FLUOR

Leading

Into

The Next

Decade

DR 2801254

Company Description

Fluor Corporation is one of the world's largest international engineering, construction, maintenance and related services companies, and has important 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, 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.

About the Cover

Fluor Corporation is leading the engineering and construction industry into the next decade. Pictured on the cover are photos from this year's Annual Report which illustrate the broad diversification of markets and the vast array of services offered to clients by Fluor Daniel, the company's core engineering and construction business.

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Fluor

$ in thousands, except per share amounts	*1989*	*1988*	*Percent Improvement*
Fiscal Year			
Revenues	$6,277,607	$5,132,457	22
Net earnings	108,484	56,395	92
Net earnings per share	$ 1.35	$ .71	90
Return on average shareholders' equity	16.5%	10.0%	
Capital expenditures	$ 139,174	$ 86,259	61
New awards	7,135,300	5,955,200	20
Cash dividends per common share	$ .14	$ .02	600
At Year End			
Working capital	$ 238,720	$ 214,904	11
Bond portfolio	151,640	154,777	(2)
Total assets	2,154,313	2,075,732	4
Backlog	8,360,900	6,658,600	26
Capitalization			
Long-term debt	62,477	94,961	34
Shareholders' equity	720,363	601,747	20
Total capitalization	$ 782,840	$ 696,708	12
Percent of total capitalization			
Long-term debt	8.0	13.6	
Shareholders' equity	92.0	86.4	
Closing stock price	$ 28¾	$ 19⅝	46
Shareholders' equity per common share	$ 9.03	$ 7.61	19
Permanent employees	20,059	17,876	12

Dividends were resumed in the fourth quarter of 1988. The quarterly dividend was increased from $.02 per share to $.04 per share in the second quarter of 1989 and to $.06 per share in the first quarter of 1990.

Dear Fellow Stockholder: Fluor enters the new decade with strong earnings momentum, superior financial strength and a business strategy and industry focus well suited for the 1990s.

Net earnings for 1989 increased 92 percent to $108.5 million, compared with $56.4 million a year ago. Importantly, our engineering and construction backlog grew 26 percent this past year to $8.4 billion, the highest level in more than seven years.

The coming decade offers significant opportunities for an engineering and construction (E&C) company. Our diverse client base expresses a growing demand for technical services, and developing markets worldwide have basic needs that must be satisfied. Our industry appears to be in the early stages of a long-term growth trend. Consequently, we dedicated this past year to meeting interim goals that will allow us to fully capitalize on each phase of that trend.

- *Engineering and Construction*

We concentrated on four major E&C objectives:

- *First*, we targeted and won specific contracts aimed at improving profit margins or strategically positioning the company in markets or geographic areas that will enhance future growth. We exerted special effort to expand our market position outside the U.S. International backlog grew 44 percent in 1989 and now stands at $2.0 billion or 23 percent of total backlog. International growth is expected to outpace growth in the U.S. over the next several years as new markets are further penetrated.
- *Second*, superior performance in project execution, a hallmark of the company, received special emphasis as we focused on Fluor Daniel's mission statement (page 49). More than 60 percent of new work in 1989 was from repeat clients, clear evidence that our mission accommodates changing market needs.

Further indications of our success are our ranking as Number 1 contractor in the U.S. by Engineering News Record Magazine for the second consecutive year. Fluor Daniel led the U.S. with its outstanding safety performance in 1989, our best on record and five times better than industry norms.

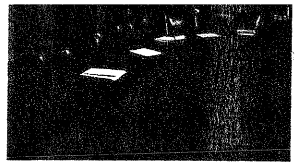
- *Third*, the company's dedication to superior service is founded upon attracting and retaining the most qualified and experienced people in our industry. This will be accomplished by selective recruitment, and stepping up reinvestment in extensive training, enhanced use of electronic engineering and more advanced communication tools. Special functional taskforces have been established to ensure that our more than 50,000 salaried, hourly and craft personnel continuously improve performance.
- *Fourth*, we strengthened our capabilities in all five business sectors through internal development, technology positioning, niche acquisitions and client alliances.

A significant step was taken in Power. A 50/50 joint venture company was formed with Duke Power Company, one of the most progressive and well-managed utilities in the U.S. The new company, Duke/Fluor Daniel, will provide clients with a single source for all of their coal-fired power generation needs. Fluor Daniel will concentrate on non-coal privatized power, cogeneration, technical services and maintenance.

The Hydrocarbon Sector, where we are the recognized industry leader, is also adding to its capabilities. In November, we announced our intent to purchase Williams Brothers Engineering, a well regarded company in pipelines and production facilities.

Industrial, our largest, most diverse business sector, continues to make solid progress penetrating domestic and international markets—more than offsetting softness in certain of their industries.

The Process Sector, which achieved market share gains in its global markets, is benefitting



Executive Committee. Pictured left to right in frame 14 are E. Morgan Massey, President, A. T. Massey Coal Company; P. Joseph Trimble, Senior Vice President-Law, Fluor (ex officio); Robert L. Guyett, Senior Vice President and Chief Financial Officer, Fluor; Hugh K. Coble, Group President, Fluor Daniel; Gerald M. Glenn, Group President, Fluor Daniel; Leslie G. McCraw, Vice Chairman and Chief Executive Officer, Fluor; David S. Tappan, Jr., Chairman, Fluor; Vincent L. Kontny, President, Fluor, and President and Chief Executive Officer, Fluor Daniel.

from strong client alliances and an outstanding reputation in advanced composites, plastics and biotechnology.

Finally, Government is concentrating on several promising technology fields, including certain Department of Energy projects, telecommunications, hazardous waste and environmental remediation.

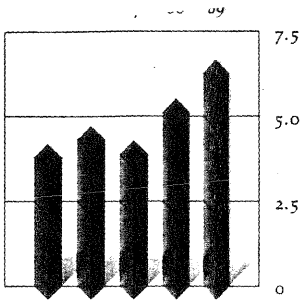
- *Natural Resources*

Massey Coal's excellent performance in 1989 stems from higher volume and continued downward pressure on operating costs. This past year Massey reopened a major low-sulfur coal mine and purchased additional low-sulfur reserves adjacent to existing facilities in anticipation of proposed federal acid rain legislation.

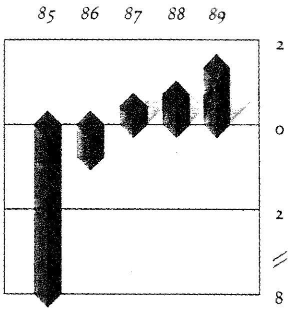
Doe Run, the market leader in lead, also showed outstanding performance, taking full advantage of robust demand and higher commodity prices. Pricing, however, softened as the year ended. As previously reported, we are responding to inquiries regarding the potential purchase of our 57.5 percent interest in the company.

- *Financial Condition*

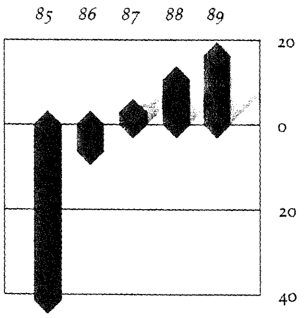
Financially, Fluor is in excellent condition. Long-term debt currently stands at $62 million, $32 million less than a year ago and only 8 percent of total capitaliza-



Revenues
dollars in billions



Net Earnings (Loss) Per Share
dollars



Return on Equity
percent

tion. Our cash, cash equivalents and bond portfolio total $387 million or $67 million more than a year ago. Return on shareholders' equity also improved, advancing to 16.5 percent from 10 percent in 1988.

In recognition of the company's improving performance, strong financial position and positive outlook, the Board of Directors approved in December an increase in the quarterly dividend rate to 6 cents per share. The normal payout guideline is approximately 20 percent of the previous year's earnings.

- *Management Changes*

Fluor's senior management transition entered its final phase with Les McCraw succeeding Dave Tappan as Chief Executive Officer on January 1, 1990. Tappan will continue as Chairman until December 31, 1990, with McCraw serving as Vice Chairman.

Vince Kontny replaced McCraw as President, Fluor Corporation, and retained his responsibilities as President and Chief Executive Officer of Fluor Daniel.

The team management philosophy which enhanced Fluor's recent restructuring and recovery will continue to be a guiding precept for success in the 1990s.

- *Outlook*

As the rate of political and economic change continues to accelerate, Fluor is structured and ready to respond. The world is clearly moving toward reduced military spending with the prospect of reallocating national resources toward more productive enterprises. The coming decade will see increased private and government investment to satisfy a growing demand for products and services. As a global leader in our industry, we are in a unique position to capitalize on these favorable trends.

We look forward to a new decade of further growth and prosperity, and we thank our employees, shareholders, clients and Board of Directors, all of whom have invested with us for the future.

D. S. Tappan Jr.

David S. Tappan, Jr.
Chairman

L. G. McCraw

Leslie G. McCraw
Vice Chairman and Chief Executive Officer

January 19, 1990

Fluor places utmost importance on relations with its shareholders. With this in mind, special emphasis is given to communications, specifically the annual and quarterly shareholder reports, special bulletins and the annual meeting. To further facilitate the flow of information to shareholders, Fluor management also meets regularly with members of the financial community, who in turn provide their investment conclusions to investors. The objective of these communication efforts is to provide current and prospective Fluor shareholders with sufficient information so that they can fairly assess the company's progress and its value as an investment.

What Financial Analysts Are Saying About Fluor

The following excerpts from recent financial reports reflect the viewpoints of financial analysts on the long-term outlook for the industries served by Fluor and the opportunities for the company.

Industry Outlook

...The capital investment cycle appears to be in the early stage of a long-term recovery worldwide which is good news for Fluor.

...Compilation of E&C new orders and backlog points to continued expansion of the industry. We expect these stocks to continue to reflect secular growth in new orders and backlog.

...Finding the resources to execute backlogged work will become one of the most critical issues facing the industry in coming years.

...Impact of acid rain legislation on coal markets now becomes important. Producers with low sulfur coal reserves, strategically located near eastern U.S. markets, are likely to benefit.

Fluor's Status, Issues and Opportunities

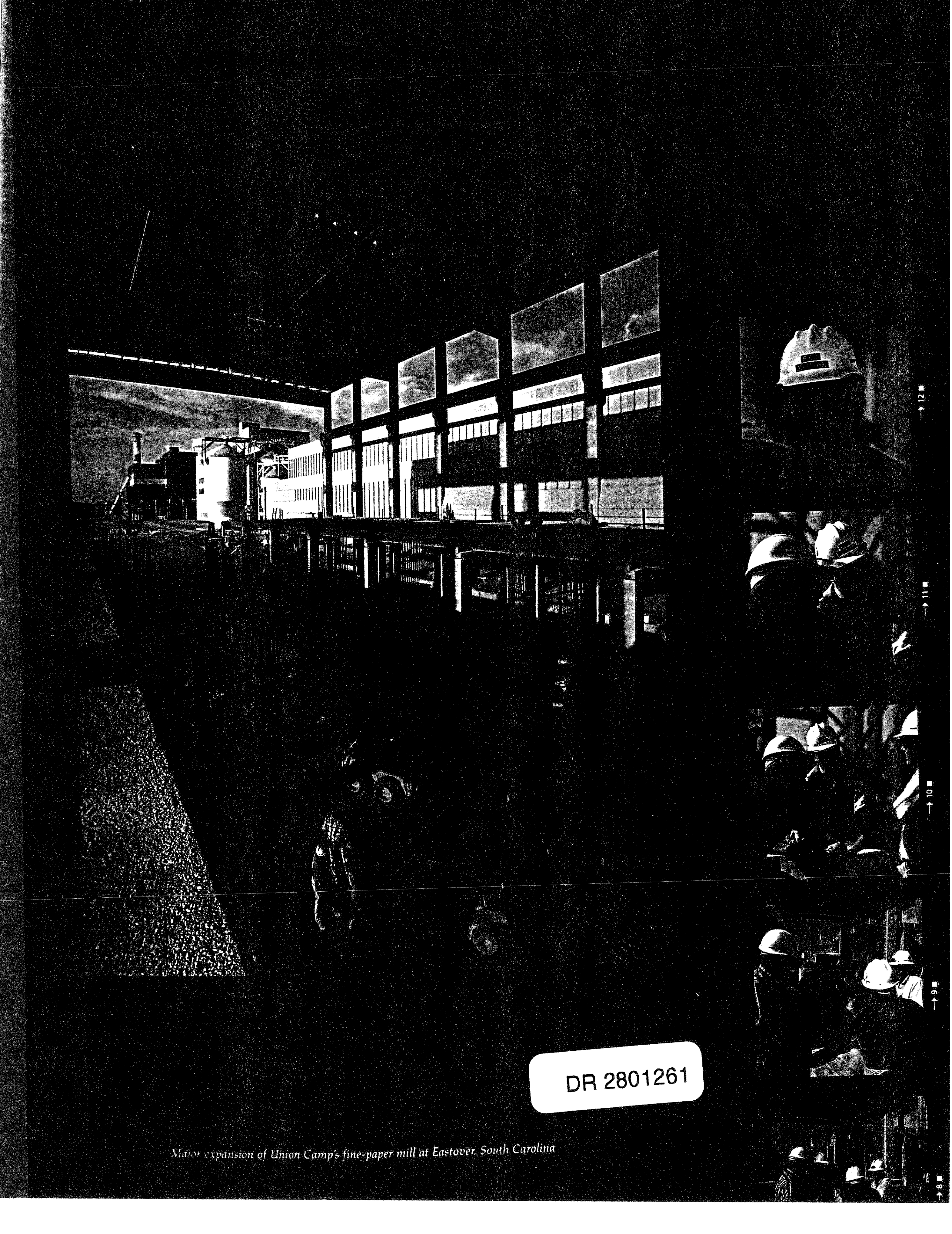
...The market's excitement over Fluor's strong end-markets, well-focused strategy and rapidly improving cash flows has caused the stock to outperform the market.

