

KBR, INC.
Form 8-K
February 26, 2008
UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 8-K

CURRENT REPORT

**Pursuant to Section 13 or 15(d) of
the Securities Exchange Act of 1934**

Date of Report (Date of earliest event reported): **February 26, 2008**

KBR, INC.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction
of incorporation)

1-33146

(Commission File Number)

20-4536774

(IRS Employer
Identification No.)

601 Jefferson Street

Suite 3400

Houston, Texas 77002

(Address of principal executive offices)

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Registrant's telephone number, including area code: **(713) 753-3011**

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (*see* General Instruction A.2. below):

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
 - Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
 - Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
 - Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))
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ITEM 2.02. Results of Operations and Financial Conditions.

On February 26, 2008, KBR, Inc. issued a press release entitled, "KBR Announces Fourth Quarter and Full Year Results." The full text of the press release is attached hereto as Exhibit 99.1.

ITEM 9.01 Financial Statements and Exhibits.

(d) Exhibits.

99.1 KBR, Inc. press release dated February 26, 2008 entitled, "KBR Announces Fourth Quarter and Full Year Results."

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SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

KBR, INC.

Date: February 26, 2008

By: /s/ Jeffrey B. King
Jeffrey B. King

Vice President, Public Law

Exhibit 99.1

KBR

601 Jefferson St. • Houston, Texas 77002
Phone 713.753.3011 • Fax 713.753.5353

FOR IMMEDIATE RELEASE

February 26, 2008

Contact: Rob Kukla, Jr.
Director, Investor Relations
713-753-5082

Heather Browne
Director, Communications
713-753-3775

KBR ANNOUNCES FOURTH QUARTER AND FULL YEAR RESULTS

\$0.42 fourth quarter 2007 net income per diluted share

and \$1.79 full year 2007 net income per diluted share

HOUSTON, Texas – KBR (NYSE:KBR) announced today that income from continuing operations was \$48 million, or \$0.28 per diluted share, compared to income from continuing operations of \$45 million, or \$0.30 per diluted share, in the fourth quarter of 2006. Net income was \$71 million, or \$0.42 per diluted share, in the fourth quarter of 2007, which included income from discontinued operations of \$23 million, or \$0.14 per diluted share, primarily due to tax benefits related to a previously uncertain tax position associated with the 2006 sale of Production Services. This compared to net income for the fourth quarter of 2006 of \$43 million, or \$0.28 per diluted share, which included a loss from discontinued operations of \$2 million, or \$0.01 per diluted share.

Consolidated revenue in the fourth quarter of 2007 was \$2.4 billion, an increase of 4.3% from \$2.3 billion in the fourth quarter of 2006.

Consolidated operating income was \$82 million in the fourth quarter of 2007 compared to \$90 million in the fourth quarter of 2006. Operating income in the fourth quarter of 2007 included positive contributions from various gas monetization projects, the Services business unit, and Iraq-related work. Operating income in the fourth quarter of 2007 was partially offset by \$22 million in charges related to potentially disallowable costs incurred under U.S. government contracts in the Middle East for activities dating from 2003.

Income from continuing operations for the full year of 2007 was \$182 million, or \$1.08 per diluted share, which represents a \$128 million, or \$0.69 per diluted share, increase from the prior year. Net income in 2007 was \$302 million, or \$1.79 per diluted share, compared to the 2006 net income of \$168 million, or \$1.20 per diluted share. Net income in 2007 included \$120 million after tax, or \$0.71 per diluted share, of income from discontinued operations primarily related to the operations of Devonport Management Limited (“DML”), which we sold our 51% interest in

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the second quarter of 2007 and the above mentioned tax benefits. Net income for 2006 included \$114 million after tax, or \$0.81 per diluted share, of income from discontinued operations.

“2007 was a record year for KBR in terms of profitability and I am pleased with the on-going performance improvement in KBR’s core businesses. We continued to execute well on our current projects, ramped up work on several of our new awards, and delivered solid operating results.” said Bill Utt, Chairman, President, and Chief Executive Officer of KBR. “I am disappointed, however, in the current period provisions in the Government and Infrastructure business unit related to work beginning in 2003 under the LogCAP III contract. Looking to 2008, KBR is well positioned to capitalize on the attractive growth opportunities before us and to better serve our customers with market leading engineering, construction, and services offerings.”

2007 Fourth Quarter Business Unit Results

Government and Infrastructure business unit income was \$53 million in the fourth quarter of 2007 compared to business unit income of \$88 million in the fourth quarter of 2006. The decrease in business unit income primarily relates to a fourth quarter 2007 charge of \$22 million related to potentially disallowable costs incurred under U.S. government contracts in the Middle East for activities dating from 2003. During the fourth quarter of 2007, business unit income had positive contributions from provision of services to the Allenby & Connaught project and work on the CENTCOM project.

Upstream business unit income was \$64 million in the fourth quarter of 2007 compared to business unit income of \$67 million in the fourth quarter of 2006. Business unit income during the fourth quarter of 2007 had positive contributions from several gas monetization projects, including Skikda LNG, and various offshore projects, including Kashagan.

