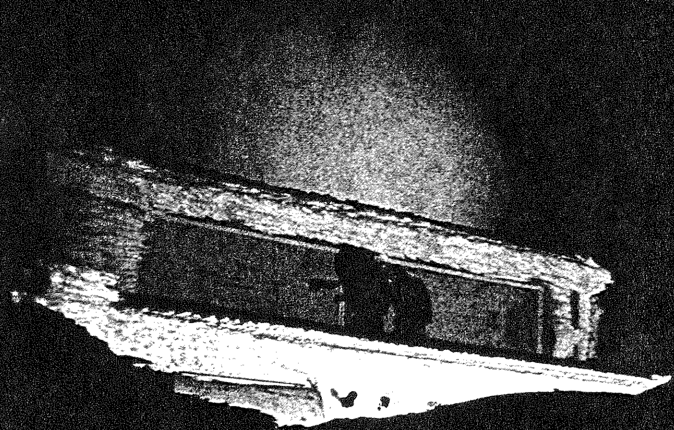
Chief, National Oceanic
and Atmospheric
Administration (NOAA)
Special Engineering
Program Office



► Hydrocarbon

► Aardolie

► Hidrocarburos

► ٤ ـ الهيدروكربونيات

► 炭化水素

► Hydrokarboner

► Erdöl

► 碳氫化合物

► Hidrokarbon

► Углеводороды

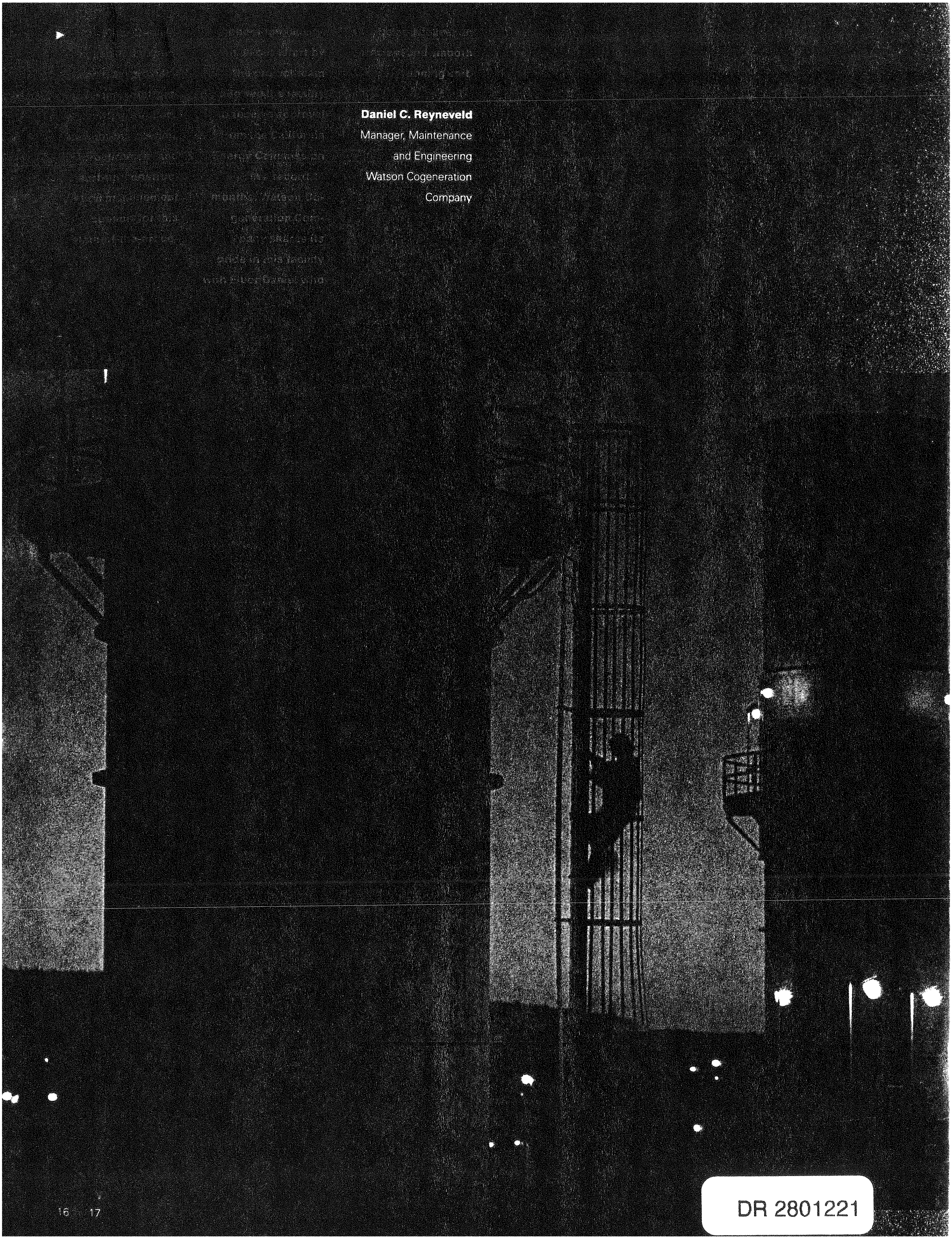
► 탄화수소

► Idrocarburi

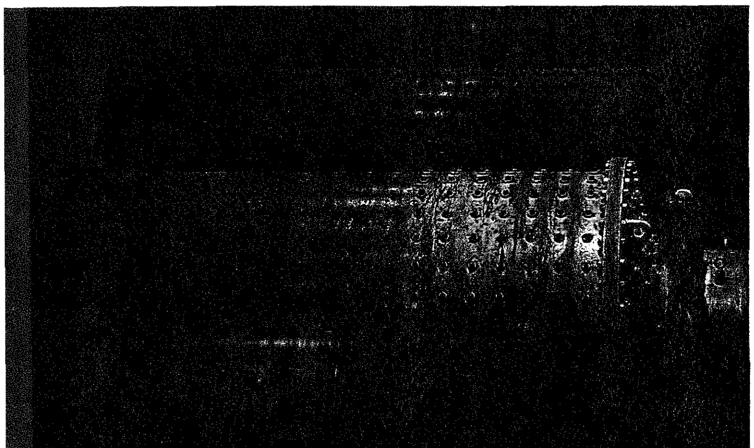
► Hidrokarbaan

◄ To streamline the schedule and minimize rework in the field, Fluor Daniel's Hydrocarbon Sector designed this 385 MW combined-cycle cogeneration plant on its 3-D computer-aided design system. The plant, at ARCO's Los Angeles Refinery in Carson, California, is the largest cogeneration facility in the Western U.S.

DR 2801222



Daniel C. Reyneveld
Manager, Maintenance
and Engineering
Watson Cogeneration
Company



▲ Fluor Daniel's newly-acquired Wright Engineers and Fluor Daniel Canada are teamed to perform engineering, procurement and construction management on INCO's mill rationalization program (top) in Sudbury, Ontario. The project consolidates three milling and concentrating operations to reduce SO_2 emissions and increase operating efficiency.

▲ The Hydrocarbon Sector is performing engineering, procurement and construction management at Shell's Stanlow, U.K. Refinery. The Gas Tails project (bottom) is nearing completion, while work on an Alkylation unit is approaching 50 percent completion.

Hydrocarbon Sector

▼

New awards in the Hydrocarbon Sector more than doubled in 1988, to $1.9 billion, compared with $721 million in the prior year. Backlog at year end was $1.9 billion, 29 percent of the company's total. Key to its success is the full range of services provided to the offshore and production, pipeline, refining, petrochemical and mining and metals markets, several of which were active in 1988. The Hydrocarbon Sector serves geographically diverse markets, and is now focusing on a growing list of opportunities, particularly in the Asia/Pacific region.

Growth in new awards was due primarily to plant upgrades and capacity expansions. Several petrochemical and polymer projects were booked, driven by strong product demand and low feedstock and energy prices. Energy-related projects were also awarded despite lower oil prices. Lower priced gasoline has increased demand, with an emphasis on performance, activating refinery octane enhancement projects. Additionally, over the last several years oil companies have emphasized operating efficiencies. Other factors stimulating this market are environmental issues and safety concerns related to aging U.S. process plants, many of which are over 25 years old.

Although the market for new oil and gas production is currently limited, a few long-range projects continue to move forward. Some heavy oil projects in California and Canada are expected to proceed. Fluor Daniel is performing assignments in Alaska, and is well positioned for both onshore and offshore work when market conditions improve. The company continues to maintain an industry-leading position in this market because of its size and long-term significance.

There has been a strong resurgence of mining projects worldwide. Services are being provided for gold projects in the U.S., Canada, South America and Australia. In 1988, Fluor Daniel was awarded a major portion of the $1 billion world-class Escondida Copper project in Northern Chile.

To strengthen the geographical presence and technical skills of the Mining and Metals Division, the company acquired Wright Engineers Ltd. in 1988. Based in Vancouver, Canada, Wright Engineers is a recognized leader in the design, engineering and construction management of mining and metals projects. Today, Fluor Daniel's capabilities in this market are second to none.

Significant projects completed during 1988 included the heavy oil upgrader expansion and modernization project for New Grade Energy in Saskatchewan, Canada; a 15,000 ton per day gold ore processing facility in Ridgeway, South Carolina; a gold ore processing facility for Billiton in Chile; metallurgical plants

DR 2801220

Growth in power demand is continuing to outpace expectations. Yet, despite unusually high peak power demand and temporary power restrictions in many areas this past summer, utilities are reluctant to add new base-load generating capacity. New Power Sector awards include maintenance, modification and engineering for upgrade and plant life extension.

Utility clients want to operate their plants longer and more efficiently which offers expanding opportunities for the Power Sector. Creative new programs and contracting methods, including performance incentives and alliance agreements, are being offered to attract new clients. Five years ago we were providing services to 20 utilities; today we are working for more than 50.

A relatively new market for the Power Sector's services is privatized or independent power projects. These plants, privately owned and operated, sell the power they generate to utilities. Such projects provide an alternative to new plant construction by utilities. While still an emerging market, we expect continued growth.

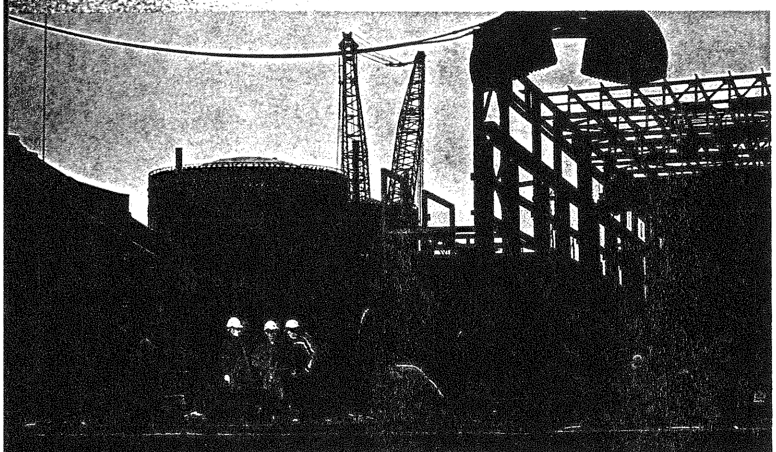
The market for new cogeneration facilities to serve industrial clients is active. During the year, engineering continued and construction began on the huge Midland Cogeneration project in Michigan and is currently ahead of schedule and under budget.

Industrial clients are interested in reducing the variability of their plant operating costs. By building cogeneration facilities, they supply their own steam and electricity needs, while selling excess power to utilities.

For example, Power Sector projects include an 80 MW, simple-cycle, gas-fired cogeneration facility for Harbor Cogeneration to provide steam for enhanced oil recovery in Wilmington, California; and a joint venture with Southern Electric International for a 50 MW, gas and oil-fired, combined cycle cogeneration plant for Dexter Corporation in Connecticut to provide steam to their manufacturing operations.

International opportunities for the Power Sector are being closely monitored. Privatization of the power industry in the United Kingdom; changing energy priorities in Sweden, Norway and Canada; and expanding power requirements in the Asia/Pacific region offer promising markets.

Significant projects completed in 1988 include construction of the 160 MW demonstration plant for the Tennessee Valley Authority, using the new fluidized bed boiler technology; and engineering, procurement and construction of a 300 MW cogeneration plant at Bakersfield, California, for Sycamore Cogeneration, a twin of the nearby Kern River facility successfully completed by Fluor Daniel in 1985.



▲ Fluor Daniel's Power Sector is engineering and constructing a natural gas-fired combined-cycle cogeneration facility, including the conversion of portions of an incomplete nuclear power plant in Midland, Michigan. The project for Midland Cogeneration Venture, expected to begin operations in 1990, will be the largest cogeneration plant in America.