...Fluor's top management has emerged with a clear idea of how this company will approach its business through the 1990s.

...Fluor Daniel's strong brand name, combined with a well-diversified geographic presence, should enable the company to participate in almost any major regionally-specific capital spending cycle.

...The company has thus far been very successful in adding staff... nevertheless, we expect the problem (of scarcity) to exacerbate before improving.

...Fluor's first priority is to invest excess cash in its E&C business, then consider other options.



Major expansion of Union Camp's fine-paper mill at Eastover, South Carolina

(Left) Fluor Daniel's work force demonstrated the company's total commitment to safety by chalking up new records for working without lost-time accidents on this important project. The mill represents one of the largest capital investment projects in South Carolina.

In the 30 months to complete Phase I of the plant and its support facilities, Fluor Daniel workers achieved 1 million hours without a lost-time accident five different times and worked 2.8 million hours without a lost-time accident at a single stretch—a dramatic milestone for the pulp and paper business unit.

Engineering and construction (E&C) services, the company's core business activity led by Fluor Daniel, achieved significantly improved earnings in 1989 due in part to higher margins and increased market share. Operating profit more than doubled to $117 million compared with a year ago. Revenues increased 26 percent to $5.3 billion.

The E&C strategy we developed in 1986 with the formation of Fluor Daniel—deliver more services to more clients in more markets in more geographic areas—is meeting with considerable success. New awards grew 20 percent this past year to $7.1 billion. Backlog rose 26 percent to $8.4 billion and is well diversified among the five business sectors. Business activity outside the U.S. also showed marked improvement in 1989. The international component of backlog grew 44 percent to $2.0 billion and we anticipate continued growth. International work now represents 23 percent of total backlog.

During the past year Fluor Daniel refined its organizational structure to enhance its industry leadership role and to expand its diversity. Formalized business units were created to focus on specific markets within each of the five business sectors. To facilitate career development opportunities, as well as insure the quality and consistency of Fluor Daniel's services, functional leaders within various disciplines were created. The business units and functional leaders concept overlay our network of Operations Centers which provide project execution worldwide.

While we have been reasonably successful in improving our margins by offering clients a clear value advantage, market conditions which impact margins are still only fair. To optimize our intermediate-term margin performance, we intend to reinvest aggressively in increased personnel training and development; more sophisticated electronic engineering and control systems; improvements in our communications networks; and extending our leading edge knowledge and capabilities in emerging technologies. This reinvestment strategy will achieve best results for the full business cycle.

Completing its second year, the Growth through Excellence in Technology, or "GET" program, provides focus for Fluor Daniel's commitment to a leadership position in the application of new and emerging technologies. Target areas in this program include the direct conversion of natural gas to liquid transport fuels; significant advances in new and environmentally clean electric power generation technology; new biological processes for production of chemicals; application of supercritical processing to the foods industry; new bleaching technology to improve the quality of wood pulp and eliminate harmful effluents; and the application of superconductivity for electromagnetic launch of space vehicles. A key objective of the program is to achieve the technological synergy potential represented by Fluor Daniel's unique multi-industry position and bring that know-how and experience to bear in providing added value to our clients.

- *Industrial Sector*

Serving the most diverse range of markets of Fluor Daniel's five business sectors, the Industrial Sector serves clients through its five business units: pulp and paper; metals; food, beverage and consumer products; commercial; and automotive and electronics.

New awards in 1989 were strong, totalling $2.4 billion. Backlog for the Industrial Sector grew to $2.9 billion, representing 35 percent of the company's total. The sector increased its international presence during the year working for U.S. clients outside the U.S., as well as adding new international clients.

The trend toward client/contractor "alliances" continues to grow. A number of new agreements were reached in 1989, and discussions are currently underway with several other industrial clients.

New awards for the pulp and paper business unit were extremely strong this past year, including a major expansion of Union Camp's Eastover paper mill in South Carolina, a grassroots tissue mill for Kimberly-Clark in Tennessee, and the addition of a fourth tissue paper machine at Fort Howard's Savannah River Mill in Georgia. While it is expected that new capacity additions in the U.S. may slow in 1990, pulp and paper projects are anticipated internationally.

The market for the food, beverage and consumer products unit was active, due to technological advances in food processing and packaging. During the year, an "alliance" agreement was reached with Pillsbury, now a subsidiary of U.K.-based Grand Metropolitan PLC. Current projects for Procter & Gamble, an alliance client, include manufacturing facilities in the U.S., Canada and West Germany.

The downstream metals processing market picked up in 1989 because of advances in recycling and product quality, and higher commodity prices. Significant projects included two awards from Alcan for a major modernization program at their sheet rolling facility in New York, and upgrading and capacity expansion of their Kentucky plant; and a grassroots lithographic plate manufacturing facility for Polychrome in Georgia.

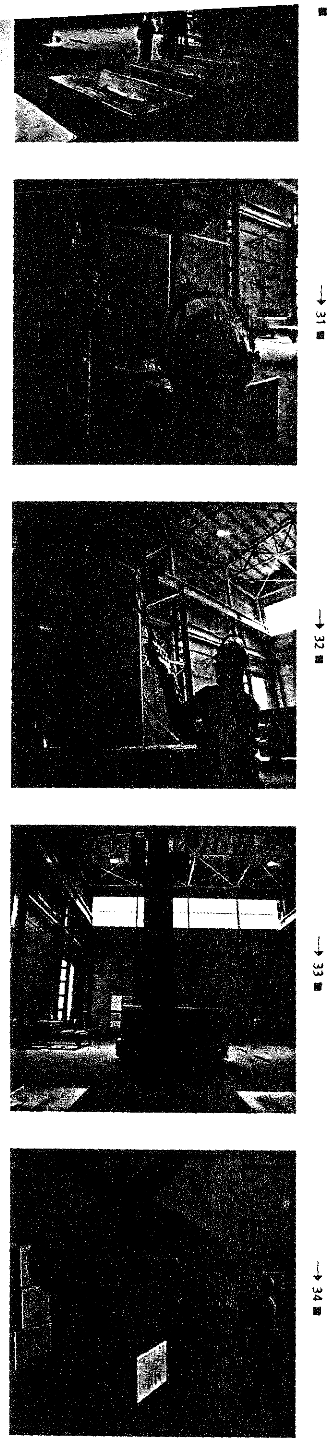
A strengthening commercial market, combined with Fluor Daniel's selective marketing strategy which targets specific geographic areas and client relationships, is generating a growing list of contracts. Projects for the commercial unit include high-rise buildings, hotels, court houses and prisons.

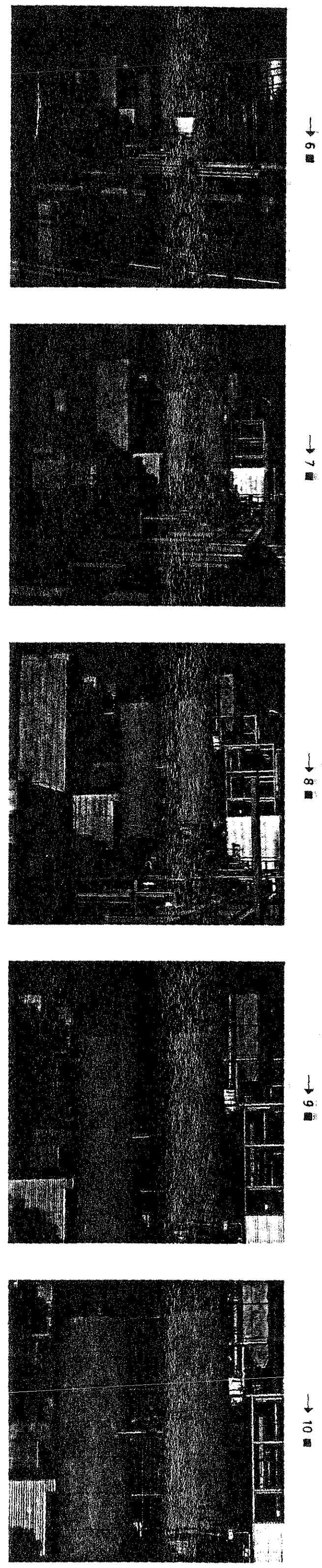
Increased engineering services coupled with Fluor Daniel's already strong construction reputation helped achieve market share growth in the automotive and electronics areas. Examples of such awards include a semiconductor manufacturing facility in California; expansion of an advanced ceramic products facility in West Germany; and continued expansion of services for an automotive assembly facility in Kentucky.

Significant projects completed during the year include an electronic wafer fabrication facility for Intel in California; two high-rise hotels for Hyatt in the Washington, D.C. area; a dry cereal manufacturing facility for Kellogg in Michigan; and expansion and upgrade of the Greenville-Spartanburg airport in South Carolina.

- *Process Sector*

Serving an increasingly global market and client base, the Process Sector achieved solid growth in 1989. New awards grew to $2.0 billion from $1.1 billion a year ago. Backlog at year end was $2.0 billion, representing 25 percent of the company's total.





(Far left) Siting, design, procurement, construction, commissioning and maintenance services are provided by the Industrial Sector for Alcan Aluminum's new state-of-the-art used beverage can (UBC) recycling plant in Berea, Kentucky. The latest technology is used to shred and melt the UBC's and feed molten metal into a single caster. The plant has an annual capacity of about 6 billion cans.

(Left) The Process Sector completed design and construction management of a fluid cracking catalyst plant in Terneuzen, Netherlands, for Engelhard Corporation. Front-end design was performed at the Greenville, South Carolina Operations Center, with completion managed by the Haarlem, Netherlands office.

The Process Sector serves clients through its four business units: chemicals, textiles and fibers; plastics; pharmaceuticals, biotechnology and fine chemicals; and the Delta Division, which performs work worldwide for our "alliance" with Du Pont.

Constantly advancing technology and new product development keep growth in the biotechnology and pharmaceutical unit rapid. The Process Sector has developed a strong presence in the northeast U.S., where many U.S. pharmaceutical companies are located. Fluor Daniel's Philadelphia Operations Center, established in 1988, is one of our fastest growing offices serving these important Process Sector clients. The economic integration of the European Economic Community in 1992 is also stimulating project activity for a number of major U.S. and European-based clients.

The chemical industry worldwide continues to operate at high rates of capacity utilization necessitating new expansion projects and debottlenecking of existing facilities. Chemical manufacturers are geographically diversifying their production base in response to an increasingly global market, leading to additional international assignments. Chemical companies are beginning to invest in environmentally-driven projects in order to comply with new and more stringent environmental regulations.

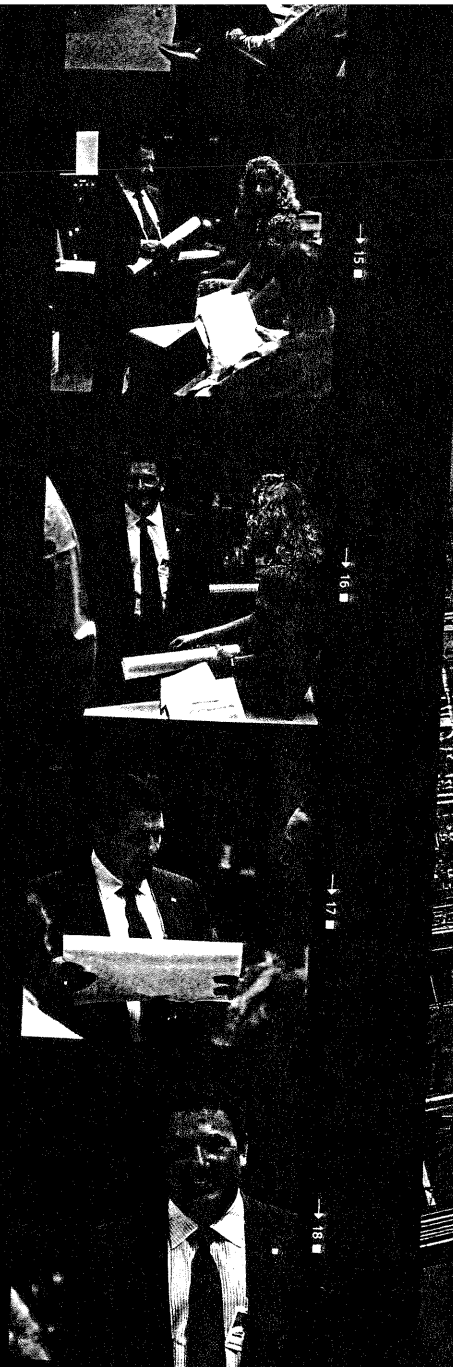
Growth in the use of engineered plastics and advanced composites in aerospace, automotive manufacturing and computer applications continues to expand opportunities for the plastics unit.

