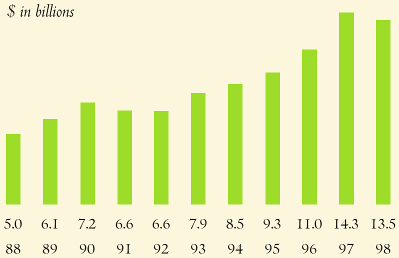
Fluor Corporation

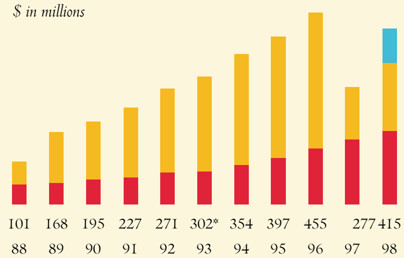
1998 Annual Report

People Applying Knowledge and Technology

Revenues from Continuing Operations
$ in billions



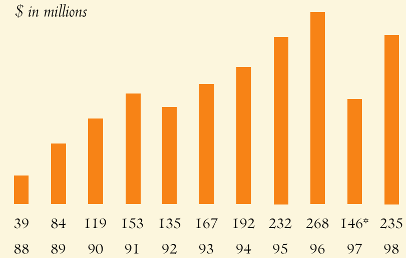
Operating Profit from Continuing Operations
$ in millions



● Diversified Services**
● Engineering & Construction
● Coal

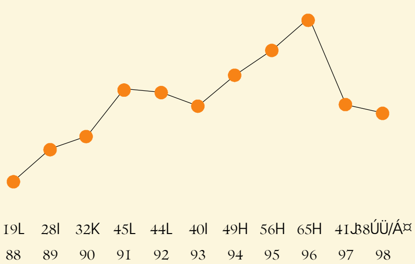
**Excludes nonrecurring charge of $10 million*
Includes project and cost-reduction provisions
***Diversified Services was included in Engineering & Construction prior to 1998*

Earnings from Continuing Operations
$ in millions

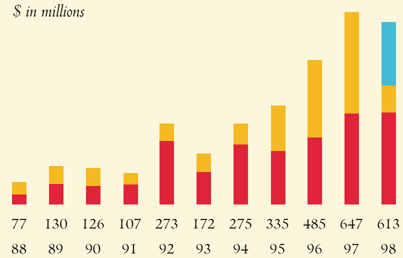


**Includes project and cost-reduction provisions*

Stock Price
dollars



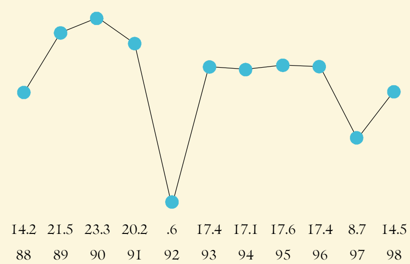
Capital Expenditures and Acquisitions
$ in millions



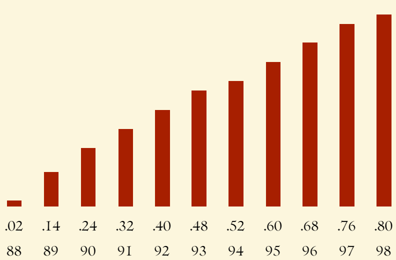
● Diversified Services*
● Engineering & Construction
● Coal

Excludes discontinued operations
**Diversified Services was included in Engineering & Construction prior to 1998*

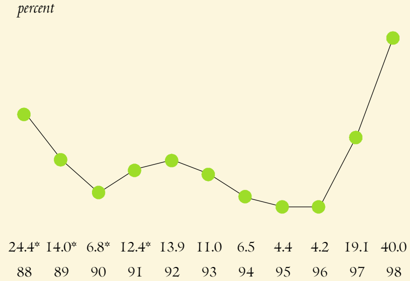
Return On Equity
percent



Dividends
dollars

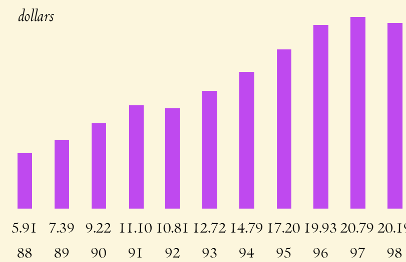


Total Debt to Capitalization
percent



**Restated to exclude discontinued operations*

Shareholders' Equity Per Common Share
dollars



Company Description

Today, Fluor Corporation is one of the world's largest international engineering, construction and diversified services companies, and is a major U.S. producer of low-sulfur coal. As presented in this report, the company is undertaking a long-term strategic redirection to ensure its future success in achieving profitable growth and the creation of shareholder value. The process of redirecting our strategic focus includes a comprehensive assessment of the long-term potential for all current business activities, as well as evaluation of possible new expanded service and product opportunities.

Key ACHIEVEMENTS

(in thousands, except per share amounts)

	1998	1997	Percent Change
Fiscal Year			
Revenues	$13,504,773	$14,298,541	–6
Net earnings	235,344	146,187	61
Earnings per share			
Basic	2.99	1.76	70
Diluted	$ 2.97	$ 1.75	70
Return on average shareholders' equity	14.5%	8.7%	—
Capital expenditures and acquisitions	$ 612,937	$ 647,402	–5
New awards	$ 9,991,900	$12,122,100	–18
Produced coal sold (thousands of short tons)	37,608	35,643	6
Cash dividends per common share	$ .80	$ .76	5
At Fiscal Year-end			
Working capital	$ (218,403)	$ 235,202	NM
Total assets	5,019,208	4,685,340	7
Backlog*	12,645,300	14,370,000	–12
Capitalization			
Long-term debt	300,428	300,508	—
Shareholders' equity	1,525,609	1,741,050	–12
Total capitalization	$ 1,826,037	$ 2,041,558	–11
Long-term debt as a percent of total capitalization	16.5%	14.7%	—
Shareholders' equity per common share	$ 20.19	$ 20.79	–3
Closing stock price	$ 38.81	$ 41.13	–6
Salaried employees	30,751	31,392	–2
Craft/hourly employees	26,135	29,287	–11
Total employees	56,886	60,679	–6

The quarterly dividend was increased from $.19 per share to $.20 per share in the first quarter of 1998.

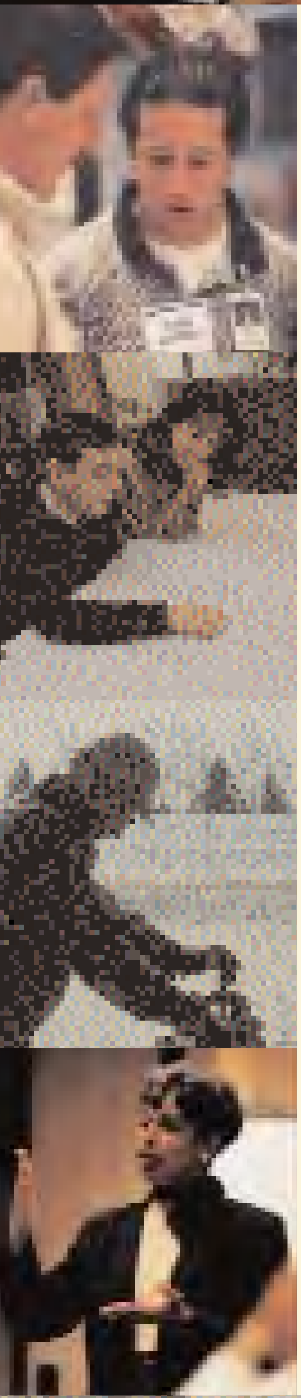
NM – Not Meaningful.

*Backlog does not reflect A.T. Massey Coal operations or certain Diversified

NOTE: Any of the comments in this annual report that refer to the company's estimated or future results, including its statements concerning its earnings outlook for fiscal 1999, growth objectives of American Equipment Company and A.T. Massey, investment in training and development, earnings growth potential, expansion of Diversified Services, ultimate continuation of delayed Energy & Chemicals projects, growth of government services, the effect of Clean Air requirements, expected production of certain surface mines, A.T. Massey export opportunities, the adequacy of funds to service debt and Year 2000 readiness, 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, 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 "Item 1. Business — Other Matters — Fluor Business Risks" in the company's Form 10-K filed January 22, 1999. These filings are available publicly and upon request from Fluor's Investor Relations Department: (949) 975-3909.



Fluor Corporation is a community of *outstanding people* able to do things no one else can do.

Dear

Shareholder

While Fluor Corporation achieved an important turnaround in 1998, much remains to be done. In view of the economic slowdown in many of the markets we serve, such as Asia and the oil industry, we will face new challenges in the year 2000 and beyond. We have undertaken a comprehensive review of long-term strategy to assure our future business is as profitable as possible. Our objective is to structure the company so that it provides gains in shareholder value even when economic conditions are not optimum.

Improved Results in 1998

We are encouraged that the company achieved its earnings targets for 1998, significantly outpacing our disappointing 1997 results. Fluor Daniel, our engineering, construction, maintenance and diversified services business, made substantial progress this year in achieving its 1998 earnings objectives, despite deteriorating global market conditions. The Diversified Services Group contributed materially to Fluor Daniel's 1998 results. A.T. Massey Coal continued to deliver meaningful earnings growth and higher profit margins through operational excellence.

Net earnings were $235 million, or $2.97 per share, up from $146 million, or $1.75 per share in 1997. Return on shareholders' equity of 14.5 percent also showed substantial improvement from the prior year. Importantly, operating margins in both Fluor Daniel and A.T. Massey increased each quarter as the year progressed.

In October, we terminated plans to sell American Equipment Company. Because market conditions for the sale deteriorated rapidly, we concluded that it was in our shareholders' best interest to retain the business. In the past few years, we have upgraded and modernized American Equipment Company's inventory and are now well positioned to capture value from equipment sales, leasing and aftermarket services sectors. As the trend toward outsourcing continues to grow, we believe American Equipment Company will be an engine for growth in the years ahead.

In anticipation of the sale of American Equipment Company, Fluor Corporation repurchased 8.3 million shares of its stock for a total cost of $379 million. These purchases were funded primarily through short-term borrowing. While the buyback program increased the debt of the company, our credit ratings remain unchanged, and our shareholders benefited from improved returns.

Outlook

Our engineering and construction business represents about one-third of our earnings base and will face serious challenges in the next few years, while the other two-thirds of our earnings, represented by A.T. Massey and the Diversified Services Group, has a more favorable outlook.

Fluor Daniel

With weakening global economic conditions and continuing volatility in capital markets, our engineering and construction business is facing a potential slowdown in new business across a variety of geographic regions and industries. New awards declined by 18 percent in 1998 to $10 billion, compared with $12.1 billion last year and are expected to decline further in 1999. Backlog declined $1.7 billion from a year ago to $12.6 billion. The decrease in backlog in part reflects our increased emphasis on improving margins through selectivity in new projects, but it also indicates that clients are deferring final decision to proceed on major new capital projects. In response, we are focusing on the value drivers for our clients and looking for ways to provide a differentiated scope of services. Key client essentials include competitive performance on cost, schedule, quality and safety.

Diversified Services Group

The businesses in the Diversified Services Group — American Equipment Company (AMECO), Maintenance Services, Technology Services and TRS Staffing Solutions — are focused on capturing service industry opportunities that leverage the company's core competencies and capabilities. Originally developed in support of project work for clients, these businesses have been expanded and are now positioned to capitalize on the rapidly growing market for services considered non-core activities by our clients.

In today's competitive environment, companies are placing increased emphasis on their core businesses and are increasingly turning to service providers who can complement their internal capabilities and collectively perform at a higher quality level and reduced cost. For example, AMECO's clients and contractors are seeing increased value in one-stop shopping for the array of products it provides from rental of construction and industrial equipment to aftermarket parts and services. The Maintenance Services business targets a broad range of plant needs including repair, and preventive and predictive maintenance. The long-term client relationships and alliances forged through the Maintenance

Service business provide a stable and often countercyclical opportunity. Technology Services continues to build its knowledge database and is now offering its TabWare™ Enterprise Asset Management software on-line to provide clients with real-time access to critical plant maintenance data through the internet. With TRS, we are expanding in areas where demand remains particularly strong for skilled professionals, primarily in information technology, accounting and finance, legal, and certain engineering and design disciplines.

These businesses have growth opportunities and expanded market potential well beyond Fluor Daniel project activities. Consequently, we are now exploring how best to manage and market these services.

A.T. Massey Coal

When rated by revenues, Massey is the fifth largest coal producer in the United States. It has achieved an enviable average annual operating profit growth of 13 percent over the past 10 years. While the price of coal deteriorated somewhat over the past several years, Massey's management offset these price reductions through increased sales volume and lower cost. Massey's priority will be a continued focus on reducing costs, increasing productivity and leveraging its high-quality, low-sulfur reserve base in Central Appalachia to further enhance its competitive advantage. Through a continuing strategy of investment in new high-quality reserves and modern mining equipment and procedures, Massey has consistently increased its production capacity and market flexibility. Since 1991, the company has more than doubled its reserve base. Total coal reserves at year end were 1.83 billion tons. Massey's dual objectives to outperform its industry in terms of earnings growth and shareholder returns remain unchanged for the future. Certain strategic components, which have contributed in part to its success, are reaching natural limits and we are looking at additional strategies to support future performance objectives. With that in mind, we will explore more creative strategies which could expand Massey's longer-term earnings power and growth potential.

Detailed reports on the Fluor Daniel and Massey operations and the overall financial picture of the company are provided in separate sections of this report beginning on pages 6, 14 and 21, respectively.

Strategic Plan

Our efforts to develop a more aggressive strategic plan, with emphasis on creating long-term shareholder value, are well underway. March 1999 is the target date for introducing some initial restructuring steps, but we are taking actions as opportunities for improvement are identified.

We are looking at our competitive strengths as a company, and how we can better serve our existing clients and industries as well as expanding into other new markets. We are looking at each of our businesses to understand its competitive position and how it fits with our long-term strategies. We are prepared to exit businesses that don't make sense for us. The December sale of our majority interest in Fluor Daniel GTI, an environmental services company, is an example of such a move. We also are looking at our investment spending to assure appropriate capital allocation and to optimize return on investment across all business segments.

A major human resources study has been initiated to help align our procedures, organizational structure and recognition and rewards systems with a new strategic direction. Ultimately, knowledge and people will drive our success, and we intend to invest heavily in the training and development of our people and reward them accordingly.

Another essential component of our strategy is providing more advanced tools to our people. We have launched a major effort to improve the use of information technology to harness the company's considerable intellectual property and to use it as a competitive advantage. A complementary effort is underway to streamline our fundamental work processes to reduce costs and increase efficiency.