DR 2801219

▶ Power

▶ Energie

▶ Energía

▶ ٢ ـ الطاقة

▶ エネルギー源

▶ Energi

▶ Energie

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▶ Tenaga

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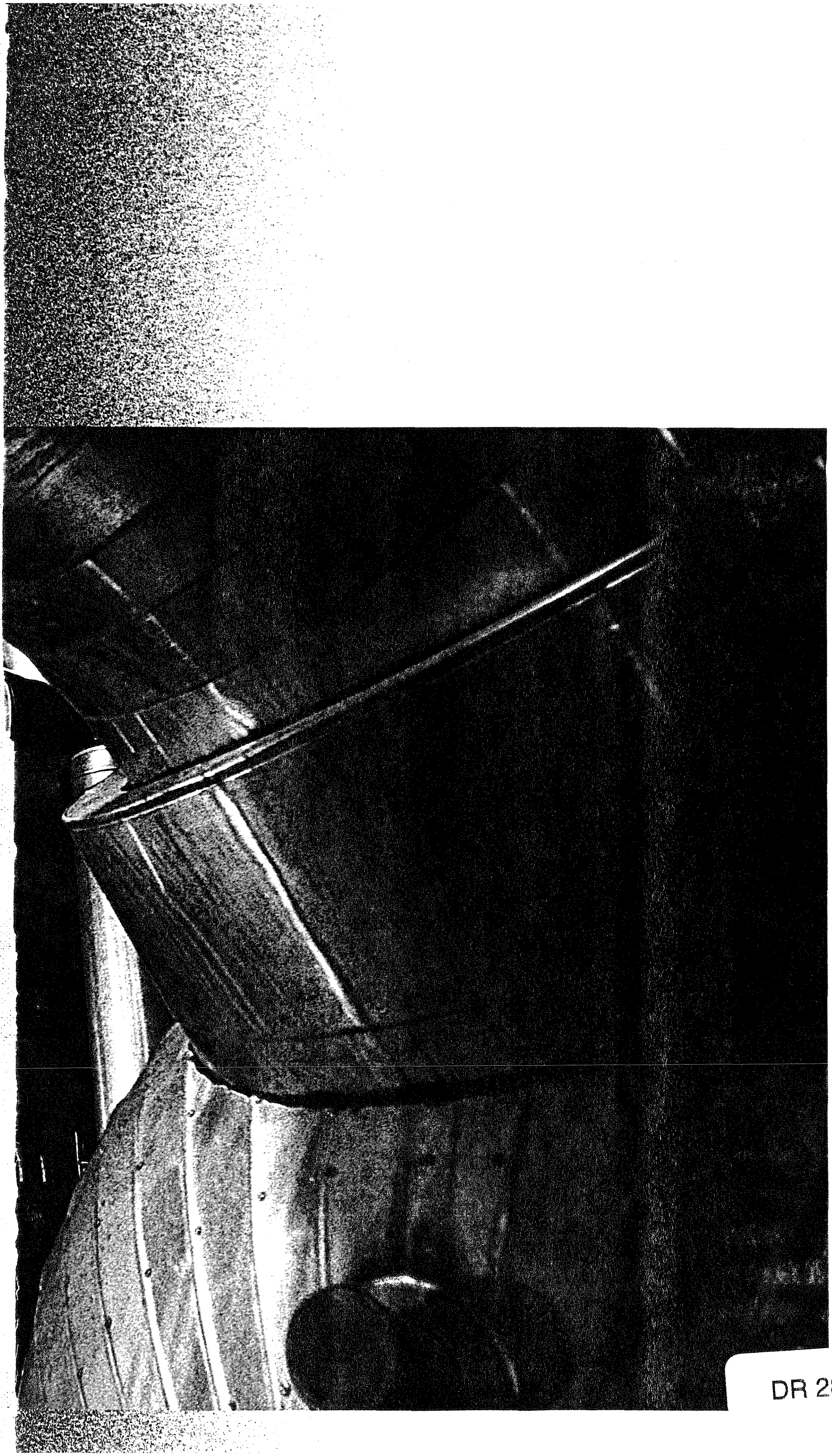
▶ 동력

▶ Energia

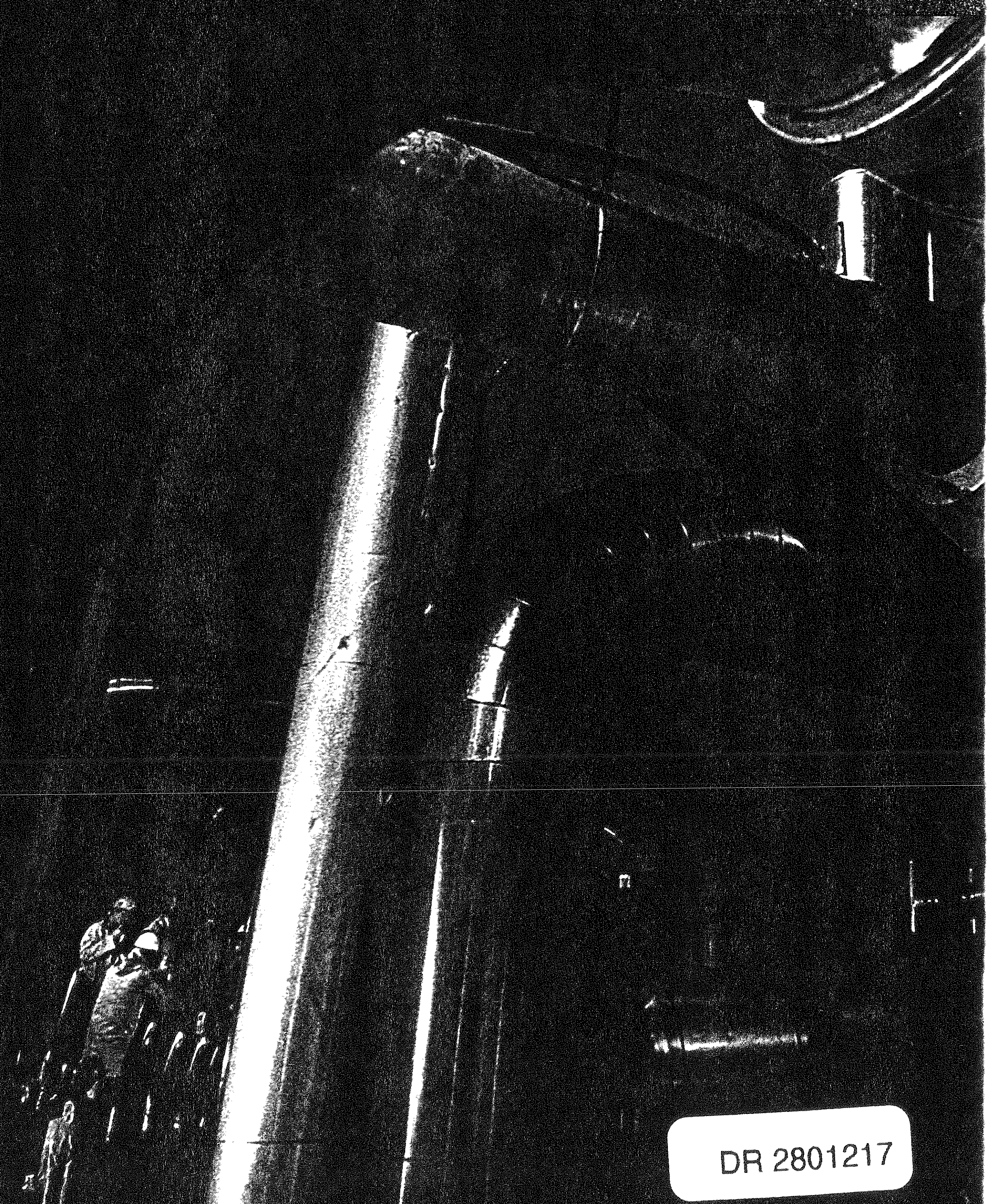
▶ Tenaga

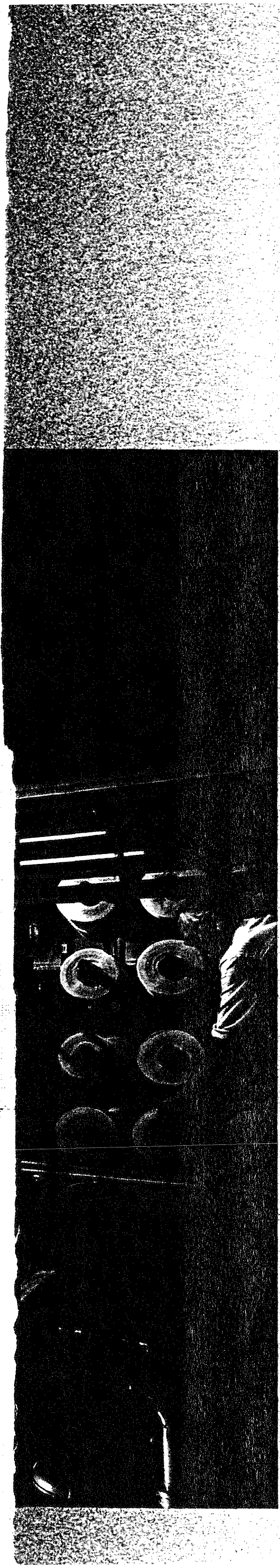


◀ Ongoing maintenance services are being provided by Fluor Daniel's Power Sector to TU Electric's four lignite-fired generating stations, including the Monticello Station pictured. Supplemental maintenance services are provided at an additional 19 gas-fired generating stations on an as-needed basis.

DR 2801218

T.L. Thompson
Manager of
Support Services
TU Electric
Generating Division





During the year, European and Japanese clients committed substantial investments to facilities in the U.S.: expansion of a titanium dioxide facility in Georgia, for Finland-based Kemira; a new photoconductor manufacturing plant in Virginia, for a subsidiary of Mitsubishi Kasei Corporation, Japan's largest chemical manufacturer; and photo receptor and toner plants for Xerox in China.

U.S. industry continues to focus on lower operating costs and greater efficiency. Many large U.S. companies have downsized their own E&C organizations while developing long-term client/contractor relationships. Fluor Daniel's "partnership" with Du Pont, known as the "Delta Division," is considered the standard of the industry for such agreements.

During 1988, the Delta Division worked on more than 40 different Du Pont projects worldwide including fibers, films and a wide range of chemicals. New operations were also established in Kingston, Ontario, and at Haarlem, in the Netherlands, to provide services for Du Pont in Canada and Europe.

Growth in the engineered plastics and advanced composites industries was rapid in 1988. These markets are expected to continue their expansion well into the 1990s as more applications for new and advanced products are developed. Fluor Daniel is currently working on the huge expansion of GE Plastics' "Lexan" facility in Burkville, Alabama, and is assisting on a similar plant to be built in Spain.

Significant projects completed during the year include one of the world's largest and most modern industrial waste treatment plants in Kingsport, Tennessee, for Tennessee Eastman; a biotech facility for Immunex in Seattle, Washington; and retrofit of a composites plant in Anaheim, California, for Ciba-Geigy.

Power Sector

▼

The Power Sector provides a full range of engineering and construction services from project inception through maintenance primarily to electric and gas utility companies. Services are also provided to clients involved with cogeneration, hydroelectric, privatized power plants and waste-to-energy. Fluor Daniel is a leader in maintenance technology and offers turnkey packages which can include project financing.

Our position as a leading supplier of quality services to the power industry was reconfirmed in 1988 through aggressive marketing and creative packaging, despite sluggish demand industry-wide. New awards in 1988 for the Power Sector declined to $414 million from $917 million in 1987, which included the $470 million award for the Midland Cogeneration project. Backlog at year end was $756 million, or 11 percent of the company's total.

DR 2801216

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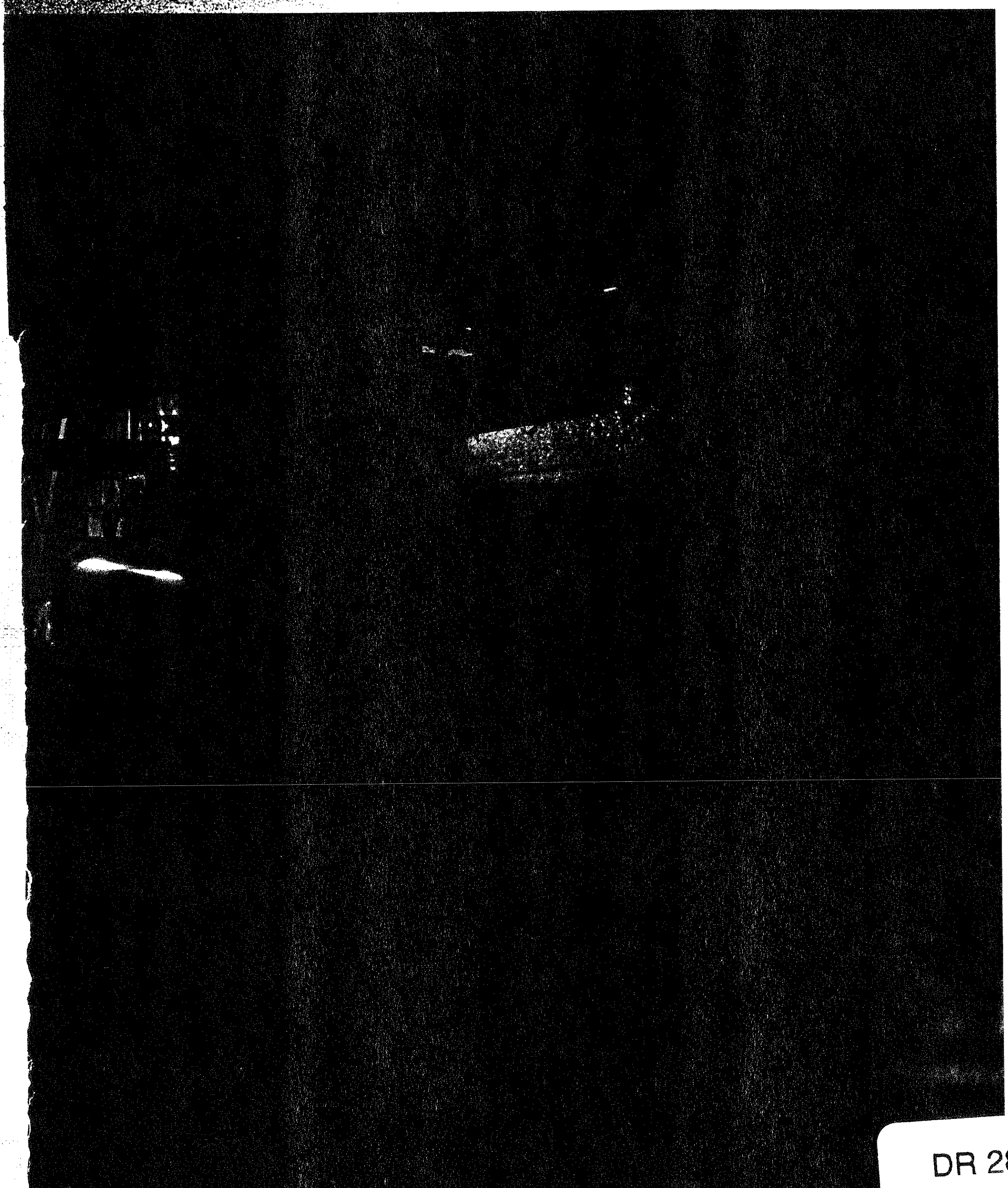
▶ Perusahaan