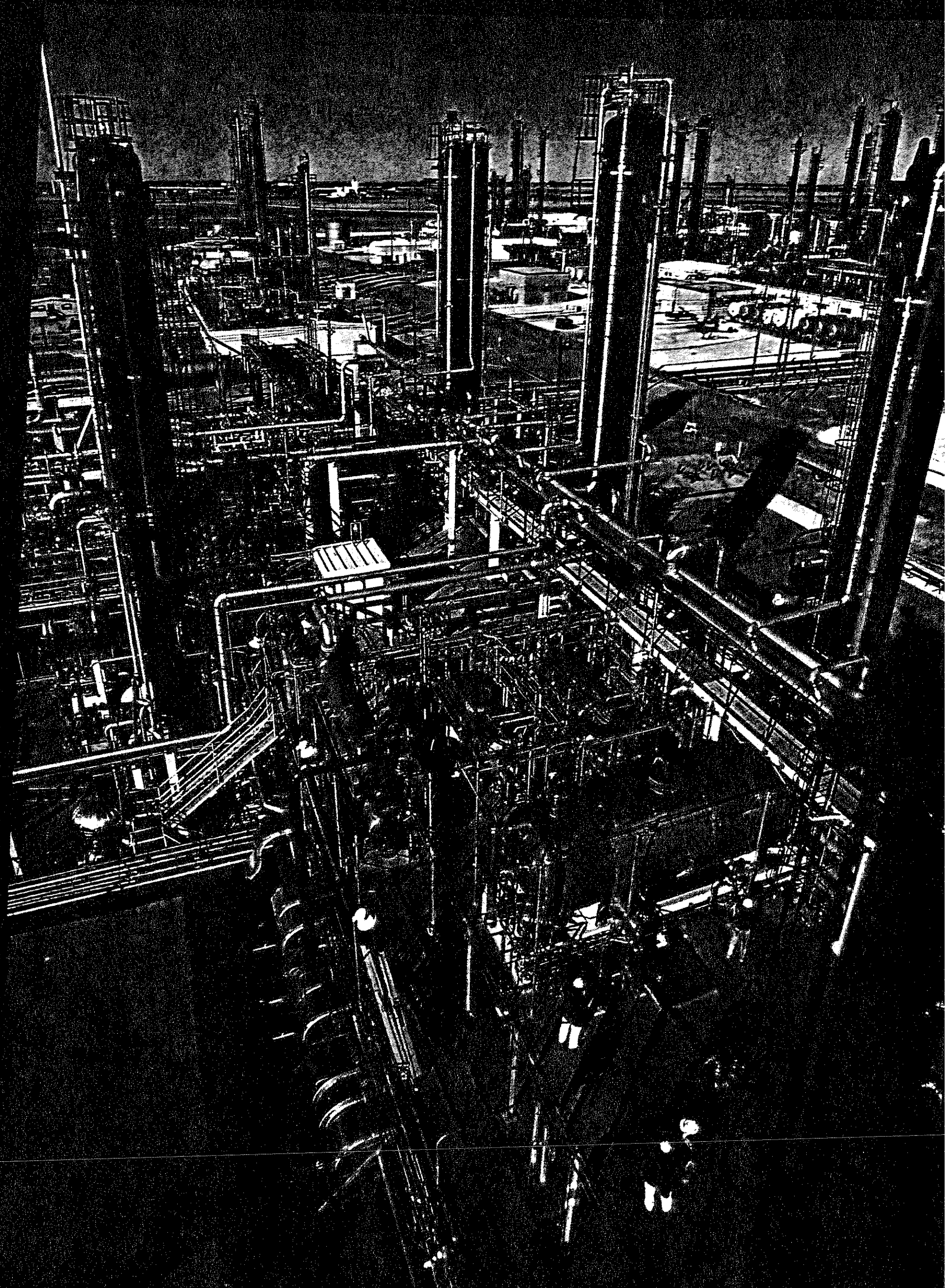
Significant projects awarded to the Process Sector this year include a specialty chemical project for CIBA-GEIGY in Alabama; a second expansion of an animal feed supplement facility for Heartland Lysine in Iowa; a new world headquarters facility for Bausch & Lomb's Pharmafair subsidiary in Florida; a specialty chemical plant for the North American subsidiary of West German-based Hüls AG in Alabama; expansion of an amino acids production facility for Ajinomoto USA in North Carolina; a polyester film plant for Toray Plastics (America) in Rhode Island; environmental services for Rohm and Haas in Pennsylvania; and several awards worldwide for GE Plastics.

During 1989, the Delta Division further expanded the services provided to Du Pont and is currently working at over 25 sites in five countries. Considered the standard of the industry for "alliances"

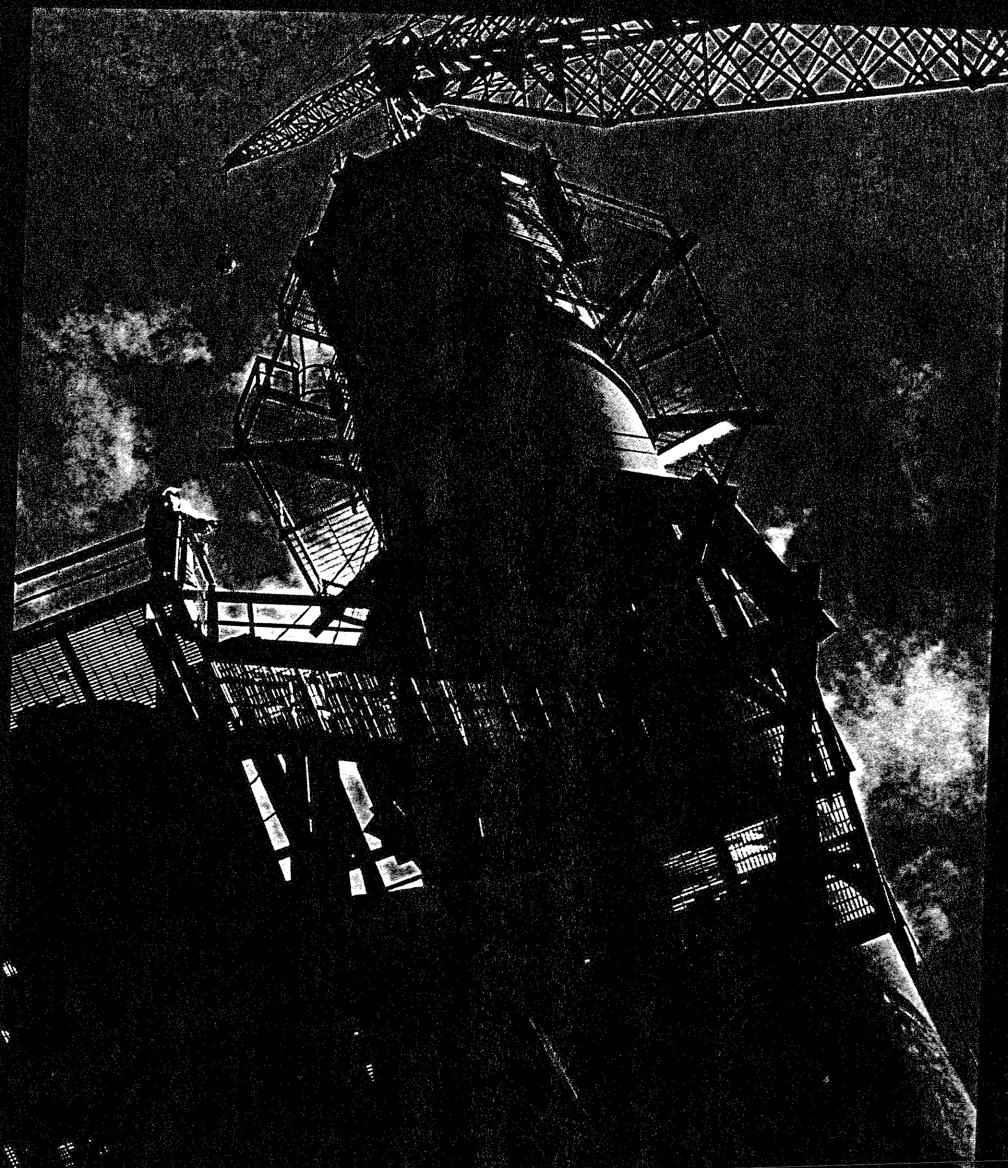
(Right) Innovative construction techniques met a fast-track schedule, achieving job completion in just 13 months instead of the customary 28 months. Fluor Daniel's project approach and use of Auto CAD achieved dramatic savings in time and dollars.

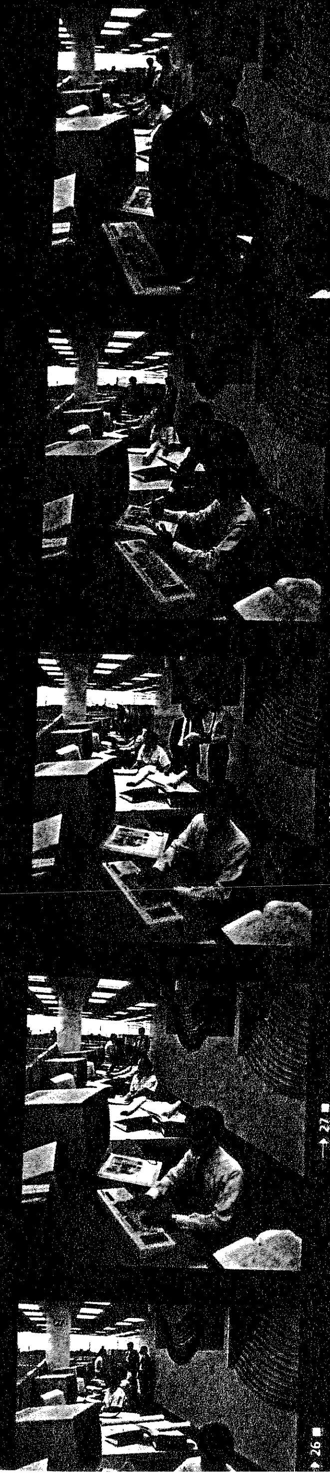
A "Go" team of impartial inside experts continually reviewed job progress and made appropriate recommendations. A significant on-site engineering force designed and implemented construction decisions on the spot. Fluor Daniel and client project organizations were developed to meet required tasks rather than follow conventional methods of working the tasks around an established organization.





Hoechst Celanese acetic acid facility rebuild in Pampa, Texas.





160 MW Cogeneration plant for Altresco in Pittsfield, Massachusetts

(Left) Fluor Daniel's leading edge position in use of advanced technology is being applied in the design of this new cogeneration plant in Massachusetts.

Located in a residential area with a neighboring public school, the plant has a state-of-the-art emissions control system. The project was evaluated and designed using highly sophisticated computer-aided design techniques and proprietary computer models. Special noise-attenuated cooling towers have been installed and major equipment enclosed within concrete structures. The result is one of the quietest facilities of its type in the United States.

between clients and contractors, the number of employees in the Delta Division grew worldwide to an all-time high. The Process Sector also has alliances of varying size and scope with a number of other clients, providing an important baseload of engineering work.

Significant projects completed during 1989 include expansion of a titanium dioxide facility in Georgia for Kemira; a feedstock treatment plant for pigment production in West Germany for Bayer AG; and a biotech facility in Puerto Rico for Ortho Pharmaceuticals.

▪ *Power Sector*

During 1989, the Power Sector continued to strengthen its market position and client relationships. While significant growth in the power market is anticipated over the next several years, the current level of activity remains modest. Nevertheless, new awards for the Power Sector in 1989 improved 30 percent over last year to $539 million. Due to significant work-off on the large Midland Cogeneration project, backlog declined somewhat from a year ago to $657 million, or 8 percent of the company's total.

The Power Sector provides a broad range of services to gas and electric utilities, independent power producers, cogenerators and industrial clients in the areas of coal, gas, nuclear and other alternative energy technologies. The Power Sector has seven business units. Five of the units focus on client needs in geographic regions of the U.S., while the remaining two units provide technical expertise focused on specific technologies for coal- and gas-fired power plants.

In September, the Power Sector significantly improved its position in the coal-fired electrical power generating market by forming a joint venture with Duke Power, a leading U.S. utility. The new company, Duke/Fluor Daniel, will provide comprehensive engineering, construction, operating and maintenance services in the U.S. to coal-fired facilities for utilities, independent power producers, cogenerators and manufacturers who produce their own power. The combination of Duke's outstanding design and operating capabilities and Fluor Daniel's engineering and construction expertise is now a major force in the power market. The combined strengths of the two companies will provide clients with a single source for all of their coal-fired power generation needs.

As a leader in power maintenance technology, Fluor Daniel serves the current market which is still strongly geared to plant maintenance, modification, upgrade and life extension projects.

