FLUOR CORPORATION

1997 ANNUAL REPORT

COMPANY DESCRIPTION

Fluor Corporation is one of the world's largest international engineering, construction, maintenance and diversified services companies (E&C), with an important investment in low-sulfur coal. Fluor Daniel, the company's E&C unit, provides a broad range of technical services to clients to execute their capital projects from approximately 50 sales and operations centers strategically located around the world. A.T. Massey, Fluor's coal operation, located in Central Appalachia, ranks among the top five U.S. coal companies and produces high-quality, low-sulfur steam coal for the electric-generating industry and industrial customers, and metallurgical coal for the steel industry.

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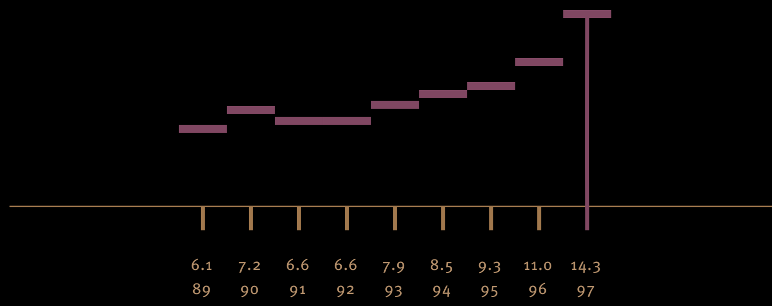
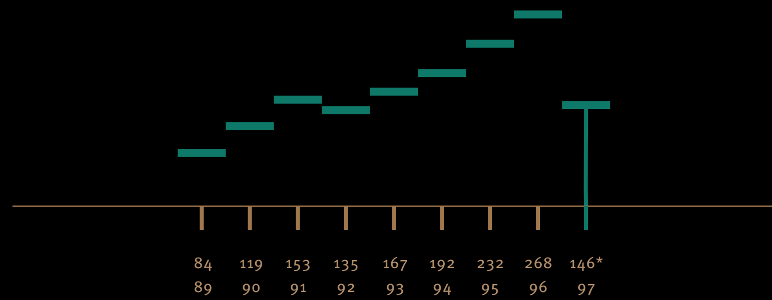
NOTE:
Any of the comments in this annual report that refer to the company's estimated or future results, including its statements concerning projected operating profit for fiscal 1998, margins on existing or future projects, long-term profitability and demand and growth trends for A.T. Massey, are forward-looking and reflect the company's current analysis of existing trends and information. Actual results may differ materially from current expectations or projections based on a number of factors affecting the company's businesses. The company's estimates of future performance depend on, among other things, the likelihood of receiving certain new awards. While these estimates are based on the good faith judgment of management, these estimates frequently change based on new facts which become available. In addition, the timing of receipt of revenue by the company from engineering and construction projects can be affected by a number of factors outside the control of the company. The dollar amount of the company's backlog as stated at any given time is not necessarily indicative of the future earnings of the company related to the performance of such work. Cancellations or scope adjustments related to contracts reflected in the company's backlog may occur. The company's businesses are also subject to fluctuations in demand and to changing global economic and political conditions which are beyond the control of the company and may cause actual results to differ from forward-looking statements. Additionally, coal operations produce a commodity which is internationally traded and the price of which is established by market factors outside the control of the company.

Other risk factors affecting the company's estimated or future results include, but are not limited to, cost overruns on fixed, maximum or unit priced contracts, contract performance risk, the uncertain timing of awards and revenues under contracts, project financing risk, credit risk, risks associated with government funding of contracts, market conditions impacting realization of investments, market conditions in the domestic and international coal market and relatively mild weather conditions which may lower demand for steam coal. These forward-looking statements represent the company's judgment only as of the date of this annual report. As a result, the reader is cautioned not to rely on these forward-looking statements. The company disclaims any intent or obligation to update these forward-looking statements.

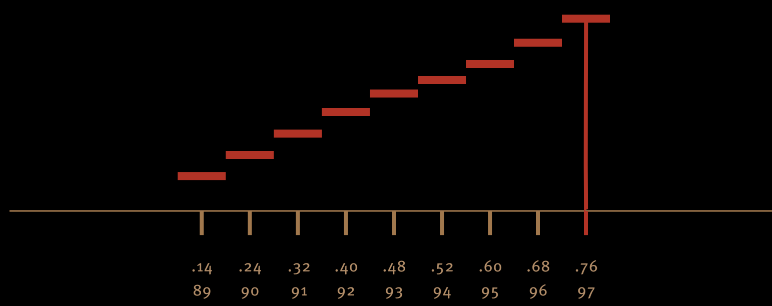
Additional information concerning these and other factors can be found in press releases as well as the company's public periodic filings with the Securities and Exchange Commission, including the discussion under the heading "Certain Factors and Trends Affecting Fluor and its Businesses — Forward-Looking Statements" in the company's Form 8-K filed May 6, 1997. These filings are available publicly and upon request from Fluor's Investor Relations Department: (714) 975-3909.



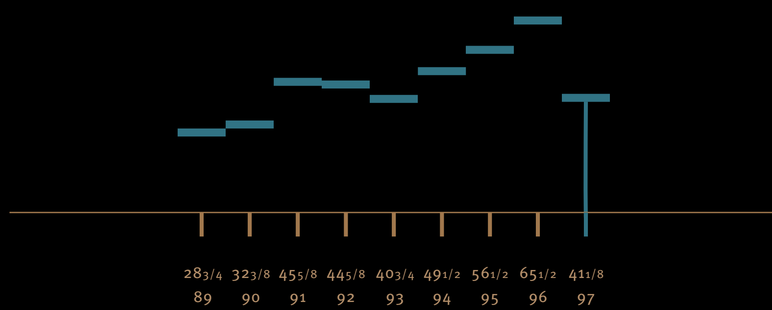
REVENUES FROM CONTINUING OPERATIONS
$ in billions



EARNINGS FROM CONTINUING OPERATIONS
$ in millions
*Includes project and cost-reduction provisions



DIVIDENDS
$



STOCK PRICE
$

THIS PAST YEAR HAS BEEN quite a difficult one for the company in spite of our excellent performance in many areas. New records were set in safety and many projects were brought in under budget and ahead of schedule — hallmarks of Fluor Daniel. Project teams backed by a global office network were instrumental in assisting our clients achieve a competitive advantage, which is our underlying mission, through superior execution of their capital projects. Fluor Daniel's Diversified Services units successfully continued to enhance their value and earnings growth potential through acquisitions and internal investment.

A.T. Massey, the company's coal operation, again delivered superior results with its operating earnings advancing 15 percent in 1997 over the prior year to $155 million. Massey also enjoys a global reputation for outstanding operating performance, based on safety and productivity through a superior work force, focus on performance measurements and a well-defined investment program.

However, continued strong earnings growth from A.T. Massey Coal and the excellent performance of thousands of employees on hundreds of projects around the globe was not enough to offset Fluor Daniel's disappointing level of earnings. For the first time in several years, operating earnings fell significantly below expectations and the prior year.

The reasons for this disappointing performance have been previously disclosed to you as related events unfolded, but the causes and the actions underway to improve our results are worth expanding on in this year-end report.

First, what caused our earnings shortfall? Three years ago we launched an ambitious expansion program within Fluor Daniel with the objective of accelerating our earnings growth rate and increasing returns on shareholders' equity. This strategy entailed investing in and building costly internal business infrastructure in advance of the expected growth in new engineering and construction (E&C) activity. Initial indications of the success of this strategy in 1995 and 1996 looked encouraging. The pace of new awards and backlog were rising, and we were gaining share in new industry sectors and geographical markets beyond our traditional leadership position in the global energy, chemical and mining arenas.

In retrospect, however, while the expected gains in the volume of new work were being achieved, the type and mix of the projects awarded, lower incentive fees earned on E&C contracts, more competitive pricing in our power, government and industrial groups, and slower earnings growth from Diversified Services units, coupled with the overhead cost of securing and supporting this new work, combined to erode overall profit margins. The largest single item was a significant cost overrun on an international, fixed-price power project. The combination of these factors caused Fluor Daniel's operating profits for 1997 to drop to $122 million, 62 percent less than the prior year. As a consequence, the company's consolidated net earnings declined to $146 million, or 45 percent below the prior year.

In March 1997, James C. Stein, a 30-year veteran of the company and the executive who had been leading our Diversified Services units, was named president and chief operating officer of Fluor Daniel's global E&C activity. Jim and his team's charge was to direct resources to higher margin prospects, implement actions by the end of fiscal 1997 which would reduce Fluor Daniel's overhead cost by at least $100 million and refocus the E&C unit on operating excellence. Project loss reserves were established which, based on current estimates, put the problem project behind the company from an earnings impact standpoint. The team also established an immediate results goal to rebuild Fluor Daniel's operating earnings to no less than $140 million for the second half of the fiscal year. Both of these financial objectives, the cost-reduction actions and operating earnings targets, were achieved.

OFFICE OF THE CHAIRMAN

PICTURED FROM LEFT TO RIGHT

JAMES C. STEIN
PRESIDENT AND
CHIEF OPERATING OFFICER
FLUOR DANIEL

JAMES O. ROLLANS
SENIOR VICE PRESIDENT AND
CHIEF ADMINISTRATIVE OFFICER

PETER J. FLUOR
NON-EXECUTIVE CHAIRMAN

DON L. BLANKENSHIP
CHAIRMAN, PRESIDENT AND
CHIEF EXECUTIVE OFFICER
A.T. MASSEY COAL

In December, Fluor's chairman and chief executive officer, Les McCraw, was diagnosed with malignant bladder polyps, his third episode with cancer. Les immediately underwent surgery for this condition and currently is involved in an extensive after-care regimen. Given his need to focus on health matters and the time required to deal with the business challenges of the company, he requested and was granted early retirement by the Board effective January 1, 1998. He will not stand for reelection to the Board in March 1998. In accepting Les's retirement request, the directors recognized his 22 years of outstanding service to the company. Under his leadership, Fluor Daniel was created and was ranked by *Fortune* magazine in 1997 as the most admired company in its industry, the first-ever list of global companies ranked by their peers. An important part of Les's legacy is the company's passion and commitment to the safety and protection of its workers. We wish Les all the best with his recovery. Following his anticipated retirement from the Board in March, the Board will be comprised of three inside executive directors and nine outside directors.

The Board, with the assistance of an executive search firm, currently is engaged in the evaluation of both internal and external candidates for the chairman and chief executive officer position. During this process, Peter J. Fluor, a member of the Board since 1984 and president and chief executive officer of Texas Crude Energy, Inc., will serve as non-executive chairman. To manage the overall affairs of the company during the interim, the Board has created an "Office of the Chairman," comprised of Peter Fluor; Don L. Blankenship, chairman, president and chief executive officer of Massey Coal; James O. Rollans, senior vice president and chief administrative officer, and Jim Stein. This group will focus on evaluating and implementing appropriate strategic actions, capitalizing on current market opportunities, and utilizing the company's competitive advantages and financial strength to enhance shareholder value.

To build shareholder value near-term, an analysis of strategic alternatives for Fluor Daniel's equipment leasing subsidiary, American Equipment Company, is being conducted. Significant investment in this subsidiary during the past three years has generated significant value and earnings power. Even though American Equipment has been an excellent source of income and has an outstanding future, the company has concluded that ownership in the current form is not strategically essential. The company expects that it will conclude its analysis of value-creating options by mid-April. In the event of any sale or restructuring, the company intends to apply the after-tax proceeds to the repurchase of its stock, if market conditions are appropriate. In addition to any share repurchases which may occur as a result of strategic actions, the company intends to continue its ongoing share repurchase program. To continue this program, the Board of Directors supplemented the company's share repurchase authorization in December to a new unused total of 10 million shares. In addition to approximately 620,000 shares which were purchased in fiscal 1997, more than 630,000 shares have been repurchased to date in fiscal 1998.

Regarding the outlook for our E&C activities, the competitive implications of the global marketplace continue to put cost pressures on our traditional clients which, in turn, are putting pressure on Fluor Daniel's profit margins. Volatile business conditions in certain international markets, coupled with the global effect of the turmoil in the Asian financial markets, also may cause a number of clients to take a more conservative wait-and-see approach on new, large capital projects. As a consequence, new awards booked during 1998 will primarily affect earnings in 1999 and beyond. Nevertheless, operating profits in 1998 for Fluor Daniel are expected to show marked improvement over 1997's results.

To improve the earnings contribution from Fluor Daniel over the longer term, our primary focus will be to improve margins through selectivity, project execution and cost management. A number of new initiatives already have been implemented to accomplish this, including the elimination of matrix decision-making, strengthening of the sales and marketing organization to enhance selectivity, and the consolidation of operating units into four global groups which now have line-of-sight responsibility for all project activities. This structure is designed to better serve our clients and permit us to be more responsive and flexible, and to further lower our costs.

A.T. Massey will continue to build on its present growth strategy through self-funded investment in Central Appalachia coal properties, as well as pursue opportunities for broader utilization of its technical and operational expertise. The outlook for 1998 is for continued growth in sales volume and operating profits at Massey.

The company will maintain its strong balance sheet and concentrate on generating positive cash flow this coming year. Our capital budget for 1998 has been set at approximately $450 million which, based on current projections, can be funded from internally generated operating cash flow. This level compares with approximately $650 million in fiscal year 1997. During the past three years, the company has invested approximately $1.5 billion in the expansion of its Fluor Daniel and A.T. Massey units. The establishment of a base-load level for the 1998 capital budget is consistent with the company's enhanced focus on selectivity and is considered to be sufficient to support future earnings growth.

The company's financial condition remains strong. Cash and marketable securities balances at year-end 1997 were in excess of $300 million. At year-end, long-term debt was approximately $300 million, or less than 15 percent of total long-term capital. This financial strength gives the company the flexibility to continue to make selected capital expenditures and acquisitions, while maintaining a strong credit rating.

Given the company's financial strength and prospects for future growth, the Board raised the quarterly cash dividend in December to 20 cents per share, or an indicated rate of 80 cents per year.

On behalf of our employees and our Board, we thank our clients and customers for their trust and confidence in Fluor Daniel's E&C services and A.T. Massey's coal products and services. We also greatly appreciate the confidence and support of our shareholders who have stayed with us through this difficult period. We firmly believe that Fluor has the pride, the will, the talent and the direction to succeed.

Peter J. Fluor
Non-Executive Chairman

James C. Stein
President and
Chief Operating Officer
Fluor Daniel

James O. Rollans
Senior Vice President and
Chief Administrative Officer

Don L. Blankenship
Chairman, President and
Chief Executive Officer
A.T. Massey Coal

January 13, 1998

BOARD OF DIRECTORS CHANGES

The makeup of the Board of Directors changed significantly during the past 12 months. Four directors retired from the Board, and five new directors were added. Hugh K. Coble, vice chairman, and a 31-year employee of the company elected to retire in March 1997. William R. Grant, chairman of Galen & Associates; Robert V. Lindsay, former president of J.P. Morgan Bank; and Buck Mickel, former vice chairman of the Fluor Board, retired at end of calendar 1997 according to the company's mandatory retirement age guidelines. These four directors served the shareholders with distinction for many years, and their wise counsel will be greatly missed.

Thomas L. Gossage, retired chairman, president and chief executive officer of Hercules Incorporated; Dean R. O'Hare, chairman and chief executive officer of The Chubb Corporation; and Robin Renwick, a member of the House of Lords and former British Ambassador to the U.S., were appointed new Board members during the course of fiscal 1997. James O. Rollans, senior vice president and chief administrative officer of Fluor, and James C. Stein, president and chief operating officer of Fluor Daniel, also were elected directors in December 1997. These five new members of the Board will contribute significantly to our company's future success.

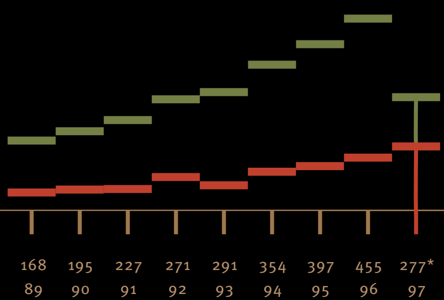
A new Finance Committee of the Board was established with Dr. Martha R. Seger serving as its first chairman. A description of the roles, responsibilities and membership of the five standing committees of the Board appears on page 46 in this report.

1997 KEY ACHIEVEMENTS

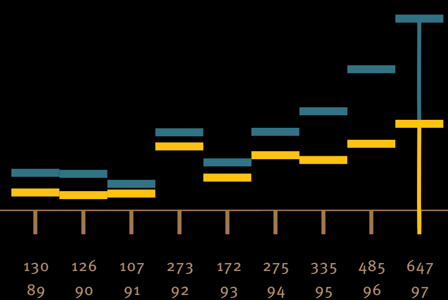
$ in thousands, except per share amounts

	1997	1996	% change
FISCAL YEAR			
Revenues	$14,298,541	$ 11,015,192	30
Net earnings	146,187	268,084	-45
Earnings per share	$ 1.73	$ 3.17	-45
Return on average shareholders' equity	8.7%	17.4%	—
Capital expenditures and acquisitions	$ 647,402	$ 484,531	34
New awards	$ 12,122,100	$12,487,800	-3
Produced coal sold (thousands of short tons)	35,643	31,091	15
Cash dividends per common share	$ .76	$ .68	12
AT FISCAL YEAR-END			
Working capital	$ 235,202	$ 151,255	56
Total assets	4,697,840	3,951,726	19
Backlog*	14,369,900	15,757,400	-9
Capitalization			
Long-term debt	300,508	2,967	NM
Shareholders' equity	1,741,050	1,669,726	4
Total capitalization	$ 2,041,558	$ 1,672,693	22
Long-term debt as a percent of total capitalization	14.7%	0.2%	—
Shareholders' equity per common share	$ 20.79	$ 19.93	4
Closing stock price	$ 41.13	$ 65.50	-37
Salaried employees	31,392	27,514	14
Craft/hourly employees	29,287	24,947	17
Total employees	60,679	52,461	16

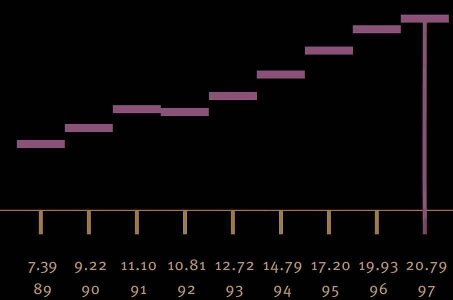
The quarterly dividend was increased from $.17 per share to $.19 per share in the first quarter of 1997 and to $.20 per share in the first quarter of 1998.
*Backlog does not reflect A.T. Massey Coal operations or certain Diversified Services activities.



