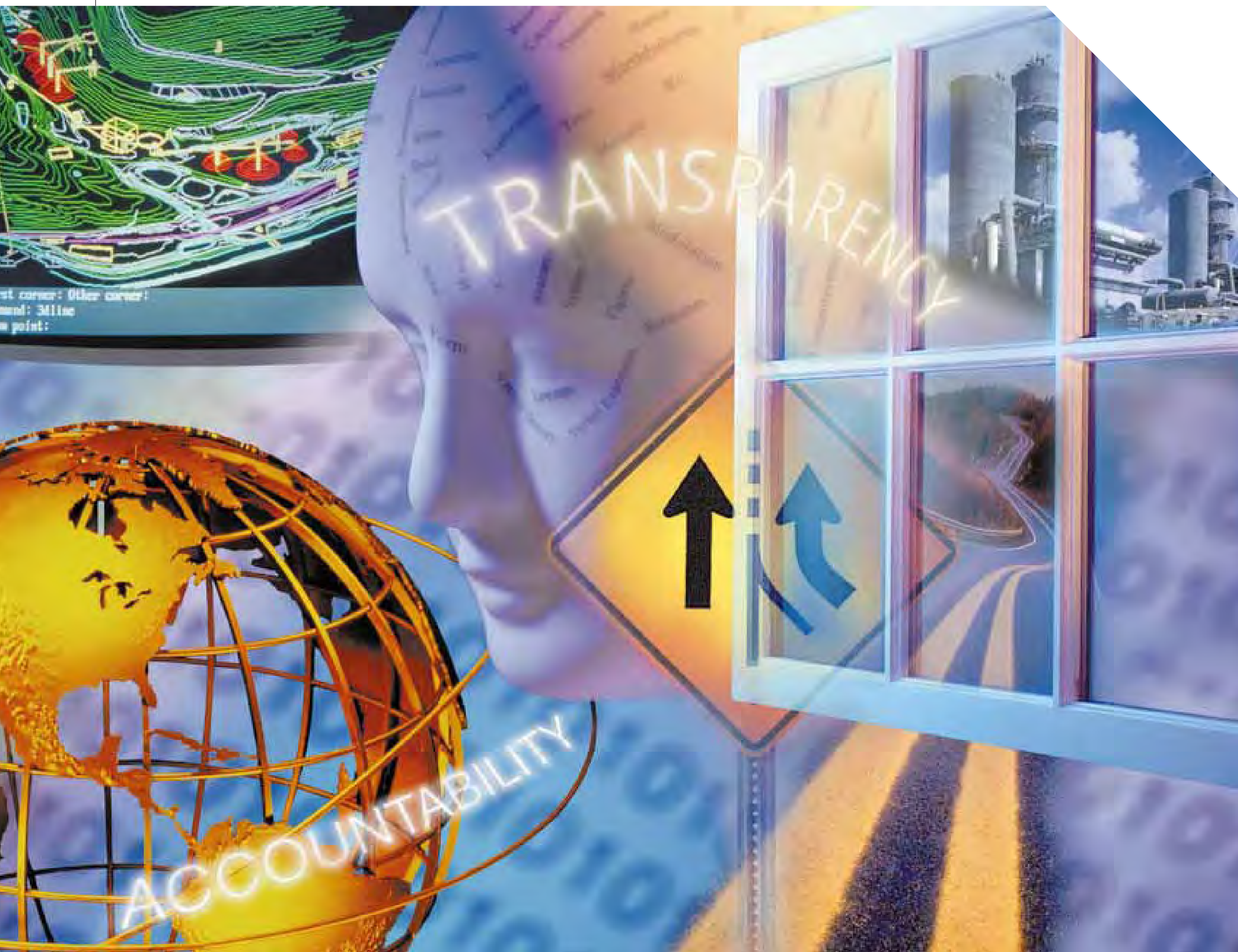
1999 Annual Report

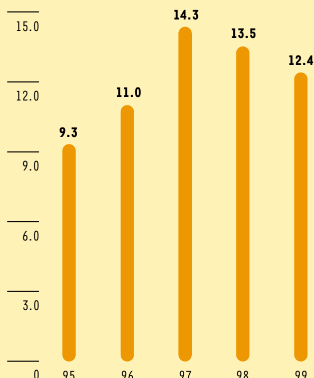
A New DIRECTION FOR

FLUOR

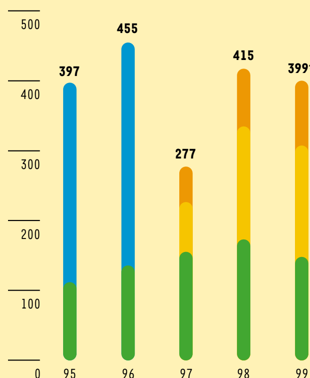


FLUOR

REVENUES
($ in billions)



OPERATING PROFIT
($ in millions)



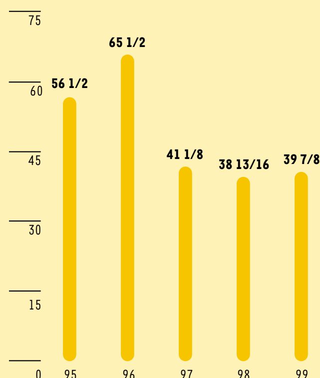
FLUOR DANIEL
FLUOR GLOBAL SERVICES
ENGINEERING & CONSTRUCTION
COAL

1999 excludes the special provision of $117 million which was not allocated to the business segments.

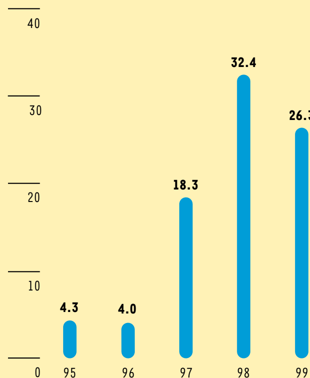
NET EARNINGS
($ in millions)

NET EARNINGS AS REPORTED IN ACCORDANCE WITH GENERALLY ACCEPTED ACCOUNTING PRINCIPLES
PRO FORMA EARNINGS EXCLUDING AN AFTER-TAX SPECIAL PROVISION OF $101 MILLION — FOR REFERENCE ONLY

CLOSING STOCK PRICE
(dollars)

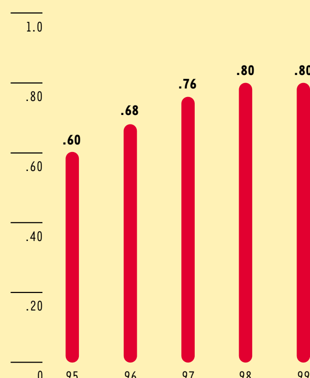


TOTAL DEBT TO CAPITALIZATION*
(percent)



Includes trade notes payable.

DIVIDENDS
(dollars)



COMPANY DESCRIPTION

Fluor® Corporation is a professional services company offering a diverse range of value-added, knowledge-based services from traditional engineering, procurement and construction (EPC) to total asset management. Additionally, the company is a major U.S. producer of low-sulfur coal. The company is organized into four Strategic Business Enterprises: Fluor Daniel,™ Fluor Global Services,™ A.T. Massey Coal, and Fluor Signature Services.™

Fluor Daniel provides EPC services where it can create distinct value for a select group of clients across 15 primary industry segments.

Fluor Global Services provides a diverse, but integrated portfolio of services to clients outside their traditional EPC value chain, focused on leading edge business asset and operations management solutions to optimize the total life cycle of their asset base.

A.T. Massey is an acknowledged leader in the U.S. coal industry. Located in Central Appalachia, Massey produces high-quality, low-sulfur steam coal for the electric-generating industry and industrial customers, and metallurgical coal for the steel industry.

Fluor Signature Services provides administrative and business support services to Fluor operating units, with the additional objective to expand marketing of its services to external clients.

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Financial Highlights

(in thousands, except per share amounts)	1999	1998	Percent Change
Fiscal Year			
Revenues	$12,417,385	$13,504,773	-8
Net earnings	104,187	235,344	-56
Earnings per share			
Basic	1.38	2.99	-54
Diluted	$ 1.37	$ 2.97	-54
Return on average shareholders' equity	6.8%	14.5%	—
Capital expenditures and acquisitions	$ 504,334	$ 612,937	-18
New awards	$ 6,789,400	$ 9,991,900	-32
Produced coal sold (thousands of short tons)	37,864	37,608	1
Cash dividends per common share	$ .80	$ .80	—
At Fiscal Year-end			
Working capital	$ (294,139)	$ (218,403)	NM
Total assets	4,886,117	5,019,208	-3
Backlog*	9,142,000	12,645,300	-28
Capitalization			
Short-term debt	247,911	430,684	-42
Long-term debt	317,555	300,428	6
Shareholders' equity	1,581,372	1,525,609	4
Total capitalization	$ 2,146,838	$ 2,256,721	-5
Total debt as a percent of total capitalization	26.3%	32.4%	—
Shareholders' equity per common share	$ 20.80	$ 20.19	3
Closing stock price	$ 39.88	$ 38.81	3
Salaried employees	25,282	30,751	-18
Craft/hourly employees	28,279	26,135	8
Total employees	53,561	56,886	-6

NM — Not meaningful.
**Backlog does not reflect A.T. Massey Coal operations or certain Fluor Global Services business units.*

Note: The information contained in this annual report contains forward-looking statements regarding projected future earnings levels, return on assets, cost reductions, market outlook, new awards, backlog levels, competition, Year 2000 readiness, outsourcing trends, the adequacy of funds to service debt and the implementation of new strategic initiatives. These forward-looking statements reflect the company's current analysis of existing information as of the date of this annual report. As a result, caution must be exercised in relying on forward-looking statements. Due to unknown risks, the company's actual results may differ materially from its expectations or projections. The factors potentially contributing to such differences include, among others:

- Changes in global business, economic, political and social conditions;
- The company's failure to receive anticipated new contract awards;
- Customer cancellations of, or scope adjustments to, existing contracts;
- Difficulties or delays incurred in the execution of construction contracts resulting in cost overruns or liabilities;
- Customer delays or defaults in making payments;
- Fluctuations in the demand for, and price of, coal and other natural resource commodities;
- The impact of judicial, legislative and administrative decisions impacting coal mining operations;
- Difficulties or delays incurred in the implementation of strategic initiatives; and
- Competition in the global engineering, procurement and construction industry.

The forward-looking statements are also based on various operating assumptions regarding, among other things, overhead costs and employment levels that may not be realized. In addition, while most risks affect only future costs or revenues that the company anticipates it will receive, some risks may relate to accruals that have already been reflected in earnings. The company's failure to receive payments of these accrued earnings could result in charges against future earnings.

Additional information concerning these and other factors that may influence the company's results can be found in its press releases and periodic filings with the Securities and Exchange Commission, including the discussion under the heading "Item 1. Business – Other Matters – Company Business Risks" in the company's Form 10-K filed January 27, 2000. These filings are available publicly and upon request from Fluor's Investor Relations Department: (949) 349-3909. The company disclaims any intent or obligation to update its forward-looking statements.

To Our Shareholders

REPOSITIONING *Fluor for enhanced shareholder* VALUE

Fiscal 1999 marked significant progress towards achieving a number of important objectives. We steered Fluor in a new strategic direction to reposition the company as a knowledge-based professional services and engineering, procurement and construction (EPC) company, with a significant investment in low-sulfur coal.

Fiscal 1999 was a disappointing year in terms of achieving earnings growth and improving our return on investment. The environment was unfavorable for many of our EPC and global services businesses and for Massey Coal. Initiatives to mitigate this difficult environment were successful and allowed us to achieve profit expectations for the year. Net earnings, excluding the effect in total of a special provision, were $204.7 million, or $2.70 per share, compared with $235.3 million, or $2.97 per share in 1998.

New Strategic Direction

Our new strategic direction, which was announced in March, included a number of components. The company has been realigned into four principal Strategic Business Enterprises (SBE's), each with clear performance accountability. Specific actions included clarifying roles and responsibilities as we implemented our new strategy, substantially reducing our costs, enhancing our project execution, and increasing selectivity in the projects and customers we serve.

The company's engineering and construction segment is now managed as two distinct SBE's: Fluor Daniel, which will focus purely on EPC opportunities; and Fluor Global Services, a diverse, but integrated portfolio of services designed to capitalize on increasing growth opportunities outside the traditional EPC value chain. Fluor Constructors, Inc. continues in its role as the union craft arm of Fluor Corporation. A.T. Massey, our Coal SBE, continues to focus on leveraging its exceptional management and market position to enhance shareholder value through emphasis on stronger cash flow and return on investment. Another SBE was created with the formation of Fluor Signature Services (FSS). This new enterprise is an important element of our new strategic direction and represents a new approach to providing business and administrative support services to Fluor operating units. By assigning responsibility for the delivery of these important services to

FSS, operating units are now able to devote their full energies on their core business activities. Additionally, the consolidation of business services within FSS will reduce costs, improve quality standards, and over time, provide an incremental earnings stream to the corporation.

Other key milestones achieved in 1999 included a reduction in gross overhead expenses by $160 million annually which is expected to result in cost savings beginning in 2000 of $100-120 million annually. Accomplishing this goal required closure of non-strategic offices and a reduction in personnel of approximately 5,000. This cost reduction is expected to translate into higher profit margins as our strategies and more selective market focus begin to stimulate renewed volume growth. A detailed business model process was implemented throughout the company to set priorities, assure financial discipline, enhance accountability and establish a culture of financial transparency. Meaningful progress was also achieved in driving increased selectivity towards higher-margin business opportunities. Selectivity is a continuing strategy across the company and will be supported by the recently formed global account management organization, reporting directly to me. Their primary objective is to broaden and strengthen relationships with our most important clients.

We also launched two important initiatives that will significantly impact our businesses in the coming years: *Knowledge@Work*℠ — a major revamping of our work processes and information management systems that will improve access to and use of company knowledge and the timeliness of financial and operating information; and a new brand architecture to create a visual identity for our new company structure and competitive strategy, linking our diverse range of services under the Fluor name, while creating individual identities for each of our Strategic Business Enterprises.

While much has been accomplished in 1999, further improvement is required to achieve our goals for sustained long-term earnings growth and higher levels of profitability, leading to enhanced shareholder value. We remain committed to our goals of achieving a return on assets above our cost of capital and delivering earnings per share growth of at least 10 percent annually. We are also committed to growing the capability of our organization individually and collectively so that we can more profitably serve customer needs.

Financial Condition

Fluor's financial condition remains strong, with both our debt ratio and interest coverage supporting a solid "A" investment grade credit rating. We significantly reduced short-term debt during the year which lowered our total debt to capitalization ratio to 26 percent from 32 percent a year ago. We are aggressively working to reduce the level of assets employed in our businesses to further enhance returns.

As a sign of our improving business outlook and continuing financial strength, Fluor's Board of Directors declared a 25 percent increase in the quarterly dividend for 2000 to 25 cents per share, compared with 20 cents in 1999. Additionally, our dividend policy was changed for the first time in many years. The payout

guideline was increased to 30-35 percent of earnings from the previous 25-30 percent, and will now be based on long-term operating performance expectations. Previously, our dividend payout was based on the company's prior year's earnings performance.

Fluor Daniel

Faced with continuing weakness in several global economic markets and abnormally low oil prices at the beginning of 1999, Fluor Daniel implemented actions to mitigate the effects of a deteriorating business environment, as well as steps to reposition the company for long-term profitability and growth. Marketing and sales efforts were focused on a narrower client base where differentiated value could be delivered, offering higher margin potential. Backlog and new awards declined in 1999, as expected from a year ago, primarily reflecting the market slow down experienced over the past two years, along with our emphasis on improving margins. However, increased selectivity, accompanied by cost reductions and increased accountability, began to produce positive results. Reported gross margin, along with new awards and backlog gross margins, all achieved meaningful improvement in 1999. Continuing improvement in global economic conditions which are favorable to increased capital spending by clients is creating growing optimism for new business in 2000 and beyond.

Fluor Global Services

Formed in 1999, Fluor Global Services brings together a variety of non-EPC services capabilities. These services offer attractive incremental revenue growth and earnings for Fluor as the result of changing client needs and the continuing trend toward outsourcing. Importantly, Fluor Global Services has the potential to significantly broaden our participation in our clients' total spending across the entire life cycle of their asset base. The majority of the services provided by Fluor Global Services have a more stable and predictable earnings pattern which should help mitigate the more cyclical nature of our traditional EPC business.

We are particularly encouraged by the outstanding growth potential for Fluor Global Services' Telecommunications unit, which was awarded several key contracts in 1999, with significant additional work anticipated in 2000. The Operations & Maintenance unit is also benefiting from its new strategic approach to delivering value in this large and growing market.

A.T. Massey Coal

A.T. Massey delivered commendable performance in 1999 despite an extremely challenging coal market. They are an acknowledged leader in the U.S. coal industry and continue to outperform industry peers on virtually every criteria, from financial results to safety performance.

Global economic conditions, unfavorable currency exchange rates, and mild weather created difficult conditions in both Massey's steam coal and higher-margin metallurgical coal markets. This resulted in softened demand and deteriorating prices for coal. To offset these conditions, Massey implemented a number of operational changes to reduce costs and maintain operating margins, as well as optimize return on assets. As the lowest cost producer in its geographic market, Massey is much better positioned to withstand these difficult times than its competition.

Fluor Signature Services

Fluor Signature Services is our newest Strategic Business Enterprise. It officially began operations at the start of 2000. Created as a distinct enterprise with profit-and-loss accountability, its charter is to provide business and administration support services to Fluor's operating units. Their immediate goal is to help the corporation further reduce costs, streamline work processes and to identify and measure where value is created within the company.

