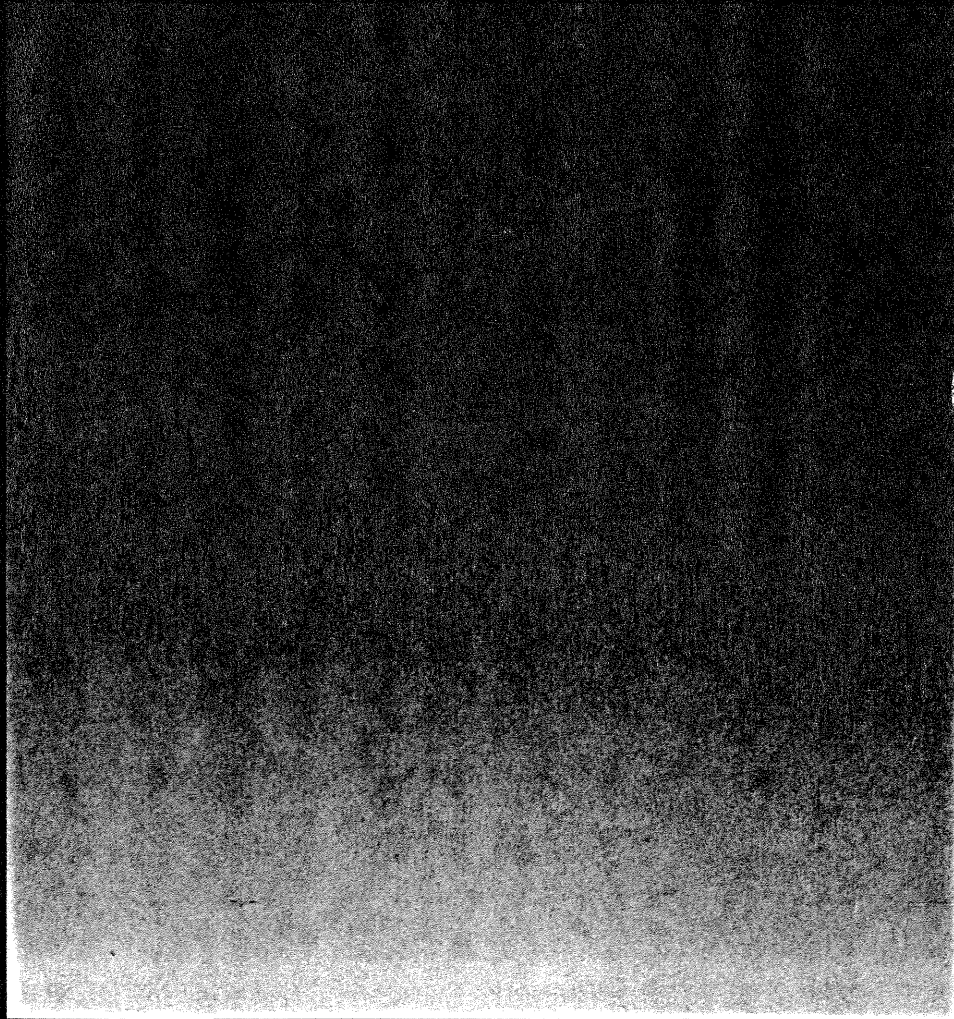


F L U O R



DR 2801154

Our "Window on Tomorrow" symbolizes Fluor's new beginning as a re-structured company.

Fluor Corporation is one of the world's largest engineering, construction and technical service companies and has investment interests in coal and lead.

In 1997 the company concluded a massive restructuring program which resulted in important strategic changes. Fluor reduced its remaining natural resource interests to investments in Massey Coal Company and

The Doe Run Company, built a substantial cash position through asset sales; substantially reduced debt; adjusted the corporation's balance sheet to reflect fair values through a quasi-reorganization; and finally, marshaled the forces of Fluor Engineers and Daniel International worldwide into a single, more responsive new company, Fluor Daniel, Inc.

Fluor Daniel provides a broad range of services including feasibility studies, conceptual design, project management, engineering, construction (with a full range of labor pos-

ture alternatives), procurement, technical services, maintenance and plant operations.

In response to market demands, these services focus on five business sectors: Industrial, Power, Process, Hydrocarbon and Government. Fluor Daniel provides global capability with 56 offices strategically located around the world.

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\$ in thousands, except per share amounts

Fiscal Year

	1987	1986	1985
Revenues from continuing operations	\$3,924,480	\$4,341,700	\$3,776,442
Loss from continuing operations	(75,275)	(18,617)	(512,792)
Net earnings (loss)	26,592	(60,443)	(633,324)
Earnings (loss) per share			
Continuing operations	(.95)	(.23)	(6.48)
Net earnings (loss)	.33	(.76)	(8.01)
Funds used by continuing operations	(42,589)	(35,643)	(266,240)
Capital expenditures	99,824	91,619	121,216
New awards	4,059,700	2,992,200	4,485,300
Cash dividends per common share	\$.10	\$.40	\$.40

At Year End

Working capital	\$ 480,184	\$ 265,341	\$ 36,539
Total assets	2,061,186	2,565,393	2,796,364
Backlog	4,667,300	4,291,400	5,114,700
Capitalization			
Long-term debt	232,948	519,439	259,064
Shareholders' equity ⁽¹⁾	531,743	950,240	1,033,904
Total capitalization	\$ 764,691	\$1,469,679	\$1,292,968
Percent of total capitalization			
Long-term debt	30.5	35.3	20.0
Shareholders' equity	69.5	64.7	80.0
Shareholders' equity per common share	\$ 6.74	\$ 11.99	\$ 13.06
Number of employees	14,351	22,309	26,958

⁽¹⁾ 1987 shareholders' equity was reduced by \$438 million due to the revaluation of assets and liabilities in connection with a quasi-reorganization. See Notes to Consolidated Financial Statements.

Chairman's Letter

Dear Fellow Shareholder: We are pleased to confirm the completion of our restructuring program and to report that after a two year lapse, Fluor Corporation showed a profit in 1987 and continues to operate profitably.

In 1987 we focused on two major objectives: first, sell down our natural resource operations to concentrate on Fluor's traditional profit center, engineering and construction (E&C), and second, reconfigure our E&C operations to compete successfully in today's business environment.

Both of these objectives have been accomplished through the following actions:

- We partitioned the assets of Massey Coal Company, formerly a 50/50 joint venture, between Fluor and Shell Oil. The agreement reduced debt by \$40 million and made available over \$100 million in cash. Massey, which now operates independently under Fluor's controlling ownership, is one of the ten largest coal companies in the U.S.

- We formed a partnership with Homestake Mining to create The Doe Run Company, the largest lead producer in North America. Fluor owns 57.5 percent of Doe Run, with a management committee composed of Homestake and Fluor executives.

- We sold our zinc operations for over \$100 million, including about \$40 million in debt elimination.

- We sold our remaining 90 percent interest in St. Joe Gold Corporation and other gold properties for \$500 million in cash.

- We reclassified the remainder of our natural resource operations, including International Minerals, Pea Ridge Iron Ore and Energy Resource Corporation, as discontinued operations.

The combined effect of these restructuring actions generated \$750 million, including debt elimination, resulting in a net after-tax gain of approximately \$111 million. By executing our restructuring program in a period of rising commodity prices, we were able to maximize values.

Net earnings for 1987 were \$27 million, compared with a loss of \$60 million in 1986. This dramatic shift was the result of gains from asset sales and improved operations.

In line with our sharply altered asset base and shift in business focus to primarily E&C operations, we adjusted the company's balance sheet at year end. In accounting parlance, we effected a "quasi-reorganization" under which we adjusted our asset and liability accounts to fair values.

Cash flow is not affected by the quasi-reorganization. Future amortization charges, however, will be lower. The reduction in shareholders' equity to \$532 million, or \$6.74 a share, compared with \$950 million, or \$11.99 a share one year ago, was due largely to the quasi-reorganization.



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

position today is exceptionally strong. Following receipt in early November of the balance of the proceeds from the sale of St. Joe Gold, Fluor has more than \$525 million in cash. And, in spite of the reduction in shareholders' equity, we were still able to lower our debt-to-capitalization ratio from 35 to 30 percent by paying down long-term debt to \$233 million from \$519 million a year ago. We will continue to reduce debt even further to something less than \$100 million, with a resulting debt-to-capitalization ratio in the 15 to 20 percent range.

Besides debt reduction, we are examining these other areas of use for cash: E&C acquisitions; investments in existing operations; repackaging of the Sugar Land, Texas, real estate; and share repurchase.

We are not yet in a position to restore the dividend, since we believe that dividend payments should flow from operating results. As soon as operations can support a sustained dividend, it will be considered.

Our overriding objective in the redeployment of cash will be to enhance the return on shareholders' equity. We intend to restore this corporation to superior returns and growth levels, and we will only consider cash investment opportunities that move Fluor in that direction.

Operations: In Fluor Daniel, Inc. we have created an entirely new worldwide engineering and construction company—market-driven, client-sensitive and with value added to every service it provides. Results speak for themselves, with this year's new orders totaling just over \$4 billion, up 36 percent over 1986. Improvement is marked in every sector, with Industrial as the leader in new orders, although down slightly from a year ago. The other sectors showed dramatic growth in new order performance: Power gained 48 percent; Process 65 percent; Hydrocarbon 98 percent; and Government 504 percent.

Efforts to achieve broader diversification of our E&C markets have also shown remarkable results. Five years ago, industrial orders totaled only 10 percent of backlog, with hydrocarbon and power projects responsible for the remaining 90 percent. Today, in dramatic contrast, the Industrial Sector represents 36 percent of total backlog; Hydrocarbon, Power and Process are each responsible for 18 to 20 percent, and Government is moving up fast. Our main objective with Fluor Daniel now is to accelerate this forward thrust and realize the earnings potential of this new organization.

Fluor Constructors experienced a loss over the year as a whole, but the problems plaguing this group were resolved by mid year.

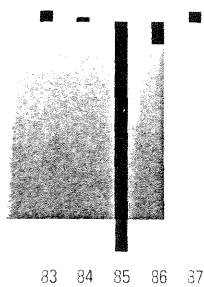
Coal operations met expectations and have clear growth and increased profit opportunities ahead. Doe Run showed improvement, but operating difficulties prevented the company from taking full advantage of higher lead prices. We expect better results in 1988.

Revenues
by Segment from
Continuing
Operations 1987

■ Lead 2.4%
■ Coal 14.8%
■ E&C 82.8%

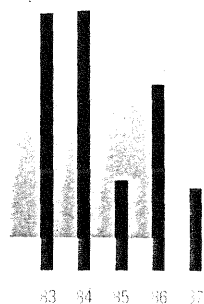
Net Earnings
(Loss)
Per Share
dollars

2
0
2
4
6



Long-Term Debt
dollars in millions

800
600
400
200

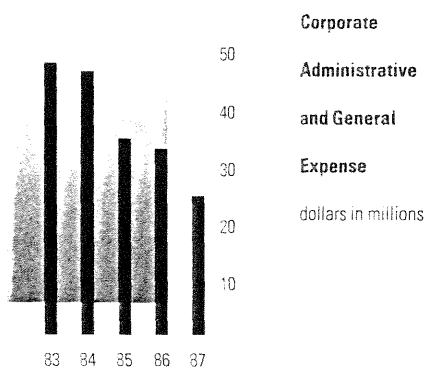
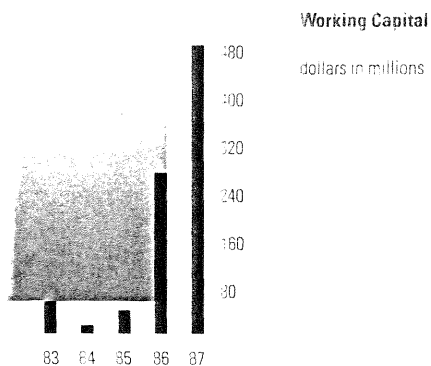


Executive Committee

(left to right):

Vincent L. Kontny,
President and CEO,
Fluor Daniel; Gerald
M. Glenn, Group
President, Market-
ing and Sales, Fluor
Daniel (ex officio);
David S. Tappan, Jr.,
Chairman and CEO,
Fluor Corporation;
E. Morgan Massey,
President, A. T.
Massey Coal Com-
pany; Leslie G.
McCraw, President,
Fluor Corporation;
Hugh K. Coble,
Group President,
International
Operations, Fluor
Daniel; Robert L.
Guyett, Senior Vice
President and Chief
Financial Officer,
Fluor Corporation.





Management Changes: In mid January 1988, Leslie G. McCraw was elected President of Fluor Corporation. Vincent L. Kontny, formerly Group President, U.S. Operations, Fluor Daniel, was promoted to President and CEO of Fluor Daniel, succeeding Mr. McCraw. Mr. Kontny was also elected to the board of directors and the Executive Committee. These key executive reassignments are a part of Fluor's management succession program aimed at assembling the executive team which will lead the company through the 1990s.

Also added to the board of directors were David P. Gardner, President, University of California, and E. Morgan Massey, President of A. T. Massey Coal Company. Mr. Massey also serves on the Executive Committee.

Buck Mickel retired as Vice Chairman but continues to serve as a director. John Wright resigned as President, Chief Operating Officer and director. Ahmed Juffali resigned as director, and Sibrand Jurriaans retired. The board's membership now stands at 15, with nine outside directors.

Denis P. Kalscheur, former Senior Vice President and Chief Financial Officer of AirCal, joined Fluor as Vice President and Treasurer. Larry W. Lineberger moved from Vice President, Corporate Controller and Treasurer of Daniel International Corporation, to Vice President and Controller of Fluor.

Outlook: Fluor approaches the closing years of the 1980s with a sense of renewal and great pride in the creation of our streamlined and diversified E&C company—Fluor Daniel, Inc.

Its management team is the strength of this organization. Credit for the restructuring and the improvement in operating results goes to our line and staff executives, several of whom are pictured in this annual report.

In sum, we are confident of Fluor's future success. E&C opportunities are expanding and profit margins are improving. We have reconfigured our coal and lead investments. Our financial strength is outstanding and asset values are in line with fair values.

The restructuring we have accomplished will mean long-term benefits for Fluor extending well beyond the tenure of many of us. The guidance of our distinguished board of directors has had a major impact on the success of these efforts, and we owe them a debt of gratitude, individually and collectively. Thanks, also, to the continued support of our employees, shareholders and clients, the year 1987 has seen Fluor emerge from a long winter of adversity into the warmth of new beginnings.

Today we have the potential to be among the top financial-performing companies. We are confident we can reach that goal.

D. S. Tappan Jr.

David S. Tappan, Jr.