We are improving the way we integrate our business management processes to provide near real-time financial performance information, including implementation of an Enterprise Resource Management system. With improved business information our leaders will more effectively implement strategies and develop new business opportunities.

The result of our efforts will be a Fluor Corporation which is considerably different from the company we are today.

Record Year for Safety

Congratulations to our Fluor Daniel employees for a record safety performance in 1998. The company is establishing a new standard in construction and mining safety excellence, achieving record lows in every measurement category. Fluor Daniel ended the year with a lost workday case incidence rate of .06 worldwide, compared with .08 in 1997. Fluor Daniel's safety performance is more than 60 times better than the national industry average. A.T. Massey's employee safety performance is nearly two times better than its industry average.

Value to Clients

The goods and services we provide to our clients are critical building blocks in creating economic growth and improving living standards in both industrialized and developing economies. Our employees take great pride in making this critical contribution to society, and have consistently worked toward delivering quality services and products that exceed expectations. Fluor Corporation is a community of outstanding people able to do things no one else can do.

Management Changes

In December, Frederick J. Grigsby, Jr. joined Fluor as senior vice president of Human Resources and Administration. Since 1995, he served as vice president, Human Resources, for Thermo King Corporation, a wholly owned subsidiary of Ingersoll-Rand. Fred succeeds Charles J. Bradley, a 40-year Fluor em-ployee who retired at calendar year end. Chuck provided great leadership to our human resources activities during his long tenure, and we wish him the best in his retirement.

In November, George K. Palmer joined the company as vice president of Corporate Relations. George brings more than 30 years of experience in public affairs. Most recently he owned and managed a communication consultancy, and was previously vice president of Corporate Communications with Rhône-Poulenc.

On a sadder note, Buck Mickel, retired vice chairman and president of Fluor Corporation, passed away in July. Buck retired from executive positions with the company in 1987, and retired from Fluor's Board of Directors in January 1998. He provided 50 years of exceptional service to our company, and his loss is deeply felt by all who knew him.

Thank You

I would like to extend my personal appreciation to the board of directors for asking me to lead this great company. I promise to do everything in my power to improve the strengths of Fluor Corporation and deliver improved shareholder value in the years ahead.

Special thanks to Peter Fluor and the other members of the Office of the Chairman — Don Blankenship, Jim Rollans and Jim Stein — for their exceptional leadership and collective wisdom in steering the company in the months prior to my arrival in July.

I would also like to thank all who have contributed to the successes achieved in 1998, especially our employees worldwide and our customers for selecting us to provide services and products.

Lastly, we also greatly appreciate the support and confidence of our shareholders who have stayed with us through this time of recovery and redirection.

Philip J. Carroll, Jr.

Chairman and Chief Executive Officer
January 18, 1999

Dear

SHAREHOLDER

Fluor Daniel achieved significant improvement in 1998, meeting its earnings objectives for the year, despite deteriorating global economic conditions. Substantial progress was made on improving both current performance and increasing the long-term earnings power of the company.

Cornerstones for improving financial performance in our traditional engineering and construction business remain cost management, excellence in everything we do, and increased selectivity in the markets and projects we pursue. The focus of our increased selectivity is to concentrate on clients and projects where we can bring, through our knowledge and technology, added value which can be converted into higher margins and earnings potential and ultimately greater shareholder value.

To help us accomplish our goals, we have undertaken a comprehensive long-term strategic planning effort, beginning with an assessment of our geographic markets, the industries we serve, our client base and the scope of services we offer. To capitalize on longer-term opportunities, we are expanding existing services and developing new business activities which, while potentially beyond the scope of a traditional project, address issues of increasing importance to our clients. By providing differentiated services and eliminating a labor-hour mentality, we will change how our clients think about the value we provide.

Our most important priority is to leverage our knowledge to better understand and anticipate our clients' changing needs and provide innovative solutions which address the value drivers of their business success. The competitive global marketplace is increasingly causing clients to focus on their core competencies and reduce costs. As a result, many are outsourcing a growing number of the services historically performed in-house and are looking to Fluor Daniel to help them improve their return on assets.

This changing market dynamic is creating exciting new business potential for Fluor Daniel. For example, we are increasingly providing services to help clients improve their asset management. As we implement our long-term strategic plan, we will focus on expanding our core competencies in areas which provide enhanced earnings growth potential.

A significant component in our future business mix will be continued expansion of our Diversified Services Group. These business activities, which typically carry higher margins, have significant earnings power and growth potential. Investments have been made in these businesses over the past few years which are now benefiting both current and future expected performance.

To create a durable competitive advantage and build distinctive core competencies, we are investing in both information technology and people. We intend to be the leader in establishing a new identity by setting new standards for quality services and products in a rapidly changing market. Our vision is to be the premier provider of knowledge-based services to improve our customers' productivity and profitability.

Jim Stein

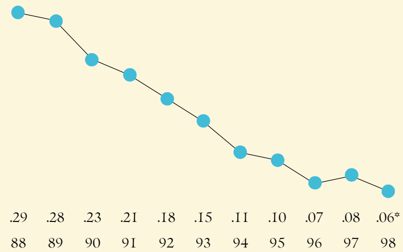
President and Chief Operating Officer
Fluor Daniel

1998 Backlog by Region

- 12% Asia Pacific
- 6% Australia
- 10% Canada
- 8% Europe
- 9% Latin America
- 8% Middle East
- 47% United States

Fluor Daniel Safety Performance

lost workday incidence rates



Sixty-two times better than the national industry average

1998 Backlog by Industry

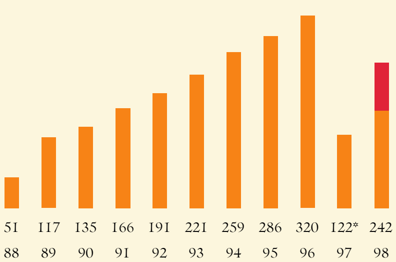
- 10% Diversified Services
- 6% Government
- 38% Industrial
- 4% Power
- 42% Process

Fluor Daniel

Engineering *and* Construction

Fluor Daniel Operating Profit

$ in millions



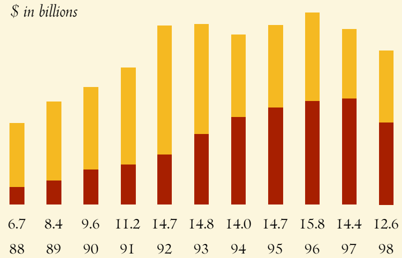
- Diversified Services**
- Engineering & Construction

*Includes project and cost-reduction provisions

**Diversified Services was included in Engineering & Construction prior to 1998

Backlog — U.S. vs. International

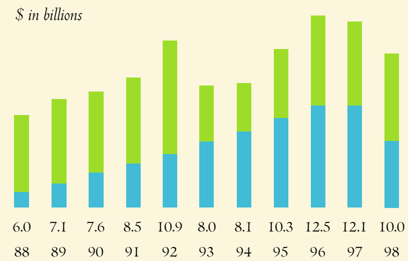
$ in billions



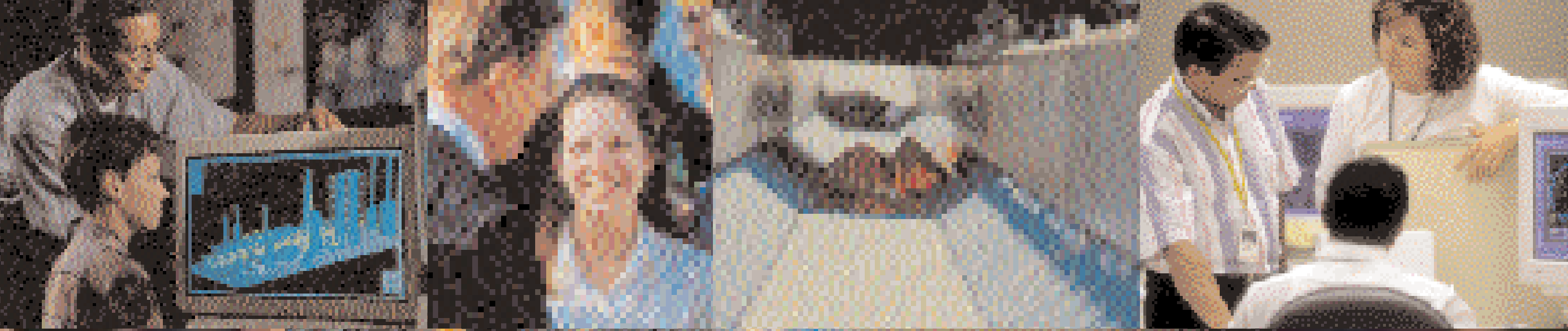
- U.S.
- International

New Awards — U.S. vs. International

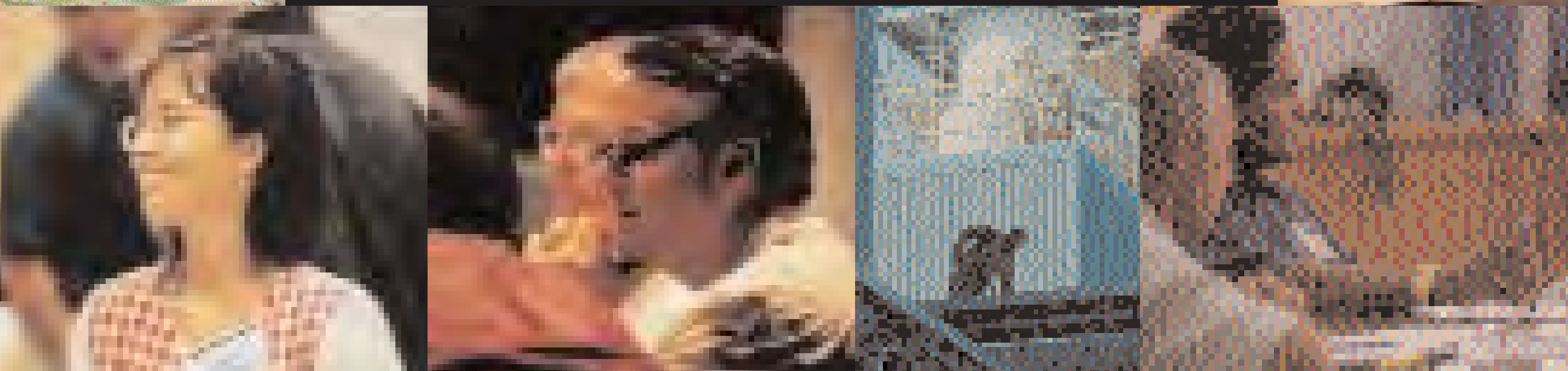
$ in billions



- U.S.
- International



Fluor Daniel's most important priority is to leverage its knowledge to better understand and anticipate its clients' changing needs and provide innovative solutions that address the value drivers of their business success. Fluor Daniel intends to be the leader in establishing a new identity by setting new standards for quality services and products in a rapidly changing market.



Increased emphasis on improving margins and earnings power through greater project selectivity resulted in total gross margin in year-end backlog being greater than a year ago.

Fluor Daniel is among the world's largest engineering and construction companies. The company is providing an increasing array of diversified services to its traditional client base, as well as developing new business relationships which leverage the company's core competencies.

Following a difficult and disappointing performance in 1997, Fluor Daniel achieved its 1998 earnings goal by delivering operating profit of $242 million, compared with $122 million last year. Approximately $81 million of the 1998 total came from Fluor Daniel's Diversified Services Group.

Engineering and Construction

Fluor Daniel's engineering and construction business is organized into four global operating groups: Energy & Chemicals, Government, Environmental & Telecommunications, Industrial, and Mining & Minerals.

New awards for the year were approximately $10 billion, down from just over $12 billion in 1997. Backlog declined $1.7 billion from a year ago to $12.6 billion. The decreased new awards and decline in backlog in part reflects the company's increased emphasis on improving margins and earnings power through greater project selectivity, but also reflects deteriorating global market conditions. Importantly, the indicated gross margin on 1998 new awards was above the 1997 levels. As a result, total gross margin in year-end 1998 backlog is actually greater than it was a year ago.

Energy & Chemicals

Fluor Daniel's Energy & Chemical Group addresses five global markets: Chemicals and Specialties; Petroleum; Production, Pipelines & Marine Systems; Process; and Power Generation. Opportunities in these markets often tend to be large projects which capitalize on Fluor Daniel's competitive strengths, leveraging its global presence, resource base and experience.

Chemicals and Specialties

Significant investment by clients in the global chemicals market generated strong results in 1998 for Fluor Daniel's Chemicals and Specialties unit. However, the increased industry capacity, combined with the impact of a slowing global economy, has reduced the near-term outlook for this business unit. While clients have deferred decisions to proceed on certain projects, many are expected to ultimately proceed at a later date. Key awards in 1998 included three ethylene-based projects in Canada.

Petroleum

Primarily focused on oil refining and gas processing, Fluor Daniel's Petroleum business in 1998 included the award of two significant contracts. As part of a multinational consortium, ICA Fluor Daniel — our joint venture company in Mexico — was awarded a contract by Pemex, Mexico's national oil company, to build, own and operate the world's largest nitrogen plant. Fluor Daniel also was awarded a major refinery upgrade project in Canada.

The continued trend toward processing heavier crude oil feedstocks and reduced sulfur content in gasoline, generated several refinery upgrade and modernization projects in the U.S., Canada and Europe. While the pace for major new refinery projects has slowed due to low oil prices and global economic conditions, several prospects continue to be pursued longer term.

Production, Pipelines & Marine Systems

Although impacted near-term by a slowing global economy, Fluor Daniel continues to see significant long-term opportunity in the market for development of new oil and gas reserves. Fluor Daniel's experience and program management capability in handling large, complex projects often with significant political and logistical challenges, positions the company well for these opportunities.

Process
Fluor Daniel's Process unit, which serves the pharmaceutical, biotechnology and fine chemicals industry, had an excellent year in 1998 with prospects for continued strong growth. Rapid development of new pharmaceutical products is placing an increasing importance on time to market. Fluor Daniel's expertise in biotechnology bulk processing, and secondary manufacturing, as well as the ability to manage fast-track schedules and assist with project financing, have been key elements in our growing penetration of this expanding market.

Power Generation
Substantially increased activity in the U.S. power market is generating attractive new business opportunities for Duke/Fluor Daniel, our joint venture company serving the power generation industry.

Deregulation of the U.S. power market has fostered a new wave of cost competitive developers focused on capturing market share from aging electric utilities. These new "merchant" plants tend to be gas-fired, combined cycle because of their high efficiency and low capital cost. Duke/Fluor Daniel's extensive experience with this technology and ability to provide a competitive turnkey package of design and construction services, as well as highly efficient plant operating services, resulted in several major project awards in 1998.

