

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

☒ Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended September 29, 2023
OR

☐ Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the transition period from to

Commission File Number: 001-33146



KBR, Inc.

(Exact name of registrant as specified in its charter)

Delaware
(State of incorporation)

20-4536774
(I.R.S. Employer Identification No.)

601 Jefferson Street, Suite 3400 Houston Texas
(Address of principal executive offices)

77002
(Zip Code)

(713) 753-2000
(Registrant's telephone number including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading symbol	Name of each exchange on which registered
Common Stock, \$0.001 par value	KBR	New York Stock Exchange

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer	☒	Accelerated filer	☐
Non-accelerated filer	☐ (Do not check if a smaller reporting company)	Smaller reporting company	☐
		Emerging growth company	☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

As of October 18, 2023, there were 135,004,384 shares of KBR, Inc. Common Stock, par value \$0.001 per share, outstanding.

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Forward-Looking and Cautionary Statements

This Quarterly Report on Form 10-Q contains certain statements that are, or may be deemed to be, "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Exchange Act, as amended. The Private Securities Litigation Reform Act of 1995 provides safe harbor provisions for forward-looking information. Some of the statements contained in this Quarterly Report on Form 10-Q are forward-looking statements. All statements other than statements of historical fact are, or may be deemed to be, forward-looking statements. The words "believe," "may," "estimate," "continue," "anticipate," "intend," "plan," "expect" and similar expressions are intended to identify forward-looking statements. Forward-looking statements include information concerning our possible or assumed future financial performance and results of operations.

We have based these statements on our assumptions and analyses in light of our experience and perception of historical trends, current conditions, expected future developments and other factors we believe are appropriate in the circumstances. Forward-looking statements by their nature involve substantial risks and uncertainties that could significantly affect expected results, and actual future results could differ materially from those described in such statements. While it is not possible to identify all factors, factors that could cause actual future results to differ materially include the risks and uncertainties disclosed in our latest Form 10-K and any subsequent Forms 10-Q and 8-K.

Many of these factors are beyond our ability to control or predict. Any of these factors, or a combination of these factors, could materially and adversely affect our future financial condition or results of operations and the ultimate accuracy of the forward-looking statements. These forward-looking statements are not guarantees of our future performance, and our actual results and future developments may differ materially and adversely from those projected in the forward-looking statements. We caution against putting undue reliance on forward-looking statements or projecting any future results based on such statements or on present or prior earnings levels. In addition, each forward-looking statement speaks only as of the date of the particular statement, and we undertake no obligation to publicly update or revise any forward-looking statement.

Glossary of Terms

The following frequently used terms, abbreviations or acronyms are commonly used in our Quarterly Reports on Form 10-Q as defined below:

Acronym	Definition
AOCL	Accumulated other comprehensive loss
ASC	Accounting Standards Codification
Aspire Defence	Aspire Defence Limited
ASU	Accounting Standards Update
BRIS	Brown & Root Industrial Services Joint Venture
C5ISR	Command, Control, Communications, Computers, Cyber, Intelligence, Surveillance and Reconnaissance
CAS	Cost Accounting Standards for U.S. government contracts
DCAA	Defense Contract Audit Agency
DCMA	Defense Contract Management Agency
DoD	Department of Defense
DOJ	U.S. Department of Justice
ESPP	Employee Stock Purchase Plan
Exchange Act	Securities Exchange Act of 1934, as amended
FAR	Federal Acquisition Regulation
FASB	Financial Accounting Standards Board
FCA	False Claims Act
FKTC	First Kuwaiti Trading Company
GS	Government Solutions
IRS	Internal Revenue Service
JKC	JKC Australia LNG, an Australian joint venture executing the Ichthys LNG Project
LIBOR	London interbank offered rate
LNG	Liquefied natural gas
MD&A	Management's Discussion and Analysis of Financial Condition and Results of Operations
MFRs	Memorandums for Record
MoD	Ministry of Defence
NCI	Noncontrolling interests
OAW	Operation Allies Welcome
PFI	Private financed initiatives and projects
PIC	Paid-in capital in excess of par
PPE	Property, Plant and Equipment
RPA	Master Accounts Receivable Purchase Agreement
SEC	U.S. Securities and Exchange Commission
SOFR	Secured Overnight Financing Rate
SONIA	Sterling Overnight Index Average
STS	Sustainable Technology Solutions
U.K.	United Kingdom
U.S.	United States
U.S. GAAP	Accounting principles generally accepted in the United States
VIEs	Variable interest entities