Management Changes

As part of the organizational restructuring, Alan Boeckmann has assumed leadership of Fluor Daniel, Jim Stein is now leading Fluor Global Services, and Don Blankenship continues to lead A.T. Massey Coal. Jim Rollans, our former chief financial officer, is heading up Fluor Signature Services.

In June, we were pleased to welcome Ralph Hake as executive vice president and chief financial officer, succeeding Jim Rollans. Ralph joins us from Whirlpool where he served since 1987, overseeing various global business and financial operations, most recently as senior executive vice president and chief financial officer.

Thank You

I would like to extend my personal appreciation to our board of directors and employees for the tremendous effort that has been undertaken to reposition our company and achieve our goal to deliver improved shareholder value in the years to come.

I am confident that we are moving well down the path to realize the potential we envision from our new strategic direction.

Lastly, let me add my appreciation for the support and confidence of our shareholders who have stayed with us through our transition to a new Fluor in the new millennium.

Philip J. Carroll, Jr.

Philip J. Carroll, Jr.

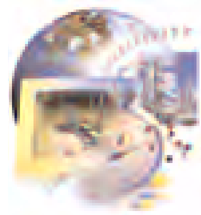
Chairman and Chief Executive Officer
January 13, 2000

Fluor At-a-Glance

Operating globally, Fluor's Strategic Business Enterprises offer a diversified mix of business services to its clients, ranging from its traditional engineering, procurement and construction services to total asset management solutions. Fluor's coal company, A.T. Massey, continues its leadership in low-sulfur coal production and optimization of product mix.

STRATEGIC BUSINESS ENTERPRISE

FLUOR DANIEL



The Fluor Daniel Strategic Business Enterprise now provides engineering, procurement and construction services to selected clients through five Strategic Business Units: Chemicals & Life Sciences; Oil, Gas & Power; Mining; Manufacturing; and Infrastructure. Fluor Daniel's new organizational structure emphasizes a narrowed market focus on 15 primary industry segments where it possesses competitive strengths and provides added value to clients. A key element of Fluor Daniel's strategic focus is an emphasis on targeted marketing and strengthening key client relationships.

FLUOR GLOBAL SERVICES

During 1999, the six Strategic Business Units of Fluor Global Services (FGS) were segregated from Fluor Daniel into a separate Strategic Business Enterprise. The new enterprise is positioned to capitalize on significant growth opportunities being created by new growth markets, increased outsourcing and changing client needs. FGS is a diverse, but integrated, portfolio of services assembled to provide added value outside the clients' traditional EPC value chain, consisting of American Equipment Company (AMECO®), TRS Staffing Solutions, Fluor Federal Services,℠ Telecommunications, Operations & Maintenance and Consulting Services.

A.T. MASSEY COAL

An acknowledged leader in the U.S. coal industry, Massey is the strongest and most successful coal company in the U.S., measured by safety or comparative financial performance. Through its operating subsidiaries, Massey produces high-quality, low-sulfur steam coal for the electric-generating industry and industrial customers, and metallurgical coal for the steel industry. Massey enjoys a strong market position as the low-cost producer of Central Appalachian coal. Total coal sales volume in 1999 was 38 million tons.

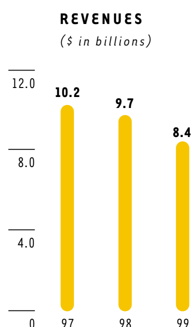
FLUOR SIGNATURE SERVICES

A major component of Fluor's strategic direction, Fluor Signature Services (FSS) is a new and distinct business enterprise with profit-and-loss accountability. Its charter is to deliver business administrative and support services to multiple operating units within Fluor Corporation and to external clients. FSS is dedicated to delivering business effectiveness and creating value for Fluor. The organization leverages Fluor's investment in people, processes and technology to improve its delivery of business services. It is organized into individual lines of business services in the areas of finance, information technology, safety, human resources, office services and performance solutions.

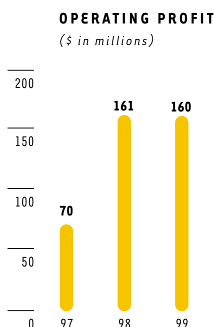
FINANCIAL RESULTS

KEY STRATEGIES

REVENUES
($ in billions)

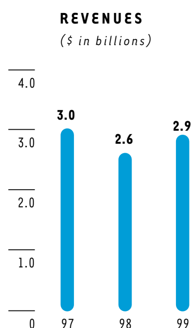


OPERATING PROFIT
($ in millions)

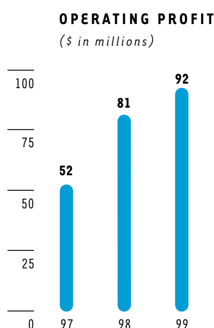


- Through a narrowed market focus and increased client selectivity, Fluor Daniel is concentrating on opportunities where differentiated value can be delivered, offering the potential for higher margins.
- Implementation of structural cost reductions, improved selectivity, and increased accountability are all directed at achieving enhanced shareholder value through sustainable, profitable growth.

REVENUES
($ in billions)

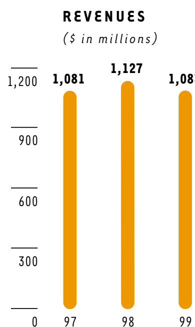


OPERATING PROFIT
($ in millions)

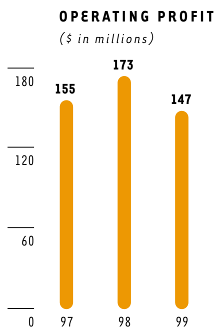


- Fluor Global Services' mission is to provide customized and integrated services that optimize the total life-cycle of clients' assets better than any competitor.
- Fluor Global Services' goal is to become the dominant provider of outsourced asset optimization capabilities.
- With continued strong growth in outsourcing trends, FGS is enhancing its full-scale capabilities to meet demands for cutting-edge facilities and knowledge-based services.

REVENUES
($ in millions)

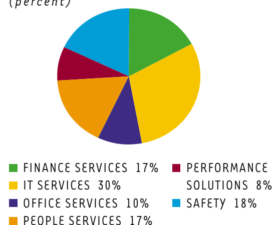


OPERATING PROFIT
($ in millions)

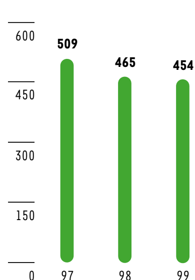


- Massey has been implementing a long-term strategy to continually widen its competitive advantage through constant focus on lowering production costs, increasing sales volume and optimizing its business mix to capitalize on its highest margin opportunities.
- Responding to difficult market conditions in 1999, Massey implemented aggressive actions to further reduce costs and maintain or increase its competitive advantage and market share.

HEADCOUNT BY LINE OF BUSINESS AS OF NOVEMBER 1, 1999
(percent)



TOTAL ASSETS*
($ in millions)



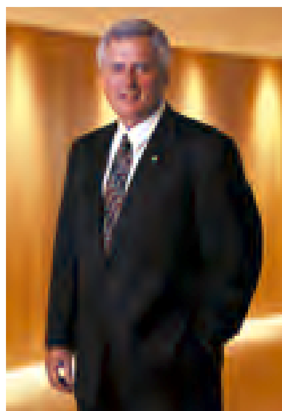
*For informational purposes only.

- By establishing Fluor Signature Services, the corporation has moved forward in the strategic direction it set to reduce costs, streamline operations, improve quality standards, and identify and measure the value created by the services provided.
- Fluor Signature Services' goal is to become an efficient, innovative and customer-centric team that creates value for all of the enterprises and the shareholders of Fluor Corporation.

Fluor Daniel

During fiscal 1999, Fluor Daniel, Fluor's engineering, procurement and construction business, underwent significant change with the implementation of a new strategic direction to enhance its long-term earnings power and growth potential. Extensive analysis of clients' changing needs, historical profitability of individual client relationships and Fluor Daniel's competitive strengths led the company to narrow its market focus and concentrate on fewer clients but with greater value-added potential for improved profitability.

Fluor Daniel's aspirations to achieve earnings growth in the coming year and beyond, are supported by encouraging results in 1999, which reflect its focus on structural cost reductions, improved project selectivity and providing true value-added services.



Alan L. Boeckmann
President and
Chief Executive Officer
Fluor Daniel

For 1999, Fluor Daniel generated $160 million in operating profit compared with $161 million in 1998. Along with a new organizational structure and focus on selectivity, Fluor Daniel significantly reduced its overhead costs, including a leaner but more efficient network of global offices. Gross margins on 1999 earnings improved to 5.7 percent from 4.8 percent and operating margins increased to 1.9 percent from 1.7 percent.

New awards declined to $4.8 billion from $8.2 billion last year. Backlog at year-end was $6.8 billion, down from $10.4 billion a year ago. The decrease in new awards and backlog in large part reflects the market slowdown of the past two years; however, it also reflects the company's emphasis on margin improvement through greater project and market selectivity. Gross margins on new awards for the year improved to 7.2 percent from 6.0 percent a year ago, and backlog margins increased to 4.6 percent from 4.0 percent last year.

Chemicals & Life Sciences

Fluor Daniel's Chemicals and Life Sciences business unit provides differentiated services to meet the global investment and business needs of its targeted customers. The unit serves the petrochemical, specialty and fine chemical, pharmaceutical and biotechnology market sectors.

Capital investment by chemical customers has been flat to down over the past two years due to the Asian financial crisis, lower oil prices and customer focus on industry consolidation resulting from major mergers and acquisitions. Improving global economic conditions and market fundamentals, however, suggest a recovery in chemical capital spending for new projects should begin in late 2000.

Life Sciences capital investment in tax-advantaged countries, including Puerto Rico, Ireland and Singapore, remains strong. Fluor Daniel has long been the industry leader in Puerto Rico, has expanded its presence in Ireland through teaming agreements with local companies, and is building a growing base of experience and capabilities in Singapore.

In petrochemicals, a number of large projects are developing in China, where Fluor Daniel has a significant presence and base of experience. We are nearing completion on a major film plant for Kodak in China, which is being successfully executed utilizing our growing engineering office in Manila. We also are well positioned for developing opportunities in the Middle East and Europe as well, where major chemical and petrochemical facilities are also being planned.

Our technology expertise is creating growth opportunities where we can profitably leverage key customer relationships by matching available technologies with regional market needs and feedstock availability. A new dimension is partnering with clients such as the joint venture agreement announced recently with DuPont to license, design and construct facilities utilizing DuPont's "next generation" PET technology, NG-3.

WARNER LAMBERT

Fluor Daniel's Chemicals & Life Sciences unit has been providing engineering, procurement, construction management and validation services at Warner Lambert's bulk pharmaceutical manufacturing complex at Cork County, Ireland. The plant produces Lipitor, the cholesterol-lowering compound that has become one of the most successful pharmaceutical products ever launched.

Oil, Gas & Power

Fluor Daniel's Oil, Gas and Power business is an integrated services supplier to a broad spectrum of energy industries, ranging from upstream production and refining to power generation, and all of the business activities which increasingly link these related areas.

While soft market conditions existed in early 1999 for the traditional energy business due to low oil prices and an uncertain global economic outlook, the domestic power market gained momentum. Increasing global demand for energy, coupled with a recovery in oil prices and increasing demand for power, are creating good growth prospects.

There are signs of recovery in the upstream market for new oil and gas production. For example, we were awarded a contract to provide engineering and procurement services for the Bayu Undan offshore oil facilities in the Timor Sea. Additionally, our work continues on various pipeline projects in the Caspian Sea region. Advancements in technologies have improved the economics for development of oil sands, and we are in various stages of work with most of the major oil sands producers in Canada.

Our strong technology expertise in clean fuels also offers near-term opportunities. Significant experience on prior clean fuels projects with California refineries is providing a distinct advantage as the U.S. federal government, Canada and various European environmental protection agencies follow California's early lead. Additionally, we have been selected by Phillips Petroleum to build the pilot plant for its new clean-fuels technology process.

Pent-up demand and deregulation has created a robust market for new power generation facilities in the U.S. and selected international markets. Duke/Fluor Daniel, our joint venture company serving this market, is well established with a strong record of experience and a growing list of repeat clients. Duke/Fluor Daniel was awarded seven new power generation facilities in 1999, and was released to proceed on a 454-megawatt coal-fired power plant in Puerto Rico shortly after fiscal year-end.

Mining

Fluor Daniel's business unit serving the mining industry implemented significant change in 1999 to address disappointing performance in recent years and a severe cyclical downturn in its global market. The organization has been restructured, overhead costs substantially reduced and a more selective approach to future business opportunities has been implemented.

A key objective is to cultivate and strengthen relationships with selected clients and to broaden our services to meet their asset management needs. Utilizing an account management approach and increasing the depth of our understanding of the business needs of a select customer group, we can increase our opportunities to deliver knowledge-based solutions. Our goal is to become a full-service partner for our best clients.

PEMEX EXPLORACION Y PRODUCCION

ICA Fluor Daniel, our joint venture company in Mexico, provides EPC services for the world's largest nitrogen generation complex for Pemex, the national oil company, in Campeche, Mexico. The facility, owned and operated by an international consortium in which ICA Fluor Daniel is an equity partner, will deliver nitrogen to offshore facilities for enhanced oil recovery.

The highly cyclical mining industry has been in a significant downturn, exacerbated by the dramatic drop in Asian demand, while significant new production capacity was coming onstream. Improving metals prices suggest a long-term recovery is now beginning which is resulting in an increased level of studies and overall proposal activity. Unlike many Fluor Daniel markets, there remain relatively few global competitors, particularly with the capability to handle large, complex and frequently remote mining projects.

The prospects for new business opportunities is encouraging with renewed development of copper, gold and silver projects in South America and iron ore and laterite-nickel projects in Australia, both markets where Fluor Daniel has recognized experience and market presence. Another area of emerging opportunity is southern Africa, where Fluor Daniel recently was awarded a contract for a small gold mine project.

Manufacturing

Fluor Daniel provides engineering and construction services to manufacturing clients around the world, primarily in the consumer products, food and beverage and microelectronics industries. Additionally, the Manufacturing unit has specialized expertise in construction management for pharmaceutical and biotechnology facilities.

The Manufacturing unit offers a value proposition to targeted clients which is focused on being the lowest total cost supplier of services with certainty of function, cost and schedule. Fluor Daniel is particularly well positioned to assist clients who are moving to a global production platform and are striving to improve their productivity and return on assets by operating under a total cost of ownership business model.

A key challenge for many manufacturing customers is to deliver continuing revenue growth in an increasingly competitive environment. They can leverage Fluor Daniel's global reach and differentiated skill sets to capitalize on growth opportunities in emerging markets and reduce schedules to bring new products to market more rapidly. The Manufacturing unit is investing in the development of methodologies and technologies, which focus on compressing traditional project schedules, increasing yield and facilitating modifications to existing facilities to produce new products.

The microelectronics market offers particularly strong growth potential. Demand has now caught up with supply, prices are firming and advances in technology are fueling new investment. Fluor Daniel is recognized as a major supplier of services to this attractive, high-growth market, and is working closely with a number of large, key customers. During 1999, Fluor Daniel was awarded contracts for a major wafer fabrication facility in Malaysia, and for a major microelectronics facility in the Philippines. Significant new project opportunities are developing worldwide with the outlook for strong investment by microelectronics manufacturers over the next several years.

FPL ENERGY AND PANDA ENERGY

Duke/Fluor Daniel is providing turnkey EPC and commissioning services for two 1,000-megawatt electric power generating plants in Texas. The first power plant, Lamar (pictured), is owned by FPL Energy and Panda Energy International while the second project, Guadalupe, is owned by Texas Independent Energy, a 50/50 joint venture between Panda Energy and PSEG Global.

Infrastructure

Fluor Daniel's Infrastructure business unit has established a strong reputation and market presence working on large, highly selective projects. Fluor Daniel's program management, financing expertise, problem solving and partnership management skills have added considerable value to these projects.

In the U.S., funding from the $200+ billion federal transportation bill, known as TEA 21, is now beginning to stimulate new programs and projects across the country. During 1999, Fluor Daniel was awarded the second phase of the Conway Bypass project in South Carolina, and was also selected by the South Carolina Department of Transportation to provide construction and resource management support for the statewide highway development program. South Carolina's innovative approach to road construction is a model being emulated by several other states.

Additionally, a number of significant rail projects, utilizing the public/private partnering model, are now being aggressively developed in Europe. Fluor Daniel is focused on opportunities which fit its selectivity criteria in the United Kingdom and The Netherlands, where we have a strong local presence. A Fluor Daniel joint venture with Mott MacDonald has been preliminarily selected by Britain's Railtrack as one of three primary suppliers of program management services for a more than $2 billion performance improvement project on one of the U.K.'s most heavily traveled rail lines. These sizable and complex rail projects are long-term in nature and include operations and maintenance opportunities which offer the potential of a predictable earnings stream over many years.

Additional opportunities are developing for expansions at major international airports where continued increases in global air traffic has taxed capacity. Fluor Daniel is program manager for a major expansion project at JFK International airport and is tracking a number of possible new prospects.

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 United States 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 Global Services

Working closely with its clients, Fluor Global Services provides a full range of leading edge business asset and operations management solutions – including operations, maintenance and consulting services; construction and industrial equipment; contract and direct-hire personnel and training; and program and asset management services to industries around the world – with the goal of becoming the dominant provider of outsourced asset optimization capabilities.

The Mission of Fluor Global Services is to assist every client in achieving a sustainable competitive advantage and profit growth by providing customized and integrated services that optimize the total life-cycle of their assets better than any competitor.

