ore	1,532			1,982		
Foreign Milling Ore		642	708		636	666
Metal Content of Concentrates Produced (tons)[f]						
Lead	187	30		173	29	
Zinc	56	37		72	35	
Iron Ore	666			800		
Copper			20			19
Direct Smelting Ore—Silver			57			81
Direct Smelting Ore—Gold			104			125
Foreign Milling Ore—Silver		1,608	1,006		1,448	914
Foreign Milling Ore—Gold			177			170
Coal Produced (tons)[c]						
Metallurgical	2,175			1,730		
Steam	9,342			7,795		
Average Realized Prices (per ton)						
Lead Metal	$387			$377		
Zinc Metal	675			816		
Zinc Concentrates		$207			$191	
Iron Ore Pellets	30			32		
Lead Concentrates		$330[g]			$328[g]	
Copper Concentrates						
Metallurgical Coal	35			39		
Steam Coal	$ 37			$ 41		
Gold/Silver Bearing Copper Concentrates			$ 440			$ 513
Dearsenified Gold/Silver Bearing Copper Concentrates			859			946
Doré Bullion (per kilogram)			4,095			1,943
Direct Shipping Ore			$1,500			$1,201

[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.

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1984				1983				1982			
United States	Argentina	Australia[d]	Chile[h]	United States	Argentina	Australia[d]	Chile[h]	United States	Argentina	Australia[d]	Chile[h]
63,188[a]				62,056[a]				62,294[a]			
7,861[b]				8,378[b]				10,063[b]			
186,174[a]				187,888[a]				196,484[a]			
150,952[b/c]				99,083[b/c]				142,836[b/c]			
380,897[b/c]				420,253[b/c]				386,188[b/c]			
	5,794[b]	808[a]	4,984[b]		6,221[b]	1,296[b]	5,048[b]		6,494[b]	2,094[b]	4,694[b]
			53[b]				66[b]				69[b]
5.0	6.0	2.8		5.0	5.8	2.9		5.0	6.0	3.2	
11.1	6.9	7.8		11.3	6.9	8.8		10.9	6.9	9.5	
55.5				55.5				56.0			
		2.0	5.0			1.8	5.0			1.9	5.1
			4.3				3.8				3.3
			5.9				6.8				7.3
	3.6	1.0	3.4		3.5	1.2	3.6		3.6	1.4	3.6
			0.3				0.3				0.3
2,936				4,599				4,590			
739				765				684			
2,191				1,230				1,487			
	634	334	577		668	344	544		668	392	423
138	30	5		216	32	6		208	34	8	
77	36	18		88	37	22		78	37	26	
955				530				643			
		4	19			4	16			4	8
			57				60				61
			119				206				236
	1,422	305	936		1,564	342	855		1,695	464	455
			161				170				145
2,168				2,084				2,155			
7,998				7,102				6,873			
$494				$391				$520			
950				772				746			
427[g]	$208	$177		357[g]	$197	$142		313[g]	$232	$171	
33				25				32			
	$570[g]	52			$580[g]	36			$501[g]	81	
		$132				$185				$184	
40				43				48			
$ 40				$ 39				$ 40			
			$ 589				$1,096				$1,427
			1,178				1,939				2,607
			3,795				2,905				3,668
			$1,660				$2,930				$2,546

[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 100% of Chilean operations without deduction of minority interest.

[i]Does not include Yuba Placer Gold's 381,000 troy ounces of gold reserves or Brazilian tin reserves of approximately 10,000 tons.

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QUARTERLY FINANCIAL DATA unaudited

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

1986 $ in thousands, except per share amounts	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Revenues from continuing operations	$1,181,821	$1,363,967	$1,048,693	$1,065,780
Gross margin (loss)	(3,888)	(535)	(26,196)	(20,145)
Earnings (loss) from continuing operations before income taxes	313	(18,190)	(9,393)	(42,456)
Earnings (loss) from continuing operations	7,329	(9,518)	2,946	(28,783)
Earnings (loss) from discontinued operations:				
Operations	(693)	(2,102)	(1,849)	(3,426)
Disposal	—	—	—	(24,347)
Net earnings (loss)	6,636	(11,620)	1,097	(56,556)
Earnings (loss) per share:				
Continuing operations	.09	(.12)	.04	(.36)
Discontinued operations	(.01)	(.03)	(.02)	(.35)
Net earnings (loss)	$ .08	$ (.15)	$ .02	$ (.71)