Government, Environmental & Telecommunications

The Government, Environmental & Telecommunications Group provides services to the U.S. government, including environmental management, and to the private telecommunications industry. Fluor Daniel made the strategic decision to exit the commercial market for environmental services in 1998 with the sale of Fluor Daniel GTI to The IT Group.

Government Services
Following a comprehensive review in 1998 of Fluor Daniel's market position and business outlook, it was determined that the opportunity for attractive profit potential exists and that we will continue to grow our services to the government market.

Substantially increased activity in the U.S. power market is generating attractive new business opportunities for Duke/Fluor Daniel, which serves the power generation industry.

Current activity is focused primarily on providing environmental management services to the U.S. Department of Energy (DOE) at their Fernald, Ohio, and Hanford, Washington, sites, and supporting the U.S. nuclear defense program. Fluor Daniel will continue to pursue opportunities in the DOE market, while selectively expanding its services to additional government agencies, such as the U.S. Department of Defense, where our skill base and government contracting experience provides a competitive advantage.

Telecommunications
During 1998, Fluor Daniel's Telecommunications unit redirected its strategic focus to reduce overhead expense, narrow its current geographic scope and selectively concentrate on well-defined areas of opportunity. Fluor Daniel is actively pursuing new networks and network conversion opportunities which are generating significant investment in new infrastructure. The unit will focus on key clients who are addressing new technology and capacity requirements to meet the expanding demand for voice, video and data transmission.

Industrial

Fluor Daniel's Industrial Group improved its market selectivity and further consolidated operations in 1998 to improve margins. We are increasingly assisting many of our industrial clients in improving their manufacturing productivity and return on assets. The Industrial Group serves client needs through four operating units: ADP Marshall, which serves the microelectronics and commercial markets; Consumer Products; Infrastructure; and Manufacturing.

ADP Marshall
As a leading service provider to the microelectronics industry, ADP Marshall is providing innovative manufacturing life cycle solutions to meet clients' increasing needs to enhance return on invested capital and reduce time to market through factory floor optimization and advanced automation capability.

ADP Marshall also has a strong reputation and market position in a select niche of the commercial market. A significant award in 1998 was the contract to design and build the base facilities for the new world-class Aladdin Hotel & Casino complex in Las Vegas, Nevada.

Consumer Products
The core of Fluor Daniel's Consumer Products unit is its long-term client relationship with Procter & Gamble (P&G). Fluor Daniel has continued to increase the scope of geographic markets and product lines it serves within P&G. Additionally, the Consumer Products unit pursues selective opportunities within the forest products industry.

Infrastructure
Fluor Daniel has been building an increased presence and market position in selected opportunities for infrastructure projects. Our focus is on complex investments where our program management skills, financial strength and project financing expertise bring differentiated value and generate appropriate margins. Passage in 1998 of the U.S. transportation spending bill, known as TEA 21, has further enhanced future opportunities by making in excess of $200 billion available for new highway, transit and rail projects.

Manufacturing
Fluor Daniel's Manufacturing unit provides services across a diverse range of industries, including food, beverage, certain consumer products, metals, automotive and general manufacturing, including a number of client alliances. While the near-term outlook for investment in new capacity has slowed, increased emphasis on improving manufacturing productivity is expected to maintain existing levels of business activity.

Fluor Daniel's increased market position in selected infrastructure opportunities are focused on complex projects where our skills bring differentiated value and generate appropriate margins.

Mining & Minerals

Slowing global economic growth and low commodity prices have caused delays in large mining projects where Fluor Daniel's ability to manage remote and complex logistics has long been a significant competitive advantage. As a result, changes in organization structure and near-term market focus have been made to improve alignment with current market activities. A major new award received in 1998 was a contract to upgrade and modernize The Doe Run Company's metallurgical smelting complex in Peru.

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.

Fluor Daniel

Diversified Services

Fluor Daniel's Diversified Services Group is strategically focused on providing a full range of integrated services specifically designed to help clients be more competitive by reducing their overall "life cycle" operating cost. Through expansion of these services, Fluor Daniel is enhancing its long-term growth potential and capitalizing on the continued global trend towards increased outsourcing of services. The Diversified Services Group is made up of American Equipment Company (AMECO), Maintenance Services, Technology Services, and TRS Staffing Solutions. The Diversified Services Group provides services to existing Fluor Daniel clients, as well as new business relationships which may be outside the scope of traditional engineering and construction activities, and which provide distinct value to clients' overall business success.

American Equipment Company (AMECO)

AMECO is a leading global provider of construction and industrial equipment, fleet maintenance and repairs, and tool services to both capital projects and plant operations, currently operating from 69 locations in 13 countries. Business volume grew substantially in 1998 due in part to key awards, as well as record performance from the equipment retail distribution companies which were acquired during the past two years.

AMECO's aftermarket parts and services businesses are a key element of its growth strategy, as these products and services provide high value for our customers and complement the company's equipment retailing business. Additionally, the parts and service business provides a reliable hedge against economic downturns.

During 1998, AMECO focused on growth by strengthening the Fleet Services Division to capitalize on the increasing trend toward outsourcing among industrial and construction companies. An additional area of growth potential is expansion of AMECO's Contract Tool Services business to new customers. Clients and contractors are seeing increased value in one-stop shopping for the array of products and services AMECO offers. Optimization of client relationships to provide evergreen services is a key component of AMECO's stability and future growth potential.

Along with its experience in large, global projects, AMECO's use of knowledge and technology helps set them further apart from the competition. AMECO is enhancing its systems to improve information sharing, assessment of equipment requirements, project administration and worldwide vendor communications.

Maintenance Services

Maintenance Services seeks to maximize plant capacity or performance to enhance the client's competitiveness in their markets. Comprehensive plant services, including repair, renovation, replacement, upgrade, facility management and maintenance, preventive and predictive maintenance, are provided to a broad range of industries.

In today's competitive global environment, leading clients are focusing on their core businesses and competencies and are increasingly turning to service providers who can complement their internal capabilities and collectively perform at an overall lower cost. Maintenance Services is targeting strategic alliances where non-traditional relationships are forged, integrating Fluor Daniel as part of the client's team. Maintenance Services is able to deliver value added services by drawing on the full array of Fluor Daniel's capabilities, particularly the complementary resources and capabilities of the Technology Services unit in improving plant capacity and availability.

The long-term client relationships and alliances provide a stable and often counter-cyclical element to Fluor Daniel's business mix. Maintenance Services showed significant growth in 1998 with more than 100 contracts now serving over 175 client facilities.

Technology Services

Increased global competition, reduced cycle time for new products, and lower levels of capital spending has intensified pressure on companies to optimize asset utilization, manufacturing and production, operational readiness, and business systems within their supply chain.

Through its Performance Link℠ consulting business and TabWare™ Enterprise Asset Management (EAM) software, Fluor Daniel's Technology Services provides clients with tools and consulting services to address these market pressures to optimize the "life cycle" performance of their facilities.

During 1998, the Performance Link℠ brand for consulting services was introduced to the market with good response to its integrated performance solutions. Additionally, the TabWare™ EAM software is being launched on-line to provide clients with real-time access to critical plant maintenance data through the Internet. Technology Services also continued to build its knowledge database to add value for its clients by sharing successful work processes, benchmarks, and technology applications to enhance their operating performance.

Performance Link is a service mark of Fluor Daniel, Inc. and TabWare is a trademark of Fluor Daniel, Inc.

AmBit Technology, Core Medical Group, David Chorley Associates, Tekton Resources, Times Personnel, and Times Legal are service marks of TRS Staffing Solutions, Inc.

TRS Staffing Solutions

TRS Staffing Solutions is a global enterprise of staffing specialists serving a number of high-growth, niche industries in temporary, contract, and direct-hire positions. TRS operates out of 36 offices in seven countries.

The temporary staYng industry continues to offer significant growth opportunities with the ongoing trend toward outsourcing of personnel services. We are expanding in areas where demand remains particularly strong for skilled professionals, primarily in the areas of information technology, accounting and finance, legal, and certain engineering and design disciplines.

To capitalize on this high growth, yet competitive environment, TRS has implemented a global branding strategy. Specialist units within TRS have been created to service a number of high growth, skill-short staffing sectors which are growing faster than the traditional staffing sectors. Each unit or "brand" is a specialist focusing on its own niche market with its own identity:

Specialist Brand	Markets Served
AmBit Technology℠	Information Technology
Core Medical Group℠	Allied Health
David Chorley Associates℠	Accounting and Finance
Tekton Resources℠	Engineering and Design
Times Personnel℠	Administrative and Professional
Times Legal℠	Legal Support

TRS has global capabilities under each specialist company. All of the specialist brands have seen significant growth in the levels of commercial business during 1998.

Dear

SHAREHOLDER

Massey achieved record operating profit in 1998, delivering average annual growth of 13 percent over the past 10 years. During this decade, Massey has significantly increased its market position, production capacity and reserves, while developing a first class leadership team and highly productive work force.

By concentrating on cost, volume and mix, and investment in automation and operational flexibility, Massey has been consistently increasing shareholder value. Through its strategy of controlled growth in Central Appalachia, Massey has achieved impressive results, made the company the dominant supplier of the region's high-quality coal and outperformed its competition.

Massey's dual objectives to outperform its industry in terms of earnings growth and shareholder returns remain unchanged for the future. However, several of the strategic components which have contributed to our past success are reaching natural limits and we are looking at new strategies to support future performance objectives.

Strategic areas where we will concentrate our efforts include continued focus on further reducing costs and leveraging our leadership position in our geographic region. Increasing production from lower-cost surface mines will contribute to both these objectives. We are also exploring strategies which could expand Massey's longer-term earnings power and growth potential from self-imposed constraints related to investment hurdle rates, capital structure and shared ownership options. Additionally, we are evaluating expanded business opportunities which could leverage increased synergy with Fluor Daniel's technical services to capitalize on significant changes occurring in both the electric utility and steel industries which Massey serves. Deregulation, global competition and environmental sensitivities are increasingly causing our customers to look at new or expanded relationships with their suppliers which can help them better manage their coal inventory assets and reduce costs.

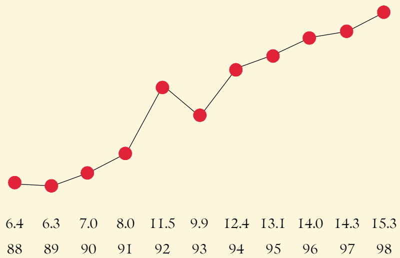
We are excited about our prospects for the future. We are committed to increasing shareholder value by fully capitalizing on the opportunities being created by changes in the global coal market.

L Blankenship

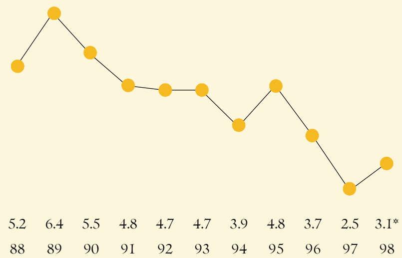
Don L. Blankenship

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

Coal Operating Margin
percentage



Massey Safety Performance
non-fatal days lost

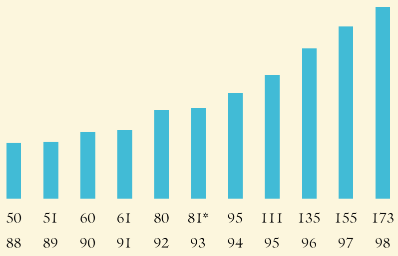


*Nearly two times better than the national industry average

A.T. Massey Coal Company

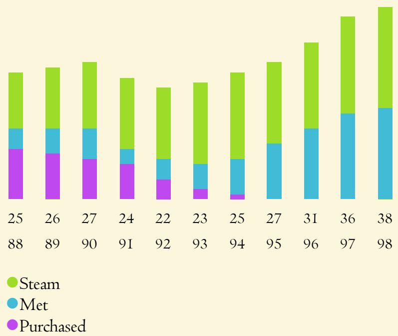
Coal

Massey Operating Profit
$ in millions



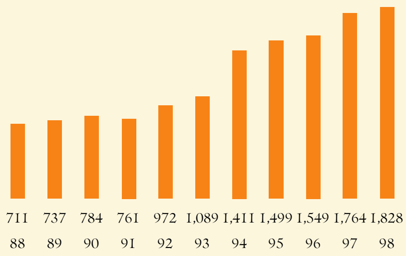
*Excludes nonrecurring charge of $10 million

Coal Sold
millions of short tons

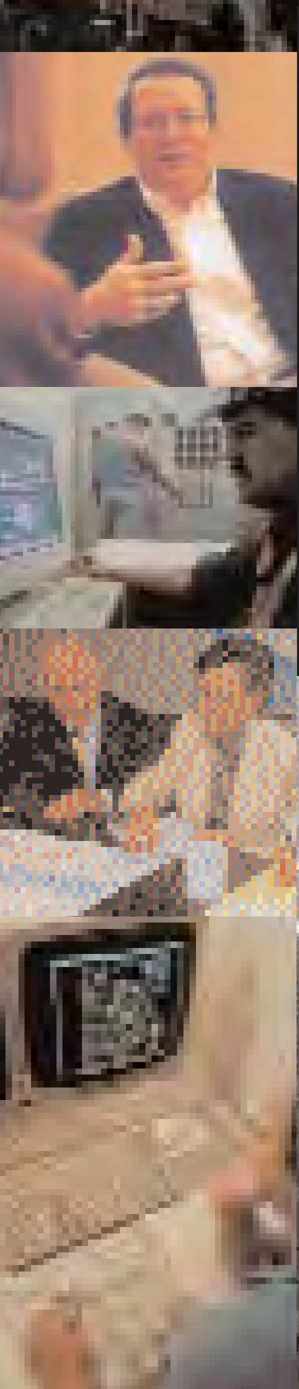


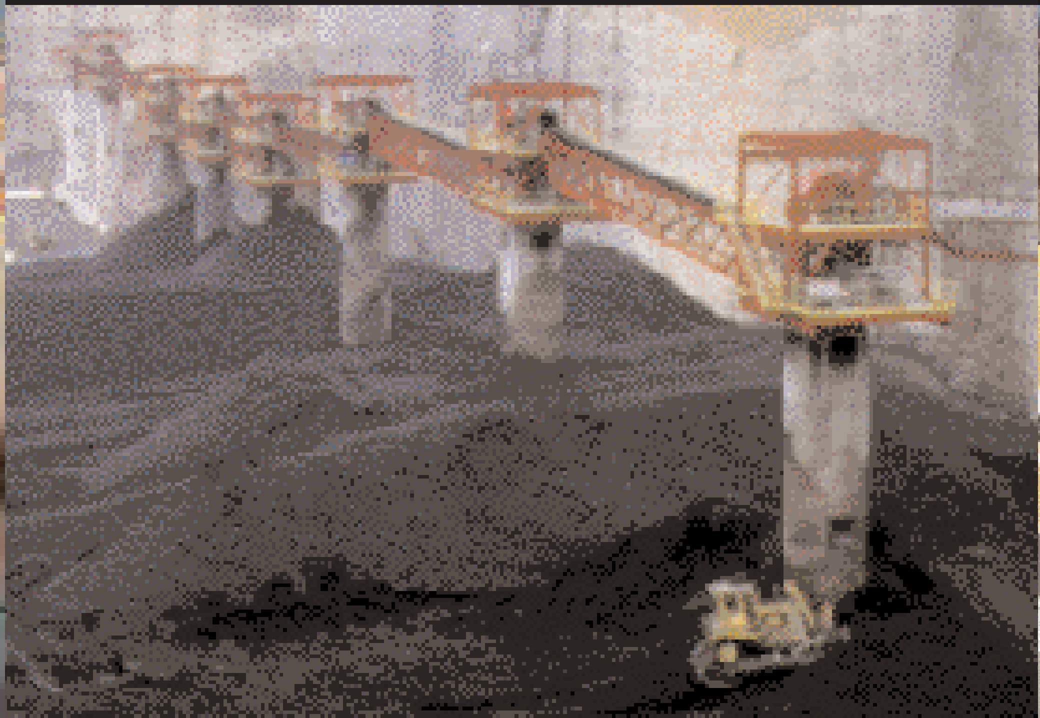
Purchased coal sales have been immaterial since 1995