James C. Stein
President and
Chief Executive Officer
Fluor Global Services

During 1999, Fluor Daniel's Diversified Services Group underwent a significant restructuring and transitioned from being a division of Fluor Daniel to a separate Strategic Business Enterprise. Renamed Fluor Global Services (FGS), the new enterprise is well positioned to capitalize on significant growth opportunities being created by new and changing client needs. FGS is a diverse, but integrated, services portfolio of six Strategic Business Units assembled to provide value-added services outside the clients' traditional EPC value chain, consisting of American Equipment Company, TRS Staffing Solutions, Fluor Federal Services, Telecommunications, Operations & Maintenance and Consulting Services.

Operating profits for FGS increased 13 percent in 1999 to $92 million compared to $81 million in 1998. Annual new awards grew 12 percent over last year, with gross margins increasing to 7.8 percent from 7.6 percent in 1998. Backlog increased by 6 percent, with gross margins declining slightly to 6.1 percent from 6.4 percent a year ago.

The future offers significant opportunity at a time when outsourcing non-core activities by clients is gaining increased momentum, as they focus on their core businesses and look for creative and cost-competitive approaches to improve productivity and return on assets. As clients restructure their in-house capabilities, Fluor Global Services' ability to deliver tailored solutions to meet individual needs, including total life-cycle asset management and performance improvement services is timely. With the continued strong growth in outsourcing trends, FGS is enhancing its full-scale capabilities to meet its customers' growing demand for cutting-edge facilities and knowledge-based services to meet the challenges of competition.

American Equipment Company (AMECO)

American Equipment Company (AMECO) provides a full array of construction equipment, tool and fleet management services on a global basis, focused on reducing its customers' total cost at construction projects and plant environments. To better serve its clients, AMECO reorganized into three business lines: Fleet Services — providing outsourcing services to targeted industrial markets; Site Services — providing complete equipment and tool programs for capital construction projects; and Dealerships — providing new and used equipment sales and rentals, parts and service in targeted geographic regions.

AMECO faced a challenging business environment in 1999. Industry consolidation in the U.S. created intensely competitive markets, while business conditions in Asia and Latin America remained depressed from previous activity levels. However, the U.S. equipment rental market is expected to continue to grow at more than 20 percent annually. AMECO's markets in Canada, Mexico and Puerto Rico remained strong, and there are encouraging signs that Asia and South America are beginning to rebound.

AMECO's Fleet Services unit, established in 1999 to capitalize on the outsourcing trends in the industry, grew rapidly during the year. Fleet Services has been successful at providing total fleet management solutions to clients in many industries, including chemicals, steel and refining. During 1999, AMECO entered into an

PHILLIPS PETROLEUM

AMECO provides on-site fleet and tool management services to Phillips Petroleum at their Borger, Texas refinery.

outsourcing agreement with a large chemical manufacturer to manage client-owned tools and small equipment, as well as handle purchases of new tools for client personnel. AMECO also expanded outsourcing agreements with a large aluminum manufacturer and a major oil company.

Additionally, to create a value advantage for an increasing number of clients, AMECO is working with other Fluor business units to cross-sell a variety of Fluor's services. For example, this year, AMECO and FGS' Operations & Maintenance unit renewed a long-standing relationship with TXU, a major energy service company, to provide integrated plant maintenance, equipment and tool services to their network of plants.

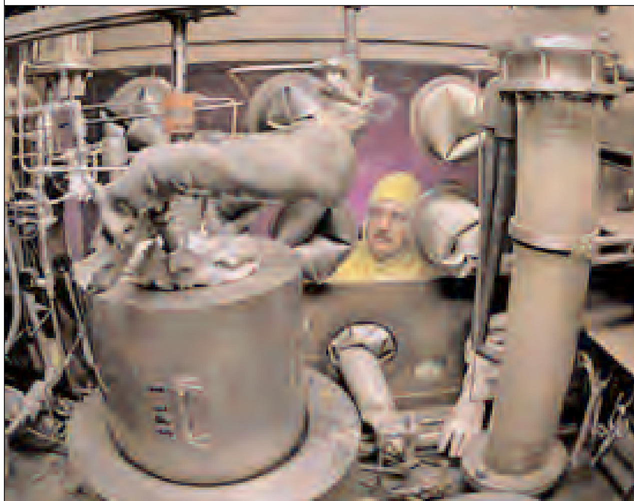
TRS Staffing Solutions

TRS Staffing Solutions (TRS) is a global enterprise of staffing specialists with a focus on serving high-growth, high-margin segments in temporary, contract and direct-hire positions. Over the past few years, TRS has been pursuing a strategy to expand its global presence and capitalize on strong market growth. However, 1999 brought clear recognition that the expansion effort had been overly aggressive, increasing overhead expenses beyond current business activity levels. Additionally, a significant reduction in its Fluor Daniel related workload further contributed to TRS' business challenges. As a result, TRS implemented a number of significant actions during 1999 to address its performance shortfall and return to profitability.

Under new leadership, TRS closed unprofitable branch offices and dramatically reduced operating expenses, resulting in a return to profitability in the fourth quarter of 1999. As a result of a comprehensive strategic review of its business strengths and market potential, TRS refined its target market to focus on information technology, accounting and finance, and certain select engineering disciplines.

A key focus for TRS' reenergized management team will be a renewed emphasis on building stronger client relationships, including implementation of a large account management strategy to increase market share with existing customers as well as develop new ones with large volume potential.

Specific initiatives include the introduction of TRS' Managed Staffing Services offering, commonly referred to as Vendor On Premise within the staffing industry. This program represents a true distinction in providing value to clients by managing the entire procurement, hiring and reporting processes necessary to effectively recruit and retain staff. TRS is also uniquely positioned to play a key role in FGS' strategy to provide value-creating outsourcing solutions for its customers. Additionally, TRS is developing and will implement a state-of-the-art internet/e-commerce strategy to increase the speed and quality of its services and capitalize on the enhanced growth potential this new technology offers.



U.S. DEPARTMENT OF ENERGY

Fluor Federal Services is the prime contractor for the remediation of the Department of Energy's Hanford site in Washington. Pictured is a prototype calciner at Hanford's Plutonium Finishing Plant, which began converting corrosive plutonium solutions to a stable, dry powder for safe storage in September of 1999.

Fluor Federal Services

Fluor Federal Services (FFS) provides a range of services to the United States Federal Government that include project management execution, business management systems, architectural and engineering services, construction and construction management. Through FFS, federal clients receive innovative solutions such as concept to closure planning and execution, unique cost effective approaches to contract structuring, best commercial practices, outsourcing and economic transition expertise.

FFS is a major contractor for the Department of Energy (DOE) including prime contractor roles at the DOE's Hanford, Washington and Fernald, Ohio sites where remediation of these former nuclear weapons plants is taking place. FFS is now a recognized leader in this market because of its experiences and success on these two key projects. The national need for management of the DOE sites contributes to a large market that has more predictability and level budgets than many other markets. The unit intends to increase its share of the $10 billion DOE market.

FFS also works with the Department of Defense through its Logistical Civil Augmentation contract, where FFS was called upon to help build installations in East Timor, and with the Federal Emergency Management Agency through a Technical Assistance Contract. Successful experience with these government agencies has demonstrated the unit's capacity to respond to clients' needs and has helped validate FFS' strategy of selling its services to these and other federal customers on a greatly expanded level.

FFS will maintain a focus on prime contract management along with traditional engineering, procurement, construction and operational opportunities in carefully selected situations. Participation as a team member in strategic alliances is also pursued to address specific project opportunities.

Telecommunications

FGS' Telecommunications unit is establishing itself as a leading provider of program management services for the rapidly expanding global telecommunications market. Following a comprehensive restructuring of its sales and marketing strategy, Telecommunications delivered outstanding performance in 1999, winning more than $600 million in new awards compared with an average of $150 million for the previous three years. These results were achieved by limiting bid and proposal activity in favor of a strategic account management process, which focused on selected key clients to build a sustainable, profitable business.

The Telecommunications unit has been encouraged by its results from being selective, as world-class clients have chosen the unit as their implementation management partner of choice. Level 3 Communications selected Telecommunications for a $320 million project to manage its Local Loop IP Network buildout of fiber-optic cable and point-of-presence units, which has been primarily fueled by the growth of the Internet. The unit also expanded its involvement with AT&T to include a broad service offering to AT&T Fixed

LONDON UNDERGROUND LIMITED

London Underground Limited selected FGS' Telecommunications unit for the $500 million Connect project, where Fluor played a leading role in sourcing and arranging the private debt and equity capital to finance the project. Pictured from left to right, following the contract signing, are Denis Tunnicliffe, chief executive, London Transport; Derek Smith, managing director, London Underground Limited; Patrick Flaherty, vice president, Global Business Development for Fluor Corporation; and Jim Rummings, vice president and project director, Fluor Global Services.

Wireless Services, AT&T Broadband and Internet Services and AT&T Local Services. Signifying a strong start in FY2000, Telecommunications was recently named program manager of a $500 million project to provide a new integrated radio and transmission communications network for the London Underground subway system. These strategically significant programs are propelling this unit to a clear leadership role in this high-growth and dynamic market.

The telecommunications market is tremendous in size and continues to grow at a phenomenal rate. The Telecommunications unit is challenged to selectively penetrate this market and be positioned with strategic clients to capture new project opportunities as waves of new technology drive the market and expand geographically. Time to market is crucial. The emerging and incumbent wireless and wireline carrier market, along with North America and Western Europe, are all high-growth, high-revenue markets where Telecommunications is focusing its time and resources.

Operations & Maintenance

Operations & Maintenance (O&M) provides innovative and competitive asset management services across a wide range of industries including manufacturing; fossil and nuclear power; oil and gas; and chemicals and life sciences. O&M's strategy is to continually migrate up the clients' value chain from providing maintenance and operations services to total asset management, offering the opportunity to deliver significant value to our customers through reduced operating costs and improved performance. This in turn can create further opportunities utilizing an integrated package of Fluor capabilities.

The market for O&M services is large and continues to grow steadily as companies focus on their core competencies and outsource non-core services. Fluor has a strong base of expertise and experience in the O&M services market, including world-class people, technologies, processes and management skills, which can be leveraged against its broad cross-industry exposure to achieve significant long-term growth.

Key to capitalizing on the market growth potential, as well as increasing market share, will be client focus and differentiated value. O&M's approach is to structure its compensation to be strongly performance related, sharing in savings achieved for clients in their total operating costs. Client receptivity to this value proposition has been encouraging.

Consulting Services

The Consulting Services unit, with a major presence in the United States and Western Europe, provides clients with professional advisory services and operational diagnostics to reach optimum business performance.

Consulting Services also improves the positioning of other Fluor units for the implementation of actions recommended by this unit. Synergies are especially evident with Operations & Maintenance as clients worldwide move towards outsourcing and asset optimization. Through the Consulting Services unit, FGS can help assess a client's needs, provide strategies and tactical approaches and offer long-term solutions in asset management.

Operating Statistics

Year ended October 31,	1999	1998	1997
(in millions)			
Fluor Daniel			
Revenues	$ 8,403	$ 9,736	$10,180
Customer-furnished material included in revenues	3,786	3,916	4,948
Work performed	$ 8,403	$ 9,736	$10,180
Gross margin percent	5.7%	4.8%	3.5%
Operating profit	$ 160	$ 161	$ 70
New awards	$ 4,757	$ 8,173	$10,366
New awards gross margin percent	7.2%	6.0%	5.0%
Backlog	$ 6,770	$10,403	$12,269
Backlog gross margin percent	4.6%	4.0%	3.2%
Salaried employees	18,147	24,060	24,942
Fluor Global Services			
Revenues	$ 2,931	$ 2,642	$ 3,038
Work performed	$ 2,055	$ 1,857	$ 2,615
Gross margin percent	9.4%	11.2%	8.7%
Operating profit	$ 92	$ 81	$ 52
New awards	$ 2,032	$ 1,819	$ 1,756
New awards gross margin percent	7.8%	7.6%	9.6%
Backlog	$ 2,372	$ 2,242	$ 2,101
Backlog gross margin percent	6.1%	6.4%	5.7%
Salaried employees	6,011	5,554	5,359

Backlog by Strategic Business Enterprise

	1999	1998	1997
Fluor Daniel			
Chemicals & Life Sciences	$ 1,964	$ 4,130	$ 4,414
	29%	40%	36%
Oil, Gas & Power	2,583	2,134	3,298
	38%	20%	27%
Mining	657	1,890	2,931
	10%	18%	24%
Manufacturing	1,170	1,749	1,420
	17%	17%	12%
Infrastructure	396	500	206
	6%	5%	1%
Total backlog	$ 6,770	$10,403	$12,269
	100%	100%	100%

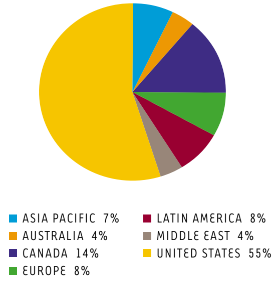
	1999	1998	1997
Fluor Global Services			
Fluor Federal Services	$ 710	$ 781	$ 1,000
	30%	35%	48%
Telecommunications	525	135	179
	22%	6%	9%
Operations & Maintenance	1,127	1,217	827
	48%	54%	39%
Consulting Services and Other	10	109	95
	–%	5%	4%
Total backlog	$ 2,372	$ 2,242	$ 2,101
	100%	100%	100%

Total Backlog by Location

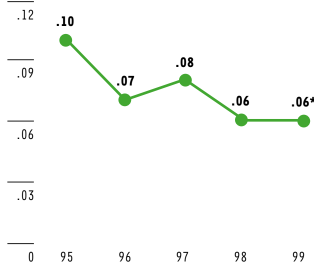
Year ended October 31,	1999	1998	1997	1996	1995
(in millions)					
United States	$ 5,008	$ 5,911	$ 5,665	$ 7,326	$ 6,666
	55%	47%	39%	46%	45%
Asia Pacific (includes Australia)	998	2,260	3,959	4,402	3,303
	11%	18%	28%	28%	23%
EAME*	1,074	2,023	3,828	2,677	3,088
	12%	16%	27%	17%	21%
Americas	2,062	2,451	918	1,352	1,668
	22%	19%	6%	9%	11%
Total backlog	$ 9,142	$12,645	$14,370	$15,757	$14,725
	100%	100%	100%	100%	100%

** EAME represents Europe, Africa and the Middle East.*

FLUOR
1999 BACKLOG BY REGION
(percent)

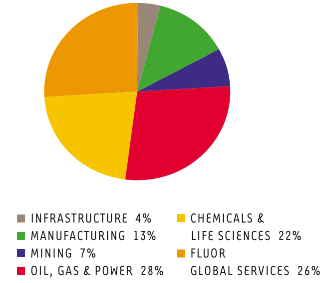


FLUOR
SAFETY PERFORMANCE
(lost workday incidence rates)

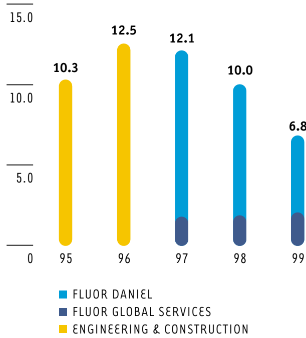


*Sixty times better than the national industry average.

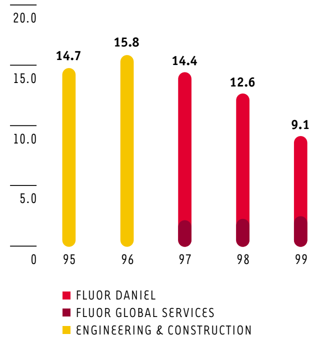
FLUOR
1999 BACKLOG BY INDUSTRY
(percent)



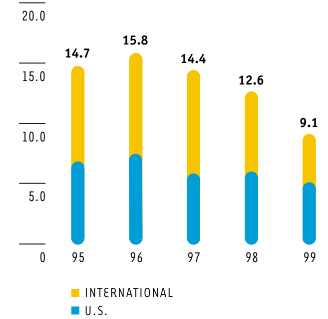
TOTAL NEW AWARDS
($ in billions)



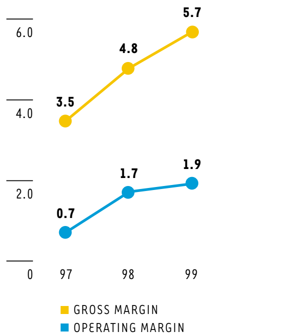
TOTAL BACKLOG
($ in billions)



TOTAL BACKLOG
U.S. vs. INTERNATIONAL
($ in billions)

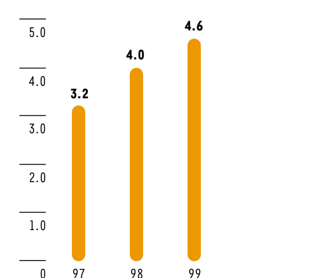


FLUOR DANIEL
GROSS MARGIN AND
OPERATING MARGIN
(percent)

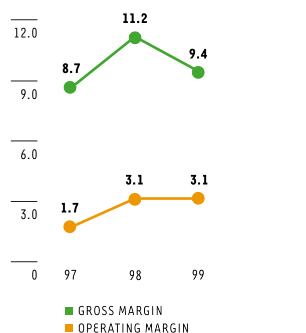


FLUOR DANIEL
NEW AWARDS
GROSS MARGIN
(percent)

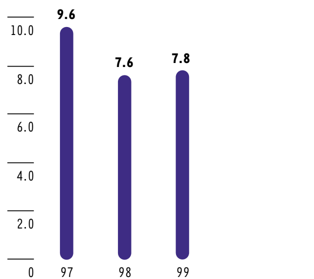
FLUOR DANIEL
BACKLOG
GROSS MARGIN
(percent)



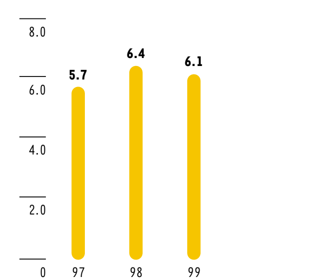
FLUOR GLOBAL SERVICES
GROSS MARGIN AND
OPERATING MARGIN
(percent)



FLUOR GLOBAL SERVICES
NEW AWARDS
GROSS MARGIN
(percent)



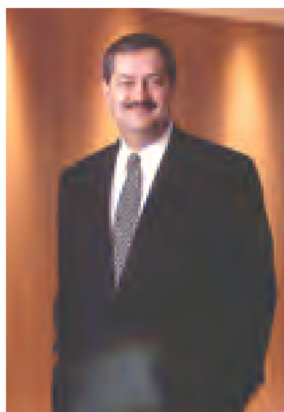
FLUOR GLOBAL SERVICES
BACKLOG
GROSS MARGIN
(percent)



A.T. Massey

A.T. Massey is an acknowledged leader in the U.S. coal industry. Measured by safety or comparative financial performance, Massey is the strongest and most successful coal company in the U.S. Through its operating subsidiaries, Massey produces high-quality, low-sulfur steam coal for the electric-generating industry and industrial customers, and metallurgical coal for the steel industry.