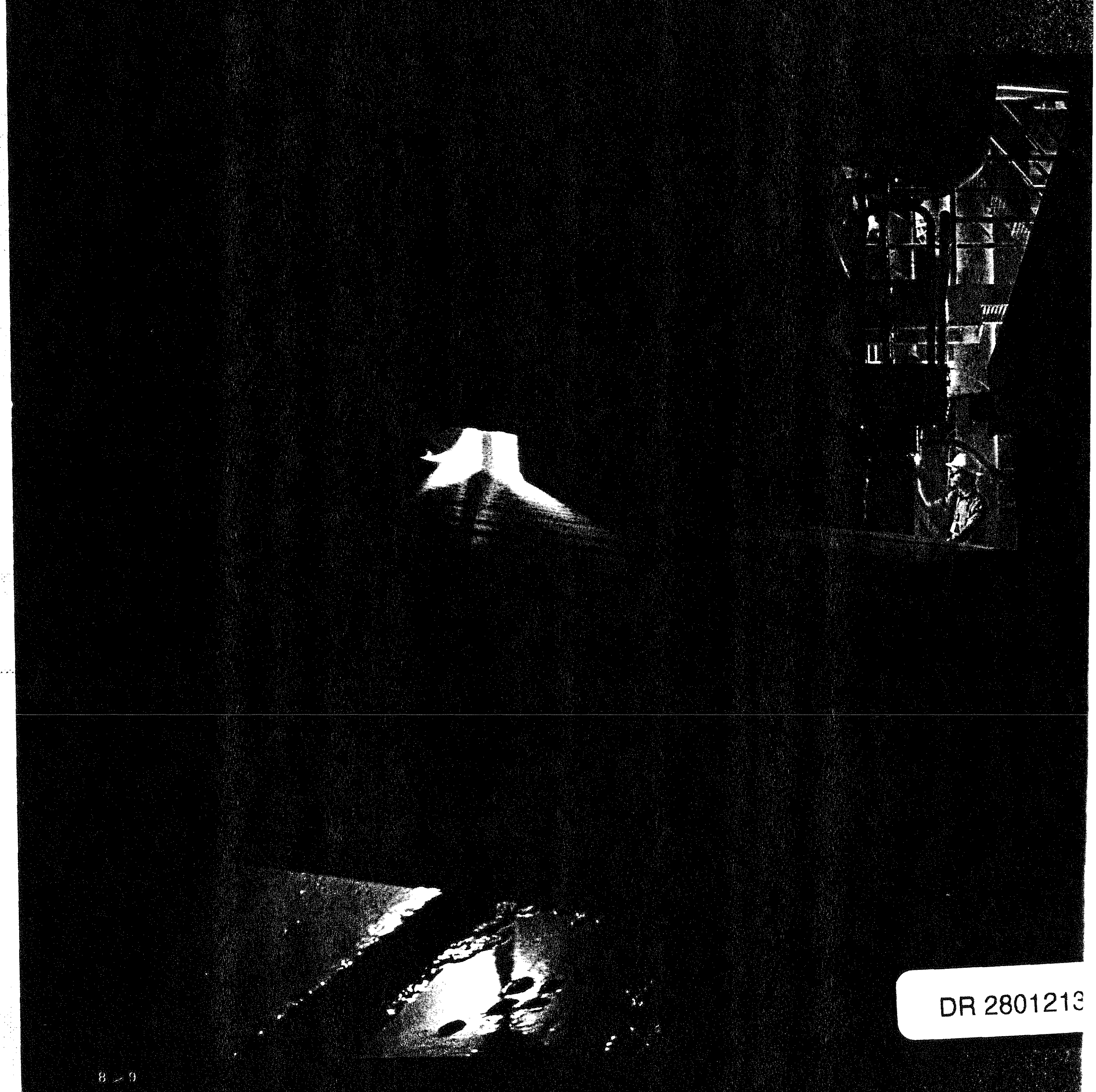
◀ Fluor Daniel's Industrial Sector is providing Phase III engineering, procurement and construction services to Fort Howard at its Savannah River Mill in Georgia. The plant produces paper towels and tissue products from recycled waste paper.

R.F. Crickenberger

Design Manager
Engineering Dept.
E.I. Du Pont de
Nemours & Company

Fort Howard

Corporation

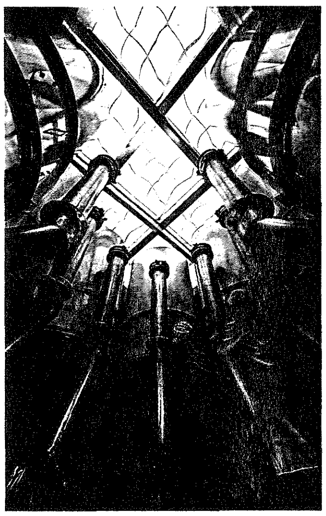


The foods and consumer products industry remains active, with a number of significant modernization projects. In the automotive market we are now focusing on providing maintenance and technical services to existing facilities. The pulp and paper industry grew rapidly in 1988 with several large expansion projects received, as well as awards for new grassroots facilities. Activity in pulp and paper is expected to remain strong into 1989, with opportunities developing in Europe, Canada, South America and Australia.

The trend toward client/contractor "alliances" continues. Clients recognize the advantages of shifting fixed costs to variable by contracting for E&C services previously performed in-house. New alliance agreements are being developed while existing relationships are expanding to encompass broader geographic scope. We are currently performing work in Europe, Canada, Asia/Pacific and Saudi Arabia for several U.S.-based clients under alliance agreements.

In the commercial market, Fluor Daniel continues to refine its selective marketing strategy where our geographic presence or client relationship provides a competitive advantage.

The experience gained over the last three years in the design and construction of justice facilities has firmly established Fluor Daniel in this growing market.



▲ Engineering and construction management was performed by the Industrial Sector on this 141,000 square foot dehydrated soups and sauces manufacturing facility in Asheboro, North Carolina, for Knorr Best Foods Division.

Renewed strength in the commodity markets has fueled demand for metals-related projects such as primary and recycled aluminum products. There are select opportunities in the steel industry as well.

Activity in the electronics industry has begun to pick up. U.S. producers are now focusing on product niches through emphasis on productivity and efficiency. The trend to establish worldwide networks of manufacturing and supply sources is evident.

Significant projects completed during the year included Phase II of the continuing expansion and modernization program for Fort Howard's paper mill in Savannah, Georgia; construction management for a major bakery facility for the Kitchens of Sara Lee in Tarboro, North Carolina; a major expansion of Kellogg's food processing capabilities at Battle Creek, Michigan; several projects for Procter & Gamble, including two diaper plant upgrades, and a soap plant addition; and expansion of a cereal plant in China for Heinz.

Process Sector

▼

The Process Sector was one of Fluor Daniel's two fastest growing business sectors in 1988. Fueled by strong growth worldwide, new awards were $1.1 billion, up sharply from $686 million in 1987.

The Process Sector provides services to clients in the fields of biotechnology, pharmaceuticals, medical equipment, fine and specialty chemicals, fibers, film, textiles, plastics, bulk chemicals and composites.

Strong gains were made in expanding the geographic scope of work for existing clients. Awards were received from international clients for projects in the U.S., as well as for U.S. customers expanding overseas. Backlog for the Process Sector now stands at $1.2 billion, or 19 percent of the company's total.

Process Sector clients tend to be technology driven. Evolving research efforts into the prevention and cure of cancer, heart disease and AIDS have stimulated the biotech, pharmaceutical and medical equipment industries. These markets have generated a steadily growing source of projects including a biochemical manufacturing plant in Iowa, for the Bio-Products Division of Eastman Kodak; a medical devices manufacturing facility in Northern California for Beckton Dickinson; a pharmaceuticals finishing and filling facility for Bristol Myers in Puerto Rico; and an expansion of a human vaccines plant in Belgium for Smith Kline-RIT.

Stimulated by strong demand and high utilization rates of existing manufacturing capacity, the chemicals industry experienced tremendous growth during 1988. Further influencing this market is the trend towards globalization.

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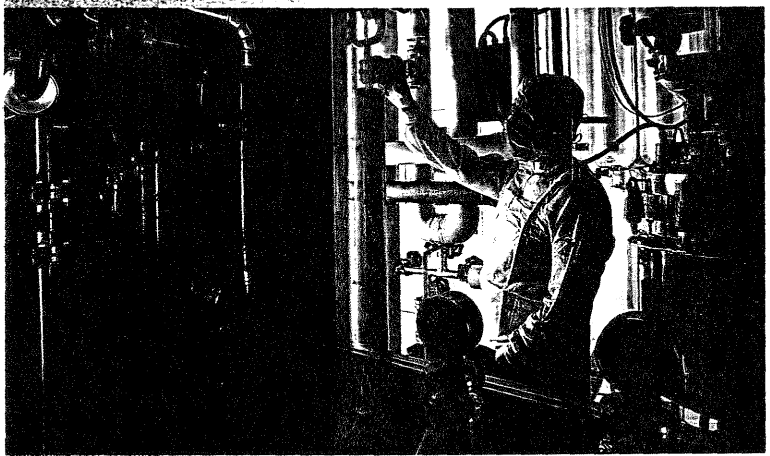


▲ Fluor Daniel's Process Sector assisted in the design and construction of this state-of-the-art biotechnology facility for Biochemie, and is currently at work on an expansion project. The plant, located in Kundl, Austria, uses U.S. technology to produce a product which increases milk production with reduced feed requirements in dairy cows.

Engineering and Construction

Engineering, construction and related services (E&C), the company's principal business activity led by Fluor Daniel, delivered significantly improved results in 1988. Operating profit increased to $51 million, compared with a loss of $49 million in 1987. Revenues were up 30 percent to $4.2 billion.

Serving clients from over 50 offices worldwide, Fluor Daniel provides a broader range of E&C services to more industries in more geographic areas than any competitor. In 1988, building on a strong tradition of superior performance, Fluor Daniel adopted a formal statement of its mission, shown in its entirety on page 5.

Increased market penetration, a growing base of new clients and improving business conditions pushed new awards in 1988 to $6 billion, up 47 percent over the previous year, and the highest level since 1981.

Backlog rose dramatically during the year to $6.7 billion. The backlog is well diversified among the five business sectors—Industrial, Process, Power, Hydrocarbon and Government—with a growing percentage of projects outside the United States.

Although still recovering from the long downturn which began in 1981, overall market conditions within the E&C industry showed marked improvement during the year. Capital spending increased in most of the markets Fluor Daniel serves and further growth is expected in 1989, led by a strong U.S. market.

The increased diversity in the company's global E&C business base, expanded backlog, and positive economic outlook accentuate expectations for 1989 and beyond.

Industrial Sector

▼

Among Fluor Daniel's five business sectors, the Industrial Sector serves the broadest range of markets, including automotive and general manufacturing; electronics; heavy industries such as metals and machine tools; pulp and paper; foods and consumer products; and commercial and justice facility clients.

New awards in the Industrial Sector were broadly based and rose to $2.4 billion in 1988, nearly double the level achieved last year. Backlog for the Industrial Sector increased to $2.3 billion, representing 35 percent of the company's total.

In general, industrial clients today are financially healthy with strong cash positions, having benefited from the economic expansion of the last several years. Capacity utilization in many of the markets Fluor Daniel serves is at an all-time high. The lower dollar has boosted exports by improving U.S. manufacturers' competitiveness overseas and consumer spending at home remains strong.

These diverse industrial markets are driven by their own individual set of economic and market factors.

DR 2801211

Fluor Daniel

As Fluor Daniel employees, our mission is to assist clients in attaining a competitive advantage by delivering quality services of unmatched value.

We provide a complete range of engineering, construction, maintenance and related services to virtually all industries and government.

We service our clients through a network of offices strategically located around the world. We globally link technology, experience, human resources and services in meeting client needs.

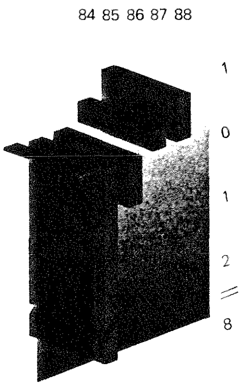
To add value to our services, these principles are emphasized:

- We are client focused.
- We are innovative and flexible in meeting client needs.
- We deliver quality.
- And above all, we do every task safely.

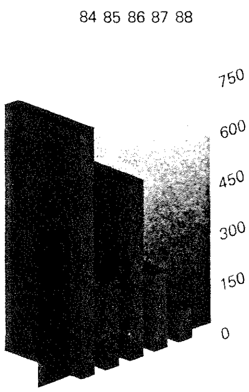
Our philosophy is based upon ethical conduct, mutual trust and teamwork. To ensure continuous improvement, we challenge, test, reevaluate and continually raise our standards of excellence.

As a service organization, our success depends upon the combined capability and contribution of all employees.

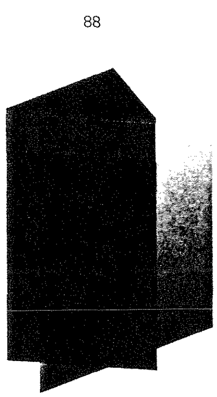
Fluor Daniel is dedicated to fostering a work environment which challenges, enriches and rewards each individual.



▶ **Net Earnings (Loss) Per Share**
dollars



▶ **Long-Term Debt**
dollars in millions



▶ **Revenues by Segment**

- ▶ Lead 3%
- ▶ Coal 15%
- ▶ E&C 82%

▶ As the United States and Canada combine forces in what will become the largest economic unit in the world, there is finally an opportunity for Fluor Daniel clients to compete on that "level playing field" we've always advocated.

▶ International tensions are gradually dissipating in the Middle East and Asia and many of these countries will be standing in line demanding that their economies be modernized. Fluor Daniel's superior reputation is well known throughout these areas and we fully expect to be called upon for our proven skills.

▶ In 1992, the European Common Market will become a community of trading nations operating as a single economic bloc. Anticipation of that change is already stimulating new work for our European offices, which have 30 years of continuous presence in that geographic area.

▶ An increasing number of governments are embracing free enterprise solutions to improve their ailing economies. This means more opportunities for private investment and increased demand for Fluor Daniel's services. We have already established a record of quality performance on projects for the People's Republic of China, the Soviet Union and other controlled economies. Our experience and our reputation for integrity stand us in good stead as corporate citizens of the world.

Going forward into the decade of the 1990s, we will continue to focus on our core business, engineering and construction. We will maintain the high quality of performance which is our hallmark, while growing as rapidly as is prudent to keep pace with the swiftness of change in our global markets.

We will be selective in pursuing projects with the best profit potential; that is, projects which offer either favorable long-term positioning or immediate strengthening of our backlog and earnings. Our investments in coal and lead will be managed opportunistically, taking full advantage of improving commodity markets.

Our overriding objectives are to achieve enhanced value for our shareholders by delivering superior earnings growth and return on equity, and to be the top performer in our industry worldwide.

David S. Tappan, Jr.
Chairman and Chief Executive Officer

Leslie G. McCraw
President

January 19, 1989

▶ We identified niche acquisitions as a strategy for strengthening and expanding our engineering and construction base. During 1988 two such acquisitions were made, for a total investment of approximately $50 million. In March, Fluor Daniel purchased an interest in SOS International, a leading contractor in the multi-billion dollar asbestos abatement industry. In August, Wright Engineers Ltd. of Vancouver, Canada became part of Fluor Daniel, expanding the company's worldwide capabilities in the mining and metals industry. Additional E&C niche acquisitions will be considered.