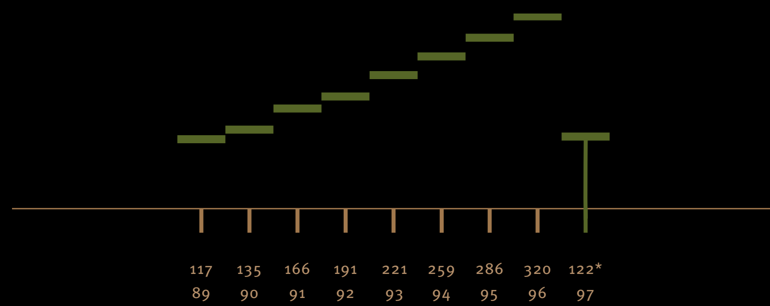
OPERATING PROFIT FROM CONTINUING OPERATIONS
$ in millions
*Includes project and cost-reduction provisions
E&C ▮
Coal ▮



CAPITAL EXPENDITURES & ACQUISITIONS
$ in millions
Excludes discontinued operations
E&C ▮
Coal ▮



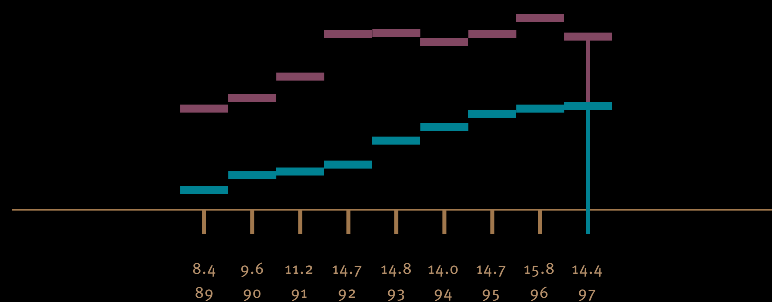
SHAREHOLDERS' EQUITY PER COMMON SHARE
$



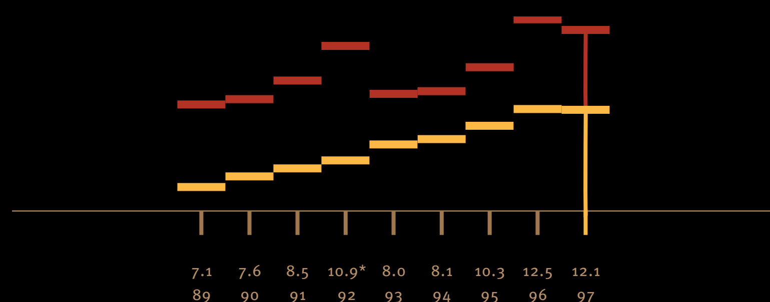
E&C OPERATING PROFIT
$ in millions
*Includes project and cost reduction provisions

BACKLOG BY REGION 1997

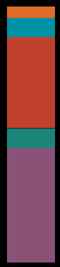
- 17% Asia Pacific
- 11% Australia
- 1% Canada
- 10% Europe
- 5% Latin America
- 17% Middle East
- 39% United States



BACKLOG — INTERNATIONAL VS. U.S.
$ in billions
U.S.
International

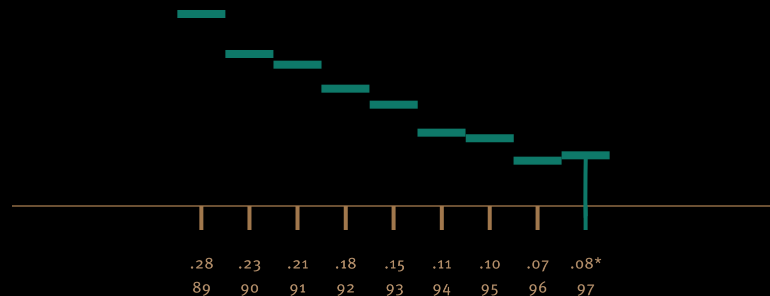


NEW AWARDS — INTERNATIONAL VS. U.S.
$ in billions
*Includes $2.2 billion for a 5-year contract with U.S. Dept. of Energy
U.S.
International



BACKLOG BY INDUSTRY 1997

- 5% Diversified Services
- 7% Government
- 36% Industrial
- 8% Power
- 44% Process



FLUOR DANIEL SAFETY PERFORMANCE
(Lost workday incidence rates)
*Over 50 times better than the national industry average

MISSION STATEMENT

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

ENGINEERING AND CONSTRUCTION

Fluor Daniel is among the world's largest engineering, construction, maintenance and diversified services companies. The company's activities are now organized into four global operating groups: Energy & Chemicals; Industrial; Government, Environmental & Telecommunications; and Diversified Services. Each group consists of specific operating companies, offices and functions with global responsibility. This structure allows us to better serve our clients' needs, while aligning industry synergies, providing line-of-sight operation and cost controls, and improving profitability.

In 1997, Fluor Daniel's operating profit was $122 million. Backlog at year-end was $14.4 billion, representing a diversity of services and geographic locations. New awards in 1997 were $12.1 billion, with strong prospects for new business in 1998 and beyond. In 1997, Fluor Daniel was ranked the number-one engineering and construction company in the U.S. by *Engineering News-Record* magazine and the world's most admired publicly held engineering and construction company by *Fortune* magazine.

Fluor Daniel is facing rapidly changing business conditions. Global competition for our clients and within our industry, coupled with ongoing changes in the international business and financial markets, are presenting new opportunities and challenges which necessitate a continuous review of our strategies and operations. As a result, significant changes were implemented in 1997 in both our strategic market focus and our organizational structure. We are increasing our selectivity of projects pursued to improve margins and overall profitability. Our market focus has been narrowed to capitalize on opportunities which leverage our competitive strengths, while reducing or eliminating activities where the financial returns are less attractive.

Fluor Daniel's capability to execute large, complex projects is a clear competitive differentiator which few competitors possess. While smaller projects remain an important element in our overall business mix, our capabilities, resources and experience position us to generate higher margins and returns by focusing on challenging project opportunities which leverage these strengths. Our ability to provide a full range of services, including project financing assistance, combined with our extensive global presence, are key competitive advantages. With approximately 80 percent of our business coming from repeat clients, our relationships with major global companies are simply invaluable.

Additionally, our financial strength not only provides important reassurance to clients but affords us the ability to invest in our capabilities at a level which further distinguishes us from many competitors. Investments during the past several years have created an extensive network of global capabilities linked electronically which has provided significant increases in productivity, including increased use of high-value engineering centers located around the world. Additional investment in proprietary automation tools which maximize resources, as well as reduce installed costs and project schedules, also are beginning to yield meaningful competitive benefits.

ENERGY & CHEMICALS

Fluor Daniel's Energy & Chemicals Group has been structured to address its markets globally, which are increasingly coming together to meet worldwide consumer demand. These markets often generate very large projects, and because of our unique ability to handle such complex projects, Fluor Daniel historically has been the industry leader.

As existing resources are depleted, a growing demand for energy is providing Fluor Daniel with increasing opportunities in these key markets. Advances in technology also are creating a trend toward oil and chemical clients installing power generation capabilities at their facilities. Longer term, clients are positioning themselves to provide the full spectrum of gas to energy products. To address these new opportunities and leverage existing client relationships, we have consolidated our power capabilities into this group.

CHEMICALS AND PETROCHEMICALS

Growth in emerging economies and new product developments are leading to strong demand globally for businesses which produce agricultural chemicals, specialty chemicals, films, synthetic fibers and polymer products. Annual worldwide capital investment is estimated at $80 billion with average annual growth of 6 percent, according to the U.S. government. The petrochemicals industry represents nearly 40 percent of the world's chemical market, which, according to a Chem Systems' report, is expected to have sales of $2 trillion by the year 2000.

In the ethylene and derivatives industry, global capital expenditures are estimated at nearly $6 billion annually. In November, Fluor Daniel and Stone & Webster formed a joint venture to pursue and execute ethylene and related petrochemical projects worldwide, providing engineering, procurement, construction (EPC) and project management consulting services.

Strong client relationships are key elements in winning high levels of repeat business. We have several strategic alliances established with global companies such as Kodak and Union Carbide. We are also supporting DuPont on many of its projects in North America, Western Europe and China.

In 1997, Fluor Daniel was active on several projects, including Petrochemical Industries Company of Kuwait and Union Carbide's EQUATE project; Saudi Yanbu Petrochemical Company's petrochemical facility in Saudi Arabia; Saudi Chevron Petrochemical's Aromax® project in Jubail; Nova Chemicals' ethylene complex in Canada; and multiple sites for Amoco in Texas and Alabama. Fluor Daniel also is supporting a global restructuring program for Witco Corporation's manufacturing facilities.

PETROLEUM

Demand for oil and petroleum products continues to grow worldwide at a steady, modest rate. According to *Hydrocarbon Processing* magazine, capital investment in the downstream market currently exceeds $20 billion annually.

Our Petroleum operating company serves the oil refining industry and is involved in integrated gas activities, including those in the liquefied natural gas (LNG) market. We have been awarded a contract by Petrolera Ameriven S.A. to provide a basic engineering package for its proposed heavy oil upgrader in Venezuela. As part of a multinational consortium, ICA Fluor Daniel—our joint-venture company in Mexico—is building the world's largest nitrogen generation complex for Pemex, Mexico's national oil company. We are modernizing Deutsche Shell's lube oil blending facility in Germany, and with our subsidiaries—Prosynchem and Prochem—a major refinery in Poland. In 1997, we completed front-end design for Abu Dhabi National Oil Company's planned Ruwais oil refinery expansion and continued work on the major expansion of the Pertamina refinery in Indonesia.

Worldwide gas demand is nearly twice that of oil, and the ever-increasing need for clean fuels has accelerated demand for additional LNG capacity worldwide. Through our joint venture with Mitsubishi Heavy Industries, we are pursuing LNG projects and have completed the project specification for the Malaysia LNG Tiga project.

PRODUCTION AND PIPELINES

Annual expenditures in the upstream segment of the petroleum industry are expected to approach $75 billion per year for the next three years, according to *Oil & Gas Journal* and the U.S. Energy Information Administration. Investment by oil companies in acquiring and developing new reserves to meet global demand growth is stimulating construction of production facilities and pipelines principally in Latin America, the Former Soviet Union, Asia Pacific, and West and South Africa.

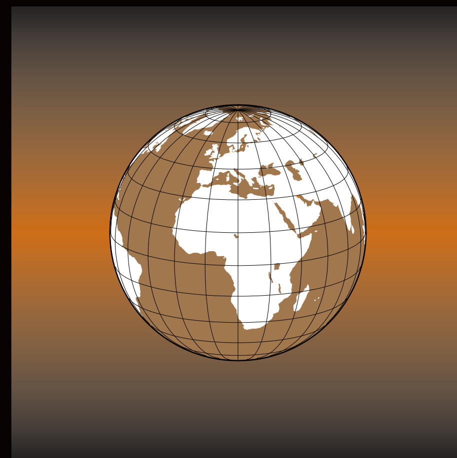
Because of its experience and global execution capability on projects which are logistically challenging, Fluor Daniel's Production, Pipelines & Marine Systems operating company is well positioned to capitalize on these opportunities, which are expected to offer greater returns for the risks involved.

Fluor Daniel is evaluating opportunities for pipeline transportation of oil and gas in the Caspian Sea area for several major oil companies. Along with our consortium partner, we are providing engineering and project management services for a 1,500-kilometer oil export pipeline system in the Caspian Sea region. In Azerbaijan, Fluor Daniel is rehabilitating existing pipelines and participating in the planning for a new major crude export pipeline. In Trinidad, we have project management responsibilities for Amoco's offshore gas development project. We also are providing engineering and management services for the Bayu Undan project's offshore production facilities, located between Australia and Indonesia, for BHP and Phillips.

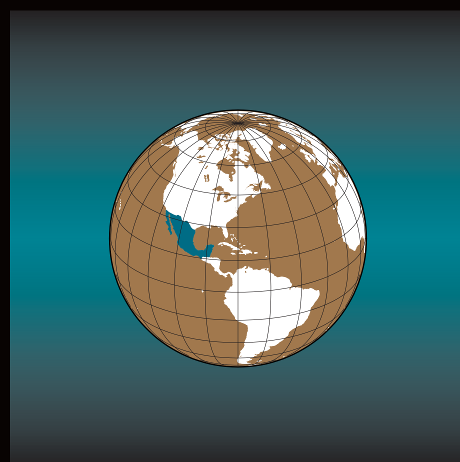
POWER GENERATION

Near-term, developments in Asia and deregulation in the U.S. have impacted demand for power generation facilities. Longer term, the world's demand for energy is expected to nearly double during the next 25 years, causing expenditures of more than $2 trillion for the expansion of power generation facilities.

Duke/Fluor Daniel, our operating company serving the fossil-fuel power generation industry, is in a strong position to selectively capitalize on opportunities worldwide. Additionally, the merger of Duke Power and Pan Energy creates one of the



IN KUWAIT, FLUOR DANIEL IS SERVING AS PROGRAM MANAGER FOR THE EQUATE PROJECT, A JOINT VENTURE INVOLVING PETROCHEMICAL INDUSTRIES COMPANY OF KUWAIT AND UNION CARBIDE, ON A WORLD-CLASS GRASS-ROOTS PETROCHEMICAL COMPLEX. IN ADDITION, FLUOR DANIEL IS PROVIDING ENGINEERING, PROCUREMENT AND CONSTRUCTION SERVICES FOR THE ASSOCIATED INFRASTRUCTURE AND OFFSITE FACILITIES. THE PETROCHEMICAL COMPLEX, WHICH WILL PRODUCE ETHYLENE GLYCOL AND POLYETHYLENE, IS ONE OF THE LARGEST IN THE WORLD TODAY.



IN MID-1996, AN EXPLOSION AT PEMEX GAS AND BASIC PETROCHEMICALS' CACTUS COMPLEX IN CHIAPAS, MEXICO, SEVERELY DAMAGED ONE PLANT AND DESTROYED ANOTHER. ICA FLUOR DANIEL WAS AWARDED THE ENGINEERING, PROCUREMENT AND CONSTRUCTION CONTRACT TO REBUILD BOTH OF THE FACILITIES. THE DAMAGED FACILITY WAS REBUILT IN A RECORD TIME OF 10 MONTHS. ICA FLUOR DANIEL'S ROLE WITH PEMEX HAS CONTINUED TO EXPAND WITH THE RECENT AWARD OF A $1 BILLION NITROGEN PRODUCTION FACILITY IN SOUTHERN MEXICO.

largest energy companies in the world, offering Duke/Fluor Daniel increased opportunities to perform EPC and operations services for its energy-producing assets globally.

Through an alliance between Fluor Daniel and Primary Energy, we are providing EPC and, where applicable, operations and maintenance services for projects developed by the alliance for major industrial companies, such as Inland Steel. We are working as part of a consortium on the $2.5 billion Paiton power project, and are building and operating power generation assets in Irian Jaya in support of P.T. Freeport Indonesia's mining operations. Additionally, we are building a power plant for the Batu Hijau copper and gold project in Indonesia, and are designing and constructing a natural gas-fired, 440-megawatt combined-cycle cogeneration plant for Occidental Petroleum Corporation and Conoco in Texas.

INDUSTRIAL

After prioritizing market opportunities and consolidating operations, the Industrial Group now is organized into five major market segments: mining and metals; electronics; infrastructure; and pharmaceuticals, biotechnology and foods; as well as our alliance with Procter & Gamble. We also have client relationships for which we execute selected projects in the automotive, forest products, and commercial, institutional and correctional facilities segments.

Growth drivers in industrial markets vary but include increasing consumer demand in developing countries, continued technological advances, and the effects of global competition on our clients and the resulting changes in how they do business. Fluor Daniel is continuing to develop and cultivate relationships and alliances with key industrial clients which are increasingly expanding into international markets due to growth in the developing economies.

MINING AND METALS

Lower spot prices for copper, gold and aluminum are impacting the outlook for new mining capacity expansion in 1998. Copper demand fundamentals remain good, however, and economically viable projects in places such as Chile are expected to continue.

Fluor Daniel's experience in handling remote and complex infrastructure and logistical requirements gives our Mining & Metals unit a strong competitive position in the metallurgical extraction industry.

We are providing full-scope services on the $1.6 billion Batu Hijau copper and gold project in Indonesia, expanding Southern Peru Ltd.'s Cuajone copper concentrator project in Peru, continuing EPC services for the Lomas Bayas copper mine in Chile for Westmin, completing construction early of a billion-dollar copper mine for Minera Alumbrera Ltd. in Argentina and providing EPC services for the Escondida oxide leach expansion project in Chile. New awards this year include contracts to build a nickel-cobalt mine for Murrin Murrin Operations Pty. Ltd. and the Yandicoogina iron ore project for Hamersley Iron Pty. Ltd., both located in Western Australia. In North America, we are performing engineering on a copper project for Phelps Dodge and a major concentrator expansion for Southern Peru Copper. We also are expanding production at Cyprus' Henderson mine, by adding underground crushing and conveying facilities. In metals, our partnership with Alcan has us providing ongoing services for its rolling mills in the U.S. and Brazil, and we have a joint venture with SNC-Lavalin to provide EPC services for Alcoa in North America.

ELECTRONICS

Several trends are driving investment in the microelectronics industry, including a directional change in wafer size from the industry standard of 200 millimeters to 300 millimeters, and technological advances which require frequent equipment replacement at manufacturing facilities. As a result, *WaferNews* estimates microelectronics industry capital expenditures at nearly $50 billion annually for the next two to five years, with most opportunities in the U.S., Europe and the Asia Pacific region.

The acquisitions of Anderson DeBartolo Pan (ADP) in 1995 and of Marshall Contractors in 1996 created Fluor Daniel's ADP Marshall operating company, serving the electronics industry. Our collective experience in building, expanding, modernizing, providing tool hook-ups and maintaining wafer fabrication facilities positions us well to capitalize on continued significant investment in this rapidly evolving, high-tech industry. Our work for IBM to upgrade its facilities in Vermont and New York, using the latest in semiconductor technology, exemplifies our capabilities.

ADP Marshall is building a major wafer fabrication facility for a Taiwan Semiconductor consortium in Washington. We also are working on 10 assignments for the world's largest producer of PC microprocessors, including both capacity expansion and technology advances. Additionally, we are working for Lucent Technologies in Georgia and for IBM in Dublin, Ireland.

infrastructure

Economic expansion and population growth in emerging nations are creating a growing need for more roads, ports, airports and rail systems, along with rehabilitation, upgrading and expansions of existing transportation facilities. According to *Public Works Financing*, since the mid-1980s more than 1,800 capital projects, which are user-fee financed under various forms of public-private partnerships, valued in excess of $900 billion are in various stages of development in 103 countries.

Our Infrastructure operating company is involved in surface and air transportation, and water resource markets worldwide. Fluor Daniel is highly selective in the projects it pursues globally to manage and mitigate risks, and to ensure margins offer an appropriate return for its resources.

In the air transportation area, our joint-venture team is constructing the new international arrivals building at New York's Kennedy Airport; we are building, as part of a consortium, the main passenger terminal and are independently performing program management for additional work at Korea's Inchon International Airport; and are providing services for Heathrow's Terminal 5 baggage handling system in England.

