

# KBR

## Q1 2016 FINANCIAL RESULTS

*April 29, 2016*



- Stuart Bradie – President and Chief Executive Officer*
- Brian Ferraioli – EVP and Chief Financial Officer*
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***We Deliver***

# Forward-Looking Statements



This presentation contains “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. These forward-looking statements include statements regarding our plans, objectives, goals, strategies, future events, future financial performance and backlog information and other information that is not historical information. When used in this presentation, the words “estimates,” “expects,” “anticipates,” “projects,” “plans,” “intends,” “believes,” “forecasts” or future or conditional verbs such as “will,” “should,” “could,” or “may,” and variations of such words or similar expressions are intended to identify forward-looking statements. All forward-looking statements are based upon our current expectations and various assumptions. Our expectations, beliefs, and projections are expressed in good faith, and we believe there is a reasonable basis for them. However, there can be no assurance that management’s expectations, beliefs, and projections will be achieved.

There are numerous risks and uncertainties, many of which are beyond our control, that could cause actual results to differ materially from the forward-looking statements contained in this presentation. These risks and uncertainties include, but are not limited to: current or future economic conditions; our ability to obtain and perform under contracts from existing and new customers, including the U.S. Government; exposure to cost overruns, operating cost inflation and potential liability claims and contract disputes; access to trained engineers and other skilled workers; risks relating to operating through joint ventures and partnerships; risks inherent in doing business internationally; potential tax liabilities; maritime risks; changes in the demand for our services and increased competition; protection of intellectual property rights; risks associated with possible future acquisitions; risks related to our information technology systems; impairment of goodwill and/or intangible assets; reduction or reversal of previously recorded revenues; risks relating to audits and investigations, including by governments; compliance with laws and regulations, and changes thereto, including those relating to the environment, trade, exports and bribery; our creditworthiness and ability to comply with the financial covenants in our credit agreement; and other risk factors discussed in our most recently filed Form 10-K, any subsequent Form 10-Qs and 8-Ks, and other Securities and Exchange Commission filings.

All forward-looking statements attributable to us, or persons acting on our behalf, apply only as of the date made and are expressly qualified in their entirety by the cautionary statements in this presentation. Except as required by law, we undertake no obligation to revise or update forward-looking statements to reflect events or circumstances that arise after the date made or to reflect the occurrence of unanticipated events.

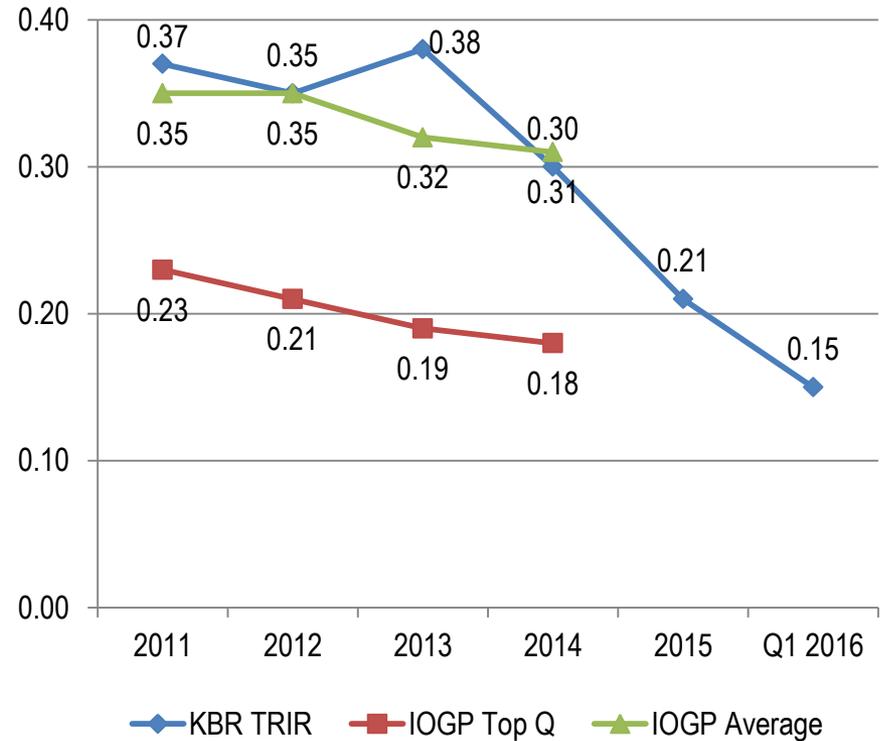
This presentation contains the financial measure “EBITDA,” which is not calculated in accordance with generally accepted accounting principles in the U.S. (“GAAP”). A reconciliation of the non-GAAP financial measure EBITDA to the most directly comparable GAAP financial measure has been provided in the Appendix to this presentation.