PART I. FINANCIAL INFORMATION

Item 1. Financial Information

KBR, Inc.
Condensed Consolidated Statements of Operations
(In millions, except for per share data)
(Unaudited)

	Three Months Ended		Nine Months Ended	
	September 29, 2023	September 30, 2022	September 29, 2023	September 30, 2022
Revenues	\$ 1,770	\$ 1,626	\$ 5,226	\$ 4,956
Cost of revenues	(1,526)	(1,401)	(4,486)	(4,334)
Gross profit	244	225	740	622
Equity in earnings (losses) of unconsolidated affiliates	32	5	78	(103)
Selling, general and administrative expenses	(127)	(103)	(370)	(315)
Legal settlement of legacy matter	—	—	(144)	—
Gain on disposition of assets and investments	—	—	—	22
Other	(2)	(2)	(3)	(5)
Operating income	147	125	301	221
Interest expense	(30)	(23)	(85)	(64)
Unrealized gain on other investment	—	—	—	16
Charges associated with Convertible Notes	(114)	—	(428)	—
Other non-operating income (expense)	2	(2)	(1)	3
Income (loss) before income taxes	5	100	(213)	176
Provision for income taxes	(23)	(27)	(69)	(79)
Net income (loss)	(18)	73	(282)	97
Less: Net income (loss) attributable to noncontrolling interests	3	(1)	4	—
Net income (loss) attributable to KBR	\$ (21)	\$ 74	\$ (286)	\$ 97
Net income (loss) attributable to KBR per share				
Basic	\$ (0.16)	\$ 0.53	\$ (2.10)	\$ 0.69
Diluted	\$ (0.16)	\$ 0.49	\$ (2.10)	\$ 0.65
Basic weighted average common shares outstanding	135	139	136	139
Diluted weighted average common shares outstanding	135	156	136	156
Cash dividends declared per share	\$ 0.135	\$ 0.120	\$ 0.405	\$ 0.360

See accompanying notes to condensed consolidated financial statements.

KBR, Inc.
Condensed Consolidated Statements of Comprehensive Income (Loss)
(In millions)
(Unaudited)

	Three Months Ended		Nine Months Ended	
	September 29,	September 30,	September 29,	September 30,
	2023	2022	2023	2022
Net income (loss)	\$ (18)	\$ 73	\$ (282)	\$ 97
Other comprehensive income (loss):				
Foreign currency translation adjustments	(34)	(60)	5	(113)
Pension and post-retirement benefits	3	6	1	18
Changes in fair value of derivatives	5	22	18	57
Other comprehensive income (loss)	(26)	(32)	24	(38)
Income tax expense:				
Pension and post-retirement benefits	(3)	(1)	—	(3)
Changes in fair value of derivatives	(2)	(5)	(3)	(12)
Income tax expense	(5)	(6)	(3)	(15)
Other comprehensive income, net of tax	(31)	(38)	21	(53)
Comprehensive income (loss)	(49)	35	(261)	44
Less: Comprehensive income attributable to noncontrolling interests	3	(1)	4	—
Comprehensive income (loss) attributable to KBR	<u>\$ (52)</u>	<u>\$ 36</u>	<u>\$ (265)</u>	<u>\$ 44</u>

See accompanying notes to condensed consolidated financial statements.

KBR, Inc.
Condensed Consolidated Balance Sheets
(In millions, except share data)