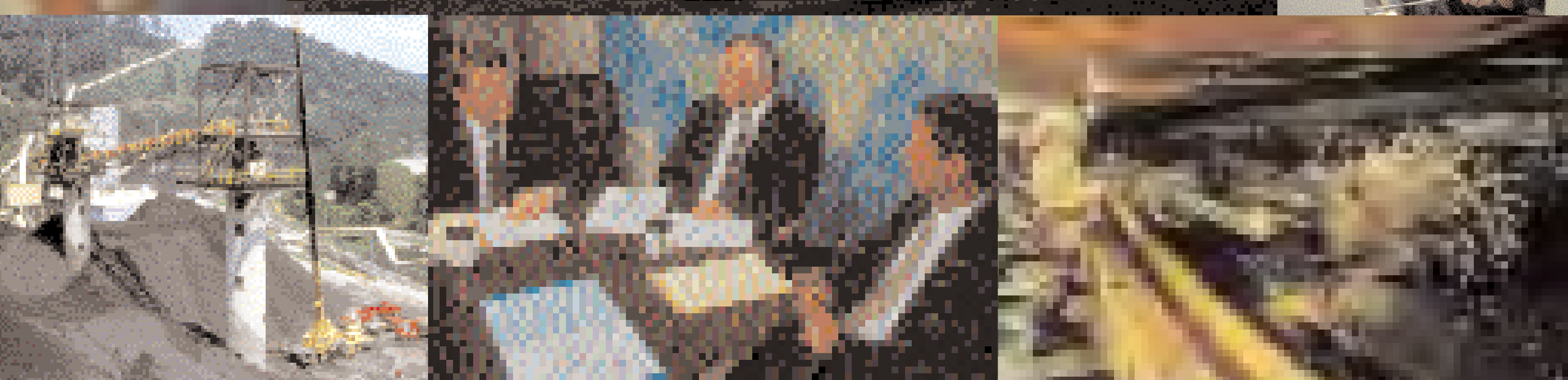
Coal Reserves
millions of short tons



MASSEY ACHIEVED RECORD OPERATING PROFIT IN 1998, DELIVERING AVERAGE ANNUAL GROWTH OF 13 PERCENT OVER THE PAST 10 YEARS. DURING THIS DECADE, MASSEY HAS SIGNIFICANTLY INCREASED ITS MARKET POSITION, PRODUCTION CAPACITY AND RESERVES, WHILE DEVELOPING A FIRST CLASS LEADERSHIP TEAM AND HIGHLY PRODUCTIVE WORK FORCE.







Through its operating subsidiaries, A.T. Massey Coal Company produces high-quality, low-sulfur steam coal for the electric-generating industry and industrial customers, and metallurgical coal for the steel industry. In 1998, Massey increased its operating profit by 12 percent to $173 million from $155 million in 1997. The improvement was primarily due to continued cost reduction and increased volume of higher-margin metallurgical coal sales which more than offset a modest decline in realized prices.

Total coal sales volume increased 6 percent in 1998 to 38 million tons. Steam coal sales volume increased slightly to 19.4 million tons, while metallurgical coal sales volume increased 11 percent to 18.2 million tons.

Massey's constant focus on lowering production costs, increasing sales volume and optimizing its business mix to capitalize on its highest margin opportunities, resulted in continued expansion of its operating margins in 1998.

Massey enjoys a strong market position as the low-cost producer of Central Appalachian coal. Through a continuing strategy of investment in new high-quality reserves and modern mining equipment and procedures, Massey has consistently increased its production capacity and market flexibility. Since 1991, Massey has more than doubled its reserve base, including expansion in 1998. Total Massey coal reserves at year end were 1.83 billion tons.

Massey's constant focus on lowering production costs, increasing sales volume and optimizing its business mix, resulted in continued operating margin expansion.

Acquisition of new reserves have focused on properties which are located near existing Massey operations, providing increased synergy and utilization of current production facilities. This strategy has allowed Massey to increase its coal production in a highly cost-effective manner and create favorable transportation advantages and distribution logistics.

Massey's underlying strategic focus 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.

Business conditions in the coal market serving the electric utility industry strengthened somewhat during 1998, partly due to strong demand from a hot summer and interruption of some nuclear power. While realized steam coal prices declined 3 percent from a year ago, the increased demand for steam coal during the year allowed Massey to optimize the mix of quality grades in its utility sales to realize an increased gross margin.

Looking forward, Massey is well positioned to capitalize on either volume or price increases which may result from higher demand for low-sulfur coal by deregulated utilities attempting to meet Clean Air requirements. Scheduled to go into effect in 2000, the approaching implementation of these more stringent regulations is expected to increase the value of low-sulfur coal and has already produced a significant increase in the price of sulfur emission allowances which electric utilities may buy and sell to help achieve their SO_2 emission reduction requirements.

Massey continues to be the low-cost producer of high-quality metallurgical coal. While the global economic slow down and the current strength of the U.S. dollar is expected to create some downward pressure on metallurgical coal prices, it remains an important component of Massey's business mix and continues to be one of its most attractive sales margin opportunities. Realized metallurgical coal prices in 1998 declined 1 percent from a year ago. Massey's significantly lower cost of production provides an important competitive advantage in weathering current market pressures and maintaining sales volume.

During 1998, Massey continued development of high-value reserves which have been acquired in recent years. Most significant during the year was development of the Twilight operation which achieved full scale production levels of approximately 4 million tons annually in the second half of 1998. Twilight is Massey's largest surface mine and will produce a high-quality, low-sulfur coal for the utility market.

Massey continues to be the low-cost producer of high-quality metallurgical coal, providing an important competitive advantage in weathering current market pressures and maintaining sales volume.

A key advantage of surface mining is a significantly lower cost of production compared to the deep mining operations which comprise the bulk of Massey's current production. Two additional surface mines are in development. The Alex Energy project is expected to come onstream in mid-1999 with an annualized capacity of approximately 3 million tons, while the Constitution surface mine will likely begin production of approximately 2.5 million tons in early 2000. The addition of new surface mining capacity will replace some higher cost production and will contribute to overall lower costs, adding confidence in the future outlook for continued earnings growth.

Massey completed two strategically significant asset acquisitions in 1998. In May, Massey acquired the Elkay property in West Virginia which added approximately 30 million tons in reserves as well as a modern preparation plant and rail loading facility that is immediately adjacent to a high-value, undeveloped Massey property. The Elkay acquisition significantly reduces the cost for development of the adjacent reserves. Additionally, the acquisition included two coal supply agreements for over 2 million tons with the largest consumer of coal in Central Appalachia, and for whom Massey had not recently been a supplier.

In a second transaction completed in October, Massey traded properties in Pennsylvania for properties near Holden, West Virginia, which were more strategically valuable and lower in sulfur.

In December, after the close of the fiscal year, a small additional asset acquisition was completed which provides substantially increased access and synergy with the Holden property.

Massey continued to capitalize on export opportunities in 1998, primarily for its high quality metallurgical coal. Total coal export sales increased 14 percent to 5.6 million tons from 4.9 million tons last year. While the global economic downturn is expected to create a significant disadvantage to Massey's sales in the Asian market, a combination of transportation and quality advantages are expected to yield continuing export opportunities to markets in Europe and South America.

Another significant accomplishment in 1998 for Massey was agreement on a number of labor issues. Agreements were reached on five separate wage contracts which were expiring with the United Mine Workers of America. Additionally, a host of individual labor disputes were amicably resolved.

Worker safety continues to be of paramount importance at Massey and is ensured by a Safety First (S-1) program that is second to none and exceeds federal and state requirements. Massey's S-1 program provides for ongoing reviews of all aspects of mining and processing. Every Massey operation must pass rigorous safety audits. Massey rates itself against the toughest standards in its industry and works with manufacturers and suppliers to engineer safety into the equipment, gear and tools used daily in its operations. Massey's safety performance suffered a decline in 1998 compared with the previous year, as recently acquired mines struggled to meet Massey's standards. However, Massey's overall safety performance remains nearly two times better than the industry average.

Operating Statistics

Year ended October 31, (in millions)	1998	1997	1996	1995	1994	1993	1992	1991	1990	1989	1988
Engineering and Construction											
Work performed	$ 11,593	$ 12,795	$ 9,870	$ 8,379	$ 7,673	$ 7,110	$ 5,889	$ 5,792	$ 6,353	$ 5,241	$ 4,268
Revenues	12,378	13,218	10,054	8,452	7,718	7,134	5,904	5,813	6,383	5,312	4,225
Operating profit	242	122	320	286	259	221	191	166	135	117	51
New awards	9,992	12,122	12,488	10,257	8,072	8,001	10,868	8,532	7,632	7,135	5,955
Backlog	$ 12,645	$ 14,370	$ 15,757	$ 14,725	$ 14,022	$ 14,754	$ 14,706	$ 11,181	$ 9,558	$ 8,361	$ 6,659
Salaried employees	29,699	30,347	26,568	18,090	16,433	17,215	17,443	17,602	19,829	17,519	15,576

At October 31, (in millions)	1998	1997	1996	1995	1994	1993	1992	1991	1990	1989	1988
Backlog by Group and Location											
Process	$ 5,345	$ 6,384	$ 4,903	$ 6,671	$ 7,668	$ 7,430	$ 6,305	$ 5,043	$ 4,434	$ 3,144	$ 2,612
	42%	44%	31%	45%	55%	50%	43%	45%	46%	38%	39%
Industrial	4,761	5,178	6,496	4,516	3,564	3,449	3,737	4,127	3,592	4,136	3,100
	38%	36%	41%	31%	25%	23%	25%	37%	38%	49%	47%
Power/Government	1,272	2,092	3,621	3,275	2,369	3,212	3,804	1,445	1,058	777	847
	10%	15%	23%	22%	17%	22%	26%	13%	11%	9%	13%
Diversified Services	1,267	716	737	263	421	663	860	566	474	304	100
	10%	5%	5%	2%	3%	5%	6%	5%	5%	4%	1%
Total backlog	$ 12,645	$ 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%	100%
United States	$ 5,911	$ 5,665	$ 7,326	$ 6,666	$ 6,802	$ 9,045	$ 10,649	$ 7,915	$ 6,724	$ 6,404	$ 5,298
	47%	39%	46%	45%	49%	61%	72%	71%	70%	77%	80%
Asia Pacific (includes Australia)	2,260	3,959	4,402	3,303	1,662	1,679	608	377	812	287	251
	18%	28%	28%	23%	12%	11%	4%	3%	9%	3%	4%
EAME*	2,023	3,828	2,677	3,088	4,387	3,178	2,389	2,174	1,345	634	494
	16%	27%	17%	21%	31%	22%	17%	20%	14%	8%	7%
Americas	2,451	918	1,352	1,668	1,171	852	1,060	715	677	1,036	616
	19%	6%	9%	11%	8%	6%	7%	6%	7%	12%	9%
Total backlog	$ 12,645	$ 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%	100%

* EAME represents Europe, Africa and the Middle East.

Year ended October 31, (in thousands/in thousands of short tons)	1998	1997	1996	1995	1994	1993	1992	1991	1990	1989	1988
Coal											
Revenues	$1,127,297	$1,081,026	$960,827	$849,758	$767,725	$716,591	$696,721	$758,481	$865,809	$815,558	$783,719
Operating profit	$ 172,762	$ 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	19,398	19,300	17,520	15,777	16,702	16,036	13,711	13,536	13,058	11,942	11,057
Metallurgical coal	18,210	16,343	13,571	11,633	7,133	5,156	3,827	3,446	5,538	4,640	3,968
Total produced coal sold	37,608	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	3,094	2,968	2,809	2,479	1,954	1,431	1,252	1,133	1,214	1,435	1,232

* Amounts are immaterial.

Dear SHAREHOLDER

Fiscal 1998 was an eventful year financially for Fluor. The company achieved significant improvement in its operating results compared with the prior year. Each of the company's business activities met their earnings performance targets for the year. Return on shareholders' equity also showed marked improvement.

Substantial investments were made in fiscal 1998: $308 million was invested in Massey Coal in new reserves and production facilities to increase volume and further reduce costs; $214 million was invested in the Diversified Services Group, primarily in American Equipment, to expand its growth potential and maintain a high-quality fleet of equipment; and $91 million was spent in systems and facilities to support enhanced operations in our engineering and construction business.

Efforts to capture shareholder value through the sale of American Equipment were unable to be realized. This was due to significant changes in global economic conditions and equity valuations prior to completion of a transaction. Consequently, the decision was made to retain ownership and enhance shareholder value by continuing to expand the company's strong market position and earnings power.

Concurrent with the American Equipment sale process, the company repurchased 8.3 million shares of its common stock for a total cost of $379 million. Earnings per share for the year were positively impacted by 5 percent as a result of the reduced shares outstanding. The current share repurchase program has been concluded.