▶ We presented plans for improved performance from our restructured investments in coal and lead. A.T. Massey Coal Company reported record operating profits in its first full year following the restructuring. Doe Run lead operations, in which Fluor holds 57.5 percent ownership, also had an excellent year. Their strategies for the future will be to emphasize cash flow by remaining low-cost producers, efficient operators, and market leaders.

▶ We promised to restore the dividend as soon as operating profits justified action. The dividend has indeed been resumed, albeit on a modest scale, and will be monitored and adjusted as performance warrants.

▶ We said effective management of our large working capital position was a priority. This past year a $155 million bond portfolio was established to offset the cash flow requirements of our Sugar Land, Texas facility lease, thus improving the return on that cash by 300 basis points. Optimizing the return on our growing capital resource position is a continuing financial management challenge.

▶ We talked about maintaining our strong and healthy financial condition and further reducing long-term debt. Unquestionably, Fluor Corporation is in excellent financial shape today. Long-term debt was reduced to less than $100 million, 13.6 percent of total capital, and cash reserves and the bond portfolio exceed $300 million.

The progress achieved in 1988 would not have been possible without the united efforts of our employees, management team and board of directors. We are indebted also to our shareholders and clients for their confidence, trust and support. These constituencies are the source of Fluor's strength.

Director and Management Changes

▼

In the new year, we depend for leadership on a cadre of seasoned executives who have ably demonstrated their skills.

In January 1989, Gerald M. Glenn, Group President, Marketing and Sales for Fluor Daniel was elected to the Fluor Board of Directors and Executive Committee. The board's membership now stands at 16 with nine outside directors.

Outlook

▼

Today Fluor Daniel is the most diversified, and broadly-based engineering and construction firm operating anywhere in the world.

Our restructuring is behind us, we are financially strong, positive momentum is accelerating and the company is uniquely equipped to take advantage of the expanding capital investment trend currently underway.

The world is in an accelerating state of change and Fluor Daniel will certainly prosper as more and more global markets expand beyond previous expectations.

▶ In the U.S. alone, industry after industry is operating at maximum productive capacity and is extending its reach both at home and abroad. Fluor Daniel is currently ranked Number 1 among the top 400 U.S. contractors by Engineering News-Record Magazine and was honored as the nation's safest contractor by The Business Roundtable. We are positioned to expand our market share through a continuing stream of contract awards from U.S. clients.

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▶ Surat
▶ Письмо
▶ 서신
▶ Lettera
▶ Surat

Letter to Shareholders

Dear Fellow Shareholder: A year ago we announced completion of the company's restructuring program, significant strengthening of our financial position and a new direction for Fluor Daniel, our core engineering and construction (E&C) business. We said that Fluor was on the threshold of auspicious new beginnings. Those new beginnings are now fulfilling their promise. In the past 12 months, important milestones along Fluor's road to attaining its full earnings potential have been achieved. Fluor Daniel, and our investments in coal and lead, all reported meaningful gains in operating profits.

Net earnings for 1988 were $56.4 million, or 71 cents a share, an increase of 112 percent over the previous year. Revenues from continuing operations were $5.1 billion, up 31 percent from the $3.9 billion reported for 1987. While still a long way from our profit objectives, our progress this past year is reassuring.

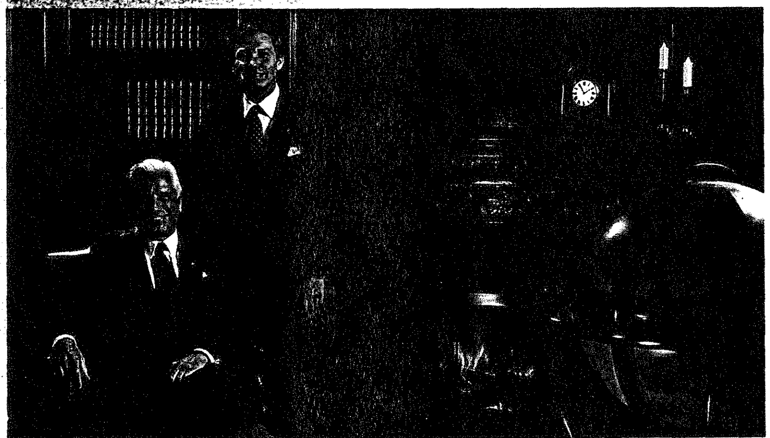
Improved profitability is just one of the objectives established a year ago to enhance shareholder value:

▶ We set as a target greater expansion of Fluor Daniel's services to diversified markets worldwide. New awards for 1988 totaled $6 billion, a 47 percent advance over the prior year. The international component of new awards increased from 7 to 24 percent—clear indication that Fluor Daniel's globalization efforts have taken hold in moving toward our goal of 40 to 60 percent.

▶ We discussed expansion of backlog across a wide spectrum of industries as an important Fluor Daniel objective. At year end, backlog was up 43 percent to $6.7 billion, the highest level in six years and well balanced among our five business sectors. The size and diversity of our backlog bodes well for the future.

▶ We said we would enhance the value of our services to clients by capitalizing on our industry-leading safety record and three-dimensional engineering design capability throughout our worldwide network of more than 50 offices. The performance of Fluor Daniel's operations centers in executing projects and the reaction of our clients featured in this annual report speak for themselves.

▶ We responded to our clients' continuing need for a choice of labor posture by strengthening the management of Fluor Constructors International, Inc. (FCII), our union construction arm. Based on FCII's positive contribution to earnings in 1988, their future looks bright.



▲ David S. Tappan Jr., Chairman and Chief Executive Officer (left); Leslie G. McCraw, President (right)

Highlights

$ in thousands, except per share amounts	1988	1987	1986
Fiscal Year			
Revenues from continuing operations	$5,132,457	$3,924,480	$4,341,700
Earnings (loss) from continuing operations	56,395	(75,275)	(18,617)
Net earnings (loss)	56,395	26,592	(60,443)
Earnings (loss) per share			
Continuing operations	.71	(.95)	(.23)
Net earnings (loss)	$ .71	$ .33	$ (.76)
Return on average shareholders' equity	10.0%	3.3%	(6.0)%
Capital expenditures	$ 86,259	$ 99,824	$ 91,619
New awards	5,955,200	4,059,700	2,992,200
Cash dividends per common share	$ .02	$ .10	$ .40
At Year End			
Working capital	$ 154,546	$ 480,184	$ 265,341
Bond portfolio	154,777	4,000	—
Total assets	2,073,346	2,061,186	2,565,393
Backlog	6,658,600	4,667,300	4,291,400
Capitalization			
Long-term debt	94,961	217,762	511,510
Shareholders' equity	601,747	531,743	950,240
Total capitalization	$ 696,708	$ 749,505	$1,461,750
Percent of total capitalization			
Long-term debt	13.6	29.1	35.0
Shareholders' equity	86.4	70.9	65.0
Closing stock price	$ 19⅝	$ 14½	$ 12⅛
Shareholders' equity per common share	$ 7.61	$ 6.74	$ 11.99
Number of employees	17,876	14,351	22,309

Dividends were resumed in the fourth quarter of 1988 at $.02 per share following a suspension which began in the second quarter of 1987.

In 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.

Company Description

Fluor Corporation is one of the world's largest international engineering, construction, and related services companies, and has investments in coal and lead.

Fluor Daniel, the company's principal operating business unit, is organized to provide a broad range of services to clients in five business sectors: Industrial, Process, Power, Hydrocarbon and Government. Services include feasibility studies, conceptual design, project management, engineering, construction (with a full range of labor posture alternatives), procurement, technical services, project financing, maintenance and plant operations. Fluor Daniel provides global capability from over 50 offices located around the world.

A. T. Massey Coal Company, Fluor's investment in coal, produces both high-quality, low-sulfur steam coal and metallurgical coal and ranks among the 10 largest coal companies in the United States. In addition to sales of produced coal, Massey also markets coal for independent producers.

Fluor's investment in lead is conducted through its 57.5 percent interest in The Doe Run Company, which produces approximately 60 percent of U.S. primary lead metal production.

DR 2801206

About the Cover

In keeping with Fluor Daniel's newly adopted mission statement (page 5), the cover symbolizes the global market to which we provide our engineering, construction and related services. Linked by technology, experience and human resources, we serve our clients through a network of offices strategically located around the world.

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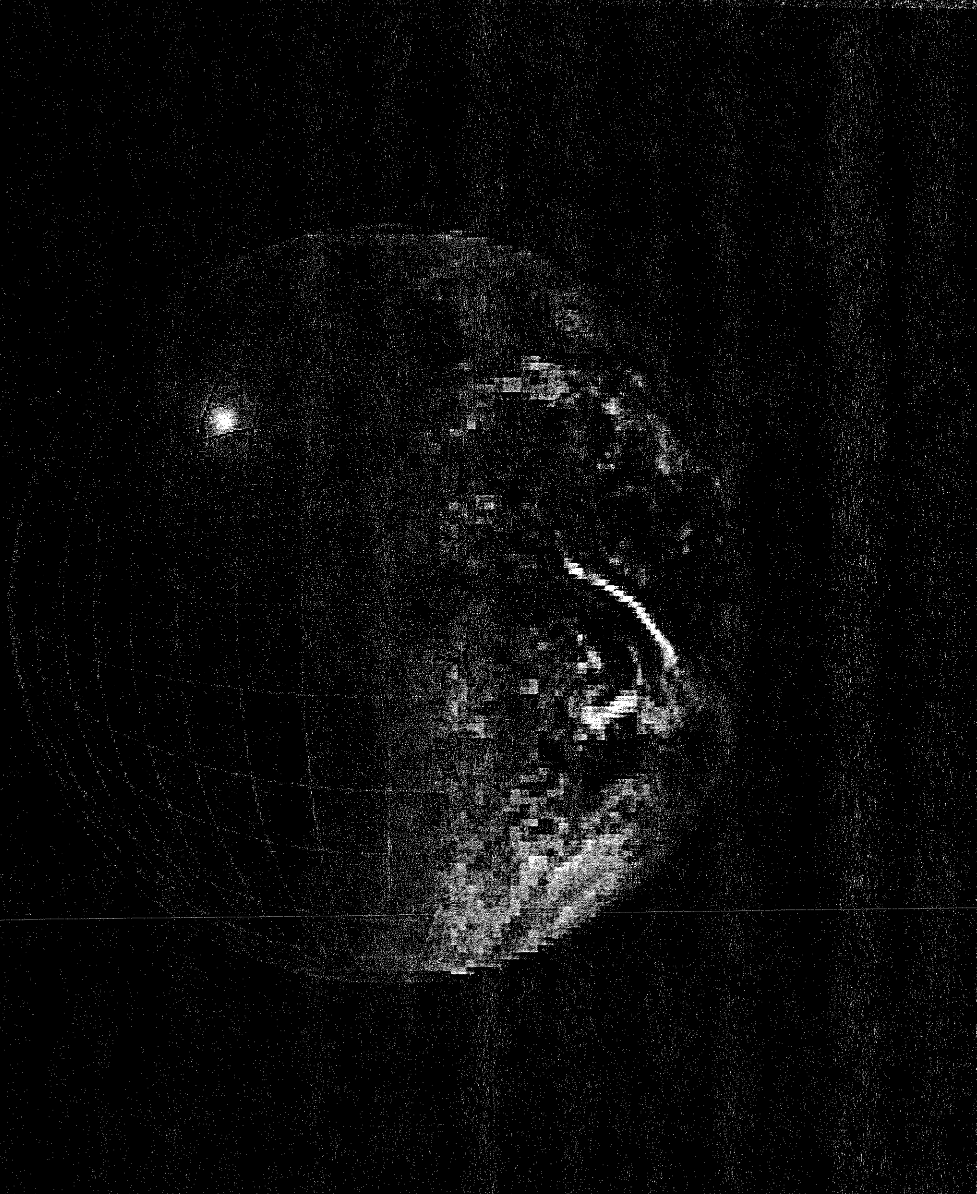
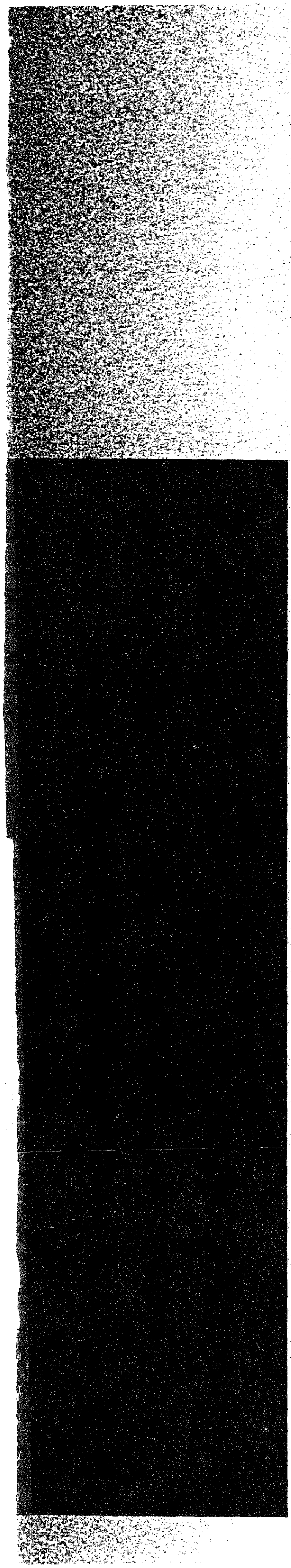
1988 Report to Shareholders

FLUOR





and an electrolytic refinery for the major Olympic Dam mining project at Roxby Downs, South Australia; and the rebuild of the fire-damaged acetic acid plant at Pampa, Texas, for Hoechst Celanese.

Government Sector

▼

The Government Sector provides a full range of engineering, procurement, construction, operations and maintenance services to government clients at all levels. Clients also include non-government organizations in communications systems, nuclear fuel cycle work and environmental services including hazardous waste. In addition, this sector also serves the aerospace, defense and transportation industries, as well as acting as an advanced technology base for all Fluor Daniel business sectors.

Fiscal 1988 presented tough marketing challenges. Concern over the U.S. federal budget deficit limited spending levels on existing contracts, as well as future project plans. As a result, new awards of $154 million were below the record high of $314 million a year ago. Despite this difficult environment, the sector expanded its services and made inroads into new market areas. Backlog at year end was up 35 percent to $409 million, or six percent of the company's total.