Pent-up demand for new electric generating capacity continues to build as growth outpaces industry

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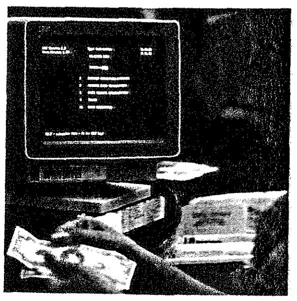
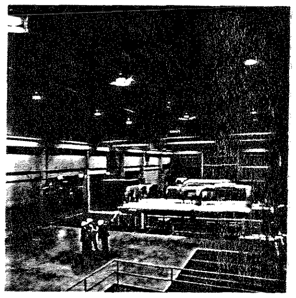
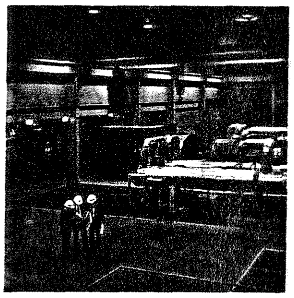
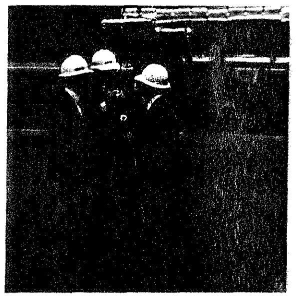
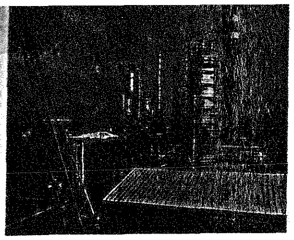


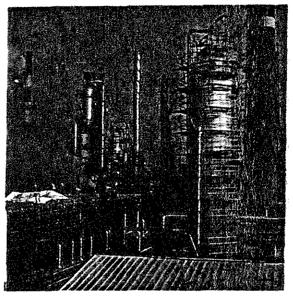


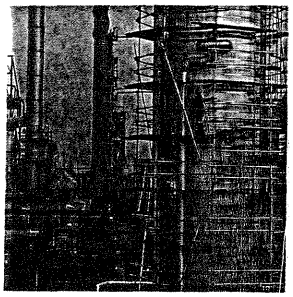


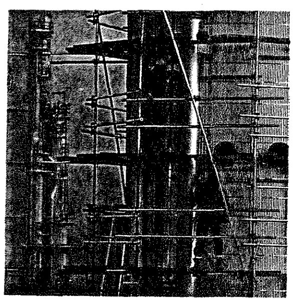


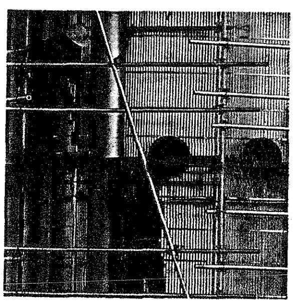
(Far left) The Government Sector's telecommunications services unit is designing and installing an upgraded data network to connect approximately 800 Bank of America offices throughout California. (Left) Duke/Fluor Daniel, the Power Sector's newly formed joint venture with Duke Power, will target U.S. coal-fired electric power generating facilities. Senior executives, drawn from both parent companies include (left to right) Mike Epprecht, Sales; Ron Green, President; and Parks Cobb, Operations. (Right) The Hydrocarbon Sector is performing engineering, procurement and construction management on a lead phase-out project at Ultramar Canada's refinery in St. Romuald, Quebec.











expectations. Despite heightened awareness and numerous industry studies indicating future shortages, utilities have not as yet begun to add new base-load capacity.

The privatized segment of the power industry and cogeneration remain the strongest markets for new power plant construction. In some instances, utility clients are participating as equity partners, developers and plant operators through their unregulated subsidiaries. For example, Fluor Daniel is designing and building a 90-MW cogeneration plant at Boise Cascade's Fort Frances, Ontario, pulp and paper mill for ICG Utilities. The ICG facility will provide steam to Boise Cascade and electricity to a local utility.

Primarily a U.S.-based focus, international opportunities exist in privatization in the United Kingdom and the developing economies in the Asia/Pacific region. Through a joint venture with British Electric International, Fluor Daniel is now operating and maintaining a coal-fired power plant in China.

Significant projects completed during the year include a 20-MW agri-waste power facility for the California Agricultural Power Company; and three cogeneration facilities to provide steam for enhanced oil recovery, one for Harbor Cogeneration, and two for Mobil Oil, all in California.

Hydrocarbon Sector

The outlook for the Hydrocarbon Sector continued to improve throughout 1989, as many clients expanded their capital spending plans. This sector provides a full range of services through its three business units: petroleum/petrochemical; production/pipeline; and mining and metallurgy. Geographically diverse, these markets represent growing opportunities worldwide, particularly in the Asia/Pacific region, the Middle East, Canada and Latin America.

Although new awards of $1.6 billion were somewhat below last year's dramatic recovery to $1.9 billion, opportunities in the Hydrocarbon Sector's markets continue to grow. Backlog at year end was $2.0 billion, representing 23 percent of the company's total.

Client capital spending, which was deferred in these markets throughout much of the 1980s, improved in 1989. The factors most responsible for this trend are continuing environmental pressures, shifting product demand and expansion plans in certain countries.

New projects in 1989 were primarily for plant upgrades, expansions and modernization programs, although there were some new facilities such as the 500,000 tons per year grass-roots facility in Alberta, Canada for Neste Oy. This plant will produce MTBE, an additive which enhances octane in unleaded gasoline. Safety concerns related to aging plants also continue to influence this market, buoyed by the unfortunate recent explosions and fires at plants in various U.S. locations.

Outside of the U.S., developing economies in the Asia/Pacific region and reduced hostilities in the Middle East are creating renewed opportunities. Plans have been announced by a number of OPEC countries to expand their current production capacity over the next few years. Additionally, opportunities for pipeline projects are growing in the Middle East, driven by increased demand for export flexibility and planned production increases. Fluor Daniel is providing engineering services for a crude oil pipeline which connects production facilities on the east coast of Saudi Arabia to the port of Yanbu on the west coast.

Demand for natural gas as a fuel source has been increasing due to its environmentally clean-burning qualities and attractive pricing. As a result, gas pipeline systems in the U.S. are currently operating near capacity and expansions are anticipated. Restructuring and changing ownership within the gas pipeline industry along with aging of the transmission facilities are causing a rise in investments to modernize and improve efficiency.

In November 1989, Fluor Daniel signed a letter of intent to purchase Williams Brothers Engineering Company, a leading engineering and construction firm with outstanding skills and reputation in pipelines and production facilities. The addition of Williams Brothers, based in Tulsa, Oklahoma, will enhance Fluor Daniel's worldwide presence in this market.

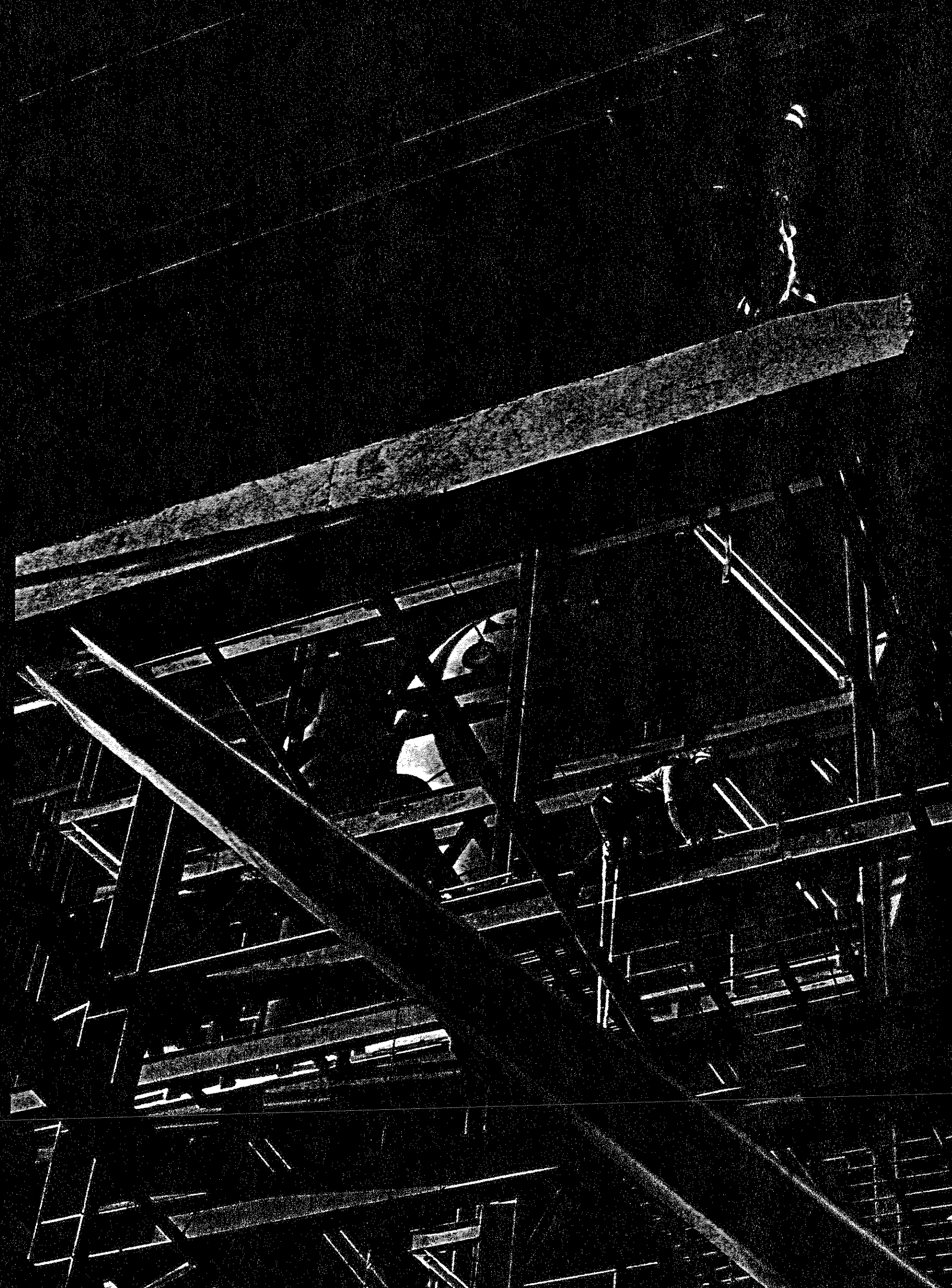
New mining projects remain active, reflecting strong commodity prices. The acquisition of Vancouver-based Wright Engineers a year ago has significantly strengthened Fluor Daniel's position in this market. We anticipate continued growth in the mining and metallurgy area with significant opportunities in gold mining and base metals projects, particularly copper. Fluor Daniel's mining and metallurgy unit was recently awarded a $300 million contract for expansion of copper recovery facilities in Indonesia for Freeport-McMoRan Copper Company.

Significant projects completed in 1989 include expansion of an acrylonitrile facility in Texas for Sterling Chemical; a gold ore mining project in Australia for Dalhold Resources; refinery revamp and modernization projects at facilities in Indiana and Michigan for Marathon Petroleum; and expansion of a polyalphaolefins unit in Texas for Quantum Chemicals.

(Right) Exceptional teamwork was achieved on this plant being engineered and built to a tight schedule.

Unique construction requirements meant close coordination between design and field work execution, demanding creative planning and cooperation with Fluor Daniel construction and client operations and maintenance personnel.

Strong commitment by Chevron and Fluor Daniel in terms of time, effort and investment created an environment of "teamwork" with individual recognition for superior effort on the task force. Continuous performance improvement accounted for significant productivity increases.



Chevron Chemical polyethylene plant in Cedar Bayou, Texas.

(Left) Hurricane Hugo swept through the U.S. Naval Weapons Station where FD Services employees were already working on a five-year maintenance contract.

Even before naval personnel returned, the FD Services work force began immediate temporary repairs on 2,200 damaged residences at the base. Downed trees were cleared, roofs patched and water, food and generators were trucked in.

Rapid response to client needs by the on-site team maintained the smooth functioning of this vital facility. FD Services has been awarded the contract for permanent repair and renovation of the structures.

- *Government Sector*

The Government Sector achieved significant growth in 1989 by expanding their market share and broadening their client base. New awards were $576 million, well above last year's $154 million. Backlog at year end grew to $780 million, representing 9 percent of the company's total with a growing profit contribution.

The sector provides an expanding range of services to public as well as private clients through its five business units: advanced technology; telecommunications; space and defense; environmental services; and FD Services, which provides facility operations and maintenance services.

The advanced technology unit provides leading edge technology skills in nuclear and other fuel cycles which support the entire Fluor Daniel organization. Two significant awards in 1989 were preliminary design-engineering on the Waste Vitrification Plant at Hanford, Washington for the Department of Energy (DOE); and engineering services on the first commercial uranium enrichment plant in the U.S.

The sector is also benefitting from Fluor Daniel's continued investment and market positioning in the telecommunications field through its telecommunications services unit. Heavy investment in telecommunications in both the public and private sectors are anticipated in the 1990s as technological advances continue to drive this developing market.

The newly formed space and defense unit provides services to the Department of Defense (DOD) and its military branches, the National Aeronautics & Space Administration (NASA), and primary defense contractors. Current projects include construction of the ground-based laser project at White Sands, New Mexico for the Army Corp of Engineers and construction management services at Stennis Space Center for NASA.

The fastest growing unit in the sector is environmental services, which provides hazardous waste remediation and cleanup services to clients in both the public and private sector. Projects for DOE, DOD, the Environmental Protection Agency and others are now moving ahead after years of study work. Cleanup efforts have also begun in the private sector and the environmental services unit is providing these services to many of the traditional Fluor Daniel clients in our other four business sectors.