Services business unit income was \$23 million in the fourth quarter of 2007 compared to business unit income of \$18 million in the fourth quarter of 2006. Contributing to the business unit income was \$11 million and \$7 million in actuarially determined insurance adjustments in the fourth quarters of 2007 and 2006, respectively. Also contributing to the increase was work on the Scotford Upgrader project in Canada.

Downstream business unit income was \$3 million in the fourth quarter of 2007 compared to business unit income of \$5 million in the fourth quarter of 2006. Business unit income during the fourth quarter of 2007 was positively impacted by the Yanbu export refinery project and the Ras Tanura program management project in Saudi Arabia and the EBIC ammonia plant in Egypt.

Technology business unit income was \$1 million in the fourth quarter of 2007 compared to business unit income of \$6 million in the fourth quarter of 2006. Contributing to the decrease was the delay and cancellation of two projects in the fourth quarter of 2007 which were awarded in 2006. Partially offsetting this decrease was the awarding and work performed for the MAN Ferrostaal ammonia process project in Venezuela.

Ventures business unit loss was \$3 million in the fourth quarter of 2007 compared to a business unit loss of \$8 million in the fourth quarter of 2006. The improvement was primarily related to lower losses on the Australian rail road project and increased profitability on the Allenby & Connaught investment in the UK.

Corporate general and administrative expense in the fourth quarter of 2007 was \$49 million compared to \$78 million in the prior year quarter. This decrease was primarily related to lower financial systems and SAP implementation costs, lower real estate expenses, and a \$5 million restructuring charge in the fourth quarter of 2006. Interest income in the fourth quarter of 2007 included \$4 million related to the Pemex EPC 22 settlement, which was partially offset by lower interest income on cash associated with consolidated joint ventures.

Significant Achievements and Awards

- § KBR was awarded a Canadian construction and fabrication contract of a gasification unit by Lurgi AG. KBR's scope of work will include the fabrication of nearly 100 modules and will peak at approximately 400 personnel performing field construction and module service work on this 30-month project. The contract has an approximate value of \$225 million (CAD).

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- § KBR was awarded a contract by PetroSA to conduct the pre-feasibility study to build a 200,000 barrel per day crude oil refinery in Coega, Port Elizabeth. The pre-feasibility study focuses on determining the economic optimum configuration for the refinery including crude oil type and costs, required product slate, prices and specifications, and capital and operating costs.
- § KBR subsidiary, Granherne, Inc., was awarded a three-year engineering services contract by Petrobras America. Granherne will provide technical support for design of the hull for the early production system, floating production storage and offloading system (FPSO), and later phase full field development. The FPSO will be located in approximately 2,600 meters of water. The Cascade/Chinook FPSO, when deployed, will be the first in the U.S. Gulf of Mexico, and will be the world's deepest FPSO to date.
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- § KBR announced that its “Eos” joint venture with WorleyParsons, was awarded a contract option worth approximately USD\$24 million for the detailed engineering, procurement management and construction management assistance services for Woodside’s Pluto LNG Project offshore production platform north west of Karratha, Western Australia.
- § KBR was awarded a contract by MAN Ferrostaal AG (MFS) to provide basic and detailed engineering services for an 1,800 MTPD ammonia plant for Petroquímica de Venezuela, S.A. (Pequiven). The plant will be the first in Venezuela to utilize KBR’s proprietary KAAP™ ammonia process technology.
- § In November 2007, KBR announced that it successfully met all contractual obligations related to the 600,000 ton/year Lanzhou ethylene plant in China. This milestone represents the first facility in China to utilize KBR’s proprietary SCORE (Selective Cracking Optimum REcovery) technology for both the furnace cracking and recovery sections.
- § In January 2008, KBR announced that its joint venture, TSKJ Nigeria Ltd., successfully completed the construction and commissioning phase of the Nigeria LNG Limited (NLNG) Train 6 project on Bonny Island, Nigeria. NLNG awarded TSKJ the lump sum engineering, procurement, and construction contract (EPC) for LNG train six in July 2004.

KBR is a global engineering, construction and services company supporting the energy, petrochemicals, government services, and civil infrastructure sectors. The company offers a wide range of services through its Downstream, Government and Infrastructure, Services, Technology, Upstream, and Ventures business units.

NOTE: The statements in this press release that are not historical statements, including statements regarding future financial performance and backlog information, are forward-looking statements within the meaning of the federal securities laws. These statements are subject to numerous risks and uncertainties, many of which are beyond the company’s control, that could cause actual results to differ materially from the results expressed or implied by the statements. These risks and uncertainties include, but are not limited to: the outcome of and the publicity surrounding audits and investigations by domestic and foreign government agencies and legislative bodies; potential adverse proceedings by such agencies and potential adverse results and consequences from such proceedings; the enforceability of the company’s indemnities from Halliburton Company; changes in capital spending by the company’s customers; the company’s ability to obtain contracts from existing and new customers and perform under those contracts; structural changes in the industries in which the company operates, escalating costs associated with and the performance of fixed-fee projects and the company’s ability to control its cost under its contracts; claims negotiations and contract disputes with the company’s customers; changes in the demand for or price of oil and/or natural gas; protection of intellectual property rights; compliance with environmental laws; changes in government regulations and regulatory requirements; compliance with laws related to income taxes; unsettled political conditions, war and the effects of terrorism; foreign operations and foreign exchange rates and controls; the development and installation of financial systems; increased competition for employees; and operations of joint ventures, including joint ventures that are not controlled by the company.

