

KBR, INC.
Form 8-K
August 02, 2007
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): **August 2, 2007**

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 August 2, 2007, KBR, Inc. issued a press release entitled, KBR Announces Second Quarter 2007 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 August 2, 2007 entitled, KBR Announces Second Quarter 2007 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: August 2, 2007

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

August 2, 2007

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

Heather Browne
Director, Communications
713-753-3775

KBR ANNOUNCES SECOND QUARTER 2007 RESULTS

\$0.83 second quarter 2007 net income per diluted share

HOUSTON, Texas KBR (NYSE:KBR) announced today that income from continuing operations was \$50 million, or \$0.30 per diluted share, compared to income from continuing operations of \$4 million or \$0.03 per diluted share, in the second quarter of 2006. Net income was \$140 million, or \$0.83 per diluted share, in the second quarter of 2007, which included income from discontinued operations of \$90 million, or \$0.53 per diluted share, primarily related to operations from and gain on the sale of KBR's 51% ownership interest in Devonport Management Limited (DML). This compares to net income for the second quarter of 2006 of \$92 million, or \$0.68 per diluted share, which included income from discontinued operations of \$88 million, or \$0.65 per diluted share, related to the Production Services Group and the operations of DML.

Consolidated revenue in the second quarter of 2007 was \$2.2 billion, relatively flat compared to the second quarter of 2006.

Consolidated operating income was \$65 million in the second quarter of 2007 compared to a loss of \$47 million in the second quarter of 2006. Operating income in the second quarter of 2007 included positive contributions from an ammonia plant in Egypt, the export refinery in Saudi Arabia, and Iraq-related work. Operating income in the second quarter of 2007 was partially offset by a \$24 million charge related to the U.S. Embassy project in Macedonia. Operating loss in the second quarter of 2006 included a \$148 million charge on the Escravos, Nigeria Gas-to-Liquids project.

In 2006, KBR sought to implement a number of strategic initiatives in its business, particularly around improving customer relationships, achieving broader portfolio diversification, and developing Best-in-Class project risk awareness and management. I am pleased with our progress to date and we are now beginning to realize the benefits of these initiatives," said Bill Utt, Chairman, President, and Chief Executive Officer of KBR. KBR is now better positioned to continue to provide market leading engineering, construction, and service offerings to its customers.

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2007 Second Quarter Segment Results

Energy and Chemicals operating income was \$41 million in the second quarter of 2007 compared to operating loss of \$97 million in the second quarter of 2006. Operating income in the second quarter of 2007 included positive contributions from various petrochemical, ammonia, and refining projects.

In regards to the Escravos, Nigeria Gas-to-Liquids project, the contract has been amended to convert from a fixed-price to a reimbursable contract. The amendment is effective as of the original contract date and contains client determined incentives.

Government and Infrastructure operating income for the second quarter of 2007 was \$25 million compared to operating income of \$58 million in the second quarter of 2006. Operating income in the second quarter of 2007 included a charge of \$24 million on the U.S. Embassy Project in Macedonia. Additionally, operating income on Iraq-related work decreased from the second quarter of 2006 due to lower activity.

On June 28, 2007, KBR completed the disposition of its 51% interest in DML for approximately \$345 million in proceeds to KBR, net of direct transaction costs, resulting in an after-tax gain of approximately \$97 million. The results of operations of DML for the current and prior periods have been classified as discontinued operations.

Ventures operating loss was \$1 million in the second quarter of 2007 compared to operating loss of \$8 million in the comparable period last year.

Significant Achievements and Awards

In July 2007, KBR and Sonatrach executed a contract providing for the engineering, procurement and construction (EPC) for the Sonatrach Skikda LNG project, to be constructed at Skikda, Algeria. In addition to performing the EPC for the 4.5MPTA train, KBR will execute the pre-commissioning and commissioning portion of the contract. The contract has an approximate value of USD 2.8 billion.

Saudi Aramco and The Dow Chemical Company announced the selection of KBR as the Project Management Contractor for the Ras Tanura Integrated Project. The proposed project is a world-scale chemicals and plastics production complex in Saudi Arabia.

KBR announced that its subsidiary, M.W. Kellogg Limited (MWKL), has been awarded the detail engineering contract by Statoil on behalf of Gassco and Gassled. MWKL will be responsible for the upgrading and development of the Statoil gas treatment facility at Karsto located north of Stavanger, Norway. The contract has a value of approximately USD 175 million.

KBR's Government & Infrastructure (G & I) segment has been selected as one of the executing contractors of the U.S. Army's Logistics Civil Augmentation Program (LOGCAP) IV contract. Under this competitively awarded contract, KBR will continue to serve as one of three logistics support providers to U.S. forces deployed in the Middle East.