Through Massey's strategy of investment in new high-quality reserves and modern mining equipment and procedures, it has delivered an enviable record of consistent double-digit earnings growth for a number of years. However, extremely difficult market conditions prevailed in 1999, which resulted in an earnings decline for the first time in many years. Nevertheless, Massey continued to significantly outperform its industry peers on virtually every measurable criteria.



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

For the year, Massey generated operating profit of $147 million, consistent with our expectations, but down from $173 million in 1998. Massey implemented aggressive actions to reduce costs in 1999 to offset unfavorable market conditions and continues to focus on strategies that will maintain or increase its competitive advantage. Total coal sales volume of 37.9 million tons in 1999 was essentially flat compared with the previous year, but lower realized prices and a less favorable sales mix more than offset continued productivity improvements and cost reduction.

Global economic conditions in 1999 created unfavorable currency exchange rates which caused U.S. metallurgical exports to be non-competitive and also attracted increased imports of cheap foreign steel. This reduced sales volumes for U.S. steel producers, lowering domestic demand for metallurgical coal and causing Massey's export sales to decline to 4 million tons in 1999 from 5.6 million tons last year. As a result, Massey's metallurgical coal sales declined 18 percent to 14.9 million tons. Realized prices for metallurgical coal sales declined 2 percent to $32.34 per ton in 1999. Volume and price declines in higher-margin metallurgical coal were the most significant factors in lowering Massey's operating margin in 1999 to 13.6 percent, compared with 15.3 percent last year.

Despite diminished export opportunities, Massey successfully increased its metallurgical coal shipments to Canada and concentrated on the European steel producer market where its high-volatile metallurgical coal retains a distinct quality advantage.

Signs of economic recovery in Asia, along with strengthening foreign currency exchange rates, suggests the flow of cheap steel into the U.S. market may diminish and demand should begin to recover in traditional geographic markets. As a result, near-term demand for U.S. metallurgical coal is expected to stabilize and prices appear to be firming. Renewed growth will be a function of continued improvement in global economic conditions and Massey's ability to increase its market share through its product quality, service, reliability of supply, and price.

Massey faced significant challenges in the domestic market for steam coal as well. Deregulation of the electric-generating industry and implementation of Phase II of the Clean Air Act have been widely anticipated to create additional demand for low-sulfur steam coal. Unfortunately, increased pressure to switch to alternative fuel sources such as gas, significant increases in Central Appalachian coal production capacity in anticipation of demand growth, mild weather that has limited demand for electricity, and greater-than-expected penetration of Eastern coal markets by Western coal producers, all have combined to produce a flat market with declining prices. Within this market environment, Massey increased its steam coal sales by 18 percent to 22.9 million tons, while realized prices declined 4 percent to $25.83 per ton.

Massey continues to capitalize on attractive opportunities in the niche industrial coal sales market. Massey has significantly increased its industrial coal sales market share through partnering with key customers on coal handling facility improvements. The facility upgrades are designed to reduce coal costs for the customer and enhance sales volume for Massey.

While declining steam coal prices and difficult market conditions continue to present challenges to the U.S. coal market, Massey's significant cost advantage over its Central Appalachian competitors positions it not only to withstand hard times, but potentially to capitalize on them. With the exception of Massey, most Central Appalachian coal producers are heavily in debt and are delivering poor financial performance. The prospect that many of these producers will not be able to continue to sell coal below their production costs will likely result in reduced supply and create opportunities for Massey to increase its market share.

ELK RUN COAL

With an annual shipping capacity of more than nine million tons, the Elk Run operating subsidiary in Sylvestor, West Virginia, is Massey Coal's largest shipping facility.

Massey has widened its substantial cost advantage over the past several years through a highly focused strategy of reserve acquisitions and investment to continually lower production costs. Given the difficult and rapidly changing market environment, Massey has undertaken additional actions to further reduce costs and maintain or increase its competitive advantage.

Anticipating reduced near-term market demand, Massey curtailed its capital investment plans for new production capacity in 1999 and expects to further reduce its capital spending in 2000. Current efforts are directed at optimizing production from existing mines with the lowest production costs.

Although reserve acquisitions in 1999 consisted of relatively small properties, total reserves increased 14 percent to 2.1 billion tons, as additional reserves were proven up on existing properties. Two significant mine projects were completed in 1999, which continued the strategy to develop previously acquired high-value reserves.

Massey achieved startup of the Justice longwall during the year, its second state-of-the-art longwall operation. Justice has an annual capacity of 4 million tons. A longwall mining system greatly increases productivity and reserve recovery in large underground coal seams. Additionally, production from the new Alex Energy surface mine began in 1999, with an annual production capacity of approximately 3 million tons per year. Surface mines offer the advantage of lower costs compared with traditional underground mines, and even surpass the highly efficient longwall operations in cost efficiency. Including these two new mining operations, 43 percent of Massey's 1999 production came from mining operations that have cost advantages over most traditional underground continuous mining methods.

NICHOLAS ENERGY

The new Alex Energy surface mine, which began production in 1999, is located at Massey's Nicholas Energy operating subsidiary in Summersville, West Virginia.

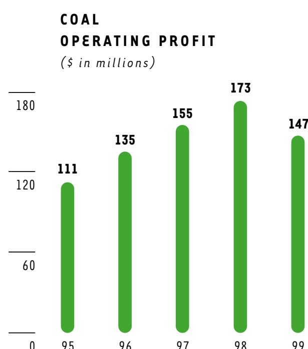
Despite the increased challenges presented by coal market conditions in 1999, a key strength of Massey has been its ability to change in response to a changing global business environment. It has prospered

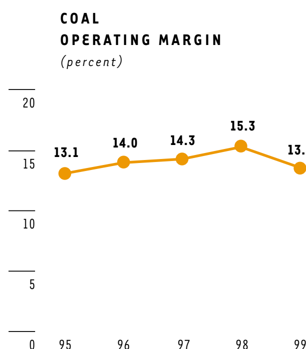
and grown despite several years of a slowly declining coal market by being willing to be different from its competitors.

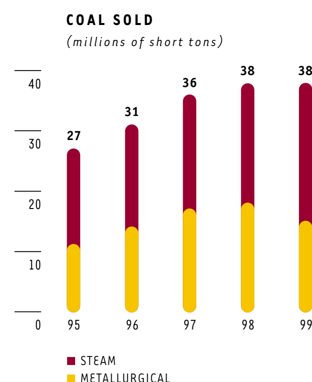
Worker safety continues to be of paramount importance at Massey and is reinforced by a Safety First (S-1) program that exceeds federal and state requirements. Massey's safety performance, already nearly two times better than the industry average, further improved in 1999 to 2.4 non-fatal days lost incidence rate from 3.1 last year. Massey's S-1 program provides for ongoing reviews of all aspects of coal mining and processing, and every Massey operation must pass rigorous safety audits. Massey rates itself against the highest standards in its industry and works with manufacturers and suppliers to design safety into the equipment, gear and tools used daily in its operations.

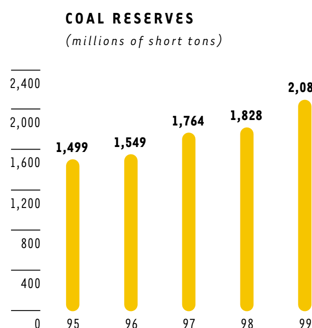
Operating Statistics

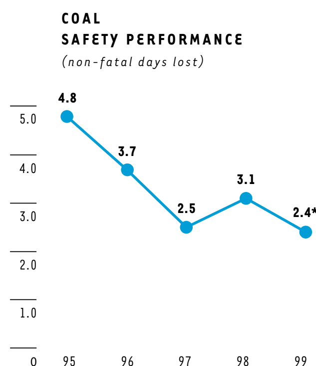
Year ended October 31,	1999	1998	1997	1996	1995
(in thousands/in thousands of short tons)					
Coal					
Revenues	$1,083,030	$1,127,297	$1,081,026	$960,827	$849,758
Operating profit	$ 146,857	$ 172,762	$ 154,766	$134,526	$111,033
Produced coal sold					
Steam coal	22,916	19,398	19,300	17,520	15,777
Metallurgical coal	14,948	18,210	16,343	13,571	11,633
Total produced coal sold	37,864	37,608	35,643	31,091	27,410
Total employees	3,190	3,094	2,968	2,809	2,479











*Nearly two times better than the national industry average.

Fluor Signature Services

Fiscal 1999 marked the creation of a shared services organization within Fluor Corporation. A major component of Fluor's strategic direction, Fluor Signature Services is a new and distinct business enterprise with profit-and-loss accountability. Its primary charter is to deliver business administrative and support services to multiple operating units within Fluor Corporation, with the additional objective to expand marketing of its services to external clients.

James O. Rollans
President and
Chief Executive Officer
Fluor Signature Services

By establishing Fluor Signature Services, the corporation has moved forward in the strategic direction it set to reduce costs, streamline operations, improve quality standards, and identify and measure the value created by the services provided.

This new enterprise brings a new approach to doing business. By assuming responsibility for the delivery of business and support services, Fluor Signature Services will allow the operating units to focus on their core businesses. Business leaders will define and choose to purchase services needed to achieve peak performance in their organizations. Consolidating business services in one organization should reduce costs and improve quality standards.

Fluor Signature Services is dedicated to delivering business effectiveness and creating value for Fluor. The organization leverages Fluor's investment in people, processes and technology to improve its delivery of business services. It is organized into individual lines of business services in the areas of finance, information technology, safety, human resources, office services and performance solutions.

Accomplishments for FY1999 include:

- A successful transition was achieved from an overhead administrative structure, largely integrated with operating entities, to a separate organization accountable for profit and loss. Establishing this enterprise in terms of structure, services and business infrastructure in eight months required a great deal of effort. Fluor Signature Services' members are to be congratulated for its successful beginning.
- Customer needs and expectations were met with no service interruption during the transition period.
- Cost-reduction efforts in FY1999 resulted in a significant savings. Cost effectiveness will be an ongoing effort while providing customers with the level of service required.

Fluor Signature Services has a unique opportunity to provide its customers with a distinct competitive advantage by providing and managing business and administrative services on their behalf. Priorities for FY2000 will result in substantial reductions in costs and assets employed while improving satisfaction in those areas most important to customers.

Objectives for FY2000 include:

- Achieving the goal of operating as a self-sustaining organization with break-even performance for the first year of operation.
- Improving customer satisfaction and exceeding their expectations. Customer satisfaction measures will be implemented including a quarterly monitoring process.
- Delivering services more cost effectively and developing new ways to deliver services more efficiently.
- Improving the financial returns on the corporation's real estate and information systems assets and certain investments. Real estate, a major asset area, will be addressed with the objective of obtaining a higher rate of return. Fluor's real estate investment has a book value of $270 million and a current return on those assets well below our cost of capital. Reducing ownership of real estate holdings and defining and meeting the long-term real estate needs of the corporation is a key objective.
- Piloting the deployment of the Enterprise Resource Management system, and championing its use in customer organizations.
- Providing training and development opportunities to build the skill base of our people.

The organization's goal is to become an efficient, innovative and customer-centric team which creates value for all of the enterprises and the shareholders of Fluor Corporation. As a growing and successful professional organization, it will create new and expanded career opportunities for its members.

The company's transition to a shared services concept in providing business services is a major change for Fluor Corporation. Fluor Signature Services will have the opportunity to redefine itself and demonstrate areas in which it excels and provides measurable added value. The organization is very appreciative of its customers' support during the transition period. Through the building of an effective customer/supplier relationship, Fluor Corporation and Fluor Signature Services' members and customers will benefit from the shared objective of improving costs, quality and responsiveness.

Fluor Signature Services is looking forward to an exciting, rewarding year and creating a measurable and positive impact on Fluor Corporation's performance.

Dear Shareholder

RALPH F. HAKE
Executive Vice President
and Chief Financial Officer

As evidenced in this annual report, the Fluor management team is committed to delivering improved financial performance to our shareholders. In 1999, we developed a business model process to clearly define goals for each strategic business unit. With this process, accountability resides throughout all levels of the organization, so that all members of the Fluor team understand — and are accountable for — pursuing higher margins and aggressively managing investment levels to achieve improved returns. We will continue to grow our organizational capability and financial expertise to deliver results that will benefit our shareholders. As we look to the future, the management team shares a clear view of what is required to create value:

- Earnings per share and revenue growth that consistently exceed our benchmark of at least 10 percent annual improvement.
- Improve returns to levels that exceed our risk-adjusted cost of capital for each business in which we choose to participate.
- Improved transparency and financial disclosure to better educate our investors about our businesses and to strengthen and reinforce management's credibility.

Along with these goals, we realize that there are key disciplines and beliefs we must instill in our organization. Fluor Corporation will be successful only when we manage our businesses and their cost structures to create value in all economic environments. Further, we must objectively evaluate and scrutinize our investments on a risk/reward basis to ensure that our shareholders' interests are paramount.

One of the strengths of our business portfolio is strong cash flow. We must, however, more aggressively manage our balance sheet and continue to improve our ability to identify investments that create value and justify management's use of cash.

Fortunately, this change process is being initiated from a very solid platform. We generated $90 million in cash flow before financing activities in 1999, and cash generation is projected to be increasingly strong in the near term. Our debt-to-capital ratio was reduced to 26 percent at fiscal year-end, below our targeted range of 30 to 35 percent, with the pay down of $183 million in short-term debt. The strength of our balance sheet and coverage ratios enabled us to retain a solid "A" investment grade rating with the credit agencies during challenging environments in both our engineering and construction and coal businesses.

Thus, we look forward to the year 2000 as both one of continued change and increased opportunity. While we will only succeed as an enterprise by serving our customers and clients superbly well, our relentless focus on financial disciplines and clearly defined elements of value creation are essential to creating the company we all envision.

Ralph F. Hake

Selected Financial Data

(in millions, except per share amounts)	1999	1998	1997	1996	1995	1994	1993	1992	1991	1990	1989
Consolidated Operating Results											
Revenues	$12,417.4	$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
Earnings from continuing operations before taxes	185.7	362.6	255.3	413.2	362.2	303.3	242.2	215.4	228.4	153.6	135.6
Earnings from continuing operations, net	104.2	235.3	146.2	268.1	231.8	192.4	166.8	135.3	153.1	119.4	84.1
Earnings (loss) from discontinued operations, net	—	—	—	—	—	—	—	(96.6)	11.0	35.2	28.6
Cumulative effect of change in accounting principle, net	—	—	—	—	—	—	—	(32.9)	—	—	—
Net earnings	104.2	235.3	146.2	268.1	231.8	192.4	166.8	5.8	164.1	154.6	112.7
Basic earnings per share											
Continuing operations	1.38	2.99	1.76	3.24	2.82	2.35	2.05	1.67	1.91	1.50	1.07
Discontinued operations	—	—	—	—	—	—	—	(1.19)	.14	.44	.36
Cumulative effect of change in accounting principle	—	—	—	—	—	—	—	(.41)	—	—	—
Basic earnings per share	1.38	2.99	1.76	3.24	2.82	2.35	2.05	.07	2.05	1.94	1.43
Diluted earnings per share											
Continuing operations	1.37	2.97	1.75	3.21	2.81	2.34	2.04	1.66	1.89	1.48	1.05
Discontinued operations	—	—	—	—	—	—	—	(1.19)	.14	.44	.36
Cumulative effect of change in accounting principle	—	—	—	—	—	—	—	(.40)	—	—	—
Diluted earnings per share	$ 1.37	$ 2.97	$ 1.75	$ 3.21	$ 2.81	$ 2.34	$ 2.04	$ .07	$ 2.03	$ 1.92	$ 1.41
Return on average shareholders' equity	6.8%	14.5%	8.7%	17.4%	17.6%	17.1%	17.4%	.6%	20.2%	23.3%	21.5%
Cash dividends per common share	$ .80	$ .80	$ .76	$ .68	$ .60	$ .52	$ .48	$ .40	$ .32	$ .24	$ .14
Consolidated Financial Position											
Current assets	$ 1,910.2	$ 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
Current liabilities	2,204.3	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
Working capital	(294.1)	(218.4)	235.2	151.3	173.0	237.1	378.2	293.2	311.3	238.8	238.7
Property, plant and equipment, net	2,223.0	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
Total assets	4,886.1	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
Capitalization											
Short-term debt*	247.9	430.7	88.8	67.2	60.8	58.4	61.8	75.6	52.3	2.1	36.8
Long-term debt	317.5	300.4	300.5	3.0	2.9	24.4	59.6	61.3	75.7	57.6	62.5
Shareholders' equity	1,581.4	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
Total capitalization	$ 2,146.8	$ 2,256.7	$ 2,130.4	$ 1,739.9	$ 1,494.5	$ 1,303.3	$ 1,165.5	$ 1,017.7	$ 1,028.6	$ 801.0	$ 689.2
Total debt as a percent of total capitalization	26.3%	32.4%	18.3%	4.0%	4.3%	6.4%	10.4%	13.5%	12.4%	7.5%	14.4%
Shareholders' equity per common share	$ 20.80	$ 20.19	$ 20.79	$ 19.93	$ 17.20	$ 14.79	$ 12.72	$ 10.81	$ 11.10	$ 9.22	$ 7.39
Common shares outstanding at October 31	76.0	75.6	83.7	83.8	83.2	82.5	82.1	81.5	81.1	80.4	79.8
Other Data											
New awards	$ 6,789.4	$ 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
Backlog at year end	9,142.0	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
Capital expenditures and acquisitions**	504.3	612.9	647.4	484.5	335.1	274.8	171.5	272.7	106.5	126.4	130.4
Cash provided by operating activities	$ 464.9	$ 702.5	$ 328.6	$ 406.9	$ 366.4	$ 458.6	$ 188.7	$ 306.1	$ 219.0	$ 353.1	$ 265.1

Includes commercial paper, loan notes, a note payable to affiliate, miscellaneous trade notes payable and the current portion of long-term debt.