**Zero Harm is a Personal Relationship with Safety!**

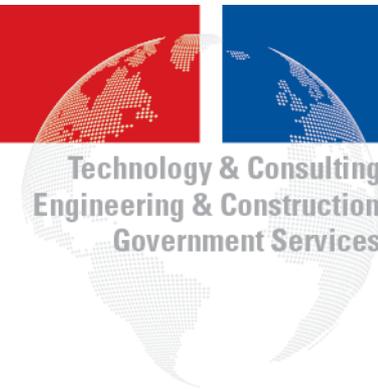


**6-Year TRIR Performance**



\* 2015 IOGP not yet available

# Summary



- Continued progress against strategic objectives and in key focus areas for 2016
- 1Q16 earnings reflect continued solid execution across KBR's core businesses
- With challenges in hydrocarbon markets, growth focus is shifting to growing Government Services business through high end, technically differentiated offerings
- Won £500M U.K. MoD Fixed Wing Training (MFTS) contract; remain preferred bidder for U.K MoD Army 2020 contract. Additional awards for U.S military int'l base operating support / task orders expected
- \$200M annualized cost savings on track with more than \$180M identified and actioned to-date
- Continued balanced capital allocation:
  - Currently paying a competitively yielding dividend
  - Acquired technology subsidiaries from Chematur in 1Q16; made modest investment in MFTS joint venture. Both consistent with strategy to expand Technology and Government Services portfolio
- Reaffirm 2016 guidance for fully diluted EPS between \$1.20 and \$1.45, excluding legal costs associated with legacy U.S. Government projects (estimated at \$15M or \$0.11 fully diluted earnings per share)

# Dispute Resolution Status Update



U.S. Government Audits (LogCAP III):	Status
KBR Billings: 2003-2011 appx. \$46B	Closed. 99.9% recovery rate
Sodium Dichromate Cases:	Status
	- Cases dismissed on the merits, including finding no one was injured (plaintiffs appealing)
	- Court ruled contract indemnification protects KBR
	- U.S. Gov't decided not to appeal ruling on KBR entitlement to legal cost reimbursement (~\$30M)
Pemex (\$465M award verdict in favor of KBR):	Status
2014:	Case on appeal by Pemex (\$465M security posted by Pemex)
2015:	Hearings completed; awaiting ruling

# Consolidated Results: Q1 2016 vs Q1 2015

Technology & Consulting  
Engineering & Construction  
Government Services

Quarter Ending

## Commentary

- Revenues reflect deconsolidation of B&R Industrial Services business (was \$126M in 1Q15), sale of Building Group in 2Q15 (was \$74M in 1Q15), reduced activity on non-strategic power projects and reduced activity on an LNG project.
- Gross profit and equity in earnings reflects solid business performance, growth in Government Services and the successful signing of a GS change order in the Middle East, the wind down of a major LNG project and a net \$4M negative impact from changes in estimates on other projects.
- G&A reflects cost reduction initiatives.
- Net Income largely reflects solid operational performance as described above.

(\$ in millions, except EPS)	Mar 31, 2016	Mar 31, 2015
New awards	\$ 792	\$ 682
Backlog of Unfilled Orders	\$ 12,019	\$ 10,287
Revenues	\$ 996	\$ 1,436
Gross profit	\$ 68	\$ 70
Equity in earnings	\$ 29	\$ 35
General & administrative expenses	(\$34)	(\$39)
Asset impairment and restructuring charges	(\$2)	(\$2)
Gain on disposition of assets	\$ 4	\$ 0
Benefit (Provision) for income taxes	(\$15)	(\$19)
Net income attributable to KBR	\$ 42	\$ 44
EPS (diluted)	\$ 0.30	\$ 0.30
EBITDA*	\$ 67	\$ 76

\*Consolidated EBITDA reconciliation provided in the Appendix.