DR 2801160

Fluor Daniel Senior
Executives (left
to right): Vincent
L. Kontny, President
and CEO, Fluor
Daniel; Leslie G.
McCraw, President,
Fluor Corporation;
Gerald M. Glenn,
Group President,
Marketing and
Sales, Fluor Daniel;
Hugh K. Coble,
Group President,
International
Operations, Fluor
Daniel.



DR 2801161

Engineering and Construction



Fluor Daniel's new logo, with a stylized "F" and "D" encompassing the globe, exemplifies the integration of these two organizations worldwide.

Key objectives met in Fluor Daniel's first full year of operation.

New awards advanced 36 percent; backlog well diversified.

Global presence distinguished by superior performance across a full range of services.

Fluor Daniel, the company's engineering, construction and technical services organization met essentially all key objectives set for its first full year of operation.

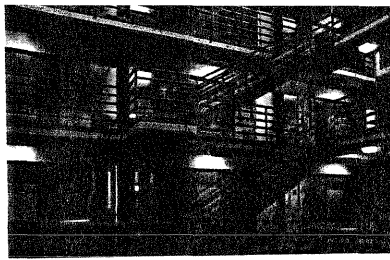
Performing as a single integrated organization, Fluor Daniel provided clients with the company's full range of technical expertise from each of its 56 offices located around the world. In 1987, contracts were awarded in 32 nations with increased services covering feasibility studies, conceptual design, project management, engineering, procurement, construction, maintenance and operations.

Led by a strong marketing group, Fluor Daniel won \$4.1 billion in new awards this past year, an increase of 36 percent from a year ago. Market share improvement allowed the company to outperform the modest growth in new orders recorded by the engineering and construction (E&C) industry. New awards were well diversified among the five target business sectors—Industrial—35 percent, Power—22 percent, Hydrocarbon—18 percent, Process—17 percent, and Government—8 percent. Backlog at year end stood at \$4.7 billion, 9 percent above last year. Importantly, the level of anticipated profit margin in the new awards and backlog showed improvement.

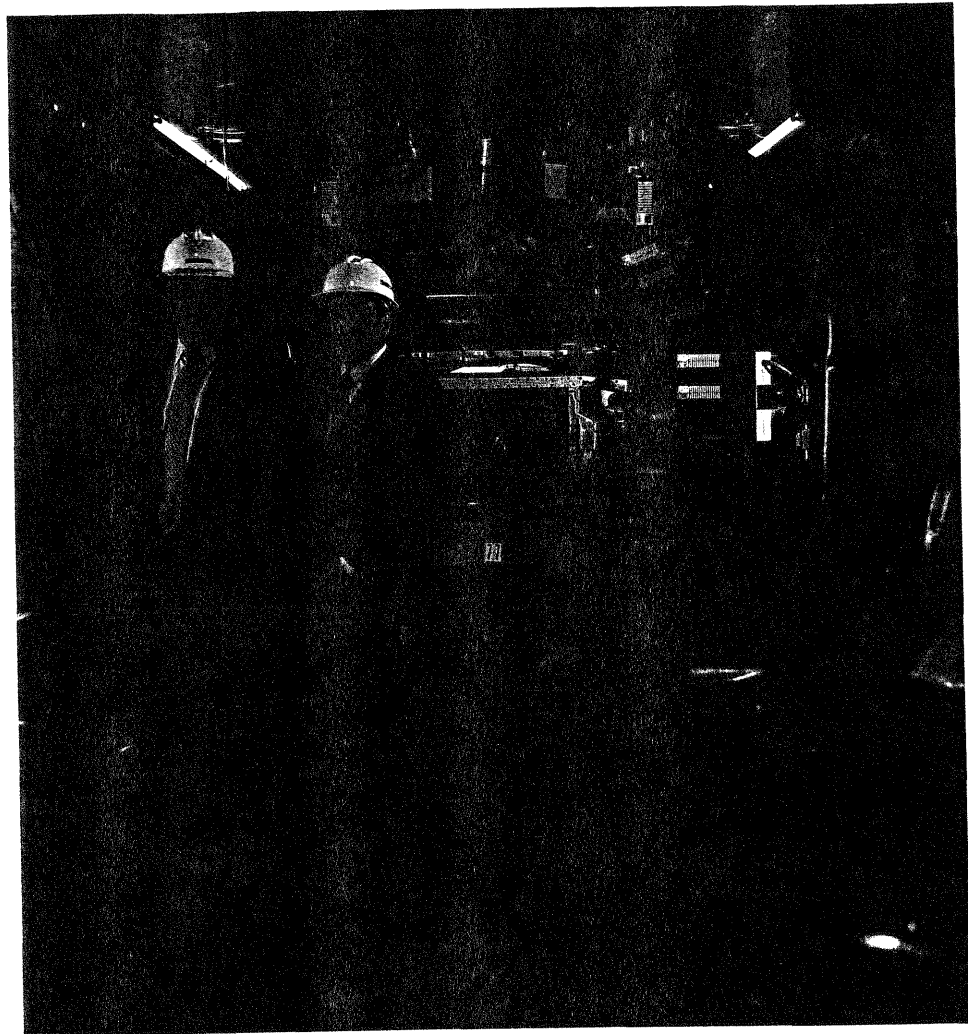
Both domestic and international operations achieved major gains in 1987. The company's worldwide presence, coupled with its diverse technological capability and its broad client base were important factors in the market's overwhelmingly positive response to Fluor Daniel. Approximately 2,500 contracts were in process or completed during the year on time and under budget performance coupled with new safety records set on several jobs, recognized as hallmarks of the organization.

Contributing to Fluor Daniel's success as a value-added service organization is strong support from the Fluor Daniel Venture Group which provides equity to qualifying projects. Financing for E&C projects is increasingly being arranged by Fluor's financial organization. Adding to the overall capability is Fluor Constructors, a separately organized union construction arm. The company continues to offer clients the full range of labor posture alternatives.

The environment within the E&C industry remained mixed and intensely competitive in 1987. Certain markets and geographic areas continued to grow, while others were essentially unchanged from 1986. Despite this challenging business climate, Fluor Daniel's successes demonstrate that this new, revitalized company is a winning combination in the global E&C industry.



Jim Stein, left,
President of Fluor
Daniel's Industrial
Sector, and Jim
Barry, right, Presi-
dent of Fluor Daniel,
Far East, at the
General Motors
Assembly Plant
project in Georgia.
Fluor Daniel began
its diversification
within the industrial
market in the U.S.,
and is now actively
moving this
expertise abroad.



DR 2801163

Industrial Sector

Prison

Photo at top
Palestine, Texas
**Maximum Security
Correctional Facility**
Financing, Construction

Automotive

Photo at left
Doraville, Georgia
**General Motors
Assembly Plant**
Engineering Design,
Construction Management,
Training, Automation,
Start-up Assistance

Commercial

Photo at bottom
Asheville, North Carolina
**Grove Park Inn
and Country Club**
Design, Construction
Management

Consumer Products

Anderson, South Carolina
**Refrigerator Manu-
facturing Facility**
Design, Construction Services

Electronics

Dallas, Texas
Class 5 Clean Room
Construction

Aerospace

Perry, Georgia
**Northrop Manufacturing
Facility**
Construction Management

Foods

Asheboro, North Carolina
Soup Production Facility
Design, Procurement,
Construction Management,
Maintenance, Training

Industrial Sector

Well diversified

domestically and
internationally with
opportunities in

U.S., Canada,

Europe, Australia
and China.

New orders totaled

\$1.4 billion, 36 per-

cent of total backlog.

Backlog

Upward trend over

past five years.

makes Industrial

largest sector.

Industrial is the most diversified of Fluor Daniel's five business sectors and includes these six major 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 and correctional projects.

Services to the industrial markets include siting, environmental studies, conceptual design, engineering, procurement, construction, maintenance, training and technical services.

Given the diversity of these markets, no consistent growth pattern emerges. For example, the market for commercial building is stable, while the demand for correctional facilities is growing and is expected to be active through the 1990s. The foods industry is still active with major modernization programs planned by several large companies. A number of awards were received from U.S. automakers to modernize facilities and Japanese automakers are planning to locate additional operations in the U.S. The cyclical pulp and paper industry continues to be somewhat sluggish, although several major projects are anticipated in mid or late 1988. Aerospace and defense clients are still driven by the vagaries of the federal defense budget.

In certain geographic markets, conditions are extremely competitive as foreign engineering and construction companies attempt to increase market share through pricing. Maintaining excellent relationships with clients through superior performance and service has allowed Fluor Daniel to succeed in these competitive arenas.

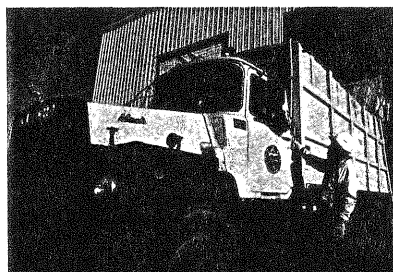
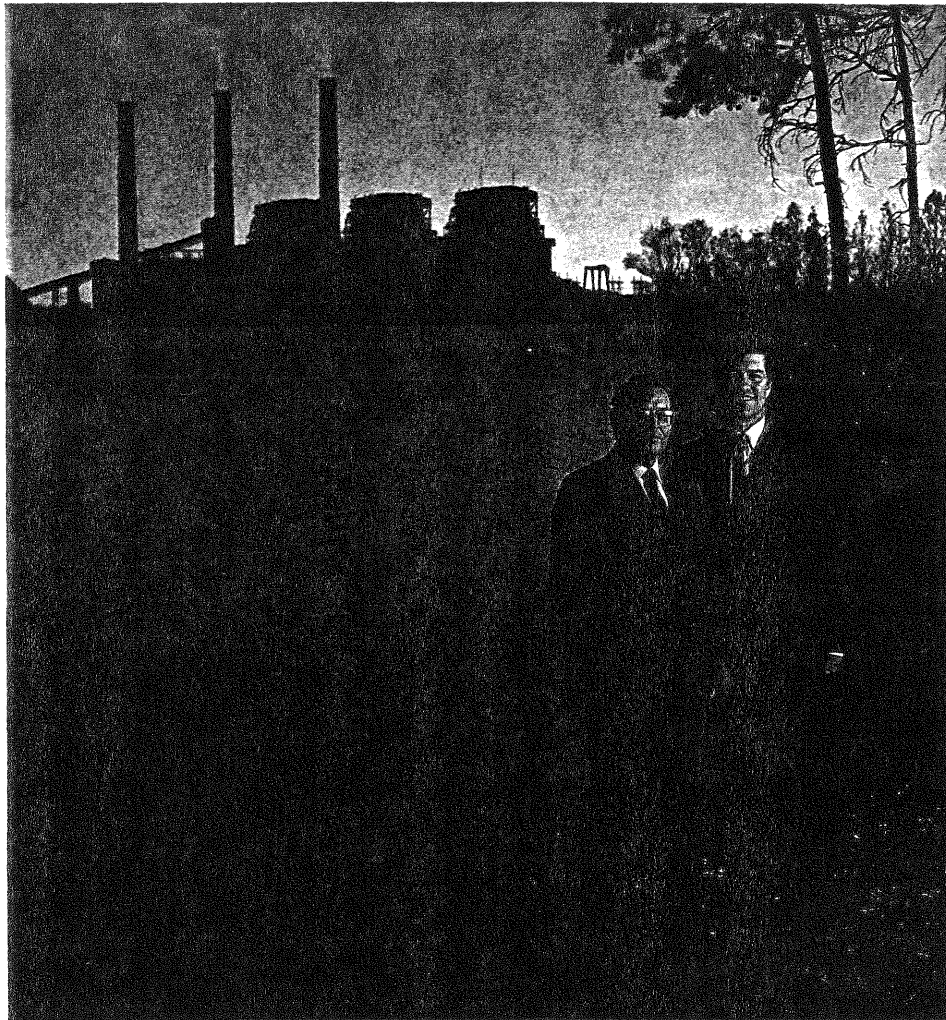
This sector generated the greatest volume of new orders in 1987—\$1.4 billion—although down slightly from 1986. The Industrial Sector is currently responsible for 36 percent of Fluor Daniel's total backlog.

In addition to its increased penetration of domestic markets, this sector has made exceptional advances outside the U.S. Significant examples of the Industrial Sector's international success include: construction of an Alcan Aluminum plant in Kingston, Ontario; maintenance programs for an American Motors plant in Brampton, Ontario; a study for a proposed Boise Cascade cogeneration plant in Fort Francis, Ontario; employing the capabilities of staff from Chicago, Greenville, Irvine and Calgary; a joint venture with Com Products Corporation to perform a study for Shanghai Food Corporation in China; construction advisory services for an R. J. Reynolds plant in Xiamen, China; and a variety of project services for Procter and Gamble in Europe and Saudi Arabia.

The Industrial Sector is also continuing to win projects domestically for international clients. For example, the German-based Bosch Corporation chose the Industrial Sector to perform design and construction management for its manufacturing complex in Charleston, South Carolina.

Fluor Daniel's Power
Sector President,

Peter Van Nort,
right, and Rick
Dean, left, Presi-
dent of Fluor
Daniel's Eastern
Operations, at one
of the sites which
Fluor Daniel is pro-
viding maintenance
services for TU
Electric.



DR 2801165

The Power Sector offers a wide range of services to electric and gas utility companies and is pursuing other power-related areas such as cogeneration, hydroelectric, waste-to-energy and privatized power plants. Services include engineering, procurement, construction and maintenance.

Industry-wide demand for services to the power industry remained modest over the past year and centered primarily on maintenance, modification and upgrade work. However, the need for new generating capacity has spurred growth in certain market segments which include gas cogeneration and resource recovery.

Fluor Daniel's Power Sector delivered substantial improvement in 1987, despite generally lethargic conditions in the industry. New orders totaled \$917 million, up 48 percent from a year ago, and Power currently represents 20 percent of Fluor Daniel's total backlog.

An emerging technology called integrated gasification combined cycle has created new opportunities. This non-proprietary technology employs a method of efficiently increasing a plant's capacity with low economic risk. It allows a utility to bring new capacity on-line in increments consistent with its load growth instead of all at once in a large power plant.

Fluor Daniel's extensive expertise in the various components of power generation accounted for the Power Sector's most significant 1987 award—the Midland Cogeneration plant in Midland, Michigan. Staff from Chicago, Greenville and Irvine teamed to win design, procurement and construction to convert an uncommissioned nuclear plant to a gas-fired, combined-cycle cogeneration facility. Fluor Daniel's Venture Group committed to an important equity position in the project.

Another example of Fluor Daniel teamwork is reflected in the recently completed Union Carbide project at Seadrift, Texas. The Power and Process Sectors had to deliver design, procurement and construction services on this combined-cycle cogeneration facility within a compressed time frame, under severe penalty risks. Successful tests in November resulted in start-up ahead of schedule and payment of a maximum bonus to Fluor Daniel.