KBR’s Annual Report on Form 10-K dated February 26, 2008, subsequent Forms 10-Q and 10-Q/A, recent Current Reports on Forms 8-K, and other Securities and Exchange Commission filings discuss some of the important risk factors that KBR has identified that may affect the business, results of operations and financial condition. KBR undertakes no obligation to revise or update publicly any forward-looking statements for any reason.

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KBR, Inc.

Condensed Consolidated Statements of Operations

(Millions of dollars and shares except per share data)

(Unaudited)

| | Three Months Ended December 31 2007 | | 2006 | Three Months Ended September 30 2007 | | |
|--|--|-------|------|---|----|-------|
| Revenue: | | | | | | |
| Government and Infrastructure | \$ | 1,588 | \$ | 1,611 | \$ | 1,566 |
| Upstream | | 603 | | 531 | | 407 |
| Services | | 96 | | 69 | | 77 |
| Downstream | | 85 | | 69 | | 103 |
| Technology | | 18 | | 19 | | 26 |
| Ventures ^(a) | | (1) | | (8) | | (2) |
| Total revenue | \$ | 2,389 | \$ | 2,291 | \$ | 2,177 |
| Business unit income (loss): | | | | | | |
| Government and Infrastructure | \$ | 53 | \$ | 88 | \$ | 98 |
| Upstream | | 64 | | 67 | | 57 |
| Services | | 23 | | 18 | | 6 |
| Downstream | | 3 | | 5 | | 4 |
| Technology | | 1 | | 6 | | 5 |
| Ventures ^(a) | | (3) | | (8) | | (3) |
| Total business unit income | | 141 | | 176 | | 167 |
| Unallocated costs: | | | | | | |
| Labor cost absorption | | (10) | | (8) | | – |
| Corporate general and administrative | | (49) | | (78) | | (65) |
| Total operating income | | 82 | | 90 | | 102 |
| Interest income (expense), net | | 18 | | 14 | | 17 |
| Foreign currency gain (loss), net | | 1 | | (1) | | (11) |
| Other, net | | – | | – | | – |
| Income from continuing operations before income taxes and minority interest | | 101 | | 103 | | 108 |
| Provision for income taxes | | (45) | | (46) | | (35) |
| Minority interest in net income of subsidiaries | | (8) | | (12) | | (13) |
| Income from continuing operations | | 48 | | 45 | | 60 |
| Income (loss) from discontinued operations, net | | 23 | | (2) | | 3 |
| Net income | \$ | 71 | \$ | 43 | \$ | 63 |
| Basic income (loss) per share^(b): | | | | | | |
| Continuing operations | \$ | 0.29 | \$ | 0.30 | \$ | 0.36 |
| Discontinued operations, net | | 0.14 | | (0.01) | | 0.02 |
| Net income per share | \$ | 0.42 | \$ | 0.28 | \$ | 0.38 |
| Diluted income (loss) per share^(b): | | | | | | |
| Continuing operations | \$ | 0.28 | \$ | 0.30 | \$ | 0.35 |
| Discontinued operations, net | | 0.14 | | (0.01) | | 0.02 |
| Net income per share | \$ | 0.42 | \$ | 0.28 | \$ | 0.37 |
| Basic weighted average shares outstanding ^(c) | | 168 | | 152 | | 168 |
| Diluted weighted average shares outstanding ^(c) | | 170 | | 152 | | 170 |

(a) Ventures segment operations generally relate to investments in less-than-50%-owned unconsolidated entities which are accounted for using the equity method. Accordingly, our revenue equals our share of the net income or loss of these entities.

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- (b) Due to the effect of rounding, the sum of the individual per share amounts may not equal the total shown.
- (c) The increase in weighted average shares outstanding from the fourth quarter 2006 to the third quarter 2007 related to the initial public offering of shares during November 2006.

See Footnote Tables 1 for a list of significant items included in operating income (loss).

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KBR, Inc.

Condensed Consolidated Statements of Operations

(Millions of dollars and shares except per share data)

(Unaudited)

| | Years Ended | |
|---|-----------------|-----------------|
| | December 31 | |
| | 2007 | 2006 |
| Revenue: | | |
| Government and Infrastructure | \$ 6,093 | \$ 6,506 |
| Upstream | 1,887 | 1,700 |
| Services | 322 | 314 |
| Downstream | 361 | 315 |
| Technology | 90 | 62 |
| Ventures ^(a) | (8) | (92) |
| Total revenue | \$ 8,745 | \$ 8,805 |
| Business unit income (loss): | | |
| Government and Infrastructure | \$ 279 | \$ 327 |
| Upstream | 188 | 40 |
| Services | 56 | 45 |
| Downstream | 10 | 41 |
| Technology | 19 | 10 |
| Ventures ^(a) | (12) | (86) |
| Total business unit income | 540 | 377 |
| Unallocated costs: | | |
| Labor cost absorption | (20) | 1 |
| Corporate general and administrative | (226) | (226) |
| Total operating income | \$ 294 | \$ 152 |
| Interest income (expense), net | 62 | (9) |
| Foreign currency gains (losses), net | (15) | (15) |
| Other, net | 1 | - |
| Income from continuing operations before income taxes and minority interest | 342 | 128 |
| Provision for income taxes | (138) | (94) |
| Minority interest in net income (loss) of subsidiaries | (22) | 20 |
| Income from continuing operations | 182 | 54 |
| Income from discontinued operations, net | 120 | 114 |
| Net income | \$ 302 | \$ 168 |
| Basic income per share^(b): | | |
| Continuing operations | \$ 1.08 | \$ 0.39 |
| Discontinued operations, net | 0.71 | 0.81 |
| Net income per share | \$ 1.80 | \$ 1.20 |
| Diluted income per share^(b): | | |
| Continuing operations | \$ 1.08 | \$ 0.39 |
| Discontinued operations, net | 0.71 | 0.81 |
| Net income per share | \$ 1.79 | \$ 1.20 |
| Basic weighted average shares outstanding ^(c) | 168 | 140 |
| Diluted weighted average shares outstanding ^(c) | 169 | 140 |