In surface transportation, our joint venture team is executing Denver's E-470 toll road project; and our consortium continues work on the planned development of the Florida Overland eXpress, the first intercity high-speed rail system in the U.S. Subject to results of a ridership survey and subsequent arrangement of federal financial support, the $5 billion project is planned to commence in late 1998.

pharmaceuticals, biotechnology and foods

Western Europe and the U.S. remain the business centers for the pharmaceutical and biotechnology industry, with global expansion focused in developing regions and in countries offering favorable investment incentives, such as Ireland, Singapore and Puerto Rico. Capital expenditures in the pharmaceuticals and biotechnology industries are estimated to be approximately $25 billion annually, according to the U.S. government's 1998 Industry and Trade Outlook.

Through strategic client alliances, Fluor Daniel is designing and delivering world-class manufacturing facilities for Eli Lilly, Amgen and Genentech. In 1997, we also provided EPC and validation services for MedImmune, Commercial Alcohols, Shaklee/Yamouchi, Hoffmann La-Roche, Merck, Pharmacia and Upjohn, Johnson & Johnson, Centeon and others. Major projects for Warner Lambert, Monsanto and Pfizer will commence in 1998. The acquisition of Marshall Contractors has added construction management strength and depth, and allowed us to capitalize on its client relationships and expertise in these markets. Working with Hitachi and JGC has added to our already strong position to serve Japanese pharmaceutical firms on global projects.

Our relationships with Pepsi, Frito-Lay, Philip Morris, Nabisco and Hill's Pet Nutrition continue to mature as we execute EPC projects around the world. This alliance approach allows our food, beverage and consumer products clients to benefit from a joint team effort focused on continuous improvement.

alliance serving procter & gamble

The PACE operating company, which provides EPC services to Procter & Gamble, currently is working in seven countries, with continuing opportunities for further expansion. Procter & Gamble is expanding production to serve new markets and meet increased global demand for its products. Fluor Daniel's broad geographic scope and experience enable us to assist them in effectively executing their global expansion program.

government, environmental & telecommunications

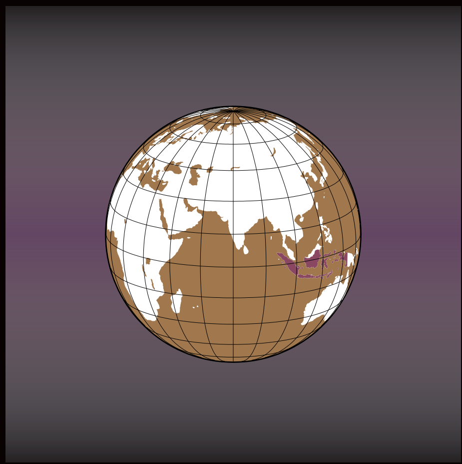
The Government, Environmental & Telecommunications Group serves the interests of both the U.S. government and private industry. Fluor Daniel is well positioned to benefit from opportunities resulting from the expansion of telecommunications networks and is reviewing strategic alternatives to improve returns in its government and environmental businesses.

services for the u.s. government

The Government Services operating company serves the U.S. Department of Energy (DOE), Department of Defense and other government agencies. At the DOE's Hanford site in Washington state, Fluor Daniel is providing cleanup, management and integration services for the former plutonium production complex. With the closure of several buildings, and stabilization and disposal of materials, the ongoing cost of operating the facility was reduced in 1997 to its lowest level in years, increasing the funds available for cleanup. Additionally in 1997, safety continued to improve markedly.

In October, the DOE expressed its confidence in Fluor Daniel's performance at its Fernald, Ohio, site by awarding a two-year contract extension. The Fluor Daniel team developed an innovative plan to accelerate clean up of the site, which is expected to reduce the overall project cost by billions of tax dollars.

IN INDONESIA, FLUOR DANIEL IS PROVIDING ENGINEERING, PROCUREMENT AND CONSTRUCTION SERVICES FOR THE DEBOTTLENECKING OF THE EXISTING CILACAP REFINERY AND THE ADDITION OF A NEW LUBE OIL COMPLEX. WHEN COMPLETED IN EARLY 1999, THROUGHPUT OF CRUDE OIL IN THE EXISTING REFINERY COMPLEX WILL BE INCREASED BY APPROXIMATELY 16 PERCENT, WITH A 71 PERCENT INCREASE IN LUBE OIL PRODUCTION CAPACITY. FLUOR DANIEL'S WORK AT THIS SITE FOR PERTAMINA, THE NATIONAL OIL COMPANY OF INDONESIA, BEGAN IN 1974 WITH THE CONSTRUCTION OF THE ORIGINAL 100,000 BPSD GRASS-ROOTS REFINERY FOLLOWED BY A 200,000 BPSD EXPANSION IN 1981.



UTILIZING ITS EXPERIENCE IN HANDLING THE COMPLEX INFRASTRUCTURE AND LOGISTICS REQUIREMENTS OF LARGE MINING PROJECTS, FLUOR DANIEL IS PROVIDING FULL-SCOPE SERVICES FOR NEWMONT GOLD COMPANY OF DENVER AND SUMITOMO CORPORATION OF TOKYO ON THE BATU HIJAU PROJECT. TO SUPPORT THE LOCAL ECONOMY AND DEVELOP THE TRAINED WORK FORCE NEEDED TO COMPLETE THIS MASSIVE PROJECT, FLUOR DANIEL OPENED A CRAFT TRAINING CENTER IN NEARBY MATARAM. THIS VAST COPPER AND GOLD PROJECT ON THE INDONESIAN ISLAND OF SUMBAWA WILL EMPLOY 6,000 PEOPLE AT THE PEAK OF CONSTRUCTION, AND IT IS EXPECTED TO PRODUCE 550,000 OUNCES OF GOLD AND 270,000 TONS OF COPPER A YEAR FOR TWO DECADES, BEGINNING IN 1999.

Government Services also is the architectural and engineering partner for the University of California's Los Alamos National Laboratory in New Mexico, and is supporting the Federal Emergency Management Agency by providing technical engineering support at locations which have been impacted by natural disasters.

ENVIRONMENTAL

Demand for environmental remediation is growing at a moderate pace, as governments and companies assess the value of their real estate assets. Our majority-owned environmental operating company, Fluor Daniel GTI, provides solutions associated with contaminated soil, water and air problems for commercial and government clients. Our process knowledge and technical and regulatory expertise give us a competitive edge in helping to turn our clients' liabilities into assets. By offering environmental solutions to Fluor Daniel's alliance partners and global client base, the company should continue to increase its market share.

For example, work earned through an alliance between Witco Corporation and our Petrochemicals operating company has Fluor Daniel GTI providing environmental audit investigations and remedial activities to assist with the modernization of more than 20 of Witco's manufacturing facilities. With the resources of Fluor Daniel behind it, Fluor Daniel GTI has focused on larger project opportunities and was awarded contracts to execute remediation projects on U.S. Air Force bases worldwide and to clean up U.S. Army Corps of Engineers' waste sites in nine states.

TELECOMMUNICATIONS

In 1997, the global telecommunications market became the third largest capital investment market in the world. While approximately 70 percent of those living in the U.S. have telephones, in many areas of the world this statistic drops to less than 3 percent, according to Salomon Brothers Global Telecom Database. Projected annual worldwide capital investment in telecommunications infrastructure is expected to be $200 billion between 1998 and 2000, according to the International Telecommunication Union.

We are pursuing numerous projects to build and expand telecommunications systems in support of rapidly growing economies. The U.S., Brazil and the Philippines are focal points for immediate efforts. Our strategic thrust in 1998 is to develop major alliances with service providers and equipment vendors, offering them our project financing expertise and core competency in managing complex projects around the globe. Current clients include Aerial Communications, AT&T Wireless, BellSouth, the City and County of San Francisco, the City of Chicago, Ericsson, Nextel and Teligent.

DIVERSIFIED SERVICES

The Diversified Services Group was formed to capitalize on service industry opportunities by expanding existing businesses and leveraging the market potential of Fluor Daniel's core competencies. To facilitate long-term success, an assessment was made of which businesses continued to offer growth and attractive returns and which should be restructured or divested. As a result, in 1997 we sold ACQUION, our global provider of supply chain management, to Harbinger Corporation. The resources of Fluor Daniel Technologies, which identified profitable technology-based ventures, and of Fluor Daniel Consulting, which provided global site location and business solutions, were integrated into other operating companies. In 1998, Diversified Services will continue to evaluate strategic business alternatives to enhance shareholder value.

GLOBAL EQUIPMENT SUPPLY AND FLEET MANAGEMENT SERVICES

Global demand for construction, industrial and mining equipment continues to experience double-digit increases annually. Demand for rentals in the U.S. alone has grown from $11 billion in 1992 to more than $25 billion in 1997, according to *Rental Equipment Register* magazine. This growth is a result of an increasing trend in equipment rental versus purchase, and in fleet management and outsourcing by industrial clients, such as Phillips Petroleum and Texas Utilities, which we serve.

American Equipment Company is a premier global provider of construction, industrial and mining equipment, fleet maintenance and management services, and construction and industrial tools and supplies. A majority of its business is increasingly generated by non-Fluor Daniel clients, and it holds distribution and marketing relationships with world-class manufacturers throughout its 55 operating centers. Business volume has more than doubled in the past two years, with more than 40 percent of sales generated outside the U.S. in 1997.

During 1997, we acquired several companies, including SMA Equipment in California, Stith Equipment in Georgia and J.W. Burress in the mid-Atlantic region, and added new product lines including Komatsu, Hitachi, Ingersoll-Rand and Terex. We also secured a major equity position in Mexico's Maquinaria Panamericana S.A., an equipment sales and service company, and formed a new joint-equity company, Ameco Contractor Rentals, in the Philippines.

flexible personnel

Competition is forcing companies to cut costs and improve productivity, in order to increase profitability. Revenue generated from the U.S. temporary staffing industry is expected to swell to $81 billion by 2001, nearly double that of 1996, according to the National Association of Temporary and Staffing Services. Outside the U.S., the staffing industry also is growing rapidly, particularly in the U.K., the Netherlands, France, Germany, Australia and Japan.

TRS Staffing Solutions (TRS), a global consortium of staffing specialists, serves a number of high-growth industries, providing technical and professional administrative support personnel in temporary, contract and direct-hire positions. TRS's six specialty divisions focus on core disciplines: engineering and design, information technology, finance and accounting, legal, allied health, and administrative support. Each division's services are marketed under a separate brand name. TRS has a significant presence within North America, Europe and Australia, as well as in Singapore and South Africa.

TRS is well positioned to become one of the leading global specialty staffing suppliers. Its recent acquisition of two leading information technology recruitment firms in the U.S. and Australia positions it to respond to the increasing number of companies which outsource their information technology personnel requirements. Recent acquisitions have broadened TRS's staffing capabilities to include legal and allied health, and enabled it to better respond to targeted market needs.

technical and maintenance services

Finding more efficient ways to start-up, operate and maintain existing facilities are services increasingly in demand by companies facing global competition.

technology services

Using technological advancements, Technology Services provides customized facility start-up and optimized work process solutions, enabling clients to maximize the life-cycle performance of their facilities. Our portfolio of services includes manufacturing technology and maintenance technology consulting; work force preparation; materials management; and systems integration, featuring its multilingual maintenance management software called TabWare.

We complement our core competencies as appropriate by establishing alliances with partners. For example, with General Physics Corporation, we are designing comprehensive work force preparation solutions for clients with construction and reengineering opportunities.

maintenance services

Maintenance Services provides repair, renovation, replacement, upgrade, preventive and predictive maintenance services to a broad range of industries, including petroleum, petrochemical, chemical, industrial, manufacturing, foods, commercial and power. These services are executed through a full array of capabilities, including providing and managing maintenance workers, modification, engineering, start-up, planning and scheduling, turnaround services, and contract management. Maintenance Services focuses on establishing and maintaining long-term relationships, and bringing value to our clients' operations. For example, we are working for IBM at 13 of its sites across the U.S.

european technical services

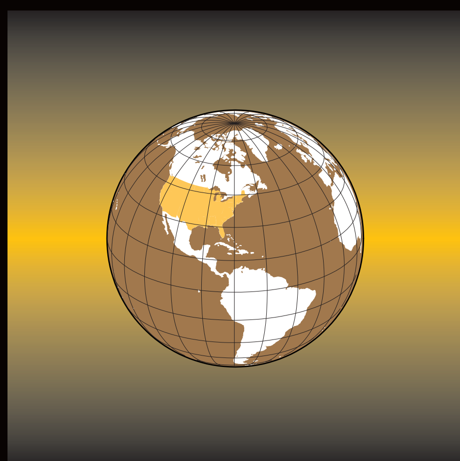
Fluor Daniel and Assystem S.A. entered into an agreement to form a joint-venture company, Asystem Services International (ASI), focused on providing consultancy, information technology and systems, and manufacturing technologies, including maintenance and operations, services to European clients.

ASI is active in a broad spectrum of industries across Europe and with governments in the U.K. and France. In the pharmaceutical and biotechnology business, we are supporting Roche Group, Novartis and Hoechst AG, and in the chemical industry, British Petroleum, Shell, Elf, Total and Mobil Corporation.

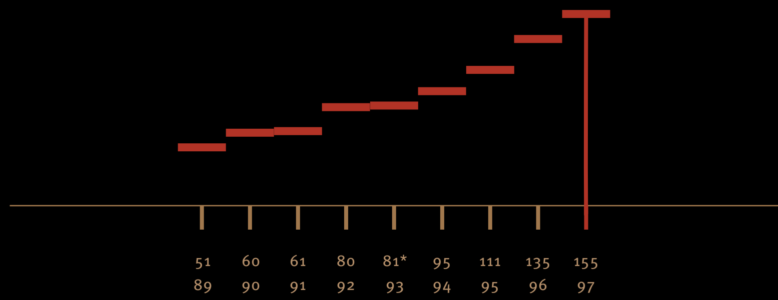
fluor constructors international

Fluor Constructors International, Inc. (FCII) is the union craft arm of Fluor Corporation, providing construction management and direct-hire construction expertise to Fluor Daniel and other companies in North America. Additionally, FCII staffs international projects and has employees working around the world.

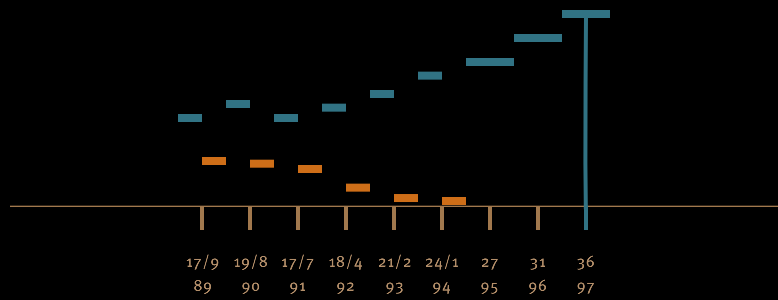
FCII has executed projects in virtually every business sector, performing stand-alone construction and providing maintenance services to clients in the U.S. and Canada. The company has served a diverse range of government agencies as well. FCII is one of only a few construction and maintenance contractors to be ISO-9002 certified.



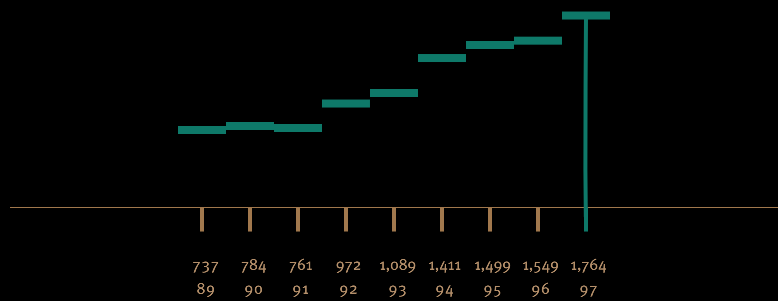
AMERICAN EQUIPMENT COMPANY COMPLETED SEVERAL ACQUISITIONS THIS YEAR WHICH STRENGTHENED ITS PRODUCT AND SERVICE OFFERINGS, AND EXTENDED ITS GLOBAL REACH. THE ACQUISITION OF SMA EQUIPMENT CO. INC., WITH SEVEN LOCATIONS IN CALIFORNIA, PROVIDES AMERICAN EQUIPMENT COMPANY WITH A BROADER MARKET PRESENCE IN THE WESTERN U.S. REGION AND ENHANCES ITS PRODUCT OFFERINGS WITH THE ADDITION OF SMA'S FLAGSHIP KOMATSU PRODUCT LINE, ONE OF THE WORLD'S LEADING MANUFACTURERS OF CONSTRUCTION AND MINING MACHINERY.



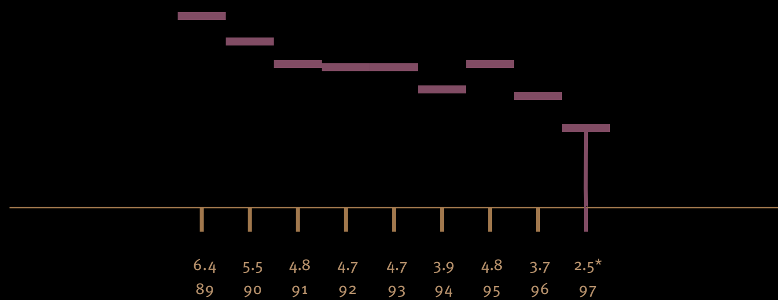
COAL OPERATING PROFIT
$ in millions
*Excludes nonrecurring charge of $10 million



COAL SOLD
Millions of short tons
Produced
Purchased



COAL RESERVES
Millions of short tons



MASSEY SAFETY PERFORMANCE
(Non-fatal days lost)
*Less than half of the national industry average

COAL

A.T. Massey Coal Company, through its operating subsidiaries, produces high-quality, low-sulfur steam coal for the electric-generating industry and industrial customers, and metallurgical coal for the steel industry. For 1997, Massey's total operating profit grew 15 percent to $155 million, from $135 million in 1996. This primarily was due to a continued increase in the volume of coal sales. Total coal sales volume grew 15 percent to 36 million tons, with the majority of the increase being in higher-margin metallurgical coal sales, which grew 20 percent for the year. The higher percentage of stable priced metallurgical coal sales offset the effect on Massey of a decline in average steam coal prices.