***Excludes discontinued operations.*

See Management's Discussion and Analysis on pages 28 to 37 and Notes to Consolidated Financial Statements on pages 42 to 53 for information relating to significant items affecting the results of operations.

Management's Discussion and Analysis

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. For purposes of reviewing this document "operating profit" is calculated as revenues less cost of revenues excluding: corporate administrative and general expense; interest expense; interest income; domestic and foreign income taxes; gain or loss on discontinued operations; the cumulative effect of a change in accounting principles; and certain other miscellaneous non-operating income and expense items which are immaterial.

Results of Operations

As a result of a strategic reorganization, during 1999 the company realigned its operating units into four business segments (which the company refers to as Strategic Business Enterprises): Fluor Daniel, Fluor Global Services, Coal and Fluor Signature Services. The Fluor Daniel segment provides design, engineering, procurement and construction services on a worldwide basis to an extensive range of industrial, commercial, utility, natural resources and energy clients. The Fluor Global Services segment, which includes American Equipment Company, TRS Staffing Solutions, Fluor Federal Services, Telecommunications, Operations & Maintenance and Consulting Services, provides outsourcing and asset management solutions to its customers. The Coal segment 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. Fluor Signature Services, which commenced operations on November 1, 1999, was created to provide business administration and support services for the benefit of the company and ultimately, to unaffiliated customers.

To implement the reorganization, the company recorded a special provision of $117.2 million – see Strategic Reorganization Costs elsewhere in Management's Discussion and Analysis. The provision was not allocated to the business segments.

Fluor Daniel Segment

Total 1999 new awards were $4.8 billion compared with $8.2 billion in 1998 and $10.4 billion in 1997. The following table sets forth new awards for each of the segment's business units:

Year ended October 31,	1999	1998	1997
(in millions)			
Chemicals & Life Sciences	$1,211	$3,053	$ 4,166
	25%	37%	40%
Oil, Gas & Power	2,599	2,302	2,814
	55%	28%	27%
Mining	26	464	1,595
	1%	6%	15%
Manufacturing	785	1,856	1,741
	16%	23%	17%
Infrastructure	136	498	50
	3%	6%	1%
Total new awards	$4,757	$8,173	$10,366
	100%	100%	100%
United States	$2,267	$4,112	$ 3,885
	47%	50%	37%
International	2,490	4,061	6,481
	53%	50%	63%
Total new awards	$4,757	$8,173	$10,366
	100%	100%	100%

New awards in 1999 were lower compared with 1998, reflecting both the lingering impact of deferred capital spending by clients, primarily in the petrochemical and mining industries, and the company's continuing emphasis on greater project selectivity. 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. However, given the improving global economic conditions, including significantly higher oil prices and the recent stabilizing of commodity prices, the company is optimistic about the level of new awards in 2000.

Since 1997 the trend in new awards activity within each business unit reflects the impact of the economic conditions and operating strategies noted above. There were no individual new awards in excess of $550 million in either 1999 or 1998. New awards for the Chemicals & Life Sciences business unit in 1997 included the $1.9 billion Yanpet project, a petrochemical complex in Saudi Arabia. The Mining business unit's new awards are down significantly from 1997 primarily due to depressed commodity prices, thereby limiting new projects, as well as this unit's focus on project selectivity. The decrease in new awards in 1999 compared with 1998 and 1997 for the Manufacturing business unit is primarily the result of an increased focus on project selectivity.

Backlog at October 31, 1999, 1998 and 1997 was $6.8 billion, $10.4 billion and $12.3 billion, respectively.

(See page 18 in this annual report for information relating to backlog by business unit.) The decrease in total backlog is consistent with the downward trend in new awards. Work performed on existing projects has exceeded new awards in both 1999 and 1998. The decrease in backlog from projects located outside the United States at October 31, 1999, resulted from work performed on international projects such as a copper and gold mine in Indonesia and the aforementioned petrochemical project in Saudi Arabia, in addition to a 39 percent decrease in international-related new awards. 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.

Fluor Daniel revenues decreased to $8.4 billion in 1999 compared with $9.7 billion in 1998 and $10.2 billion in 1997, primarily due to a continuing decline in the volume of work performed. The decline in revenues is consistent with the downward trend in new awards, reflecting both deferred capital spending by clients as well as the company's emphasis on project selectivity. Fluor Daniel operating profit was $160 million in 1999, $161 million in 1998 and $70 million in 1997. Despite a 14 percent decline in revenues, operating margins for the year ended October 31, 1999 improved over the same period in 1998, primarily due to improved project execution. Operating results for the year ended October 31, 1997, reflect provisions totaling $118.2 million recorded for estimated losses on certain contracts and adjustments to project-related investments and accounts receivable. Results for 1997 also included charges totaling $25.4 million related to implementation of certain cost reduction initiatives.

Results for the year ended October 31, 1999 for Fluor Daniel include a provision totaling $84 million for process design problems which arose on its Murrin Murrin Nickel Cobalt project located in Western Australia. The company anticipates recovering a portion of this amount and, accordingly, has recorded $64 million in expected insurance recoveries. The result on operating profit was a negative $20 million impact which reflects costs in excess of contract maximums and which are not otherwise recoverable from any insurance coverage. During the fourth quarter of 1999, Fluor Daniel completed a more definitive estimate of costs required to address the design problems and potential insurance recoveries. As a result of this effort, both the estimated cost and expected insurance recovery amounts discussed above include an upward revision of $20 million.

The majority of Fluor Daniel'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, Fluor Daniel 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. Fluor Daniel continues to focus on improving operating margins by enhancing selectivity in the projects it pursues, lowering overhead costs and improving project execution.

The Fluor Daniel segment made no significant business acquisitions during 1999, 1998 or 1997.

Fluor Global Services Segment

Total 1999 new awards were $2.0 billion compared with $1.8 billion in both 1998 and 1997. The following table sets forth new awards for each of the segment's business units:

Year ended October 31,	1999	1998	1997
(in millions)			
Fluor Federal Services	$ 582	$ 451	$ 497
	29%	25%	28%
Telecommunications	646	30	277
	32%	2%	16%
Operations & Maintenance	772	1,106	713
	38%	61%	41%
Consulting Services and Other	32	232	269
	1%	12%	15%
Total new awards	$2,032	$1,819	$1,756
	100%	100%	100%
United States	$1,928	$1,524	$1,558
	95%	84%	89%
International	104	295	198
	5%	16%	11%
Total new awards	$2,032	$1,819	$1,756
	100%	100%	100%

New awards in 1999 were higher compared with 1998, as a result of an increase in telecommunications projects. New awards in 1998 were slightly higher than 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 Fluor Global Services, primarily related to American Equipment Company (AMECO) and TRS Staffing Solutions, a significant portion of this segment's activities are not includable in backlog.

Backlog at October 31, 1999, 1998 and 1997 was $2.4 billion, $2.2 billion and $2.1 billion, respectively. (See page 18 in this annual report for information relating to backlog by business unit.) The increase in total backlog is consistent with the increasing trend in new awards. The backlog of Fluor Global Services is concentrated in the United States, representing approximately 90 percent, 88 percent and 92 percent of the total backlog at the end of 1999, 1998 and 1997, respectively. Although backlog reflects business that 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.

Fluor Global Services revenues increased to $2.9 billion in 1999 compared with $2.6 billion in 1998, as the result of higher revenues in its AMECO, Fluor Federal Services and Telecommunications business units. The decline in Fluor Global Services revenues from $3.0 billion in 1997 to $2.6 billion in 1998 was primarily due to a reduction in revenues related to its environmental strategies business which was phased out during 1998. Operating profit for the segment was $92 million in 1999, $81 million in 1998 and $52 million in 1997. Gross margin in 1999 declined to 9.4 percent from 11.2 percent in 1998 primarily due to the AMECO business unit, which is being adversely impacted by the increasingly competitive equipment sale and rental industry. Despite the lower gross margin, operating profit increased in 1999 compared with 1998 primarily due to the elimination of certain unprofitable operations which negatively impacted 1998. The improvement in operating results in 1998 as compared with 1997 is due primarily to losses incurred during 1997 by various unprofitable business units that were eliminated in 1998.

The majority of Fluor Global Services' contracts provide for reimbursement of costs plus a fixed or percentage fee. Due to intense competitive market conditions, there is an increasing trend for contracts with incentive-fee arrangements or fixed or unit price contracts. In certain instances, contracts provide 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.

In December 1996, TRS Staffing Solutions, the segment's temporary personnel services business unit, 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 consolidated results of operations would not have differed materially from actual results.

In October 1998, the company entered into an agreement to sell its ownership interest in Fluor Daniel GTI, Inc. ("FD/GTI"), an environmental services company. 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, the company completed the sale of ACQUION, a global provider of supply chain management services, for $12 million in cash, resulting in a pre-tax gain of $7 million.

Coal Segment

Revenues and operating profit from Coal operations in 1999 were $1.08 billion and $147 million, respectively, compared with $1.13 billion and $173 million in 1998. Revenues and operating profit in 1997 were $1.08 billion and $155 million, respectively.

Revenues decreased $44 million in 1999 compared with 1998 primarily due to the combination of a reduction in volume of the higher priced metallurgical coal and a decline in prices. Metallurgical coal volume decreased nearly 18 percent during 1999 compared with 1998. This decrease was more than offset by an increase in lower priced steam coal volume. Also contributing to the decline in coal revenues were lower realized prices for both steam and metallurgical coal. Steam coal prices declined 4 percent while metallurgical coal prices declined 2 percent. The metallurgical coal market continues to be adversely affected by steel imports from outside the United States and a weak U.S. coal export market. The imports have reduced demand for steel produced in the U.S. and thereby

reduced U.S. demand for metallurgical coal, which is used in steel production. Demand is weak for U.S. coal exported to foreign markets as the U.S. Dollar remains strong and the Asian economies slowly recover from their financial crises. Additionally, the market for steam coal, which is used to fire electric-generating plants, continues to be impacted by high customer inventory levels resulting from last year's mild winter and competition from western coals, which continue to penetrate the traditional eastern coal market areas. Gross profit for the year ended October 31, 1999 is down slightly from the same period in 1998 as a result of lower metallurgical coal sales volume and lower prices for both metallurgical and steam coal. Operating profit for 1999 is lower than 1998 due to higher fixed costs, primarily depreciation, depletion and amortization, as volume levels have remained relatively flat.

The market conditions described above have placed pressure on both the sales volume and pricing outlook for 2000. The company continues to focus on reducing mining production costs through expansion of its surface mining capabilities and utilization of longwall mining.

Revenues increased $46 million in 1998 compared with 1997 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 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.

Coal segment acquisitions during the three years ended October 31, 1999 were primarily focused on the purchase of additional low-sulfur 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 consolidated results of operations would not have differed materially from actual results.

Strategic Reorganization Costs

As noted above, during 1999 the company reorganized its engineering and construction operations. The company recorded a special provision of $117.2 million ($100.5 million after-tax) to cover direct and other reorganization related costs, primarily for personnel, facilities and asset impairment adjustments. The provision was initially recorded during the second quarter at the then estimated amount of $136.5 million ($119.8 million after-tax). Total estimated personnel costs associated with the reorganization were reduced during the fourth quarter as both the actual number of employee terminations as well as the cost per employee termination were lower than originally estimated.

Under the reorganization plan, approximately 5,000 jobs are expected to be eliminated. The provision includes amounts for personnel costs for certain affected employees that are entitled to receive severance benefits under established severance policies or by government regulations. Additionally, outplacement services may be provided on a limited basis to some affected employees. The provision also reflects amounts for asset impairment, primarily for property, plant and equipment; intangible assets (goodwill); and certain investments. The asset impairments were recorded primarily because of the company's decision to exit certain non-strategic geographic locations and businesses. The carrying values of impaired assets were adjusted to their current market values based on estimated sale proceeds, using either discounted cash flows or contractual amounts. Lease termination costs were also included in the special provision. The company anticipates closing 15 non-strategic offices worldwide as well as consolidating and downsizing other office locations. The closure or rationalization of these facilities is expected to be substantially complete by the end of fiscal year 2000.

As of October 31, 1999, the company has reduced headcount by approximately 5,000 employees and has closed 13 offices. The company anticipates closing two additional offices within the next six months. The special provision liability as of October 31, 1999 totaled $58.5 million. The remaining liability for personnel costs ($25.2 million) and asset impairments ($23.3 million) will be substantially utilized by April 30, 2000. The remaining liability associated with abandoned lease space ($9.7 million) will be amortized as an offset to lease expense over the remaining life of the respective leases starting on the date of abandonment.

Overhead beginning in 2000 is expected to be reduced by approximately $100 to $120 million annually as a result of the personnel reductions and office closures.

Other

Net interest expense for 1999 increased by $8.4 million compared with 1998 primarily due to an increase in interest expense resulting from higher average outstanding short-term borrowings used to fund the company's share repurchase program, which was completed in 1998. In addition, interest income declined as a result of lower average cash balances outstanding during the year. Net interest expense for 1998 increased compared with 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.

Corporate administrative and general expense for the year ended October 31, 1999 was $55.4 million compared with $22.6 million for the same period in 1998. The increase is due to higher stock-based compensation plan expense and an increase in consulting costs related to the development and implementation of the company's new strategic direction. Also included in corporate administrative and general expense for 1999 is approximately $8 million for the development of the company's Enterprise Resource Management system, *Knowledge@Work.* In addition, the year ended October 31, 1998 included a 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, 1998, increased as compared with 1997 due to costs associated with the company's strategic business planning effort, executive severance and recruiting costs. Also included was the $10 million credit noted above.

The effective tax rate for year ended October 31, 1999 is significantly higher than the amount reported for the same period in 1998 primarily due to certain non-U.S. items included in the special provision which did not receive full tax benefit. The effective tax rate for the year ended October 31, 1998 was essentially the same as the U.S. federal statutory rate. In 1997, the effective tax rate was materially higher than the U.S. federal statutory tax rate primarily due to foreign-based project losses, other project-related investment losses and certain implementation costs for cost reduction initiatives incurred during the year which did not receive full tax benefit.

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.

Financial Position and Liquidity

The decrease in cash provided by operating activities in 1999, compared with 1998, is primarily due to lower net earnings (adjusted for the non-cash and unexpended amounts of the special provision in 1999) and an increase in project-related operating assets and liabilities. Also contributing to the decline was an increase in inventories, for both equipment for sale/rental and coal. The increase in inventories is the result of slowing markets. The receipt of a $30 million tax refund also positively impacted operating cash flow in 1998. The increase in cash provided by operating activities in 1998, compared with 1997, 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, and the aforementioned tax refund. 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.

Cash utilized by investing activities totaled $375.2 million in 1999 compared with $563.3 million in 1998. The decrease resulted primarily from lower capital expenditures and acquisitions, net of proceeds from the sale of property, plant and equipment. Capital expenditures in 1999 were primarily for the Fluor Global Services segment, specifically for AMECO and directed toward acquiring machinery and equipment for its rental business, and for the Coal segment, which were directed toward developing existing reserves. In addition, capital expenditures in 1999 include approximately $26 million of costs associated with *Knowledge@Work*. The company also completed the sale of its ownership interest in FD/GTI during 1999 and received proceeds totaling $36.3 million. 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, net of proceeds from the sale of property, plant and equipment, increased in 1998 compared with 1997, primarily in the Fluor Global Services and Coal segments. Offsetting this increase was a significant decline in acquisitions, again primarily in the Fluor Global Services and Coal segments.

Cash utilized by financing activities totaled $220.6 million in 1999 compared with $98.0 million in 1998. During 1999 the company reduced commercial paper and loan notes by $299.2 million partially offset by the issuance of a $113.4 million note payable to an affiliate. In addition, the company became obligated with respect to $17.6 million in long-term municipal bonds. Cash utilized by financing activities totaled $98.0 million in 1998 compared with 1997 during which time the company provided cash from financing activities of $235.7 million. In 1998, the company had short-term borrowings of $341.8 million to fund its 1997/1998 share repurchase program. Under this program, the company repurchased 8.3 million shares of its common stock for a total of $379.0 million. In 1997, the company issued $300 million of 6.95 percent senior notes due March 1, 2007. Proceeds were used to fund operating working capital, capital expenditures and the company's share repurchase program. During 1997, the company purchased .6 million shares of its common stock for a total of $34 million.