(a) Ventures segment operations generally relate to investments in less-than-50%-owned unconsolidated entities which are accounted for using the equity method. Accordingly, our revenue equals our share of the net income or loss of these entities.

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- (b) Due to the effect of rounding, the sum of the individual per share amounts may not equal the total shown.

- (c) The increase in weighted average shares outstanding from the year ended December 31, 2006 to the year ended December 31, 2007 related to the initial public offering of shares during November 2006.

See Footnote Tables 1 for a list of significant items included in operating income (loss).

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KBR, Inc.

Condensed Consolidated Balance Sheets

(In millions except share data)

(Unaudited)

| | December 31, 2007 | September 30, 2007 | December 31, 2006 |
|---|----------------------|-----------------------|----------------------|
| Assets | | | |
| Current assets: | | | |
| Cash and equivalents | \$ 1,861 | \$ 1,795 | \$ 1,410 |
| Receivables: | | | |
| Notes and accounts receivable | 927 | 988 | 761 |
| Unbilled receivables on uncompleted contracts | 820 | 812 | 1,110 |
| Total receivables | 1,747 | 1,800 | 1,871 |
| Deferred income taxes | 165 | 142 | 120 |
| Due from Halliburton | - | 16 | - |
| Other current assets | 282 | 262 | 240 |
| Current assets of discontinued operations | 1 | 5 | 257 |
| Total current assets | 4,056 | 4,020 | 3,898 |
| Property, plant, and equipment, net of accumulated depreciation of \$227, \$227 and \$205 | 220 | 219 | 211 |
| Goodwill | 251 | 251 | 251 |
| Equity in and advances to related companies | 294 | 307 | 296 |
| Noncurrent deferred income taxes | 139 | 141 | 156 |
| Unbilled receivables on uncompleted contracts | 196 | 195 | 194 |
| Other assets | 47 | 44 | 51 |
| Noncurrent assets of discontinued operations | - | - | 357 |
| Total assets | \$ 5,203 | \$ 5,177 | \$ 5,414 |
| Liabilities, Minority Interest and Shareholders' Equity | | | |
| Current liabilities: | | | |
| Accounts payable | \$ 1,117 | \$ 1,099 | \$ 1,177 |
| Due to Halliburton, net | 16 | - | 152 |
| Advanced billings on uncompleted contracts | 794 | 865 | 767 |
| Reserve for estimated contract losses | 117 | 136 | 180 |
| Employee compensation and benefits | 316 | 293 | 259 |
| Other current liabilities | 262 | 216 | 174 |
| Current liabilities of discontinued operations | 1 | - | 274 |
| Total current liabilities | 2,623 | 2,609 | 2,983 |
| Employee compensation and benefits | 79 | 207 | 221 |
| Other liabilities | 151 | 159 | 149 |
| Income tax payable – noncurrent | 78 | 80 | - |
| Noncurrent deferred tax liability | 37 | 32 | 22 |
| Noncurrent liabilities of discontinued operations | - | - | 210 |
| Total liabilities | 2,968 | 3,087 | 3,585 |
| Minority interest in consolidated subsidiaries | (32) | (29) | 35 |
| Shareholders' equity and accumulated other comprehensive loss: | | | |
| Common stock | - | - | - |
| Paid-in capital in excess of par value | 2,070 | 2,074 | 2,058 |
| Accumulated other comprehensive loss | (122) | (203) | (291) |
| Retained earnings | 319 | 248 | 27 |
| Total shareholders' equity and accumulated other comprehensive loss | 2,267 | 2,119 | 1,794 |
| Total liabilities, minority interest, shareholders' | | | |

equity and accumulated other comprehensive income

| | | |
|----------|----------|----------|
| \$ 5,203 | \$ 5,177 | \$ 5,414 |
|----------|----------|----------|

KBR, Inc.