Dividends were paid at the quarterly rate of 20 cents per share in 1998. Fluor's board of directors has made the determination to maintain this dividend rate into the coming year. The indicated payout ratio for 1999 will be approximately 27 percent of 1998 earnings and is consistent with the company's stated guideline to distribute approximately 20 to 30 percent of the prior year's earnings.

Our objectives and priorities for 1999 include:

1. Restructuring our debt to fit the company's changing strategic business needs while maintaining a strong investment-grade status.
2. Allocating financial resources to those business segments which offer the greatest potential for improved returns and increased shareholder value.
3. Reducing the cost of indirect expenses, including taxes, while increasing the quality of support services.
4. Upgrading the timeliness and quality of business information to enhance management decisions.

Fluor's financial position remains strong and our credit ratings are the highest in our industries. Our financial strength provides an excellent foundation for implementing the company's long-term strategic plan.

JAMES O. ROLLANS

Senior Vice President and Chief Financial Officer

Selected Financial Data

(in millions, except per share amounts)	1998	1997	1996	1995	1994	1993	1992	1991	1990	1989	1988
Consolidated Operating Results											
Revenues	$13,504.8	$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	362.6	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	235.3	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	235.3	146.2	268.1	231.8	192.4	166.8	5.8	164.1	154.6	112.7	60.2
Basic earnings per share											
Continuing operations	2.99	1.76	3.24	2.82	2.35	2.05	1.67	1.91	1.50	1.07	.49
Discontinued operations	—	—	—	—	—	—	(1.19)	.14	.44	.36	.28
Cumulative effect of change in accounting principle	—	—	—	—	—	—	(.41)	—	—	—	—
Basic earnings per share	2.99	1.76	3.24	2.82	2.35	2.05	.07	2.05	1.94	1.43	.77
Diluted earnings per share											
Continuing operations	2.97	1.75	3.21	2.81	2.34	2.04	1.66	1.89	1.48	1.05	.48
Discontinued operations	—	—	—	—	—	—	(1.19)	.14	.44	.36	.27
Cumulative effect of change in accounting principle	—	—	—	—	—	—	(.40)	—	—	—	—
Diluted earnings per share	$ 2.97	$ 1.75	$ 3.21	$ 2.81	$ 2.34	$ 2.04	$ .07	$ 2.03	$ 1.92	$ 1.41	$ .75
Return on average shareholders' equity	14.5%	8.7%	17.4%	17.6%	17.1%	17.4%	.6%	20.2%	23.3%	21.5%	14.2%
Cash dividends per common share	$ .80	$ .76	$ .68	$ .60	$ .52	$ .48	$ .40	$ .32	$ .24	$ .14	$ .02
Consolidated Financial Position											
Current assets	$ 2,277.2	$ 2,213.4	$ 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	2,495.6	1,978.2	1,645.5	1,238.6	1,021.3	930.9	845.4	848.2	984.0	797.7	786.1
Working capital	(218.4)	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	2,147.3	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	5,019.2	4,685.3	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	300.4	300.5	3.0	2.9	24.4	59.6	61.3	75.7	57.6	62.5	95.0
Shareholders' equity	1,525.6	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	$ 1,826.0	$ 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	16.5%	14.7%	.2%	.2%	2.0%	5.4%	6.5%	7.8%	7.2%	9.6%	16.9%
Shareholders' equity	83.5%	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	$ 20.19	$ 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	75.6	83.7	83.8	83.2	82.5	82.1	81.5	81.1	80.4	79.8	79.1
Other Data											
New awards	$ 9,991.9	$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	12,645.3	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 *	612.9	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	$ 702.5	$ 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 23 to 28 and Notes to Consolidated Financial Statements on pages 33 to 42 for information relating to significant items affecting the results of operations.

Management's Discussion and Analysis

MD&A

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 industries 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 1998 new awards were $10.0 billion compared with $12.1 billion in 1997 and $12.5 billion in 1996. The following table sets forth new awards for each of the segment's business groups:

Year ended October 31, (in millions)	1998		1997		1996	
Process	$4,477	45%	$ 6,090	50%	$ 4,061	33%
Industrial	3,447	34%	4,057	34%	6,182	49%
Power/Government	812	8%	1,150	9%	1,428	11%
Diversified Services	1,256	13%	825	7%	817	7%
Total new awards	$9,992	100%	$12,122	100%	$12,488	100%
U.S.	$5,636	56%	$ 5,443	45%	$ 5,749	46%
International	4,356	44%	6,679	55%	6,739	54%
Total new awards	$9,992	100%	$12,122	100%	$12,488	100%

New awards in 1998 were lower compared with 1997, reflecting both the slowdown of the global economy, as certain clients deferred final decisions to proceed on major new capital projects, and the company's increased emphasis on improving margins through selectivity in new projects. 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, given the current weakening global economic conditions and volatility in capital markets the company is facing a potential slowdown in new business across a variety of geographic regions and industries in 1999 and 2000.

The Process Group's new awards in 1997 were higher than in 1998 and 1996 primarily due to the award of the $1.9 billion Yanpet project, a petrochemical complex being constructed in Saudi Arabia. The decrease in the Industrial Group's new awards in 1998 was primarily in mining and metals, partially offset by an increase in infrastructure projects. New awards in the Power/Government Group in 1998 reflect a decrease in the power sector. New awards in this Group in 1996 included the large-scale project 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 annually 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 1997. In 1998 and 1997, based on the experience gained during 1997 regarding the Department of Energy's fee determination procedures for the Hanford project, the company recognized new awards of $267 million and $220 million, respectively. Such amounts represent only the company's estimated proportionate share of the total work to be performed at the Hanford site. Diversified Services new awards in 1998 increased over 1997 primarily due to the renewal of 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 majority of this group's activities are not includable in backlog.

Backlog at October 31, 1998, 1997 and 1996 was $12.6 billion, $14.4 billion and $15.8 billion, respectively. (See page 20 in this annual report for information relating to backlog by business group.) The decrease in total backlog is consistent with the slowing trend in new awards. Work performed on existing projects has exceeded new awards in both 1998 and 1997. The decrease in backlog from projects located outside the United States at October 31, 1998, was primarily due to work performed on international projects such as the Paiton power project in Indonesia, the Murrin Murrin mining project in Australia and the Yanpet project in Saudi Arabia. Approximately 18 percent of the company's backlog is in the Asia Pacific region, including $698 million in Australia. Due to the nature of the projects the company pursues and those included in backlog, the company has not experienced any significant disruption in ongoing project execution related to the turmoil in Asian financial markets. During 1998, turmoil in Indonesia caused a temporary disruption to work progress at several project sites. These projects are now essentially back to normal operations. Payments owed the company related to one project have been temporarily delayed. However, *Management's Discussion and Analysis*

MD&A

the company believes that all amounts due will be ultimately collected. Although backlog reflects business which is considered to be firm, cancellations or scope adjustments may occur. Backlog is adjusted to reflect any known project cancellations, deferrals, and revised project scope and cost, both upward and downward.

Engineering and Construction revenues decreased to $12.4 billion in 1998 compared with $13.2 billion in 1997, primarily due to a decrease in the volume of work performed. Revenues in 1996 were $10.1 billion. U.S. revenues decreased in 1998, reflecting the overall reduction in work performed partially offset by continued growth within the Diversified Services Group. Revenues for the Diversified Services Group were $1.8 billion for 1998. Engineering and Construction operating profits were $242 million in 1998, $122 million in 1997 and $320 million in 1996. Operating margins for the year ended October 31, 1998, reflect a lower content of work performed on larger, more complex projects which generally carry higher margins. As discussed below, operating results for the year ended October 31, 1997, were significantly affected by several items.

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 one fixed price contract for the construction of a power plant located outside the United States. 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 have been recorded subsequent to the second quarter of 1997. 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. Provisions of $21.0 million for cost overruns on two fixed price power projects, including the power project that is referenced above, were recognized in the first quarter of 1997. The company also recognized in the first quarter a credit totaling $25.0 million related to certain actuarially determined insurance accruals.

Results for the year ended October 31, 1997, also included charges totaling $25.4 million related to implementation of certain cost reduction initiatives. These charges consisted of personnel-related costs and lease costs for excess facilities. As of October 31, 1998, substantially all of these costs have been incurred.

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 or increases in contract costs can result in non-recoverable costs which could exceed revenues realized from the project. The company continues to focus on improving operating margins by enhancing selectivity in the projects it pursues, lowering overhead costs and improving project execution.

The Diversified Services Group continues to contribute significantly to the Engineering and Construction segment's operating results. This Group, which includes the company's equipment sales and rental, temporary staffing, maintenance and technology services units, had operating profit of $81 million in 1998. The company is optimistic for further growth in this Group in 1999 as it capitalizes on the continued trend towards increased outsourcing, which will help balance the impact of the global economic slowdown on other Engineering and Construction business units.

In March 1998, the company formally announced its intention to pursue options to transact its equipment sales and rental unit, American Equipment Company (AMECO). In October 1998, because market conditions for the sale deteriorated rapidly, the company decided to retain ownership of AMECO and continue with efforts to expand its market position.

The Engineering and Construction segment made no significant acquisitions during 1998. In December 1996, TRS Staffing Solutions, Inc., the company's temporary personnel services subsidiary, acquired the ConSol Group; in May 1997, AMECO acquired the SMA Companies; and, in June 1997, AMECO acquired J.W. Burress, Inc. These businesses, in addition to other smaller acquisitions, were purchased for a total of $142 million.

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 1997, pro forma results of operations would not have differed materially from actual results.

In October 1998, Fluor Daniel, Inc. ("Fluor Daniel"), the company's primary engineering and construction subsidiary, entered into an agreement to sell its ownership interest in Fluor Daniel GTI, Inc. ("FD/GTI"). Under terms of the agreement, the company sold its 4,400,000 shares in FD/GTI for $8.25 per share, or $36.3 million in cash, on December 3, 1998. This transaction did not have a material impact on the company's results of operations or financial position.

In August 1997, Fluor Daniel 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.

Coal Segment

Revenues and operating profit from Coal operations in 1998 were $1.1 billion and $173 million, respectively, compared with $1.1 billion and $155 million in 1997. Revenues and operating profit in 1996 were $961 million and $135 million, respectively.

Revenues increased $46 million in 1998 primarily due to increased sales volume of metallurgical coal, partially offset by lower steam coal prices. Metallurgical coal revenues increased 11 percent primarily due to continued higher demand by steel producers. Steam coal revenues were flat on steady volume in 1998 as compared with 1997, while steam coal prices declined approximately 3 percent as overall demand was down due to both a mild winter and summer in 1998. Gross profit increased by 15 percent and operating profit increased by 12 percent in 1998 compared with 1997, primarily due to reduced production costs and an increased proportion of higher margin metallurgical coal sales, partially offset by lower steam coal prices. The market for metallurgical coal in 1999 could be adversely affected by the impact of the global economic situation on U.S. steel producers. The company believes it is positioned to handle a market slowdown as it continues to reduce mining production costs through expansion of its surface mining capabilities and utilization of longwall mining.

Revenues increased in 1997 compared with 1996 primarily due to increased sales volume of both metallurgical and steam coal, partially offset by lower steam coal prices. The increase in metallurgical coal revenues is primarily due 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 primarily due 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, primarily due to the increased sales volume of both metallurgical and steam coal and lower costs of producing both steam and metallurgical coal.

Coal segment acquisitions in the three years ended in 1998 have been primarily focused on the purchase of additional low-sulphur coal reserves in areas adjacent to existing mine and mill operations. 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 the respective year acquired, pro forma results of operations would not have differed materially from actual results.

Other

Net interest expense for 1998 increased compared to 1997 primarily due to an increase in short-term borrowings required to fund the company's share repurchase program and a full year of interest related to the $300 million in long-term debt issued in March 1997. The company had net interest expense in 1997 compared with net interest income in 1996 due primarily to the $300 million in long-term debt, an increase in other interest bearing liabilities and lower interest bearing assets.

Corporate administrative and general expense for the year ended October 31, 1998, increased compared with the same period of 1997 primarily due to costs associated with the company's ongoing strategic business planning effort, executive severance and recruiting costs. These costs were partially offset by a first quarter 1998 credit of approximately $10 million related to a long-term incentive compensation plan. 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 the long-term incentive compensation plan referred to above, the performance target expired, without amendment or extension by the Committee, on December 31, 1997. Corporate administrative and general expense for the year ended October 31, 1997, decreased compared with 1996 due primarily to lower accruals for stock-related and performance-based compensation plans and lower corporate overhead.

The effective tax rate for the year ended October 31, 1998, is essentially the same as the U.S. federal statutory rate. In 1997, the effective tax rate 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 items are excluded for tax rate determination purposes, there is no significant difference between the effective tax rate and the U.S. federal statutory rate for the year ended October 31, 1997.

Discontinued Operations

In October 1997, the company received $60 million representing a negotiated prepayment of the remaining amounts outstanding stemming from the 1994 sale of its Lead business. The amount received slightly exceeded the recorded discounted value of the receivable.

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

Management's Discussion and Analysis

MD&A

covered by St. Joe's comprehensive general liability insurance. The company does not expect that any matter currently identified will have a material effect on its results of operations, financial position or cash flows.

Financial Position and Liquidity

The increase in cash provided by operating activities in 1998, compared with 1997 and 1996, is primarily due to a net decrease in operating assets and liabilities (excluding the effects of business acquisitions and dispositions), primarily related to a decrease in the volume of work performed on engineering and construction 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. Operating cash flow was also positively impacted by the receipt of a $30 million tax refund on January 30, 1998. The increase in cash utilized by investing activities in 1998 compared with 1997, is primarily attributable to monies received in 1997 from notes receivable related to the ongoing collection of deferred amounts associated with the company's 1994 sale of its Lead business. Capital expenditures increased in 1998 as compared to 1997 and 1996. Capital expenditures in the Engineering and Construction segment were primarily for AMECO and directed toward expanding the machinery and equipment rental business. Capital expenditures by the Coal operations have been directed primarily toward developing existing reserves and acquiring additional coal reserves. In 1998 and 1997, financing activities included cash generated from short-term and long-term borrowings, respectively, which was used to fund operating working capital, capital expenditures and the company's share repurchase program.

The long-term debt to capitalization ratio at October 31, 1998, was 16.5 percent compared with 14.7 percent at October 31, 1997.