During 1987, the Power Sector has also made significant progress in widening its share of the power plant maintenance market, a continuing field of business opportunity. Representative of this market is a joint venture contract with Fluor Daniel and British Electricity International, Ltd., for operation, training and maintenance of the Hopewell power plant in China. Both 350-megawatt coal-fired generators completed successful start-up in 1987.

At the request of clients, the sector moved into new markets last year, including mining and resource recovery maintenance. In addition, the sector became involved in telecommunications projects for the utility industry.

Electric Utility

Photo at left

Tatum, Texas

Lignite Coal-Fired

Power Plant

Maintenance Services

Waste-to-Energy

Photo at bottom

Springfield, Massachusetts

Mass Burn Facility

Design, Engineering,

Procurement, Construction,

Own/Operate

Cogeneration

Midland, Michigan

Nuclear Plant

Conversion to

Combined-Cycle

Cogeneration

Design, Engineering, Procurement,

Construction, Equity

Investment

Cogeneration

Seadrift, Texas

Combined-Cycle

Cogeneration

Design, Engineering, Procurement,

Construction, Start-Up

Electric Utility

Trimble County, Kentucky

Coal-Fired Power Plant

Design, Engineering, Procurement,

Construction Support

Hydroelectric

North Little Rock, Arkansas

Hydroelectric Power Plant

Design, Engineering,

Procurement, Construction

Management

Electric Utility

Dothan, Alabama

Nuclear Power Plant

Maintenance Services

New orders in-

creased nearly 50

percent despite no

new power plants

Combined strengths

of three Fluor Daniel

locations form

team to win signifi-

cant Midland Co-

generation award

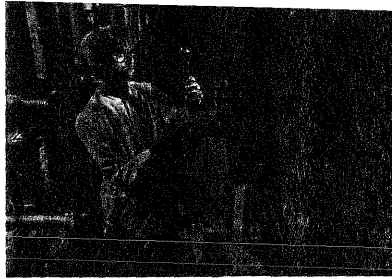
Maintenance,

modification and

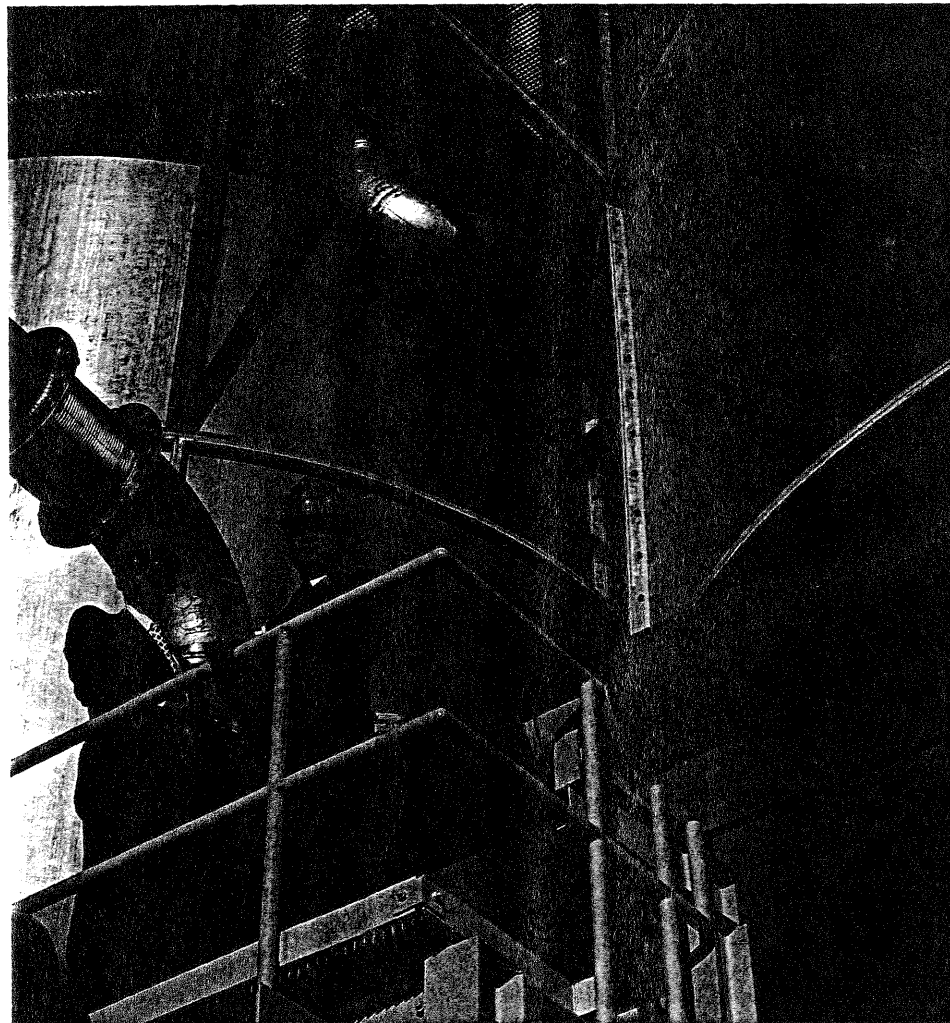
upgrade work

continues to be a

key growth area



Paul Vareilo, right, Fluor Daniel Process Sector President, and Charlie Cox, left, President of Fluor Daniel, Europe, Africa and Middle East, at the General Electric engineering plastics facility in Alabama. Fluor Daniel is also performing an expansion project for GE in The Netherlands.



DR 2801167

Biotechnology

Photo at top
Biberach, West Germany
**Pharmaceutical
Pilot Plant and
Main Production Facility**
Design, Engineering,
Procurement, Construction
Assistance

Plastics

Photo at left
Burkville, Alabama
**General Electric Lexan
Manufacturing Facility**
Design, Procurement,
Construction

Chemicals

Photo at bottom
Wilmington, North Carolina
**Du Pont Multi-Product
Chemical and Fiber
Producing Facility**
Ongoing Maintenance
performed under Partnership
Agreement

Pharmaceutical

Thousand Oaks, California
Production Facility
Design, Construction
Management

Chemicals

Newport, Delaware
**Pigments Finishing
Plant Expansion**
Design, Procurement,
Construction Management

Pharmaceutical

Barceloneta, Puerto Rico
**Finishing and Filling
Facility**
Design, Construction

Film

Rochester, New York
Film Manufacturing Line
Design, Procurement,
Construction

**Wide spectrum of
markets served.**

**New orders up 65
percent, with
growth in several
geographic areas.**

**Innovative client-
contractor partner-
ships respond to
companies down-
sizing in-house
capabilities.**

The Process Sector includes biotechnology, pharmaceuticals, fine and specialty chemicals, fibers, film, textiles, plastics, bulk chemicals and composites. These markets are affected by fluctuating feedstock and energy costs as well as changes in currency exchange and interest rates.

During 1987, rapidly evolving techniques in biotechnology and composites have created growth markets. Fluor Daniel is one of the leaders in providing engineering and construction services to the biotech industry. The need to lower the weight of automobiles gave a lift to the plastics industry, and the trend toward specialization created a market demand for fine chemicals over bulk chemicals. Ongoing efforts to find cures for cancer, heart and cardiovascular ailments provided a boost to the drug industry.

Fluor Daniel is able to capitalize on these opportunities by providing a full range of services to the process market, from siting to design and construction, maintenance, technical services and project finance.

Fluor Daniel's bookings in the Process Sector domestically and internationally have far exceeded the growth of the industry as a whole. New orders were \$686 million, 65 percent over last year and the Process Sector now represents 18 percent of Fluor Daniel's total backlog.

Because of the needs of U.S. industries to lower operating costs, many large companies have downsized their own engineering and construction organizations. This has led to an innovative trend in long-term client relationships such as the 15-year association between the company and Du Pont which has involved both domestic and international projects. Last year this partnership culminated in a contract for Fluor Daniel to provide full-service design engineering as a supplement to Du Pont's in-house capability. To handle this work, the Delta Division was established to serve only Du Pont. Similar agreements have been arranged with other clients, and additional discussions are in progress.

The Process Sector's increasing success overseas is evidenced by two pharmaceutical projects underway in Europe for Smith Kline Beckman. This U.S. client chose Fluor Daniel to install laboratory facilities at its vaccine manufacturing and packaging plants in Belgium.

In another example, Rohm & Haas, a chemical products company which uses Fluor Daniel on a Deer Park, Texas project, has now selected them to perform site and environmental evaluation studies in Shanghai.

As markets for the Process Sector expand rapidly worldwide, Fluor Daniel's overseas offices are strategically located to take full advantage of these growing opportunities.

Fluor Daniel Hydro-
carbon Sector

President, Charlie

Oliver, left, and

Sandy McArthur,

right, President of

Fluor Daniel, Canada,

at the heavy oil

upgrader expan-

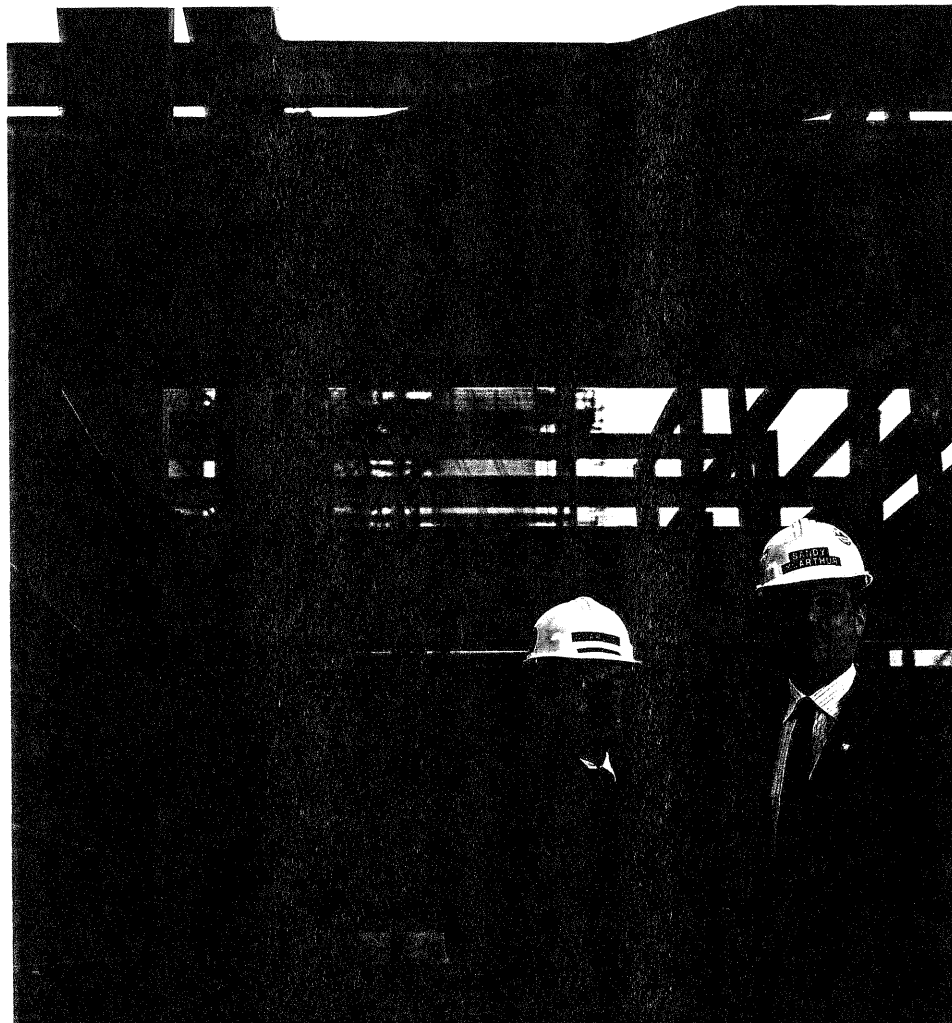
sion and modern-

ization project for

New Grade Energy

in Saskatchewan,

Canada.



DR 2801169

Hydrocarbon Sector

The Hydrocarbon Sector provides a full range of services to markets which include oil and gas production, petroleum refining, pipelines, gas process and petrochemicals, synfuels and mining.

Although these markets improved somewhat in 1987 because of more stable commodity pricing, excess supply conditions still exist. Areas which showed renewed activity were octane enhancement projects, offshore drilling, gold mining projects, and polypropylene and polyethylene facilities. In Europe, hydrocarbon projects tended toward more specialized products.

Despite lackluster market conditions, the Hydrocarbon Sector achieved dramatic gains. New orders nearly doubled in 1987 to \$721 million compared with \$363 million for the prior year. Backlog for this sector currently stands at \$940 million, 20 percent of the company's total.

This improvement in new awards can be attributed to the expanded services now offered by the Hydrocarbon Sector worldwide, as well as to Fluor Daniel's strength in 3-D computer-aided design (CAD). These CAD services have special, cost-effective application for hydrocarbon projects and have application in all five sectors. Engineering is being performed on CAD systems at 16 locations, including Canada, Australia and Europe, as well as in the U.S.

A good example of marketing success has been the integration of Fluor Daniel's work for Ridgeway Mining Company. The Hydrocarbon Sector's Northern California office combined its metals and mining expertise with the geographic presence of the Greenville office to win the award for Ridgeway's new gold processing facility in South Carolina. This project includes detailed engineering, procurement and construction. When completed, the process facility will handle 15,000 tons of ore a day, making it one of the largest gold mines in North America.

In Korea, the Hydrocarbon and Process Sectors teamed up to win work on a chemical plant for Sunkyoung Fibers. Basic engineering services are provided from the U.S., while detailed engineering supervision services are performed in Korea.

In Australia, Fluor Daniel passed the 50 percent completion point on the Olympic Dam Project, a major uranium/gold/copper mine and processing facility.

One of Fluor Daniel's largest current projects is within the Hydrocarbon Sector—New Grade Energy's heavy oil upgrader in Regina, Saskatchewan. Responsibilities include engineering, procurement, construction management and project management. This "state of the art" project is set for completion in 1988.