Condensed Consolidated Statements of Cash Flows

(In millions)

(Unaudited)

| | Year Ended | |
|--|-----------------|-----------------|
| | December 31, | |
| | 2007 | 2006 |
| Cash flows from operating activities: | | |
| Net income | \$ 302 | \$ 168 |
| Adjustments to reconcile net income to net cash provided by operations: | | |
| Depreciation and amortization | 41 | 47 |
| Equity in earnings (losses), net of distributions from related companies | (7) | (41) |
| Deferred income taxes | (27) | 12 |
| Gain on sale of assets, net | (216) | (126) |
| Impairment of equity method investments | - | 68 |
| Other | 61 | 48 |
| Changes in operating assets and liabilities: | | |
| Receivables | (143) | 281 |
| Unbilled receivables on uncompleted contracts | 264 | 232 |
| Accounts payable | (92) | (187) |
| Advanced billings on uncompleted contracts | 11 | 209 |
| Accrued Employee compensation and benefits | 57 | 19 |
| Reserve for estimated contract losses | (62) | 140 |
| Other assets | (29) | (38) |
| Other liabilities | 88 | 99 |
| Total cash flows provided by operating activities | 248 | 931 |
| Cash flows from investing activities: | | |
| Capital expenditures | (43) | (57) |
| Sales of property, plant and equipment | 3 | 6 |
| Disposition of businesses, net of cash disposed | 334 | 276 |
| Other investing activities | (1) | - |
| Total cash flows provided by investing activities | 293 | 225 |
| Cash flows from financing activities: | | |
| Payments to Halliburton, net | (120) | (629) |
| Net repayments of short-term borrowings | - | (2) |
| Proceeds from long-term borrowings | - | 8 |
| Payments on long-term borrowings | (7) | (25) |
| Net proceeds from issuance of stock | 6 | 512 |
| Excess tax benefits from stock-based compensation | 6 | - |
| Payments of dividends to minority shareholders | (35) | (3) |
| Total cash flows used in financing activities | (150) | (139) |
| Effect of exchange rate changes | 9 | 50 |
| Increase in cash and equivalents | 400 | 1,067 |
| Cash and equivalents at beginning of period ^(a) | 1,461 | 394 |
| Cash and equivalents at end of period | \$ 1,861 | \$ 1,461 |

(a) The condensed consolidated statements of cash flows are not adjusted for discontinued operations. Therefore, the cash and equivalents at the beginning of the period for the year ended December 31, 2007 does not agree to the cash and equivalents reflected on the condensed consolidated balance sheet for the corresponding period.

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KBR, Inc.

Revenue and Operating Results by Operating Unit

(In millions)

(Unaudited)

Three Months Ended

| | Dec 31, 2007 | Sep 30, 2007 | Jun 30, 2007 | Mar 31, 2007 |
|--|-----------------|-----------------|-----------------|-----------------|
| Revenue: | | | | |
| G&I: | | | | |
| U.S. Government – Middle East Operations | \$ 1,253 | \$ 1,217 | \$ 1,170 | \$ 1,142 |
| U.S. Government – Americas Operations | 156 | 192 | 185 | 188 |
| International Operations | 179 | 157 | 127 | 127 |
| Total G&I | 1,588 | 1,566 | 1,482 | 1,457 |
| Upstream: | | | | |
| Gas Monetization | 495 | 265 | 360 | 282 |
| Offshore | 78 | 92 | 85 | 83 |
| Other | 30 | 50 | 40 | 27 |
| Total Upstream | 603 | 407 | 485 | 392 |
| Services: | | | | |
| Downstream | 85 | 103 | 88 | 85 |
| Technology | 18 | 26 | 18 | 28 |
| Ventures | (1) | (2) | 1 | (6) |
| Total revenue | \$ 2,389 | \$ 2,177 | \$ 2,152 | \$ 2,027 |

Business unit income (loss):

| | | | | |
|--|-------|-------|-------|-------|
| G&I: | | | | |
| U.S. Government – Middle East Operations | \$ 38 | \$ 61 | \$ 67 | \$ 65 |
| U.S. Government – Americas Operations | 19 | 31 | 1 | 17 |
| International Operations | 34 | 36 | 23 | 23 |
| Total job income | 91 | 128 | 91 | 105 |
| Divisional overhead | (38) | (30) | (33) | (35) |
| Total G&I business unit income | 53 | 98 | 58 | 70 |
| Upstream: | | | | |
| Gas Monetization | 49 | 31 | 43 | 38 |
| Offshore | 21 | 15 | 11 | 12 |
| Other | 9 | 26 | 6 | (19) |
| Total job income | 79 | 72 | 60 | 31 |
| Divisional overhead | (15) | (15) | (13) | (11) |
| Total Upstream business unit income | 64 | 57 | 47 | 20 |
| Services: | | | | |
| Job income | 26 | 9 | 19 | 13 |
| Divisional overhead | (3) | (3) | (2) | (3) |
| Total Services business unit income | 23 | 6 | 17 | 10 |
| Downstream: | | | | |
| Job income | 8 | 7 | 5 | 6 |
| Divisional overhead | (5) | (3) | (4) | (4) |
| Total Downstream business unit income | 3 | 4 | 1 | 2 |
| Technology: | | | | |

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| | | | | |
|--|--------|--------|--------|--------|
| Job income | 6 | 10 | 7 | 16 |
| Divisional overhead | (5) | (5) | (5) | (5) |
| Total Technology business unit income | 1 | 5 | 2 | 11 |
| Ventures: | | | | |
| Job income (loss) | (2) | (2) | - | (5) |
| Divisional overhead | (1) | (1) | (1) | - |
| Total Ventures business unit income (loss) | (3) | (3) | (1) | (5) |
| Total Business unit income | \$ 141 | \$ 167 | \$ 124 | \$ 108 |

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KBR, Inc.