The company has on hand and access to sufficient sources of funds to meet its anticipated operating needs. Significant short- and long-term lines of credit are maintained with banks which, along with cash on hand, provide adequate operating liquidity. Liquidity is also provided by the company's commercial paper program under which there was $245 million outstanding at October 31, 1998, compared with $62 million at October 31, 1997. During 1998, the company expanded both its revolving credit facility and its commercial paper program from $250 million to $400 million. In December 1998, the company further increased this facility to $600 million. The company is currently in a negative working capital position due to the significant short-term borrowings outstanding as a result of its share repurchase program. The company anticipated using the after-tax proceeds from its proposed sale of AMECO to repay such borrowings. Despite the decision to terminate the sale of AMECO, the company believes it will have adequate funds from operations or other sources to service its debt as well as support its operating needs.

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 1998, the company purchased 8.3 million shares of its common stock for a total of $379 million. In 1997, the company repurchased .6 million shares of its common stock for a total of $34 million.

Cash dividends decreased to $63.5 million ($.80 per share) in 1998 from $63.8 million ($.76 per share) in 1997 as a result of lower shares outstanding resulting from the company's share repurchase program. Cash dividends in 1996 were $56.8 million ($.68 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 fix costs at the time of bidding or 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

During the fourth quarter of 1998, the company entered into a forward purchase contract for 1,850,000 shares of its common stock at a price of $49 per share. The contract matures in October 1999 and gives the company a choice of settlement method. This contract effectively incorporates and extends a number of prior contracts originally entered into during the third quarter of 1998 as part of the company's then ongoing share repurchase program.

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 utilizes 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, 1998 and 1997, the company had forward foreign exchange contracts of less than eighteen months duration, to exchange principally Australian Dollars, Korean Won, Dutch Guilders and German Marks 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, 1998 and 1997 was $106 million and $78 million, respectively. Forward contracts to purchase foreign currency represented $102 million and $74 million and forward contracts to sell foreign currency represented $4 million and $4 million, at October 31, 1998 and 1997, respectively.

The Year 2000 Issue — Readiness Disclosure

The Year 2000 issue is the result of computer systems and other equipment with processors that use only two digits to identify a year rather than four. If not corrected, many computer applications and date sensitive equipment could fail or create erroneous results before, during and after the Year 2000. The company utilizes information technology ("IT") systems such as computer networking systems and non-IT devices, which may contain embedded circuits such as building security equipment. Both IT systems and non-IT devices are subject to potential failure due to the Year 2000 issue.

The company has developed and implemented a plan to achieve year 2000 readiness (the "Y2K Program"). The Y2K Program is coordinated at the corporate level and is implemented by teams in the company's operating units throughout the world. The Y2K Program has been implemented in the following phases: (1) identification and assessment of all critical computer systems and equipment requiring modification or replacement; (2) remediation or replacement and testing of modifications to critical items; and (3) development of contingency and business continuity plans to mitigate the effect of any system or equipment failure to the company's operations and systems and equipment provided to its clients arising from the Year 2000 issue. The company is monitoring the Year 2000 efforts of its equity affiliates and joint venture partners. Progress reports on the Y2K Program are presented regularly to the company's senior management and periodically to the Audit Committee of the company's Board of Directors.

The Year 2000 issue could affect the systems, transaction processing, computer applications and devices used by the company to operate and monitor all major aspects of its business, including financial systems, marketing services, proprietary engineering and procurement systems and technical reference databases. With respect to business systems, such as general ledgers, human resources and payroll and field accounting software, phases (1) and (2) of the Y2K Program are expected to be completed by March 1999. Operating software, network capabilities and hardware are being addressed via upgrades. Approximately 40% of the company's current systems will be retired. Completion of the upgrade process is expected by June 1999. A standard compliance process is being used to certify Year 2000 compliance with vendors of purchased software. The majority of the company's engineering software has been remediated and tested, and is believed to be Year 2000 ready.

Remediation/replacement and testing of (1) the company's mission critical systems and equipment in use at the company's project sites is expected to be completed by June 1999; (2) mission critical systems and equipment in use at the company's coal preparation plants are expected to be Year 2000 ready by June 1999 and (3) mission critical site specific systems and equipment located at the company's Department of Energy projects are expected to be completed in March 1999. Mission critical items are those that might have a significant adverse effect in one or more of the following areas: safety, environmental, legal or financial exposure and company credibility and image.

With respect to systems and equipment provided to clients, the company does not control the upgrades, additions and/or changes made by its clients, or by others for its clients to those systems and equipment. Accordingly, the company does not provide any assurances, nor current information about Year 2000 capabilities, nor potential Year 2000 problems, with respect to past projects. Each project is performed under an agreement with the company's client. Those agreements specifically outline the extent of the company's obligations and warranties and the limitations that may apply.

Regarding current projects, the company is currently evaluating those projects for Year 2000 readiness and determining whether or not any additional action is required. The company relies directly and indirectly on external systems utilized by its suppliers and on equipment and materials provided by those suppliers and used for the company's business. The company has established a procedure for reviewing Year 2000 compliance by each of its suppliers. As part of that process, the company has identified critical suppliers and is currently assessing the level of compliance for each. Actions include the review of

Management's Discussion and Analysis

MD&A

remediation and testing of specific equipment and suppliers' corporate Year 2000 progress, and confirmation of electronic exchange formats. The company requires its suppliers to certify and guarantee Year 2000 compliance of their systems and equipment provided. Given the number of suppliers utilized by the company, compliance assessment is ongoing. Although initial reviews indicate that Year 2000 compliance by the company's suppliers should not have a material adverse affect on the company's operations, there can be no assurance that suppliers will resolve all Year 2000 issues with their systems and equipment in a timely manner.

The company uses both internal and external resources in its Y2K Program. The company has estimated that to date it has spent approximately $7.5 million to $8.5 million on the Year 2000 issue. It anticipates spending an additional $6.1 million to $7.4 million. This estimate was derived utilizing numerous assumptions, including the assumption that the company has already identified its most significant Year 2000 issues and that plans of its third party suppliers will be fulfilled in a timely manner without cost to the company. These costs are the company's best estimate given other ongoing systems initiatives (such as the migration to Windows NT and related hardware upgrades). However, there can be no guarantee that these assump-tions are accurate, and actual results could differ materially from those anticipated.

The company is developing contingency plans to address the Year 2000 issues that may pose a significant risk to its ongoing operations and existing projects. Such plans will include the implementation of alternate procedures to compensate for any system and equipment malfunctions or deficiencies with the company's internal systems and equipment, with systems and equipment utilized at the company's project sites and with systems and equipment provided to clients. During the remediation phase of the internal business systems, the company has been and will be evaluating potential failures and attempt to develop responses in a timely manner. However, there can be no assurance that any contingency plans implemented by the company would be adequate to meet the company's needs without materially impacting its operations, that any such plan would be successful or that the company's results of operations would not be materially and adversely affected by the delays and inefficiencies inherent in conducting operations in an alternative manner.

The company's Y2K Program is subject to a variety of risks and uncertainties some of which are beyond the company's control. Those risks and uncertainties include, but are not limited to, availability of qualified computer personnel, the Year 2000 readiness of third parties and the Year 2000 compliance of systems and equipment provided by suppliers. No assurance can be given that the company will achieve Year 2000 readiness. Further, there is the possibility that significant litigation may occur due to business and equipment failures caused by the Year 2000 issue. It is uncertain whether, or to what extent, the company may be affected by such litigation. The failure of the company, its clients (including governmental agencies), suppliers of computer systems and equipment, joint venture partners and other third parties upon whom the company relies, to achieve Year 2000 readiness could materially and adversely affect the company's results from operations.

Euro Conversion

The Euro was introduced on January 1, 1999, at which time the conversion rates between legacy currencies and the Euro were set for 11 participating EMU member countries. However, the legacy currencies in those countries will continue to be used as legal tender through January 1, 2002. Thereafter, the legacy currencies will be canceled and Euro bills and coins will be used in the 11 participating countries.

Transition to the Euro creates a number of issues for the company. Business issues that must be addressed include pricing policies and ensuring the continuity of business and financial contracts. Finance and accounting issues include the conversion of accounting systems, statutory records, tax books and payroll systems to the Euro, as well as conversion of bank accounts and other treasury and cash management activities.

The company has addressed, and is continuing to address, these transition issues. The company does not anticipate that the transition to the Euro will have a significant impact on its results of operations, financial position or cash flows.

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 June 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" (SFAS No. 133). SFAS No. 133 establishes new standards for recording derivatives in interim and annual financial statements. This statement is effective for the Company's fiscal year 2000. Because of the Company's minimal use of derivatives, management does not anticipate that the adoption of the new statement will have a significant impact on the results of operations or the financial position of the Company.

Consolidated Balance Sheet

At October 31, (in thousands)	1998	1997
Assets		
current assets		
Cash and cash equivalents	$ 340,544	$ 299,324
Marketable securities	—	10,089
Accounts and notes receivable	959,416	917,604
Contract work in progress	596,983	691,395
Inventories	198,645	175,448
Deferred taxes	81,155	58,039
Other current assets	64,108	61,487
Net assets held for sale	36,300	—
Total current assets	2,277,151	2,213,386
property, plant and equipment		
Land	69,779	70,571
Buildings and improvements	352,653	341,260
Machinery and equipment	2,012,539	1,761,275
Mining properties and mineral rights	788,978	729,458
Construction in progress	56,282	37,541
	3,280,231	2,940,105
Less accumulated depreciation, depletion and amortization	1,132,923	1,001,315
Net property, plant and equipment	2,147,308	1,938,790
other assets		
Goodwill, net of accumulated amortization of $33,766 and $28,399, respectively	139,091	158,399
Investments	137,562	96,549
Other	318,096	278,216
Total other assets	594,749	533,164
	$5,019,208	$4,685,340
Liabilities and Shareholders' Equity		
current liabilities		
Trade accounts and notes payable	$ 972,096	$ 858,187
Commercial paper and loan notes	428,458	81,886
Advance billings on contracts	546,816	525,518
Accrued salaries, wages and benefit plan liabilities	324,412	303,490
Other accrued liabilities	223,596	208,987
Current portion of long-term debt	176	116
Total current liabilities	2,495,554	1,978,184
long-term debt due after one year	300,428	300,508
noncurrent liabilities		
Deferred taxes	105,515	66,739
Other	592,102	598,859
Total noncurrent liabilities	697,617	665,598
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 1998 — 75,572,537 shares and in 1997 — 83,748,111 shares	47,233	52,343
Additional capital	199,077	569,356
Retained earnings	1,331,843	1,159,996
Unamortized executive stock plan expense	(22,633)	(33,441)
Cumulative translation adjustment	(29,911)	(7,204)
Total shareholders' equity	1,525,609	1,741,050
	$5,019,208	$4,685,340

See Notes to Consolidated Financial Statements.

Consolidated Statement of

Earnings

Year ended October 31, (in thousands, except per share amounts)	1998	1997	1996
Revenues			
Engineering and construction services	$12,377,476	$13,217,515	$10,054,365
Coal	1,127,297	1,081,026	960,827
Total revenues	13,504,773	14,298,541	11,015,192
Cost of Revenues			
Engineering and construction services	12,140,901	13,096,310	9,739,148
Coal	954,535	926,260	826,301
Total cost of revenues	13,095,436	14,022,570	10,565,449
Other (Income) and Expenses			
Corporate administrative and general expense	22,598	13,230	48,120
Interest expense	45,277	30,758	16,051
Interest income	(21,164)	(23,286)	(27,646)
Total cost and expenses	13,142,147	14,043,272	10,601,974
Earnings Before Taxes	362,626	255,269	413,218
Income Tax Expense	127,282	109,082	145,134
Net Earnings	$ 235,344	$ 146,187	$ 268,084
Earnings Per Share			
Basic	$ 2.99	$ 1.76	$ 3.24
Diluted	$ 2.97	$ 1.75	$ 3.21
Shares Used to Calculate Earnings Per Share			
Basic	78,801	83,091	82,755
Diluted	79,135	83,478	83,398

See Notes to Consolidated Financial Statements.

Consolidated Statement of Cash Flows

Year ended October 31, (in thousands)	1998	1997	1996
Cash Flows From Operating Activities			
Net earnings	$ 235,344	$ 146,187	$ 268,084
Adjustments to reconcile net earnings to cash provided by operating activities:			
Depreciation, depletion and amortization	288,870	248,353	194,129
Deferred taxes	28,780	25,428	12,631
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 business acquisitions/dispositions	168,576	(67,224)	(60,353)
Other, net	(19,051)	(39,860)	(7,632)
Cash provided by operating activities	702,519	328,624	406,859
Cash Flows From Investing Activities			
Capital expenditures	(600,933)	(466,202)	(392,436)
E&C businesses acquired	—	(141,718)	(87,085)
Coal businesses and reserves acquired	(12,004)	(39,482)	(5,010)
Purchase of marketable securities	—	—	(67,069)
Proceeds from sales and maturities of marketable securities	10,089	59,289	134,496
Investments, net	(20,745)	(9,275)	3,991
Proceeds from sale of property, plant and equipment	125,493	50,996	29,486
Collection of notes receivable	—	77,496	11,072
Contributions to deferred compensation trust	(21,365)	(43,026)	—
Net assets held for sale, including cash	(26,375)	—	—
Proceeds from sale of business	—	11,992	—
Other, net	(17,477)	(12,041)	(23,771)
Cash utilized by investing activities	(563,317)	(511,971)	(396,326)
Cash Flows From Financing Activities			
Cash dividends paid	(63,497)	(63,750)	(56,830)
Payments on long-term debt	(285)	(8,378)	(42,456)
Increase in short-term borrowings, net	341,809	21,692	26,109
Increase in long-term borrowings	—	304,097	—
Stock options exercised	9,935	16,007	17,351
Purchases of common stock	(378,979)	(33,924)	—
Other, net	(6,965)	(37)	(677)
Cash (utilized) provided by financing activities	(97,982)	235,707	(56,503)
Increase (decrease) in cash and cash equivalents	41,220	52,360	(45,970)
Cash and cash equivalents at beginning of year	299,324	246,964	292,934
Cash and cash equivalents at end of year	$ 340,544	$ 299,324	$ 246,964

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, 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 $3,867)	—	—	—	—	—	(6,503)	(6,503)
Balance at October 31, 1997	83,748	52,343	569,356	1,159,996	(33,441)	(7,204)	1,741,050
Net earnings	—	—	—	235,344	—	—	235,344
Cash dividends ($.80 per share)	—	—	—	(63,497)	—	—	(63,497)
Exercise of stock options, net	268	167	9,768	—	—	—	9,935
Stock option tax benefit	—	—	2,425	—	—	—	2,425
Amortization of executive stock plan expense	—	—	—	—	7,343	—	7,343
Issuance of restricted stock, net	(144)	(90)	(8,680)	—	3,465	—	(5,305)
Purchases of common stock	(8,299)	(5,187)	(373,792)	—	—	—	(378,979)
Translation adjustment (net of deferred taxes of $14,439)	—	—	—	—	—	(22,707)	(22,707)
Balance at October 31, 1998	75,573	$47,233	$199,077	$1,331,843	$(22,633)	$(29,911)	$1,525,609

See Notes to Consolidated Financial Statements.