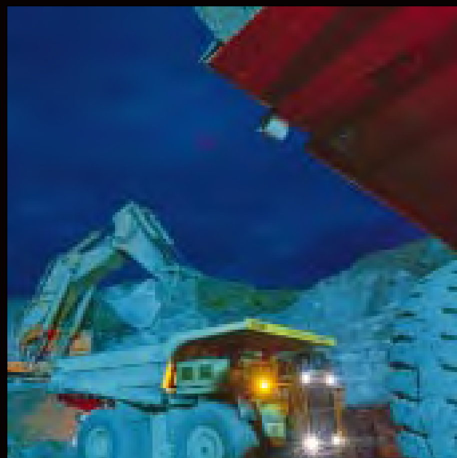
Massey, a low-cost producer, has been investing in its future by adding high-quality, low-sulfur coal reserves, and increasing its production capacity and flexibility. Since 1991, Massey has more than doubled its reserve base. New reserves are located near existing operations, allowing increased production on a highly cost-effective basis, due to better utilization of production facilities and favorable distribution logistics. Massey's strategy is to ensure that its production facilities, reserve base and transportation options meet client needs, while providing the production flexibility to capitalize on the most-profitable sectors within the electric utility, industrial and metallurgical coal markets. Massey is positioned to capitalize on either volume or price increases which may result from higher demand for low-sulfur coal by the deregulated electric utilities attempting to meet clean air requirements with the lowest cost energy sources.

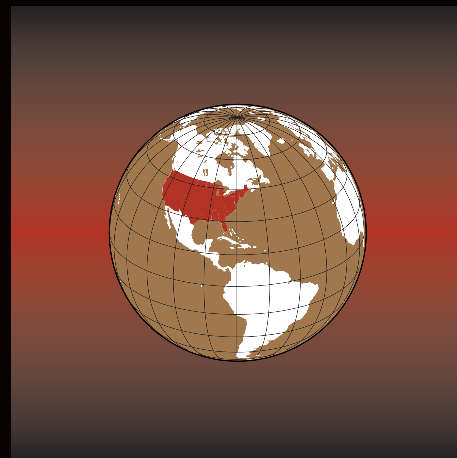
Massey developed five new deep mines, acquired two new mining operations and added a reserve of low-volatile coking coal during 1997. The new operations include three preparation plants and highly efficient loadout systems. The proximity of these operations to other Massey mines provides critical mass and flexibility in production and transportation options. With the addition of low-volatile coking coal reserves, Massey now has the capability of producing blended metallurgical coals to better serve a broader market. The development of reserve purchases has been instrumental in increasing production and is a core element in Massey growth plans. In total, the acquisitions added more than 240 million tons, bringing total Massey reserves to 1.8 billion tons.

Massey's productivity, already the highest in its geographical market, continues to improve, helped by the two longwall operations. A longwall mining system greatly improves safety, and increases productivity and reserve recovery in large coal seams. Coal from Massey's most productive longwall, Upper Big Branch, is being processed at a state-of-the-art preparation plant at Marfork. In 1997, Marfork capacity increased 14 percent to 8 million tons, making it the largest and most efficient coal processing facility in Central Appalachia. Recent upgrades have reduced refuse handling and disposal costs by more than 50 percent, enhancing Marfork's ability to process coal cost effectively. At Elk Run, Massey built a materials handling system which includes the largest coal silo in North America, eliminating the need to truck approximately 70 million tons of coal during the life of the reserve base.

Opportunities in the export market are expanding as a result of privatization and reduction or elimination of government subsidies for European mines. To capitalize on this opportunity, Massey has expanded its export marketing focus by increasing its sales coverage of Western and Central Europe. In 1997, new customers were added in Finland, Germany, the Netherlands and Spain. Export coal sales volume increased 29 percent, from 3.8 million tons in 1996 to 4.9 million tons in 1997.

Worker safety is of paramount importance at Massey and is ensured by a Safety First program exceeding federal and state requirements. Massey's accident rate, already well below the industry average of 5.3, has again improved, dropping from 3.7 non-fatal days lost incidence rate in 1996 to 2.5 in 1997. Safety is engineered into every phase of coal production and monitored by a safety audit program which reviews all aspects of the mining operation and weighs each operation against the toughest safety standards in the coal industry.





IMPROVED OPERATING EFFICIENCIES AT A NEW RAIL LOADOUT FACILITY, ABOVE, BUILT BY MASSEY COAL'S ELK RUN COAL COMPANY SUBSTANTIALLY REDUCED THE TURNAROUND TIME TO LOAD A 150-CAR UNIT TRAIN FROM 24 HOURS TO LESS THAN FOUR HOURS. WHILE THE MAJORITY OF MASSEY COAL'S MINING ACTIVITIES TRADITIONALLY HAVE BEEN UNDERGROUND, SELECTED SURFACE MINING OPERATIONS, TOP, ARE BEING DEVELOPED TO ENHANCE PRODUCTION FROM MASSEY'S EXISTING RESERVE BASE LOCATED IN CENTRAL APPALACHIA.

OPERATING STATISTICS

$ in millions/Year ended October 31,	1997	1996	1995	1994	1993	1992	1991	1990	1989	1988
ENGINEERING AND CONSTRUCTION										
Work performed	$ 12,795	$ 9,870	$ 8,379	$ 7,673	$ 7,110	$ 5,889	$ 5,792	$ 6,353	$ 5,241	$ 4,268
Revenues	13,218	10,054	8,452	7,718	7,134	5,904	5,813	6,383	5,312	4,225
Operating profit	122	320	286	259	221	191	166	135	117	51
New awards	12,122	12,488	10,257	8,072	8,001	10,868	8,532	7,632	7,135	5,955
Backlog	$ 14,370	$ 15,757	$ 14,725	$ 14,022	$ 14,754	$ 14,706	$ 11,181	$ 9,558	$ 8,361	$ 6,659
Salaried employees	30,347	26,568	18,090	16,433	17,215	17,443	17,602	19,829	17,519	15,576

The Industry Group backlog information that follows and the information concerning new awards appearing in Management's Discussion and Analysis on pages 24 to 28 of this annual report, are presented on the basis of Fluor Daniel's organizational alignment in place in 1997 and prior.

$ in millions/At October 31,	1997	1996	1995	1994	1993	1992	1991	1990	1989	1988
BACKLOG BY GROUP AND LOCATION										
Process	$ 6,384	$ 4,903	$ 6,671	$ 7,668	$ 7,430	$ 6,305	$ 5,043	$ 4,434	$ 3,144	$ 2,612
	44%	31%	45%	55%	50%	43%	45%	46%	38%	39%
Industrial	5,178	6,496	4,516	3,564	3,449	3,737	4,127	3,592	4,136	3,100
	36%	41%	31%	25%	23%	25%	37%	38%	49%	47%
Power/Government	2,092	3,621	3,275	2,369	3,212	3,804	1,445	1,058	777	847
	15%	23%	22%	17%	22%	26%	13%	11%	9%	13%
Diversified Services	716	737	263	421	663	860	566	474	304	100
	5%	5%	2%	3%	5%	6%	5%	5%	4%	1%
Total backlog	$ 14,370	$ 15,757	$ 14,725	$ 14,022	$ 14,754	$ 14,706	$ 11,181	$ 9,558	$ 8,361	$ 6,659
	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
United States	$ 5,665	$ 7,326	$ 6,666	$ 6,802	$ 9,045	$ 10,649	$ 7,915	$ 6,724	$ 6,404	$ 5,298
	39%	46%	45%	49%	61%	72%	71%	70%	77%	80%
Asia Pacific (includes Australia)	3,959	4,402	3,303	1,662	1,679	608	377	812	287	251
	28%	28%	23%	12%	11%	4%	3%	9%	3%	4%
EAME*	3,828	2,677	3,088	4,387	3,178	2,389	2,174	1,345	634	494
	27%	17%	21%	31%	22%	17%	20%	14%	8%	7%
Americas	918	1,352	1,668	1,171	852	1,060	715	677	1,036	616
	6%	9%	11%	8%	6%	7%	6%	7%	12%	9%
Total backlog	$ 14,370	$ 15,757	$ 14,725	$ 14,022	$ 14,754	$ 14,706	$ 11,181	$ 9,558	$ 8,361	$ 6,659
	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%

*EAME represents Europe, Africa and the Middle East.

$ in thousands/in thousands of short tons/ Year ended October 31,	1997	1996	1995	1994	1993	1992	1991	1990	1989	1988
COAL										
Revenues	$1,081,026	$960,827	$849,758	$767,725	$716,591	$696,721	$758,481	$865,809	$815,558	$783,719
Operating profit	$ 154,766	$134,526	$ 111,033	$ 95,198	$ 70,680	$ 80,281	$ 60,709	$ 60,241	$ 51,007	$ 50,375
Produced coal sold										
Steam coal	19,300	17,520	15,777	16,702	16,036	13,711	13,536	13,058	11,942	11,057
Metallurgical coal	16,343	13,571	11,633	7,133	5,156	3,827	3,446	5,538	4,640	3,968
Total produced coal sold	35,643	31,091	27,410	23,835	21,192	17,538	16,982	18,596	16,582	15,025
Purchased coal sold	*	*	*	1,284	2,302	4,402	6,578	7,989	9,300	10,038
Total employees	2,968	2,809	2,479	1,954	1,431	1,252	1,133	1,214	1,435	1,232

*Amounts are immaterial.

SELECTED FINANCIAL DATA

In millions, except per share amounts	1997	1996	1995	1994	1993	1992	1991	1990	1989	1988
CONSOLIDATED OPERATING RESULTS										
Revenues	$14,298.5	$11,015.2	$9,301.4	$8,485.3	$7,850.2	$6,600.7	$6,572.0	$7,248.9	$6,127.2	$5,008.9
Earnings from continuing operations before taxes	255.3	413.2	362.2	303.3	242.2	215.4	228.4	153.6	135.6	62.0
Earnings from continuing operations, net	146.2	268.1	231.8	192.4	166.8	135.3	153.1	119.4	84.1	38.6
Earnings (loss) from discontinued operations, net	—	—	—	—	—	(96.6)	11.0	35.2	28.6	21.6
Cumulative effect of change in accounting principle, net	—	—	—	—	—	(32.9)	—	—	—	—
Net earnings	146.2	268.1	231.8	192.4	166.8	5.8	164.1	154.6	112.7	60.2
Earnings per share										
Continuing operations	1.73	3.17	2.78	2.32	2.03	1.65	1.87	1.47	1.04	.48
Discontinued operations	—	—	—	—	—	(1.18)	.14	.43	.36	.27
Cumulative effect of change in accounting principle	—	—	—	—	—	(.40)	—	—	—	—
Net earnings per share	$1.73	$3.17	$2.78	$2.32	$2.03	$.07	$2.01	$1.90	$1.40	$.75
Return on average shareholders' equity	8.7%	17.4%	17.6%	17.1%	17.4%	.6%	20.2%	23.3%	21.5%	14.2%
Cash dividends per common share	$.76	$.68	$.60	$.52	$.48	$.40	$.32	$.24	$.14	$.02
CONSOLIDATED FINANCIAL POSITION										
Current assets	$2,225.9	$1,796.8	$1,411.6	$1,258.4	$1,309.1	$1,138.6	$1,159.5	$1,222.8	$1,036.4	$1,001.0
Current liabilities	1,990.7	1,645.5	1,238.6	1,021.3	930.9	845.4	848.2	984.0	797.7	786.1
Working capital	235.2	151.3	173.0	237.1	378.2	293.2	311.3	238.8	238.7	214.9
Property, plant and equipment, net	1,938.8	1,677.7	1,435.8	1,274.4	1,100.9	1,046.9	1,092.7	925.3	775.3	729.8
Total assets	4,697.8	3,951.7	3,228.9	2,824.8	2,588.9	2,365.5	2,421.4	2,475.8	2,154.3	2,075.7
Capitalization										
Long-term debt	300.5	3.0	2.9	24.4	59.6	61.3	75.7	57.6	62.5	95.0
Shareholders' equity	1,741.1	1,669.7	1,430.8	1,220.5	1,044.1	880.8	900.6	741.3	589.9	467.1
Total capitalization	$2,041.6	$1,672.7	$1,433.7	$1,244.9	$1,103.7	$942.1	$976.3	$798.9	$652.4	$562.1
Percent of total capitalization										
Long-term debt	14.7%	.2%	.2%	2.0%	5.4%	6.5%	7.8%	7.2%	9.6%	16.9%
Shareholders' equity	85.3%	99.8%	99.8%	98.0%	94.6%	93.5%	92.2%	92.8%	90.4%	83.1%
Shareholders' equity per common share	$20.79	$19.93	$17.20	$14.79	$12.72	$10.81	$11.10	$9.22	$7.39	$5.91
Common shares outstanding at October 31	83.7	83.8	83.2	82.5	82.1	81.5	81.1	80.4	79.8	79.1
OTHER DATA										
New awards	$12,122.1	$12,487.8	$10,257.1	$8,071.5	$8,000.9	$10,867.7	$8,531.6	$7,632.3	$7,135.3	$5,955.2
Backlog at year end	14,370.0	15,757.4	14,724.9	14,021.9	14,753.5	14,706.0	11,181.3	9,557.8	8,360.9	6,658.6
Capital expenditures and acquisitions*	647.4	484.5	335.1	274.8	171.5	272.7	106.5	126.4	130.4	77.4
Cash provided by operating activities	$328.6	$406.9	$366.4	$458.6	$188.7	$306.1	$219.0	$353.1	$265.1	$17.7

*Excludes discontinued operations.

See Management's Discussion and Analysis on pages 24 to 28 and Notes to Consolidated Financial Statements on pages 33 to 43 for information relating to significant items affecting the results of operations.

The following discussion and analysis is provided to increase understanding of, and should be read in conjunction with, the consolidated financial statements and accompanying notes.

RESULTS OF OPERATIONS

The company currently operates in two business segments: Engineering and Construction and Coal. The Engineering and Construction segment provides design, engineering, procurement, construction, maintenance and other diversified services to clients in a broad range of industrial and geographic markets on a worldwide basis. The Coal segment produces, processes and sells high-quality, low-sulfur steam coal for the electric generating industry as well as industrial customers, and metallurgical coal for the steel industry.

ENGINEERING AND CONSTRUCTION SEGMENT

Total 1997 new awards were $12.1 billion compared with $12.5 billion in 1996 and $10.3 billion in 1995. The following table sets forth new awards for each of the segment's business groups:

$ in millions/Year ended October 31,	1997	1996	1995
Process	$ 6,090	$ 4,061	$ 3,859
	50%	33%	38%
Industrial	4,057	6,182	4,313
	34%	49%	42%
Power/Government	1,150	1,428	1,873
	9%	11%	18%
Diversified Services	825	817	212
	7%	7%	2%
Total new awards	$12,122	$12,488	$10,257
	100%	100%	100%
U.S.	$ 5,443	$ 5,749	$ 4,495
	45%	46%	44%
International	6,679	6,739	5,762
	55%	54%	56%
Total new awards	$12,122	$12,488	$10,257
	100%	100%	100%

New awards in 1997 were slightly lower compared with 1996, primarily reflecting the increasingly competitive conditions in the global marketplace. The large size and uncertain timing of complex, international projects can create variability in the company's award pattern; consequently, future award trends are difficult to predict with certainty. Furthermore, the volatility in certain international markets could result in the delay of awards during fiscal year 1998.

The growth in the Process Group's new awards in 1997 was due primarily to the award of the $1.9 billion Yanpet project, a petrochemical project being constructed in Saudi Arabia. The decrease in the Industrial Group's new awards in 1997 was primarily in mining and metals, which had significant activity in 1996, including a $1 billion award for the procurement, construction and management services of a copper and gold mine in Indonesia. Most awards in the Power/Government Group in 1997 were for smaller projects located primarily in the United States. New awards in this group in 1996 and 1995 included two large-scale projects. In 1996, the company was selected to manage the environmental cleanup of the Department of Energy's Hanford site, a former plutonium production facility located in southeastern Washington state. The contract is for an initial five-year term with potential contract extensions for an additional five years. The work is being added to backlog as congressional authority to expend the funds is received. The initial authorized phase of $1 billion was recognized as a new award in 1996, representing the estimated total value of work to be performed for the entire project during fiscal year 1997. In the fourth quarter of 1997, based on the experience gained during 1997 regarding the Department of Energy's fee determination procedures for the Hanford project, the company recognized a new award of $220 million representing only its estimated proportionate share of the total work to be performed at the Hanford site in 1998. The Power/Government Group's new awards in 1995 included over $1 billion relating to a power project being constructed in Paiton, Indonesia. Diversified Services new awards in 1997 were comparable with 1996 and were comprised primarily of additional facility management service contracts for IBM at various facilities located throughout the United States. Because of the nature of the services performed by Diversified Services, the vast majority of this group's activities are not includable in backlog.

Backlog at October 31, 1997, 1996 and 1995 was $14.4 billion, $15.8 billion and $14.7 billion, respectively. (See page 22 in this annual report for information relating to backlog by industry group.) The increase in the Process Group's backlog at October 31, 1997 compared with October 31, 1996, was due primarily to the Yanpet project in Saudi Arabia. The decrease in the Industrial Group's backlog at October 31, 1997 compared with October 31, 1996, was due primarily to lower awards activity in mining and metals in 1997. Backlog in the Power/Government Group declined in 1997 compared with 1996 due primarily to the work performed on the Fernald environmental cleanup project and the Paiton power project and the change in new award reporting for the Hanford project discussed above. The increase in backlog from projects located outside the United States at October 31, 1997, was primarily due to the Yanpet project. Approximately 28 percent of the company's backlog is in the Asia Pacific region, including Australia. Due to the nature of the projects included in backlog, the company does not believe it will experience significant disruption in project execution related to the recent turmoil in Asian financial markets. Although backlog reflects business which is considered to be firm, cancellations or scope adjustments may occur. Backlog has been adjusted to reflect known project cancellations, deferrals, and revised project scope and cost, both upward and downward. The net reduction in backlog from project adjustments and cancellations for the year ended October 31, 1997 was $.7 billion, compared with $1.6 billion and $1.2 billion for the years ended October 31, 1996 and 1995, respectively.

Engineering and Construction revenues increased to $13.2 billion in 1997 compared with $10.1 billion in 1996 and $8.5 billion in 1995, due primarily to increases in the volume of work performed. U.S. revenues increased in 1997, reflecting both continued growth within the Diversified Services Group and a healthy U.S. economy. Export revenues increased in 1997 compared with 1996 and 1995 primarily as the result of substantial engineering work performed in the U.S. for the Paiton power project in Indonesia. Engineering and Construction operating profits decreased 62 percent to $122 million in 1997, compared with $320 million in 1996 and $286 million in 1995, due primarily to the items described in the following four paragraphs. Operating margins for the year ended October 31, 1997 were adversely impacted by a variety of factors, including lower incentive fees earned, delays in the full release of certain projects, a reduction in recoveries for United States Government work, competitive pricing primarily in the Industrial and Power/Government Groups and the items referred to below.

Provisions of $21.0 million were recognized in the first quarter for cost overruns on two fixed price power projects, including a power project located outside the United States. The loss in the first quarter on this project reflected additional costs then identified to be incurred on the first phase of the project arising primarily from bad weather, lack of timely site access, unexpected design changes and low labor productivity. The loss on the other project, which is located in the United States, was due primarily to startup problems, craft employee turnover and operation of the plant control system. The company also recognized in the first quarter a credit totaling $25.0 million related to certain actuarially determined insurance accruals. The insurance accrual adjustment was due primarily to improvement in loss experience resulting from the company's safety program, resulting in an excess accrual position.