Refinery

Photo at left
Regina, Saskatchewan,
Canada

Heavy Oil Upgrader

Engineering, Procurement,
Construction Management,
Project Management

Refinery

Photo at bottom
Stanlow, United Kingdom

Gas Tails Unit

Engineering (shown on CAD),
Procurement, Construction
Management

Petrochemicals

LaPorte, Texas

Polypropylene Plant

Expansion

Engineering, Procurement

Mining

Ridgeway, South Carolina

Gold Ore Processing

Facility

Engineering, Procurement,
Construction Management,
Project Management

Gas Processing

Liaoning Province, People's
Republic of China

Natural Gas Liquids Plant

Engineering, Procurement,
Construction Services

Mining

Roxby Downs, South Australia

Metallurgical Plants

and Electrolytic Refinery

Engineering, Procurement,
Construction Management

New orders nearly

doubled in 1987

Expanded services

and client base

Increased business

opportunities

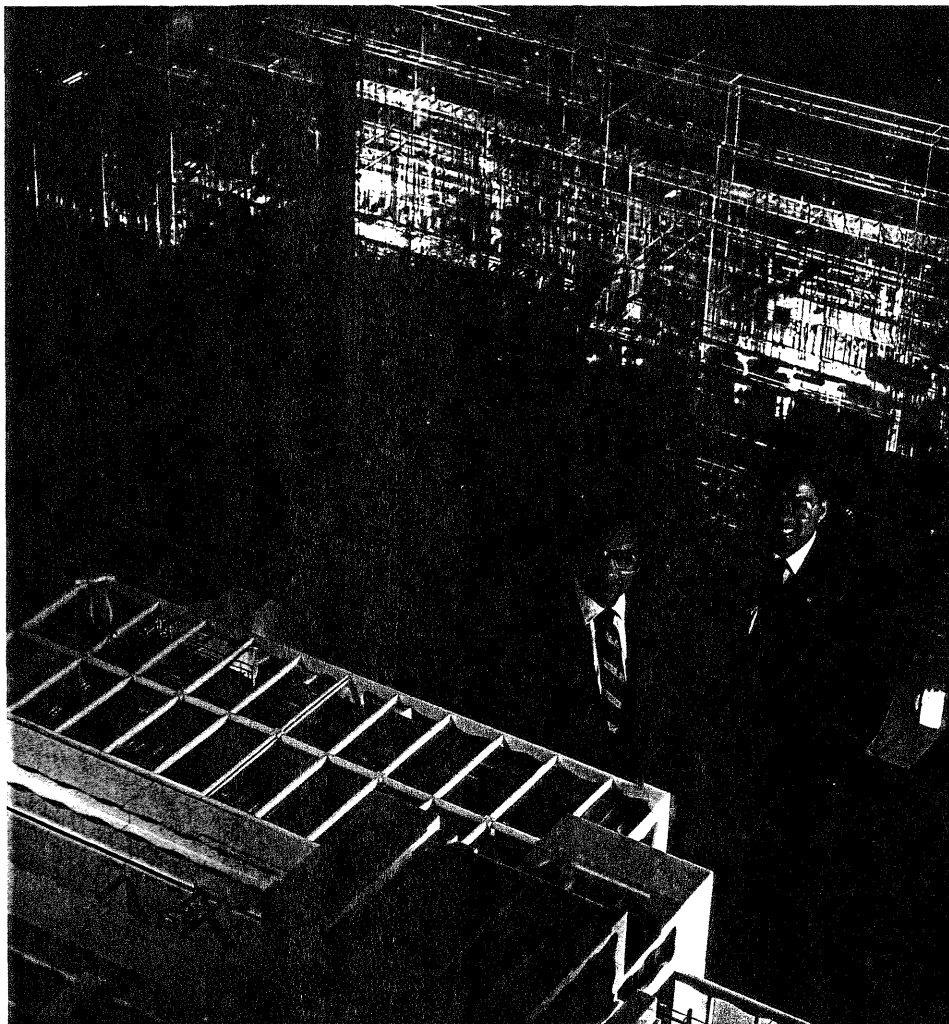
Market share im-

proved in domestic

and international

markets

Emil Parente, left,
President of Fluor
Daniel's Govern-
ment Sector, and
Larry Hart, right,
President of Fluor
Daniel's Western
Operations, beside
the engineering
design model for the
Process Facility
Modification Project
for DOE's nuclear
fuel reprocessing
facility in Hanford,
Washington.



DR 2801171

Government Sector

Department of Energy

Photo at left

Hanford, Washington

Process Facility**Modifications**

Design, Engineering

Municipal

Photo at bottom

Los Angeles County, California

Emergency Fire**Command Center and****Communications System**

Design, Installation

Department of Defense

White Sands, New Mexico

Ground Based Laser

Procurement, Construction

U.S. Postal Service

Central Region

New and Existing**Postal Facilities**

Program Management

Staffing, Construction

National Weather Service

U.S. and International

Locations

Office and Radar**Facilities Improvement**

Engineering, Architectural

Design, Construction

Management, Inspection

Department of Energy

Hanford, Washington

Waste Vitrification Plant

Design, Engineering

U.S. Army**Corps of Engineers**

Grand Island, Nebraska

Soil Incineration Project

Design, Engineering

Installation

New orders jumped**five fold over prior****year.****Credibility and****experience gained****with federal, state****and local agencies.****Special capabili-****ties target tele-****communications****environmental and****nuclear fuel cycle****projects.**

A key objective of the Government Sector is to diversify its client base at the federal, state and local levels and to expand in certain high technology markets.

Particular success was achieved in 1987 with the following federal clients now contracting for Fluor Daniel services: Department of Commerce, Department of Defense, Department of Energy, U.S. Information Agency, U.S. Postal Service and Department of Transportation. Additional current clients include numerous state, county and municipal agencies throughout the country.

This sector provides special capabilities in telecommunications, environmental services including hazardous waste management, nuclear fuel cycle work and a full range of engineering, construction, operation and maintenance services. The Government Sector also serves as an advanced technology base for all Fluor Daniel sectors.

In 1987, the Government Sector developed and staffed offices in Houston, Texas; Chicago, Illinois; Greenville, South Carolina; and Redwood City, California. These new offices, together with the Irvine, California office, are located to take advantage of emerging opportunities.

New orders for this sector rose to \$314 million in 1987, an increase of 504 percent over the prior year. Backlog was \$303 million at year end. In addition, technology positioning by the Government Sector has the potential to contribute to \$2 billion in backlog for other Fluor Daniel sectors.

One of the most significant projects awarded during 1987 was a contract won through the combined efforts of the Government Sector and Fluor Constructors Inc. It includes procurement and construction for the Department of Defense on the first phase of its ground-based free electron laser project at White Sands, New Mexico.

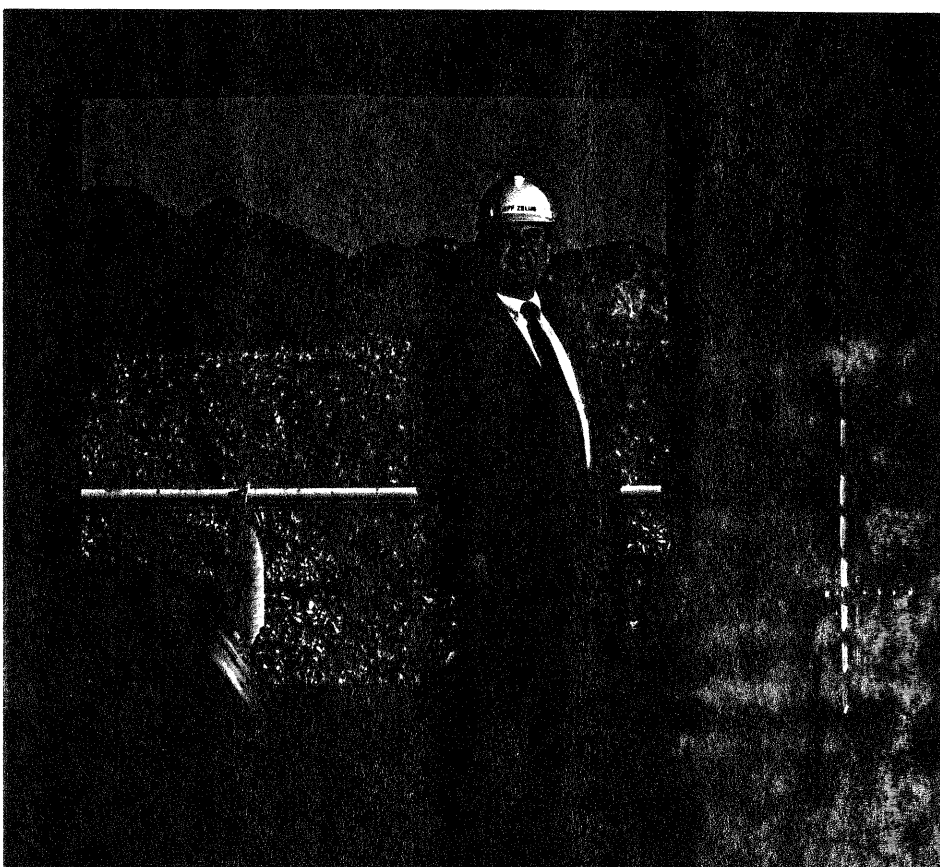
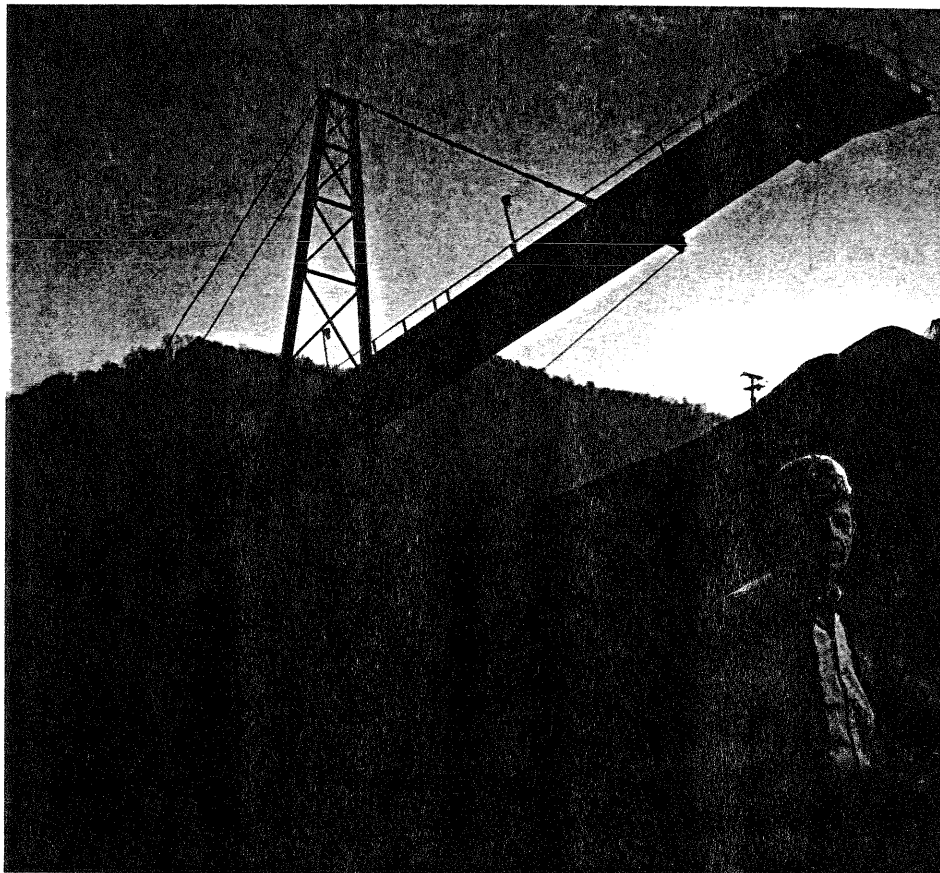
The telecommunications market continued strong in 1987. The Government Sector entered this business in 1983 and has since built a meaningful market position. With particular expertise in system integration, an expanding market, continued growth is expected.

Fluor Daniel offers a full range of environmental services including consulting, engineering, project management and site clean-up to serve this high potential growth market. During 1987 over 30 contracts were received, including the first award involving an EPA Superfund site.

The Advanced Technology Division completed work on the first phase of architectural engineering services for conceptual design on the Hanford Waste Vitrification Plant in Washington. The contract potential for this assignment over the next several years is substantial.

This past year Fluor Daniel clearly established itself as a significant and permanent competitor in the large and diversified government and specialized technologies fields.

E. Morgan Massey
(top photo), President of A. T. Massey
Coal Company, Inc.
at the Elk Run coal
processing facility
in West Virginia.
Jeff Zelms (bottom
photo), President of
The Doe Run Com-
pany, at the Hercu-
laneum lead smelter
in Missouri.



DR 2801173

Natural Resource Investments

A. T. Massey, now fully owned by Fluor, ranks among 10 largest coal producers in U.S.

Market opportunities enhanced for produced and brokered coal

Doe Run, now 57.5 percent owned by Fluor, is largest integrated producer of primary lead in North America.

Coal: In June 1987, Fluor reached agreement with Shell Oil Company to divide the assets of their 50/50 joint venture in Massey Coal Company. This partitioning of Massey made available approximately \$100 million in cash, and reduced debt by \$40 million. Fluor retained A.T. Massey Coal Company, its management, and certain operating subsidiaries. Massey now ranks among the 10 largest coal companies in the United States.

Fluor now has controlling ownership of its coal operations, allowing greater operating flexibility. Massey produces high quality, low sulphur steam coal attractive to utility customers, and has a solid reputation for outstanding service. Electric utilities account for approximately 85 percent of U.S. coal consumption, and Massey is geographically well positioned to serve the eastern utility market.

During 1987, despite a boost in energy demand in the eastern United States, the coal market continued to struggle with overcapacity, and coal prices averaged 8 percent below a year ago.

Massey is the leading commercial supplier of metallurgical coal in the United States. Renewed strength in the steel industry provided increased opportunity for Massey's metallurgical coal production, which represented 23 percent of total produced coal sales.

Fluor's ownership of Massey also enhances the potential for brokering and marketing coal through the export market, and will contribute to increased sales and financial performance.

Lead: Fluor's investment in lead operations is conducted through The Doe Run Company, a partnership formed in November, 1986, through the consolidation of Fluor's lead operations with those of Homestake Mining Company. The partnership — of which Fluor owns 57.5 percent — optimizes lead production through improved operating efficiency and greater flexibility among its six mines, four mills and two smelters.

Doe Run is the largest integrated, primary lead producer in North America. Approximately 70 percent of Doe Run lead is consumed by the battery business, which affords a stable, long-term market base. There is also significant market opportunity in construction, load-leveling batteries, anti-oxidation agents in asphalt pavements and hazardous waste storage.

During the year, pricing improved substantially, although earnings were disappointing due to production difficulties at the Herculeum smelter. An aggressive maintenance program was launched at Herculeum, with the Buick plant used to supplement production. Repairs at Herculeum are now complete and the facility is back in operation. Earnings are expected to improve in 1988 from decreases in production costs.

