

# KBR

## Q4 2015 FINANCIAL RESULTS

*February 26, 2016*



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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.

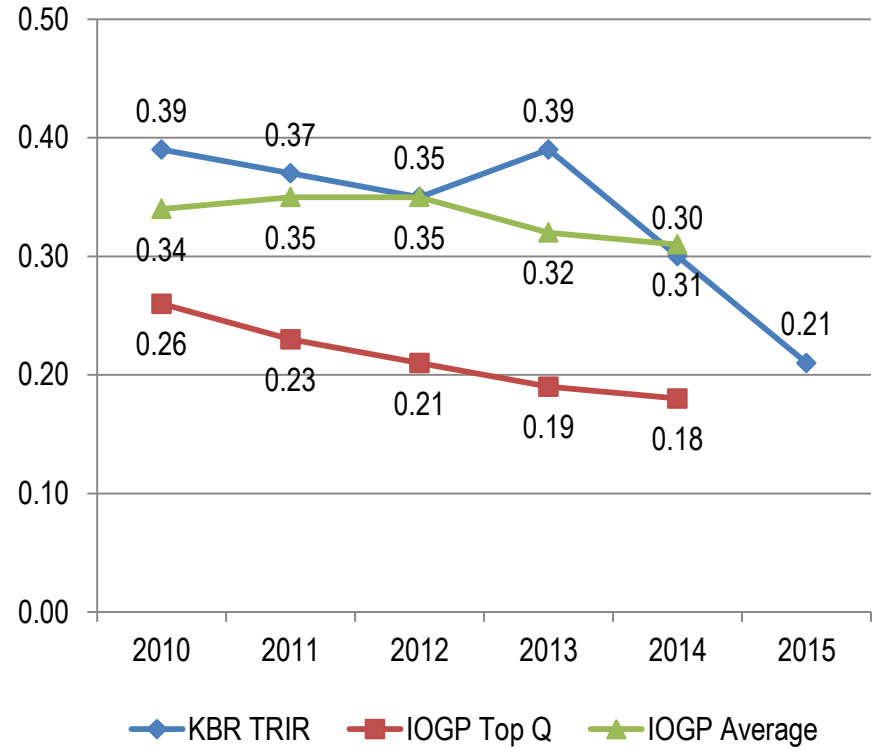


## Zero Harm is a Personal Relationship with Safety

**KBR**



5-Year TRIR Performance



# Year-End 2015 Summary



- Significant progress against strategic objectives set forth in Dec. 2014
- Exceeded EPS guidance for fiscal year 2015 – GAAP EPS of \$1.40 (adjusted EPS of \$1.30 vs original guidance of \$1.07-\$1.22)
- Strong 4Q15 earnings reflect continued solid execution across KBR’s core businesses
- Won Magnolia LNG project in 4Q15 and U.K. MoD Fixed Wing Training (MFTS) contract in 1Q16
- \$200M annualized cost savings on track with more than \$165M identified and actioned to-date
- E&C management of non-strategic power projects again delivered incremental profitability (\$11M in 4Q15)
- In 4Q15, \$36M in restructuring / impairment charges were partially offset by \$27M gain on the disposition of assets and reflects ongoing rebalancing of KBR’s business portfolio. 4Q15 also included \$8M discrete tax for U.K. rate change
- Continued balanced capital allocation:
  - Returned \$52M to shareholders through dividends and buybacks in 4Q15 and \$109M in 2015; pay competitively yielding dividend
  - Acquired technology subsidiaries from Chematur in 1Q16; consistent with KBR’s strategy to expand technology portfolio