Revenue and Operating Results by Operating Unit

(In millions)

(Unaudited)

Three Months Ended

| | Dec 31, 2006 | Sep 30, 2006 | Jun 30, 2006 | Mar 31, 2006 |
|--|-----------------|-----------------|-----------------|-----------------|
| Revenue: | | | | |
| G&I: | | | | |
| U.S. Government – Middle East Operations | \$ 1,311 | \$ 1,348 | \$ 1,409 | \$ 1,194 |
| U.S. Government – Americas Operations | 195 | 200 | 211 | 231 |
| International Operations | 105 | 105 | 71 | 126 |
| Total G&I | 1,611 | 1,653 | 1,691 | 1,551 |
| Upstream: | | | | |
| Gas Monetization | 343 | 282 | 195 | 192 |
| Offshore | 96 | 92 | 91 | 109 |
| Other | 92 | 56 | 64 | 88 |
| Total Upstream | 531 | 430 | 350 | 389 |
| Services | 69 | 66 | 101 | 78 |
| Downstream | 69 | 86 | 93 | 67 |
| Technology | 19 | 20 | 16 | 7 |
| Ventures | (8) | (33) | (15) | (36) |
| Total revenue | \$ 2,291 | \$ 2,222 | \$ 2,236 | \$ 2,056 |

Business unit income (loss):

| | | | | |
|--|-------|-------|-------|-------|
| G&I: | | | | |
| U.S. Government – Middle East Operations | \$ 92 | \$ 98 | \$ 91 | \$ 69 |
| U.S. Government – Americas Operations | 16 | 22 | 25 | 20 |
| International Operations | 20 | 21 | 18 | 14 |
| Total job income | 128 | 141 | 134 | 103 |
| Divisional overhead | (40) | (48) | (44) | (47) |
| Total G&I business unit income | 88 | 93 | 90 | 56 |
| Upstream: | | | | |
| Gas Monetization | 53 | 32 | (123) | 34 |
| Offshore | 20 | 19 | 19 | 2 |
| Other | 7 | (3) | (5) | 29 |
| Total job income (loss) | 80 | 48 | (109) | 65 |
| Divisional overhead | (13) | (7) | (11) | (13) |
| Total Upstream business unit income (loss) | 67 | 41 | (120) | 52 |
| Services: | | | | |
| Job income (loss) | 18 | 10 | 26 | (4) |
| Divisional overhead | - | - | (3) | (2) |
| Total Services business unit income (loss) | 18 | 10 | 23 | (6) |
| Downstream: | | | | |
| Job income | 7 | 15 | 19 | 13 |
| Divisional overhead | (2) | (5) | (3) | (3) |

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| | | | | |
|--|--------|--------|------|-------|
| Total Downstream business unit income | 5 | 10 | 16 | 10 |
| Technology: | | | | |
| Job income | 10 | 9 | 6 | 3 |
| Divisional overhead | (4) | (5) | (5) | (4) |
| Total Technology business unit income (loss) | 6 | 4 | 1 | (1) |
| Ventures: | | | | |
| Job income (loss) | (7) | (34) | (15) | (35) |
| Gain on sale of assets | - | - | 6 | - |
| Divisional overhead | (1) | - | - | - |
| Total Ventures business unit income (loss) | (8) | (34) | (9) | (35) |
| Total Business unit income | \$ 176 | \$ 124 | \$ 1 | \$ 76 |

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Twelve Months Ended

| | Dec 31, 2007 | Dec 31, 2006 | Dec 31, 2005 |
|--|-----------------|-----------------|-----------------|
| Revenue: | | | |
| G&I: | | | |
| U.S. Government – Middle East Operations | \$ 4,782 | \$ 5,262 | \$ 5,880 |
| U.S. Government – Americas Operations | 721 | 837 | 1,021 |
| International Operations | 590 | 407 | 398 |
| Total G&I | 6,093 | 6,506 | 7,299 |
| Upstream: | | | |
| Gas Monetization | 1,402 | 1,012 | 392 |
| Offshore | 338 | 388 | 541 |
| Other | 147 | 300 | 212 |
| Total Upstream | 1,887 | 1,700 | 1,145 |
| Services | 322 | 314 | 280 |
| Downstream | 361 | 315 | 523 |
| Technology | 90 | 62 | 62 |
| Ventures | (8) | (92) | (18) |
| Total revenue | \$ 8,745 | \$ 8,805 | \$ 9,291 |
| Business unit income (loss): | | | |
| G&I: | | | |
| U.S. Government – Middle East Operations | \$ 231 | \$ 350 | \$ 354 |
| U.S. Government – Americas Operations | 68 | 83 | 80 |
| International Operations | 116 | 73 | 60 |
| Total job income | 415 | 506 | 494 |
| Divisional overhead | (136) | (179) | (212) |
| Total G&I business unit income | 279 | 327 | 282 |
| Upstream: | | | |
| Gas Monetization | 161 | (4) | 91 |
| Offshore | 59 | 60 | 93 |
| Other | 22 | 28 | (55) |
| Total job income | 242 | 84 | 129 |
| Gain on sale of assets | - | - | (2) |
| Divisional overhead | (54) | (44) | (27) |
| Total Upstream business unit income | 188 | 40 | 100 |
| Services: | | | |
| Job income | 67 | 50 | 35 |
| Gain on sale of assets | - | - | 10 |
| Divisional overhead | (11) | (5) | (7) |
| Total Services business unit income | 56 | 45 | 38 |
| Downstream: | | | |
| Job income | 26 | 54 | 40 |
| Gain on sale of assets | - | - | 13 |
| Divisional overhead | (16) | (13) | (13) |
| Total Downstream business unit income | 10 | 41 | 40 |
| Technology: | | | |
| Job income | 39 | 28 | 18 |
| Divisional overhead | (20) | (18) | (18) |
| Total Technology business unit income | 19 | 10 | - |
| Ventures: | | | |