Operating Statistics

\$ in thousands / Year ended October 31,

	1987	1986	1985	1984	1983
Engineering and Construction					
Work Performed	\$3,370,957	\$3,817,200	\$3,438,327	\$4,458,238	\$6,335,741
Revenues	3,251,304	3,727,764	3,226,486	3,315,398	4,208,821
Operating Profit (Loss)	(49,473)	(71,152)	(106,528)	84,220	229,989
New Awards	4,059,700	2,992,200	4,485,300	4,151,300	1,244,600
Backlog	\$4,667,300	\$4,291,400	\$5,114,700	\$4,194,200	\$5,610,700
Employees	11,993	12,068	14,530	16,353	18,998

\$ in millions

	\$ 1987	%	\$ 1986	%	\$ 1985	%	\$ 1984	%	\$ 1983	%
Backlog by Sector and Location										
Industrial	1,661	36	1,865	44	2,453	48	1,690	40	506	9
Power	927	20	1,032	24	762	15	412	10	1,649	29
Process	836	18	610	14	536	11	324	8	120	2
Hydrocarbon	940	20	690	16	1,289	25	1,700	40	3,293	59
Government	303	6	94	2	75	1	68	2	43	1
Total Backlog	4,667	100	4,291	100	5,115	100	4,194	100	5,611	100
United States	4,039	87	3,587	84	4,072	80	2,838	68	2,520	45
Outside U.S.	628	13	704	16	1,043	20	1,356	32	3,091	55
Total Backlog	4,667	100	4,291	100	5,115	100	4,194	100	5,611	100

\$ in thousands / in thousands of short tons
Year ended October 31,

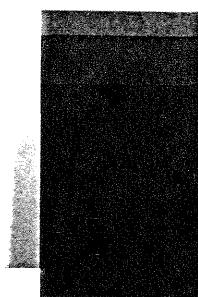
	1987	1986	1985	1984	1983
Coal*					
Revenues	\$580,123	\$516,943	\$ 475,051	\$489,634	\$437,455
Operating Profit (Loss)	\$ 28,326	\$ 49,310	\$(223,038)	\$ 14,800	\$ (6,824)
Employees	1,372	3,307	3,571	4,709	5,145
Steam Coal Produced	9,258	9,342	7,795	7,998	7,102
Metallurgical Coal Produced	2,825	2,175	1,730	2,168	2,084
Produced Coal Sold	12,531	11,620	9,528	9,982	9,192
Purchased Coal Sold	5,306	2,522	2,174	1,931	1,461

* Amounts through June 1987 represent 50% of Massey's operations, except the number of employees which is 100%. Commencing July 1987, amounts include 100% of the operations of Massey after reflecting the partitioning with Shell Oil. See Notes to Consolidated Financial Statements.

\$ in thousands / short tons
Year ended October 31,

	1987	1986	1985	1984	1983
Lead*					
Revenues	\$93,053	\$ 96,993	\$ 74,905	\$ 96,669	\$110,939
Operating Profit (Loss)	\$ (5,511)	\$(26,640)	\$(187,105)	\$(41,460)	\$(35,407)
Employees	986	855	957	1,526	1,56
Lead Content of Concentrates Produced	123,888	186,975	172,781	137,618	215,98
Lead Metal Sold	130,753	193,849	177,772	169,080	220,82

* Amounts through 1986 represent 100% of domestic lead operations. Commencing in 1987 amounts represent Fluor's 57.5% interest in the operations of the Doe B Company, except the number of employees which is 100%. See Notes to Consolidated Financial Statements.

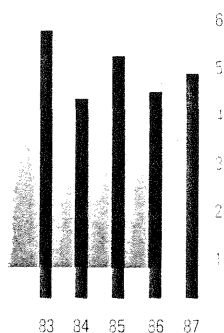


New Awards

by Business

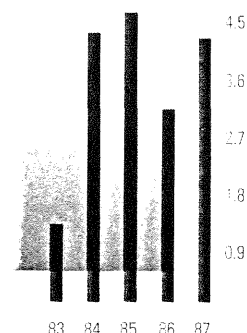
Sector 1987

- Government 8%
- Process 17%
- Hydrocarbon 18%
- Power 22%
- Industrial 35%



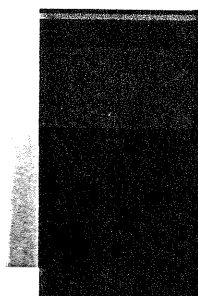
Backlog

dollars in billions



New Awards

dollars in billions



Backlog

by Business

Sector 1983

- Government 1%
- Process 2%
- Industrial 9%
- Power 29%
- Hydrocarbon 59%

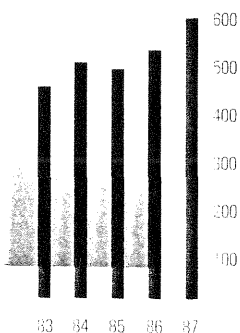


Backlog

by Business

Sector 1987

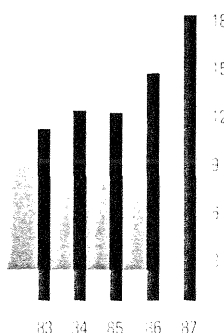
- Government 6%
- Process 18%
- Industrial 36%
- Power 20%
- Hydrocarbon 20%



Coal

Revenues*

dollars in millions

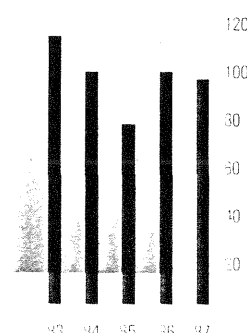


Total

Coal Sold*

in millions of short tons

- Purchased
- Produced



Lead

Revenues*

dollars in millions

* Amounts reflect Fluor's proportionate share for all periods.

**Management's
Discussion
and Analysis**

22	Management's Discussion and Analysis
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44	Report of Independent Accountants
45	Quarterly Financial Data

Results of Operations: The loss from continuing operations was \$75 million in 1987 compared with losses of \$19 million in 1986 and \$513 million in 1985. The related loss per share was \$.95 for 1987 compared with \$.23 in 1986 and \$6.48 in 1985. Revenues from continuing operations decreased 10% in 1987 following a 15% increase in 1986.

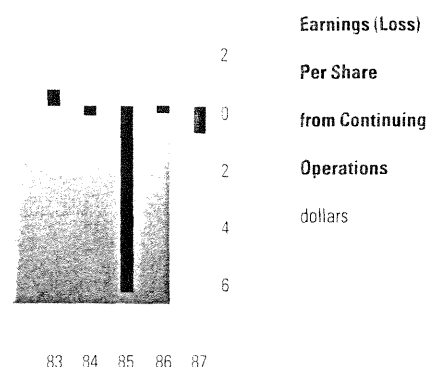
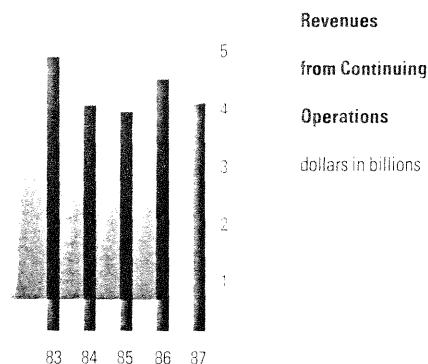
At October 31, 1987 the company adjusted its assets and liabilities to fair value in accordance with accounting principles applicable to quasi-reorganizations. Such adjustments had no impact on 1987 results of operations.

Engineering and Construction: Contract awards for Engineering and Construction increased 36% in 1987 in spite of continued depressed business conditions and intense competition. New awards were \$4.1 billion in 1987 compared with \$3.0 billion in 1986 and \$4.5 billion in 1985. Backlog at October 31, 1987 was \$4.7 billion compared with \$4.3 billion and \$5.1 billion at October 31, 1986 and 1985, respectively.

Engineering and Construction experienced an operating loss of \$49 million in 1987 compared with losses of \$71 million in 1986 and \$107 million in 1985. Marketing effectiveness and operational efficiency have continued to improve as reorganization of the segment was finalized in 1987. Improved operating results reflect the continuing success of efforts to reduce indirect costs and strengthen market share. This improved performance has been attained despite continued severe competitive pressures due to industry overcapacity in certain sectors. The number of employees was reduced only slightly in 1987 compared with reductions of 17% in 1986 and 11% in 1985.

Losses of \$23 million in 1987 and \$22 million in 1986 were incurred on several fixed price construction projects bid under extremely competitive conditions. Most of these projects are completed and the remainder are not expected to incur additional overruns.

Coal: In the third quarter of 1987 the company completed the partitioning of the assets of Massey Coal Company (Massey). The partitioning resulted in no net gain or loss. Subsequent to the partitioning the company has fully consolidated the results of Massey.



Revenues and operating profit from Coal operations in 1987 were \$580 million and \$28 million, respectively, compared with revenues of \$517 million and operating profit of \$49 million in 1986. Revenues and operating loss in 1985 were \$475 million and \$223 million, respectively. In 1987, operating results were slightly lower compared with 1986 as a decline in realized prices of produced coal more than offset lower costs and higher volumes of produced coal sold and additional revenue from brokered coal sales. The operating loss for 1985 includes a nonrecurring charge of \$212 million related to the reduction in the carrying value of certain of the company's coal properties. Coal operating results for 1986 included the reversal of \$17 million of reserves no longer required as certain mines identified for disposal in 1985 were retained due to improved operations. Operating results for 1986 also improved compared with 1985 due to settlement, in the first quarter of 1986, of a labor dispute that existed throughout 1985.

Lead: In the first quarter of 1987 the company contributed the assets of its lead operations to a partnership called The Doe Run Company (Doe Run) in exchange for a 57.5% interest.

Lead operations incurred an operating loss of \$6 million on revenues of \$93 million in 1987, compared with an operating loss of \$27 million on revenues of \$97 million in 1986 and an operating loss of \$187 million on revenues of \$75 million in 1985. Operations in 1987 improved significantly compared with 1986 due to an increase in realized prices which more than offset increase in costs. Costs increased primarily due to operational inefficiencies and equipment downtime at the Herculanum smelter. The 1985 loss includes a nonrecurring charge of \$138 million to write off the excess of cost over net assets acquired.

Discontinued Operations: In the third quarter of 1987 the company initiated a plan for the divestiture of the assets of its Metals segment except for the lead operations which were retained. As part of the divestiture the company sold its 90% interest in St. Joe Gold Corporation and certain other properties resulting in an after tax gain of approximately \$248 million. The company also completed the sale of its zinc operations resulting in an after tax loss of \$1 million. Discussions regarding the disposition of the remaining Metals operations

**Management's
Discussion
and Analysis
Continued**

are underway and are expected to be concluded in 1988. Remaining Metals operations have been written down to their net realizable value resulting in an after tax charge to discontinued operations of \$122 million.

Other: Reduced interest expense reflects lower average debt outstanding during 1987 as a result of the company's restructuring activities.

Corporate administrative and general expense was reduced 26% in 1987 compared with 1986 primarily due to lower labor related costs resulting from personnel reductions.

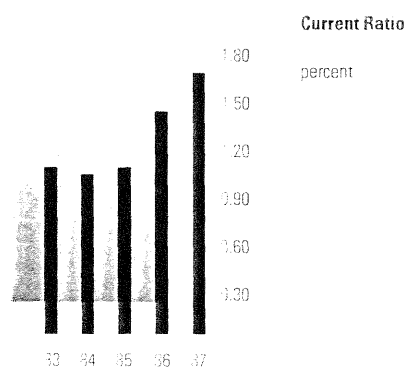
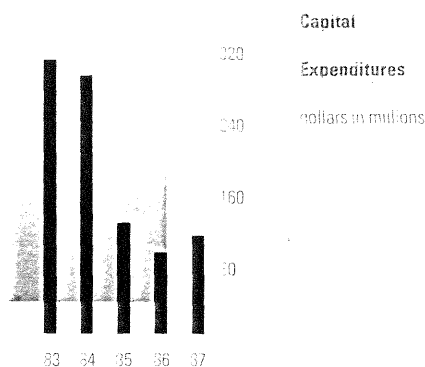
Fourth quarter 1987 results include a provision for the difference between contract rents and estimated fair market rents for office space which will be subleased in the future. In addition, certain investments were written down to net realizable value.

In 1987 there is no significant difference between the effective income tax benefit rate on the loss from continuing operations and the statutory rate of 42%. The difference between the effective rate in 1986 and the statutory rate of 46% is primarily due to the recognition of a nontaxable gain on the sale of St. Joe Gold common stock and lower capital gain rates applied to the Irvine facility sale, partially offset by nondeductible amortization related to property, plant and equipment. 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 and the excess of cost over net assets acquired, and losses with no tax benefit.

Most of the provisions of the Tax Reform Act of 1986 are not applicable to the company until fiscal 1988 and are not expected to have a material effect on the consolidated financial position or results of operations of the company. Further, the newly issued Statement of Financial Accounting Standard — "Accounting for Income Taxes" is not expected to have any material impact on the company.

Future results will benefit from restructuring activities completed in 1987. Depreciation and amortization charges and lease expense will be reduced as a result of the fair value adjustments effected through the October 31, 1987 quasi-reorganization.

DR 2801179



Financial Position and Liquidity: Working capital at Octo-

ber 31, 1987 was \$480 million compared with \$265 million at October 31, 1986. This increase is primarily due to the sale of gold and zinc operations which resulted in proceeds of \$590 million, \$102 million of which was received in cash in 1987. Proceeds from the sale of gold operations included a receivable of \$450 million which was collected early in November 1987. In addition, \$38 million of debt was assumed by the purchaser of the zinc operations.

In connection with the partitioning of Massey, the company reduced debt by \$40 million and gained access to \$108 million in cash.

Capital expenditures for 1987 were \$100 million compared with \$92 million in 1986 and \$121 million in 1985. In 1987, capital expenditures include the repurchase of land in Sugar Land, Texas for \$26 million.

The long-term debt to capitalization ratio at October 31, 1987 was 30.5% compared with 35.3% and 20.0% at October 31, 1986 and 1985, respectively. The 1987 ratio reflects both a reduction in long-term debt of \$286 million, primarily due to restructuring activities and debt buyback, and a reduction in shareholders' equity of \$438 million due to the quasi-reorganization. At October 31, 1987, all long-term debt bears interest at fixed rates.

The company has access to sufficient sources of funds to meet its operating and capital needs. Significant short and long-term lines of credit are maintained with banks which provide adequate operating liquidity.

Cash dividends of \$.10 per share were paid in the first quarter of 1987. The Board then suspended future dividend payments and will consider reinstatement when operating results can support a sustained dividend.