Key awards in 1988 included a contract to provide engineering and construction management services for the installation of data networks to connect 850 Bank of America branches throughout California. The information systems area is targeted as a significant growth market.

The Government Sector also expanded its environmental services to the potentially huge market for hazardous waste remediation, disposal and cleanup. The sector was selected by the Environmental Protection Agency as a prime contractor and program manager for the Alternate Remedial Contract Strategy (ARCS) program, covering 15 states. With Superfund-supported projects now getting underway, a significant market for environmental services is rapidly developing.

Through its FD Services unit, the sector is increasing operations and maintenance (O&M) services to government projects such as the housing maintenance and utility operations at the Naval Weapons Station at Charleston, South Carolina.

During the year, the Government Sector essentially completed a nationwide fiber optic network for U.S. Sprint, and began the preliminary engineering phase for the strategically important Hanford Waste Vitrification Plant in Washington.

Fluor Constructors International

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Fluor Constructors International, Inc. (FCII) is the company's union construction arm. Their strategic mission is to support company projects in the U.S. by providing union construction services where requested by clients.

▶ Government

▶ Staatscontracten

▶ Gobierno

▶ الحكومة

▶ 政府

▶ Statsentrepriser

▶ Staatsaufträge

▶ 政府

▶ Penerintah

▶ Госзаказы

▶ 정부

▶ Governo

▶ Pemerintah

◀ The Government Sector is providing engineering, architectural design, construction management and inspection services for approximately 115 new, expanded or modified weather service office facilities. Program management and construction overview is also being performed for 175 Next Generation Weather Radar (NEXRAD) facilities to be installed at U.S. and international locations, such as this site atop Mount Ashland in Oregon.

DR 2801224

One of Stelco Steel's management philosophies is based on product quality. Supporting this philosophy is Massey's dedication to product quality, through their quality assurance program, customer service, and fair market pricing. As a result of Massey's commitment, our relationship has matured, and we are pleased to have them as our metallurgical coal supplier.

Peter Baumgartl
Manager
Raw Materials
Stelco Steel

The Rawl Facility in West Virginia is Massey's largest mining complex producing over 5 million tons of coal in 1988. Rawl has reserves and processing capabilities which enable it to blend different qualities of coal to produce both metallurgical coal and varying grades of steam coal. During the year, two new coal storage areas, to enhance blending capabilities, were added, and the coal washing circuit was upgraded.

FCII made a positive contribution to operating results in 1988, compared with a significant loss last year. The improvement is primarily attributable to a strengthened management team which focused on successful completion of certain fixed-price contracts, bid in prior years under extremely competitive conditions, and the continuing priorities of improved productivity, quality and safety.

During 1988, FCII established an Eastern Operations office in Greenville, South Carolina, and aligned its organization to be more responsive to the five business sectors. While the majority of FCII's work is currently for clients served by the Power Sector, expanded opportunities for other business sectors are anticipated in 1989.

Natural Resource Investments

Coal

A. T. Massey Coal Company, Fluor's investment in coal, produces high-quality steam coal for electric utilities and metallurgical coal for the steel industry and today ranks among the 10 largest U.S. coal companies. In addition to produced coal, Massey also markets coal for independent producers.

Massey's results for the year were outstanding. Operating profits were up 78 percent to $50 million on a 35 percent revenue advance to $784 million. The profits included a one-time pretax gain of $7 million from a settlement with the United Mine Workers.

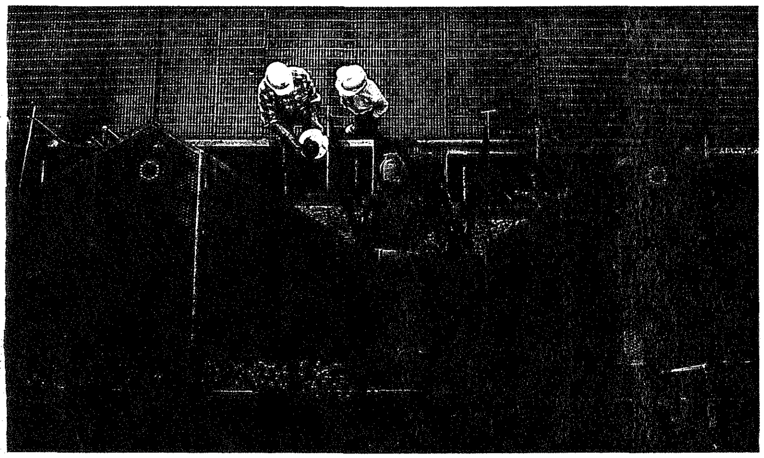
Fiscal 1988 was Massey's first full year of operations since it was partitioned from Shell Oil Company. The partitioning resulted in Fluor assuming control of its proportionate share of the assets and retaining the management team. Massey's strategy continues unchanged. Marketing of high-quality, low-sulfur coal to the eastern utility market is the area of primary concentration. Emphasis on technical services and quality is the key to establishing and maintaining long-term client relationships in this market. A strong focus on productivity improvements allowed Massey to enhance operating results and to offer clients competitive prices.

Steam coal, which is used by utilities for electricity generation, accounts for approximately 86 percent of total U.S. coal consumption. The outlook for this important market continues to be favorable. Growth in demand for electricity has been strong, particularly in the eastern United States where Massey is geographically well positioned. In addition, as the last of the nuclear plants commissioned in the 1970s come onstream, new electric power generation will be supplied primarily by coal-fired plants.

Steam coal sales in 1988 were up 18 percent as extreme temperatures drove

Doe Run, and its predecessor, won "Supplier of the Year" honors from C&D for three consecutive years. It has been our privilege, for 35 years, to deal with a firm that is responsive and consistently provides an excellent product with quality service—all critical elements in the supply of the main raw material for production of our industrial batteries.

H. Drummond Murdoch
President and CEO
C&D Charter Power Systems



Fluor's portion of Doe Run lead metal sales in 1988 was 147,000 tons, up 12 percent from a year ago. During 1988, by-product recovery which reduces the overall cost of production was significantly improved. The mill shown above produces metals concentrates for feedstock to the smelter.

peak energy requirements to unexpected levels this past summer. The increased volume more than offset the effect of lower prices from continued over capacity in the coal industry.

Massey is also the leading commercial supplier of metallurgical coal in the United States. A revitalized U.S. steel industry, as well as renewed strength worldwide, has increased opportunities for metallurgical coal sales at home and abroad. The lower level of the U.S. dollar has also contributed to increased export sales by making U.S. produced coal more competitive in the world market.

Lead

The company's investment in lead operations, conducted through its 57.5 percent interest in The Doe Run Company, experienced dramatic improvement in operating results in 1988. Operating profit of $29 million was recorded for the year, compared with a modest loss in 1987. Completing its second full year of operations as a restructured company, Doe Run benefited from strong pricing.

The commodities market enjoyed renewed strength during 1988 allowing the operation to achieve marked improvement in by-product credits. Moderate tightness in the availability of lead metal worldwide kept upward pressure on prices, ending the year at the highest level since 1980. Demand for lead has been strong in the replacement battery market, a primary use for lead, due to the deteriorating effects of this past summer's extreme temperatures. Additionally, the lower dollar has kept U.S.-produced lead competitive by reducing the levels of imported metal.

Improved earnings in 1988 helped fund an aggressive program for facilities maintenance and upgrading. Additionally, Doe Run was able to capitalize on high copper prices this year by increasing its production of copper. The Brushy Creek mill was recommissioned and converted entirely to copper production. Selected high copper-bearing ore from the company's six mines is processed through this facility.

Approximately 75 percent of Doe Run lead is used in the production of batteries. As a result, consumption of lead is closely associated with the automobile industry, a reliable long-term market. Other uses of lead include load-leveling batteries and standby power systems for utilities and communications and computer networks.

Lead prices are expected to remain relatively strong in 1989, although they may moderate somewhat if the level of demand experienced in 1988 is not sustained.

Operating Statistics

$ in thousands/Year ended October 31,	1988	1987	1986	1985	1984
Engineering and Construction					
Work Performed	$4,267,892	$3,370,957	$3,817,200	$3,438,327	$4,458,238
Revenues	4,225,212	3,251,304	3,727,764	3,226,486	3,315,398
Operating Profit (Loss)	50,819	(49,473)	(71,152)	(106,528)	84,220
New Awards	5,955,200	4,059,700	2,992,200	4,485,300	4,151,300
Backlog	$6,658,600	$4,667,300	$4,291,400	$5,114,700	$4,194,200
Employees	15,576	11,993	12,068	14,530	16,353

$ in millions	$ 1988	%	$ 1987	%	$ 1986	%	$ 1985	%	$ 1984	%
Backlog by Sector and Location										
Industrial	2,338	35	1,661	36	1,865	44	2,453	48	1,690	40
Process	1,224	19	836	18	610	14	536	11	324	8
Power	756	11	927	20	1,032	24	762	15	412	10
Hydrocarbon	1,932	29	940	20	690	16	1,289	25	1,700	40
Government	409	6	303	6	94	2	75	1	68	2
Total Backlog	6,659	100	4,667	100	4,291	100	5,115	100	4,194	100
United States	5,298	80	4,039	87	3,587	84	4,072	80	2,838	68
Outside U.S.	1,361	20	628	13	704	16	1,043	20	1,356	32
Total Backlog	6,659	100	4,667	100	4,291	100	5,115	100	4,194	100

$ in thousands/in thousands of short tons Year ended October 31,	1988	1987	1986	1985	1984
Coal*					
Revenues	$783,719	$580,123	$516,943	$ 475,051	$489,634
Operating Profit (Loss)	$ 50,375	$ 28,326	$ 49,310	$(223,038)	$ 14,800
Employees	1,232	1,372	3,307	3,571	4,709
Steam Coal Produced	11,078	9,258	9,342	7,795	7,998
Metallurgical Coal Produced	3,980	2,825	2,175	1,730	2,168
Produced Coal Sold	15,025	12,531	11,620	9,528	9,982
Purchased Coal Sold	10,038	5,306	2,522	2,174	1,931

*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/in short tons Year ended October 31,	1988	1987	1986	1985	1984
Lead*					
Revenues	$123,526	$ 93,053	$ 96,993	$ 74,905	$ 96,669
Operating Profit (Loss)	$ 29,022	$ (5,511)	$ (26,640)	$(187,105)	$ (41,460)
Employees	1,068	986	855	957	1,526
Lead Content of Concentrates Produced	139,809	123,888	186,975	172,781	137,618
Lead Metal Sold	146,879	130,753	193,849	177,772	169,080

*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 Run Company, except the number of employees which is 100%. See Notes to Consolidated Financial Statements.

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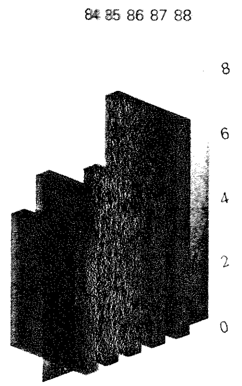
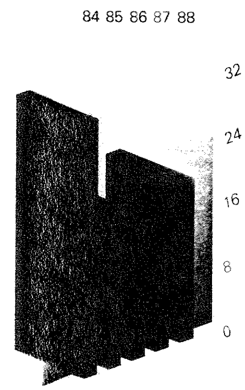
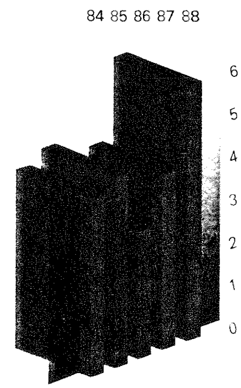


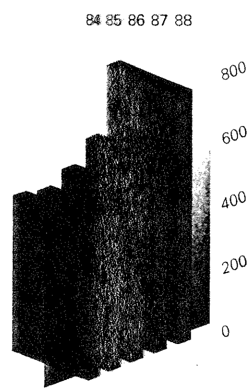
Backlog
dollars in billions



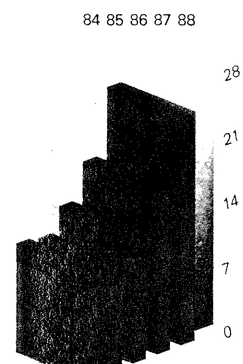
International Backlog
percent of total



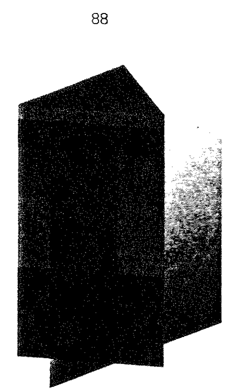
New Awards
dollars in billions



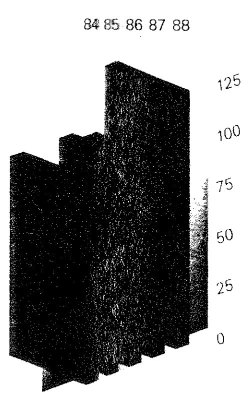
Coal Revenues*
dollars in millions



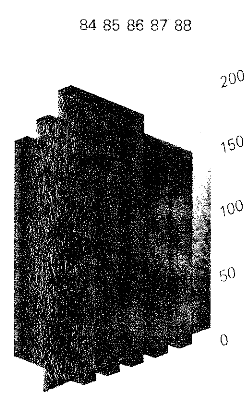
Total Coal Sold*
millions of short tons
- Purchased
- Produced



Backlog by Business Sector
- Government 6%
- Power 11%
- Process 19%
- Hydrocarbon 29%
- Industrial 35%



Lead Revenues*
dollars in millions



Lead Metal Sold*
thousands of short tons

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

Management's Discussion and Analysis

Results of Operations

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Earnings from continuing operations were $56 million in 1988 compared with a loss of $75 million in 1987 and a loss of $19 million in 1986. The related earnings per share were $.71 for 1988 compared with a loss per share of $.95 and $.23 in 1987 and 1986, respectively. Revenues from continuing operations increased 31% in 1988 following a 10% decrease from 1986.

In 1988 the company had net interest income of $10 million compared with net interest expense of $40 million in both 1987 and 1986. Increased interest income in 1988 compared with 1987 and 1986 is due to substantial returns on cash and cash equivalents and the bond portfolio. Funds invested were provided primarily from collection of proceeds from sale of the discontinued metals business. Reduced interest expense in 1988 compared with 1987 and 1986 reflects lower average debt outstanding.