Cash dividends decreased in 1999 to $60.7 million ($.80 per share) from $63.5 million ($.80 per share) in 1998 and $63.8 million ($.76 per share) in 1997 as a consequence of the reduced number of shares outstanding that resulted from the company's share repurchase program. In December 1999, the company announced an increase in its quarterly cash dividend from $.20 per share to $.25 per share in 2000.

The total debt to capitalization ratio at October 31, 1999, was 26.3 percent compared with 32.4 percent at October 31, 1998.

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 $113.7 million outstanding at October 31, 1999, compared with $245.5 million at October 31, 1998. In December 1998, the company expanded both its revolving credit facility and its commercial paper program from $400 million to $600 million. During January 1999, the company filed a shelf registration statement with the Securities and Exchange Commission for the sale of up to $500 million in debt securities.

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 that 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

In connection with its 1997/1998 share repurchase program, 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 2000 and gives the company the ultimate choice of settlement option, either physical settlement or net share settlement. As of October 31, 1999, the contract settlement cost per share exceeded the current market price per share by $11.44.

Although the ultimate choice of settlement option resides with the company, if the price of the company's common stock falls to certain levels, as defined in the contract, the holder of the contract has the right to require the company to settle the contract.

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, 1999 and 1998, the company had forward foreign exchange contracts of less than eighteen months duration, to exchange principally Australian Dollars, Canadian 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 expired December 1999. The total gross notional amount of these contracts at October 31, 1999 and 1998 was $124 million and $106 million, respectively. Forward contracts to purchase foreign currency represented $122 million and $102 million, and forward contracts to sell foreign currency represented $2 million and $4 million, at October 31, 1999 and 1998, 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 those which may be found in 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"). 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 company identified and assigned priority to certain mission critical systems. The company defines mission critical systems as 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.

The company's Y2K Program has been implemented in the following three phases: (1) Identification Phase – includes the identification and assessment of Year 2000 problems requiring systems modifications or replacements; (2) Remediation Phase – includes the remediation and testing of systems having Year 2000 problems and the identification of compliant systems' installation scheduled during 1999; and (3) Contingency Planning Phase – includes the development of contingency and business continuity plans to mitigate the effect of any system or equipment failure. The timeframe for each phase of the Y2K Program are represented in the following table:

	Start Date	End Date
Identification Phase	Early 1996	December 31, 1998
Remediation Phase	Late 1996	October 31, 1999
Contingency Planning Phase	Late 1998	Ongoing into 2000

As of October 31, 1999, the company's software applications are Year 2000 compliant, although a small number of systems have a November installation date to accommodate user system schedules. As of October 31, 1999, the company's hardware is Year 2000 compliant with the exception of the phone system at one business unit where a compliant system is scheduled for installation in early December. Transitioning into Year 2000, the company did not experience any material issues and all of its computer systems are operating normally. The company will continue to monitor its systems on an ongoing basis for the immediate future. As of January 13, 2000, the company has not been made aware of any Year 2000 disruptions for which it is responsible at any of its various project sites throughout the world.

With respect to systems acquired by the company for its own account or the account of customers, the company uses standard compliance processes to certify Year 2000 compliance. The company requires that all suppliers certify and, where appropriate, guarantee that the systems and equipment they provide to the company for its own account and the account of its customers are Year 2000 compliant. In addition to requiring such certifications, the company also has completed a process of reviewing the Year 2000 compliance of critical suppliers. Actions included the review of remediation and testing of specific equipment, review of suppliers' corporate Year 2000 progress and confirmation of electronic exchange formats. Where appropriate, the company has followed up its review of supplier information with telephone interviews

and on-site visits. Where a supplier has not, or cannot, satisfy the company's Year 2000 requirements, the company has sought alternate suppliers, subject to customer requirements and contract specifications. Although initial reviews and the results following the company's transition into Year 2000 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 all Year 2000 issues have been resolved in a timely manner.

With respect to Engineering Systems, the company has retired approximately 38 percent of its engineering applications software to streamline its operations, reduce support costs and avoid costs of Year 2000 remediation. The cost of such software, to the extent originally capitalized, has been fully amortized and the company does not expect any significant write off as the result of such retirement. The implementation of compliant versions of all remaining Engineering Systems is complete, with the remediation of those remaining applications largely being addressed via upgrades.

All Project Site Specific Systems are Year 2000 ready, including the Department of Energy's projects and the control systems in use at the company's coal plants.

With respect to Customer Systems and current customer projects generally, the company has evaluated those systems and projects to determine whether or not any action is required to ensure Year 2000 readiness. The company has reviewed projects where it has ongoing warranty or performance obligations for Year 2000 issues. It targeted approximately 1,600 projects for additional Year 2000 assessment, all of which have been reviewed. At those projects where Year 2000 issues may exist, the company has evaluated what further action is required and any required remediation and contingency planning is complete. 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. As discussed above, the company has implemented a procedure for reviewing Year 2000 compliance by its suppliers, which will be ongoing into year 2000.

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.

The company has investments in various joint ventures and has monitored the Year 2000 efforts of such joint ventures. Based on available information, the company believes business systems used in such joint ventures are Year 2000 ready.

The company uses both internal and external resources in its Y2K Program. The company estimates that, from 1996 to date, it has spent approximately $25 million on the Year 2000 issue. It anticipates spending an additional $.6 million during the first quarter of fiscal year 2000. The estimate of additional spending was derived utilizing numerous assumptions, including the assumption that the company has already identified and completed 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.

The company estimates that 44 percent of the total costs incurred for the Y2K Program have been incurred to remediate systems (including software upgrades); the remaining 56 percent of the total costs incurred have been incurred to replace systems and equipment. The company estimates its direct costs for the Y2K Program (costs necessary to assess and remediate existing systems) are approximately $14 million. In addition to the direct costs of the Y2K Program, the company has accelerated its program of replacing out-of-date personal computers and operating systems, regardless of whether or not such computers and systems were Year 2000 compliant. All replacement equipment and systems are Y2K compliant. The costs associated with those replacements are estimated at $11 million. The company estimates it has spent $14 million to date and will spend an additional $.3 million in connection with replacing equipment and systems.

The Y2K Program has been funded under the company's general IT and operating budgets. In 1999, Y2K Program costs were 11 percent of the IT budget. The Year 2000 expenditures have been and will continue to be expensed and deducted from income when incurred, except for costs incurred to acquire new software developed or obtained to replace old software which may be capitalized and amortized under generally accepted accounting principles. No significant internal systems projects were deferred due to the Y2K Program efforts. The above amounts are the company's best estimate given other

systems initiatives that were ongoing irrespective of the Y2K Program (such as the migration to Windows NT and related hardware upgrades). However, there can be no guarantee that these assumptions are accurate, and actual results could differ materially from those anticipated.

The company has developed contingency plans to address the Year 2000 issues that may pose a significant risk to its ongoing operations and existing projects, including an early warning system developed for the millennium transition. Such plans 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, with systems and equipment provided to clients and with systems and equipment supplied by third parties. Due to the large number of variables involved with estimating resultant lost revenues should there be a third party failure, the company cannot provide an estimate of damage if any of the scenarios were to occur. 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, the Year 2000 readiness of third parties and the Year 2000 compliance of systems and equipment provided by suppliers.

The company believes that its most reasonably likely worst case Year 2000 scenarios would relate to problems with the systems of third parties, rather than with the company's internal systems. At this time, the company believes that risks are greatest in the area of third party system and equipment suppliers. Each of the company's locations relies on suppliers for basic utility service as well as the timely provision of project services and equipment. If the supply of such necessary services and equipment were to fail at any location, the company's operations at that location, whether consisting of engineering, design or construction activities, maintenance services or coal mining and processing, would essentially be shut down or disrupted until such services and equipment deliveries were restored. Depending on the location, the company could suffer delays in performing contracts and in otherwise fulfilling its commitments. Such delays could materially adversely impact the company's receipt of payments due from customers upon its tender of contract deliverables or upon achievement of contract milestones. The company believes that the geographical dispersion of the company's facilities mitigates the risk that such failures in any locale or at any project site will result in the simultaneous closure of, or sustained suspension of operations at, multiple company facilities or at project sites. Consequently, to the extent practical, the company expects to mitigate any interruption in its business operations in one location by shifting the performance of the constrained activity to a functioning office or facility. There may be instances, however, where the activity cannot be performed elsewhere or on a timely basis given the disruption caused by the Year 2000 problems in any location. In such instances, the company will assess the relevant provisions of its contracts and, where it deems appropriate, work with its customers to resolve performance and schedule delays and any resulting financial consequences on a mutually satisfactory basis to the extent possible under then prevailing circumstances.

No assurance can be given that the company will achieve all aspects of 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

Given the nature and size of the company's European operations, the company does not perceive the conversion to the Euro as a significant risk. The company's businesses operate under long-term contracts, typically denominated in U.S. Dollars, compared with more traditional retail or manufacturing environments. If required, the company is currently able to bid, price and negotiate contracts using the Euro. The company's treasury function is also capable of operating with the Euro. Specifically, the company is able to: establish bank accounts; obtain financing; obtain

bank guarantees or letters of credit; trade foreign currency; and hedge transactions. The company's ongoing Euro conversion effort will be primarily concentrated in the systems area.

Conversion to the Euro impacts the company's subsidiaries in The Netherlands, Germany, Belgium and Spain. All subsidiaries use a standard accounting system and all reside in the same database. The company's conversion plan is to maintain the legacy database for historical reference and to create a new database with the Euro as the base currency. The new database will permit transactions to take place in both legacy currencies and the Euro as well as perform prescribed rounding calculations. The new Euro-based database is available and testing is in progress. Full conversion is anticipated to be complete by the start of fiscal year 2001.

The company has not incurred and it does not expect to incur any significant costs from the continued conversion to the Euro, including any currency risk, which could significantly affect the company's business, financial condition and results of operations.

The company has not experienced any significant operational disruptions to date and does not currently expect the continued conversion to the Euro to cause any significant operational disruptions, including the impact of systems operated by others.

New Accounting Pronouncements

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, as amended, is effective for the company's fiscal year 2001. 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,	1999	1998
(in thousands)		
Assets		
Current Assets		
Cash and cash equivalents	$ 209,614	$ 340,544
Accounts and notes receivable	850,557	959,416
Contract work in progress	416,285	596,983
Inventories	248,118	198,645
Deferred taxes	105,502	81,155
Other current assets	80,095	64,108
Net assets held for sale	—	36,300
Total current assets	1,910,171	2,277,151
Property, Plant and Equipment		
Land	71,664	69,779
Buildings and improvements	352,883	352,653
Machinery and equipment	2,103,663	2,012,539
Mining properties and mineral rights	858,965	788,978
Construction in progress	81,422	56,282
	3,468,597	3,280,231
Less accumulated depreciation, depletion and amortization	1,245,644	1,132,923
Net property, plant and equipment	2,222,953	2,147,308
Other Assets		
Goodwill, net of accumulated amortization of $32,458 and $33,766, respectively	116,045	139,091
Investments	167,891	137,562
Other	469,057	318,096
Total other assets	752,993	594,749
	$4,886,117	$5,019,208
Liabilities and Shareholders' Equity		
Current Liabilities		
Trade accounts and notes payable	$ 798,751	$ 972,096
Commercial paper, loan notes and a note payable to affiliate of $113,379 in 1999	242,625	428,458
Advance billings on contracts	565,373	546,816
Accrued salaries, wages and benefit plan liabilities	321,148	324,412
Other accrued liabilities	276,413	223,596
Current portion of long-term debt	—	176
Total current liabilities	2,204,310	2,495,554
Long-Term Debt Due After One Year	317,555	300,428
Noncurrent Liabilities		
Deferred taxes	162,210	105,515
Other	620,670	592,102
Total noncurrent liabilities	782,880	697,617
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 1999 — 76,034,296 shares and in 1998 — 75,572,537 shares	47,521	47,233
Additional capital	217,844	199,077
Retained earnings	1,375,338	1,331,843
Unamortized executive stock plan expense	(21,579)	(22,633)
Accumulated other comprehensive income	(37,752)	(29,911)
Total shareholders' equity	1,581,372	1,525,609
	$4,886,117	$5,019,208

See Notes to Consolidated Financial Statements.

Consolidated Statement of Earnings

Year ended October 31,	1999	1998	1997
(in thousands, except per share amounts)			
Revenues			
Engineering and construction services	$11,334,355	$12,377,476	$13,217,515
Coal	1,083,030	1,127,297	1,081,026
Total revenues	12,417,385	13,504,773	14,298,541
Cost of Revenues			
Engineering and construction services	11,090,520	12,140,901	13,096,310
Coal	936,173	954,535	926,260
Total cost of revenues	12,026,693	13,095,436	14,022,570
Other (Income) and Expenses			
Special provision	117,200	—	—
Corporate administrative and general expense	55,350	22,598	13,230
Interest expense	50,918	45,277	30,758
Interest income	(18,429)	(21,164)	(23,286)
Total cost and expenses	12,231,732	13,142,147	14,043,272
Earnings Before Taxes	185,653	362,626	255,269
Income Tax Expense	81,466	127,282	109,082
Net Earnings	$ 104,187	$ 235,344	$ 146,187
Earnings Per Share			
Basic	$ 1.38	$ 2.99	$ 1.76
Diluted	$ 1.37	$ 2.97	$ 1.75
Shares Used to Calculate Earnings Per Share			
Basic	75,228	78,801	83,091
Diluted	75,929	79,135	83,478

See Notes to Consolidated Financial Statements.

Consolidated Statement of Cash Flows

Year ended October 31,	1999	1998	1997
(in thousands)			
Cash Flows From Operating Activities			
Net earnings	$ 104,187	$ 235,344	$ 146,187
Adjustments to reconcile net earnings to cash provided by operating activities:			
Depreciation, depletion and amortization	318,204	288,870	248,353
Deferred taxes	29,268	28,780	25,428
Special provision, net of cash payments	85,410	—	—
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	(22,551)	168,576	(67,224)
Other, net	(49,642)	(19,051)	(39,860)
Cash provided by operating activities	464,876	702,519	328,624
Cash Flows From Investing Activities			
Capital expenditures	(504,334)	(600,933)	(466,202)
E&C businesses acquired	—	—	(141,718)
Coal businesses and reserves acquired	—	(12,004)	(39,482)
Proceeds from sales and maturities of marketable securities	—	10,089	59,289
Investments, net	(4,688)	(20,745)	(9,275)
Proceeds from sale of property, plant and equipment	105,154	125,493	50,996
Collection of notes receivable	—	—	77,496
Contributions to deferred compensation trusts	(8,160)	(21,365)	(43,026)
Net assets held for sale, including cash	36,300	(26,375)	—
Proceeds from sale of business	—	—	11,992
Other, net	549	(17,477)	(12,041)
Cash utilized by investing activities	(375,179)	(563,317)	(511,971)
Cash Flows From Financing Activities			
Cash dividends paid	(60,692)	(63,497)	(63,750)
(Decrease) increase in short-term borrowings, net	(299,212)	341,809	21,692
Proceeds from issuance of note payable to affiliate	113,379	—	—
Proceeds from (payments on) long-term debt, net	16,951	(285)	295,719
Stock options exercised	10,760	9,935	16,007
Purchases of common stock	—	(378,979)	(33,924)
Other, net	(1,813)	(6,965)	(37)
Cash (utilized) provided by financing activities	(220,627)	(97,982)	235,707
(Decrease) increase in cash and cash equivalents	(130,930)	41,220	52,360
Cash and cash equivalents at beginning of year	340,544	299,324	246,964
Cash and cash equivalents at end of year	$ 209,614	$ 340,544	$ 299,324

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	Unamortized Executive Stock Plan Expense	Accumulated Other Comprehensive Income	Retained Earnings	Total
Balance at October 31, 1996	83,791	$52,369	$ 573,037	$(32,538)	$ (701)	$1,077,559	$1,669,726
Comprehensive income							
Net earnings	—	—	—	—	—	146,187	146,187
Foreign currency translation adjustment (net of deferred taxes of $3,867)	—	—	—	—	(6,503)	—	(6,503)
Comprehensive income	—	—	—	—	—	—	139,684
Cash dividends ($.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
Balance at October 31, 1997	83,748	52,343	569,356	(33,441)	(7,204)	1,159,996	1,741,050
Comprehensive income							
Net earnings	—	—	—	—	—	235,344	235,344
Foreign currency translation adjustment (net of deferred taxes of $14,439)	—	—	—	—	(22,707)	—	(22,707)
Comprehensive income	—	—	—	—	—	—	212,637
Cash dividends ($.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)
Balance at October 31, 1998	75,573	47,233	199,077	(22,633)	(29,911)	1,331,843	1,525,609
Comprehensive income							
Net earnings	—	—	—	—	—	104,187	104,187
Foreign currency translation adjustment (net of deferred taxes of $4,910)	—	—	—	—	(7,841)	—	(7,841)
Comprehensive income	—	—	—	—	—	—	96,346
Cash dividends ($.80 per share)	—	—	—	—	—	(60,692)	(60,692)
Exercise of stock options, net	304	190	10,570	—	—	—	10,760
Stock option tax benefit	—	—	1,989	—	—	—	1,989
Amortization of executive stock plan expense	—	—	—	7,517	—	—	7,517
Issuance of restricted stock, net	157	98	6,208	(6,463)	—	—	(157)
Balance at October 31, 1999	76,034	$47,521	$ 217,844	$(21,579)	$(37,752)	$1,375,338	$1,581,372

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 1998 and 1997 amounts have been reclassified to conform with the 1999 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, 1999 will be billed and collected in 2000.

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

Basic earnings per share (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.