# Segment Reporting: Q1 2016 vs Q1 2015




Technology & Consulting  
Engineering & Construction  
Government Services

## Quarter Ending

(\$ in millions)	Mar 31, 2016	Mar 31, 2015
<b>Revenues</b>		
Technology & Consulting	97	72
Engineering & Construction	606	977
Government Services	210	155
Non-Strategic Business	83	232
<b>Consolidated Revenues</b>	<b>996</b>	<b>1,436</b>
<b>Gross profit (Loss) and equity in earnings</b>		
Technology & Consulting	17	19
Engineering & Construction	47	76
Government Services	32	10
Non-Strategic Business	1	0
<b>Consolidated Gross profit &amp; equity in earnings</b>	<b>97</b>	<b>105</b>
<b>EBITDA</b>		
Technology & Consulting	16	18
Engineering & Construction	39	65
Government Services	31	10
Non-Strategic Business	5	0
Other	(24)	(17)
<b>Consolidated EBITDA*</b>	<b>67</b>	<b>76</b>

\*Consolidated EBITDA reconciliation provided in the Appendix.

## Revenue

- T&C reflects increased proprietary equip. sales; E&C primarily reflects deconsolidation of KBR's B&R Industrial Services business (\$126M) and lower revs on an LNG project; GS higher primarily related to U.S. Gov't contract awards; Non-Strategic reflects sale of Building Group in 2Q15 (\$74M ) and lower revenues from the completion of two of the company's three remaining power projects.

## Gross Profit and Equity in Earnings

- T&C reflects higher mix of proprietary equipment sales which carry a lower margin than technology license sales versus prior year results.
- E&C reflects solid underlying business performance, particularly on mega-LNG projects and a net \$4M negative impact from changes in estimates on other projects.
- GS reflects improved operational performance, task order awards and the successful signing of a \$15M change order for a program management project in the Middle East.
- Non-Strategic Business reflects good operational performance on the company's power project portfolio.

# Cash / Capital Allocation



Technology & Consulting  
Engineering & Construction  
Government Services

## KBR Cash Balance

(\$ in millions)	Q1 '16	Q4 '15
Domestic	\$339	\$360
International	\$429	\$470
JV	\$56	\$53
<b>Total</b>	<b>\$824</b>	<b>\$883</b>

## Return of Cash to Shareholders

(\$ in millions)	Q1 '16	Since Jan-07
Share Repurchases	\$2	\$795
Dividends	\$11	\$297
<b>Total Returned to SHs</b>	<b>\$13</b>	<b>\$1,092</b>

- Q1 cash reflects technology acquisitions from Chematur (\$25M), investment in JV supporting U.K. MoD MFTS project (\$14M) and payment of competitive yielding dividend (\$11M)



- Global Hydrocarbons market remains difficult for E&Cs; prudent cost management is essential but opportunities remain
- Magnolia LNG (\$4.3B EPC): FERC Approval; bid extended until Dec. 2016
- Ongoing demand across refining & petrochemicals
  - Middle East and North America
  - U.S. construction – expansions and major brownfield
- Maintenance and turnaround opportunities increasing as major IOCs and NOCs focus on increasing output efficiencies from existing assets
- Technology portfolio expansion opportunities

# Market Outlook (Continued)



- In Government Services, markets across the globe are expanding
  - Increase in U.S. Military overseas support
  - Strategic opportunities in U.K. & Europe
  - Increased spending committed in U.K. and Australia
  - Strategic focus on differentiated services (i.e. technical know how, intelligence)
- In Summary, in 2016 and beyond we see KBR's portfolio diversity driving opportunities for stronger Technology and Government Services sales and other annuity revenue streams across KBR providing more continuity and cyclical protection
- Our balance sheet provides strength, optionality and the ability to move quickly as strategic opportunities arise

# Summary



- Solid operational performance in 1Q16
- Technology and Government Services revenues increasing, offsetting E&C headwinds
- Booked MFTS contract in the U.K.
- Completed first acquisitions and balance sheet provides future optionality
- 2016 earnings per share guidance remains unchanged



# KBR

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## Appendix

# Consolidated EBITDA Reconciliation Q1 2016



Technology & Consulting  
Engineering & Construction  
Government Services

## Quarter Ending

<i>(\$ in millions)</i>	Mar 31, 2016	Mar 31, 2015
Net income attributable to KBR	\$ 42	\$ 44
Add Back:		
Interest income (expense)	(\$1)	(\$2)
Provision for income taxes	(\$15)	(\$19)
Depreciation & amortization	<u>(\$9)</u>	<u>(\$11)</u>
Consolidated EBITDA	\$ 67	\$ 76

*Note: EBITDA is defined as earnings before interest, income tax, depreciation and amortization*