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 1997 and 1996 amounts have been reclassified to conform with the 1998 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, 1998 will be billed and collected in 1999.

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 — three to 50 years and machinery and equipment — two 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
Effective November 1, 1997, the company adopted Statement of Financial Accounting Standards No. 128, "Earnings Per Share," which specifies the method of computation, presentation and disclosure for earnings per share ("EPS"). The new standard requires presentation of two EPS amounts, basic and diluted. Basic EPS is calculated by dividing net earnings by the weighted average number of common shares outstanding for the period. Diluted EPS reflects the assumed conversion of all dilutive securities, consisting of employee stock options and restricted stock, and equity forward contracts. EPS amounts for prior periods have been adjusted to conform with the provisions of the new standard.

The impact of dilutive securities in 1998 totaled 334,000 shares, 231,000 of which related to employee stock options and restricted stock. The impact of dilutive securities in 1997 and 1996 related solely to employee stock options and restricted stock.

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. During 1998, the company liquidated its marketable securities portfolio. Gross realized gains and losses on sales of securities for the years ended October 31, 1998 and 1997 were not material. As of October 31, 1997, there were no material gross unrealized gains or losses as the carrying value of the security portfolio approximated fair value. The cost of securities sold is based on the specific identification method.

Notes
to Consolidated Financial Statements

Inventories

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

At October 31, (in thousands)	1998	1997
Equipment for sale/rental	$ 94,179	$ 74,574
Coal	52,628	54,419
Supplies and other	51,838	46,455
	$198,645	$175,448

Foreign Currency

The company uses forward exchange contracts to hedge certain foreign currency transactions entered into in the ordinary course of business. The company does not 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, 1998, the company had approximately $106 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 1998 and 1997 was immaterial. The contracts are of varying duration, none of which extend beyond December 2000. 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.

In June 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" (SFAS No. 133). SFAS No. 133 establishes new standards for recording derivatives in interim and annual financial statements. This statement is effective for the company's fiscal year 2000. Because of the company's minimal use of derivatives, management does not anticipate that the adoption of the new statement will have a significant impact on the results of operations or the financial position of the company.

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 material 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 value. The changes in operating assets and liabilities as shown in the Consolidated Statement of Cash Flows comprise:

Year ended October 31, (in thousands)	1998	1997	1996
(Increase) decrease in:			
Accounts and notes receivable	$ (84,394)	$(113,454)	$ (78,632)
Contract work in progress	73,575	(130,257)	(176,137)
Inventories	(23,197)	(40,303)	(8,743)
Other current assets	(192)	(17,028)	(18,465)
Increase in:			
Accounts payable	127,229	130,992	167,350
Advance billings on contracts	21,298	79,510	43,382
Accrued liabilities	54,257	23,316	10,892
Decrease (increase) in operating assets and liabilities	$168,576	$ (67,224)	$ (60,353)
Cash paid during the year for:			
Interest expense	$ 44,057	$ 25,491	$ 11,832
Income tax payments, net	$ 52,346	$ 75,967	$ 120,570

Business Acquisitions

The following summarizes major Engineering and Construction acquisitions completed during 1997 and 1996. These acquisitions were concentrated primarily in the Diversified Services Group. There were no major Engineering and Construction acquisitions in 1998.

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. ("FD/GTI").
- 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.

In 1998, Massey Coal Company ("Massey") acquired coal reserves for an aggregate cost of $12 million. Massey purchased four coal mining companies during 1997 and 1996. 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 the respective year acquired, 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 1996 through 1998, 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.

Business Dispositions

On October 28, 1998, the company entered into an agreement to sell its ownership interest in FD/GTI. Under terms of the agreement, the company sold its 4,400,000 shares in FD/GTI for $8.25 per share, or $36.3 million in cash, on December 3, 1998. The net assets of FD/GTI have been reflected on the consolidated balance sheet at net realizable value and include $26.4 million in cash and cash equivalents. This transaction did not have a material impact on the company's results of operations or financial position.

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.

Notes
to Consolidated Financial Statements

Cost Reduction Initiatives

During 1997, the company recorded $25.4 million in charges related to the implementation of certain cost reduction initiatives. These charges provided for personnel and facility related costs. As of October 31, 1998, substantially all of these costs have been incurred.

Income Taxes

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

Year ended October 31, (in thousands)	1998	1997	1996
Current:			
Federal	$ 38,700	$ 50,906	$ 94,864
Foreign	52,021	25,801	25,872
State and local	7,781	6,947	11,767
Total current	98,502	83,654	132,503
Deferred:			
Federal	43,369	19,972	13,081
Foreign	(19,295)	3,908	1,974
State and local	4,706	1,548	(2,424)
Total deferred	28,780	25,428	12,631
Total income tax expense	$127,282	$109,082	$145,134

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

Year ended October 31, (in thousands)	1998	1997	1996
U.S. statutory federal income tax expense	$126,919	$ 89,344	$144,626
Increase (decrease) in taxes resulting from:			
State and local income taxes	7,868	5,337	9,542
Items without tax effect, net	6,480	17,623	(1,566)
Effect of non-U.S. tax rates	3,433	10,620	6,057
Depletion	(12,273)	(10,051)	(11,054)
Other, net	(5,145)	(3,791)	(2,471)
Total income tax expense	$127,282	$109,082	$145,134

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:

At October 31, (in thousands)	1998	1997
Deferred tax assets:		
Accrued liabilities not currently deductible	$ 224,319	$ 224,225
Alternative minimum tax credit carryforwards	32,505	33,419
Translation adjustments	19,045	4,606
Tax basis of building in excess of book basis	16,187	16,896
Net operating loss carryforwards of acquired companies	7,177	16,070
Other	67,379	53,996
Total deferred tax assets	366,612	349,212
Valuation allowance for deferred tax assets	(71,346)	(70,840)
Deferred tax assets, net	295,266	278,372
Deferred tax liabilities:		
Book basis of property, equipment and other capital costs in excess of tax basis	(254,008)	(191,846)
Tax on unremitted non-U.S. earnings	(15,806)	(13,484)
Other	(49,812)	(81,742)
Total deferred tax liabilities	(319,626)	(287,072)
Net deferred tax liabilities	$ (24,360)	$ (8,700)

In 1997, the company acquired the SMA Companies which had net operating loss carryforwards of approximately $47 million. In 1998, the company utilized approximately $2 million of the loss carryforwards, and made an election in its consolidated federal tax return to waive approximately $23 million of losses which otherwise would have expired without future tax benefit. The remaining loss carryforwards of approximately $22 million expire in years 2004 through 2008. The utilization of such loss carryforwards 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 for acquired companies will result in a reduction of goodwill.

Residual income taxes of approximately $8 million have not been provided on approximately $20 million of undistributed earnings of certain foreign subsidiaries at October 31, 1998, because the company intends to keep those earnings reinvested indefinitely.

United States and foreign earnings before taxes are as follows:

Year ended October 31, (in thousands)	1998	1997	1996
United States	$240,645	$231,921	$363,687
Foreign	121,981	23,348	49,531
Total	$362,626	$255,269	$413,218

Retirement Benefits

In February 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standard No. 132, "Employers' Disclosures about Pensions and Other Postretirement Benefits" (SFAS No. 132). SFAS No. 132 does not change the measurement or recognition provisions of previously issued standards, but revises disclosures about pensions and other postretirement benefit plans. The company adopted SFAS No. 132 in fiscal 1998. Restatement of disclosures for the prior years has been made for comparative purposes.

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 $79 million in 1998, $84 million in 1997, and $75 million in 1996, 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:

Year ended October 31, (in thousands)	1998	1997	1996
Service cost	$ 15,792	$ 15,301	$ 14,284
Interest cost	24,220	23,743	22,248
Expected return on assets	(48,236)	(44,334)	(39,712)
Amortization of transition asset	(2,196)	(2,296)	(2,453)
Amortization of prior service cost	355	347	376
Recognized net actuarial gain	(1,444)	(1,288)	(204)
Net periodic pension income	$(11,509)	$ (8,527)	$ (5,461)

The ranges of assumptions indicated below cover defined benefit pension plans in Australia, Germany, the United Kingdom, The Netherlands and the United States. These assumptions are as of each respective fiscal year-end based on the then current economic environment in each host country.

At October 31,	1998	1997
Discount rates	5.0 – 6.75%	6.5 – 8.25%
Rates of increase in compensation levels	2.5 – 4.0%	3.0 – 5.25%
Expected long-term rates of return on assets	5.0 – 9.5%	5.5 – 9.5%

The following table sets forth the change in benefit obligation, plan assets and funded status of the company's defined benefit pension plans:

At October 31, (in thousands)	1998	1997
Change in pension benefit obligation		
Benefit obligation at beginning of year	$358,539	$319,066
Service cost	15,792	15,301
Interest cost	24,220	23,743
Employee contributions	1,775	1,731
Currency translation	12,454	(14,647)
Actuarial loss	52,498	38,470
Benefits paid	(26,412)	(25,125)
Benefit obligation at end of year	$438,866	$358,539
Change in plan assets		
Fair value at beginning of year	$539,814	$488,458
Actual return on plan assets	42,324	87,981
Company contributions	4,711	5,540
Employee contributions	1,775	1,731
Currency translation	13,807	(18,771)
Benefits paid	(26,412)	(25,125)
Fair value at end of year	$576,019	$539,814
Funded status	$137,153	$181,275
Unrecognized net actuarial loss (gain)	16,579	(45,054)
Unrecognized prior service cost	601	789
Unrecognized net asset	(11,737)	(11,941)
Pension assets	$142,596	$125,069

Amounts shown above at October 31, 1998 and 1997 exclude the projected benefit obligation of approximately $113 million and $109 million, respectively, and an equal amount of associated plan assets relating to discontinued operations.

Notes
to Consolidated Financial Statements

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, 1998, 1997 and 1996. 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 $47 million at October 31, 1998, which will be recognized as expense as payments are assessed. The expense recorded for such benefits was $4 million in 1998, $7 million in 1997 and $2 million in 1996.

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, 1998 and 1997 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 8.5 percent in 1999 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 $14.2 million and $1.7 million, respectively. The effect of a one percent annual decrease in these assumed cost trend rates would decrease the accumulated postretirement benefit obligation and the aggregate of the annual service and interest costs by approximately $11.9 million and $1.4 million, respectively.

Net periodic postretirement benefit cost includes the following components:

Year ended October 31, (in thousands)	1998	1997	1996
Service cost	$3,506	$3,107	$1,672
Interest cost	5,820	6,338	5,325
Expected return on assets	—	—	—
Amortization of prior service cost	124	—	—
Recognized net actuarial (gain) loss	(595)	142	430
Net periodic postretirement benefit cost	$8,855	$9,587	$7,427

The following table sets forth the change in benefit obligation of the company's postretirement benefit plans:

At October 31, (in thousands)	1998	1997
Change in postretirement benefit obligation		
Benefit obligation at beginning of year	$ 86,187	$ 84,318
Service cost	3,506	3,107
Interest cost	5,820	6,338
Employee contributions	269	246
Actuarial loss (gain)	2,473	(2,921)
Benefits paid	(4,280)	(4,901)
Benefit obligation at end of year	$ 93,975	$ 86,187
Funded status	$(93,975)	$(86,187)
Unrecognized net actuarial loss	3,195	921
Unrecognized prior service cost	1,916	2,056
Accrued postretirement benefit obligation	$(88,864)	$(83,210)

The discount rate used in determining the postretirement benefit obligation was 6.75 percent and 7.25 percent at October 31, 1998 and 1997, 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:

At October 31, (in thousands)	1998 Carrying Amount	1998 Fair Value	1997 Carrying Amount	1997 Fair Value
Assets:				
Cash and cash equivalents	$340,544	$340,544	$299,324	$299,324
Marketable securities	—	—	10,089	10,089
Notes receivable including noncurrent portion	41,854	48,953	39,570	45,207
Long-term investments	57,739	60,972	52,115	53,619
Liabilities:				
Commercial paper, loan notes and notes payable	430,508	430,508	88,699	88,699
Long-term debt including current portion	300,604	319,654	300,624	316,024
Other noncurrent financial liabilities	8,486	8,486	5,240	5,240
Off-balance sheet financial instruments:				
Forward contracts to purchase common stock	—	(18,793)	—	—
Foreign currency contract obligations	—	1,964	—	(1,225)
Letters of credit	—	720	—	841
Lines of credit	—	1,077	—	497

Fair values were determined as follows:

The carrying amounts of cash and cash equivalents, short-term notes receivable, commercial paper, loan notes and notes payable approximate 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.

Forward contracts to purchase common stock are based on the estimated cost to terminate or settle the obligation.

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:

At October 31, (in thousands)	1998	1997
6.95% Senior Notes due March 1, 2007	$300,000	$300,000
Other notes	604	624
	300,604	300,624
Less: Current portion	176	116
Long-term debt due after one year	$300,428	$300,508

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 short- and long-term lines of credit with banks from which it may borrow for general corporate purposes up to a maximum of $400 million. Commitment and facility fees are paid on these lines. In addition, the company has $1.3 billion in short-term uncommitted lines of credit to support letters of credit, foreign currency contracts and loan notes. Borrowings under both committed and uncommitted lines of credit 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, 1998, no amounts were outstanding under the committed lines of credit. As of that date, $292 million of the short-term uncommitted lines of credit were used to support undrawn letters of credit and foreign currency contracts issued in the ordinary course of business and $183 million were used for outstanding loan notes.

The company had $245 million and $62 million in unsecured commercial paper outstanding at October 31, 1998 and 1997, respectively. The commercial paper was issued at a discount with a weighted-average effective interest rate of 5.3 percent in 1998 and 5.6 percent in 1997. Maturities of commercial paper ranged from 10 to 49 days in 1998 and 22 to 35 days in 1997. The weighted-average maturities were 16 and 12 days at October 31, 1998 and 1997, respectively. The maximum and average balances outstanding for the years ended October 31, 1998 and 1997 were $297 million and $183 million, respectively, and $212 million and $111 million, respectively, with a weighted-average interest rate of 5.6 percent in 1998 and 5.5 percent in 1997.