The impact of dilutive securities on the company's EPS calculation is as follows:

Year ended October 31,	1999	1998	1997
Employee stock options/ restricted stock	107,000	231,000	387,000
Equity forward contracts	594,000	103,000	–
	701,000	334,000	387,000

Inventories

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

At October 31,	1999	1998
(in thousands)		
Equipment for sale/rental	$131,781	$ 94,179
Coal	72,070	52,628
Supplies and other	44,267	51,838
	$248,118	$198,645

Internal Use Software

Effective for fiscal year 1999, the company adopted the American Institute of Certified Public Accountants' Statement of Position (SOP) 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use." The statement requires capitalization of certain costs incurred in the development of internal-use software, including external direct material and service costs,

employee payroll and payroll-related costs. Prior to the adoption of SOP 98-1, the company capitalized only purchased software which was ready for service; all other costs were expensed as incurred. The adoption of this statement did not have a material effect on the company's financial statements.

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 significant 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, 1999, the company had approximately $124 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 1999, 1998 and 1997 was immaterial. The contracts are of varying duration, none of which extend beyond December 2000. The company limits its 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, as amended, is effective for the company's fiscal year 2001. 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.

Comprehensive Income

Effective November 1, 1998, the company adopted Statement of Financial Accounting Standards No. 130, "Reporting Comprehensive Income," which establishes standards for the reporting and display of total comprehensive income and its components in financial statements. The adoption of this statement had no effect on the company's net earnings or total shareholders' equity.

Total comprehensive income represents the net change in shareholders' equity during a period from sources other than transactions with shareholders and as such, includes net earnings. For the company, the only other component of total comprehensive income is the change in the cumulative foreign currency translation adjustments recorded in shareholders' equity. Prior period financial statements have been reclassified to conform with the provisions of the new standard.

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, when present, 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,	1999	1998	1997
(in thousands)			
Decrease (increase) in:			
Accounts and notes receivable	$ 25,972	$ (84,394)	$(113,454)
Contract work in progress	180,698	73,575	(130,257)
Inventories	(49,473)	(23,197)	(40,303)
Other current assets	(16,054)	(192)	(17,028)
(Decrease) increase in:			
Accounts payable	(173,345)	127,229	130,992
Advance billings on contracts	18,557	21,298	79,510
Accrued liabilities	(8,906)	54,257	23,316
(Increase) decrease in operating assets and liabilities	$ (22,551)	$168,576	$ (67,224)
Cash paid during the year for:			
Interest expense	$ 47,558	$ 44,057	$ 25,491
Income tax payments, net	$ 52,025	$ 52,346	$ 75,967

Business Acquisitions

The following summarizes major engineering and construction related acquisitions completed during 1997. All of these acquisitions were in the Fluor Global Services segment. There were no major engineering and construction related acquisitions in 1999 and 1998.

- 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.

In 1998, the company's coal segment, through its Massey Coal Company ("Massey"), acquired coal reserves for an aggregate cost of $12 million. Massey purchased two coal mining companies during 1997. The aggregate purchase price was $39 million and included the fair value of assets acquired, consisting of $55 million of property, plant and equipment, and mining rights, $13 million of working capital and other assets, net of other liabilities assumed of $29 million. These acquisitions, along with capital expenditures, have been directed primarily towards acquiring additional coal reserves. There were no coal related acquisitions in 1999.

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 1997 through 1999, 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 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. The net assets of FD/GTI were reflected on the 1998 consolidated balance sheet at net realizable value and included $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 pre-tax gain of $7 million.

Special Provision and Cost Reduction Initiatives

In March 1999, the company announced a new strategic direction, including a reorganization of the operating units and administrative functions of its engineering and construction segment. In connection with this reorganization, the company recorded in the second quarter a special provision of $136.5 million pre-tax to cover direct and other reorganization related costs, primarily for personnel, facilities and asset impairment adjustments.

Under the reorganization plan, approximately 5,000 jobs are expected to be eliminated. The provision includes amounts for personnel costs for certain affected employees that are entitled to receive severance benefits under established severance policies or by government regulations. Additionally, outplacement services may be provided on a limited basis to some affected employees. The provision also reflects amounts for asset impairment, primarily for

property, plant and equipment; intangible assets (goodwill); and certain investments. The asset impairments were recorded primarily because of the company's decision to exit certain non-strategic geographic locations and businesses. The carrying values of impaired assets were adjusted to their current market values based on estimated sale proceeds, using either discounted cash flows or contractual amounts. Lease termination costs were also included in the special provision. The company anticipates closing 15 non-strategic offices worldwide as well as consolidating and downsizing other office locations. The closure or rationalization of these facilities is expected to be substantially completed by the end of fiscal year 2000.

As of October 31, 1999, the company has reduced headcount by approximately 5,000 employees and has closed 13 offices. The company anticipates closing two additional offices within the next six months. In October 1999, $19.3 million of the special provision was reversed into earnings as a result of lower than anticipated severance costs for personnel reductions in certain overseas offices. Both the actual number of employee terminations as well as the cost per employee termination were lower than originally estimated.

The following table summarizes the status of the company's reorganization plan as of October 31, 1999:

	Personnel Costs	Asset Impairments	Lease Termination Costs	Other	Total
(in thousands)					
Special provision	$ 72,200	$ 48,800	$14,500	$1,000	$136,500
Cash expenditures	(25,089)	(1,094)	(4,793)	(814)	(31,790)
Non-cash activities	(2,576)	(24,360)	—	—	(26,936)
Provision reversal	(19,300)	—	—	—	(19,300)
Balance at October 31, 1999	$ 25,235	$ 23,346	$ 9,707	$ 186	$ 58,474

The special provision liability as of October 31, 1999 is included in other accrued liabilities. The liability for personnel costs and asset impairments will be substantially utilized by April 30, 2000. The liability associated with abandoned lease space will be amortized as an offset to lease expense over the remaining life of the respective leases starting on the date of abandonment.

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, 1999, substantially all of these costs had been incurred.

Income Taxes

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

Year ended October 31,	1999	1998	1997
(in thousands)			
Current:			
Federal	$ 5,931	$ 38,700	$ 50,906
Foreign	43,012	52,021	25,801
State and local	3,255	7,781	6,947
Total current	52,198	98,502	83,654
Deferred:			
Federal	26,872	43,369	19,972
Foreign	(2,641)	(19,295)	3,908
State and local	5,037	4,706	1,548
Total deferred	29,268	28,780	25,428
Total income tax expense	$81,466	$127,282	$109,082

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,	1999	1998	1997
(in thousands)			
U.S. statutory federal tax expense	$64,979	$126,919	$ 89,344
Increase (decrease) in taxes resulting from:			
Items without tax effect, net	26,158	888	13,307
State and local income taxes	5,048	7,868	5,337
Depletion	(9,625)	(12,273)	(10,051)
Effect of non-U.S. tax rates	(396)	3,433	10,620
Other, net	(4,698)	447	525
Total income tax expense	$81,466	$127,282	$109,082

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,	1999	1998
(in thousands)		
Deferred tax assets:		
Accrued liabilities not currently deductible	$249,987	$ 224,319
Alternative minimum tax credit carryforwards	44,287	32,505
Net operating loss carryforwards of non-U.S. companies	29,133	22,441
Translation adjustments	23,955	19,045
Tax basis of building in excess of book basis	16,408	16,187
Net operating loss carryforwards of acquired companies	6,503	7,177
Other	71,926	73,599
Total deferred tax assets	442,199	395,273
Valuation allowance for deferred tax assets	(127,085)	(100,007)
Deferred tax assets, net	315,114	295,266
Deferred tax liabilities:		
Book basis of property, equipment and other capital costs in excess of tax basis	(294,628)	(254,008)
Tax on unremitted non-U.S. earnings	(16,361)	(15,806)
Other	(60,833)	(49,812)
Total deferred tax liabilities	(371,822)	(319,626)
Net deferred tax liabilities	$ (56,708)	$ (24,360)

The company has net operating loss carryforwards from non-U.S. operations of approximately $80 million which can be carried forward indefinitely until fully utilized. These losses primarily relate to the company's operations in Australia, Chile, Germany and the United Kingdom. Deferred tax assets established for these losses aggregate $29 million and $22 million at October 31, 1999 and 1998, respectively.

In 1997, the company acquired the SMA Companies which had net operating loss carryforwards of approximately $47 million. The company has utilized approximately $5 million of the loss carryforwards, and made an election in its 1998 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 $19 million expire in the years 2004 through 2008. The utilization of such loss carryforwards is subject to stringent limitations under the Internal Revenue Code. Deferred tax assets established for these losses aggregate $7 million for both 1999 and 1998.

Substantially all of the company's alternative minimum tax credits are 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 the special provision, net operating loss carryforwards and alternative minimum tax credits. In 1999, increases in the valuation allowance are principally the result of the company's special provision which did not receive full tax benefit. Any reductions in the allowance resulting from realization of the loss carryforwards of 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, 1999, because the company intends to keep those earnings reinvested indefinitely.

United States and foreign earnings before taxes are as follows:

Year ended October 31,	1999	1998	1997
(in thousands)			
United States	$168,698	$240,645	$231,921
Foreign	16,955	121,981	23,348
Total	$185,653	$362,626	$255,269

Retirement Benefits

The company sponsors contributory and non-contributory defined contribution retirement and defined benefit pension plans for eligible employees. Contributions to defined contribution retirement plans are based on a percentage of the employee's compensation. Expense recognized for these plans of approximately $56 million in 1999, $79 million in 1998, and $84 million in 1997, is primarily related to domestic engineering and construction operations. Effective January 1, 1999, the company replaced its domestic defined contribution retirement plan with a defined benefit cash balance plan. 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, age 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 expense (income) for defined benefit pension plans includes the following components:

Year ended October 31,	1999	1998	1997
(in thousands)			
Service cost	$35,370	$ 15,792	$ 15,301
Interest cost	25,088	24,220	23,743
Expected return on assets	(49,032)	(48,236)	(44,334)
Amortization of transition asset	(2,132)	(2,196)	(2,296)
Amortization of prior service cost	337	355	347
Recognized net actuarial loss (gain)	58	(1,444)	(1,288)
Net periodic pension expense (income)	$ 9,689	$(11,509)	$ (8,527)

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,	1999	1998
Discount rates	6.0–7.75%	5.0–6.75%
Rates of increase in compensation levels	3.5–4.00%	2.5–4.00%
Expected long-term rates of return on assets	5.0–9.50%	5.0–9.50%

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,	1999	1998
(in thousands)		
Change in pension benefit obligation		
Benefit obligation at beginning of year	$438,866	$358,539
Service cost	35,370	15,792
Interest cost	25,088	24,220
Employee contributions	1,626	1,775
Currency translation	(19,068)	12,454
Actuarial (gain) loss	(22,808)	52,498
Benefits paid	(27,319)	(26,412)
Benefit obligation at end of year	$431,755	$438,866
Change in plan assets		
Fair value at beginning of year	$576, 019	$539,814
Actual return on plan assets	103,938	42,324
Company contributions	5,646	4,711
Employee contributions	1,626	1,775
Currency translation	(17,154)	13,999
Benefits paid	(27,319)	(26,412)
Plan amendments	(3,945)	(192)
Fair value at end of year	$638,811	$576,019
Funded status	$207,056	$137,153
Unrecognized net actuarial (gain) loss	(61,372)	16,579
Unrecognized prior service cost	170	601
Unrecognized net asset	(8,002)	(11,737)
Pension assets	$137,852	$142,596

Amounts shown above at October 31, 1999 and 1998 exclude the projected benefit obligation of approximately $101 million and $113 million, respectively, and an equal amount of associated plan assets relating to discontinued operations.

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, 1999, 1998 and 1997. 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 $56 million at October 31, 1999, which will be recognized as expense as payments are assessed. The expense recorded for such benefits was $4 million in 1999 and 1998 and $7 million in 1997.

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, 1999 and 1998 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 7.8 percent in 2000 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 $11.8 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 $8.9 million and $2.5 million, respectively.

Net periodic postretirement benefit cost includes the following components:

Year ended October 31,	1999	1998	1997
(in thousands)			
Service cost	$3,850	$3,506	$3,107
Interest cost	5,724	5,820	6,338
Expected return on assets	—	—	—
Amortization of prior service cost	140	124	—
Recognized net actuarial (gain) loss	(458)	(595)	142
Net periodic postretirement benefit cost	$9,256	$8,855	$9,587

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

At October 31,	1999	1998
(in thousands)		
Change in postretirement benefit obligation		
Benefit obligation at beginning of year	$93,975	$86,187
Service cost	3,850	3,506
Interest cost	5,724	5,820
Employee contributions	270	269
Actuarial (gain) loss	(15,303)	2,473
Benefits paid	(4,655)	(4,280)
Benefit obligation at end of year	$83,861	$93,975
Funded status	$(83,861)	$(93,975)
Unrecognized net actuarial (gain) loss	(11,650)	3,195
Unrecognized prior service cost	1,776	1,916
Accrued postretirement benefit obligation	$(93,735)	$(88,864)

The discount rate used in determining the postretirement benefit obligation was 7.75 percent and 6.75 percent at October 31, 1999 and 1998, 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:

	1999		1998	
Year ended October 31,	Carrying Amount	Fair Value	Carrying Amount	Fair Value
(in thousands)				
Assets:				
Cash and cash equivalents	$209,614	$209,614	$340,544	$340,544
Notes receivable including noncurrent portion	47,444	54,387	41,854	48,953
Long-term investments	60,609	72,667	59,734	76,064
Liabilities:				
Commercial paper, loan notes and notes payable	247,911	247,911	430,508	430,508
Long-term debt including current portion	317,555	312,580	300,604	319,654
Other noncurrent financial liabilities	9,789	9,789	8,486	8,486
Off-balance sheet financial instruments:				
Forward contracts to purchase common stock	—	(21,170)	—	(18,793)
Foreign currency contract obligations	—	(1,311)	—	1,964
Letters of credit	—	546	—	720
Lines of credit	—	965	—	1,077

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.

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.

Financing Arrangements

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 $600 million. Commitment and facility fees are paid on these lines. In addition, the company has $1.0 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, 1999, no amounts were outstanding under the committed lines of credit. As of that date, $235 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 $16 million were used for outstanding loan notes.

The company had $114 million and $245 million in unsecured commercial paper outstanding at October 31, 1999 and 1998, respectively. The commercial paper was issued at a discount with a weighted-average effective interest rate of 5.9 percent at October 31, 1999 and 5.3 percent at October 31, 1998.

At October 31, 1999 the company had a $113 million note payable to an affiliated entity. The note is due on demand and bears interest at the rate of 5.41 percent as of October 31, 1999.

Long-term debt comprises:

At October 31,	1999	1998
(in thousands)		
6.95% Senior Notes due March 1, 2007	$300,000	$300,000
Other bonds and notes	17,555	604
	317,555	300,604
Less: Current portion	—	176
Long-term debt due after one year	$317,555	$300,428

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.

Included in other bonds and notes are $18 million of 5.625% municipal bonds issued in July 1999. The bonds are due June 1, 2019 with interest payable semiannually on June 1 and December 1 of each year, commencing December 1, 1999. The bonds are redeemable, in whole or in part, at the option of the company at a redemption price ranging from 100 percent to 102 percent of the principal amount of the bonds on or after June 1, 2009. In addition, the bonds are subject to other redemption clauses, at the option of the holder, should certain events occur, as defined in the offering prospectus.

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 $61 million and $64 million at October 31, 1999 and 1998, 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 can include accelerated vesting for achievement of performance or stock price objectives. 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 vesting provisions based on the price of the company's stock. Additionally, 58,000 and 189,075 nonqualified stock options were issued during 1999 and 1998, respectively, and 10,925 incentive stock options were issued during 1998, with 20 percent to 25 percent vesting upon issuance and the remaining awards vesting in installments of 20 percent to 25 percent per year commencing one year from the date of grant.

Restricted stock awards issued under the plans provide that shares awarded may not be sold or otherwise transferred until restrictions have lapsed or performance objectives have been attained as established by the Committee. Upon termination of employment, shares upon which restrictions have not lapsed must be returned to the company. Restricted stock issued under the plans totaled 197,257 shares, 4,500 shares and 186,390 shares in 1999, 1998 and 1997, respectively.

As permitted by Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" (SFAS No. 123), 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. Recorded compensation cost for these plans totaled $8 million in 1999. 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. 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,	1999	1998	1997
(in thousands, except per share amounts)			
Net earnings			
As Reported	$104,187	$235,344	$146,187
Pro Forma	95,297	218,958	143,663
Diluted earnings per share			
As Reported	$ 1.37	$ 2.97	$ 1.75
Pro Forma	1.26	2.77	1.72

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 new grants:

	1999	1998	1997
Expected option lives (years)	6	5	6
Risk-free interest rates	4.51%	5.83%	6.30%
Expected dividend yield	1.38%	1.19%	1.15%
Expected volatility	33.76%	29.85%	24.58%

The weighted-average fair value of options granted during 1999, 1998 and 1997 was $15, $12 and $17, respectively.

The following table summarizes stock option activity:

	Stock Options	Weighted Average Exercise Price Per Share
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
Granted	1,079,810	43
Expired or canceled	(256,145)	47
Exercised	(303,736)	35
Outstanding at October 31, 1999	5,227,386	$47
Exercisable at:		
October 31, 1999	3,407,398	
October 31, 1998	3,210,580	
October 31, 1997	1,964,137	

At October 31, 1999, there are 1,089,902 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, 1999, there are 5,227,386 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 5.7 years; 3,407,398 of these options are exercisable with a weighted-average exercise price of $49.

At October 31, 1999, 3,674,875 of the 5,227,386 options outstanding have exercise prices between $35 and $49, with a weighted-average exercise price of $40 and a weighted-average remaining contractual life of 5.3 years; 2,010,480 of these options are exercisable with a weighted-average exercise price of $41. The remaining 1,552,511 outstanding options have exercise prices between $50 and $68, with a weighted-average exercise price of $61 and a weighted-average remaining contractual life of 6.4 years; 1,396,918 of these options are exercisable with a weighted-average exercise price of $61.