1985 $ in thousands, except per share amounts	First Quarter	Second Quarter	Third Quarter[a]	Fourth Quarter[b]
Revenues from continuing operations	$ 908,452	$1,084,931	$ 958,017	$1,145,818
Gross margin (loss)	(21,856)	(26,822)	(25,972)	(476,048)
Earnings (loss) from continuing operations before income taxes	(55,275)	(63,022)	23,185	(496,367)
Earnings (loss) from continuing operations	(35,037)	(43,656)	16,874	(491,853)
Earnings (loss) from discontinued operations:				
Operations	2,472	4,199	(1,637)	(17,458)
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)	(.55)	.21	(6.22)
Discontinued operations	.03	.05	(.02)	(.86)
Extraordinary item	—	—	(.08)	(.13)
Net earnings (loss)	$ (.41)	$ (.50)	$ .11	$ (7.21)

[a] Third Quarter 1985 earnings include a pretax 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 pretax charges of $419,057,000 relating to the company's restructuring activities, $47,184,000 of pretax nonrecurring adjustments and a lower than expected tax benefit on the loss from continuing operations.

COMMON STOCK AND DIVIDEND INFORMATION

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

	Dividends Per Share	Price Range High	Price Range Low
FISCAL 1986			
First Quarter	$.10	$16⅛	$13¾
Second Quarter	.10	18½	15
Third Quarter	.10	19¼	12
Fourth Quarter	.10	15¾	12
	$.40		
FISCAL 1985			
First Quarter	$.10	$19	$14⅝
Second Quarter	.10	20⅛	17¾
Third Quarter	.10	19¼	16⅜
Fourth Quarter	.10	18¼	13¾
	$.40		

DIRECTORS

David S. Tappan, Jr.
Chairman of the Board and Chief Executive Officer (1965)

Caroline L. Ahmanson
Chairman of the Board of Caroline Leonetti, Ltd., Director of The Walt Disney Company (1985)

Hugh K. Coble
Group President, Fluor Daniel International Operations (1984)

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)

Robert L. Guyett
Senior Vice President and Chief Financial Officer (1987)

Bobby R. Inman
Chairman and CEO of Westmark Systems, Inc., 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
Retired, former President of J. P. Morgan & Co., Incorporated and Morgan Guaranty Trust Company of New York (1982)

Leslie G. McCraw
President and CEO, Fluor Daniel (1984)

Buck Mickel
Vice Chairman of the Board (1977)

Allen E. Puckett
Chairman and CEO of Hughes Aircraft Company (1987)

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
Hugh K. Coble
Robert L. Guyett
Leslie G. McCraw
Buck Mickel
John A. Wright

Audit Committee

William R. Grant, Chairman
Caroline L. Ahmanson
Peter J. Fluor
Bobby R. Inman
Louis H. Wilson

Compensation Committee

Louis H. Wilson, Chairman
William R. Grant
Sibrand Jurriaans
Robert V. Lindsay

Nominating Committee

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

Years in parentheses indicate the year each director was elected to the Board or the year each officer or executive joined the company. Except as otherwise indicated, all offices are of the company.

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 of Fluor Corporation, and Chairman and CEO of St. Joe Minerals Corporation (1981)

Buck Mickel
Vice Chairman of the Board (1977)

Robert L. Guyett
Senior Vice President and Chief Financial Officer (1987)

Nad A. Peterson
Senior Vice President and Secretary (1967)

P. Joseph Trimble
Senior Vice President–Law (1972)

Executive Operating Officers

Leslie G. McCraw
President and CEO, Fluor Daniel (1977)

Hugh K. Coble
Group President, International Operations (1966)

Gerald H. Glenn
Group President, Marketing and Sales (1977)

Vincent L. Kontny
Group President, U.S. Operations (1965)

Jan P. Powell
President and CEO, Fluor Constructors International, Inc. (1967)

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)

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)

James O. Rollans
Vice President–Corporate Communications (1982)

William D. Trammell
Vice President–Project Finance (1968)

PRINCIPAL SUBSIDIARIES AND DIVISIONS

Engineering and Construction

Fluor Daniel

Daniel International Corporation
Greenville, South Carolina
Daniel Maintenance and Industrial Services Company