# Status on 2015 Strategic Objectives



## Strategic Initiative

## Status

- | Strategic Initiative  | Status  |
|---|---|
| <ul style="list-style-type: none"> <li>Exit non-strategic businesses</li> </ul>   | <ul style="list-style-type: none"> <li>Completed two of three fixed-priced EPC Power projects; final project targeted completion Q1 2017</li> <li>Sold Building Group: pre-tax gain \$28M; cash proceeds \$23M</li> <li>Sold U.S. Infrastructure business: pre-tax gain \$7M; cash proceeds \$18M</li> <li>Closed U.S. Minerals office</li> </ul>                                     |
| <ul style="list-style-type: none"> <li>Businesses under review</li> </ul>   | <ul style="list-style-type: none"> <li>Transferred Industrial Services Business to Brown &amp; Root (B&amp;R) JV</li> <li>Transferred Canadian Pipe Fabrication/Module Assembly Business to EPIC JV</li> </ul>  |
| <ul style="list-style-type: none"> <li>Reduce costs by \$200 million by Y/E 2016</li> </ul>   | <ul style="list-style-type: none"> <li>More than \$165 million identified and actioned to-date</li> </ul>   |
| <ul style="list-style-type: none"> <li>Achieve Target Margins by Y/E 2016:                             <ul style="list-style-type: none"> <li>T&amp;C (Low 20s)</li> <li>E&amp;C (High single digits)</li> <li>GS (Low teens) – Excluding legacy legal costs</li> </ul> </li> </ul> | <ul style="list-style-type: none"> <li>T&amp;C 2015: 23.8%</li> <li>E&amp;C 2015: 9.5%</li> <li>GS 2015: 9.0% (excluding \$18M in 2015 legacy legal fees)</li> </ul>  |
| <ul style="list-style-type: none"> <li>Resolve outstanding disputes</li> </ul>  | <ul style="list-style-type: none"> <li>U.S. Government legacy audits thru 2011 largely completed. Only \$9 million in questioned costs out of ~\$46 billion audited remain open</li> <li>LogCAP III tort cases – Sodium Dichromate cases dismissed on merits. Subject to appeal. Also ruled contract indemnification protects KBR</li> <li>PEMEX – awaiting court decision</li> </ul> |
| <ul style="list-style-type: none"> <li>Employ a balanced capital allocation policy</li> </ul>   | <ul style="list-style-type: none"> <li>Returned \$109M to shareholders in 2015; \$1.1B since January 2007</li> <li>Pay a competitive yielding dividend (2.6%)</li> <li>Purchased 21% of pipe fabrication business (BCP)</li> <li>Acquired technology subsidiaries from Chematur (closed Jan 2016)</li> </ul>  |

# Dispute Resolution Status Update



## - U.S. Government Audits:

### Open Audits

	2014	2015
KBR Billings: 2003-2011 appx. \$46B	2008, 2010-2011	2010-2011 (\$9M remaining)
KBR Billings: 2012-2014 appx. \$1.2B	2012-2014	2012-2014

*Note: historic recovery rate on billings of 99.89%*

## - Sodium Dichromate Cases:

### Status

2014: Cases in Oregon & Texas	\$81M adverse jury verdict pending
2015: Oregon & Texas combined	Cases dismissed on the merits, including finding no one was injured (being appealed). Also ruled contract indemnification protects KBR

## - PEMEX (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: Q4 2015 vs Q4 2014

Technology & Consulting  
Engineering & Construction  
Government Services

## Commentary

- Revenues reflect deconsolidation of B&R Industrial Services business (\$126M), sale of Building Group in 2Q15 (\$81M) and reduced activity on an LNG project.
- Gross profit and equity in earnings reflects improved business performance and significant charges in 4Q14 that did not reoccur in 4Q15.
- G&A reflects cost reduction initiatives.
- Impairment of long-lived assets and restructuring charges related to ERP and cost reduction initiatives partially offset by gain on sale of excess office space.
- Net Income reflects improved operational performance, restructuring initiatives and U.K. discrete tax of \$8M. 4Q14 reflects restructuring initiatives.

## Quarter Ending

(\$ in millions, except EPS)	Dec 31, 2015	Dec 31, 2014
New Awards	\$ 613	\$ 380
Backlog of Unfilled Orders	\$ 12,333	\$ 10,859
Revenues	\$ 1,080	\$ 1,417
Gross profit	\$ 94	(\$162)
Equity in earnings	\$ 26	\$ 45
General & administrative expenses	(\$36)	(\$61)
Asset impairment and restructuring charges	(\$36)	(\$214)
Gain (loss) on disposition of assets	\$ 27	(\$1)
Provision for income taxes	(\$25)	(\$391)
Net income (loss) attributable to KBR	\$ 42	(\$1,241)
EPS (diluted)	\$ 0.29	(\$8.57)
EBITDA*	\$ 77	(\$828)

\*Consolidated EBITDA reconciliation provided in the Appendix.

# EPS – Excluding Non-Recurring Items & Legacy Legal Fees



Technology & Consulting  
Engineering & Construction  
Government Services

	4Q15	2015
<b>As Reported Diluted EPS</b>	\$0.29	\$1.40
Non-Strategic Business Gross Profit	(\$0.08)	(\$0.19)
Asset Impairment and Restructuring Charges	\$0.22	\$0.41
Gain on Disposition of Assets	(\$0.16)	(\$0.40)
Offshore Maintenance JV Correction in Q2	-	(\$0.10)
U.K. Tax Rate Change (Impact to Deferred Tax Asset)	\$0.06	\$0.06
<b>Adjusted Diluted EPS</b>	\$0.33	\$1.18
U.S. Gov't Legacy Legal Fees	\$0.03	\$0.12
<b>Adjusted Diluted EPS (Excluding Legacy Legal Fees)</b>	\$0.36	\$1.30



# Segment Reporting: Q4 2015 vs Q4 2014

Technology & Consulting  
Engineering & Construction  
Government Services

Quarter Ending

## 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 LogCap IV contract and \$46M in revenue reversals taken on legacy contracts in 4Q14; Non-Strategic reflects sale of Building Group in 2Q15 (was \$81M in 4Q14).