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| | | | |
|--|--------|--------|--------|
| Job income (loss) | (9) | (91) | (5) |
| Gain on sale of assets | - | 6 | 89 |
| Divisional overhead | (3) | (1) | (2) |
| Total Ventures business unit income (loss) | (12) | (86) | 82 |
| Total Business unit income | \$ 540 | \$ 377 | \$ 542 |

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KBR, Inc.

Backlog Information^(a)

(Millions of dollars)

(Unaudited)

| | Dec 31, 2007 | Dec 31, 2006 | Dec 31, 2005 |
|--|------------------|------------------|-----------------|
| G&I: | | | |
| U.S. Government - Middle East Operations | \$ 1,361 | \$ 2,969 | \$ 2,139 |
| U.S. Government - Americas Operations | 548 | 715 | 936 |
| International Operations | 2,339 | 2,380 | 337 |
| Total G&I ^(b) | 4,248 | 6,064 | 3,412 |
| Upstream: | | | |
| Gas Monetization | 6,606 | 3,908 | 3,705 |
| Offshore Projects | 173 | 157 | 300 |
| Other | 118 | 698 | 997 |
| Total Upstream | 6,897 | 4,763 | 5,002 |
| Services | 765 | 277 | 227 |
| Downstream | 313 | 578 | 109 |
| Technology | 128 | 95 | 99 |
| Ventures | 700 | 660 | 435 |
| Total backlog for continuing operations^(c) | \$ 13,051 | \$ 12,437 | \$ 9,284 |

(a) Backlog is presented differently depending on if the contract is consolidated by KBR or is accounted for under the equity method of accounting. Backlog related to consolidated projects is presented as 100% of the expected revenue from the project. Backlog related to projects accounted for under the equity method of accounting is presented as KBR's share of the expected future revenue from the project. Our backlog for projects related to unconsolidated joint ventures totaled \$3.1 billion, \$4.4 billion, and \$3.0 billion at December 31, 2007, December 31, 2006, and December 31, 2005, respectively. Our backlog related to consolidated joint ventures with minority interest totaled \$3.2 billion, \$2.9 billion, and \$2.1 billion at December 31, 2007, December 31, 2006, and December 31, 2005, respectively.

As of December 31, 2007, 28% of our backlog for continuing operations was attributable to fixed-price contracts and 72% was attributable to cost-reimbursable contracts. For contracts that contain both fixed-price and cost-reimbursable components, we classify the components as either fixed-price or cost-reimbursable according to the composition of the contract except for smaller contracts where we characterize the entire contract based on the predominate component.

(b) The Government and Infrastructure segment backlog from continuing operations includes backlog attributable to firm orders in the amount of \$4.0 billion, \$4.0 billion, and \$1.6 billion as of December 31, 2007, December 31, 2006, and December 31, 2005, respectively. Government and Infrastructure backlog attributable to unfunded orders was \$0.2 billion, \$2.1 billion, and \$1.8 billion as of December 31, 2007, December 31, 2006, and December 31, 2005, respectively.

(c) This amount represents backlog for continuing operations and does not include backlog associated with DML, which was sold in the second quarter of 2007 and is accounted for as discontinued operations. Backlog for DML was \$1.1 billion as of December 31, 2006.

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KBR, Inc.

Backlog Information

(Millions of dollars)

(Unaudited)

| | Dec 31, 2007 | Sep 30, 2007 | Jun 30, 2007 | Mar 31, 2007 |
|--|------------------|------------------|-----------------|------------------|
| G&I: | | | | |
| U.S. Government - Middle East Operations | \$ 1,361 | \$ 1,196 | \$ 1,525 | \$ 2,553 |
| U.S. Government - Americas Operations | 548 | 427 | 493 | 563 |
| International Operations | 2,339 | 2,324 | 2,225 | 2,200 |
| Total G&I | 4,248 | 3,947 | 4,243 | 5,316 |
| Upstream: | | | | |
| Gas Monetization | 6,606 | 6,170 | 3,446 | 3,549 |
| Offshore Projects | 173 | 217 | 200 | 176 |
| Other | 118 | 99 | 133 | 238 |
| Total Upstream | 6,897 | 6,486 | 3,779 | 3,963 |
| Services | 765 | 482 | 498 | 253 |
| Downstream | 313 | 353 | 389 | 481 |
| Technology | 128 | 101 | 101 | 102 |
| Ventures | 700 | 633 | 620 | 628 |
| Total backlog for continuing operations | \$ 13,051 | \$ 12,002 | \$ 9,630 | \$ 10,743 |