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 $64 million and $70 million at October 31, 1998 and 1997, 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. Option grant prices are determined by the Committee and are established at the fair 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 generally in installments of 25 percent per year commencing one year from the date of grant. During 1998, the company issued 1,696,420 options and 1,502,910 SARS that vest over three to four year periods and expire in five years. The majority of these awards have accelerated

Notes
to Consolidated Financial Statements

vesting provisions based on the price of the company's stock. Additionally, 189,075 nonqualified stock options and 10,925 incentive stock options were issued, with 20 percent vesting upon issuance and the remaining awards vesting in installments of 20 percent per year commencing one year from the date of grant. The company issued 44,120 options in 1997 in which vesting was based on certain performance related conditions. These options expired unexercised on December 31, 1997.

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 4,500 shares and 186,390 shares in 1998 and 1997, 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. During 1998, the company recognized a net credit of $9

million for performance-based stock plans. This amount includes $10 million of expenses accrued in prior years which were reversed in 1998 as a result of not achieving prescribed performance targets. Compensation cost recognized for such plans totaled less than $1 million in 1997 and $19 million in 1996. 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 diluted earnings per share would have been reduced to the pro forma amounts as follows:

Year ended October 31, (in thousands, except per share amounts)		1998	1997
Net earnings:	As Reported	$235,344	$146,187
	Pro Forma	218,958	143,663
Diluted earnings per share:	As Reported	$ 2.97	$ 1.75
	Pro Forma	2.77	1.72

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 1998 and 1997:

	1998	1997
Expected option lives (years)	5	6
Risk-free interest rates	5.83%	6.30%
Expected dividend yield	1.19%	1.15%
Expected volatility	29.85%	24.58%

The weighted-average fair value of options granted during 1998 and 1997 was $12 and $17, respectively.

The following table summarizes stock option activity:

	Stock Options	Weighted Average Exercise Price Per Share
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
Granted	1,898,420	36
Expired or canceled	(844,664)	47
Exercised	(267,602)	37
Outstanding at October 31, 1998	4,707,457	$47
Exercisable at:		
October 31, 1998	3,210,580	
October 31, 1997	1,964,137	
October 31, 1996	1,536,063	

At October 31, 1998, there were 2,072,380 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, 1998, there are 4,707,457 options outstanding with exercise prices between $35 and $68, with a weighted-average exercise price of $47 and a weighted-average remaining contractual life of 5.6 years; 3,210,580 of these options are exercisable with a weighted-average exercise price of $47.

Lease Obligations

Net rental expense amounted to approximately $94 million, $92 million, and $77 million in 1998, 1997, and 1996, 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:

At October 31, (in thousands)	
1999	$29,280
2000	28,955
2001	26,103
2002	21,176
2003	17,850
Thereafter	$58,127

Obligations under capital leases totaled approximately $3 million at both October 31, 1998 and 1997 and 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, 1998, the company had extended financial guarantees on behalf of certain clients and other unrelated third parties totaling approximately $28 million.

During the fourth quarter of 1998, the company entered into a forward purchase contract for 1,850,000 shares of its common stock at a price of $49 per share. The contract matures in October 1999 and gives the company a choice of settlement method. This contract effectively incorporates and extends a number of prior contracts originally entered into during the third quarter of 1998 as part of the company's then ongoing share repurchase program.

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 Geographical Area

The Engineering and Construction segment, the company's principal operating business, includes subsidiaries that provide the design, engineering, procurement, construction, maintenance and other diversified services on a worldwide basis to an extensive range of industrial, commercial, utility, natural resources, energy and governmental clients. The Coal segment, which includes the operations of Massey, produces, processes and sells high-quality, low-sulfur steam coal for the utility industry as well as industrial customers, and metallurgical coal for the steel industry.

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.

Notes
to Consolidated Financial Statements

Operations by Business Segment

	Revenues			Operating Profit		
(in millions)	1998	1997	1996	1998	1997	1996
Engineering and Construction	$12,377.5	$13,217.5	$10,054.4	$ 242.3	$ 122.2	$ 320.0
Coal	1,127.3	1,081.0	960.8	172.8	154.8	134.5
	$13,504.8	$14,298.5	$11,015.2	$ 415.1	$ 277.0	$ 454.5

	Identifiable Assets			Capital Expenditures			Depreciation, Depletion		
Amortization									
(in millions)	1998	1997	1996	1998	1997	1996	1998	1997	1996
Engineering and Construction	$ 2,891.8	$ 2,823.7	$ 2,213.4	$ 304.5	$ 199.1	$ 171.6	$ 138.8	$ 117.0	$ 88.7
Coal	1,790.7	1,619.4	1,384.0	296.4	267.1	220.8	150.1	131.3	105.4
Corporate	336.7	242.2	354.3	—	—	—	—	—	—
	$ 5,019.2	$ 4,685.3	$ 3,951.7	$ 600.9	$ 466.2	$ 392.4	$ 288.9	$ 248.3	$ 194.1

Operations by Geographic Area

	Revenues			Operating Profit			Identifiable Assets		
(in millions)	1998	1997	1996	1998	1997	1996	1998	1997	1996
United States	$ 8,323.6	$ 9,347.2	$ 6,783.5	$ 302.6	$ 255.7	$ 396.5	$4,081.9	$3,789.2	$3,392.3
Europe	1,196.2	1,420.0	1,426.6	15.3	2.3	23.6	254.7	225.1	158.4
Central and South America	1,242.2	1,109.3	1,210.0	31.7	12.2	(13.9)	256.6	210.4	145.6
Asia Pacific (includes Australia)	1,434.4	1,544.5	1,042.8	38.3	16.3	36.5	251.8	314.7	165.0
Middle East and Africa	993.0	549.3	287.6	8.7	(22.9)	4.7	77.0	78.4	30.8
Canada	315.4	328.2	264.7	18.5	13.4	7.1	97.2	67.5	59.6
	$13,504.8	$14,298.5	$11,015.2	$ 415.1	$ 277.0	$ 454.5	$5,019.2	$4,685.3	$3,951.7

Included in United States revenues are export sales to unaffiliated customers of $1.5 billion in 1998, $1.8 billion in 1997 and $1 billion in 1996.

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

(in millions)	1998	1997	1996
Operating profit	$ 415.1	$ 277.0	$ 454.5
Interest (expense) income, net	(24.1)	(7.5)	11.6
Corporate administrative and general expense	(22.6)	(13.2)	(48.1)
Other items, net	(5.8)	(1.0)	(4.8)
Earnings before taxes	$ 362.6	$ 255.3	$ 413.2

Management's and Independent Auditors' REPORTS

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.

Philip J. Carroll Jr.

PHILIP J. CARROLL, JR.

Chairman of the Board and
Chief Executive Officer

JAMES O. ROLLANS

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, 1998 and 1997, and the related consolidated statements of earnings, cash flows, and shareholders' equity for each of the three years in the period ended October 31, 1998. 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, 1998 and 1997, and the consolidated results of its operations and its cash flows for each of the three years in the period ended October 31, 1998, in conformity with generally accepted accounting principles.

Ernst + Young LLP

ORANGE COUNTY, CALIFORNIA

November 17, 1998

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*
1998				
Revenues	$3,399,019	$3,282,079	$3,528,852	$3,294,823
Gross margin	89,740	97,188	106,876	115,533
Earnings before taxes	84,458	83,650	96,232	98,286
Net earnings	54,813	54,289	62,437	63,805
Earnings per share				
Basic	.66	.67	.81	.85
Diluted	$ .66	$ .67	$ .81	$ .84
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				
Basic	.75	(.84)	.80	1.06
Diluted	$ .74	$ (.84)	$ .79	$ 1.06

Officers

Corporate Executive Officers

Philip J. Carroll, Jr.
Chairman and Chief Executive Officer (1998)

Dennis W. Benner
Vice President and Chief Information Officer (1994)

Lawrence N. Fisher
Senior Vice President – Law and Secretary (1974)

Frederick J. Grigsby, Jr.
Senior Vice President – Human Resources and Administration (1998)

James O. Rollans
Senior Vice President and Chief Financial Officer (1982)

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)

H. Steven Gilbert
Vice President – Business & Work Process Integration (1970)

Stephen F. Hull
Vice President and Treasurer (1996)

Thomas H. Morrow
Vice President – Tax (1984)

George K. Palmer
Vice President – Corporate Relations (1998)

Victor L. Prechtl
Vice President and Controller (1981)

W. Mack Torrence
Vice President – Project Finance (1989)

Fluor Daniel Executive Officers

James C. Stein
President and Chief Operating Officer (1964)

Alan L. Boeckmann
Group President – Energy & Chemicals (1979)

Richard D. Carano
Group President – Mining & Minerals (1970)

E. David Cole, Jr.
Group President – Project Execution (1965)

Jake Easton III
Group President – Strategic Planning (1975)

John Hopkins
Group President – Sales & Marketing (1984)

David L. Myers
Group President – Industrial (1975)

Charles R. Oliver, Jr.
Group President (1970)

Ronald G. Peterson
Group President – Government, Environmental & Telecommunications (1995)

T. Jeff Putman
Group President – Diversified Services (1975)

A.T. Massey Coal Company Inc.

Don L. Blankenship
Chairman, President and Chief Executive Officer (1982)

Bennett K. Hatfield
Executive Vice President and Chief Operating Officer (1979)

James L. Gardner
Senior Vice President and General Counsel (1993)

Madeleine M. Curle
Vice President – Human Resources (1993)

Richard M. Hendrick
Senior Vice President – Mining and Preparation (1992)

Jeffrey M. Jarosinski
Vice President and Chief Financial Officer and Treasurer (1988)

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.

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 knowledge.

There are four regular 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 success, with a particular emphasis on corporate direction, strategy and executive succession.

Executive Committee [1]

Philip J. Carroll, Jr., 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.

Audit Committee [2]

p.46

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 LLP, 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 in 1997 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 major business units and 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. It is the committee's responsibility to see that management compensation is properly aligned and incentivised for further enhancement of shareholder value.

Board of Directors

Pictured from Left to Right: Dr. David P. Gardner, Admiral Bobby R. Inman, James O. Rollans, Dr. Martha R. Seger, Dean R. O'Hare, Peter J. Fluor, Thomas L. Gossage, Philip J. Carroll, Jr., Don L. Blankenship, Vilma S. Martinez, Lord Robin W. Renwick, Governor Carroll A. Campbell, Jr., and James C. Stein.

Philip J. Carroll, Jr., 61, is chairman of the Board and chief executive officer. Joining Fluor in 1998, he previously spent 37 years with Shell Oil Company, most recently as its president and chief executive officer. Mr. Carroll brings great energy, chemical and process industry experience, proven global leadership skills and a demonstrated track record of building shareholder value. He also serves as a director of Boise Cascade Corporation. (1998) (1)

Don L. Blankenship, 48, is president, chief executive officer and chairman of the board 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)

Governor Carroll Campbell, Jr., 58, 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)

Peter J. Fluor, 51, is president and chief executive officer of Texas Crude Energy, Inc., and served as Fluor's non-executive chairman of the Board during fiscal 1998. 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 Chase Bank of Texas, N.A. (1984) (1)(2)(5)

Dr. David P. Gardner, 65, 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 United Funds and First Security Corporation. (1988) (1)(4)(5)

Thomas L. Gossage, 64, 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. (1997) (3)(5)

Admiral Bobby R. Inman, 67, U.S. Navy (retired), 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)

Vilma S. Martinez, 55, 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, Shell Oil Company and Burlington Northern Santa Fe Corporation and serves on a variety of advisory boards and community organizations. (1993) (2)(4)

Dean R. O'Hare, 56, is chairman and chief executive officer of The Chubb Corporation, a leading provider of insurance and risk management services. He is a director and former chairman of the American Insurance Association and a director and former chairman of the International Insurance Society. He is also a member of the U.S. Trade Representative's Investment and Services Policy Advisory Committee. (1997) (2)(5)

Lord Robin Renwick, 61, 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 British Ambassador to the United States of America (1991–95). He was appointed to the House of Lords by Prime Minister Blair in 1997. (1997) (3)(4)

James O. Rollans, 56, is senior vice president and chief financial officer. He joined Fluor in 1982 as vice president, Corporate Communications and was named senior vice president and chief financial officer in 1992. He was appointed senior vice president and chief administrative officer in 1994, and reassumed the role of chief financial officer in 1998. He serves as a director of Flowserve Corporation, Inovision, L.P. and the Irvine Medical Center. (1997)

Dr. Martha R. Seger, 66, 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)

James C. Stein, 55, is president and chief operating officer of Fluor Daniel. 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 U.S. Chamber of Commerce, the Business Roundtable Construction Committee and the Construction Industry Roundtable. (1997)

Years in parentheses indicate the year each director was elected to the board. Except as indicated, all positions are with the company.

Shareholders' Reference

Common Stock Information

At December 31, 1998, there were 75,793,796 shares outstanding and approximately 12,640 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 1998			
First Quarter	$.20	39I	33¼½/¡§
Second Quarter	.20	52G	37¼‹/¡§
Third Quarter	.20	51H	40¼¼/¡§
Fourth Quarter	.20	46M	34L
	$.80		
Fiscal 1997			
First Quarter	$.19	71I	61L
Second Quarter	.19	75M	49I
Third Quarter	.19	61H	46H
Fourth Quarter	.19	62H	40G
	$.76		

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 and Secretary
Fluor Corporation
3353 Michelson Drive
Irvine, California 92698
(949) 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

Requests may also be submitted via e-mail by visiting their web page at 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 on or about January 30. Fluor's annual meeting of shareholders will be held at 9:00 a.m. on March 9, 1999 at:

Hyatt Regency
17900 Jamboree Road
Irvine, 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 at (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	03/22/68	2 for 1 Stock Split
12/15/61	5% Stock Dividend	05/16/69	5% Stock Dividend
03/11/63	5% Stock Dividend	03/06/70	5% Stock Dividend
03/09/64	5% Stock Dividend	03/05/71	5% Stock Dividend
03/08/65	5% Stock Dividend	03/10/72	5% Stock Dividend
02/14/66	5% Stock Dividend	03/12/73	5% Stock Dividend
03/24/66	2 for 1 Stock Split	03/11/74	3 for 2 Stock Split
03/27/67	5% Stock Dividend	08/13/79	3 for 2 Stock Split
02/09/68	5% Stock Dividend	07/18/80	2 for 1 Stock Split

Company Contacts

Shareholders may call
(800) 854-0141

Shareholder Services:
Lawrence N. Fisher
(949) 975-6961

Investor Relations:
Lila J. Churney
(949) 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

Investor E-Mail

investor@fluor.com

Baker Design Associates

Financial pages printed on recycled paper.

Fluor Corporation 3353 Michelson Drive Irvine, California 92698