Fluor Engineers, Inc. Irvine, California
Fluor Technology, Inc., Irvine, California

Fluor Daniel International
Daniel International (Saudi Arabia) Ltd., Jeddah, Saudi Arabia
Fluor Arabia Limited, Al-Khobar, Saudi Arabia
Fluor Australia Pty. Limited, Melbourne, Victoria, Australia
Fluor Canada Ltd., Calgary, Alberta, Canada
Fluor Daniel B.V., Haarlem, The Netherlands
Fluor Daniel GmbH, Dusseldorf, West Germany
Fluor (Great Britain) Limited, London, England

Fluor Constructors International, Inc., Irvine, California
Fluor Canada Constructors, Inc., Calgary, Alberta, Canada
Fluor Constructors, Inc., Irvine, California

Natural Resources Management

St. Joe Minerals Corporation, Clayton, Missouri
A. T. Massey Coal Company, Inc., Richmond, Virginia
St. Joe Domestic Metals Corporation, Clayton, Missouri
The Doe Run Company, Clayton, Missouri
St. Joe Gold Corporation, Clayton, Missouri
St. Joe International Corporation, Clayton, Missouri

Other Operations

American Equipment Company, Inc., Greenville, South Carolina

Fluor Venture Group, Inc., Irvine, California

STOCKHOLDERS' REFERENCE

Form 10-K

A copy of the Form 10-K, which is filed with the Securities and Exchange Commission, is available upon request.
Write to: Vice President and Controller, Fluor Corporation, 3333 Michelson Drive, Irvine, California 92730, (714) 975-2000.

Registrar and Transfer Agent

Security Pacific National Bank, Corporate Services Division, 333 South Beaudry Avenue, Los Angeles, California 90017, and Security Pacific Clearing & Services Corp. New York, 2 Recoter Street, 2nd Floor, New York, New York 10006. For change of address, lost dividends, or lost stock certificates, write or telephone: Security Pacific National Bank, Stock Transfer Division, Box 3546, Terminal Annex, Los Angeles, California 90051, Attn: Shareholder Relations (800) 423-5041

Auditors

Arthur Young & Company, 3200 Park Center Drive, Costa Mesa, California 92626

Annual Stockholders' Meeting

Annual report and proxy statement are mailed about February 1. Fluor's annual meeting of stockholders will be held at 9:00 a.m. on March 10, 1987 at the Irvine Hilton Hotel, 17900 Jamboree Boulevard, Irvine, California 92714.

Stock Trading

Fluor's stock is traded on the New York, Midwest, Pacific, Amsterdam, London and Swiss Stock Exchanges. Common stock domestic trading symbol: FLR.

Automatic Dividend Reinvestment Plan

The Automatic Dividend Reinvestment Plan offered through Security Pacific National Bank affords any stockholder of record of Fluor's common stock with the opportunity to buy additional Fluor shares automatically with cash dividends. In addition, the Plan permits stockholders to purchase additional Fluor shares each quarter through voluntary cash payments. A brochure describing the Plan is available upon request.
Write to: Security Pacific National Bank, Dividend Reinvestment Unit, Box 3546, Terminal Annex, Los Angeles, California 90051.

Company Contacts

Stockholders may call collect.
Stockholder information:
Lawrence N. Fisher
(714) 975-6961
Investor Relations:
Frederick J. Fajardo
(714) 975-7250

Common Stock and Dividend Information

At December 31, 1986 there were 79,259,212 shares outstanding and approximately 28,200 stockholders of record of Fluor's common stock. Dividends are traditionally paid the first Monday following the 15th day of January, April, July and October.

Common Stock History Since Going Public in 1950

08/23/57	20% Stock Dividend
12/15/61	5% Stock Dividend
03/11/63	5% Stock Dividend
03/09/64	5% Stock Dividend
03/08/65	5% Stock Dividend
02/14/66	5% Stock Dividend
03/24/66	2 for 1 Stock Split
03/27/67	5% Stock Dividend
02/09/68	5% Stock Dividend
03/22/68	2 for 1 Stock Split
05/16/69	5% Stock Dividend
03/06/70	5% Stock Dividend
03/05/71	5% Stock Dividend
03/10/72	5% Stock Dividend
03/12/73	5% Stock Dividend
03/11/74	3 for 2 Stock Split
08/13/79	3 for 2 Stock Split
07/18/80	2 for 1 Stock Split