Engineering and Construction

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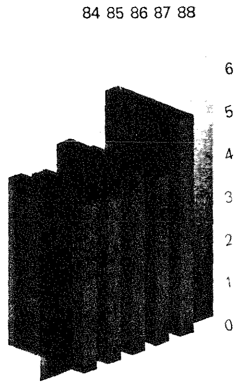
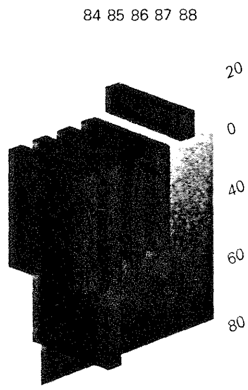
New contract awards for Engineering and Construction increased 47% in 1988 to $6.0 billion compared with $4.1 billion in 1987, and $3.0 billion in 1986. The engineering and construction industry is experiencing the early stages of a growth cycle as capital expenditures are increasing in response to record capacity utilization in many of the industries served by the company. Improving worldwide business conditions enhanced the overall 1988 increase in new awards as well as contributed to the international component of both backlog and new awards. Backlog at October 31, 1988 was $6.7 billion (up 43%) compared with $4.7 billion and $4.3 billion at October 31, 1987 and 1986, respectively.

Engineering and Construction had operating profits of $51 million in 1988 compared with a loss of $49 million in 1987 and a loss of $71 million in 1986. Marketing effectiveness and operational efficiencies continue to improve results as the reorganization of the segment, finalized in 1987, has enabled expansion and diversification of engineering and construction services. Improved operating results also reflect the impact of increasing margins on orders received over the last 12–18 months. New awards include more full service contracts, providing maintenance, engineering and technical services as well as project and construction management. The number of employees increased 30% in 1988 compared with a slight reduction in 1987 and a 17% reduction in 1986.

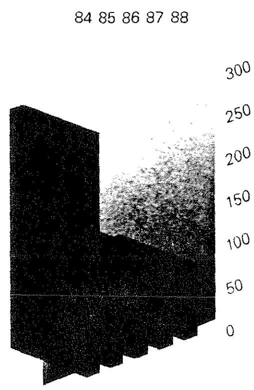
In August 1988, Wright Engineers Limited (Wright) was purchased for consideration



▶ **Revenues**
dollars in billions



▶ **Net Interest Income (Expense)**
dollars in millions



▶ **Capital Expenditures**
dollars in millions

which, depending on future operating results, could reach a maximum of approximately $8 million. Wright, based in Canada, is a world-recognized leader in the process and detailed design and construction management of gold, copper, uranium, complex sulfides and coal projects.

During 1988, certain excess real estate rental costs were charged to accrued lease costs whereas such costs were charged to operations in 1987 and 1986. The accrual for such costs was established in connection with the company's 1987 quasi-reorganization. Operating results for 1987 and 1986 reflect $23 million and $22 million, respectively, of losses incurred on certain fixed price construction contracts bid in prior years under extremely competitive conditions. These contracts were completed in 1988 without incurring additional overruns.

Coal

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In the third quarter of 1987 the company completed a 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 1988 were $784 million and $50 million, respectively, compared with revenues of $580 million and operating profit of $28 million in 1987. Revenues and operating profit in 1986 were $517 million and $49 million, respectively. In 1988, operating results improved significantly as lower costs and higher sales volumes of produced coal as well as additional revenues from brokered coal sales more than offset a decline in steam coal realized prices. Coal results for 1988 included $7 million related to a favorable settlement with the United Mine Workers.

Lead

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Effective November 1, 1986 the company transferred the assets of its lead business in exchange for a 57.5% interest in a partnership called The Doe Run Company (Doe Run). The company proportionally consolidates its interest in the results of Doe Run. Lead operations realized an operating profit of $29 million on revenues of $124 million in 1988, compared with an operating loss of $6 million on revenues of $93 million in 1987 and an operating loss of $27 million on revenues of $97 million in 1986. Operations improved significantly in 1988 compared with 1987 and 1986 due primarily to an increase in realized prices, higher sales volumes and lower operating costs. Operating costs in 1988 were reduced by higher by-product credits (copper and zinc) as realized prices for these commodities were up significantly over 1987 and 1986. Operating results in 1987 were affected by operational inefficiencies and downtime at the Herculaneum smelter.

The company's consolidated results of operations in 1988 benefitted from reduced depreciation and amortization charges due to certain fair value adjustments effected through the October 31, 1987 quasi-reorganization. Such adjustments had no impact on 1987 or 1986 results of operations.

Discontinued Operations

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In 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 gold properties resulting in an after tax gain of approximately $248 million. The company also completed the sale of its zinc operation resulting in an after tax loss of $15 million. Metals operations remaining at October 31, 1987 were written down to their net realizable value resulting in an after tax charge to discontinued operations of $122 million. In 1988, the remaining base metals businesses, except for Pea Ridge, were sold.

Other

In March of 1988, the company made an investment, convertible into a controlling equity interest, in SOS International (SOS), a leading contractor in the asbestos abatement industry. Asbestos abatement is a relatively new, fast-growing industry and as such has experienced severe competition and the normal start-up and cost risks associated with such an environment. Prior and subsequent to the company's investment, SOS experienced losses. Since the date of investment, the company has recognized losses of $9 million, including $2 million of investment amortization. Management believes the combined strengths of Fluor Daniel and SOS will provide stronger market presence and penetration, maximizing the profit opportunities in this emerging market.

Corporate administrative and general expense increased 36% in 1988 compared with 1987 primarily due to higher insurance costs and accrued obligations associated with the company's incentive compensation plans.

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

In 1988 and 1987 there is no significant difference between the effective federal income tax rate on results of continuing operations and the statutory rate. The difference between the effective and statutory rates in 1986 is primarily due to the recognition of a nontaxable gain and the effect of capital gain rates.

Implementation of Statement of Financial Accounting Standard 96—"Accounting for Income Taxes," which is not required until fiscal 1991, is not expected to have any material impact on the company.

Financial Position and Liquidity

Working capital at October 31, 1988 was $155 million compared with $480 million at October 31, 1987. The decrease is primarily due to early retirement of long-term debt, the purchase of a long-term bond portfolio and the investment in SOS. Working capital at October 31, 1987 included a $450 million receivable from the sale of gold operations which was collected in November 1987.

The company's bond portfolio investment totaled $155 million at October 31, 1988. The cash flows from these bonds are scheduled to offset and match the cash flow obligations on the Sugar Land facility lease.

Capital expenditures for 1988 were $86 million compared with $100 million in 1987 and $92 million in 1986. In 1987, capital expenditures included the repurchase of land in Sugar Land, Texas for $26 million.

The long-term debt to capitalization ratio at October 31, 1988 was 13.6% compared with 29.1% and 35.0% at October 31, 1987 and 1986, respectively. The improved 1988 ratio reflects both a reduction in long-term debt of $123 million, and an increase in shareholders' equity due to net earnings. At October 31, 1988, all long-term debt bears interest at fixed rates.

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

The Board reinstated cash dividends in the fourth quarter of 1988 and paid a cash dividend of $.02 per share in October, 1988.

Although the company is affected by inflation, its Engineering and Construction operations are generally protected by the ability to recover cost increases through price escalation provisions in most contracts. Coal and Lead operations produce commodities which are internationally traded at prices established by factors outside the control of the company. Management believes the company's substantial coal and lead reserves provide a significant hedge against any adverse long-term effects of inflation.

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Selected Financial Data

In millions, except per share amounts	1988	1987	1986	1985	1984
Operating Results					
Revenues from continuing operations	$5,132.5	$3,924.5	$4,341.7	$3,776.4	$3,901.7
Earnings (loss) from continuing operations before income taxes	90.9	(126.1)	(55.0)	(556.2)	(34.7)
Earnings (loss) from continuing operations	56.4	(75.3)	(18.6)	(512.8)	(23.2)
Net earnings (loss)	56.4	26.6	(60.4)	(633.3)	1.0
Earnings (loss) per share					
Continuing operations	.71	(.95)	(.23)	(6.48)	(.29)
Net earnings (loss)	$ .71	$ .33	$ (.76)	$ (8.01)	$ .01
Return on average shareholders' equity	10.0%	3.3%	(6.0)%	(41.7)%	—
Cash dividends per common share	$ .02	$ .10	$ .40	$ .40	$ .60
Financial Position					
Current assets	$ 998.6	$1,213.5	$ 922.1	$1,057.2	$1,025.9
Current liabilities	844.0	733.3	656.8	1,020.7	1,016.4
Working capital	154.6	480.2	265.3	36.5	9.5
Bond portfolio	154.8	4.0	—	—	—
Property, plant and equipment, net	729.8	735.2	1,301.8	1,433.3	2,338.2
Total assets	2,073.3	2,061.2	2,565.4	2,796.4	3,891.6
Capitalization					
Long-term debt	95.0	217.8	511.5	250.8	716.2
Shareholders' equity	601.7	531.7	950.2	1,033.9	1,696.4
Total capitalization	$ 696.7	$ 749.5	$1,461.7	$1,284.7	$2,412.6
Percent of total capitalization					
Long-term debt	13.6	29.1	35.0	19.5	29.7
Shareholders' equity	86.4	70.9	65.0	80.5	70.3
Shareholders' equity per common share	$ 7.61	$ 6.74	$ 11.99	$ 13.06	$ 21.49
Common shares outstanding at October 31	79.1	78.9	79.3	79.1	78.9
Other Data					
New awards received during year	$5,955.2	$4,059.7	$2,992.2	$4,485.3	$4,151.3
Backlog at October 31	6,658.6	4,667.3	4,291.4	5,114.7	4,194.2
Capital expenditures	86.3	99.8	91.6	121.2	285.5
Cash provided (utilized) by operating activities	$ 17.7	$ 57.3	$ (224.2)	$ (21.0)	$ (63.9)
Number of employees at October 31	17,876	14,351	22,309	26,958	32,153

See Management's Discussion and Analysis on pages 24 to 26, Consolidated Statement of Operations on page 29 and Notes to Consolidated Financial Statements and Quarterly Financial Data for information relating to significant items affecting the results of operations.

Dividends were resumed in the fourth quarter of 1988 at $.02 per share following a suspension which began in the second quarter of 1987.

At October 31, 1987, a quasi-reorganization was effected which resulted in a net reduction in shareholders' equity of $438 million. See Notes to Consolidated Financial Statements for additional information.

DR 2801232

Management

The company is responsible for preparation of the accompanying consolidated balance sheet and the related consolidated statements of operations, cash flows 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 public 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 public 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 Public Accountants

Board of Directors and Shareholders
Fluor Corporation

We have examined the accompanying consolidated balance sheet of Fluor Corporation at October 31, 1988 and 1987, and the related consolidated statements of operations, cash flows and shareholders' equity for each of the three years in the period ended October 31, 1988. 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 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% of consolidated assets and revenues, respectively, it is based solely on their report.

In our opinion, based on our examinations and the report of other independent auditors, the accompanying consolidated financial statements present fairly the consolidated financial position of Fluor Corporation at October 31, 1988 and 1987, and the consolidated results of operations and cash flows for each of the three years in the period ended October 31, 1988, in conformity with generally accepted accounting principles applied on a consistent basis during the period.

Arthur Young & Company

Orange County, California
December 5, 1988

DR 2801233

Consolidated Statement of Operations

In thousands, except per share amounts/Year ended October 31,	1988	1987	1986
Revenues			
Engineering and construction services	$4,225,212	$3,251,304	$3,727,764
Natural resources	907,245	673,176	613,936
Total revenues	5,132,457	3,924,480	4,341,700
Cost of Revenues			
Engineering and construction services	4,181,269	3,298,628	3,794,757
Natural resources	827,848	650,886	591,406
Total cost of revenues	5,009,117	3,949,514	4,386,163
Other Income and Expense			
Corporate administrative and general expense	32,795	24,131	32,532
Interest expense	27,259	58,304	63,185
Interest income	(37,060)	(18,231)	(23,345)
Equity in loss of SOS	9,451	—	—
Provision for sublease losses and write-down of investments	—	36,845	—
Gain on sale of Irvine facility and common stock of St. Joe Gold Corporation	—	—	(61,881)
Total costs and expenses	5,041,562	4,050,563	4,396,654
Earnings (Loss) From Continuing Operations Before Taxes	90,895	(126,083)	(54,954)
Income Tax Benefit (Expense)	(34,500)	50,808	36,337
Earnings (Loss) From Continuing Operations	56,395	(75,275)	(18,617)
Discontinued Operations			
Loss from operations, net of income taxes	—	(16,544)	(17,479)
Gain (loss) on disposal, net of income taxes	—	111,254	(24,347)
Earnings (Loss) From Discontinued Operations	—	94,710	(41,826)
Earnings (Loss) Before Extraordinary Item	56,395	19,435	(60,443)
Tax benefit of net operating loss	—	7,157	—
Net Earnings (Loss)	$ 56,395	$ 26,592	$ (60,443)
Earnings (Loss) Per Share			
Continuing operations	$ .71	$ (.95)	$ (.23)
Discontinued operations	—	1.19	(.53)
Extraordinary item	—	.09	—
Net Earnings (Loss) Per Share	$ .71	$ .33	$ (.76)
Shares Used to Calculate Earnings (Loss) Per Share	79,582	79,484	79,248

See Notes to Consolidated Financial Statements.

Consolidated Balance Sheet

$ in thousands/At October 31,	1988	1987
Assets		
Current Assets		
Cash and cash equivalents	$ 164,580	$ 74,642
Receivable from sale of St. Joe Gold	—	450,000
Accounts and notes receivable	396,658	353,646
Contract work in progress	337,347	253,742
Inventories	66,580	61,232
Other current assets	33,429	20,196
Total current assets	998,594	1,213,458
Investment in Bond Portfolio	154,777	4,000
Property, Plant and Equipment		
Land	61,647	61,21
Buildings and improvements	79,550	77,11
Machinery and equipment	254,037	184,92
Mining properties and mineral rights	395,397	406,02
Construction in progress	14,209	5,88
	804,840	735,15
Less accumulated depreciation, depletion and amortization	75,081	-
Net property, plant and equipment	729,759	735,15
Other Assets		
Investments	94,997	33,1
Other	95,219	75,3
Total other assets	190,216	108,5
	$2,073,346	$2,061,1

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	1988	1987
Liabilities and Shareholders' Equity		
Current Liabilities		
Accounts payable	$ 358,061	$ 316,251
Advance billings on contracts	118,752	87,301
Accrued salaries and wages and benefit plan liabilities	71,535	69,838
Other accrued liabilities	218,856	199,959
Current portion of long-term debt	58,506	11,421
Income taxes currently payable	18,338	17,075
Deferred income taxes	—	31,429
Total current liabilities	844,048	733,274
Long-Term Debt Due After One Year	94,961	217,762
Noncurrent Liabilities		
Deferred income taxes	79,063	86,160
Accrued lease costs	148,792	178,798
Other	304,735	313,449
Total noncurrent liabilities	532,590	578,407
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 $.625 par value; issued and outstanding in 1988—79,051,744 shares and in 1987—78,939,846 shares	49,407	49,337
Additional capital	497,907	487,435
Retained earnings (since October 31, 1987)	54,814	—
Unamortized executive stock plan expense	(3,117)	(4,367)
Cumulative translation adjustments	2,736	(662)
Total shareholders' equity	601,747	531,743
	$2,073,346	$2,061,186

See Notes to Consolidated Financial Statements.