Although the company is affected by inflation, 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 most of its contracts. The company's Coal and Lead operations produce commodities which are internationally traded and prices for those products are established by factors which are beyond the control of the company. However, management believes the company's substantial position in coal and lead reserves provides a significant hedge against any adverse long-term effects of inflation.

Selected Financial Data

Fluor Corporation

In millions, except per share amounts

	1987	1986	1985	1984	1983
Operating Results					
Revenues from continuing operations	\$3,924.5	\$4,341.7	\$3,776.4	\$3,901.7	\$4,757.2
Earnings (loss) from continuing operations before income taxes	(126.1)	(55.0)	(556.2)	(34.7)	98.1
Earnings (loss) from continuing operations	(75.3)	(18.6)	(512.8)	(23.2)	49.3
Net earnings (loss)	26.6	(60.4)	(633.3)	1.0	27.7
Earnings (loss) per share					
Continuing operations	(.95)	(.23)	(6.48)	(.29)	.62
Net earnings (loss)	.33	(.76)	(8.01)	.01	.35
Dividends per share	\$.10	\$.40	\$.40	\$.60	\$.80
Financial Position					
Current assets	\$1,213.5	\$ 922.1	\$1,057.2	\$1,025.9	\$1,146.0
Current liabilities	733.3	656.8	1,020.7	1,016.4	1,090.2
Working capital	480.2	265.3	36.5	9.5	55.8
Property, plant and equipment, net	735.2	1,301.8	1,433.3	2,338.2	2,379.8
Total assets	2,061.2	2,565.4	2,796.4	3,891.6	4,084.9
Capitalization					
Long-term debt	232.9	519.4	259.1	724.8	720.0
Shareholders' equity	531.7	950.2	1,033.9	1,696.4	1,747.2
Total capitalization	\$ 764.6	\$1,469.6	\$1,293.0	\$2,421.2	\$2,467.2
Percent of total capitalization					
Long-term debt	30.5	35.3	20.0	29.9	29.2
Shareholders' equity	69.5	64.7	80.0	70.1	70.8
Shareholders' equity per common share	\$ 6.74	\$ 11.99	\$ 13.06	\$ 21.49	\$ 22.19
Common shares outstanding	78.9	79.3	79.1	78.9	78.7
Other Data					
New awards received during year	\$4,059.7	\$2,992.2	\$4,485.3	\$4,151.3	\$1,244.6
Backlog at end of year	4,667.3	4,291.4	5,114.7	4,194.2	5,610.7
Capital expenditures	99.8	91.6	121.2	285.5	301.8
Depreciation, depletion and amortization					
for continuing operations	85.2	89.3	114.6	106.1	109.7
Funds provided from (used by) continuing operations	\$ (42.6)	\$ (35.6)	\$ (266.2)	\$ (58.4)	\$ 179.3
Number of employees	14,351	22,309	26,958	32,153	34,123

DR 2801181

Fluor Corporation's financial statements are audited by independent accountants and the audit report thereon is dated December 31, 1987.

See Management's Discussion and Analysis beginning on page 17 of this annual report for a discussion of the company's performance during the year ended December 31, 1987. See also the consolidated financial statements and financial data for the year ended December 31, 1987, beginning on page 20 of this annual report.

At December 31, 1987, a stock repurchase program was effected with respect to the common stock of the company. See Note 14 of the Consolidated Financial Statements for a description of the program.

Consolidated Statement of Operations

Fluor Corporation

In thousands, except per share amounts / Year ended October 31,

	1987	1986	1985
Revenues			
Engineering and construction services	\$3,251,304	\$3,727,764	\$3,226,486
Natural resources	673,176	613,936	549,956
Total revenues	<u>3,924,480</u>	<u>4,341,700</u>	<u>3,776,442</u>
Cost of Revenues			
Engineering and construction services	3,298,628	3,794,757	3,338,654
Natural resources	650,886	591,406	610,197
Write-down of investment in certain coal and lead operations	—	—	349,567
Total cost of revenues	<u>3,949,514</u>	<u>4,386,163</u>	<u>4,298,418</u>
Other Income and Expense			
Corporate administrative and general expense	24,131	32,532	34,652
Provision for estimated losses on facility subleases and certain investments	36,845	—	—
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	58,304	63,185	103,861
Interest income	(18,231)	(23,345)	(25,411)
Total costs and expenses	<u>4,050,563</u>	<u>4,396,654</u>	<u>4,332,686</u>
Loss From Continuing Operations Before Income Taxes	<u>(126,083)</u>	<u>(54,954)</u>	<u>(556,244)</u>
Income Tax Benefit	<u>50,808</u>	<u>36,337</u>	<u>43,452</u>
Loss From Continuing Operations	<u>(75,275)</u>	<u>(18,617)</u>	<u>(512,792)</u>
Discontinued Operations			
Loss from operations, net of income taxes	(16,544)	(17,479)	(53,304)
Gain (loss) on disposal, net of income taxes	111,254	(24,347)	(50,867)
Earnings (Loss) From Discontinued Operations	<u>94,710</u>	<u>(41,826)</u>	<u>(104,171)</u>
Earnings (Loss) Before Extraordinary Items	<u>19,435</u>	<u>(60,443)</u>	<u>(616,963)</u>
Extraordinary items	7,157	—	(16,361)
Net Earnings (Loss)	<u>\$ 26,592</u>	<u>\$ (60,443)</u>	<u>\$ (633,324)</u>
Earnings (Loss) Per Share			
Continuing operations	\$ (.95)	\$ (.23)	\$ (6.48)
Discontinued operations	1.19	(.53)	(1.32)
Extraordinary items	.09	—	(.21)
Net Earnings (Loss) Per Share	<u>\$.33</u>	<u>\$ (.76)</u>	<u>\$ (8.01)</u>
Shares Used to Calculate Earnings (Loss) Per Share	<u>79,484</u>	<u>79,248</u>	<u>79,054</u>

DR 2801182

Consolidated Balance Sheet

\$ in thousands / At October 31.

Assets

Current Assets

Cash and short-term investments	\$ 74,642	\$ 96,331
Receivable from sale of St. Joe Gold	450,000	—
Accounts and notes receivable	332,996	353,896
Income taxes receivable	20,650	102,000
Contract work in progress	253,742	185,739
Net assets held for sale	6,824	12,830
Inventories	61,232	148,106
Other current assets	13,372	23,236
Total current assets	<u>1,213,458</u>	<u>922,138</u>

Property, Plant and Equipment

Land	61,215	52,989
Buildings and improvements	77,111	228,022
Machinery and equipment	184,922	814,333
Mining properties and mineral rights	406,021	760,436
Construction in progress	5,885	19,069
	<u>735,154</u>	<u>1,874,849</u>
Less accumulated depreciation, depletion and amortization	—	573,028
Net property, plant and equipment	<u>735,154</u>	<u>1,301,821</u>

Other Assets

Excess of cost over net assets of acquired businesses, net of accumulated amortization of \$3,408 and \$47,610, respectively	9,476	230,632
Other	103,098	110,802
Total other assets	<u>112,574</u>	<u>341,434</u>
	<u>\$2,061,186</u>	<u>\$2,565,393</u>

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	1987	1986
Liabilities and Shareholders' Equity		
Current Liabilities		
Accounts and notes payable	\$ 316,251	\$ 261,610
Advance billings on contracts	87,301	62,261
Accrued salaries, wages and benefit plan liabilities	69,838	83,030
Other accrued liabilities	199,959	206,130
Current portion of long-term debt	11,421	14,667
Income taxes currently payable	17,075	25,486
Deferred income taxes	31,429	3,613
Total current liabilities	733,274	656,797
Long-Term Debt Due After One Year		
	232,948	519,439
Other Noncurrent Liabilities		
Deferred income taxes	86,160	93,334
Deferred income	—	133,888
Accrued lease costs	178,798	—
Other	298,263	211,695
Total other noncurrent liabilities	563,221	438,917
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 1987 — 78,939,846 shares and in 1986 — 79,271,954 shares	49,337	49,545
Additional capital (1987 reflects quasi-reorganization)	487,435	1,070,845
Deficit (1987 reflects quasi-reorganization)	—	(160,022)
Unamortized executive stock plan expense	(4,367)	(6,736)
Cumulative translation adjustments	(662)	(3,392)
Total shareholders' equity	531,743	950,240
	<u>\$2,061,186</u>	<u>\$2,565,393</u>

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\$ in thousands / year ended October 31.

	1987	1986	1985
Funds Provided From Operations			
Loss from continuing operations	\$ (75,275)	\$ (18,617)	\$(512,792)
Depreciation, depletion and amortization	85,199	89,386	114,586
Deferred income taxes	(68,100)	(22,556)	(134,515)
Gain on sale of Irvine facility and St. Joe Gold common stock	—	(61,881)	(78,834)
Amortization of deferred gain on asset sales	(20,570)	(23,597)	(7,822)
Write-down of investments and provision for sublease losses	36,845	—	349,567
Other, net	(688)	1,622	3,570
Funds used by continuing operations	(42,589)	(35,643)	(266,240)
Earnings (loss) from discontinued operations	94,710	(41,826)	(104,171)
Depreciation, depletion and amortization	39,178	39,864	85,650
Deferred income taxes	130,421	(32,508)	(7,268)
Loss (gain) on disposal of discontinued operations	(215,737)	44,997	77,917
Funds provided from discontinued operations	48,572	10,527	52,128
Extraordinary items	7,157	—	(16,361)
Funds provided from (used by) operations	13,140	(25,116)	(230,473)
Net (increase) decrease in operating working capital	93,990	(85,305)	72,909
Net funds provided from (used by) operations	107,130	(110,421)	(157,564)
Investment Activities			
Additions to property, plant and equipment	(99,824)	(91,619)	(121,216)
Proceeds from sale of discontinued operations	590,035	18,000	270,000
Receivable from sale of St. Joe Gold	(450,000)	—	—
Proceeds from sale of other assets	21,738	24,338	104,973
Partition of Massey assets	108,148	—	—
Proceeds from facility sale leasebacks	—	35,000	506,807
Proceeds from sale of common stock of St. Joe Gold	—	35,700	—
Other, net	(43,811)	935	(50,073)
Net funds provided by investment activities	126,286	22,354	710,491
Financing Activities			
Issuance of long-term debt	2,809	264,983	158,600
Reduction of long-term debt	(253,241)	(4,608)	(679,313)
Net increase (decrease) in borrowings due currently	3,254	(94,978)	(44,593)
Cash dividends paid	(7,927)	(31,701)	(31,561)
Net funds provided (utilized) by financing activities	(255,105)	133,696	(596,867)
Increase (decrease) in cash and short-term investments	(21,689)	45,629	(43,940)
Cash and short-term investments at beginning of period	96,331	50,702	94,642
Cash and short-term investments at end of period	\$ 74,642	\$ 96,331	\$ 50,702

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Consolidated Statement of Shareholders' Equity

Fluor Corporation

\$ in thousands, except per share amounts
Year ended October 31, 1985, 1986 and 1987

	Common Stock	Additional Capital	Retained Earnings (Deficit)	Unamortized Executive Stock Plan Expense	Cumulative Translation Adjustments	Total
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
Net earnings			26,592			26,592
Cash dividends (\$.10 per share)			(7,927)			(7,927)
Exercise of stock options, net	105	2,260				2,365
Amortization of executive stock plan expense				1,928		1,928
Repurchase of restricted stock, net	(20)	(563)		441		(142)
Repurchase of common stock	(293)	(5,528)				(5,821)
Translation adjustment for the period					2,730	2,730
Quasi-reorganization						
Revaluation adjustments, net		(438,222)				(438,222)
Transfer to additional capital		(141,357)	141,357			—
Balances at October 31, 1987	\$49,337	\$ 487,435	\$ —	\$ (4,367)	\$ (662)	\$ 531,743

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**Major
Accounting
Policies**

Balance Sheet Revaluation

The balance sheet at October 31, 1987 has been adjusted to fair value in accordance with accounting principles applicable to quasi-reorganizations. See Restructuring Activities.

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% to 50%. All significant intercompany transactions are eliminated. Certain 1986 and 1985 amounts have been reclassified to conform with the 1987 presentation.

Business Ownership Changes

Coal—On July 10, 1987, the company and two subsidiaries of Shell Oil Company (Shell) completed a partition of Massey Coal Company (Massey) whereby Shell relinquished 49.5% of its combined 50% interest in Massey for certain of Massey's operating subsidiaries. The partitioning resulted in no net gain or loss to the company. Prior to the partitioning the company had proportionally consolidated its 50% interest in Massey; subsequently, Massey's operations are fully consolidated to reflect the company's ownership interest.

Lead—Effective November 1, 1986 the company and Homestake Mining Company transferred all of the assets of their respective domestic lead businesses to The Doe Run Company partnership (Doe Run). Certain reclassifications were made to the historical carrying values of the company's lead operations to reflect the proportional consolidation of the company's 57.5% ownership interest in the partnership.

Engineering and Construction Contracts

The company recognizes engineering and construction contract revenues using the percentage-of-completion method, primarily based on contract costs incurred to date compared with total estimated contract costs, and using hours incurred to date compared with total estimated hours 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 hours 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, 1987, will be billed and collected in 1988. Amounts received from clients in excess of revenues recognized to date are classified as current liabilities under advance billings on contracts.

Exploration and Development

Coal—Development costs of specific coal properties, when expected to be significant, are capitalized in mining properties and depleted over the expected economic life of the mine on the units of production method.

Lead—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 economic life of the mine on the units of production method. Subsequent maintenance and underground development expenditures are charged to expense as incurred.

Depreciation and Amortization

Assets other than mining properties and mineral rights are depreciated principally using 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, accelerated depreciation and various accruals. 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 is 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 cumulative translation adjustments were as follows:

\$ in thousands / October 31,	1987	1986
Balance at beginning of year	\$(3,392)	\$(7,875)
Translation adjustments	4,712	8,301
Deferred income taxes on translation adjustments	(1,982)	(3,818)
Balance at end of year	<u>\$ (662)</u>	<u>\$(3,392)</u>

**Consolidated
Statement
of Changes in
Financial
Position**

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

\$ in thousands / Year ended October 31,	1987	1986	1985
Decrease (increase) in:			
Notes, accounts, and income taxes receivable	\$ 41,595	\$ 46,256	\$(63,268)
Contract work in progress and inventory	(51,480)	108,379	(37,323)
Other current assets	(7,893)	1,822	22,252
Increase (decrease) in:			
Accounts payable and accrued liabilities	90,687	(139,934)	174,600
Advance billings on contracts	25,040	(16,260)	968
Income taxes currently payable	(3,959)	(85,568)	(24,320)
Net decrease (increase) in operating working capital	<u>\$ 93,990</u>	<u>\$ (85,305)</u>	<u>\$ 72,909</u>

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**Restructuring
Activities**

Quasi-Reorganization

In conjunction with the company's restructuring and refocus on its engineering and construction business, the company, with the approval of the Board of Directors, adjusted its October 31, 1987 balance sheet to fair value and transferred the accumulated deficit of \$141 million to Additional capital in accordance with quasi-reorganization accounting principles. Management utilized the services of outside experts in conducting the revaluation. The principal adjustments to fair value included a \$267 million reduction in the carrying value of the company's 57.5% interest in Doe Run; reversal of \$62 million of deferred gains on sale leaseback transactions; accrual of \$125 million for certain lease costs; revaluation of intangibles resulting in the elimination of \$151 million of excess of cost over net assets of acquired businesses; recognition of a \$22 million net increase in the value of the company's investment in Massey Coal Company; and \$21 million net increase in the value of other assets. Management has given consideration to the carrying values of the company's remaining assets and liabilities and believes they approximate fair value. The fair value adjustments to the balance sheet resulted in a net charge to Additional capital of \$438 million.