Provisions of $91.4 million for estimated losses on certain contracts were recognized in the second quarter of 1997. Approximately 75 percent of the contract provisions pertained to cost overruns on the power project located outside the United States. During the second quarter, the company experienced additional difficulties on this project including significant ongoing design changes, long delays in approval of drawings and vendors and resulting low productivity in the field. By the end of the second quarter, these difficulties were substantially resolved as to the first phase of the project and rendered more predictable as to the second phase of the project. Accordingly, in the second quarter the company recorded a provision to recognize the estimated total amount of the loss under the contract. No additional provision related to this project was recorded subsequent to the second quarter. Also included in the second quarter provisions were certain other projects identified to be loss contracts. None of these provisions individually exceeded $5 million. No material additional provisions related to these projects were recorded subsequent to the second quarter.

Additionally, during the second quarter of 1997, the company recorded $26.8 million in provisions for the impairment, abandonment or sale of certain project-related investments and joint ventures, and doubtful accounts receivable, none of which individually exceeded $5 million. These included the anticipated sale of the company's interest in a joint venture within the pulp and paper industry, a write down of an equity investment obtained in exchange for services rendered to an environmental technology company and certain other project joint ventures where it was determined in the second quarter that the company's investment was not expected to be realized due to poor market conditions or cancellation of the project concerned.

Results for the year ended October 31, 1997 include charges of $19.9 million, $1.0 million and $4.5 million in the second, third and fourth quarters, respectively, related to implementation of certain cost reduction initiatives. These charges consist of personnel-related costs and lease costs for excess facilities. As of October 31, 1997, approximately $10.1 million of these costs had been incurred. To date, the company has initiated action to downsize, consolidate or close 17 of its more than 80 offices and has consolidated certain industry operating companies. Upon full implementation of the cost reduction initiatives, which is expected in 1998, the company believes that annualized savings of $100 million can be achieved. The company anticipates that the cash flow impact of the costs to implement these savings initiatives will not have a material impact on current or future periods.

The majority of the company's Engineering and Construction contracts provide for reimbursement of costs plus a fixed or percentage fee. In the highly competitive markets served by this segment, there is an increasing trend for cost-reimbursable contracts with incentive-fee arrangements and fixed or unit price contracts. In certain instances, the company has provided guaranteed completion dates and/or achievement of other performance criteria. Failure to meet schedule or performance guarantees can result in non-reimbursable costs which could exceed project profit margins. The company continues to focus on improving operating margins by enhancing selectivity in the projects it pursues, increasing the level of incentive fees earned and lowering the cost of delivering services through its global network of offices, allowing greater use of high-value engineering centers located in lower-cost areas of the world.

In December 1996, TRS Staffing Solutions, Inc., the company's temporary personnel services subsidiary, acquired the ConSol Group; in May 1997, American Equipment Company, Inc. (American Equipment), the company's equipment sales and rental subsidiary, acquired the SMA Companies; and, in June 1997, American Equipment acquired J.W. Burress, Inc. These businesses were purchased for a total of $139 million.

In addition to the acquisitions noted above, during 1997 the company finalized other smaller acquisitions in selected niche markets. All acquisitions have been accounted for under the purchase method of accounting and their results of operations have been included in the company's consolidated financial statements from the respective acquisition dates. If these acquisitions had been made at the beginning of 1996, results of operations would not have differed materially from actual results.

In August 1997, the company completed the sale of ACQUION, a global provider of supply chain management services, for $12 million in cash, resulting in a pretax gain of $7 million.

The company is currently conducting an analysis of strategic alternatives for certain of its Engineering and Construction business units including the company's equipment sales and rental unit, American Equipment. Alternatives include the possible sale or restructuring. In the event of any sale or restructuring, the company intends to apply the after-tax proceeds to the repurchase of its stock, if market conditions are appropriate.

COAL SEGMENT

Revenues and operating profit from Coal operations in 1997 were $1,081 million and $155 million, respectively, compared with $961 million and $135 million in 1996. Revenues and operating profit in 1995 were $850 million and $111 million, respectively.

Revenues increased in 1997 due primarily to increased sales volume of both metallurgical and steam coal, partially offset by lower steam coal prices. The increase in metallurgical coal revenues is due primarily to an increased market share of sales to steel producers. Steam coal market prices declined approximately 4 percent in 1997 as overall demand was down due to both a mild winter and summer in 1997. Despite lower steam coal prices, steam coal revenues increased due primarily to the addition of a number of new electric utility customers. Gross profit and operating profit both increased 15 percent in 1997 compared with 1996, due primarily to the increased sales volume of both metallurgical and steam coal and lower costs of producing both steam and metallurgical coal.

Revenues increased in 1996 compared with 1995 due primarily to increased sales volume of both metallurgical and steam coal. Metallurgical coal revenues increased due primarily to the continued strong demand by steel producers and the capturing of a larger share of the metallurgical coal market. Steam coal sales benefited from the severe winter in 1996 as electric utilities replenished their depleted inventory levels. Gross profit and operating profit increased 24 percent and 21 percent, respectively, in 1996 compared with 1995, due primarily to the increased sales volume and lower costs of both metallurgical and steam coal combined with improved pricing of metallurgical coal.

OTHER

The company had net interest expense for the year ended October 31, 1997 compared with net interest income for the same periods of 1996 and 1995 due primarily to $300 million in new long-term debt issued in March 1997, an increase in other interest bearing liabilities and lower interest bearing assets. Net interest income for the year ended October 31, 1996 decreased $7.9 million compared with the same period of 1995 due primarily to both lower interest earning assets and higher interest bearing liabilities.

Corporate administrative and general expense for the year ended October 31, 1997 decreased compared with the same period of 1996 due primarily to lower accruals for stock-related and performance-based compensation plans and lower corporate overhead. Corporate administrative and general expense in 1996 was level with 1995 as lower corporate overhead was offset by higher performance-driven compensation plan expense. The company accrues for certain long-term incentive awards whose ultimate cost is dependent on attainment of various performance targets set by the Organization and Compensation Committee (the "Committee") of the Board of Directors. Under one such program the performance target expired, without amendment or extension by the Committee, on December 31, 1997. Accordingly, the company will record a first quarter 1998 credit of approximately $10 million.

The effective tax rate for the year ended October 31, 1997 was materially impacted by foreign-based project losses, other project-related investment losses and certain implementation costs for cost reduction initiatives incurred during the year which are not expected to receive full tax benefit. If these losses are excluded for tax rate determination purposes, there is no significant difference between the effective tax rate and the statutory rate for the year ended October 31, 1997.

The company initiated a review of its software systems in early 1996 in view of the fact that certain systems will not recognize dates after the year 1999, which could cause those systems to produce invalid results. This is commonly referred to as "the Year 2000 problem." The company has substantially completed the assessment phase of all major systems and, in some cases, has made the required changes and is in the process of completing the testing phase. Based upon the results of the work done to date, the company believes that the remaining work will be completed in a timely manner and that the overall cost of such work will not be material. The company expenses such costs when incurred. There can be no assurance, however, that further work will not identify issues which could change the company's present assessment of the cost of addressing this issue.

DISCONTINUED OPERATIONS

In 1994, the company completed the sale of its Lead business for consideration consisting of both cash and deferred payments. Proceeds included $52 million cash on the date of the closing and deferred amounts to be paid in installments over periods ranging from five to eight years. During 1997, the company negotiated a prepayment of the remaining outstanding amounts, receiving $60 million in October 1997. The $60 million was in addition to approximately $36 million for the principal and interest on deferred amounts received since the date of sale. The amounts received slightly exceeded the recorded discounted value of the receivables.

The company has responsibility for certain environmental liabilities arising out of certain zinc mining and smelting operations formerly conducted by St. Joe Minerals Corporation ("St. Joe"), but only to the extent that such liabilities are not covered by St. Joe's comprehensive general liability insurance.

FINANCIAL POSITION AND LIQUIDITY

The decrease in cash provided by operating activities in 1997, compared with 1996 and 1995, is due primarily to lower earnings and increases in operating assets and liabilities (excluding the effects of businesses acquired), related primarily to an increase in the volume of work performed. During 1997, increases in receivables and contract work in progress were only partially offset by increases in certain project-related short-term liabilities, primarily accounts payable and advance billings on contracts. Changes in operating assets and liabilities vary from year to year and are affected by the mix, stage of completion and commercial terms of engineering and construction projects. The increase in cash utilized by investing activities in 1997, compared with 1996 and 1995, is primarily attributable to increased capital expenditures and acquisitions by both the Engineering and Construction and Coal segments, partially offset by proceeds from the sale and maturity of marketable securities, sales of property, plant and equipment and collection of notes receivable. Engineering and Construction capital expenditures and acquisitions were primarily for American Equipment and directed toward expanding the machinery and equipment rental business. Capital expenditures and acquisitions by the Coal operations have been directed primarily toward developing existing reserves and acquiring additional coal reserves. Working capital acquired through both Engineering and Construction and Coal acquisitions totaled $50 million in 1997, $28 million in 1996 and $1 million in 1995. Monies received from notes receivable related to the ongoing collection of deferred amounts associated with the company's 1994 sale of its Lead business, including the prepayment of all remaining amounts in October 1997. Cash provided by financing activities resulted primarily from the sale of debt securities discussed below and increased short-term borrowings, partially offset by dividend payments and the repurchase of company shares.

The long-term debt to capitalization ratio at October 31, 1997 was 14.7 percent compared with less than 1.0 percent at October 31, 1996.

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 and marketable securities, provide adequate operating liquidity. Liquidity is also provided by the company's commercial paper program under which there was $62 million outstanding at October 31, 1997 compared with $30 million at October 31, 1996.

During December 1996, the Company filed a shelf registration statement with the Securities and Exchange Commission for the sale of up to $400 million of debt securities. In March 1997, $300 million of 6.95 percent senior notes due March 1, 2007 were issued under this filing. Proceeds were used primarily to fund operating working capital and capital expenditures. In addition, the company utilized proceeds from the debt offering to continue its share repurchase program initiated in February 1997. During fiscal 1997, the company purchased 619,000 shares of its common stock for a total of $34 million. The company intends to continue its ongoing share repurchase program and in December 1997, the company's Board of Directors increased the existing repurchase authorization to 10 milion shares.

Cash dividends increased to $63.8 million ($.76 per share) in 1997 from $56.8 million ($.68 per share) in 1996 and $49.7 million ($.60 per share) in 1995. The quarterly dividend was increased in the first quarter of 1998 to the current level of $.20 per share.

Although the company is affected by inflation and the cyclical nature of the industry, its Engineering and Construction operations are generally protected by the ability to recover cost increases in most contracts. Coal operations produce a commodity which is internationally traded at prices established by market factors outside the control of the company. However, commodity prices generally tend over the long term to correlate with inflationary trends, and the company's substantial coal reserves provide a hedge against the long-term effects of inflation. Although the company has taken actions to reduce its dependence on external economic conditions, management is unable to predict with certainty the amount and mix of future business.

FINANCIAL INSTRUMENTS

The company's investment securities and substantially all of its debt instruments carry fixed rates of interest over their respective maturity terms. The company does not currently use derivatives, such as swaps, to alter the interest characteristics of its investment securities or its debt instruments. The company's exposure to interest rate risk on its $300 million senior notes, due in 2007, is not material given the company's strong balance sheet and creditworthiness which provides the ability to refinance.

The company's utilization of derivative financial instruments is substantially limited to the use of forward exchange contracts to hedge foreign currency transactions entered into in the ordinary course of business and not to engage in currency speculation. At October 31, 1997 and 1996, the company had forward foreign exchange contracts of less than one year duration, to exchange principally Japanese yen, Canadian dollars, Australian dollars and French francs for U.S. dollars. In addition, the company has a forward foreign currency contract to exchange U.S. dollars for British pounds sterling to hedge annual lease commitments which expire in 1999. The total gross notional amount of these contracts at October 31, 1997 and 1996 was $78 million and $68 million, respectively. Forward contracts to purchase foreign currency represented $74 million and $63 million and forward contracts to sell foreign currency represented $4 million and $5 million, at October 31, 1997 and 1996, respectively.

NEW ACCOUNTING PRONOUNCEMENTS

In June 1997, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 131, "Disclosures about Segments of an Enterprise and Related Information" (SFAS No. 131). SFAS No. 131 establishes new standards for reporting information about operating segments in interim and annual financial statements. This statement is effective for the company's fiscal year 1999.

In February 1997, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 128, "Earnings Per Share" (SFAS No. 128). SFAS No. 128 redefines the standards for computing earnings per share and is effective for the company's fiscal year 1998. The company believes adoption of the new standards will not have a material impact on its earnings per share calculations.

CONSOLIDATED BALANCE SHEET

$ in thousands/At October 31,	1997	1996
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 299,324	$ 246,964
Marketable securities	10,089	69,378
Accounts and notes receivable	930,104	742,547
Contract work in progress	691,395	561,490
Inventories	175,448	73,927
Deferred taxes	58,039	50,157
Other current assets	61,487	52,360
Total current assets	2,225,886	1,796,823
PROPERTY, PLANT AND EQUIPMENT		
Land	70,571	63,969
Buildings and improvements	341,260	329,358
Machinery and equipment	1,761,275	1,424,999
Mining properties and mineral rights	729,458	644,415
Construction in progress	37,541	36,133
	2,940,105	2,498,874
Less accumulated depreciation, depletion and amortization	1,001,315	821,212
Net property, plant and equipment	1,938,790	1,677,662
OTHER ASSETS		
Goodwill, net of accumulated amortization of $28,399 and $18,589, respectively	158,399	84,772
Investments	96,549	108,107
Other	278,216	284,362
Total other assets	533,164	477,241
	$4,697,840	$3,951,726
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts and notes payable	$ 878,187	$ 704,186
Commercial paper	61,886	29,916
Advance billings on contracts	525,518	445,807
Accrued salaries, wages and benefit plan liabilities	303,490	290,426
Other accrued liabilities	221,487	175,026
Current portion of long-term debt	116	207
Total current liabilities	1,990,684	1,645,568
LONG-TERM DEBT DUE AFTER ONE YEAR	300,508	2,967
NONCURRENT LIABILITIES		
Deferred taxes	66,739	42,632
Other	598,859	590,833
Total noncurrent liabilities	665,598	633,465
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 1997 — 83,748,111 shares and in 1996 — 83,791,197 shares	52,343	52,369
Additional capital	569,356	573,037
Retained earnings	1,159,996	1,077,559
Unamortized executive stock plan expense	(33,441)	(32,538)
Cumulative translation adjustment	(7,204)	(701)
Total shareholders' equity	1,741,050	1,669,726
	$4,697,840	$3,951,726

See Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENT OF EARNINGS

In thousands, except per share amounts/ Year ended October 31,	1997	1996	1995
REVENUES			
Engineering and construction services	$13,217,515	$10,054,365	$8,451,626
Coal	1,081,026	960,827	849,758
Total revenues	14,298,541	11,015,192	9,301,384
COST OF REVENUES			
Engineering and construction services	13,096,310	9,739,148	8,171,351
Coal	926,260	826,301	738,725
Total cost of revenues	14,022,570	10,565,449	8,910,076
OTHER (INCOME) AND EXPENSES			
Corporate administrative and general expense	13,230	48,120	48,636
Interest expense	30,758	16,051	13,385
Interest income	(23,286)	(27,646)	(32,927)
Total cost and expenses	14,043,272	10,601,974	8,939,170
EARNINGS BEFORE TAXES	255,269	413,218	362,214
INCOME TAX EXPENSE	109,082	145,134	130,446
NET EARNINGS	$ 146,187	$ 268,084	$ 231,768
EARNINGS PER SHARE	$ 1.73	$ 3.17	$ 2.78
SHARES USED TO CALCULATE EARNINGS PER SHARE	84,500	84,566	83,428

See Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

In thousands/Year ended October 31,	1997	1996	1995
CASH FLOWS FROM OPERATING ACTIVITIES			
Net earnings	$146,187	$268,084	$231,768
Adjustments to reconcile net earnings to cash provided by operating activities:			
Depreciation, depletion and amortization	248,353	194,129	146,957
Deferred taxes	25,428	12,631	1,709
Provisions for impairment/abandonment of joint ventures and investments	22,962	—	—
Gain on sale of business	(7,222)	—	—
Changes in operating assets and liabilities, excluding effects of businesses acquired	(67,224)	(60,353)	9,408
Other, net	(39,860)	(7,632)	(23,491)
Cash provided by operating activities	328,624	406,859	366,351
CASH FLOWS FROM INVESTING ACTIVITIES			
Capital expenditures	(466,202)	(392,436)	(318,942)
E&C businesses acquired	(141,718)	(87,085)	(16,230)
Coal companies acquired	(39,482)	(5,010)	—
Purchase of marketable securities	—	(67,069)	(132,934)
Proceeds from sales and maturities of marketable securities	59,289	134,496	115,553
Investments, net	(9,275)	3,991	(16,667)
Proceeds from sale of property, plant and equipment	50,996	29,486	17,406
Collection of notes receivable	77,496	11,072	6,978
Contributions to deferred compensation trust	(43,026)	—	(21,513)
Proceeds from sale of business	11,992	—	—
Other, net	(12,041)	(23,771)	(14,686)
Cash utilized by investing activities	(511,971)	(396,326)	(381,035)
CASH FLOWS FROM FINANCING ACTIVITIES			
Cash dividends paid	(63,750)	(56,830)	(49,712)
Payments on long-term debt	(8,378)	(42,456)	(35,604)
Increase in short-term borrowings, net	21,692	26,109	9,980
Increase in long-term borrowings	304,097	—	—
Stock options exercised	16,007	17,351	9,757
Purchases of common stock	(33,924)	—	—
Other, net	(37)	(677)	(1,271)
Cash provided (utilized) by financing activities	235,707	(56,503)	(66,850)
Increase (decrease) in cash and cash equivalents	52,360	(45,970)	(81,534)
Cash and cash equivalents at beginning of year	246,964	292,934	374,468
Cash and cash equivalents at end of year	$299,324	$246,964	$292,934

See Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY

In thousands, except per share amounts	Common Stock Shares	Common Stock Amount	Additional Capital	Retained Earnings	Unamortized Executive Stock Plan Expense	Cumulative Translation Adjustment	Total
BALANCE AT OCTOBER 31, 1994	82,508	$51,567	$498,804	$ 684,249	$(14,472)	$ 308	$1,220,456
Net earnings				231,768			231,768
Cash dividends ($.60 per share)				(49,712)			(49,712)
Exercise of stock options, net	264	165	9,592				9,757
Stock option tax benefit			2,460				2,460
Amortization of executive stock plan expense					3,684		3,684
Issuance of restricted stock, net	393	246	20,320		(16,077)		4,489
Tax benefit from reduction of valuation allowance for deferred tax assets			7,327				7,327
Translation adjustment (net of deferred taxes of $374)						585	585
BALANCE AT OCTOBER 31, 1995	83,165	51,978	538,503	866,305	(26,865)	893	1,430,814
Net earnings				268,084			268,084
Cash dividends ($.68 per share)				(56,830)			(56,830)
Exercise of stock options, net	466	291	17,060				17,351
Stock option tax benefit			3,977				3,977
Amortization of executive stock plan expense					5,723		5,723
Issuance of restricted stock, net	160	100	11,084		(11,396)		(212)
Tax benefit from reduction of valuation allowance for deferred tax assets			2,413				2,413
Translation adjustment (net of deferred taxes of $1,019)						(1,594)	(1,594)
BALANCE AT OCTOBER 31, 1996	83,791	52,369	573,037	1,077,559	(32,538)	(701)	1,669,726
Net earnings				146,187			146,187
Cash dividends ($.76 per share)				(63,750)			(63,750)
Exercise of stock options, net	415	260	15,747				16,007
Stock option tax benefit			3,528				3,528
Amortization of executive stock plan expense					8,183		8,183
Issuance of restricted stock, net	161	101	9,006		(9,086)		21
Purchases of common stock	(619)	(387)	(33,537)				(33,924)
Tax benefit from reduction of valuation allowance for deferred tax assets			1,575				1,575
Translation adjustment (net of deferred taxes of $4,333)						(6,503)	(6,503)
BALANCE AT OCTOBER 31, 1997	83,748	$52,343	$569,356	$1,159,996	$(33,441)	$(7,204)	$1,741,050

See Notes to Consolidated Financial Statements.