## Gross Profit and Equity in Earnings

- T&C reflects higher proprietary equipment while 4Q14 includes increased costs to complete a number of legacy projects.
- E&C reflects solid underlying business performance while 4Q14 includes higher estimated costs to complete certain projects.
- GS reflects improved operational performance and greater activity on KBR's LogCAP IV contract while 4Q14 includes increased estimated costs to complete certain projects.
- Non-Strategic Business reflects stronger than anticipated operational performance on the company's power project portfolio versus significant charges in 4Q14.
- 4Q14 EBITDA reflects significant goodwill impairment and other impairment and restructuring charges that did not reoccur in 2015.

(\$ in millions)

### Revenues

	Dec 31, 2015	Dec 31, 2014
Technology & Consulting	93	68
Engineering & Construction	696	1,038
Government Services	174	111
Non-Strategic Business	117	200
<b>Consolidated Revenues</b>	<b>1,080</b>	<b>1,417</b>

### Gross profit (Loss) and equity in earnings

Technology & Consulting	20	5
Engineering & Construction	86	59
Government Services	3	(42)
Non-Strategic Business	11	(139)

### Consolidated Gross profit & equity in earnings

**120**      **(117)**

### EBITDA

Technology & Consulting	9	1
Engineering & Construction	94	(247)
Government Services	3	(51)
Non-Strategic Business	17	(353)
Other	(46)	(178)
<b>Consolidated EBITDA*</b>	<b>77</b>	<b>(828)</b>

\*Consolidated EBITDA reconciliation provided in the Appendix.

# Cash / Capital Allocation



Technology & Consulting  
Engineering & Construction  
Government Services

## KBR Cash Balance

(\$ in millions)	Q4 2015	Q3 2015
Domestic	\$360	\$304
International	\$470	\$395
JV	\$53	\$69
<b>Total</b>	<b>\$883</b>	<b>\$768</b>

## Return of Cash to Shareholders

(\$ in millions)	Q4 2015	2015	Since Jan Jan-07
Share Repurchases	\$40	\$62	\$793
Dividends	\$12	\$47	\$286
<b>Total</b>	<b>\$52</b>	<b>\$109</b>	<b>\$1,079</b>

- Strong cashflow in quarter includes retention releases of appx. \$47M. Will negatively impact 1Q16 cashflow
- Acquired subsidiaries from Chematur technology company in 1Q16 (\$24M) and working on additional bolt-on acquisitions for 2016
- Maintained strong balance sheet and cash position while employing a balanced capital allocation strategy, providing confidence to our clients and optionality in challenging markets
- Pay a competitive yielding dividend



- Global Hydrocarbons market remains difficult for E&Cs; prudent cost management is essential but opportunities remain
- Ongoing demand across refining & petrochemicals
  - Growth opportunity for technology sales
  - E&C project opportunities utilizing pull-through from technology
- Isolated opportunities in upstream oil & gas
- Lower capex should result in greater opportunities for maintenance / turnarounds
- 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
  - Increasing opportunities in the Middle East
- In Summary, in 2016 and beyond we see opportunities for stronger technology sales and 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

# 2016 Strategic Objectives



- Achieve margin objectives and \$200M cost reduction target established in Dec 2014
- Expand Brown & Root Industrial Services model globally
- Broaden Technology portfolio / EPC pull-through
- Expand Government Services offerings
- Continue balanced capital allocation strategy



- EPS range \$1.20 - \$1.45, excluding legacy legal fees  
(estimated at \$15M or \$0.11 EPS)
- Approximately 80% of revenue supporting guidance  
already in backlog



# KBR

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## Appendix

# Consolidated EBITDA Reconciliation Q4 2015



Technology & Consulting  
Engineering & Construction  
Government Services

(\$ in millions)	Quarter Ending	
	Dec 31, 2015	Dec 31, 2014
Net Income Attributable to KBR	\$42	(\$1,241)
Add Back:		
Interest Income (Expense)	\$0	(\$5)
Provision for Income Taxes	(\$25)	(\$391)
Depreciation & Amortization	(\$10)	(\$17)
Consolidated EBITDA	\$77	(\$828)

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