KBR was awarded contracts to provide field construction and module fabrication services by Shell Canada for the Scotford Upgrader Expansion east of Edmonton, Alberta, Canada. KBR's scope of work will include the fabrication of 160 modules and will peak at approximately 800 personnel performing field construction and module services work.

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KBR was selected by the U.S. Naval Facilities Engineering Command to compete for future task orders under the Anti-Terrorism Force Protection (ATFP) Ashore program contract vehicle. KBR will be part of a Lockheed Martin-led team and will be providing the full range of design-build services for facilities infrastructure to the Lockheed Martin team.

KBR is a global engineering, construction, and services company supporting the energy, petrochemicals, government services, and civil infrastructure sectors. We offer our wide range of services through our Energy and Chemicals (E&C), Government and Infrastructure (G&I), and Ventures business segments.

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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 our 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, 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 28, 2007, final prospectus for its exchange offer dated March 27, 2007, subsequent Forms 10-Q, recent Current Reports on Forms 8-K, and other Securities and Exchange Commission filings discuss some of the important risk factors 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 June 30, 2007 | 2006 | Three Months Ended March 31, 2007 |
|---|--|----------|--|
| Revenue: | | | |
| Energy and Chemicals | \$ 669 | \$ 560 | \$ 576 |
| Government and Infrastructure Ventures ^(a) | 1,482 | 1,691 | 1,457 |
| | 1 | (15) | (6) |
| Total revenue | \$ 2,152 | \$ 2,236 | \$ 2,027 |
| Operating income (loss) : | | | |
| Energy and Chemicals | 41 | (97) | 13 |
| Government and Infrastructure Ventures ^(a) | 25 | 58 | 38 |
| | (1) | (8) | (6) |
| Total operating income (loss)^(b) | \$ 65 | \$ (47) | \$ 45 |
| Interest expense – related party | - | (11) | - |
| Interest income, net | 14 | 2 | 13 |
| Foreign currency losses, net | (2) | (15) | (3) |
| Other non-operating gain, net | 1 | - | - |
| Income (loss) from continuing operations before income taxes and minority interest | 78 | (71) | 55 |
| Benefit (provision) for income taxes | (32) | 29 | (26) |
| Minority interest in net income (loss) of subsidiaries | 4 | 46 | (5) |
| Income from continuing operations | 50 | 4 | 24 |
| Income from discontinued operations, net | 90 | 88 | 4 |
| Net income | \$ 140 | \$ 92 | \$ 28 |
| Basic income per share^(c): | | | |
| Continuing operations | \$ 0.30 | \$ 0.03 | \$ 0.14 |
| Discontinued operations, net | 0.54 | 0.65 | 0.02 |
| Net income per share | \$ 0.83 | \$ 0.68 | \$ 0.17 |
| Diluted income per share^(c): | | | |
| Continuing operations | \$ 0.30 | \$ 0.03 | \$ 0.14 |
| Discontinued operations, net | 0.53 | 0.65 | 0.02 |
| Net income per share | \$ 0.83 | \$ 0.68 | \$ 0.17 |
| Basic weighted average shares outstanding ^(d) | 168 | 136 | 168 |
| Diluted weighted average shares outstanding ^(d) | 169 | 136 | 168 |

(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.

(b) General and administrative expenses included in operating income were \$30 million, \$24 million, and \$29 million for the three months ended June 30, 2007 and 2006 and March 31, 2007, respectively.

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

(d) The increase in weighted average shares outstanding from the second quarter 2006 to the first quarter 2007 related to the initial public offering of shares during November 2006.

See Footnote Table 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)