MAJOR ACCOUNTING POLICIES

PRINCIPLES OF CONSOLIDATION

The financial statements include the accounts of the company and its subsidiaries. The equity method of accounting is used for investment ownership ranging from 20 percent to 50 percent. Investment ownership of less than 20 percent is accounted for on the cost method. All significant intercompany transactions of consolidated subsidiaries are eliminated. Certain 1996 and 1995 amounts have been reclassified to conform with the 1997 presentation.

USE OF ESTIMATES

The preparation of the financial statements of the company requires management to make estimates and assumptions that affect reported amounts. These estimates are based on information available as of the date of the financial statements. Therefore, actual results could differ from those estimates.

ENGINEERING AND CONSTRUCTION CONTRACTS

The company recognizes engineering and construction contract revenues using the percentage-of-completion method, based primarily on contract costs incurred to date compared with total estimated contract costs. Customer-furnished materials, labor and equipment, and in certain cases subcontractor materials, labor and equipment, are included in revenues and cost of revenues when management believes that the company is responsible for the ultimate acceptability of the project. Contracts are segmented between types of services, such as engineering and construction, 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 in which they are determined. Revenues recognized in excess of amounts billed are classified as current assets under contract work in progress. Amounts billed to clients in excess of revenues recognized to date are classified as current liabilities under advance billings on contracts. The company anticipates that substantially all incurred costs associated with contract work in progress at October 31, 1997 will be billed and collected in 1998.

DEPRECIATION, DEPLETION AND AMORTIZATION

Additions to property, plant and equipment are recorded at cost. Assets other than mining properties and mineral rights are depreciated principally using the straight-line method over the following estimated useful lives: buildings and improvements—3 to 50 years and machinery and equipment—2 to 30 years. Mining properties and mineral rights are depleted on the units-of-production method. Leasehold improvements are amortized over the lives of the respective leases. Goodwill is amortized on the straight-line method over periods not longer than 40 years.

EXPLORATION, DEVELOPMENT AND RECLAMATION

Coal exploration costs are expensed as incurred. Development and acquisition costs of coal properties, when significant, are capitalized in mining properties and depleted. The company accrues for post-mining reclamation costs as coal is mined. Reclamation of disturbed surface acreage is performed as a normal part of the mining process.

INCOME TAXES

Deferred tax assets and liabilities are recognized for the expected future tax consequences of events that have been recognized in the company's financial statements or tax returns.

EARNINGS PER SHARE

Earnings per share is based on the weighted average number of common shares and, when appropriate, common equivalent shares outstanding in each period. Common equivalent shares, primarily stock options, are included when the effect of exercise would be dilutive.

In February 1997, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 128, "Earnings Per Share" (SFAS No. 128). SFAS No. 128 redefines the standards for computing earnings per share and is effective for the company's fiscal year 1998. The company believes adoption of the new standards will not have a material impact on its earnings per share calculations.

MARKETABLE SECURITIES

All investment securities are considered to be available-for-sale and carried at fair value. Management determines classification at the time of purchase and reevaluates its appropriateness at each balance sheet date. The company's investments primarily include short-term, highly liquid investment grade debt securities. As of October 31, 1997 and 1996 there were no material gross unrealized gains or losses as the carrying value of the security portfolio approximated fair value. Gross realized gains and losses on sales of securities for the years ended October 31, 1997 and 1996 were also not material. The cost of securities sold is based on the specific identification method. As of October 31, 1997 the total marketable securities portfolio matures within one year.

INVENTORIES

Inventories are stated at the lower of cost or market using the average cost method. Inventories comprise:

$ in thousands/At October 31,	1997	1996
Coal	$ 54,419	$28,809
Equipment for sale/rental	74,574	19,477
Supplies and other	46,455	25,641
	$175,448	$73,927

The increase in equipment for sale/rental inventories is due to the acquisition of two equipment sales and rental companies during 1997.

FOREIGN CURRENCY

The company's utilization of derivative financial instruments is substantially limited to the use of forward exchange contracts to hedge foreign currency transactions entered into in the ordinary course of business and not to engage in currency speculation. The company's forward exchange contracts do not subject the company to risk from exchange rate movements because gains and losses on such contracts offset losses and gains, respectively, on the assets, liabilities or transactions being hedged. Accordingly, the unrealized gains and losses are deferred and included in the measurement of the related foreign currency transaction. At October 31, 1997, the company had approximately $78 million of foreign exchange contracts outstanding relating to lease commitments and contract obligations. The forward exchange contracts generally require the company to exchange U.S. dollars for foreign currencies at maturity, at rates agreed to at inception of the contracts. If the counterparties to the exchange contracts (AA rated banks) do not fulfill their obligations to deliver the contracted currencies, the company could be at risk for any currency related fluctuations. The amount of any gain or loss on these contracts in 1997 and 1996 was immaterial. The contracts are of varying duration, none of which extend beyond December 1, 1999. The company limits exposure to foreign currency fluctuations in most of its engineering and construction contracts through provisions that require client payments in U.S. dollars or other currencies corresponding to the currency in which costs are incurred. As a result, the company generally does not need to hedge foreign currency cash flows for contract work performed. The functional currency of all significant foreign operations is the local currency.

CONCENTRATIONS OF CREDIT RISK

The majority of accounts receivable and all contract work in progress are from engineering and construction clients in various industries and locations throughout the world. Most contracts require payments as the projects progress or in certain cases advance payments. The company generally does not require collateral, but in most cases can place liens against the property, plant or equipment constructed or terminate the contract if a default occurs. Accounts receivable from customers of the company's Coal operations are primarily concentrated in the steel and utility industries. The company maintains adequate reserves for potential credit losses and such losses have been minimal and within management's estimates.

STOCK PLANS

The company accounts for stock-based compensation using the intrinsic value method prescribed by Accounting Principles Board (APB) Opinion No. 25, "Accounting for Stock Issued to Employees," and related Interpretations. Accordingly, compensation cost for stock options is measured as the excess, if any, of the quoted market price of the company's stock at the date of the grant over the amount an employee must pay to acquire the stock. Compensation cost for stock appreciation rights and performance equity units is recorded based on the quoted market price of the company's stock at the end of the period.

CONSOLIDATED STATEMENT OF CASH FLOWS

Securities with maturities of 90 days or less at the date of purchase are classified as cash equivalents. Securities with maturities beyond 90 days are classified as marketable securities and are carried at fair market value. The changes in operating assets and liabilities as shown in the Consolidated Statement of Cash Flows comprise:

$ in thousands/Year ended October 31,	1997	1996	1995
(Increase) decrease in:			
Accounts and notes receivable	$ (125,954)	$ (78,632)	$ (141,505)
Contract work in progress	(130,257)	(176,137)	(52,488)
Inventories	(40,303)	(8,743)	(10,581)
Other current assets	(17,028)	(18,465)	6,292
Increase in:			
Accounts payable	130,992	167,350	35,334
Advance billings on contracts	79,510	43,382	172,062
Accrued liabilities	35,816	10,892	294
(Increase) decrease in operating assets and liabilities	$ (67,224)	$ (60,353)	$ 9,408
Cash paid during the year for:			
Interest expense	$ 25,491	$ 11,832	$ 7,672
Income tax payments, net	$ 75,967	$120,570	$ 121,508

ACQUISITIONS AND DISPOSITION

During the last three years, the company completed certain business acquisitions in both the Engineering and Construction and Coal segments. The Engineering and Construction acquisitions were concentrated primarily within the Diversified Services Group.

The following summarizes major Engineering and Construction acquisitions:

1997:

- ConSol Group, a privately held U.S. company headquartered in New Hampshire, that provides staffing personnel in the fields of information technology and allied health.

- J.W. Burress, Inc., a privately held U.S. company headquartered in Virginia, that provides product support services and sells, rents and services new and used construction and industrial machinery.

- SMA Companies, privately held U.S. companies headquartered in California and Georgia. These companies sell, rent and service heavy construction and industrial equipment and provide proprietary software to other equipment distributors throughout the U.S.

These businesses and other smaller acquisitions were purchased for a total of $142 million. The fair value of assets acquired, including working capital of $42 million and goodwill of $67 million, was $196 million, and liabilities assumed totaled $54 million.

1996:

- Groundwater Technology, Inc. ("GTI"), a publicly traded company headquartered in Massachusetts, that provides detailed, scientific environmental assessment and remediation programs, as well as other environmental support services. Under the terms of the transaction, the company consummated a merger between one of its subsidiaries, Fluor Daniel Environmental Services, Inc., and GTI wherein the company acquired an approximate 55 percent interest in the newly named company, Fluor Daniel GTI, Inc.

- S&R Equipment Company, Inc., a privately held U.S. company based in Ohio, that specializes in high-lift equipment rentals.

- Marshall Contractors, Inc., a privately held U.S. company based in Rhode Island, that provides specialized construction services to the microelectronics, pharmaceuticals, biotechnology, foods and related industries.

These businesses and other smaller acquisitions were purchased for a total of $87 million. The fair value of assets acquired, including working capital of $26 million and goodwill of $50 million, was $329 million, and liabilities assumed totaled $242 million.

1995:

- Management Resources Group, plc, a privately held company headquartered in London, England, that provides permanent and temporary placement services for accounting, information technology and office personnel.

- Anderson DeBartolo Pan, Inc., a privately held U.S. company based in Arizona, that provides professional services in engineering, architectural and construction management to the microelectronics market and the health care, hospitality and sports facilities industries.

- A majority interest in Prosynchem S.A., a privately held company headquartered in Gliwice, Poland, that provides engineering and construction services to clients in the petroleum, petrochemicals, chemicals and environmental industries in Poland and other Eastern European countries.

These businesses and other smaller acquisitions were purchased for a total of $16 million. The fair value of assets acquired, including working capital of $1 million and goodwill of $16 million, was $30 million, and liabilities assumed totaled $14 million.

Massey Coal Company ("Massey") purchased four coal mining companies during 1995 through 1997. The aggregate purchase price was $44 million and included the fair value of assets acquired, consisting of $79 million of property, plant and equipment, and mining rights, $14 million of working capital and other assets, net of other liabilities assumed of $49 million. These acquisitions, along with capital expenditures, have been directed primarily towards acquiring additional coal reserves.

All of the above acquisitions have been accounted for under the purchase method of accounting and their results of operations have been included in the company's consolidated financial statements from the respective acquisition dates. If these acquisitions had been made at the beginning of 1997, 1996 or 1995, pro forma results of operations would not have differed materially from actual results.

From time to time, the company enters into investment arrangements, including joint ventures, that are related to its Engineering and Construction business. During 1995 through 1997, the majority of these expenditures related to ongoing investments in an equity fund that focuses on energy related projects and a number of smaller, diversified ventures.

During 1997, the company completed the sale of ACQUION, a global provider of supply chain management services, for $12 million in cash, resulting in a pretax gain of $7 million.

COST REDUCTION INITIATIVES

During 1997, the company recorded $25.4 million in charges related to the implementation of certain cost reduction initiatives. These charges provide for personnel and facility related costs. As of October 31, 1997, approximately $10.1 million of these costs had been incurred.

INCOME TAXES

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

$ in thousands/Year ended October 31,	1997	1996	1995
Current:			
Federal	$ 50,906	$ 94,864	$ 88,762
Foreign	25,801	25,872	26,803
State and local	6,947	11,767	13,172
Total current	83,654	132,503	128,737
Deferred:			
Federal	19,972	13,081	(10,776)
Foreign	3,908	1,974	11,953
State and local	1,548	(2,424)	532
Total deferred	25,428	12,631	1,709
Total income tax expense	$109,082	$145,134	$130,446

A reconciliation of U.S. statutory federal income tax expense to the company's income tax expense on earnings is as follows:

$ in thousands/Year ended October 31,	1997	1996	1995
U.S. statutory federal income tax expense	$ 89,344	$144,626	$126,775
Increase (decrease) in taxes resulting from:			
Items without tax effect, net	17,623	(1,566)	2,452
Effect of non-U.S. tax rates	10,620	6,057	5,682
State and local income taxes	5,337	9,542	9,288
Depletion	(10,051)	(11,054)	(10,497)
Other, net	(3,791)	(2,471)	(3,254)
Total income tax expense	$109,082	$145,134	$130,446

Deferred taxes reflect the tax effects of differences between the amounts recorded as assets and liabilities for financial reporting purposes and the amounts recorded for income tax purposes. The tax effects of significant temporary differences giving rise to deferred tax assets and liabilities are as follows:

$ in thousands/At October 31,	1997	1996
Deferred tax assets:		
Accrued liabilities not currently deductible	$217,952	$196,893
Tax basis of building in excess of book basis	23,130	22,999
Alternative minimum tax credit carryforwards	22,115	20,498
Net operating loss carryforwards of acquired companies	16,376	—
Other	38,938	18,561
Total deferred tax assets	318,511	258,951
Valuation allowance for deferred tax assets	(60,613)	(38,655)
Deferred tax assets, net	257,898	220,296
Deferred tax liabilities:		
Book basis of property, equipment and other capital costs in excess of tax basis	(204,916)	(160,544)
Tax on unremitted non-U.S. earnings	(34,917)	(27,715)
Other	(26,765)	(24,512)
Total deferred tax liabilities	(266,598)	(212,771)
Net deferred tax (liabilities) assets	$ (8,700)	$ 7,525

In 1997, the company acquired the SMA Companies which have net operating loss carryforwards of approximately $47 million. These loss carryforwards expire in years 2004 through 2008. Their utilization is subject to stringent limitations under the Internal Revenue Code.

The company also has alternative minimum tax credits associated with the coal business operated by Massey. These credits can be carried forward indefinitely until fully utilized.

The company maintains a valuation allowance to reduce certain deferred tax assets to amounts that are more likely than not to be realized. This allowance primarily relates to the deferred tax assets established for loss carryforwards and alternative minimum tax credits. Any reductions in the allowance resulting from realization of the loss carryforwards will result in a reduction of goodwill. Some of the allowance relates to deferred tax assets existing at the date of the company's 1987 quasi-reorganization. Reductions in the allowance relating to these 1987 deferred tax assets are credited to additional capital.

Residual income taxes of approximately $12 million have not been provided on approximately $30 million of undistributed earnings of certain foreign subsidiaries at October 31, 1997, because the company intends to keep those earnings reinvested indefinitely.

United States and foreign earnings before taxes are as follows:

$ in thousands/Year ended October 31,	1997	1996	1995
United States	$ 231,921	$363,687	$249,776
Foreign	23,348	49,531	112,438
Total	$255,269	$ 413,218	$362,214

RETIREMENT BENEFITS

The company sponsors contributory and non-contributory defined contribution retirement and defined benefit pension plans for eligible employees. Contributions to defined contribution retirement plans are based on a percentage of the employee's compensation. Expense recognized for these plans of approximately $111 million in 1997, $75 million in 1996, and $69 million in 1995, is primarily related to domestic engineering and construction operations. Contributions to defined benefit pension plans are generally at the minimum annual amount required by applicable regulations. Payments to retired employees under these plans are generally based upon length of service and/or a percentage of qualifying compensation. The defined benefit pension plans are primarily related to international engineering and construction operations, U.S. craft employees and coal operations.

Net periodic pension income for defined benefit pension plans includes the following components:

$ in thousands/Year ended October 31,	1997	1996	1995
Service cost incurred during the period	$15,301	$14,284	$12,385
Interest cost on projected benefit obligation	23,743	22,248	21,578
Income and gains on assets invested	(74,239)	(75,861)	(50,776)
Net amortization and deferral	26,668	33,868	11,198
Net periodic pension income	$(8,527)	$ (5,461)	$ (5,615)

The ranges of assumptions indicated below were used in the determination of net periodic pension (income) cost for the defined benefit pension plans in Australia, Germany, the United Kingdom, the Netherlands and the United States. These assumptions were established at the beginning of each respective fiscal year based on the then current economic environment in each host country.

Year ended October 31,	1997	1996	1995
Discount rates	6.5-8.25%	6.75-8.5%	7.75-9.25%
Rates of increase in compensation levels	3.0-5.25%	3.25-5.5%	4.0-6.25%
Expected long-term rates of return on assets	5.5-9.5%	5.75-9.5%	6.75-10.25%

The following table sets forth the funded status and the pension assets which have been recognized in the company's Consolidated Balance Sheet:

$ in thousands/At October 31,	1997	1996
Actuarial present value of benefit obligations:		
Vested benefit obligation	$ 311,429	$274,872
Nonvested benefit obligation	12,791	9,590
Accumulated benefit obligation	$324,220	$284,462
Plan assets at fair value (primarily listed stocks and bonds)	$539,814	$488,458
Projected benefit obligation	(358,539)	(319,066)
Plan assets in excess of projected benefit obligation	181,275	169,392
Unrecognized net gain	(44,265)	(42,411)
Unrecognized net assets at implementation	(11,941)	(15,191)
Pension assets	$125,069	$ 111,790

Amounts shown above at October 31, 1997 and 1996 exclude the projected benefit obligation of approximately $109 million and $114 million, respectively, and an equal amount of associated plan assets relating to discontinued operations.

In recognition of the current economic environment in each plan's respective host country, as of November 1, 1997 the company will adjust the discount rates used in the determination of its benefit obligations to 6.25-7.5 percent and the rates of salary increases to 2.5-4.5 percent.