Discontinued Operations

In the third quarter of fiscal 1987 the company initiated a plan for the divestiture of the assets in its Metals segment, except for its 57.5% interest in Doe Run, which has been retained and reported in continuing operations. The results of operations for the remainder of the Metals segment have been reported as discontinued operations and prior periods have been restated. Revenues for the discontinued Metals segment were \$309 million, \$319 million and \$321 million for 1987, 1986 and 1985, respectively.

In October 1987, the company completed the sale of its 90% interest in St. Joe Gold Corporation and other gold properties to Dallhold Investments Pty. Limited for \$500 million, of which \$50 million had been received a October 31, 1987. The remaining \$450 million was received in November 1987. The sale resulted in a pretax gain of approximately \$377 million. In September 1987, the company sold its domestic zinc mining operations to Horsehead Industries for approximately \$100 million, including the elimination of \$38 million in outstanding debt, resulting in a pretax loss of \$17 million. Discussions regarding the disposition of the company's remaining metals businesses are currently underway. These businesses have been written down to their estimated net realizable value resulting in a pretax charge to discontinued operations of \$143 million. In management's opinion all remaining sales will be concluded in 1988.

During the fourth quarter of 1986, the company adopted a plan to dispose of its Drilling Services segment. The sale was completed in 1987 for an aggregate sales price of approximately \$18 million. Revenues from drilling operations were \$18 million and \$71 million for 1986 and 1985, respectively.

During 1985, the company adopted a plan to dispose of its Oil and Gas segment, which was completed during 1986 for an aggregate sales price of approximately \$270 million. Revenues from oil and gas operations were \$85 million for 1985.

The following table summarizes the results of discontinued operations and the respective gain or (loss) from disposition:

\$ in thousands / Year ended October 31,	1987	1986	1985
Earnings (loss) from operations:			
Metals (net of income tax (expense) benefit of \$(4,988), \$5,363 and \$(5,645), respectively)	\$ (16,544)	\$ (9,409)	\$ (40,880)
Drilling services (net of income tax benefit of \$11,160 and \$15,693, respectively)	—	(8,070)	(19,611)
Oil and gas (net of income tax expense of \$11,750)	—	—	7,187
	(16,544)	(17,479)	(53,304)
Gain (loss) on disposal:			
Metals (net of income tax expense of \$104,483)	111,254	—	—
Drilling services (net of income tax benefit of \$20,650)	—	(24,347)	—
Oil and gas (net of income tax benefit of \$27,050)	—	—	(50,867)
Earnings (loss) from discontinued operations	<u>\$ 94,710</u>	<u>\$ (41,826)</u>	<u>\$ (104,171)</u>

The following balances related to discontinued operations have been segregated in the Consolidated Balance Sheet as Net assets held for sale:

\$ in thousands / At October 31,	1987	1986
Working capital	\$ 2,705	\$ 1,388
Property, plant and equipment, net	23,173	13,442
Other assets	11,200	—
Severance and shut down accruals	(22,966)	(2,000)
Other liabilities	(7,288)	—
	<u>\$ 6,824</u>	<u>\$ 12,830</u>

Sale Leaseback Transactions

During 1985, the company completed sale and leaseback transactions of its office facilities in Irvine, California for \$340 million, Sugar Land, Texas for \$161 million, Greenville, South Carolina for \$43 million and Melbourne, Australia for \$11 million. The sale of the Irvine facility resulted in a pretax gain of \$240 million, of which \$38 million and \$79 million were included in the results of operations for the years ended October 31, 1986 and 1985, respectively. The remaining gain was being amortized over the leaseback period. In connection with the quasi-reorganization, the unamortized balance was credited to Additional capital.

Write-Down of Investments

Coal — In October 1985, the company wrote down its investment in certain Massey mines to net realizable value, resulting in a charge to operations of \$212 million, consisting of reductions in property carrying values, provisions for disposal and a write-off of the allocated excess of cost over net assets of acquired businesses. 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 million were reversed and are included in 1986 results of operations.

Lead — During 1985, the company reviewed the long-term business prospects of the lead business. Based on the deterioration in lead sales, operating profits and prospects for the domestic lead business, the excess of cost over net assets acquired allocated to lead operations of \$138 million was written off.

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.

Net periodic pension cost includes the following components:

\$ in thousands / Year ended October 31,	1987	1986
Service costs — benefits earned during the period	\$ 5,801	\$ 6,832
Interest cost on projected benefit obligation	14,898	14,462
Net amortization and deferral	(1,314)	22,572
Less — income and gain on assets invested	(17,900)	(39,777)
Net periodic pension cost	1,485	4,089
Early retirement program cost	523	2,812
Net pension expense	<u>\$ 2,008</u>	<u>\$ 6,901</u>

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

Discount rates	8.0–9.0%
Rates of increase in compensation levels	5.0–7.5%
Expected long-term rate of return on assets	8.0–9.0%

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

\$ in thousands / At October 31,	1987	1986
Actuarial present value of benefit obligations:		
Vested benefit obligation	\$ 154,863	\$ 141,355
Nonvested benefit obligation	4,878	9,784
Accumulated benefit obligation	<u>\$ 159,741</u>	<u>\$ 151,139</u>
Plan assets at fair values (primarily listed stocks and bonds)	\$ 219,708	\$ 217,748
Projected benefit obligation*	<u>(180,659)</u>	<u>(184,125)</u>
Plan assets in excess of projected benefit obligation	39,049	33,623
Unrecognized net gain and asset at implementation**	—	(40,631)
Pension asset (liability) recognized in the Consolidated Balance Sheet	<u>\$ 39,049</u>	<u>\$ (7,008)</u>

*At October 31, 1987 the projected benefit obligation includes \$111 million relating to present and former employees of discontinued operations.

**The unrecognized net gain and asset at implementation were recognized in 1987 in connection with the quasi-reorganization and partitioning of Massey.

Massey participates in multiemployer defined benefit pension plans for its union employees. Pension expense related to these plans was approximately \$1 million for each of the years ended October 31, 1987, 1986 and 1985.

The company also sponsors defined contribution retirement plans covering eligible employees. Any contributions made are based on a percentage of employees' compensation. Expense recognized for these plans is primarily related to Engineering and Construction operations and totaled \$33 million in 1987, \$36 million in 1986 and \$40 million in 1985.

The company and certain of its subsidiaries provide health care and life insurance benefits for certain retired employees. The cost of retiree health care and life insurance benefits for continuing operations, which approximated \$3 million, \$3 million and \$2 million in 1987, 1986 and 1985, respectively, is recognized as expense when paid.

**Long-Term
Debt**

Long-term debt comprises:

\$ in thousands / At October 31,	1987	1986
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	\$ 46,879	\$ 74,019
Term loans, 9.3%, due in installments through 2000	46,800	25,100
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	36,173	90,964
Eurodollar zero coupon debentures, effective interest rate 14%, due in 1990 (net of unamortized discount of \$13,802 and \$18,988, respectively)	35,934	32,471
Notes, effective interest rate 9.7%, due in 1993	32,210	100,000
Serial zero coupon notes, effective interest rate 14.3%, due in installments through 1989 (net of unamortized discount of \$3,515 and \$6,815, respectively)	20,437	25,680
Pollution control and industrial revenue bonds, 7% to 8.9% (net of unamortized discount of \$7,290)	—	114,289
Notes, effective interest rate 12¼% (net of unamortized discount of \$8,651)	—	51,349
Other notes and mortgages	25,936	20,234
	<u>244,369</u>	<u>534,106</u>
Less: Current portion	11,421	14,667
Long-term debt due after one year	<u>\$232,948</u>	<u>\$519,439</u>

Maturities relating to long-term debt are as follows for the years ending October 31: 1989, \$22 million; 1990, \$41 million; 1991, \$5 million; and 1992, \$5 million.

At October 31, 1987, the company had unsecured committed three-year revolving long-term lines of credit with banks from which it may borrow for general corporate purposes up to a maximum of \$270 million, of which \$250 million can convert to four-year term loans. Commitment fees are paid on unused portions of these lines. In addition, at October 31, 1987 the company had \$140 million in unused short-term lines of credit. At October 31, 1987, no amounts were outstanding under these lines.

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, 1987 bears interest at fixed rates.

Inventories

Inventories comprise:

\$ in thousands / At October 31,	1987	1986
Coal, metals and processed minerals	\$37,059	\$ 77,335
Supplies and other	24,173	70,77
	<u>\$61,232</u>	<u>\$148,106</u>

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

Notes to Consolidated Financial Statements Continued

Income Taxes

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

\$ in thousands / Year ended October 31,	1987	1986	1985
Current:			
Federal (1987 includes a \$7,157 charge in lieu of taxes)	\$ (8,069)	\$ 39,320	\$ (74,842)
Foreign	(4,718)	(17,283)	(5,012)
State and local	(4,505)	(8,256)	(11,209)
Total current	(17,292)	13,781	(91,063)
Deferred:			
Federal	65,744	16,679	134,112
Foreign	271	3,208	(4,479)
State and local	2,085	2,669	4,882
Total deferred	68,100	22,556	134,515
Total income tax benefit	\$ 50,808	\$ 36,337	\$ 43,452

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

\$ in thousands / Year ended October 31,	1987	1986	1985
Statutory federal income tax benefit	\$52,955	\$ 25,279	\$255,872
Reductions (increases) in taxes resulting from:			
Amortization and write-down of property, plant and equipment			
basis differences	(8,650)	(10,762)	(49,587)
Depletion	7,783	7,218	—
Accruals without tax effect	(5,094)	1,691	(11,425)
Investment and other tax credits	2,631	5,178	1,724
Earnings (losses) without tax effect	2,459	5,428	(81,647)
Capital gain rate differential	2,247	11,356	18,022
Amortization and write-off of excess of cost over net assets of acquired			
businesses	(2,087)	(2,284)	(84,132)
State income taxes	(1,259)	(1,392)	(1,901)
Nontaxable gain on sale of St. Joe Gold common stock	—	11,087	—
Effect of foreign tax rates	—	(6,840)	(2,002)
Indefinitely reinvested foreign earnings	—	(7,000)	—
Other, net	(177)	(2,622)	(1,472)
Total income tax benefit	\$50,808	\$ 36,337	\$ 43,452

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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 and foreign tax credits.

The deferred income tax benefit (expense) applicable to timing differences from continuing operations are as follows:

\$ in thousands / Year ended October 31,	1987	1986	1985
Reduction of deferred tax credits	\$ 51,565	\$ —	\$ —
Use of different methods of accounting for construction contracts	21,841	(4,033)	91,600
Residual tax on undistributed foreign earnings	(13,477)	14,652	(10,200)
Accruals not currently reportable for tax purposes	10,603	8,623	24,400
Deferred gains on property sales	(5,699)	1,011	16,700
Other, net	3,267	2,303	11,800
Total	<u>\$ 68,100</u>	<u>\$ 22,556</u>	<u>\$ 134,500</u>

Continuing operations in 1987 have been benefited by \$52 million through reduction of deferred tax credits arising from deferral of the proceeds on disposal of discontinued operations.

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

\$ in thousands / Year ended October 31,	1987	1986	1985
United States	\$(157,812)	\$(74,984)	\$(554,000)
Foreign	31,729	20,030	(1,000)
Total	<u>\$(126,083)</u>	<u>\$(54,954)</u>	<u>\$(555,000)</u>

Residual income taxes have not been provided on approximately \$42 million of undistributed earnings of certain foreign subsidiaries at October 31, 1987 because the company intends to reinvest these earnings indefinitely.

For federal income tax purposes foreign tax credit carryforwards of approximately \$61 million are available to reduce future income taxes. If not used, the credits will expire by 1992. A. T. Massey Coal Company, Inc. and its subsidiaries file a separate consolidated tax return and have available net operating loss carryforwards \$113 million which expire at varying dates through 2000. Utilization of these carryforwards may result in reduction of future tax payments.

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 1981. The company is following the appropriate IRS appeals process in settling certain issues raised by the IRS. Examinations of fiscal years 1980 through 1983 have commenced and no material adjustments have 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.

Stock Plans

The company has four executive stock plans, the 1971 Fluor Stock Option Plan, the 1977 and 1981 Fluor Executive Stock Plans and the 1982 Fluor Executive Stock Option Plan. These plans provide for grants of nonqualified or incentive options at prices equal to the fair market value of the company's common stock at date of grant.

The 1977 and 1981 Plans also provide for rights to acquire shares under restricted stock agreements at \$.33 1/3 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, 1987, a total of 1,417,358 restricted shares had been awarded and a total of 49,665 shares were available for award as restricted stock.

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

Options and stock appreciation rights granted are generally exercisable one year after the date of grant or in installments of 25% per year commencing one year from date of grant. All options expire ten years after date of grant.

The following table summarizes stock option and stock appreciation rights ("SAR") activity for the two years ended October 31, 1987:

	Shares	Price Per Share	SAR	Value Per Right
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
Granted*	1,655,369	12-19	826	12
Expired or cancelled*	(1,125,618)	12-34	(41,151)	12-22
Exercised	(285,609)	11-18	(31,980)	13-18
Outstanding at October 31, 1987	2,879,032	\$11-34	696,494	\$12-34
Exercisable at:				
October 31, 1986	1,758,691	\$11-34	195,208	\$13-34
October 31, 1987	799,713	\$11-34	305,912	\$12-34
Available for grant at:				
October 31, 1986	872,093		259,301	
October 31, 1987	335,854		299,626	

*Includes 867,410 shares cancelled in 1987 at prices ranging from \$16 to \$27, all of which were regranted at \$12.