FD Services continues to expand its market share in facilities operation and maintenance services. New business in 1989 included a one-year renewable contract for the Naval Air Station in Jacksonville, Florida; and, following Hurricane

Hugo, an expanded scope of services to existing operations at the Charleston Naval Weapons Station in South Carolina.

- *Fluor Constructors International*

Fluor Constuctors International, Inc. (FCII) is the company's union construction arm in the United States. As an integral part of the largest double-breasted company in the U.S., it plays the major role in activities requiring a union posture, constructing virtually all union projects for the company. Internationally, FCII takes an active role in supporting all company divisions and project offices.

FCII posted significantly improved operating profit in 1989 compared with a year ago. The gain was due in part to a prior year restructuring, including relocation of its Eastern Operations Center to Greenville, South Carolina. This move brought the company into closer contact with engineering and it is now better positioned to service all five business centers. In the past the majority of FCII's work has been for Hydrocarbon and Power clients; however, activity is now increasing in the other three business sectors.

- *Coal*

A. T. Massey Coal Company, Fluor's investment in coal, produces high-quality steam coal for electrical utilities and metallurgical coal for the steel industry. Ranking among the 10 largest U.S. coal companies, Massey also markets coal for independent producers.

Massey achieved increased operating profit in 1989 compared with a year ago due to higher volume and reduced costs. Massey's high-quality, low-sulfur coal reserves are strategically located to serve the eastern electric utility market, and the proposed acid rain legislation is beginning to benefit pricing for low-sulfur coal.

During the year, Massey acquired new low-sulfur reserves and reopened its low-sulfur coal mine and processing plant in Sydney, Kentucky. The company intends to continue to evaluate the purchase of low-sulfur coal reserves.

Additionally, Massey is working jointly with Fluor Daniel's Power Sector to identify and pursue opportunities in the privatized power market where the combination of engineering and construction capabilities and a source of low-sulfur coal brings added value.

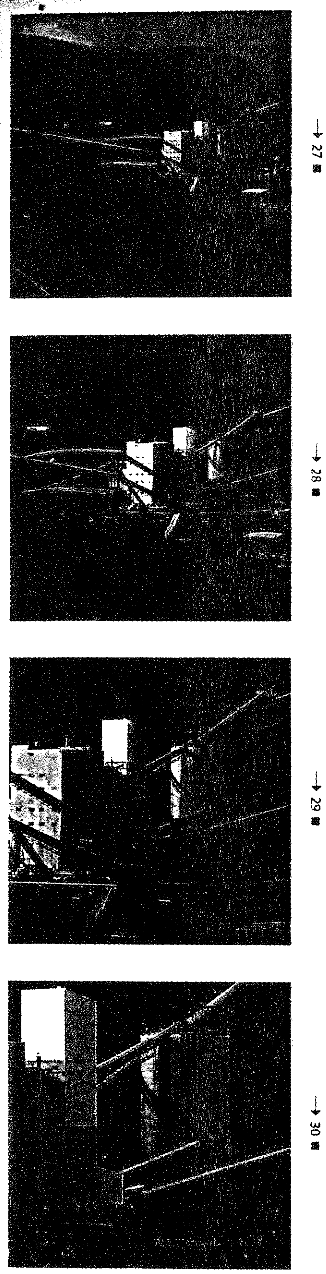
- *Lead*

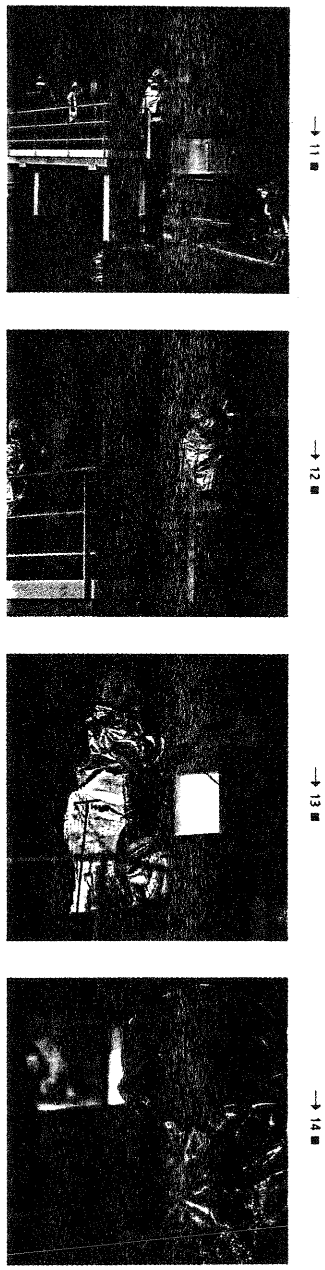
The company's investment in lead operations, conducted through its 57.5 percent interest in The Doe Run Company, achieved significant growth in operating profit in 1989 due to strong lead prices and significant copper and zinc by-product credits.

The major use for lead is the production of batteries which consumes approximately 75 percent of the lead metal produced by Doe Run. Closely associated with the automobile industry, consumption of lead for both new and replacement battery production is a stable long-term market.

While lead prices remained well above the depressed levels experienced throughout much of the 1980s, prices softened somewhat at year end.

During the year we received a number of inquiries regarding the purchase of our interest in Doe Run. We have been pursuing those discussions and had hoped to reach a conclusion in 1989. Given Doe Run's strong earnings performance, negotiating an acceptable sales price has been difficult. Our objective to maximize cash flow and return on investment through operations or sale remains unchanged.





(Far left) Massey Coal's Sydney mine, reopened in April 1989, produces extremely low-sulfur coal and is well positioned to take advantage of the growing market resulting from expected acid rain legislation. The new processing plant is highly computerized with a state-of-the-art quality control system.

(Left) Doe Run, the largest integrated producer of primary lead in the U.S., continues to focus on cost efficiencies to maximize cash flow and return on investment. Fluor's portion of Doe Run's lead metal sales in 1989 increased 6 percent to over 155,000 tons.

Fluor

$ in thousands/Year ended October 31,	1989	1988	1987	1986	1985
Engineering and Construction					
Work Performed	$5,240,827	$4,267,892	$3,370,957	$3,817,200	$3,438,327
Revenues	5,311,653	4,225,212	3,251,304	3,727,764	3,226,486
Operating Profit (Loss)	117,439	50,819	(49,473)	(71,152)	(106,528)
New Awards	7,135,300	5,955,200	4,059,700	2,992,200	4,485,300
Backlog	$8,360,900	$6,658,600	$4,667,300	$4,291,400	$5,114,700
Permanent Employees	17,519	15,576	11,993	12,068	14,530

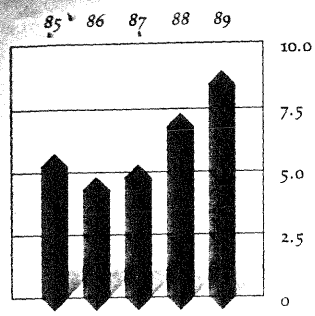
$ in millions	$ 1989	%	$ 1988	%	$ 1987	%	$ 1986	%	$ 1985	%
Backlog by Sector and Location										
Industrial	2,935	35	2,338	35	1,661	36	1,865	44	2,453	48
Process	2,038	25	1,224	19	836	18	610	14	536	11
Power	657	8	756	11	927	20	1,032	24	762	15
Hydrocarbon	1,951	23	1,932	29	940	20	690	16	1,289	25
Government	780	9	409	6	303	6	94	2	75	1
Total Backlog	8,361	100	6,659	100	4,667	100	4,291	100	5,115	100
United States	6,404	77	5,298	80	4,039	87	3,587	84	4,072	80
Outside U.S.	1,957	23	1,361	20	628	13	704	16	1,043	20
Total Backlog	8,361	100	6,659	100	4,667	100	4,291	100	5,115	100

$ in thousands/in thousands of short tons Year ended October 31,	1989	1988	1987	1986	1985
Coal*					
Revenues	$815,558	$783,719	$580,123	$516,943	$ 475,051
Operating Profit (Loss)	$ 51,007	$ 50,375	$ 28,326	$ 49,310	$(223,038)
Permanent Employees	1,435	1,232	1,372	3,307	3,571
Steam Coal Produced	12,303	11,078	9,258	9,342	7,795
Metallurgical Coal Produced	4,191	3,980	2,825	2,175	1,730
Produced Coal Sold	16,582	15,025	12,531	11,620	9,528
Purchased Coal Sold	9,300	10,038	5,306	2,522	2,174

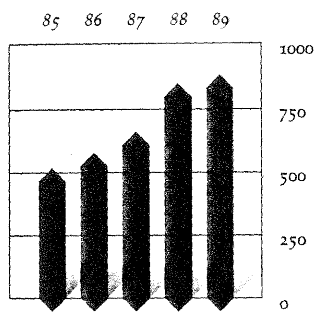
Amounts through June 1987 represent 50% of Massey's operations, except the number of employees which is 100%. Commencing July 1987, amounts include 100% of the operations of Massey after reflecting partitioning of a partnership.

$ in thousands/in short tons Year ended October 31,	1989	1988	1987	1986	1985
Lead*					
Revenues	$150,396	$123,526	$ 93,053	$ 96,993	$ 74,905
Operating Profit (Loss)	$ 38,895	$ 29,022	$ (5,511)	$(26,640)	$(187,105)
Permanent Employees	1,105	1,068	986	855	957
Lead Content of Concentrates Produced	144,205	139,809	123,888	186,975	172,781
Lead Metal Sold	155,433	146,879	130,753	193,849	177,772

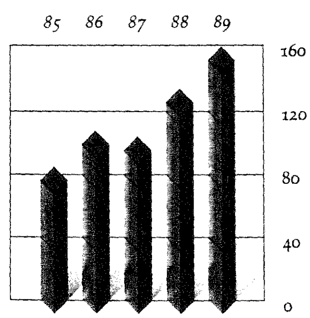
Amounts through 1986 represent 100% of domestic lead operations. Commencing in 1987 amounts represent Fluor's 57.5% interest in the operations of The Doe Run Company, except the number of employees which is 100%.



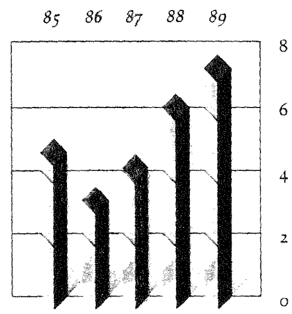
Backlog
dollars in billions



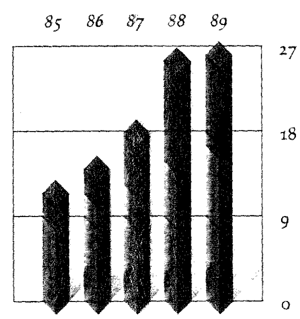
*Coal Revenues**
dollars in millions



*Lead Revenues**
dollars in millions

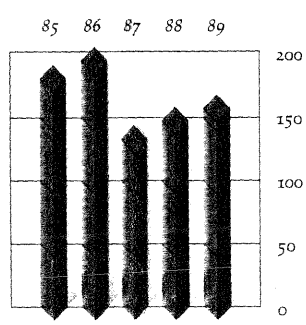


New Awards
dollars in billions

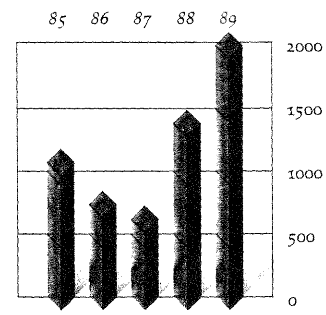


*Total Coal Sold**
millions of short tons

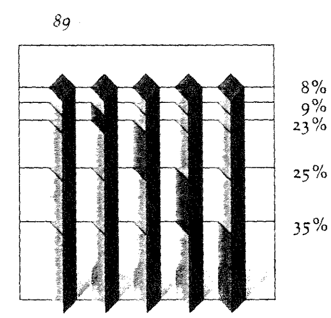
- *Purchased*
- *Produced*



*Lead Metal Sold**
thousands of short tons

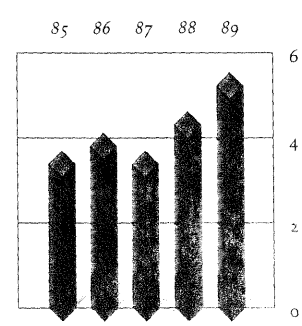


International Backlog
dollars in millions



Backlog by Business Sector

- *Power* 8%
- *Government* 9%
- *Hydrocarbon* 23%
- *Process* 25%
- *Industrial* 35%



Work Performed
dollars in billions

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

▪ *Results of Operations*

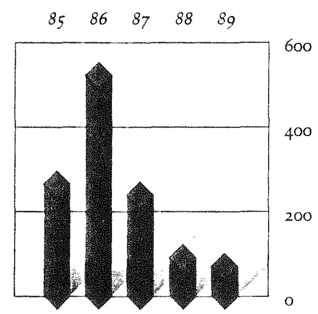
Earnings from continuing operations were $108 million in 1989 compared with $56 million in 1988 and a loss of $75 million in 1987. The related earnings per share were $1.35 for 1989 compared with $.71 in 1988 and a loss per share of $.95 in 1987. Revenues from continuing operations increased 22% in 1989 following a 31% increase in 1988.