	September 29, 2023 (Unaudited)	December 31, 2022
Assets		
Current assets:		
Cash and cash equivalents	\$ 348	\$ 389
Accounts receivable, net of allowance for credit losses of \$10 and \$9, respectively	1,014	942
Contract assets	207	252
Other current assets	523	164
Total current assets	2,092	1,747
Pension Assets	83	46
Property, plant, and equipment, net of accumulated depreciation of \$438 and \$417 (including net PPE of \$34 and \$22 owned by a variable interest entity), respectively	224	182
Operating lease right-of-use assets	146	164
Goodwill	2,090	2,087
Intangible assets, net of accumulated amortization of \$366 and \$332, respectively	618	645
Equity in and advances to unconsolidated affiliates	193	188
Deferred income taxes	190	213
Other assets	337	294
Total assets	\$ 5,973	\$ 5,566
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable	\$ 687	\$ 637
Contract liabilities	341	275
Accrued salaries, wages and benefits	308	325
Current maturities of long-term debt	239	364
Operating lease liabilities	49	48
Other current liabilities	503	172
Total current liabilities	2,127	1,821
Employee compensation and benefits	113	105
Income tax payable	101	117
Deferred income taxes	92	92
Long-term debt	1,516	1,376
Operating lease liabilities	178	193
Other liabilities	281	230
Total liabilities	4,408	3,934
Commitments and Contingencies (Notes 6, 11 and 12)		
KBR shareholders' equity:		
Preferred stock, \$0.001 par value, 50,000,000 shares authorized, none issued	—	—
Common stock, \$0.001 par value 300,000,000 shares authorized, 181,627,601 and 180,807,960 shares issued, and 135,002,833 and 136,505,145 shares outstanding, respectively	—	—
PIC	2,624	2,235
Retained earnings	1,069	1,410
Treasury stock, 46,624,768 shares and 44,302,815 shares, at cost, respectively	(1,278)	(1,143)
AOCL	(861)	(882)
Total KBR shareholders' equity	1,554	1,620
Noncontrolling interests	11	12
Total shareholders' equity	1,565	1,632
Total liabilities and shareholders' equity	\$ 5,973	\$ 5,566

See accompanying notes to condensed consolidated financial statements.

KBR, Inc.
Condensed Consolidated Statements of Shareholders' Equity
(In millions, except for per share data)
(Unaudited)

<i>Dollars in millions</i>	Total	PIC	Retained Earnings	Treasury Stock	AOCL	NCI
Balance at June 30, 2023	\$ 1,629	\$ 2,616	\$ 1,109	\$ (1,280)	\$ (830)	14
Share-based compensation	5	5	—	—	—	—
Common stock issued upon exercise of stock options	1	1	—	—	—	—
Dividends declared to shareholders (\$0.135/share)	(19)	—	(19)	—	—	—
Issuance of ESPP shares	4	2	—	2	—	—
Distributions to noncontrolling interests	(5)	—	—	—	—	(5)
Other	(1)	—	—	—	—	(1)
Net income (loss)	(18)	—	(21)	—	—	3
Other comprehensive loss, net of tax	(31)	—	—	—	(31)	—
Balance at September 29, 2023	<u>\$ 1,565</u>	<u>\$ 2,624</u>	<u>\$ 1,069</u>	<u>\$ (1,278)</u>	<u>\$ (861)</u>	<u>\$ 11</u>

<i>Dollars in millions</i>	Total	PIC	Retained Earnings	Treasury Stock	AOCL	NCI
Balance at December 31, 2022	\$ 1,632	\$ 2,235	\$ 1,410	\$ (1,143)	\$ (882)	12
Share-based compensation	16	16	—	—	—	—
Common stock issued upon exercise of stock options	5	5	—	—	—	—
Dividends declared to shareholders (\$0.405/share)	(55)	—	(55)	—	—	—
Repurchases of common stock	(137)	—	—	(137)	—	—
Issuance of ESPP shares	6	3	—	3	—	—
Distributions to noncontrolling interests	(6)	—	—	—	—	(6)
Convertible Notes Transactions	365	365	—	—	—	—
Other	—	—	—	(1)	—	1
Net income (loss)	(282)	—	(286)	—	—	4
Other comprehensive income, net of tax	21	—	—	—	21	—
Balance at September 29, 2023	<u>\$ 1,565</u>	<u>\$ 2,624</u>	<u>\$ 1,069</u>	<u>\$ (1,278)</u>	<u>\$ (861)</u>	<u>\$ 11</u>

<i>Dollars in millions</i>	Total	PIC	Retained Earnings	Treasury Stock	AOCL	NCI
Balance at June 30, 2022	1,596	2,222	1,276	(1,016)	(896)	10
Share-based compensation	5	5	—	—	—	—
Common stock issued upon exercise of stock options	—	—	—	—	—	—
Dividends declared to shareholders (\$0.120/share)	(16)	—	(16)	—	—	—
Repurchases of common stock	(50)	—	—	(50)	—	—
Issuance of ESPP shares	5	2	—	3	—	—
Distributions to noncontrolling interests	(2)	—	—	—	—	(2)
Other	(4)	(1)	—	(2)	—	(1)
Net income	73	—	74	—	—	(1)
Other comprehensive loss, net of tax	(38)	—	—	—	(38)	—
Balance at September 30, 2022	<u>\$ 1,569</u>	<u>\$ 2,228</u>	<u>\$ 1,334</u>	<u>\$ (1,065)</u>	<u>\$ (934)</u>	<u>\$ 6</u>

