

# KBR

## Q2 2015 FINANCIAL RESULTS

*August 4, 2015*



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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.

# KBR's Zero Harm 24/7



**ZERO**  
**HARM**  
courage to care

**Zero Harm is a  
Personal Relationship  
to Safety**

**KBR**

# Q2 Summary



Technology & Consulting  
Engineering & Construction  
Government Services

- Significantly improved earnings versus 2014 driven by strong operating performance.
- Two mega LNG projects continue to perform well. Expected to remain significant contributors to earnings in 2015 and 2016.
- Won strategically important Johan Sverdrup contract from Statoil – topsides for stage 1 of multi-staged development with longer-term opportunities for significant follow-on work.
- Gov't Services backlog now reflects value for full contract term vs. previous 5 year limit for U.K. PFI contracts (\$5.4 billion increase).
- Backlog from ongoing businesses relatively unchanged Q1 to Q2, excluding PFI adjustment.
- Strategy on track to achieve targeted margins and cost savings by Y/E 2016.
  - More than \$125M savings identified and actioned to-date; will be realized throughout 2015 and beyond.
  - Sold non-strategic Building Group subsidiary.
- Formed key strategic partnerships for industrial services, pipe fabrication to accelerate earnings growth:
  - 50/50 JV via Brown and Root Industrial Services – will expand our customer base and geographic reach for maintenance / small construction.
  - Pipe fabrication alliance will provide access to facilities on strategic gulf coast.
  - Both transactions are expected to close by year-end.
- Maintained strong balance sheet and cash position providing flexibility in challenging market.

# Consolidated Results: Q2 2015 vs Q2 2014

Technology & Consulting  
Engineering & Construction  
Government Services

## Commentary

- Backlog increase reflects GS long-term contract adjustment.
- Revenues declined from completion or near completion of Canadian pipe fabrication and N.A. construction projects and reduced activity on an LNG project.
- Gross profit and equity in earnings reflects improved underlying business performance, reduced operational costs and project charges in 2Q14 that did not reoccur in 2Q15.
- G&A lower from cost reduction initiatives.
- Restructuring charges and impairment of long-lived assets also related to cost reduction initiatives.
- Gain on sale of Building Group subsidiary - \$28M.
- Net Income reflects improved operational performance and cost reduction initiatives.

## Quarter Ending

(\$ in millions, except EPS)

Jun 30, 2015

Jun 30, 2014

Bookings	\$ 1,087	\$ 1,186
Backlog of Unfilled Orders	\$ 15,298	\$ 12,491
Revenues	\$ 1,381	\$ 1,659
Gross profit	\$ 74	\$ 28
Equity in earnings	\$ 53	\$ 49
General & administrative expenses	(\$42)	(\$60)
Asset impairment and restructuring charges	(\$17)	\$ 0
Gain on disposition of assets	\$ 28	\$ 8
Provision for income taxes	(\$23)	(\$10)
Net income (loss) attributable to KBR	\$ 62	(\$8)
EPS (diluted)	\$ 0.43	(\$0.06)
EBITDA*	\$ 95	\$ 22

\*Consolidated EBITDA reconciliation provided in the Appendix.

# Segment Reporting: Q2 2015 vs Q2 2014

Technology & Consulting  
Engineering & Construction  
Government Services

Quarter Ending

## Revenue

- T&C reflects mix shift to technology services and less proprietary equipment and reduced upstream oil & gas consulting activity; E&C reflects completion or near completion of Canadian pipe fabrication and N.A. construction projects and reduced activity on an LNG project.

## Gross Profit and Equity in Earnings

- T&C reflects earnings and margins from shift in mix of work previously noted on olefins, syngas and refining projects and reduced overhead.
- E&C reflects improved underlying business performance / lower overheads, a \$15 million favorable correction of a cumulative error for an unconsolidated offshore maintenance JV that occurred throughout the period 2007 to 1Q 2015 and increased progress on an ongoing LNG project. 2014 included \$41 million in losses on Canadian module assembly projects compared to profit in 2015 as a result of negotiated settlements. All Canadian modules now delivered.
- GS reflects solid operational performance and reduced overheads, offset by 2Q15 legacy-related legal fees of \$5M. 2014 includes \$15 million in reduced project costs and insurance proceeds received in 2014 that did not reoccur.
- Non-Strategic Business reflects solid operational performance, lower overheads and charges taken on certain power projects in 2Q14 that did not reoccur and sale of Building Group subsidiary.

(\$ in millions)	Jun 30, 2015	Jun 30, 2014
<b>Revenues</b>		
Technology & Consulting	80	100
Engineering & Construction	953	1,213
Government Services	158	163
Non-Strategic Business	190	183
<b>Consolidated Revenues</b>	<b>1,381</b>	<b>1,659</b>

## Gross profit (Loss) and equity in earnings

Technology & Consulting	21	15
Engineering & Construction	92	53
Government Services	12	28
Non-Strategic Business	2	(19)
<b>Consolidated Gross profit &amp; equity in earnings</b>	<b>127</b>	<b>77</b>

## EBITDA

Technology & Consulting	20	15
Engineering & Construction	70	27
Government Services	11	29
Non-Strategic Business	28	(17)
Other	(34)	(32)
<b>Consolidated EBITDA*</b>	<b>95</b>	<b>22</b>

\*Consolidated EBITDA reconciliation provided in the Appendix.