On November 20, 1987 the Board of Directors adopted a preferred shares purchase rights plan and declared a distribution payable on November 30, 1987 of one preferred share purchase right ("Right") on each then outstanding share of common stock. The Rights are exercisable only if a person or group acquires, or makes a tender offer for, 20% or more of the company's common stock. When exercisable, each Right entitles its holder to buy 1/100th share of a newly issued preferred stock at an exercise price of \$40, subject to certain anti-dilution adjustments.

Also, if at any time after the Rights become exercisable, the company is either involved in a merger or other business combination transaction, or 50% or more of its consolidated assets or earning power is sold, or a person or group acquires 20% or more of the company's common stock, then each Right will entitle its holder to purchase common stock of the company or the acquiring company having a market value of twice the exercise price of the Right.

The Rights, which do not have voting privileges, may be redeemed by the company at a price of \$.02 per Right at any time prior to public announcement that a person or group has acquired beneficially 20% or more of the company's common shares. The Rights will also be automatically redeemed under certain circumstances if a majority of shareholders approve the terms of a bid to acquire 100% of the company's common stock which is made by a person or group owning less than 1% of the company's common stock. The Rights expire on November 30, 1997.

Extraordinary Items

The 1987 extraordinary item represents the benefit from utilizing U.S. federal income tax net operating loss carryforwards associated with Massey. The 1985 extraordinary item represents the premium, net of tax, paid to retire \$305 million of long-term debt prior to its scheduled maturity.

Lease Obligations

Total rental expense for continuing operations amounted to \$84 million, \$87 million, and \$74 million in 1987, 1986 and 1985, respectively. The company's lease obligations relate primarily to 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, 1987	Gross	Present Value*
1988	\$ 76,867	\$ 76,867
1989	79,690	72,445
1990	70,290	58,091
1991	60,387	45,370
1992	55,685	38,033
Thereafter	381,724	166,277
	<u>\$724,643</u>	<u>\$457,083</u>

*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 10%.

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**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, 1987, \$152 million of net assets of consolidated entities, primarily Doe Run, including \$35 million of working capital, have restrictions which affect the ability to transfer them to the parent company in the form of loans, advances, or dividends.

**Operations
by Business
Segment and
Geographic
Area**

The Engineering and Construction segment includes the subsidiaries engaged in the design, engineering, procurement, construction, technical services and maintenance of facilities for industrial, commercial, utility, natural resource, energy and government clients. Coal segment amounts through June 1987 represent 50% of Massey's operations. Commencing July 1987 Coal segment amounts include the operations of Massey after reflecting the partitioning with Shell Oil. Through 1986, the Lead segment represents 100% of the company's domestic lead operations. Beginning in 1987 the Lead segment represents the company's 57.5% interest in the operations of Doe Run.

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 nontrade receivables.

Sales to customers in foreign countries from domestic operations comprise less than 10% of total revenues in each of the last three years. In 1987 and 1985 no single customer accounted for more than 10% of revenues. Contracts with one major customer accounted for \$574 million, or 15%, of Engineering and Construction revenues during 1986.

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

\$ in millions / Year ended October 31,	1987	1986	1985
Operating profit (loss) from continuing operations	\$ (26.7)	\$(48.5)	\$(516.7)
Interest, net	(40.1)	(39.8)	(78.4)
Gain on sale of Irvine facility and St. Joe Gold common stock	—	61.9	78.8
Provision for future losses on facility subleases and certain investments	(36.8)	—	—
Corporate administrative and general expense	(24.1)	(32.5)	(34.7)
Other items, net	1.6	3.9	(5.2)
Loss from continuing operations before income taxes	<u>\$(126.1)</u>	<u>\$(55.0)</u>	<u>\$(556.2)</u>

DR 2801197

\$ in millions	Revenues			Operating Profit (Loss)		
	1987	1986	1985	1987	1986	1985
Operations By Business Segment						
Engineering and Construction	\$3,251.3	\$3,727.8	\$3,226.4	\$(49.5)	\$(71.2)	\$(106.6)
Coal	580.1	516.9	475.1	28.3	49.3	(223.0)
Lead	93.1	97.0	74.9	(5.5)	(26.6)	(187.1)
Continuing Operations	<u>\$3,924.5</u>	<u>\$4,341.7</u>	<u>\$3,776.4</u>	<u>\$(26.7)</u>	<u>\$(48.5)</u>	<u>\$(516.7)</u>

\$ in millions	Identifiable Assets			Capital Expenditures			Depreciation, Depletion and Amortization		
	1987	1986	1985	1987	1986	1985	1987	1986	1985
Engineering and Construction	\$ 620.4	\$ 582.3	\$ 679.6	\$37.4	\$25.6	\$ 14.1	\$ 21.1	\$ 21.3	\$ 27.1
Coal	657.5	789.8	803.5	25.0	26.9	27.4	39.5	37.3	48.0
Lead	154.6	445.7	464.3	5.1	3.8	3.8	22.9	29.0	31.0
Corporate	621.9	225.5	92.7	—	.3	6.8	1.7	1.7	7.8
Continuing Operations	<u>2054.4</u>	<u>2043.3</u>	<u>2040.1</u>	<u>67.5</u>	<u>56.6</u>	<u>52.1</u>	<u>85.2</u>	<u>89.3</u>	<u>114.8</u>
Discontinued Operations	<u>6.8</u>	<u>522.1</u>	<u>756.3</u>	<u>32.3</u>	<u>35.0</u>	<u>69.1</u>	<u>39.2</u>	<u>40.0</u>	<u>85.8</u>
	<u>\$2,061.2</u>	<u>\$2,565.4</u>	<u>\$2,796.4</u>	<u>\$99.8</u>	<u>\$91.6</u>	<u>\$121.2</u>	<u>\$124.4</u>	<u>\$129.3</u>	<u>\$200.6</u>

\$ in millions	Revenues			Operating Profit (Loss)			Identifiable Asset		
	1987	1986	1985	1987	1986	1985	1987	1986	1985
Operations By Geographic Area									
United States	\$3,461.9	\$3,756.0	\$3,194.7	\$(29.0)	\$(48.7)	\$(497.0)	\$1,830.7	\$2,062.2	\$2,284.0
Canada	220.1	79.0	56.4	1.8	3.2	(6.0)	61.9	31.5	14.0
Middle East	70.7	91.6	106.5	(1.6)	.3	1.2	39.9	59.6	54.0
Europe	99.2	304.9	269.3	(.1)	.9	(9.0)	89.5	73.8	93.0
Other	72.6	110.2	149.5	2.2	(4.2)	(5.9)	39.2	338.3	349.0
	<u>\$3,924.5</u>	<u>\$4,341.7</u>	<u>\$3,776.4</u>	<u>\$(26.7)</u>	<u>\$(48.5)</u>	<u>\$(516.7)</u>	<u>\$2,061.2</u>	<u>\$2,565.4</u>	<u>\$2,796.0</u>

(a) Includes a charge of \$212 million consisting of reductions in property carrying values, a provision for disposal of certain coal properties and a write-off of the allocated excess of cost over net assets acquired.

(b) Includes a charge of \$138 million relating to the write-off of the excess of cost over net assets acquired.

Management

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 accountants 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 accountants 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.

**Independent
Accountants**

Board of Directors and Shareholders
Fluor Corporation

We have examined the accompanying consolidated balance sheet of Fluor Corporation at October 31, 1987 and 1986, 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, 1987. 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. In 1986 and 1985 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 related to such assets and operations, which constituted 19% and 11% in 1986, and 17% and 11% in 1985 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, 1987 and 1986, and the consolidated results of operations and changes in financial position for each of the three years in the period ended October 31, 1987, in conformity with generally accepted accounting principles applied on a consistent basis during the period.

Arthur Young & Company

Orange County, California
December 4, 1987

unaudited

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

\$ in thousands, except per share amounts	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
1987				
Revenues from continuing operations	\$ 903,158	\$ 898,563	\$909,235	\$1,271,111
Gross margin (loss)	(6,175)	(19,913)	(5,144)	(1,000)
Loss from continuing operations before income taxes	(23,384)	(36,824)	(21,841)	(42,811)
Earnings (loss) from continuing operations	(28,564)	(42,944)	(27,941)	(42,811)
Earnings (loss) from discontinued operations:				
Operations	(4,754)	(9,681)	(4,981)	(1,000)
Disposal	—	—	—	11,000
Extraordinary item	—	—	—	—
Net earnings (loss)	(33,318)	(52,625)	(32,922)	(31,811)
Earnings (loss) per share:				
Continuing operations	(.36)	(.54)	(.35)	(.42)
Discontinued operations	(.06)	(.12)	(.07)	(.07)
Extraordinary item	—	—	—	—
Net earnings (loss)	\$ (.42)	\$ (.66)	\$ (.42)	\$ (.49)
1986				
Revenues from continuing operations	\$1,099,876	\$1,290,201	\$973,282	\$ 97,111
Gross margin (loss)	(8,581)	1,358	(20,838)	(1,000)
Loss from continuing operations before income taxes	(2,416)	(13,784)	(2,543)	(3,000)
Earnings (loss) from continuing operations	6,718	(6,302)	4,055	(2,000)
Earnings (loss) from discontinued operations:				
Operations	(82)	(5,318)	(2,958)	(1,000)
Disposal	—	—	—	(2,000)
Net earnings (loss)	6,636	(11,620)	1,097	(5,000)
Earnings (loss) per share:				
Continuing operations	.08	(.08)	.05	(.05)
Discontinued operations	—	(.07)	(.03)	(.07)
Net earnings (loss)	\$.08	\$ (.15)	\$.02	\$ (.12)

(a) Fourth quarter 1987 results include an income tax benefit of \$52 million related to cumulative year-to-date operating losses which was recognized in the fourth quarter due to the gain on disposal of discontinued operations.

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.
(1985)

Hugh K. Coble

Group President, International Operations,
Fluor Daniel, Inc. (1984)

Peter J. Fluor

President of Texas Crude, Inc. (1984)

David P. Gardner

President, University of California (1988)

William R. Grant

Chairman of New York Life International
Investment, Inc. (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)

Vincent L. Kontny

President and CEO, Fluor Daniel, Inc. (1988)

Robert V. Lindsay

Retired, former President of J.P. Morgan & Co.
Incorporated and Morgan Guaranty Trust
Company of New York (1982)

E. Morgan Massey

President, A. T. Massey Coal Company, Inc. (1987)

Leslie G. McCraw

President (1984)

Buck Mickel

Retired, former Vice Chairman of the Board (1977)

Allen E. Puckett

Retired, former 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)

Executive Committee

David S. Tappan, Jr., Chairman

Hugh K. Coble

Robert L. Guyett

Vincent L. Kontny

E. Morgan Massey

Leslie G. McCraw

Gerald M. Glenn (nonvoting ex officio)

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

Robert V. Lindsay

Allen E. Puckett

Nominating Committee

David S. Tappan, Jr., Chairman

Peter J. Fluor

William R. Grant

Bobby R. Inman

Robert V. Lindsay

Louis H. Wilson

Corporate Executive Officers**David S. Tappan, Jr.**

Chairman of the Board and Chief Executive Officer
(1952)

Leslie G. McCraw

President (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**Vincent L. Kontny**

President and CEO, Fluor Daniel, Inc. (1965)

Hugh K. Coble

Group President, International Operations (1966)

Gerald M. Glenn

Group President, Marketing and Sales (1977)

E. Morgan Massey

President, A. T. Massey Coal Company, Inc. (1981)

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)

Lawrence N. Fisher

Vice President-Corporate Law (1974)

J. Robert Fluor II

Vice President-Corporate Relations (1967)

William M. Hofacre

Vice President-Financial Planning & Analysis (1984)

Denis P. Kalscheur

Vice President and Treasurer (1987)

Larry W. Lineberger

Vice President and Controller (1977)

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)

Key Fluor Daniel Operating Executives**James E. Barry**

President-Far East (1977)

Charles R. Cox

President-Europe, Africa and Middle East (1977)

Richard W. Dean

President-Eastern Operations (1977)

Larry M. Hart

President-Western Operations (1977)

A. B. McArthur

President-Canada (1975)

Charles R. Oliver

President-Hydrocarbon Sector (1970)

Emil J. Parente

President-Government Sector (1978)

James C. Stein

President-Industrial Sector (1977)

Peter Van Nort

President-Power Sector (1980)

Paul J. Varello

President-Process Sector (1977)

Engineering and Construction**Fluor Daniel, Inc.**

Industrial Sector, Greenville, South Carolina
Power Sector, Greenville, South Carolina
Process Sector, Greenville, South Carolina
Hydrocarbon Sector, Irvine, California
Government Sector, Irvine, California

Western Operations Center, Irvine, California

Houston Office

Redwood City Office

Eastern Operations Center, Greenville, South
Carolina

Chicago Office

Fluor Daniel Facility Services Corporation,
Greenville, South Carolina

Fluor Daniel Services Corporation, Greenville,
South Carolina

Fluor Daniel Venture Group Inc., Irvine, California

International Operations

Daniel International (Saudi Arabia) Ltd., Jeddah,
Saudi Arabia

Fluor Arabia Limited, Al-Khobar, Saudi Arabia

Fluor Daniel Australia Limited, Melbourne,
Victoria, Australia

Fluor Daniel Canada Ltd., Calgary, Alberta,
Canada

Fluor Daniel B.V., Haarlem, The Netherlands

Fluor Daniel GmbH, Dusseldorf, West Germany

Fluor Daniel Limited, London, England

**Daniel International Corporation, Greenville,
South Carolina****Fluor Constructors International, Inc.,
Irvine, California**

Fluor Canada Constructors, Ltd., Calgary Alberta,
Canada

Fluor Constructors, Inc. Irvine, California

Natural Resource Investments

Massey Coal Company, Richmond, Virginia

The Doe Run Company, St. Louis, Missouri

DR 2801202

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 Rector 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

Independent Accountants

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 8, 1988 at the Red Lion Inn, 3050 Bristol Street, Costa Mesa, California 92626-3098.

Company Contacts

Stockholders may call collect.
Stockholder information:
Lawrence N. Fisher
(714) 975-6961
Investor Relations:
Lila J. Churney
(714) 975-3909

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

	Dividends Per Share	Price Range	
		High	Low
Fiscal 1987			
First Quarter	\$.10	\$14¼	\$11½
Second Quarter	—	16½	12⅞
Third Quarter	—	20⅞	14¼
Fourth Quarter	—	21⅞	11
	<u>\$.10</u>		
Fiscal 1986			
First Quarter	\$.10	\$16⅞	\$13¾
Second Quarter	.10	18½	15
Third Quarter	.10	19¼	12
Fourth Quarter	.10	15¾	12
	<u>\$.40</u>		

Common Stock Information

At December 31, 1987 there were 78,810,446 shares outstanding and approximately 25,500 stockholders of record of Fluor's common stock.

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.

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