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Consolidated Statement of Cash Flows

In thousands/Year ended October 31,	1988	1987	1986
Cash Flows From Operating Activities			
Net income (loss)	$ 56,395	$ 26,592	$ (60,443)
Depreciation, depletion and amortization	76,000	124,377	129,250
Deferred income taxes	(49,397)	62,321	(35,682)
Amortization of accrued lease costs and deferred gains	(37,009)	(20,570)	(23,597)
Provision for sublease losses and write-down of investments	—	36,845	—
Gain on sale of Irvine facility and St. Joe Gold common stock	—	—	(61,881)
Loss (gain) on disposal of discontinued operations	—	(215,737)	44,997
Change in operating working capital	(43,654)	93,990	(225,685)
Other, net	15,414	(50,482)	8,891
Cash provided (utilized) by operating activities	17,749	57,336	(224,150)
Cash Flows From Investing Activities			
Capital expenditures	(86,259)	(99,824)	(91,619)
Proceeds from sale of property, plant and equipment	8,960	21,738	24,338
Investment in bond portfolio	(150,777)	(4,000)	—
Additions to investments	(69,267)	—	—
Proceeds from sale of discontinued operations, net	450,000	147,535	131,000
Partition of Massey assets	—	108,148	—
Proceeds from facility sale leasebacks and St. Joe Gold common stock sale	—	—	70,700
Other, net	3,949	(3,899)	20,209
Cash provided by investing activities	156,606	169,698	154,628
Cash Flows From Financing Activities			
Payments of long-term debt	(81,537)	(250,830)	(106,265)
Issuance of debt	363	2,809	264,983
Cash dividends paid	(1,581)	(7,927)	(31,701)
Other, net	(1,662)	7,225	(11,866)
Cash provided (utilized) by financing activities	(84,417)	(248,723)	115,151
Increase (decrease) in cash and cash equivalents	89,938	(21,689)	45,629
Cash and cash equivalents at beginning of period	74,642	96,331	50,702
Cash and cash equivalents at end of period	$ 164,580	$ 74,642	$ 96,331

See Notes to Consolidated Financial Statements.

DR 2801237

Consolidated Statement of Shareholders' Equity

$ in thousands, except per share amounts Year ended October 31, 1986, 1987 and 1988	Common Stock	Additional Capital	Retained Earnings (Deficit)	Unamortized Executive Stock Plan Expense	Cumulative Translation Adjustments	Total
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 ($.10 per share)			(7,927)			(7,927)
Exercise of stock options, net	105	2,260				2,365
Amortization of executive stock plan expense				1,928		1,928
Repurchase of restricted stock, net	(20)	(563)		441		(142)
Repurchase of common stock	(293)	(5,528)				(5,821)
Translation adjustment for the period					2,730	2,730
Quasi-reorganization						
Revaluation adjustments, net		(438,222)				(438,222)
Transfer to additional capital		(141,357)	141,357			—
Balances at October 31, 1987	49,337	487,435	—	(4,367)	(662)	531,743
Net earnings			56,395			56,395
Cash dividends ($.02 per share)			(1,581)			(1,581)
Exercise of stock options, net	180	3,771				3,951
Amortization of executive stock plan expense				326		326
Repurchase of restricted stock, net	(29)	(955)		924		(60)
Repurchase of common stock	(81)	(1,581)				(1,662)
Tax benefit of net operating loss		9,237				9,237
Translation adjustment for the period					3,398	3,398
Balances at October 31, 1988	$49,407	$ 497,907	$ 54,814	$(3,117)	$ 2,736	$ 601,747

See Notes to Consolidated Financial Statements.

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Major Accounting Policies

Balance Sheet Revaluation

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

Principles of Consolidation

The financial statements include the accounts of the company and its subsidiaries. The equity method of accounting is used for investment ownership ranging from 20% to 50%. Investment ownership of less than 20% is accounted for on the cost method. The company does not consolidate entities for which control is deemed temporary. The company recognizes 100% of the operations of certain unconsolidated entities which are under effective control. All significant intercompany transactions of consolidated subsidiaries are eliminated. Certain 1987 and 1986 amounts have been reclassified to conform with the 1988 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 99% of its 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, 1988, will be billed and collected in 1989. Amounts received from clients in excess of revenues recognized to date are classified as current liabilities under advance billings on contracts.

Depreciation and Amortization

Additions to property, plant and equipment are recorded at cost. 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 amortized on the straight-line method, over periods not longer than 40 years.

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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 amortized by the straight-line method over periods approximating the economic life of the mine. Subsequent maintenance and underground development expenditures are generally charged to expense as incurred.

Investment in Bond Portfolio

The company's bond portfolio is carried at amortized cost which approximates market value. At October 31, 1988, the portfolio has a weighted average interest rate of nearly 11% and maturities ranging from 1989 to 2004.

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.

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.

Inventories

Coal, metals and processed minerals inventories are stated at the lower of cost using the last-in, first-out (LIFO) method or net realizable value. Supplies and other are valued on the average cost method. Inventories comprise:

$ in thousands/At October 31,	1988	1987
Coal, metals and processed minerals	$34,713	$37,059
Supplies and other	31,867	24,173
	$66,580	$61,232

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/Year ended October 31,	1988	1987
Balance at beginning of year	$ (662)	$(3,392)
Translation adjustments	5,149	4,712
Deferred income taxes on translation adjustments	(1,751)	(1,982)
Balance at end of year	$ 2,736	$ (662)

Consolidated Statement of Cash Flows

In 1988, the company adopted Statement of Financial Accounting Standards No. 95, "Statement of Cash Flows," which requires a statement of cash flows in place of a statement of changes in financial position. Prior years' statements of changes in financial position have been restated to conform to the 1988 presentation.

The company considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

Changes in operating working capital as shown in the Consolidated Statement of Cash Flows comprise:

$ in thousands/Year ended October 31,	1988	1987	1986
Decrease (increase) in:			
Accounts, notes and income taxes receivable	$(43,012)	$ 41,595	$ (90,744)
Contract work in progress	(83,605)	(65,946)	83,049
Inventories	(5,348)	14,466	25,330
Other current assets	(6,079)	(7,893)	1,822
Increase (decrease) in:			
Accounts payable	41,810	78,723	(106,352)
Advance billings on contracts	31,451	25,040	(16,260)
Accrued liabilities	19,866	11,964	(36,962)
Income taxes currently payable	1,263	(3,959)	(85,568)
	$(43,654)	$ 93,990	$(225,685)
Cash paid during the year for:			
Interest expense	$ 16,509	$ 48,871	$ 43,072
Income tax payments (refunds), net	$ 52,014	$(99,433)	$ 143,476

Acquisition and Investments

In August 1988, the company purchased Wright Engineers Limited (Wright), for consideration which, depending on future operating results, could approximate a maximum of $8 million. Wright, based in Canada, is a world-recognized leader in the process and detailed design and construction management of gold, copper, uranium, complex sulfides and coal projects. The company's financial statements include the results of Wright on a consolidated basis from the acquisition date. The acquisition has been accounted for as a purchase.

Investments included in Other assets relate primarily to entities accounted for on the equity method. Additions to investments in 1988 included $14 million in a resource recovery project, $15 million in Centre Reinsurance and $40 million in SOS International (SOS).

In March 1988, the company made an investment, convertible into a controlling equity interest, in SOS, a leading contractor in the asbestos abatement industry. Prior and subsequent to the company's investment, SOS experienced operating losses. The company has significant influence over operating and financial policies and, accordingly, has recognized 100% of SOS's losses from the date of investment. Losses recognized totaled $9 million in 1988, including $2 million of investment amortization. The company's investment in SOS at October 31, 1988 exceeded the net assets of SOS by $33 million.

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Restructuring

Quasi-Reorganization

At October 31, 1987, the company adjusted its 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 gave consideration to the carrying values of the company's remaining assets and liabilities and believes they approximated fair value at October 31, 1987. The fair value adjustments to the October 31, 1987 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. Revenues for the discontinued Metals segment were $309 million and $319 million in 1987 and 1986, 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 was received by October 31, 1987. The remaining $450 million was received in November 1987. The sale resulted in a net gain of approximately $248 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 net loss of $15 million. At October 31, 1987 a net charge to discontinued operations of $122 million was made to write down the metals businesses held for sale to their estimated net realizable value. In 1988 disposals of the remaining base metals businesses held for sale, except Pea Ridge, were completed. The sale of Pea Ridge is expected to be concluded in 1989.

During 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 in 1986.

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

$ in thousands/Year ended October 31,	1987	1986
Loss from operations:		
Metals, net of income tax (expense) benefit of $(4,988) and $5,363, respectively	$(16,544)	$ (9,409)
Drilling services, net of income tax benefit of $11,160	—	(8,070)
	(16,544)	(17,479)
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)
Earnings (loss) from discontinued operations	$ 94,710	$(41,826)

DR 2801242

Income Taxes

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

$ in thousands/Year ended October 31,	1988	1987	1986
Current:			
Federal (Includes a charge in lieu of taxes of $7,319 and $7,157 for 1988 and 1987, respectively)	$(69,706)	$ 12,881	$ 64,333
Foreign (Includes a charge in lieu of taxes of $1,918 in 1988)	(8,430)	(4,718)	(18,249)
State and local	(5,761)	(4,505)	(8,256)
Total current	(83,897)	3,658	37,828
Deferred:			
Federal	52,961	(64,677)	29,805
Foreign	(3,655)	271	3,208
State and local	91	2,085	2,669
Total deferred	49,397	(62,321)	35,682
Total income tax benefit (expense)	$(34,500)	$(58,663)	$ 73,510

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

$ in thousands/Year ended October 31,	1988	1987	1986
Provision for continuing operations:			
Current	$ 67,007	$ (17,292)	$13,781
Deferred	(101,507)	68,100	22,556
Total provision—continuing operations	(34,500)	50,808	36,337
Provision for discontinued operations:			
Current	(150,904)	20,950	24,047
Deferred	150,904	(130,421)	13,126
Total provision—discontinued operations	—	(109,471)	37,173
Total income tax benefit (expense)	$ (34,500)	$ (58,663)	$73,510

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

$ in thousands/Year ended October 31,	1988	1987	1986
Statutory federal income tax benefit (expense)	$(30,904)	$52,955	$ 25,279
Reductions (increases) in taxes resulting from:			
Depletion	9,343	7,783	7,218
Earnings (losses) without tax effect	(5,955)	2,459	5,428
Effect of foreign tax rates	(3,790)	—	(6,840)
State and local income taxes	(3,742)	(1,259)	(1,392)
Amortization and write-down of property, plant and equipment	(2,206)	(8,650)	(10,762)
Tax credits	1,082	2,631	5,178
Amortization and write-off of excess of cost over net assets of acquired businesses	(877)	(2,087)	(2,284)
Accruals without tax effect	(292)	(5,094)	1,691
Capital gain rate differential	—	2,247	11,356
Nontaxable gain on sale of St. Joe Gold common stock	—	—	11,087
Indefinitely reinvested foreign earnings	—	—	(7,000)
Other, net	2,841	(177)	(2,622)
Total income tax benefit (expense)	$(34,500)	$50,808	$ 36,337

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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,	1988	1987	1986
Reduction (increase) in deferred tax credits	$ (51,565)	$ 51,565	$ —
Accruals not currently reportable for tax purposes	(33,964)	10,603	8,623
Use of different methods of accounting for construction contracts	(6,538)	21,841	(4,033)
Residual tax on undistributed foreign earnings	1,064	(13,477)	14,652
Deferred gains on property sales	(317)	(5,699)	1,011
Other, net	(10,187)	3,267	2,303
Total	$(101,507)	$ 68,100	$22,556

Continuing operations in 1987 were benefitted by $52 million through reductions 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,	1988	1987	1986
United States	$63,843	$(157,812)	$(74,984)
Foreign	27,052	31,729	20,030
Total	$90,895	$(126,083)	$(54,954)

Residual income taxes have not been provided on approximately $42 million of undistributed earnings of certain foreign subsidiaries at October 31, 1988 because the company intends to reinvest these earnings indefinitely.

A. T. Massey Coal Company, Inc. and its subsidiaries file a separate consolidated tax return and have available net operating loss carryforwards of $71 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 are in process 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.

In December 1987, the Financial Accounting Standards Board issued Statement of Financial Accounting Standard No. 96 "Accounting for Income Taxes." Management believes that implementation, which is not required until 1991, would not have a material effect on the 1988 consolidated results of operations or financial position of the company.

Retirement Benefits

The company sponsors defined contribution retirement and noncontributory defined benefit pension plans for eligible employees. Contributions to defined contribution retirement plans are based on a percentage of employees' compensation. Expense recognized for these plans is primarily related to Engineering and Construction operations and totaled $42 million in 1988, $33 million in 1987 and $36 million in 1986. Contributions to defined benefit pension plans are generally at the minimum annual amount required by applicable regulations. Payments to retired employees under these plans, which are primarily related to natural resource operations, are generally based upon length of service and a percentage of qualifying compensation.

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

$ in thousands/Year ended October 31,	1988	1987	1986
Service costs—benefits earned during the period	$ 3,156	$ 4,064	$ 4,500
Interest cost on projected benefit obligation	5,724	4,922	4,330
Less—income and gain on assets invested	(8,683)	(5,891)	(4,379)
Net periodic pension cost	$ 197	$ 3,095	$ 4,451

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 the defined benefit plans:

$ in thousands/At October 31,	1988	1987
Actuarial present value of benefit obligations:		
Vested benefit obligation	$ 41,114	$ 43,468
Nonvested benefit obligation	10,507	4,878
Accumulated benefit obligation	$ 51,621	$ 48,346
Plan assets at fair values (primarily listed stocks and bonds)	$121,271	$107,013
Projected benefit obligation	(69,487)	(67,964)
Plan assets in excess of projected benefit obligation	51,784	39,049
Unrecognized net gain	(9,703)	—
Pension asset recognized in the Consolidated Balance Sheet	$ 42,081	$ 39,049

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

Excludes the projected benefit obligation and associated plan assets relating to present and former employees of discontinued operations of $124 million and $111 million at October 31, 1988 and 1987, respectively.