# Cash / Capital Allocation



## KBR Cash Balance

(\$ in millions)	Q2 2015	Q1 2015
Domestic	\$289	\$181
International	\$381	\$499
JV	\$61	\$78
<b>Total</b>	<b>\$731</b>	<b>\$758</b>

## Return of Cash to Shareholders

(\$ in millions)	Q2 2015	Since Jan-07
Share Repurchases	\$1	\$748
Dividends	\$11	\$262
<b>Total Returned to SHs</b>	<b>\$12</b>	<b>\$1,010</b>

## Key Impacts to Cash in 2Q15 (\$M)

Settlement payment to former parent *	(12)
Dividends	(11)
Pension	(10)
Previously announced loss projects cash exp.	(45)
Cash from sale of Building Group	<u>23</u>
<b>Subtotal</b>	<b>(55)</b>

\* One more payment remaining in 2015

# Market Outlook: Technology & Consulting



- Technology market opportunities led by ammonia, refining and olefins, particularly revamps.
- Opportunities in China and elsewhere for VCC (Veba Combi-Cracker) technology and converting heavy Hydrocarbons into lighter fuels, esp. diesel.
- Consulting opportunities in upstream E&P, onshore and offshore, midstream (gas processing, transmission pipelines, terminals) and downstream (LNG, refining, petrochemicals, fertilizers) albeit market is tight.
- Continue to look for additional opportunities to expand T&C technology portfolio into new products and services.





## Q2 developments supporting strategic focus areas:

- Statoil award for topsides for phase 1 of multi-staged development of Johan Sverdrup oil & gas field with long-term follow on opportunities.
- Moving to grow industrial services / maintenance business with Brown & Root Industrial Services joint venture.
- Forming strategic alliance for pipe fabrication will support EPC in key Gulf Coast / North American markets.
- Sale of non-strategic Building Group subsidiary - \$28M gain.

## Continued strong base of large projects in backlog through 2015 & 2016:

- Executing two mega-LNG projects – Gorgon and Ichthys.
- Existing LNG projects expected to remain significant components of earnings in 2015 & 2016; continue to see the favorable resolution of pending change orders resulting in 2016 LNG income being comparable to 2015.
- Significant backlog of ammonia / urea, refining and oil & gas projects.
- Shipped final modules on Canadian pipe fabrication/module assembly contracts in July.



## Good pipeline of near-term and long-term prospects:

- Increased focus on Middle East opportunities (refining and petrochemicals).
  - Key hire – President, Middle East – J. Ibrahim.
- Onshore upstream opportunities in Middle East & Caspian remain positive due to low cost to develop. JV with National Oil Company of Azerbaijan (SOCAR) announced in 1Q15 also positions us well for offshore brownfield.
- Offshore developments continue in GoM and West Africa. Additional offshore project opportunities for North Sea: Maersk Culzean, UK, additional phases of Johan Sverdrup, Norway North Sea; Thailand, Qatar, & Indonesia.
- Early work awarded (Offshore Oil & Gas) under the BG Global Alliance Agreement.
- Approximately \$2B ammonia / urea complex in the Midwest (confidential client).
- Major LNG developments in process support backlog growth in 2016 and beyond:
  - Continue to work on Shell Global LNG Agreement, with assignments underway.
  - KBR/JGC/Rekayasa JV continue FEED and EPC bid opportunity for Tangguh Train 3. Award expected 2016.
  - KBR/SK JV services work underway for Magnolia LNG sole-source 4 train (8mtpa) LNG facility; EPC pricing by year end.
  - Work underway on LNG's Bearhead LNG in Canada.
  - Pre-FEED work and tendering ongoing for two major FLNG projects.

# Market Outlook: Government Services



Technology & Consulting  
Engineering & Construction  
Government Services

- Confirmed preferred bidder for U.K. MoD Fixed Wing Training (MFTS) contract – another long-term annuity type project. Award expected this year.
- U.K. Army re-basing – discussions continue on a sole source basis with decisions expected by year-end.
- Strong operational performance continues for U.K. PFI contracts – primarily MoD long-term facilities maintenance.
  - Backlog now ~\$5.4 billion higher with all years of existing O&M contract in backlog.
- A number of U.S. overseas base operations support opportunities in process; e.g., Kuwait.
- Services in Iraq under LogCap IV contract grew in the period with further growth possible. Significant progress in successfully closing U.S. Gov't audits of legacy LogCap III and RIO billings.

# Summary

- Significantly improved earnings vs 2014 driven by strong operational performance.
- KBR's restructuring remains on track to deliver \$200 million in annual cost savings by 2016 and gross profit and equity in earnings margin percentages:
  - T&C – low 20s.
  - E&C – upper single digits.
  - GS – low teens range (excluding legacy U.S. Gov't costs).
- Continued success in strategically important areas – topsides for Johan Sverdrup; formed two strategic alliances for industrial services and pipe fabrication, sold Building Group subsidiary, Strong balance sheet and cash position, providing flexibility given challenging market conditions.
- Good bookings results with backlog relatively unchanged from Q1 for ongoing business.
- Significant progress in closing legacy LogCap III and RIO audits and start up of MSW power plant.
- Expect two major LNG projects to contribute significantly to 2015 and 2016 earnings; resolution of pending change orders could result in 2016 LNG income being comparable to 2015.
- EPS guidance now \$1.22-\$1.37, excluding legacy costs (Q2 legacy legal costs were \$5M or appx. \$0.03 EPS).
- Post closing, shipped final Canadian modules and first of three power plants now operational.



# KBR

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## Appendix

# Consolidated EBITDA Reconciliation 2Q 2015



Technology & Consulting  
Engineering & Construction  
Government Services

(\$ in millions)	Quarter Ending	
	Jun 30, 2015	Jun 30, 2014
Net Income Attributable to KBR	\$62	(\$8)
Add Back:		
Interest Income (Expense)	(\$2)	(\$2)
Provision for Income Taxes	(\$23)	(\$10)
Depreciation & Amortization	(\$8)	(\$18)
Consolidated EBITDA	\$95	\$22

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