| | Dec 31, 2006 | Sep 30, 2006 | Jun 30, 2006 | Mar 31, 2006 |
|--|------------------|------------------|-----------------|-----------------|
| G&I: | | | | |
| U.S. Government - Middle East Operations | \$ 2,969 | \$ 4,055 | \$ 817 | \$ 910 |
| U.S. Government - Americas Operations | 715 | 733 | 725 | 849 |
| International Operations | 2,380 | 2,108 | 1,954 | 393 |
| Total G&I | 6,064 | 6,896 | 3,496 | 2,152 |
| Upstream: | | | | |
| Gas Monetization | 3,908 | 4,316 | 3,601 | 3,488 |
| Offshore Projects | 157 | 170 | 180 | 239 |
| Other | 698 | 752 | 828 | 963 |
| Total Upstream | 4,763 | 5,238 | 4,609 | 4,690 |
| Services | 277 | 307 | 340 | 240 |
| Downstream | 578 | 407 | 368 | 442 |
| Technology | 95 | 74 | 70 | 57 |
| Ventures | 660 | 890 | 907 | 445 |
| Total backlog for continuing operations | \$ 12,437 | \$ 13,812 | \$ 9,790 | \$ 8,026 |

FOOTNOTE TABLES 1

KBR, Inc.

Items included in Operating Income by Operating Segment

(Millions of dollars)

(Unaudited)

| | Three Months Ended | | | |
|------------------------------|---------------------------|--------------|--------------|--------------|
| | Dec 31, 2007 | Sep 30, 2007 | Jun 30, 2007 | Mar 31, 2007 |
| Government & Infrastructure: | | | | |
| Potential Disallowed Costs | \$ (22) | \$ – | \$ – | \$ – |
| Lease Restructuring | (5) | – | – | – |
| A1D2D Claim Settlement | – | 6 | – | – |
| Skopje Provision | (2) | – | (24) | (1) |
| Upstream: | | | | |
| BRC Impairment | – | – | – | (20) |
| BRC Disposal | – | 18 | – | – |
| Escravos Conversion | – | – | 3 | – |
| Services: | | | | |
| Primary Insurance Release | 11 | – | – | – |
| Downstream: | – | – | – | – |
| Technology: | – | – | – | – |
| Ventures: | – | – | – | – |

| | Three Months Ended | | | |
|--------------------------------------|---------------------------|--------------|--------------|--------------|
| | Dec 31, 2006 | Sep 30, 2006 | Jun 30, 2006 | Mar 31, 2006 |
| Government & Infrastructure: | | | | |
| Restructuring – Head Count Reduction | \$ (1) | \$ – | \$ – | \$ – |
| Skopje Provision | (12) | – | – | – |
| Upstream: | | | | |
| Barracuda Additional Charge | (4) | – | – | (15) |
| BRC Bad Debt | – | – | (6) | – |
| Escravos Provision | (9) | – | (148) | – |
| Restructuring – Head Count Reduction | (1) | – | – | – |
| Services: | | | | |
| Primary Insurance Release | 7 | – | – | – |
| Downstream: | – | – | – | – |

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| | | | | |
|---------------------|---|------|------|------|
| Technology: | - | - | - | - |
| Ventures: | | | | |
| ASD Impairment | - | (32) | - | (26) |
| UK Roads Impairment | - | - | (10) | - |

FOOTNOTE TABLES 1 (continued)

KBR, Inc.

Items included in Operating Income by Operating Segment

(Millions of dollars)

(Unaudited)

| | Twelve Months Ended | | |
|--------------------------------------|----------------------------|--------------|--------------|
| | Dec 31, 2007 | Dec 31, 2006 | Dec 31, 2005 |
| Government & Infrastructure: | | | |
| Potential Disallowed Costs | \$ (22) | \$ – | \$ – |
| Lease Restructuring | (5) | – | – |
| A1D2D Claim Settlement | 6 | – | – |
| Skopje Provision | (27) | (12) | – |
| Restructuring – Head Count Reduction | – | (1) | – |
| A1D2D Losses | – | – | (15) |
| Upstream: | | | |
| BRC Impairment | (20) | – | – |
| BRC Disposal | 18 | – | – |
| Escravos Contract Conversion | 3 | – | – |
| Barracuda Additional Charge | – | (19) | (8) |
| BRC Bad Debt | – | (6) | – |
| Escravos Provision | – | (157) | – |
| Restructuring – Head Count Reduction | – | (1) | – |
| BRC Equity Adjustment | – | – | (43) |
| In Amenas Loss | – | – | (32) |
| Hurricane Interference | – | – | (5) |
| Services: | | | |
| Primary Insurance Release | 11 | 7 | 21 |
| Downstream: | – | – | – |
| Technology: | – | – | – |
| Ventures: | | | |
| ASD Impairment | – | (58) | – |
| UK Roads Impairment | – | (10) | – |
| Dulles Toll Gain on Sale / Dividend | – | – | 96 |

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