Massey participates in multiemployer defined benefit pension plans for its union employees. Pension expense was less than $1 million in each of the years ended October 31, 1997, 1996 and 1995. Under the Coal Industry Retiree Health Benefits Act of 1992, Massey is required to fund medical and death benefits of certain beneficiaries. Massey's obligation under the Act is estimated to aggregate approximately $42 million at October 31, 1997, which will be recognized as expense as payments are assessed. The expense recorded for such benefits was $7 million for the year ended October 31, 1997 and $2 million for each of the years ended October 31, 1996 and 1995.

In addition to the company's defined benefit pension plans, the company and certain of its subsidiaries provide health care and life insurance benefits for certain retired employees. The health care and life insurance plans are generally contributory, with retiree contributions adjusted annually. Service costs are accrued currently.

The accumulated postretirement benefit obligation at October 31, 1997 and 1996 was determined in accordance with the current terms of the company's health care plans, together with relevant actuarial assumptions and health care cost trend rates projected at annual rates ranging from 9.2 percent in 1998 down to 5 percent in 2004 and beyond. The effect of a one percent annual increase in these assumed cost trend rates would increase the accumulated postretirement benefit obligation and the aggregate of the annual service and interest costs by approximately 14 percent.

Net periodic postretirement benefit cost includes the following components:

$ in thousands/Year ended October 31,	1997	1996	1995
Service cost incurred during the period	$3,107	$1,672	$1,172
Interest cost on accumulated postretirement benefit obligation	6,480	5,755	4,899
Net periodic postretirement benefit cost	$9,587	$7,427	$6,071

The following table sets forth the plans' funded status and accumulated postretirement benefit obligation which has been fully accrued in the company's Consolidated Balance Sheet:

$ in thousands/At October 31,	1997	1996
Accumulated postretirement benefit obligation:		
Retirees	$44,228	$49,912
Fully eligible active participants	18,280	16,462
Other active plan participants	23,679	17,944
Unrecognized loss	(2,977)	(8,545)
Accrued postretirement benefit obligation	$83,210	$75,773

The discount rate used in determining the accumulated postretirement benefit obligation was 7.25 percent and 7.75 percent at October 31, 1997 and 1996, respectively.

The preceding information does not include amounts related to benefit plans applicable to employees associated with certain contracts with the U.S. Department of Energy because the company is not responsible for the current or future funded status of these plans.

FAIR VALUE OF FINANCIAL INSTRUMENTS

The estimated fair value of the company's financial instruments are as follows:

$ in thousands/At October 31,	1997 Carrying Amount	1997 Fair Value	1996 Carrying Amount	1996 Fair Value
Assets:				
Cash and cash equivalents	$299,324	$299,324	$246,964	$246,964
Marketable securities	10,089	10,089	69,378	69,378
Notes receivable including noncurrent portion	39,570	45,207	116,809	120,463
Long-term investments	52,115	53,619	48,920	47,948
Liabilities:				
Commercial paper and notes payable	88,699	88,699	67,007	67,007
Long-term debt including current portion	300,624	316,024	3,174	3,174
Other noncurrent financial liabilities	5,240	5,240	2,556	2,556
Off-balance sheet financial instruments:				
Foreign currency contract obligations	—	(1,225)	—	(1,726)
Letters of credit	—	841	—	700
Lines of credit	—	497	—	747

Fair values were determined as follows:

The carrying amounts of cash and cash equivalents, short-term notes receivable, commercial paper and notes payable approximates fair value because of the short-term maturity of these instruments.

Marketable securities and long-term investments are based on quoted market prices for these or similar instruments. Long-term notes receivable are estimated by discounting future cash flows using the current rates at which similar loans would be made to borrowers with similar credit ratings.

The fair value of long-term debt, including current portion, is estimated based on quoted market prices for the same or similar issues or on the current rates offered to the company for debt of the same maturities.

Other noncurrent financial liabilities consist primarily of deferred payments, for which cost approximates fair value.

Foreign currency contract obligations are estimated by obtaining quotes from brokers.

Letters of credit and lines of credit amounts are based on fees currently charged for similar agreements or on the estimated cost to terminate or settle the obligations.

LONG-TERM DEBT

Long-term debt comprises:

$ in thousands/At October 31,	1997	1996
6.95% Senior Notes due March 1, 2007	$300,000	$ —
Other notes	624	3,174
	300,624	3,174
Less: Current portion	116	207
Long-term debt due after one year	$300,508	$2,967

In March 1997, the company issued $300 million of 6.95% Senior Notes (the Notes) due March 1, 2007 with interest payable semiannually on March 1 and September 1 of each year, commencing September 1, 1997. The Notes were sold at a discount for an aggregate price of $296.7 million. The Notes are redeemable, in whole or in part, at the option of the company at any time at a redemption price equal to the greater of (i) 100 percent of the principal amount of the Notes or (ii) as determined by a Quotation Agent as defined in the offering prospectus.

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 $250 million. Commitment and facility fees are paid on these lines. In addition, the company has $954 million in short-term uncommitted lines of credit. Borrowings under lines of credit and revolving credit agreements bear interest at prime or 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. At October 31, 1997, no amounts were outstanding under the committed lines of credit. As of that date, $176 million of the short-term uncommitted lines of credit were used to support undrawn letters of credit issued in the ordinary course of business.

The company had $62 million and $30 million in unsecured commercial paper outstanding at October 31, 1997 and 1996, respectively. The commercial paper was issued at a discount with a weighted-average effective interest rate of 5.6 percent and 5.3 percent in 1997 and 1996, respectively. Maturities of commercial paper ranged from 22 to 35 days in 1997 and 28 to 91 days in 1996. The weighted-average maturities were 12 and 21 days at October 31, 1997 and 1996, respectively. The maximum and average balances outstanding for the years ended October 31, 1997 and 1996 were $212 million and $111 million, respectively, and $75 million and $38 million, respectively, with weighted-average interest rates of 5.5 percent for both years.

OTHER NONCURRENT LIABILITIES

The company maintains appropriate levels of insurance for business risks. Insurance coverages contain various deductible amounts for which the company provides accruals based on the aggregate of the liability for reported claims and an actuarially determined estimated liability for claims incurred but not reported. Other noncurrent liabilities include $70 million and $92 million at October 31, 1997 and 1996, respectively, relating to these liabilities.

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 executive stock plans are administered by the Organization and Compensation Committee of the Board of Directors ("Committee") comprised of outside directors, none of whom are eligible to participate in the plans. Stock options may be granted with or without SARS. Grant prices are determined by the Committee and 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 become exercisable over a vesting period determined by the Committee, which is presently in installments of 25 percent per year commencing one year from the date of grant. The company issued 44,120 options and 66,860 options in 1997 and 1996, respectively, that will vest only if certain performance related conditions are met.

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. Restricted stock issued under the plans totaled 186,390 shares and 172,770 shares in 1997 and 1996, respectively.

Effective November 1, 1996, the company adopted Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" (SFAS No. 123). As permitted by the standard, the company has elected to continue following the guidance of APB Opinion No. 25, "Accounting for Stock Issued to Employees," for measurement and recognition of stock-based transactions with employees. Compensation cost recognized for the company's performance-based stock plans totaled less than $1 million in 1997, $19 million in 1996 and $15 million in 1995. Under APB Opinion No. 25, no compensation cost is recognized for the option plans where vesting provisions are based only on the passage of time. Had the company recorded compensation expense using the accounting method recommended by SFAS No. 123, net earnings and earnings per share would have been reduced to the pro forma amounts as follows:

$ in thousands, except per share amounts/ Year ended October 31,		1997	1996
Net earnings:	As Reported	$146,187	$268,084
	Pro Forma	143,663	267,361
Earnings per share:	As Reported	$ 1.73	$ 3.17
	Pro Forma	1.70	3.16

Because SFAS No. 123 is applicable only to options granted subsequent to October 31, 1995, its pro forma effect will not be fully reflected until 1999. The results above are not likely to be representative of the effects of applying SFAS No. 123 on reported net earnings or loss for future years as these amounts reflect the expense for only one or two years vesting.

The fair value of each option grant is estimated on the date of grant by using the Black-Scholes option-pricing model. The following weighted-average assumptions were used for grants in 1997 and 1996:

	1997	1996
Expected option lives (years)	6	6
Risk-free interest rates	6.30%	6.54%
Expected dividend yield	1.15%	1.12%
Expected volatility	24.58%	20.50%

The weighted-average fair value of options granted during 1997 and 1996 was $17 and $20, respectively.

The following table summarizes stock option activity:

	Stock Options	Weighted Average Exercise Price Per Share
OUTSTANDING AT OCTOBER 31, 1994	2,071,506	$39
Granted	2,034,270	49
Expired or canceled	(23,834)	43
Exercised	(266,336)	37
OUTSTANDING AT OCTOBER 31, 1995	3,815,606	45
Granted	1,046,700	64
Expired or canceled	(56,010)	49
Exercised	(466,918)	37
OUTSTANDING AT OCTOBER 31, 1996	4,339,378	50
Granted	114,060	61
Expired or canceled	(117,404)	53
Exercised	(414,731)	39
OUTSTANDING AT OCTOBER 31, 1997	3,921,303	$51
Exercisable at:		
October 31, 1997	1,964,137	
October 31, 1996	1,536,063	
October 31, 1995	1,406,583	

At October 31, 1997, there were 2,982,950 shares available for future grant. Available for grant includes shares which may be granted as either stock options or restricted stock, as determined by the Committee under the 1996 and 1988 Fluor Executive Stock Plans.

At October 31, 1997, 2,071,044 of the 3,921,303 options outstanding have exercise prices between $20 and $44, with a weighted-average exercise price of $42 and a weighted-average remaining contractual life of 5.8 years; 1,268,023 of these options are exercisable with a weighted-average exercise price of $42. The remaining 1,850,259 outstanding options have exercise prices between $51 and $68, with a weighted-average exercise price of $61 and a weighted-average remaining contractual life of 8.4 years; 696,114 of these options are exercisable with a weighted-average exercise price of $61. Included in the total outstanding options above are 603,278 options that vest only if certain performance conditions are met, with a weighted-average exercise price of $46. These options expire on December 31, 1997.

LEASE OBLIGATIONS

Net rental expense amounted to approximately $92 million, $77 million, and $67 million in 1997, 1996, and 1995, respectively. The company's lease obligations relate primarily to office facilities, equipment used in connection with long-term construction contracts and other personal property.

The company's obligations for minimum rentals under noncancelable leases are as follows:

$ in thousands/At October 31,	
1998	$44,071
1999	34,293
2000	21,237
2001	17,055
2002	12,578
Thereafter	$65,697

At October 31, 1997 and 1996, obligations under capital leases of approximately $3 million and $4 million, respectively, are included in other noncurrent liabilities.

CONTINGENCIES AND COMMITMENTS

The company and certain of its subsidiaries are involved in litigation in the ordinary course of business. The company and certain of its engineering and construction subsidiaries are 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 the current contract provisions. The company does not expect that the foregoing matters will have a material adverse effect on its consolidated financial position or results of operations.

Financial guarantees, made in the ordinary course of business on behalf of clients and others in certain limited circumstances, are entered into with financial institutions and other credit grantors and generally obligate the company to make payment in the event of a default by the borrower. Most arrangements require the borrower to pledge collateral in the form of property, plant and equipment which is deemed adequate to recover amounts the company might be required to pay. As of October 31, 1997, the company had extended financial guarantees on behalf of certain clients and other unrelated third parties totaling approximately $48 million.

The company's operations are subject to and affected by federal, state and local laws and regulations regarding the protection of the environment. The company maintains reserves for potential future environmental costs where such obligations are either known or considered probable, and can be reasonably estimated.

The sale by the company of its Lead business included St. Joe Minerals Corporation ("St. Joe") and its environmental liabilities for several different lead mining, smelting and other lead-related environmental sites. As a condition of the St. Joe sale, however, the company retained responsibility for certain non-lead-related environmental liabilities arising out of St. Joe's former zinc mining and smelting division, but only to the extent that such liabilities are not covered by St. Joe's comprehensive general liability insurance. These liabilities arise out of three zinc facilities located in Bartlesville, Oklahoma; Monaca, Pennsylvania; and Balmat, New York.

The company believes, based upon present information available to it, that its reserves with respect to future environmental costs are adequate and such future costs will not have a material effect on the company's consolidated financial position, results of operations or liquidity. However, the imposition of more stringent requirements under environmental laws or regulations, new developments or changes regarding site cleanup costs or the allocation of such costs among potentially responsible parties, or a determination that the company is potentially responsible for the release of hazardous substances at sites other than those currently identified, could result in additional expenditures, or the provision of additional reserves in expectation of such expenditures.

OPERATIONS BY BUSINESS SEGMENT AND GEOGRAPHIC AREA

The Engineering and Construction segment, the company's principal operating business, includes subsidiaries engaged in the design, engineering, procurement, construction, technical services and maintenance of facilities for process, industrial, power/government and diversified services clients. Coal segment amounts include the operations of Massey.

In 1995, revenue included approximately $2 billion from subsidiaries of Shell Oil Company related primarily to two projects that were awarded in 1993.

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 and cash equivalents, marketable securities and nontrade receivables.

Engineering services for international projects are often performed within the United States or a country other than where the project is located. Revenues associated with these services have been classified within the geographic area where the work was performed.

In June 1997, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 131, "Disclosures about Segments of an Enterprise and Related Information" (SFAS No. 131). SFAS No. 131 establishes new standards for reporting information about operating segments in interim and annual financial statements. This statement is effective for the company's fiscal year 1999.

OPERATIONS BY BUSINESS SEGMENT

$ in millions	Revenues 1997	Revenues 1996	Revenues 1995	Operating Profit 1997	Operating Profit 1996	Operating Profit 1995
Engineering and Construction	$ 13,217.5	$10,054.4	$8,451.6	$ 122.2	$ 320.0	$ 286.0
Coal	1,081.0	960.8	849.8	154.8	134.5	111.0
	$14,298.5	$ 11,015.2	$9,301.4	$ 277.0	$ 454.5	$ 397.0

$ in millions	Identifiable Assets 1997	Identifiable Assets 1996	Identifiable Assets 1995	Capital Expenditures 1997	Capital Expenditures 1996	Capital Expenditures 1995	Depreciation, Depletion & Amortization 1997	Depreciation, Depletion & Amortization 1996	Depreciation, Depletion & Amortization 1995
Engineering and Construction	$ 2,836.2	$ 2,213.4	$ 1,572.6	$ 199.1	$ 171.6	$ 137.1	$ 117.0	$ 88.7	$ 62.9
Coal	1,619.4	1,384.0	1,191.2	267.1	220.8	181.8	131.3	105.4	83.7
Corporate	242.2	354.3	465.1	—	—	—	—	—	.4
	$ 4,697.8	$ 3,951.7	$3,228.9	$ 466.2	$ 392.4	$ 318.9	$ 248.3	$ 194.1	$ 147.0

OPERATIONS BY GEOGRAPHIC AREA

$ in millions	Revenues 1997	Revenues 1996	Revenues 1995	Operating Profit 1997	Operating Profit 1996	Operating Profit 1995	Identifiable Assets 1997	Identifiable Assets 1996	Identifiable Assets 1995
United States	$ 9,347.2	$ 6,783.5	$ 5,814.5	$ 255.7	$ 396.5	$ 297.4	$ 3,801.7	$3,392.3	$2,764.2
Europe	1,420.0	1,426.6	1,637.2	2.3	23.6	27.7	225.1	158.4	204.3
Central and South America	1,109.3	1,210.0	801.2	12.2	(13.9)	9.6	210.4	145.6	92.3
Asia Pacific (includes Australia)	1,544.5	1,042.8	780.0	16.3	36.5	49.4	314.7	165.0	84.2
Middle East and Africa	549.3	287.6	30.5	(22.9)	4.7	7.2	78.4	30.8	21.4
Canada	328.2	264.7	238.0	13.4	7.1	5.7	67.5	59.6	62.5
	$14,298.5	$11,015.2	$ 9,301.4	$ 277.0	$ 454.5	$ 397.0	$4,697.8	$ 3,951.7	$3,228.9

Included in United States revenues are export sales to unaffiliated customers of $1.9 billion in 1997, $1 billion in 1996 and $.7 billion in 1995.

The following table reconciles business segment operating profit with the earnings before taxes:

$ in millions	1997	1996	1995
Operating profit	$ 277.0	$ 454.5	$ 397.0
Interest (expense) income, net	(7.5)	11.6	19.5
Corporate administrative and general expense	(13.2)	(48.1)	(48.6)
Other items, net	(1.0)	(4.8)	(5.7)
Earnings before taxes	$ 255.3	$ 413.2	$ 362.2

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. These statements have been prepared in conformity with generally accepted accounting principles 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 internal control structure designed to protect the company's assets and properly record transactions and events as they occur has been developed, placed in operation and maintained. The internal control structure is supported by an extensive program of internal audits and is tested and evaluated by the independent auditors in connection with their annual audit. The Board of Directors pursues its responsibility for financial information 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 audits, the adequacy of the internal control structure and the quality of financial reporting.

J. Michal Conaway
Senior Vice President and
Chief Financial Officer

INDEPENDENT AUDITORS

Board of Directors and Shareholders
Fluor Corporation

We have audited the accompanying consolidated balance sheet of Fluor Corporation as of October 31, 1997 and 1996, and the related consolidated statements of earnings, cash flows, and shareholders' equity for each of the three years in the period ended October 31, 1997. 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, 1997 and 1996, and the consolidated results of its operations and its cash flows for each of the three years in the period ended October 31, 1997, in conformity with generally accepted accounting principles.

Ernst & Young LLP

Orange County, California
November 18, 1997

QUARTERLY FINANCIAL DATA (UNAUDITED)

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

$ in thousands, except per share amounts

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
1997				
Revenues	$3,434,061	$3,185,833	$3,675,905	$4,002,742
Gross margin	106,774	(73,836)	108,591	134,442
Earnings (loss) before taxes	95,625	(78,407)	102,044	136,007
Net earnings (loss)	62,035	(70,134)	66,242	88,044
Earnings (loss) per share	$ .73	$ (.83)	$ .79	$ 1.04
1996				
Revenues	$2,402,414	$2,582,229	$2,702,821	$3,327,728
Gross margin	99,072	105,054	112,862	132,755
Earnings before taxes	89,763	97,082	104,866	121,507
Net earnings	57,448	63,700	68,077	78,859
Earnings per share	$ .68	$ .75	$ .81	$ .93

MAJOR FLUOR DANIEL OFFICES WORLDWIDE

OPERATIONS CENTERS

Asturias, Spain
Bakersfield, California
Bergen op Zoom, Netherlands
Calgary, Alberta, Canada
Camberley, England
Charlotte, North Carolina
Cincinnati, Ohio
Dallas, Texas
Denver, Colorado
Gliwice, Poland
Greenville, South Carolina
Haarlem, Netherlands
Houston, Texas
Irvine, California
Manchester, England
Manila, Philippines
Melbourne, Australia
Mexico City, Mexico
New Delhi, India
Norwood, Massachusetts
Perth, Australia
Philadelphia, Pennsylvania
Phoenix, Arizona
Rumford, Rhode Island
San Juan, Puerto Rico
Santiago, Chile
Tucson, Arizona
Tulsa, Oklahoma
Vancouver, British Columbia, Canada
Warsaw, Poland

GLOBAL SALES AND SUPPORT OFFICES

Bangkok, Thailand
Beijing, People's Republic of China
Brisbane, Australia
Caracas, Venezuela
Dhahran, Saudi Arabia
Dubai, United Arab Emirates
Jakarta, Indonesia
Johannesburg, South Africa
Kuala Lumpur, Malaysia
Lima, Peru
London, England
Miami, Florida
Moscow, Russia
São Paulo, Brazil
Seoul, Korea
Shanghai, People's Republic of China
Singapore
Tokyo, Japan
Washington, D.C.