| | Six Months Ended June 30, | |
|---|------------------------------|-----------------|
| | 2007 | 2006 |
| Revenue: | | |
| Energy and Chemicals | \$ 1,245 | \$ 1,101 |
| Government and Infrastructure Ventures ^(a) | 2,939 (5) | 3,242 (51) |
| Total revenue | \$ 4,179 | \$ 4,292 |
| Operating income (loss): | | |
| Energy and Chemicals | 54 | (53) |
| Government and Infrastructure Ventures ^(a) | 63 (7) | 93 (44) |
| Total operating income (loss)^(b) | \$ 110 | \$ (4) |
| Interest expense – related party | - | (28) |
| Interest income, net | 27 | 5 |
| Foreign currency losses, net | (5) | (10) |
| Other non-operating gain, net | 1 | - |
| Income (loss) from continuing operations before income taxes and minority interest | 133 | (37) |
| Benefit (provision) for income taxes | (58) | 7 |
| Minority interest in net income (loss) of subsidiaries | (1) | 47 |
| Income from continuing operations | 74 | 17 |
| Income from discontinued operations, net | 94 | 101 |
| Net income | \$ 168 | \$ 118 |
| Basic income per share^(c): | | |
| Continuing operations | \$ 0.44 | \$ 0.13 |
| Discontinued operations, net | 0.56 | 0.74 |
| Net income per share | \$ 1.00 | \$ 0.87 |
| Diluted income (loss) per share^(c): | | |
| Continuing operations | \$ 0.44 | \$ 0.13 |
| Discontinued operations, net | 0.56 | 0.74 |
| Net income per share | \$ 0.99 | \$ 0.87 |
| Basic weighted average shares outstanding ^(d) | 168 | 136 |
| Diluted weighted average shares outstanding ^(d) | 169 | 136 |

(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.

(b) General and administrative expenses included in operating income were \$59 million and \$41 million for the six months ended June 30, 2007 and 2006, respectively.

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

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(d) The increase in weighted average shares outstanding from the six months ended June 30, 2006 to the six months ended June 30, 2007 related to the initial public offering of shares during November 2006.

See Footnote Table 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)

| | June 30, 2007 | March 31, 2007 | December 31, 2006 |
|---|------------------|-------------------|----------------------|
| Assets | | | |
| Current assets: | | | |
| Cash and equivalents | \$ 2,016 | \$ 1,275 | \$ 1,410 |
| Receivables: | | | |
| Notes and accounts receivable (less allowance for bad debts of \$76, \$60 and \$57) | 815 | 998 | 761 |
| Unbilled receivables on uncompleted contracts | 836 | 1,114 | 1,110 |
| Total receivables | 1,651 | 2,112 | 1,871 |
| Deferred income taxes | 132 | 138 | 120 |
| Other current assets | 270 | 235 | 240 |
| Current assets of discontinued operations, net | 11 | 234 | 257 |
| Total current assets | 4,080 | 3,994 | 3,898 |
| Property, plant, and equipment, net of accumulated depreciation of \$221, \$211 and \$205 | 215 | 211 | 211 |
| Goodwill | 251 | 251 | 251 |
| Equity in and advances to related companies | 301 | 246 | 296 |
| Noncurrent deferred income taxes | 139 | 154 | 156 |
| Unbilled receivables on uncompleted contracts | 194 | 194 | 194 |
| Other assets | 42 | 45 | 51 |
| Noncurrent assets of discontinued operations, net | - | 350 | 357 |
| Total assets | \$ 5,222 | \$ 5,445 | \$ 5,414 |
| Liabilities, Minority Interest and Shareholders' Equity | | | |
| Current liabilities: | | | |
| Accounts payable | \$ 1,056 | \$ 1,080 | \$ 1,177 |
| Due to Halliburton, net | - | 29 | 152 |
| Advanced billings on uncompleted contracts | 968 | 971 | 767 |
| Reserve for estimated losses on uncompleted contracts | 150 | 144 | 180 |
| Employee compensation and benefits | 268 | 283 | 259 |
| Other current liabilities | 313 | 169 | 174 |
| Current liabilities of discontinued operations, net | - | 262 | 274 |
| Total current liabilities | 2,755 | 2,938 | 2,983 |
| Employee compensation and benefits | 206 | 214 | 221 |
| Other liabilities | 155 | 148 | 149 |
| Income tax payable - noncurrent | 65 | 70 | - |
| Noncurrent deferred tax liability | 33 | 32 | 44 |
| Noncurrent liabilities of discontinued operations, net | - | 198 | 188 |
| Total liabilities | 3,214 | 3,600 | 3,585 |
| Minority interest in consolidated subsidiaries | (33) | 28 | 35 |
| Shareholders' equity and accumulated other comprehensive loss: | | | |
| Preferred stock, \$0.001 par value, 50,000,000 shares authorized, no shares issued and outstanding | - | - | - |
| Common shares, \$0.001 par value, 300,000,000 shares authorized, 168,939,043, 167,772,410, and 167,772,410 issued and outstanding | - | - | - |
| Paid-in capital in excess of par value | 2,066 | 2,060 | 2,058 |
| Accumulated other comprehensive loss | (210) | (288) | (291) |
| Retained earnings | 185 | 45 | 27 |
| Total shareholders' equity and accumulated other comprehensive loss | 2,041 | 1,817 | 1,794 |

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| | | | |
|---|-----------------|-----------------|-----------------|
| Total liabilities, minority interest, shareholders equity and accumulated other comprehensive income | \$ 5,222 | \$ 5,445 | \$ 5,414 |
|---|-----------------|-----------------|-----------------|

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KBR, Inc.