Massey participates in multiemployer defined benefit pension plans for its union employees. Pension expense related to these plans was approximately $.4 million, $1 million and $1 million in the years ended October 31, 1988, 1987 and 1986, respectively.

The company and certain of its subsidiaries provide health care and life insurance benefits for certain retired employees. The cost of such benefits for continuing operations, which approximated $4 million in 1988 and $3 million in both 1987 and 1986, is expensed when paid.

DR 2801245

Long-Term Debt

Long-term debt comprises:

$ in thousands/At October 31,	1988	1987
Term loans, 9.3%, due in installments through 2000	$ 40,100	$ 46,800
Eurodollar zero coupon debentures, effective interest rate 14%, due in 1990 (net of unamortized discount of $6,511 and $13,802, respectively)	31,176	35,934
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	28,578	46,879
Serial zero coupon notes, effective interest rate 14.3%, due in installments through 1989 (net of unamortized discount of $955 and $3,515, respectively)	18,077	20,437
Notes, effective interest rate 9.7%, due in 1993	16,196	32,210
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	15,039	36,173
Other notes and mortgages	4,301	10,750
	153,467	229,183
Less: Current portion	58,506	11,421
Long-term debt due after one year	$ 94,961	$217,762

Maturities relating to long-term debt are as follows for the years ending: 1990, $31.6 million; 1991, $.3 million; 1992, $.3 million; 1993, $31.4 million; and $31.4 million thereafter.

The company has unsecured committed revolving long-term lines of credit with banks from which it may borrow for general corporate purposes up to a maximum of $285 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, 1988 the company had $114 million in unused short-term lines of credit. At October 31, 1988, 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, 1988 bears interest at fixed rates.

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 $.33⅓ per share under the 1977 Plan and at no charge under the 1981 Plan. Upon termination of employment for reasons other than retirement, death or permanent disability of the recipient, the stock must be returned to the company for the amount, if any, originally paid. At October 31, 1988, a total of 1,417,358 restricted shares had been awarded and a total of 96,232 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 the 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. The company has adopted, subject to shareholder approval, the 1988 Fluor Executive Stock Plan which provides, among other things, for the granting of up to 3,000,000 additional stock options or stock appreciation rights ("SAR's"). On September 12, 1988, 85,752 SAR's were contingently awarded pursuant to this plan.

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 SAR activity for the two years ended October 31, 1988:

	Shares	Price Per Share	SAR	Value Per Right
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
Granted	413,704	20–22	363,544	20–22
Expired or cancelled	(231,690)	11–34	(69,597)	12–22
Exercised	(298,145)	11–22	(107,251)	12–22
Outstanding at October 31, 1988	2,762,901	$11–34	883,190	$12–34
Exercisable at:				
October 31, 1987	799,713	$11–34	305,912	$12–34
October 31, 1988	990,315	$11–34	309,650	$12–34
Available for grant at:				
October 31, 1987	335,854		299,626	
October 31, 1988	154,090		5,679	

The company adopted a preferred shares purchase rights plan and, pursuant thereto issued one preferred share purchase right ("Right") on each 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 holders to buy 1/100th share of a newly issued preferred stock at an exercise price of $40, subject to certain antidilution adjustments. The Board of Directors, at its option, may lower the exercisability threshold from 20% to as low as 10% so long as no person or group then owns more than the lowered amount and may, at any time after the rights have become exercisable, but before there has been an acquisition of 50% or more by any person or group, exchange each then valid right for one new share of common stock. However, the rights do not become exercisable when, as a result of a single purchase, the common stock ownership of a person or group goes from below the exercisability threshold to 85% or more of the amount outstanding.

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.

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Lease Obligations

Total rental expense for continuing operations amounted to $89 million, $84 million and $87 million, in 1988, 1987 and 1986, 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's obligations under noncancellable leases for minimum rentals offset by cash flows from the bond portfolio are as follows:

$ in thousands/At October 31, 1988	Gross Rentals	Cash Flows from Bond Portfolio	Net	Present Value*
1989	$ 74,484	$ 19,275	$ 55,209	$ 55,209
1990	69,388	18,781	50,607	45,592
1991	61,576	20,857	40,719	33,048
1992	57,947	17,785	40,162	29,366
1993	57,170	19,994	37,176	24,489
Thereafter	328,073	247,685	80,388	39,506
	$648,638	$344,377	$304,261	$227,210

*The present value of net 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 11%.

At October 31, 1988 and 1987, obligations under capital leases of $14 million and $15 million, respectively, are included in Other noncurrent liabilities.

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 current contract provisions. The company's natural resource operations are affected by federal, state and local laws and regulations regarding environmental protection. The outcome or timing of current environmental matters or the full impact, if any, of such legislative or regulatory developments on future operations is not currently estimable. 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, 1988, $140 million of net assets of Doe Run, including $39 million of working capital, have restrictions. Concurrence of the partners is required to transfer assets in the form of advances, loans or other distributions outside the Partnership.

Operations by Business Segment and Geographic Area

The Engineering and Construction segment includes 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 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, cash equivalents 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 1988 and 1987 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.

$ in millions	Revenues 1988	1987	1986	Operating Profit (Loss) 1988	1987	1986
Operations by Business Segment						
Engineering and Construction	$4,225.2	$3,251.3	$3,727.8	$ 50.8	$(49.5)	$(71.2)
Coal	783.7	580.1	516.9	50.4	28.3	49.3
Lead	123.6	93.1	97.0	29.0	(5.5)	(26.6)
Continuing Operations	$5,132.5	$3,924.5	$4,341.7	$130.2	$(26.7)	$(48.5)

$ in millions	Identifiable Assets 1988	1987	1986	Capital Expenditures 1988	1987	1986	Depreciation, Depletion and Amortization 1988	1987	1986
Engineering and Construction	$ 886.9	$ 620.4	$ 582.3	$46.8	$37.4	$25.6	$23.9	$ 21.1	$ 21.3
Coal	667.7	657.5	789.8	30.6	25.0	26.9	38.3	39.5	37.3
Lead	159.8	154.6	445.7	8.7	5.1	3.8	10.1	22.9	29.0
Corporate	358.9	621.9	225.5	0.2	—	0.3	3.7	1.7	1.7
Continuing Operations	2,073.3	2,054.4	2,043.3	86.3	67.5	56.6	76.0	85.2	89.3
Discontinued Operations	—	6.8	522.1	—	32.3	35.0	—	39.2	40.0
	$2,073.3	$2,061.2	$2,565.4	$86.3	$99.8	$91.6	$76.0	$124.4	$129.3

$ in millions	Revenues 1988	1987	1986	Operating Profit (Loss) 1988	1987	1986	Identifiable Assets 1988	1987	1986
Operations by Geographic Area									
United States	$4,444.6	$3,461.9	$3,756.0	$120.1	$(29.0)	$(48.7)	$1,862.1	$1,830.7	$2,062.2
Canada	257.9	220.1	79.0	2.2	1.8	3.2	53.9	61.9	31.5
Middle East	55.1	70.7	91.6	(0.6)	(1.6)	0.3	49.2	39.9	59.6
Europe	296.6	99.2	304.9	7.3	(0.1)	0.9	74.6	89.5	73.8
Other	78.3	72.6	110.2	1.2	2.2	(4.2)	33.5	39.2	338.3
	$5,132.5	$3,924.5	$4,341.7	$130.2	$(26.7)	$(48.5)	$2,073.3	$2,061.2	$2,565.4

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

$ in millions/Year ended October 31,	1988	1987	1986
Operating profit (loss) from continuing operations	$130.2	$ (26.7)	$(48.5)
Interest, net	9.8	(40.1)	(39.8)
Equity in loss of SOS	(9.5)	—	—
Gain on sale of Irvine facility and St. Joe Gold common stock	—	—	61.9
Provision for future losses on facility subleases and certain investments	—	(36.8)	—
Corporate administrative and general expense	(32.8)	(24.1)	(32.5)
Other items, net	(6.8)	1.6	3.9
Earnings (loss) from continuing operations before income taxes	$ 90.9	$(126.1)	$(55.0)

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Quarterly Financial Data

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
1988				
Revenues from continuing operations	$1,039,320	$1,148,466	$1,339,106	$1,605,565
Gross margin	18,875	21,899	30,442	52,124
Earnings before income taxes	16,264	15,654	23,144	35,833[a]
Net earnings	9,016	10,302	13,444	23,633
Earnings per share	$ .11	$ .13	$ .17	$ .30

$ 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	$1,213,524
Gross margin (loss)	(6,175)	(19,913)	(5,144)	6,198
Loss from continuing operations before income taxes	(23,384)	(36,824)	(21,841)	(44,034)
Earnings (loss) from continuing operations	(28,564)	(42,944)	(27,941)	24,174[b]
Earnings (loss) from discontinued operations:				
Operations	(4,754)	(9,681)	(4,981)	2,872
Disposal	—	—	—	111,254
Extraordinary item	—	—	—	7,157
Net earnings (loss)	(33,318)	(52,625)	(32,922)	145,457
Earnings (loss) per share				
Continuing operations	(.36)	(.54)	(.35)	.30
Discontinued operations	(.06)	(.12)	(.07)	1.43
Extraordinary item	—	—	—	.09
Net earnings (loss)	$ (.42)	$ (.66)	$ (.42)	$ 1.82

[a] Fourth quarter 1988 results include $7 million related to a favorable settlement with the United Mine Workers.

[b] 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 Emeritus, Federal Reserve
Bank of San Francisco—12th District
(1985)

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

Peter J. Fluor
President of Texas Crude, Inc. (1984)

David P. Gardner
President, University of California
(1988)

Gerald M. Glenn
Group President, Marketing and Sales,
Fluor Daniel, Inc. (1989)

William R. Grant
Chairman of the Board 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
Chairman, The International Council,
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
Chairman Emeritus 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
Gerald M. Glenn
Robert L. Guyett
Vincent L. Kontny
E. Morgan Massey
Leslie G. McCraw
P. Joseph Trimble (ex officio)

Audit Committee

William R. Grant, Chairman
Peter J. Fluor
David P. Gardner
Bobby R. Inman
Louis H. Wilson

Nominating Committee

David S. Tappan, Jr., Chairman
Peter J. Fluor
William R. Grant
Bobby R. Inman
Robert V. Lindsay
Louis H. Wilson

Organization and Compensation Committee

Louis H. Wilson, Chairman
Caroline L. Ahmanson
William R. Grant
Robert V. Lindsay
Allen E. Puckett

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

Officers

Executive Corporate Officers

David S. Tappan, Jr.
Chairman of the Board and
Chief Executive Officer (1952)

Leslie G. McCraw
President (1975)

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

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

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

Corporate Officers

Charles J. Bradley
Vice President-Human Resources and
Administration (1958)

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)

Larry W. Lineberger
Vice President and Controller (1971)

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)

Fluor Daniel Executive Officers

Vincent L. Kontny
President and CEO, Fluor Daniel, Inc.
(1965)

Hugh K. Coble
Group President, Operations (1966)

Gerald M. Glenn
Group President, Marketing and Sales
(1964)

Key Fluor Daniel Operating/ Marketing Executives

Industrial Sector

James C. Stein
President (1964)

Richard M. Teater
Vice President-Marketing (1980)

Process Sector

Paul J. Varello
President (1972)

Steven G. Tappan
Vice President-Marketing (1977)

Power Sector

Peter S. Van Nort
President (1980)

Michael J. Epprecht
Vice President-Marketing (1979)

Hydrocarbon Sector

Charles R. Oliver
President (1970)

Dennis G. Bernhart
Vice President-Marketing (1968)

Government Sector

Emil J. Parente
President (1978)

Thomas P. Merrick
Vice President-Marketing (1984)

Operations Centers

Larry M. Hart
President (1967)

International

Charles R. Cox
President (1969)

Charles P. Pringle
Vice President-Marketing (1970)

Asia/Pacific

James E. Barry
President (1976)

Richard D. Carano
Vice President-Marketing (1970)

Canada

A.B. McArthur
President (1975)

Frank J. Vanginhoven
Vice President-Marketing (1976)

Europe/Africa/Middle East

Richard W. Dean
President (1967)

Henry C. Van Dyke
Vice President-Marketing (1974)

Venture Group

John D. Simpson
President (1983)

Other Key Operating/Staff Executives

A.T. Massey Coal Company, Inc.

E. Morgan Massey
President (1947)

Fluor Constructors International, Inc.

Richard A. Flinton
President (1960)

Government Relations

Betty L. Hudson
Vice President (1974)

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

Principal Subsidiaries and Divisions

Engineering and Construction

Fluor Daniel, Inc.

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

U.S. Operations Centers
- Chicago
- Greenville
- Houston
- Irvine
- Philadelphia

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, Inc., Calgary, Alberta, Canada
- Wright Engineers Limited, Vancouver, British Columbia, Canada
- Fluor Daniel B.V., Haarlem, The Netherlands
- Fluor Daniel GmbH, Dusseldorf, West Germany
- Fluor Daniel Limited, London, England

SOS International, South San Francisco, California

Daniel International Corporation, Greenville, South Carolina

Fluor Constructors International, Inc., Irvine, California

Natural Resource Investments

A.T. Massey Coal Company, Inc., Richmond, Virginia
The Doe Run Company, St. Louis, Missouri

DR 2801252

Stockholders' Reference

Form 10-K

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

Registrar and Transfer Agent

Security Pacific National Bank, Corporate Services Division, 333 South Beaudry Avenue, 24th Floor, Los Angeles, California 90017, and Security Pacific National Trust Company, 2 Rector Street, 9th 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 Public 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 14, 1989 at the Meridien Hotel, 4500 MacArthur Boulevard, Newport Beach, California 92660.

Company Contacts

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

Common Stock and Dividend Information

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

	Dividends Per Share	Price Range High	Price Range Low
Fiscal 1988			
First Quarter	$ —	$15½	$11⅛
Second Quarter	—	19⅜	12¾
Third Quarter	—	23¼	17⅜
Fourth Quarter	0.02	23¼	19½
	$0.02		
Fiscal 1987			
First Quarter	$0.10	$14¼	$11⅛
Second Quarter	—	16½	12⅞
Third Quarter	—	20⅛	14¼
Fourth Quarter	—	21⅝	11
	$0.10		

Common Stock Information

At December 31, 1988 there were 79,134,524 shares outstanding and approximately 23,200 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

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