▪ *Engineering and Construction*

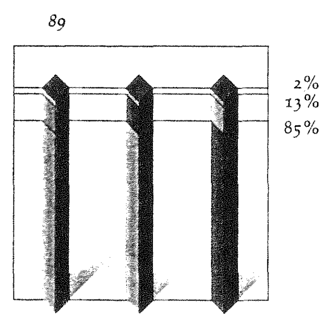
New contract awards for Engineering and Construction increased 20% in 1989 to $7.1 billion compared with $6.0 billion in 1988 and $4.1 billion in 1987. The engineering and construction industry continues to experience a growth cycle as capital expenditures are increasing in response to high capacity utilization in many of the industries served by the company. Favorable worldwide business conditions continued to enhance the overall increase in new awards as well as the contribution to the international component of both backlog and new awards. The company expects both industry growth and favorable business conditions to continue into 1990. Backlog at October 31, 1989 was $8.4 billion (up 26%) compared with $6.7 billion and $4.7 billion at October 31, 1988 and 1987, respectively.

Engineering and Construction had operating profits of $117 million in 1989 compared with $51 million in 1988 and a loss of $49 million in 1987. Operating results improved in 1989 compared with 1988 primarily due to the increased volume of work performed. Third quarter 1989 results were impacted by a $43 million favorable cash settlement of an outstanding claim received from the National Iranian Oil Company. The impact of the settlement was partially offset by costs associated with accelerated hiring and training of personnel to respond to work commitments, delays in realization of certain contract incentives, front-end development costs on certain projects and a one-time charge for costs associated with a previously established performance incentive plan. In 1989 the company also recorded gains from the sale of investments in its two cellular telecommunications operations.

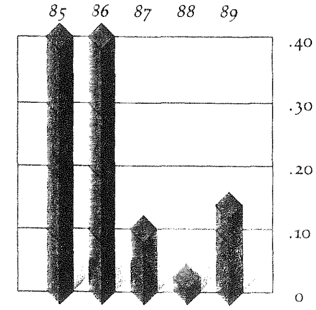
Marketing effectiveness and operational efficiencies continue to improve results as the reorganization of the segment, finalized in 1987, has continued to enable expansion and diversification of engineering and construction services. Improved operating results also reflect the impact of increasing margins on orders received over the last 12-18 months. New awards



Long-Term Debt
dollars in millions



Revenues by Segment
▪ *Lead 2%*
▪ *Coal 13%*
▪ *E&C 85%*



Dividends Per Share
dollars

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include more full service contracts, providing engineering, technical services and maintenance as well as project and construction management. Approximately 60% of the year end backlog will be performed in fiscal 1990. Generally tracking the level of work performed, the number of permanent employees increased 12% in 1989 compared with a 30% increase in 1988 after a slight reduction in 1987.

During 1989 and 1988, certain excess real estate rental costs were charged to accrued lease costs whereas such costs were charged to operations in 1987. The accrual for such costs was established in connection with the company's 1987 quasi-reorganization. Operating results for 1987 reflect $23 million 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*

In 1987, the company completed a partitioning of the assets of the Massey Coal Company Partnership (Massey) which resulted in no net gain or loss. Subsequent to the partitioning the results of Massey have been fully consolidated to reflect the company's ownership interest.

Revenues and operating profit from Coal operations in 1989 were $816 million and $51 million, respectively, compared with revenues of $784 million and operating profit of $50 million in 1988. Revenues and operating profit in 1987 were $580 million and $28 million, respectively. In 1989, coal operations improved significantly compared with 1988 and 1987 primarily due to lower costs and higher sales volume of produced coal. In addition, 1989 was impacted by lower contribution from brokered coal sales while realized prices on produced coal sold remained relatively unchanged compared with 1988. Coal operating profit for 1988 included $7 million related to a favorable settlement with the United Mine Workers.

- *Lead*

Lead operations represent the company's 57.5% interest in The Doe Run Company partnership (Doe Run). The company proportionally consolidates its interest in Doe Run.

Revenues and operating profit from lead operations in 1989 were $150 million and $39 million, respectively, compared with revenues of $124 million and operating profit of $29 million in 1988. Revenues and operating loss in 1987 were $93 million and $6 million, respectively. Operations improved significantly in 1989 compared with 1988 and 1987 primarily due to an increase in realized prices and lower operating costs. Operating costs in 1989 were reduced by higher by-product credits (copper and zinc) as realized prices and volumes for these commodities were up significantly over 1988 and 1987. Operating results in 1987 were affected by operational inefficiencies and downtime at the Herculaneum smelter.

Results of operations in 1989 and 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 results of operations.

- *Discontinued Operations*

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 its zinc operations resulting in an after tax gain of approximately $233 million. Metals operations remaining at October 31, 1987 were written down to their estimated net realizable value resulting in an after tax charge to discontinued operations of $122 million. In 1988, the remaining base metals businesses were sold, except Pea Ridge which the company is continuing to hold for sale.

- *Other*

In 1989 the company had net interest income of $16 million compared with $10 million in 1988 and net interest expense of $40 million in 1987. Increased net interest income in 1989 compared with 1988 and 1987 is primarily due to lower interest costs due to a decrease in average debt outstanding. Increased interest income in 1989 and 1988 compared with 1987 reflects significantly higher balances of cash and cash equivalents and the bond portfolio. The significant increase in invested funds in 1988 was provided primarily from collection of proceeds from sale of the discontinued metals businesses.

In 1988, the company made an investment, convertible into a controlling equity interest, in SOS International (SOS), a contractor in the asbestos abatement industry. During 1989 the company obtained the remaining ownership in SOS at minimal additional cost. 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. In 1988 the company recognized losses of $9 million, including $2 million of investment amortization. In 1989 SOS has been fully consolidated and its operating results, including goodwill amortization of $4 million, are included in the Engineering and Construction segment.

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 general and administrative expenses in 1989 include an increase of $6 million related to stock price driven compensation plan expense and approximately $11 million in costs of certain finance, law, human resources and other general and administrative functions formerly included in Engineering and Construction. In addition, other corporate general and administrative expenses increased approximately 10% in 1989 compared with 1988. Corporate administrative and general expenses increased 36% in 1988 compared with 1987 primarily due to higher insurance costs and accrued obligations associated with the company's incentive compensation plans.

Results for 1987 include 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 1989, 1988 and 1987 there is no significant difference between the effective federal income tax rate on results of continuing operations and the statutory rate. Implementation of Statement of Financial Accounting Standards No. 96—"Accounting for Income Taxes"—which is not required until fiscal 1993, would not have had a material impact on the company's 1989 results of operations or financial position.

- *Financial Position and Liquidity*

Working capital at October 31, 1989 was $239 million compared with $215 million at October 31, 1988. Working capital increased 11% as cash provided by operations was more than adequate to fund the company's growth.

Capital expenditures for 1989 were $139 million compared with $86 million in 1988 and $100 million in 1987. In 1989, capital expenditures include approximately $30 million related to coal reserve acquisitions and mine start-up at Massey Coal Company and $10 million for additional engineering office facilities primarily in Greenville, South Carolina. In addition, the engineering and construction segment has made a significant commitment of capital in 1989 and 1988 for additions to computer aided design (CAD) electronic engineering equipment. This concentration of investment in CAD equipment is expected to continue in order to enhance productivity and satisfy workload demand. In 1987, capital expenditures included the repurchase of land in Sugar Land, Texas for $26 million.

In 1988, the company purchased a long-term bond portfolio totaling approximately $155 million. The cash flows from these bonds are scheduled to offset and match the cash flow obligations on the Sugar Land facility lease.

The long-term debt to capitalization ratio at October 31, 1989 was 8.0% compared with 13.6% and 29.1% at October 31, 1988 and 1987, respectively. The improved 1989 ratio reflects both an increase in shareholders' equity due to net earnings and a $32 million reduction in long-term debt due after one year. The next scheduled significant payment of long-term debt from the October 31, 1989 balance of $62 million is not due until 1993. At October 31, 1989, 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 along with cash on hand provide adequate operating liquidity.

The Board reinstated cash dividends at $.02 per share paid in October, 1988. In the second quarter of 1989 the Board raised the quarterly dividend to $.04 per share and in December 1989 further raised the quarterly dividend to $.06 per share. The company's dividend guideline is to pay out approximately 20% of the previous year's earnings.

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. However, commodity prices generally tend to reflect a close correlation to inflationary trends and the company has substantial coal and lead reserves.

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Fluor In millions, except per share amounts	1989	1988	1987	1986	1985
Operating Results					
Revenues from continuing operations	$6,277.6	$5,132.5	$3,924.5	$4,341.7	$3,776.4
Earnings (loss) from continuing operations before income taxes	174.7	90.9	(126.1)	(55.0)	(556.2)
Earnings (loss) from continuing operations	108.5	56.4	(75.3)	(18.6)	(512.8)
Net earnings (loss)	108.5	56.4	26.6	(60.4)	(633.3)
Earnings (loss) per share					
Continuing operations	1.35	.71	(.95)	(.23)	(6.48)
Net earnings (loss)	$ 1.35	$ .71	$ .33	$ (.76)	$ (8.01)
Return on average shareholders' equity	16.5%	10.0%	3.3%	(6.0)%	(41.7)%
Cash dividends per common share	$ .14	$ .02	$ .10	$ .40	$ .40
Financial Position					
Current assets	$1,036.4	$1,001.0	$1,213.5	$ 922.1	$1,057.2
Current liabilities	797.7	786.1	698.0	656.8	1,020.7
Working capital	238.7	214.9	515.5	265.3	36.5
Bond portfolio	151.6	154.8	4.0	—	—
Property, plant and equipment, net	775.3	729.8	735.2	1,301.8	1,433.3
Total assets	2,154.3	2,075.7	2,061.2	2,565.4	2,796.4
Capitalization					
Long-term debt	62.5	95.0	217.8	511.5	250.8
Shareholders' equity	720.4	601.7	531.7	950.2	1,033.9
Total capitalization	$ 782.9	$ 696.7	$ 749.5	$1,461.7	$1,284.7
Percent of total capitalization					
Long-term debt	8.0	13.6	29.1	35.0	19.5
Shareholders' equity	92.0	86.4	70.9	65.0	80.5
Shareholders' equity per common share	$ 9.03	$ 7.61	$ 6.74	$ 11.99	$ 13.06
Common shares outstanding at October 31	79.8	79.1	78.9	79.3	79.1
Other Data					
New awards	$7,135.3	$5,955.2	$4,059.7	$2,992.2	$4,485.3
Backlog at year end	8,360.9	6,658.6	4,667.3	4,291.4	5,114.7
Capital expenditures	139.2	86.3	99.8	91.6	121.2
Cash provided (utilized) by operating activities	$ 265.1	$ 17.7	$ 57.3	$ (224.2)	$ (21.0)
Permanent employees	20,059	17,876	14,351	22,309	26,958

See Management's Discussion and Analysis on pages 24 to 27, Consolidated Statement of Earnings on page 29 and Notes to Consolidated Financial Statements and Quarterly Financial Data for information relating to significant items affecting the results of operations.

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.

Dividends were resumed in the fourth quarter of 1988 following a suspension which began in the second quarter of 1987. The quarterly dividend was increased from $.02 per share to $.04 per share in the second quarter of 1989 and to $.06 per share in the first quarter of 1990.

Fluor In thousands, except per share amounts/Year ended October 31,	1989	1988	1987
Revenues			
Engineering and construction services	$5,311,653	$4,225,212	$3,251,304
Natural resources	965,954	907,245	673,176
Total revenues	6,277,607	5,132,457	3,924,480
Cost of Revenues			
Engineering and construction services	5,190,343	4,181,269	3,298,628
Natural resources	876,052	827,848	650,886
Total cost of revenues	6,066,395	5,009,117	3,949,514
Other Income and Expense			
Corporate administrative and general expense	52,660	32,795	24,131
Interest expense	20,239	27,259	58,304
Interest income	(36,371)	(37,060)	(18,231)
Equity in loss of SOS	—	9,451	—
Provision for sublease losses and write-down of investments	—	—	36,845
Total cost and expenses	6,102,923	5,041,562	4,050,563
Earnings (Loss) From Continuing Operations Before Taxes	174,684	90,895	(126,083)
Income Tax Benefit (Expense)	(66,200)	(34,500)	50,808
Earnings (Loss) From Continuing Operations	108,484	56,395	(75,275)
Discontinued Operations			
Loss from operations, net of income tax expense of $4,988	—	—	(16,544)
Gain on disposal, net of income tax expense of $104,483	—	—	111,254
Earnings From Discontinued Operations	—	—	94,710
Earnings Before Extraordinary Item	108,484	56,395	19,435
Tax benefit of net operating loss	—	—	7,157
Net Earnings	$ 108,484	$ 56,395	$ 26,592
Earnings (Loss) Per Share			
Continuing operations	$ 1.35	$ .71	$ (.95)
Discontinued operations	—	—	1.19
Extraordinary item	—	—	.09
Net Earnings Per Share	$ 1.35	$ .71	$ .33
Shares Used to Calculate Earnings (Loss) Per Share	80,459	79,582	79,484

See Notes to Consolidated Financial Statements.