Lease Obligations

Net rental expense amounted to approximately $98 million, $92 million and $93 million in 1999, 1998 and 1997, respectively. The company's lease obligations relate primarily to office facilities, equipment used in connection with long-term construction contracts and other personal property.

During 1998, the company entered into a $100 million operating lease facility to fund the construction cost of its corporate headquarters and engineering center. The facility expires in 2004. Lease payments are calculated based on LIBOR plus approximately .35 percent. The lease contains an option to purchase these properties during the term of the lease and contains a residual value guarantee of $82 million. In addition, during 1999 the company entered into a similar transaction to fund construction of its Calgary office. The total commitment under this transaction is approximately $25 million.

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

At October 31, (in thousands)	
2000	$46,358
2001	43,531
2002	38,140
2003	34,595
2004	22,264
Thereafter	62,067

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.

Disputes have arisen between a Fluor Daniel subsidiary and its client, Anaconda Nickel, which primarily relate to the process design of the Murrin Murrin Nickel Cobalt project located in Western Australia. Both parties have initiated the dispute resolution process under the contract. Results for the year ended October 31, 1999 for the Fluor Daniel segment include a provision totaling $84 million for the alleged process design problems. If and to the extent that these problems are ultimately determined to be the responsibility of the company, the company anticipates recovering a substantial portion of this amount from available insurance and, accordingly, has also recorded $64 million in expected insurance recoveries. The company vigorously disputes and denies Anaconda's allegations of inadequate process design.

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, 1999, the company had extended financial guarantees on behalf of certain clients and other unrelated third parties totaling approximately $29 million.

In connection with its 1997/1998 share repurchase program, 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 2000 and gives the company the ultimate choice of settlement option, either physical settlement or net share settlement. As of October 31, 1999, the contract settlement cost per share exceeded the current market price per share by $11.44.

Although the ultimate choice of settlement option resides with the company, if the price of the company's common stock falls to certain levels, as defined in the contract, the holder of the contract has the right to require the company to settle the contract.

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.

On October 20, 1999, the U.S. District Court for the Southern District of West Virginia issued an injunction which prohibits the construction of valley fills over both intermittent and perennial stream segments as a part of mining operations. While Massey is not a party to this litigation, virtually all mining operations, including Massey, utilize valley fills to dispose of excess materials. This decision is now under appeal to the Fourth Circuit Court of Appeals and the District Court has issued a stay of its decision pending the outcome of the appeal. Based upon the current state of the appeal, the company does not believe that Massey mining operations will be materially affected during the pendency of the appeal. If and to the extent that the District Court's decision is upheld and legislation is not passed which limits the impact of the decision, then all or a portion of Massey's mining operations could be affected. The potential impact to Massey arising from this proceeding is not currently estimable.

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

In the fourth quarter of 1999, the company adopted Statement of Financial Accounting Standards No. 131, "Disclosures about Segments of an Enterprise and Related Information" (SFAS No. 131). The statement establishes new standards for the way that business enterprises report information about operating segments as well as the related disclosures about products and services, geographical areas and major customers. The adoption of SFAS No. 131 did not affect the consolidated results of operations or financial position of the company, but did affect the business segments that are disclosed. Prior year disclosures have been restated to conform to the new basis of reporting.

Fluor Daniel consists of five business units: Chemicals & Life Sciences; Oil, Gas and Power; Mining; Manufacturing; and Infrastucture. These units provide design, engineering, procurement and construction services on a worldwide basis to an extensive range of industrial, commercial, utility, natural resources and energy clients. The types of services provided by Fluor Daniel include: feasibility studies, conceptual design, detail engineering, procurement, project and construction management and construction.

Fluor Global Services consists of six business units: American Equipment Company; TRS Staffing Solutions; Fluor Federal Services; Telecommunications; Operations & Maintenance; and Consulting Services. These units provide a variety of services to clients in a wide range of industries. The types of services provided by Fluor Global Services include: equipment sales, leasing, services and outsourcing for construction and industrial needs; temporary technical and non-technical staffing specializing in technical, professional and administrative personnel; services to the United States government; repair, renovation, replacement, predictive and preventative services to commercial and industrial facilities; and productivity consulting services and maintenance management to the manufacturing and process industries.

Massey Coal is a single business unit which produces, processes and sells high-quality, low-sulfur steam coal to the utility industry as well as industrial customers, and metallurgical coal for the steel industry.

Fluor Signature Services is a single business unit established primarily to provide traditional business services and business infrastructure support to the company. Ultimately, such services may be marketed to external customers. Although operations for this segment did not start until November 1, 1999, historical total asset data has been presented for information purposes only.

The reportable segments follow the same accounting policies as those described in the summary of major accounting policies. Management evaluates a segment's performance based upon operating profit and operating return on assets. Intersegment revenues are insignificant. The company incurs costs and expenses and holds certain assets at the corporate level which relate to its business as a whole. Certain of these amounts have been charged to the company's business segments by various methods, largely on the basis of usage.

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.

Operating Information by Segment

(in millions)	Fluor Daniel	Fluor Global Services	Massey Coal	Fluor Signature Services	Total
1999					
External revenues	$ 8,403	$2,931	$1,083	—	$12,417
Depreciation, depletion and amortization	61	90	167	—	318
Operating profit before special provision	160	92	147	—	399
Total assets	1,017	1,041	1,956	$454	4,468
Capital expenditures	$ 51	$ 226	$ 227	—	$ 504
1998					
External revenues	$ 9,736	$2,642	$1,127	—	$13,505
Depreciation, depletion and amortization	67	72	150	—	289
Operating profit	161	81	173	—	415
Total assets	1,270	968	1,801	$465	4,504
Capital expenditures	$ 91	$ 214	$ 296	—	$ 601
1997					
External revenues	$10,180	$3,038	$1,081	—	$14,299
Depreciation, depletion and amortization	68	49	131	—	248
Operating profit	70	52	155	—	277
Total assets	1,259	894	1,619	$509	4,281
Capital expenditures	$ 83	$ 116	$ 267	—	$ 466

Reconciliation of Segment Information to Consolidated Amounts

(in millions)	1999	1998	1997
Operating Profit			
Total segment operating profit before special provision	$ 399	$ 415	$ 277
Special provision	(117)	—	—
Corporate administrative and general expense	(55)	(23)	(13)
Interest (expense) income, net	(33)	(24)	(8)
Other items, net	(8)	(5)	(1)
Earnings before taxes	$ 186	$ 363	$ 255

(in millions)	1999	1998	1997
Total assets			
Total assets for reportable segments	$ 4,468	$4,504	$4,281
Cash, cash equivalents and marketable securities	210	341	309
Other items, net	208	174	95
Total assets	$ 4,886	$5,019	$4,685

Enterprise-Wide Disclosures

		Revenues			Total Assets	
(in millions)	1999	1998	1997	1999	1998	1997
United States*	$ 7,139	$ 8,324	$ 9,347	$3,995	$4,082	$3,789
Europe	1,228	1,196	1,420	196	255	225
Central and South America	825	1,242	1,110	221	256	210
Asia Pacific (includes Australia)	1,575	1,435	1,545	265	252	315
Middle East and Africa	795	993	549	68	77	78
Canada	855	315	328	141	97	68
	$12,417	$13,505	$14,299	$4,886	$5,019	$4,685

**Includes export revenues to unaffiliated customers of $1.6 billion in 1999, $1.5 billion in 1998 and $1.8 billion in 1997.*

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.
Chairman of the Board and Chief Executive Officer

Ralph F. Hake
Executive 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, 1999 and 1998, and the related consolidated statements of earnings, cash flows, and shareholders' equity for each of the three years in the period ended October 31, 1999. 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 auditing standards generally accepted in the United States. 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, 1999 and 1998, and the consolidated results of its operations and its cash flows for each of the three years in the period ended October 31, 1999, in conformity with accounting principles generally accepted in the United States.

Orange County, California
November 19, 1999

Quarterly Financial Data

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
1999				
Revenues	$3,384,065	$3,091,307	$3,069,444	$2,872,569
Cost of revenues	3,291,204	3,001,212	2,967,562	2,766,715
Special provision	—	136,500	—	(19,300)
Earnings (loss) before taxes	74,899	(64,523)	73,537	101,740
Net earnings (loss)	51,081	(72,895)	50,152	75,849
Earnings (loss) per share				
Basic	.68	(.97)	.67	1.01
Diluted	$ .68	$ (.97)	$ .66	$ 1.00
1998				
Revenues	$3,399,019	$3,282,079	$3,528,852	$3,294,823
Cost of revenues	3,309,279	3,184,891	3,421,976	3,179,290
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

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 industry expertise and overall business knowledge.

There are regular quarterly meetings with numerous telephone discussions as necessary to handle matters requiring Board approval. Altogether there are six standing committees — the Executive Committee, Audit Committee, Finance Committee, Governance Committee, the Organization and Compensation Committee, and the Public Policy 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 five standing committees.

Audit Committee [2]

Peter J. Fluor, Chairman

The Audit Committee, which consists solely of independent outside directors, 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 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 provides 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, which consists of all the outside directors of the company, focuses on the membership, roles and responsibilities 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.

Public Policy Committee [6]

Vilma S. Martinez, Chairman

The Public Policy Committee provides guidance and recommendations regarding the company's policies and positions on significant public issues, the company's support of business, charitable and political organizations, and the company's workplace and employment practices. The committee functions as a key resource to the company in fulfilling its corporate citizenship objectives and responsibilities.

Board of Directors

Philip J. Carroll, Jr., 62, is chairman of the Board and chief executive officer. Joining Fluor in 1998, he previously spent 37 years with Shell Oil Company, serving as its president and chief executive officer for the last five years. 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 and Vulcan Materials Company. (1998)[1]

Don L. Blankenship, 49, is president and chief executive officer of A.T. Massey Coal Company. 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, the Governor's Mission West Virginia Board and the Norfolk Southern Advisory Board. (1996)[3]

Governor Carroll Campbell, Jr., 59, 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] [4]

Peter J. Fluor, 52, 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. He also serves as a director of Ocean Energy Corporation and Chase Bank of Texas, N.A. (1984)[1] [2] [4] [5]

Dr. David P. Gardner, 66, recently retired as president of the William and Flora Hewlett Foundation and is a 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, First Security Corporation, Digital Ventures, and Charitableway.com. (1988)[1] [4] [5] [6]

Thomas L. Gossage, 65, 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] [4] [5]

Admiral Bobby R. Inman, 68, 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 Corporation, SBC Communications Inc., Temple-Inland Inc., and Xerox Corporation. (1985)[1] [4] [5] [6]

Vilma S. Martinez, 56, is a partner at the law firm of Munger, Tolles & Olson LLP, and the former president and general counsel for the Mexican-American Legal Defense and Educational Fund. 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)[1] [2] [4] [6]

Dean R. O'Hare, 57, is chairman and chief executive officer of The Chubb Corporation, a leading provider of insurance. He is Chairman of the Coalition of Service Industries, Chairman of the U.S.-India Business Council and a member of the White House Advisory Committee for Trade Policy & Negotiations and the U.S. Trade Representative's Investment and Services Policy Advisory Committee. (1997)[2] [4] [5]

Lord Robin Renwick, 62, is a deputy chairman of the merchant bank, Robert Fleming, and a director 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, and was British Ambassador to South Africa (1987–91) and British Ambassador to the United States (1991–95). He was appointed to the House of Lords by Prime Minister Blair in 1997. (1997)[3] [4] [6]

James O. Rollans, 57, is president and chief executive officer of Fluor Signature Services. 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 direct responsibilities of chief financial officer from 1998 to 1999. He serves as a director of Flowserve Corporation, Inovision, L.P. and the Irvine Medical Center. (1997)

Dr. Martha R. Seger, 67, is a distinguished visiting professor of Finance at Adrian College 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 Kroger Company, Tucson Electric Power Company, and Xerox Corporation. (1991)[1] [3] [4] [6]

James C. Stein, 56, is president and chief executive officer of Fluor Global Services. He began his career at Fluor in 1964 and was named vice president of the Industrial Group in 1982. He received subsequent promotions, becoming group president of Diversified Services in 1994 when the group was formed. From 1997 to 1999, he served as president and chief operating officer of Fluor Daniel. 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.

Officers

Office of the Chairman

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

Diana Severs Ferguson
Vice President and Executive Director, Chairman's Office (1980)

Enterprise Senior Officers

Fluor Daniel

Alan L. Boeckmann
President and Chief Executive Officer (1979)

Paul E. Lewis, Jr.
President, Chemicals & Life Sciences (1973)

Robert A. McNamara
President, Manufacturing (1978)

Ronald W. Oakley
President, Infrastructure (1979)

Trevor J. Stafford
President, Mining (1989)

Mark A. Stevens
President, Oil, Gas & Power (1975)

Fluor Global Services

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

Kirk D. Grimes
President, Telecommunications (1980)

William J. Grubbs
President, TRS Staffing Solutions (1999)

Ronald G. Peterson
President, Operations & Maintenance (1995)

Thomas L. Roell
Vice President Operations, Fluor Federal Services (1975)

Charles H. Snyder
President, American Equipment Company (1972)

A.T. Massey Coal Company, Inc.

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

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

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

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

H. Drexel Short
Senior Vice President, General Operations (1981)

Fluor Signature Services

James O. Rollans
President and Chief Executive Officer (1982)

Fluor Constructors International, Inc.

Richard A. Flinton
Chairman (1960)

Global Development, Sales and Marketing

John L. Hopkins
President (1984)

Senior Staff Officers

Ralph F. Hake
Executive Vice President and Chief Financial Officer (1999)

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

Fred J. Grigsby, Jr.
Senior Vice President-Human Resources and Administration (1998)

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

Jake Easton III
Vice President-Strategic Planning (1975)

H. Steven Gilbert
Vice President-Knowledge@Work (1970)

Years in parentheses indicate the year each officer or executive joined the company.

Shareholders' Reference

Common Stock Information

At December 31, 1999, there were 76,246,247 shares outstanding and approximately 12,099 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 1999			
First Quarter	$0.20	45 1/16	37 11/16
Second Quarter	0.20	37 7/16	26 1/4
Third Quarter	0.20	42 7/8	35 1/4
Fourth Quarter	0.20	42 5/16	37 1/2
	$0.80		
Fiscal 1998			
First Quarter	$0.20	39 3/4	33 15/16
Second Quarter	0.20	52 1/4	37 13/16
Third Quarter	0.20	51 1/2	40 11/16
Fourth Quarter	0.20	46 7/8	34 5/8
	$0.80		

Form 10-K

A copy of the Form 10-K, which is filed with the Securities and Exchange Commission, is available upon request. Write to:
Senior Vice President-Law & Secretary
Fluor Corporation
One Enterprise Drive
Aliso Viejo, California 92656
(949) 349-2000

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, NJ 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, NJ 07606-1915
Attn: Securityholder Relations
(800) 813-2847

Requests may also be submitted via e-mail by visiting their web site 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 February 1. Fluor's annual meeting of shareholders will be held at 9:00 a.m. on March 8, 2000 at:
The Hyatt Regency Greenville
220 North Main Street
Greenville, South Carolina

Stock Trading

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

Dividend Reinvestment Plan

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

Duplicate Mailings

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

Fluor is a registered service mark of Fluor Corporation. Fluor Daniel, Fluor Global Services, Fluor Signature Services, *Knowledge@Work* and Fluor Federal Services are service marks of Fluor Corporation. AMECO is a registered service mark of American Equipment Company.

History of Stock Dividends and Splits Since Going Public in 1950

Date	Event
08/23/57	20% Stock Dividend
12/15/61	5% Stock Dividend
03/11/63	5% Stock Dividend
03/09/64	5% Stock Dividend
03/08/65	5% Stock Dividend
02/14/66	5% Stock Dividend
03/24/66	2 for 1 Stock Split
03/27/67	5% Stock Dividend
02/09/68	5% Stock Dividend
03/22/68	2 for 1 Stock Split
05/16/69	5% Stock Dividend
03/06/70	5% Stock Dividend
03/05/71	5% Stock Dividend
03/10/72	5% Stock Dividend
03/12/73	5% Stock Dividend
03/11/74	3 for 2 Stock Split
08/13/79	3 for 2 Stock Split
07/18/80	2 for 1 Stock Split

Company Contacts

Shareholders may call
(888) 432-1745

Shareholder Services:

Lawrence N. Fisher
(949) 349-6961

Investor Relations:

Lila J. Churney
(949) 349-3909

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

Web Site Address

www.fluor.com

Investor E-mail

Investor@fluor.com

Printed entirely on recycled paper.

FLUOR

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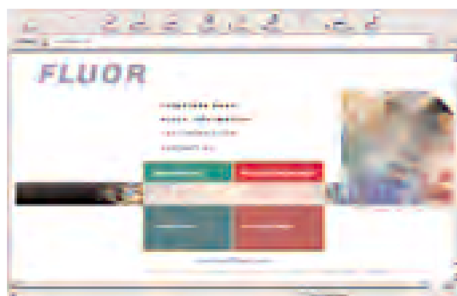
Aliso Viejo, California 92656

Features available to you on

http://www.fluor.com



- Review the latest news releases for Fluor as well as a six-year archive
- Find Fluor's latest stock price
- Compare Fluor's historical stock performance versus the S&P 500
- Find several years of financial publications available for downloading or on-line viewing, including annual reports, fact books and SEC filings
- Review recent presentations by management to the investor community on-line
- Listen to conference calls live and replays on-line
- Find fundamental financial information, ratios and trading statistics
- Register on-line to receive alerts via e-mail for new presentations, news releases and publications
- Review Fluor's event calendar and schedule reminder notices