Condensed Consolidated Statements of Cash Flows

(In millions)

(Unaudited)

| | Six Months Ended June 30, | |
|--|------------------------------|---------------|
| | 2007 | 2006 |
| Cash flows from operating activities: | | |
| Net income | \$ 168 | \$ 118 |
| Adjustments to reconcile net income to net cash provided by operations: | | |
| Depreciation and amortization | 24 | 23 |
| Distribution from (to) related companies, net of equity in earnings (losses) | (18) | - |
| Deferred income taxes | 22 | (4) |
| Gain on sale of assets, net | (216) | (129) |
| Impairment of equity method investments | 18 | 36 |
| Other | 43 | (26) |
| Changes in operating assets and liabilities: | | |
| Receivables | (85) | 291 |
| Unbilled receivables on uncompleted contracts | 242 | (85) |
| Accounts payable | (116) | (199) |
| Advanced billings on uncompleted contracts | 201 | 464 |
| Employee compensation and benefits | 9 | (90) |
| Reserve for estimated loss on uncompleted | | |
| Contracts | (30) | 112 |
| Other assets | (60) | (90) |
| Other liabilities | 272 | 40 |
| Total cash flows provided by operating activities | 474 | 461 |
| Cash flows from investing activities: | | |
| Capital expenditures | (23) | (42) |
| Sales of property, plant and equipment | 1 | 4 |
| Disposition (acquisitions) of businesses, net of cash disposed | 334 | 276 |
| Other investing activities | (1) | - |
| Total cash flows provided by investing activities | 311 | 238 |
| Cash flows from financing activities: | | |
| Payments to (from) Halliburton, net | (123) | (172) |
| Payments on long-term borrowings | (7) | (9) |
| Payment of dividends to minority shareholders | (19) | (4) |
| Total cash flows used in financing activities | (149) | (185) |
| Effect of exchange rate changes | (81) | 22 |
| Increase in cash and equivalents | 555 | 536 |
| Cash and equivalents at beginning of period ^(a) | 1,461 | 394 |
| Cash and equivalents at end of period | \$ 2,016 | \$ 930 |

(a)

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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 six months ended June 30, 2007 do not agree to the cash and equivalents reflected on the condensed consolidated balance sheet for December 31, 2006.

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KBR, Inc.

Revenue and Operating Results by Operating Unit

(In millions)

(Unaudited)

| | | Three Months Ended | |
|-------------------------------------|----------|--------------------|-------------------|
| | 2007 | June 30, 2006 | March 31, 2007 |
| Revenue: | | | |
| E&C Gas Monetization Projects | \$ 331 | \$ 180 | \$ 257 |
| E&C Offshore Projects | 61 | 71 | 61 |
| E&C Other | 277 | 309 | 258 |
| Total Energy and Chemicals | 669 | 560 | 576 |
| G&I Middle East Operations | 1,170 | 1,409 | 1,142 |
| G&I Other | 312 | 282 | 315 |
| Total Government and Infrastructure | 1,482 | 1,691 | 1,457 |
| Ventures | 1 | (15) | (6) |
| Total revenue | \$ 2,152 | \$ 2,236 | \$ 2,027 |
| Operating Income (loss): | | | |
| E&C Gas Monetization Projects | \$ 1 | \$ (130) | \$ 6 |
| E&C Offshore Projects | 3 | 9 | 2 |
| E&C Other | 37 | 24 | 5 |
| Total Energy and Chemicals | 41 | (97) | 13 |
| G&I Middle East Operations | 29 | 45 | 29 |
| G&I Other | (4) | 13 | 9 |
| Total Government and Infrastructure | 25 | 58 | 38 |
| Ventures | (1) | (8) | (6) |
| Total operating income (loss) | \$ 65 | \$ (47) | \$ 45 |

| | | Six Months Ended | |
|-------------------------------------|--------|------------------|--|
| | 2007 | June 30, 2006 | |
| Revenue: | | | |
| E&C Gas Monetization Projects | \$ 588 | \$ 345 | |
| E&C Offshore Projects | 122 | 160 | |
| E&C Other | 535 | 596 | |
| Total Energy and Chemicals | 1,245 | 1,101 | |
| G&I Middle East Operations | 2,312 | 2,603 | |
| G&I Other | 627 | 639 | |
| Total Government and Infrastructure | 2,939 | 3,242 | |
| Ventures | (5) | (51) | |

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| | | |
|-------------------------------------|----------|----------|
| Total revenue | \$ 4,179 | \$ 4,292 |
| Operating Income (loss): | | |
| E&C Gas Monetization Projects | \$ 7 | \$ (121) |
| E&C Offshore Projects | 5 | 1 |
| E&C Other | 42 | 67 |
| Total Energy and Chemicals | 54 | (53) |
| G&I Middle East Operations | 53 | 72 |
| G&I Other | 10 | 21 |
| Total Government and Infrastructure | 63 | 93 |
| Ventures | (7) | (44) |
| Total operating income (loss) | \$ 110 | \$ (4) |

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KBR, Inc.