Fluor

$ in thousands / At October 31,

	1989	1988
Assets		
Current Assets		
Cash and cash equivalents	$ 234,877	$ 164,580
Accounts and notes receivable	348,803	396,658
Contract work in progress	333,264	337,347
Inventories	67,604	66,580
Other current assets	51,893	35,815
Total current assets	1,036,441	1,000,980
Investment in Bond Portfolio	151,640	154,777
Property, Plant and Equipment		
Land	62,931	61,647
Buildings and improvements	97,023	79,550
Machinery and equipment	346,080	254,037
Mining properties and mineral rights	415,017	395,397
Construction in progress	15,229	14,209
	936,280	804,840
Less accumulated depreciation, depletion and amortization	160,957	75,081
Net property, plant and equipment	775,323	729,759
Other Assets		
Investments and goodwill, net of accumulated amortization of $10,176 and $6,103, respectively	96,590	105,359
Other	94,319	84,857
Total other assets	190,909	190,216
	$2,154,313	$2,075,732

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	1989	1988
Liabilities and Shareholders' Equity		
Current Liabilities		
Accounts payable	$ 322,262	$ 358,061
Advance billings on contracts	119,450	118,752
Accrued salaries, wages and benefit plan liabilities	93,598	71,535
Other accrued liabilities	205,161	160,884
Current portion of long-term debt	35,645	58,506
Income taxes currently payable	21,605	18,338
Total current liabilities	797,721	786,076
Long-Term Debt Due After One Year	62,477	94,961
Noncurrent Liabilities		
Deferred income taxes	88,530	81,449
Accrued lease costs	119,790	148,792
Other	365,432	362,707
Total noncurrent liabilities	573,752	592,948
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 1989—79,792,996 shares and in 1988—79,051,744 shares	49,871	49,407
Additional capital	522,615	497,907
Retained earnings (since October 31, 1987)	152,172	54,814
Unamortized executive stock plan expense	(4,439)	(3,117)
Cumulative translation adjustments	144	2,736
Total shareholders' equity	720,363	601,747
	$2,154,313	$2,075,732

See Notes to Consolidated Financial Statements.

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Fluor

In thousands / Year ended October 31,	*1989*	*1988*	*1987*
Cash Flows From Operating Activities			
Net earnings	$ 108,484	$ 56,395	$ 26,592
Depreciation, depletion and amortization	87,398	76,000	124,377
Deferred income taxes	(11,473)	(49,397)	62,321
Amortization of accrued lease costs and deferred gains	(31,013)	(37,009)	(20,570)
Provision for sublease losses and write-down of investments	—	—	36,845
Gain on disposal of discontinued operations	—	—	(215,737)
Change in operating working capital	69,342	(66,313)	58,677
Other, net	42,386	38,073	(15,169)
Cash provided by operating activities	265,124	17,749	57,336
Cash Flows From Investing Activities			
Capital expenditures	(108,675)	(81,878)	(97,272)
Coal reserve acquisitions and mine start-up	(30,499)	(4,381)	(2,552)
Proceeds from sale of property, plant and equipment	11,675	8,960	21,738
Decrease (increase) in bond portfolio	3,137	(150,777)	(4,000)
Additions to investments	(7,206)	(69,267)	—
Proceeds from sale of discontinued operations, net	—	450,000	147,535
Partition of Massey assets	—	—	108,148
Other, net	(3,115)	3,949	(3,899)
Cash provided (utilized) by investing activities	(134,683)	156,606	169,698
Cash Flows From Financing Activities			
Payments of long-term debt	(62,382)	(81,537)	(250,830)
Cash dividends paid	(11,126)	(1,581)	(7,927)
Other, net	13,364	(1,299)	10,034
Cash utilized by financing activities	(60,144)	(84,417)	(248,723)
Increase (decrease) in cash and cash equivalents	70,297	89,938	(21,689)
Cash and cash equivalents at beginning of year	164,580	74,642	96,331
Cash and cash equivalents at end of year	$ 234,877	$ 164,580	$ 74,642

See Notes to Consolidated Financial Statements.

Fluor

$ in millions, except per share amounts *Year ended October 31, 1987, 1988 and 1989*	*Common Stock*	*Additional Capital*	*Retained Earnings (Deficit)*	*Unamortized Executive Stock Plan Expense*	*Cumulative Translation Adjustments*	*Total*
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
Net earnings			108,484			108,484
Cash dividends ($.14 per share)			(11,126)			(11,126)
Exercise of stock options, net	371	7,896				8,267
Amortization of executive stock plan expense				3,407		3,407
Issuance of restricted stock, net	93	4,568		(4,729)		(68)
Tax benefit of net operating loss		12,244				12,244
Translation adjustment for the period					(2,592)	(2,592)
Balances at October 31, 1989	$49,871	$ 522,615	$ 152,172	$(4,439)	$ 144	$ 720,363

See Notes to Consolidated Financial Statements.

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Fluor

- *Major Accounting Policies*
- *Balance Sheet Revaluation*

At October 31, 1987 the company adjusted its consolidated balance sheet 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. Prior to the July 10, 1987 partitioning, the company proportionally consolidated its 50% interest in Massey Coal Company (Massey); subsequently, Massey's operations are fully consolidated to reflect the company's ownership interest. The company proportionally consolidates its 57.5% interest in The Doe Run Company partnership (Doe Run). All significant intercompany transactions of consolidated subsidiaries are eliminated. Certain 1988 and 1987 amounts have been reclassified to conform with the 1989 presentation.

- *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. 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 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, 1989, will be billed and collected in 1990. 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 subsequent to October 31, 1987 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.

- *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 using 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, 1989, the portfolio has a weighted average yield of nearly 11% and maturities ranging from 1990 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 per share

Earnings per share is based on the weighted average number of common and common equivalent shares outstanding in each period. Common equivalent shares include the dilution from the potential exercise of stock options when the effect 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,	*1989*	*1988*
Coal, metals and processed minerals	$37,143	$34,713
Supplies and other	30,461	31,867
	$67,604	$66,580

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,	*1989*	*1988*
Balance at beginning of year	$ 2,736	$ (662)
Translation adjustments	(3,927)	5,149
Deferred income taxes on translation adjustments	1,335	(1,751)
Balance at end of year	$ 144	$ 2,736

Consolidated Statement of Cash Flows

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,	*1989*	*1988*	*1987*
Decrease (increase) in:			
Accounts and notes receivable	$47,855	$(43,012)	$ 41,595
Contract work in progress	4,083	(83,605)	(65,946)
Inventories	(1,024)	(5,348)	14,466
Other current assets	(16,078)	(6,079)	(7,893)
Increase (decrease) in:			
Accounts payable	(35,799)	41,810	78,723
Advance billings on contracts	698	31,451	25,040
Accrued liabilities	66,340	(2,793)	(23,349)
Income taxes currently payable	3,267	1,263	(3,959)
	$69,342	$(66,313)	$ 58,677
Cash paid during the year for:			
Interest expense	$17,744	$ 16,509	$ 48,871
Income tax payments (refunds), net	$46,038	$ 52,014	$(99,433)

Acquisition and Investments

In August 1988, the company purchased Wright Engineers Limited (Wright). The total purchase price, depending on future operating results, could approximate $5 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), a contractor in the asbestos abatement industry.

In March 1988, the company made an investment, convertible into a controlling equity interest, in SOS and due to the company's significant influence over operating and financial policies, recognized 100% of SOS's losses from that date. During 1989, the company obtained the remaining ownership in SOS at minimal additional cost and, accordingly, has fully consolidated the results of SOS for 1989. The company's investment in SOS exceeded the net assets acquired by $37 million. Amortization of the excess commenced in the second quarter of 1988 using the straight-line method over ten years.

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. 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 in 1987.

In October 1987, the company completed the sale of its 90% interest in St. Joe Gold Corporation and other gold properties for $500 million. The sale resulted in a net gain of approximately $248 million. In September 1987, the company sold its domestic zinc mining operations 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 were completed, except Pea Ridge which the company is continuing to hold for sale.

Income Taxes

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

$ in thousands/Year ended October 31,	*1989*	*1988*	*1987*
Current:			
Federal (includes a charge in lieu of taxes of $11,267, $7,319 and $7,157 for 1989, 1988 and 1987, respectively)	$(58,820)	$ (69,706)	$ 12,881
Foreign (includes a charge in lieu of taxes of $977 and $1,918 for 1989 and 1988, respectively)	(7,976)	(8,430)	(4,718)
State and local	(10,877)	(5,761)	(4,505)
Total current	(77,673)	(83,897)	3,658
Deferred:			
Federal	12,017	52,961	(64,677)
Foreign	(1,540)	(3,655)	271
State and local	996	91	2,085
Total deferred	11,473	49,397	(62,321)
Total income tax expense	$(66,200)	$ (34,500)	$ (58,663)

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

$ in thousands/Year ended October 31,	*1989*	*1988*	*1987*
Provision for continuing operations:			
Current	$(77,673)	$ 67,007	$ (17,292)
Deferred	11,473	(101,507)	68,100
Total provision—continuing operations	(66,200)	(34,500)	50,808
Provision for discontinued operations:			
Current	—	(150,904)	20,950
Deferred	—	150,904	(130,421)
Total provision—discontinued operations	—	—	(109,471)
Total income tax expense	$(66,200)	$ (34,500)	$ (58,663)

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,	*1989*	*1988*	*1987*
Statutory federal income tax benefit (expense)	$(59,393)	$ (30,904)	$ 52,955
Reductions (increases) in taxes resulting from:			
Depletion	10,038	9,343	7,783
State and local income taxes	(5,744)	(3,742)	(1,259)
Effect of foreign tax rates	(3,835)	(3,790)	—
Items without tax effect, net	(3,515)	(6,247)	(2,635)
Amortization and write-down of property, plant and equipment	(2,682)	(2,206)	(8,650)
Other, net	(1,069)	3,046	2,614
Total income tax benefit (expense)	$(66,200)	$ (34,500)	$ 50,808

The difference between the statutory federal income tax rate and the actual tax rates applicable to discontinued operations was 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 was primarily attributable to capital gain rates and foreign tax credits.

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

$ in thousands / Year ended October 31,	*1989*	*1988*	*1987*
Use of different methods of accounting for construction contracts	$ 8,037	$ (6,538)	$ 21,841
Deferred gains on property sales	7,782	(317)	(5,699)
Accruals not currently reportable for tax purposes	(7,170)	(33,964)	10,603
Residual tax on undistributed foreign earnings	(840)	1,064	(13,477)
Reduction (increase) in deferred tax credits	—	(51,565)	51,565
Other, net	3,664	(10,187)	3,267
Total	$ 11,473	$(101,507)	$ 68,100

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,	*1989*	*1988*	*1987*
United States	$ 96,785	$ 63,843	$(157,812)
Foreign	77,899	27,052	31,729
Total	$174,684	$ 90,895	$(126,083)

Residual income taxes have not been provided on approximately $42 million of undistributed earnings of certain foreign subsidiaries at October 31, 1989 because the company intends to reinvest these earnings indefinitely.

The Internal Revenue Service (IRS) has completed its examination of the company's federal income tax returns for fiscal years 1977 through 1983 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. 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 Standards No. 96 "Accounting for Income Taxes." Management believes the implementation, which is not required until 1993, would not have had a material effect on the 1989 consolidated results of operations or financial position of the company.

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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 $47 million in 1989, $42 million in 1988 and $33 million in 1987. 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 expense (income) for continuing operations defined benefit pension plans includes the following components:

$ in thousands / Year ended October 31,	*1989*	*1988*	*1987*
Service costs—benefits earned during the period	$ 3,236	$ 3,156	$ 4,064
Interest cost on projected benefit obligation	6,225	5,724	4,922
Income and gains on assets invested	(16,168)	(8,653)	(5,839)
Net amortization and deferral	5,807	(30)	(52)
Net periodic pension expense (income)	$ (900)	$ 197	$ 3,095

The following assumptions were used in the determination of net periodic pension cost for each of the three years in the period ended October 31, 1989:

Discount rate	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,	*1989*	*1988*
Actuarial present value of benefit obligations:		
Vested benefit obligation	$ 49,396	$ 41,114
Nonvested benefit obligation	6,987	10,507
Accumulated benefit obligation	$ 56,383	$ 51,621
Plan assets at fair values (primarily listed stocks and bonds)	$157,799	$121,271
Projected benefit obligation	(75,228)	(69,487)
Plan assets in excess of projected benefit obligation	82,571	51,784
Unrecognized net gain	(36,925)	(9,703)
Pension asset recognized in the Consolidated Balance Sheet	$ 45,646	$ 42,081

Excludes the projected benefit obligation and an equal amount of associated plan assets relating to present and former employees of discontinued operations of $117 million and $124 million at October 31, 1989 and 1988, respectively.

Massey participates in multiemployer defined benefit pension plans for its union employees. Pension expense related to these plans was approximately $.6 million, $.4 million and $1 million in the years ended October 31, 1989, 1988 and 1987, 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 $5 million in 1989, $4 million in 1988 and $3 million in 1987, is expensed when paid.