BOARD COMMITTEES

Fluor Corporation's Board of Directors reflects many of the characteristics which are key to a strong, thoughtful approach to corporate governance and oversight. With 13 members comprised of four inside and nine outside directors, the Board possesses a good balance of both engineering and construction expertise and overall business know-how.

There are four formal meetings a year with numerous telephone discussions as necessary to handle matters requiring Board approval. Altogether there are five standing committees—the Executive Committee, Audit Committee, Finance Committee, Governance Committee, and the Organization and Compensation Committee. Through work on its committees and ongoing interactions with members of executive management, the Board is involved in practically every activity critical to the company's operating success, with a particular emphasis on corporate direction and strategy.

EXECUTIVE COMMITTEE [1]

PETER J. FLUOR, CHAIRMAN

The Executive Committee acts on behalf of the Board with its full authority on matters which require resolution between regular Board meetings. The committee is comprised of the chairman of the Board and the chairmen of the Board's other four standing committees. This approach is in contrast to the committee's previous mission and structure when it met monthly and was composed solely of inside management. The committee changed to its current approach three years ago, when the company transitioned to a Board comprised primarily of outside directors.

AUDIT COMMITTEE [2]

PETER J. FLUOR, CHAIRMAN

The Audit Committee represents the Board in oversight of the company's financial condition, reporting procedures and financial controls. Among the committee's many responsibilities are review of the company's annual report, Form 10-K and proxy statement. It also meets regularly with the company's internal auditors and financial management team to review accounting controls and practices. In addition, it meets both annually and quarterly with Ernst & Young, the company's independent auditors, to review the scope of its work and to ensure that appropriate policies and procedures are in place. Finally, the committee nominates the firm of independent auditors for appointment by the Board and ratification by shareholders.

FINANCE COMMITTEE [3]

MARTHA R. SEGER, CHAIRMAN

The Finance Committee was formed during the course of the past year to provide the Board with oversight of, and recommendations regarding, the financial activities and needs of the company. The committee's specific duties include review and recommendations regarding debt financing arrangements, dividend policy and acquisitions and dispositions of business units and major capital assets. The committee also has oversight responsibility for the company's retirement and other employee benefit funds, risk management, including derivatives and foreign exchange transactions and performance of the company's own investments. In carrying out its functions, the committee works in close liaison with the chief financial officer of the company.

GOVERNANCE COMMITTEE [4]

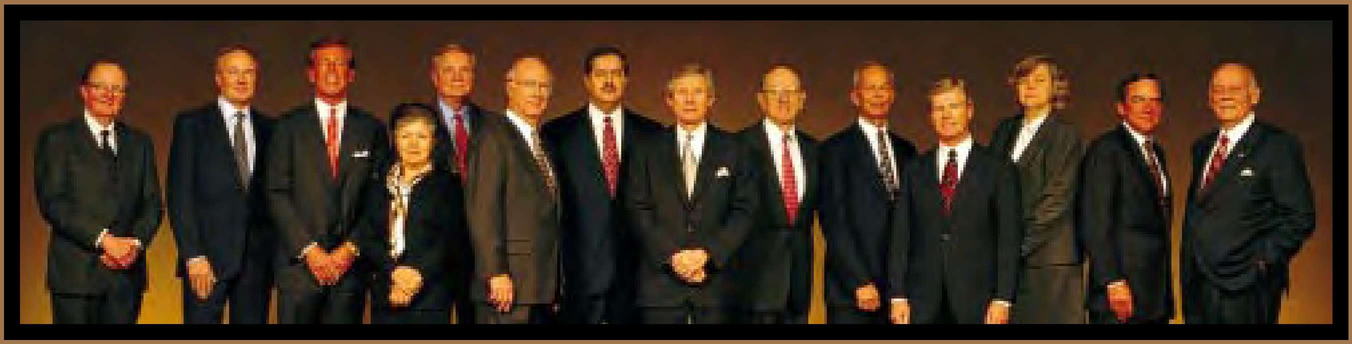
DAVID P. GARDNER, CHAIRMAN

The Governance Committee focuses on the membership, roles, responsibilities and performance of the Board of Directors. The committee recommends the organizational structure of the Board and the assignment of members to committees where much of the Board's work is conducted. All outside directors serve on at least two committees. In its search for new members, the committee looks for diversity of gender and race, as well as diversity in experience to help ensure the strongest capability possible in providing oversight and perspective. In addition, the committee facilitates participation by all directors in the affairs of the company. The accessibility between the Board and company management not only provides better insight to the directors on company activities but also facilitates the experience of the Board being readily available to company management whenever and wherever it can be most useful.

ORGANIZATION AND COMPENSATION COMMITTEE [5]

BOBBY R. INMAN, CHAIRMAN

The Organization and Compensation Committee provides guidance and oversight regarding the company's organizational structure; the quality, diversity and depth of the executive management team; and the effectiveness of the company's compensation programs for management employees. The primary focus and philosophy of all company compensation programs is to ensure that they are linked directly to initiatives which will yield increasing levels of shareholder value. As the company heads into 1998, the committee believes that management compensation is properly aligned and incentivised for further enhancement of shareholder value.



PICTURED FROM LEFT TO RIGHT

* **ROBERT V. LINDSAY,** 72, is the retired former president of J.P. Morgan & Co., Incorporated. He also serves as a director of Chubb, First Hudson Valley Bank, Russell Reynolds Associates, Inc. and United Meridian, and is senior advisor to Unibank Denmark A/S. (1982)

ROBIN RENWICK, 60, is a director of the merchant bank, Robert Fleming, and of British Airways. During his distinguished 30-year career in the British Foreign Service, he served in senior posts in New Delhi, Paris and London, including advising Prime Minister Margaret Thatcher in the negotiations to end the Rhodesian War and negotiations with the European Community. He was British ambassador to South Africa, 1987-91, and to the U.S., 1991-95. He was appointed to the House of Lords by Prime Minister Tony Blair in 1997. (1997) [3] [4]

DEAN R. O'HARE, 55, is chairman and chief executive officer of The Chubb Corporation, a leading provider of insurance and risk management services. He is chairman of the American Insurance Association and a former chairman of the International Insurance Society and is a member of the U.S. Trade Representative's Investment and Services Policy Advisory Committee. (1997) [2] [5]

VILMA S. MARTINEZ, 54, is a partner at the law firm of Munger, Tolles & Olson, and the former president and general counsel for the Mexican-American Legal Defense and Educational Fund (MALDEF). Her position of national prominence in both the business and legal communities gives her key insights on work force issues. Ms. Martinez is also a director of Anheuser-Busch Companies, Inc., Sanwa Bank California and Shell Oil Company, and serves on a variety of advisory boards and community organizations. (1993) [2] [4]

THOMAS L. GOSSAGE, 63, is the retired chairman and former president and chief executive officer of Hercules Incorporated. He brings global business operations perspective, as well as valuable expertise in the chemical industry. Mr. Gossage also serves as a director of The Dial Corporation and Alliant Techsystems Inc., and is chairman of the Georgia Tech Advisory Board and a member of Trustees of the Georgia Tech Foundation, Inc. (1997) [3] [5]

DR. DAVID P. GARDNER, 64, is president of the William and Flora Hewlett Foundation and former president of both the University of California and the University of Utah. His extensive career in education provides valuable perspective on a topic of key importance to a professional services company like Fluor. Dr. Gardner is also a director of John Alden Financial Corporation and First Security Corporation. (1988) [1] [4] [5]

DON L. BLANKENSHIP, 47, is chairman, president and chief executive officer of A.T. Massey Coal Company and a member of the Office of the Chairman. He brings important diversified business perspective to the Board's deliberations, as well as valuable expertise in the coal industry. Mr. Blankenship serves as a director of the National Mining Association and Witco Corporation, and on the Governor's Mission West Virginia Board and the Norfolk Southern Advisory Board. (1996) [3]

LES McCRAW, 63, is the retired chairman of the Board and chief executive officer. Joining the company in 1975, he led the formation of Fluor Daniel in 1986. He was elected president of Fluor Corporation in 1988, and chief executive officer in 1990. Mr. McCraw also is a director of Allergan and New York Life, and is active in business and civic organizations. (1984)

* **WILLIAM R. GRANT,** 73, is chairman of the Board of Galen Associates, a healthcare venture capital group; former chairman of MacKay-Shield Financial Corporation; and president of Smith Barney. He is also a director of Allergan, New York Life, Seagull Energy, SmithKline Beecham, Witco Corporation and several small companies in the Galen portfolio. (1982)

ADMIRAL BOBBY R. INMAN, 66, retired U.S. Navy, served as director of the National Security Agency and deputy director of Central Intelligence. Admiral Inman's depth of political insight, awareness of global changes and understanding of technology serves Fluor well. He is also a director of Science Applications International, SBC Communications, Temple-Inland and Xerox. (1985) [1] [4] [5]

GOVERNOR CARROLL CAMPBELL, JR., 57, is president and chief executive officer of the American Council of Life Insurance. He is a former two-term governor of South Carolina, served in the U.S. House of Representatives and was a member of the Appropriations and Ways and Means committees. He was chairman of the National Governor's Association, 1993-94. Governor Campbell is a director of AVX Corporation, Norfolk Southern Corporation and Wackenhut Corporation. (1995) [2] [3]

DR. MARTHA R. SEGER, 65, is a distinguished visiting professor of finance at Northern Arizona University and former member of the Board of Governors of the Federal Reserve System. Dr. Seger's career included numerous positions which have yielded significant experience in the fields of finance, economics and international banking. She is also a director of Amoco, Kroger, Tucson Electric and Xerox. (1991) [1] [3] [4]

PETER J. FLUOR, 50, is the non-executive chairman of the Board, a member of the Office of the Chairman, and president and chief executive officer of Texas Crude Energy, Inc. Mr. Fluor brings extensive knowledge of the oil and gas industry, a key market for Fluor Daniel. He also serves as a director of Seagull Energy Corporation and Texas Commerce Bank. (1984) [1] [2] [5]

* **BUCK MICKEL,** 72, is Fluor's retired vice chairman of the Board. Mr. Mickel has served the company since 1948. Beginning his career at Daniel Construction Company, which was acquired by Fluor in 1977, he later served in senior officer positions for Fluor. Mr. Mickel also serves as a director of Delta Woodside Industries, Duke Power, Emergent Group, Insignia Financial, Liberty Corporation and RSI Holdings. (1977)

NOT PICTURED

JAMES O. ROLLANS, 55, is the senior vice president and chief administrative officer and a member of the Office of the Chairman. He joined Fluor in 1982 as vice president, Corporate Communications, and was named senior vice president and chief financial officer in 1992. He serves as a director of the Irvine Medical Center and Flowserve Corporation. He is also chairman of the Board of Lafayette Pharmaceutical, Inc. (1997)

JAMES C. STEIN, 54, is president and chief operating officer of Fluor Daniel and a member of the Office of the Chairman. He was named vice president of the Industrial Group in 1982. He received subsequent promotions to group vice president, Industrial/Commercial, in 1985; president, Industrial Sector, in 1986; and president, Business Units, in 1993. He became group president for Diversified Services in 1994, when the group was formed. He is a member of the Business Roundtable Construction Advisory Committee. (1997)

Years in parentheses indicate the year each director was elected to the board.
Except as indicated, all positions are with the company.
* Retired on January 7, 1998

CORPORATE EXECUTIVE OFFICERS

JAMES O. ROLLANS [1]
Senior Vice President and
Chief Administrative Officer (1982)

DENNIS W. BENNER
Vice President and
Chief Information Officer (1994)

CHUCK BRADLEY
Vice President-Human Resources and
Administration (1958)

J. MICHAL CONAWAY
Senior Vice President and
Chief Financial Officer (1993)

LAWRENCE N. FISHER
Senior Vice President-Law and
Secretary (1974)

CORPORATE OFFICERS

BETTY H. BOWERS
Vice President-Government Relations (1974)

LILA J. CHURNEY
Vice President-Investor Relations (1980)

JAN L. DONOVAN
Assistant Secretary (1983)

J. ROBERT FLUOR II
Vice President-Community Relations (1967)

STEPHEN F. HULL
Vice President and Treasurer (1996)

THOMAS H. MORROW
Vice President-Tax (1984)

VICTOR L. PRECHTL
Vice President and Controller (1981)

W. MACK TORRENCE
Vice President-Project Finance (1989)

FLUOR DANIEL EXECUTIVE OFFICERS

JAMES C. STEIN [1]
President and Chief Operating Officer (1964)

ALAN L. BOECKMANN
Group President-Energy & Chemicals (1979)

DAVID L. MYERS
Group President-Industrial (1975)

CHARLES R. OLIVER, JR.
Group President-Sales, Regional Coordination
and Strategic Planning (1970)

RONALD G. PETERSON
Group President-Government,
Environmental & Telecommunications (1995)

T. JEFF PUTMAN
Group President-Diversified Services (1975)

OTHER SENIOR FLUOR DANIEL OFFICERS

E. DAVID COLE, JR.
Project Execution (1965)

DENNIS G. BERNHART
South America (1968)

RICHARD D. CARANO
Asia Pacific (1970)

REIN F. KUTSCH-LOJENGA
Europe/Former Soviet Union (1972)

PAUL E. LEWIS, JR.
Middle East/Africa (1971)

DOUGLAS E. CHEEK
Diversified Services Sales (1969)

JAKE EASTON III
Energy & Chemicals Sales (1975)

JAMES M. SMITH
Industrial Sales (1980)

A.T. MASSEY COAL COMPANY INC.

DON L. BLANKENSHIP [1]
Chairman, President and
Chief Executive Officer (1982)

MADELEINE M. CURLE
Vice President-Benefits (1993)

JAMES L. GARDNER
Senior Vice President and
General Counsel (1993)

BENNETT K. HATFIELD
Senior Vice President and
Chief Administrative Officer (1979)

RICHARD M. HENDRICK
Senior Vice President-Mining and
Preparation (1992)

GEORGE C. KAY
Vice President and Chief Financial Officer
and Treasurer (1997)

BAXTER F. PHILLIPS, JR.
Vice President-Purchasing and
Administration (1981)

H. DREXEL SHORT
Senior Vice President-Group Operations (1981)

JEFFREY A. WILSON
Vice President-Sales and Marketing (1981)

FLUOR CONSTRUCTORS INTERNATIONAL, INC.

RICHARD A. FLINTON
Chairman (1960)

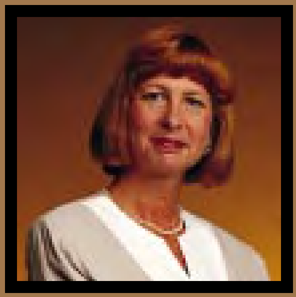
Years in parentheses indicate the year each officer or executive joined the company.
[1] Member of the Office of the Chairman

COMPANY CONTACTS

Shareholders may call
(800) 854-0141

SHAREHOLDER SERVICES
Raymond M. Bukaty
(714) 975-6961

INVESTOR RELATIONS
Lila J. Churney
(714) 975-3909



Fluor's investor relations activities are dedicated to providing investors with complete and timely information. All investor questions are welcome.

WEB PAGE ADDRESS
www.fluor.com

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George Rice & Sons

SHAREHOLDERS' REFERENCE

COMMON STOCK INFORMATION

At December 31, 1997, there were 83,242,322 shares outstanding and approximately 13,140 shareholders of record of Fluor's common stock.

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.

COMMON STOCK AND DIVIDEND INFORMATION

	Dividends Per Share	Price Range High	Price Range Low
FISCAL 1997			
First Quarter	$0.19	$71.750	$61.625
Second Quarter	0.19	75.875	49.750
Third Quarter	0.19	61.500	46.500
Fourth Quarter	0.19	62.500	40.250
	$0.76		
FISCAL 1996			
First Quarter	$0.17	$68.000	$54.750
Second Quarter	0.17	71.875	61.875
Third Quarter	0.17	67.375	57.750
Fourth Quarter	0.17	67.375	59.500
	$0.68		

FORM 10-K

A copy of the Form 10-K, which is filed with the Securities and Exchange Commission, is available at no charge upon request.

Write to:
Senior Vice President-Law,
Fluor Corporation
3353 Michelson Drive
Irvine, California 92698
(714) 975-2000

REGISTRAR AND TRANSFER AGENT

ChaseMellon Shareholder Services, L.L.C.
400 South Hope Street
Fourth Floor
Los Angeles, California 90071
and
ChaseMellon Shareholder Services, L.L.C.
85 Challenger Road
Ridgefield Park, New Jersey 07660

For change of address, lost dividends, or lost stock certificates, write or telephone:
ChaseMellon Shareholder Services, L.L.C.
P. O. Box 3315
South Hackensack, New Jersey 07606-1915
Attn: Securityholder Relations
(800) 813-2847
Web page address:
www.chasemellon.com

INDEPENDENT AUDITORS

Ernst & Young LLP
18400 Von Karman Avenue
Irvine, California 92612

ANNUAL SHAREHOLDERS' MEETING

Annual report and proxy statement are mailed about January 30. Fluor's annual meeting of shareholders will be held at 9:00 a.m. on March 10, 1998 at:

The Sutton Place Hotel
4500 MacArthur Boulevard
Newport Beach, California

STOCK TRADING

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

DIVIDEND REINVESTMENT PLAN

Fluor's Dividend Reinvestment Plan provides shareholders of record with the opportunity to conveniently and economically increase their ownership in Fluor. Through the plan, shareholders can automatically reinvest their cash dividends in shares of Fluor common stock. A minimum balance of 50 shares is required for enrollment. Optional cash investments may also be made in additional Fluor shares ranging from a minimum of $100 per month to a maximum of $10,000 per quarter. For details on the plan, contact Fluor's agent, ChaseMellon Shareholder Services (800) 813-2847.

DUPLICATE MAILINGS

Shares owned by one person but held in different forms of the same name result in duplicate mailing of shareholder information at added expense to the company. Such duplication can be eliminated only at the direction of the shareholder. Please notify ChaseMellon Shareholder Services in order to eliminate duplication.

History of Stock Dividends and Splits 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

FLUOR CORPORATION

3353 MICHELSON DRIVE

IRVINE, CALIFORNIA 92698