Backlog Information

(Millions of dollars)

(Unaudited)

| | June 30, 2007 | March 31, 2007 | December 31, 2006 |
|--|--------------------------|-------------------|----------------------|
| Backlog^(a): | | | |
| E&C Gas Monetization Projects | \$ 3,438 | \$ 3,517 | \$ 3,883 |
| E&C Offshore Projects | 173 | 150 | 130 |
| E&C Other | 1,156 | 1,132 | 1,700 |
| Total Energy and Chemicals | 4,767 | 4,799 | 5,713 |
| G&I Middle East Operations | 1,515 | 2,543 | 3,066 |
| G&I Other | 2,728 | 2,773 | 2,998 |
| Total Government and Infrastructure ^(b) | \$ 4,243 | \$ 5,316 | \$ 6,064 |
| Ventures | \$ 620 | \$ 628 | \$ 660 |
| Total backlog for continuing operations^(c) | \$ 9,630 | \$ 10,743 | \$ 12,437 |

(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. In the Energy & Chemicals division, approximately \$2.5 billion of the backlog as of June 30, 2007 related to consolidated projects and approximately \$917 million related to projects accounted for under the equity method. As of June 30, 2007, the Government & Infrastructure division's backlog included approximately \$81 million related to consolidated projects and approximately \$1.9 billion related to projects accounted for under the equity method. As of June 30, 2007, all the Ventures division's backlog of approximately \$620 million relates to projects accounted for under the equity method.

(b) The Government and Infrastructure segment backlog from continuing operations includes backlog attributable to firm orders in the amount of \$4.1 billion, \$4.8 billion and \$4.0 billion as of June 30, 2007, March 31, 2007 and December 31, 2006, respectively. The Ventures backlog from continuing operations includes backlog attributable to firm orders in the amount of \$620 million, \$628 million and \$660 million as of June 30, 2007, March 31, 2007 and December 31, 2006, respectively. Government and Infrastructure backlog attributable to unfunded orders was \$144 million, \$472 million and \$2.1 billion as of June 30, 2007, March 31, 2007 and December 31, 2006, 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 \$1.2 billion as of March 31, 2007 and \$1.1 billion as of December 31, 2006.

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FOOTNOTE TABLE 1

KBR, Inc.

Items included in Operating Income by Operating Segment

(Millions of dollars except per diluted share data)

(Unaudited)

| | Three Months Ended June 30, 2007 | | Three Months Ended June 30, 2006 | | Three Months Ended March 31, 2007 | |
|-------------------------------|---|--------------------------------|-------------------------------------|------------------------|--------------------------------------|------------------------|
| | Operating Income | After Tax per Share | Operating Income | After Tax per Share | Operating Income | After Tax per Share |
| : Energy and Chemicals | | | | | | |
| Escravos project loss/gain: | \$ 3 | \$ 0.01 | \$ (148) | \$ (0.35) | \$ | \$ |
| BRC charges | \$ | \$ | \$ | \$ | \$ (20) | \$ (0.11) |
| Government and Infrastructure | | | | | | |
| Skopje Embassy charge | \$ (24) | \$ (0.09) | \$ | \$ | \$ | \$ |

| | Six Months Ended June 30, 2007 | | Six Months Ended June 30, 2006 | |
|--------------------------------|---|--------------------------------|-----------------------------------|------------------------|
| | Operating Income | After Tax per Share | Operating Income | After Tax per Share |
| Energy and Chemicals: | | | | |
| BRC charges | \$ (20) | \$ (0.11) | \$ | \$ |
| Escravos project loss/gain: | \$ 3 | \$ 0.01 | \$ (148) | \$ (0.35) |
| Government and Infrastructure: | | | | |
| Skopje Embassy charge | \$ (24) | \$ (0.09) | \$ | \$ |
| Ventures: | | | | |
| Railroad impairment charge | \$ | \$ | \$ (26) | \$ (0.19) |

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