Long-Term Debt

Long-term debt comprises:

$ in thousands/At October 31,	*1989*	*1988*
Eurodollar zero coupon debentures, effective interest rate 14%, due in 1990 (net of unamortized discount of $1,967 and $6,511, respectively)	$ 35,315	$ 31,176
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	28,578
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	15,039
Notes, effective interest rate 9.7%, due in 1993	14,305	16,196
Term loans, 9.3%	—	40,100
Serial zero coupon notes, effective interest rate 14.3% (net of unamortized discount of $955)	—	18,077
Other notes and mortgages	4,885	4,301
	98,122	153,467
Less: Current portion	35,645	58,506
Long-term debt due after one year	$ 62,477	$ 94,961

Maturities relating to long-term debt are as follows for the years ending: 1991, $.6 million; 1992, $.6 million; 1993, $29.9 million; 1994, $.4 million; and $31.0 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 be converted to four-year term loans. Commitment fees are paid on unused portions of these lines. In addition, at October 31, 1989 the company had $317 million in unused short-term lines of credit. At October 31, 1989, 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, 1989 bears interest at fixed rates.

Stock Plans

The company's executive stock plans approved by the shareholders provide for grants of nonqualified or incentive stock options, restricted stock awards and stock appreciation rights (SARs). All plans are administered by the Organization and Compensation Committee of the Board of Directors ("Committee"), no member of which is eligible to participate in the plans. Stock options may be granted with or without SARs. Grant prices are determined by the Committee and generally are established at the fair market value of the company's common stock at the date of grant. Options and SARs normally extend for 10 years and generally become exercisable one year after date of grant, in installments of 25% per year commencing one year from date of grant or over a vesting period determined by the Committee.

Restricted stock awards issued under the plans provide that shares awarded may not be sold or otherwise transferred until restrictions as established by the Committee have lapsed. Upon termination of employment shares upon which restrictions have not lapsed must be returned to the company. During 1989, 160,000 shares of restricted stock were issued under the plans.

Upon exercise of SARs the holder receives the excess of market value of the rights on exercise date over the market value of the rights on the grant date either in the form of cash or stock of the company. Such market values are generally equal to the market value of the company's common stock. Changes in market value are accounted for currently as compensation expense.

The following table summarizes stock option and SAR activity for the two years ended October 31, 1989:

	Stock Options	*Price Per Share*	*SAR*	*Value Per Right*
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
Granted	800,300	23–35	14,300	13–20
Expired or cancelled	(72,648)	12–26	(34,584)	12–34
Exercised	(598,765)	11–26	(255,968)	12–22
Outstanding at October 31, 1989	2,891,788	$12–35	606,938	$12–22
Exercisable at:				
October 31, 1988	990,315	$11–34	309,650	$12–34
October 31, 1989	970,067	$12–26	249,239	$12–22
Available for grant at:				
October 31, 1988	154,090		5,679	
October 31, 1989	2,167,386*		126,015	

**Available for grant at October 31, 1989 includes 2,051,379 shares which may be granted as either stock options, SARs or restricted stock as determined by the Committee under the 1988 Fluor Executive Stock Plan which was approved by the shareholders in March 1989.*

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.

Lease Obligations

The rental expense for continuing operations amounted to $102 million, $89 million and $84 million, in 1989, 1988 and 1987, 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 reduced by cash flows from the bond portfolio are as follows:

$ in thousands / At October 31, 1989	Gross Rentals	Cash Flows from Bond Portfolio	Net	Present Value*
1990	$ 69,545	$ 18,781	$ 50,764	$ 46,864
1991	67,819	20,857	46,962	38,951
1992	63,853	17,785	46,068	34,329
1993	62,490	19,994	42,496	28,452
1994	64,114	20,416	43,698	26,286
Thereafter	274,212	227,268	46,944	19,481
	$602,033	$ 325,101	$ 276,932	$ 194,363

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, 1989 and 1988, obligations under capital leases of approximately $14 million 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, 1989, $137 million of net assets of Doe Run, including $35 million of working capital, are restricted by the requirement that both partners must approve a transfer of assets 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 in July 1987 Coal segment amounts include the operations of Massey after reflecting a partitioning of the partnership. 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, nontrade receivables and the bond portfolio.

Operations by Business Segment

$ in millions	Revenues 1989	1988	1987	Operating Profit (Loss) 1989	1988	1987
Engineering and Construction	$5,311.7*	$4,225.2	$3,251.3	$117.4	$ 50.8	$ (49.5)
Coal	815.5	783.7	580.1	51.0	50.4	28.3
Lead	150.4	123.6	93.1	38.9	29.0	(5.5)
Continuing Operations	$6,277.6	$5,132.5	$3,924.5	$207.3	$130.2	$ (26.7)

$ in millions	Identifiable Assets 1989	1988	1987	Capital Expenditures 1989	1988	1987	Depreciation, Depletion and Amortization 1989	1988	1987
Engineering and Construction	$ 828.4	$ 886.9	$ 620.4	$ 58.4	$ 46.8	$37.4	$33.7	$23.9	$ 21.1
Coal	748.1	667.7	657.5	72.0	30.6	25.0	42.0	38.3	39.5
Lead	158.4	159.8	154.6	8.7	8.7	5.1	10.9	10.1	22.9
Corporate	419.4	361.3	621.9	.1	.2	—	.8	3.7	1.7
Continuing Operations	2,154.3	2,075.7	2,054.4	139.2	86.3	67.5	87.4	76.0	85.2
Discontinued Operations	—	—	6.8	—	—	32.3	—	—	39.2
	$2,154.3	$2,075.7	$2,061.2	$139.2	$ 86.3	$99.8	$87.4	$76.0	$124.4

Operations by Geographic Area

$ in millions	Revenues 1989	1988	1987	Operating Profit (Loss) 1989	1988	1987	Identifiable Assets 1989	1988	1987
United States	$5,310.2*	$4,444.6	$3,461.9	$195.3	$120.1	$(29.0)	$1,880.0	$1,864.5	$1,830.7
Canada	326.0	257.9	220.1	2.2	2.2	1.8	55.8	53.9	61.9
Middle East	25.2	55.1	70.7	.5	(.6)	(1.6)	33.0	49.2	39.9
Europe	407.2	296.6	99.2	9.8	7.3	(.1)	79.8	74.6	89.5
Other	209.0	78.3	72.6	(.5)	1.2	2.2	105.7	33.5	39.2
	$6,277.6	$5,132.5	$3,924.5	$207.3	$130.2	$(26.7)	$2,154.3	$2,075.7	$2,061.2

**Revenues include a $43 million settlement from the National Iranian Oil Company.*

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

$ in millions/Year ended October 31,	1989	1988	1987
Operating profit (loss) from continuing operations	$207.3	$130.2	$ (26.7)
Interest, net	16.1	9.8	(40.1)
Equity in loss of SOS	—	(9.5)	—
Provision for future losses on facility subleases and certain investments	—	—	(36.8)
Corporate administrative and general expense	(52.7)	(32.8)	(24.1)
Other items, net	4.0	(6.8)	1.6
Earnings (loss) from continuing operations before taxes	$174.7	$ 90.9	$(126.1)

DR 2801298

Fluor

Management

The company is responsible for preparation of the accompanying consolidated balance sheet and the related consolidated statements of earnings, 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 auditors in connection with their annual audit. The Board of Directors pursues its responsibility for financial information and review through an Audit Committee of Directors who are not employees. The internal auditors and the independent auditors have full and free access to the Committee. Periodically the Committee meets with the independent auditors without management present to discuss the results of their examinations, the adequacy of internal accounting controls and the quality of financial reporting.

Independent Auditors

Board of Directors and Shareholders
Fluor Corporation

We have audited the accompanying consolidated balance sheet of Fluor Corporation as of October 31, 1989 and 1988, and the related consolidated statements of earnings, shareholders' equity and cash flows for each of the three years in the period ended October 31, 1989. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Fluor Corporation at October 31, 1989 and 1988, and the consolidated results of operations and cash flows for each of the three years in the period ended October 31, 1989, in conformity with generally accepted accounting principles.

Ernst + Young

Orange County, California
December 5, 1989

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*
1989				
Revenues	$1,420,401	$1,633,211	$1,556,943	$1,667,052
Gross margin	43,938	46,746	67,546	52,982
Earnings before taxes	35,105	38,234	54,857	46,488
Net earnings	21,605	23,934	33,857[a]	29,088
Earnings per share	$ .27	$ .30	$ .42	$ .36
1988				
Revenues	$1,039,320	$1,148,466	$1,339,106	$1,605,565
Gross margin	18,875	21,899	30,442	52,124
Earnings before taxes	16,264	15,654	23,144	35,833[b]
Net earnings	9,016	10,302	13,444	23,633
Earnings per share	$ .11	$ .13	$ .17	$ .30

[a] *Third quarter 1989 earnings include a settlement received from the National Iranian Oil Company offset by certain charges for a net benefit of $9 million.*

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

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David S. Tappan, Jr.
Chairman of the Board (1965)

Caroline L. Ahmanson
Chairman Emeritus, Federal Reserve Bank of San Francisco— 12th District (1985)

Hugh K. Coble
Group President 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 Fluor Daniel, Inc. (1989)

William R. Grant
Chairman of the Board of Galen Associates (1982)

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

Bobby R. Inman
Admiral U.S. Navy (Retired) (1985)

Vincent L. Kontny
President (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
Vice Chairman and Chief Executive Officer (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

Leslie G. McCraw, Chairman
Hugh K. Coble
Gerald M. Glenn
Robert L. Guyett
Vincent L. Kontny
E. Morgan Massey
David S. Tappan, Jr.
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
David P. Gardner
Bobby R. Inman
Robert V. Lindsay
Leslie G. McCraw
Allen E. Puckett

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.

Corporate Executive Officers

David S. Tappan, Jr.
Chairman of the Board (1952)

Leslie G. McCraw
Vice Chairman and Chief Executive Officer (1975)

Vincent L. Kontny
President (1965)

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)

John F. Combs
Vice President and Treasurer (1989)

Lawrence N. Fisher
Vice President-Corporate Law (1974)

J. Robert Fluor II
Vice President-Corporate Relations (1967)

William M. Hofacre
Vice President-Financial Planning and Analysis (1984)

Larry W. Lineberger
Vice President and Controller (1971)

Thomas H. Morrow
Vice President-Tax (1984)

David J. H. Nicoll
Vice President-Project Finance (1989)

Richard D. Paul
Vice President-Financial and Operational Evaluation (1968)

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

Fluor Daniel Executive Officers

Vincent L. Kontny
President and CEO (1965)

Hugh K. Coble
Group President (1966)

Gerald M. Glenn
Group President (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

Charles R. Cox
President (1969)

Charles P. Pringle
Vice President-Marketing (1970)

Information Services

Larry M. Hart
President (1967)

Asia/Pacific

Rodney J. Harden
Managing Director (Australia) (1989)

Richard D. Carano
Vice President-Marketing (1970)

Canada

A. B. McArthur
President (1975)

Europe/Africa/Middle East

Richard W. Dean
President (1967)

Richard Fenny
Vice President-Marketing (1986)

Other Key Operating/Staff Executives

A.T. Massey Coal Company, Inc.

E. Morgan Massey
President (1947)

Fluor Constructors International, Inc.

Richard A. Flinton
Chairman (1960)

G. William Gilfillan
President (1989)

Government Relations

Betty L. Hudson
Vice President (1974)

Engineering and Construction

Fluor Daniel, Inc.

Industrial Sector, Irvine, California
Process Sector, Irvine, California
Power Sector, Irvine, California
Hydrocarbon Sector, Irvine, California
Government Sector, Irvine, California

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

International Operations
- Fluor Daniel Arabia Limited, Al-Khobar, Saudi Arabia
- Fluor Daniel Australia Limited, Melbourne, Victoria, Australia
- Fluor Daniel B.V., Haarlem, The Netherlands
- Fluor Daniel Canada, Inc. Calgary, Alberta, Canada
- Fluor Daniel Chile, S.A., Santiago, Chile
- Fluor Daniel China, Inc., Beijing, People's Republic of China
- Fluor Daniel Engineers & Constructors, Ltd., Hong Kong
- Fluor Daniel Espana, S.A., Madrid, Spain
- Fluor Daniel GmbH, Dusseldorf, West Germany
- Fluor Daniel Limited, London, England
- Fluor Daniel Pacific, Inc., Manila, The Philippines
- Fluorven Limited, Caracas, Venezuela
- Wright Engineers Limited, Vancouver, British Columbia, Canada

American Equipment Company, Inc., Greenville, South Carolina
Duke/Fluor Daniel, Charlotte, North Carolina
SOS International, Greenville, South Carolina

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

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

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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, 701 South Western Avenue, Glendale, California 91201, 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.

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 1989			
First Quarter	$.02	$23 7/8	$18 5/8
Second Quarter	.04	24 7/8	21 5/8
Third Quarter	.04	36 3/8	24 1/8
Fourth Quarter	.04	36 3/4	28 1/2
	$.14		
Fiscal 1988			
First Quarter	$ —	$15 1/2	$11 1/8
Second Quarter	—	19 5/8	12 3/4
Third Quarter	—	23 1/4	17 5/8
Fourth Quarter	.02	23 1/4	19 1/2
	$.02		

Independent Auditors

Ernst & Young, 18400 Von Karman Avenue, Irvine, California 92715

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 13, 1990 at the Fluor Daniel Greenville Operations Center, 100 Fluor Daniel Drive, Greenville, South Carolina.

Company Contacts

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

Common Stock Information

At December 31, 1989, there were 79,847,705 shares outstanding and approximately 19,000 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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