<i>Dollars in millions</i>	Total	PIC	Retained Earnings	Treasury Stock	AOCL	NCI
Balance at December 31, 2021	\$ 1,683	\$ 2,206	\$ 1,287	\$ (943)	\$ (881)	\$ 14
Share-based compensation	15	15	—	—	—	—
Common stock issued upon exercise of stock options	5	5	—	—	—	—
Dividends declared to shareholders (\$0.360/share)	(50)	—	(50)	—	—	—
Repurchases of common stock	(124)	—	—	(124)	—	—
Issuance of ESPP shares	6	3	—	3	—	—
Distributions to noncontrolling interests	(4)	—	—	—	—	(4)
Other	(6)	(1)	—	(1)	—	(4)
Net income	97	—	97	—	—	—
Other comprehensive loss, net of tax	(53)	—	—	—	(53)	—
Balance at September 30, 2022	<u>\$ 1,569</u>	<u>\$ 2,228</u>	<u>\$ 1,334</u>	<u>\$ (1,065)</u>	<u>\$ (934)</u>	<u>\$ 6</u>

See accompanying notes to condensed consolidated financial statements.

KBR, Inc.
Condensed Consolidated Statements of Cash Flows
(In millions)
(Unaudited)

	Nine Months Ended	
	September 29, 2023	September 30, 2022
Cash flows from operating activities:		
Net income (loss)	\$ (282)	\$ 97
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Charges associated with Convertible Notes	428	—
Depreciation and amortization	104	99
Equity in (earnings) losses of unconsolidated affiliates	(78)	103
Deferred income tax	24	49
Gain on disposition of assets	—	(22)
Unrealized gain on other investment	—	(16)
Other	31	24
Changes in operating assets and liabilities:		
Accounts receivable, net of allowance for credit losses	(74)	475
Contract assets	43	(11)
Accounts payable	46	(440)
Contract liabilities	67	(3)
Accrued salaries, wages and benefits	(8)	16
Payments on operating lease obligation	(50)	(44)
Payments from unconsolidated affiliates, net	13	14
Distributions of earnings from unconsolidated affiliates	58	57
Pension funding	(9)	(32)
Other assets and liabilities	(65)	(30)
Total cash flows provided by operating activities	\$ 248	\$ 336
Cash flows from investing activities:		
Purchases of property, plant and equipment	\$ (60)	\$ (39)
Proceeds from sale of assets or investments	—	60
Return of (investments in) equity method joint ventures, net	61	198
Acquisition of businesses, net of cash acquired	—	(73)
Funding in other investment	(39)	(61)
Other	(5)	1
Total cash flows (used in) provided by investing activities	\$ (43)	\$ 86
Cash flows from financing activities:		
Borrowings on long-term debt	430	—
Payments on short-term and long-term debt	(12)	(12)
Payments on settlement of warrants	(101)	—
Proceeds from the settlement of note hedge	150	—
Payments to settle Convertible Notes	(250)	—
Payments on revolving credit facility	(270)	(97)
Payments of dividends to shareholders	(53)	(49)
Net proceeds from issuance of common stock	5	5
Payments to reacquire common stock	(137)	(124)
Other	(12)	(13)
Total cash flows used in financing activities	\$ (250)	\$ (290)
Effect of exchange rate changes on cash	4	(41)
(Decrease) increase in cash and cash equivalents	(41)	91
Cash and cash equivalents at beginning of period	389	370
Cash and cash equivalents at end of period	\$ 348	\$ 461
Supplemental disclosure of cash flows information:		
Noncash investing activities		
Leasehold improvements paid by landlord	\$ 9	\$ —
Accrued but unpaid purchases of property, plant and equipment	\$ 2	\$ 6
Noncash financing activities		
Dividends declared	\$ 19	\$ 16

See accompanying notes to condensed consolidated financial statements.

KBR, Inc.
Notes to Condensed Consolidated Financial Statements
(Unaudited)

Note 1. Basis of Presentation

The accompanying unaudited condensed consolidated financial statements were prepared using generally accepted accounting principles for interim financial information and the instructions to Form 10-Q and Regulation S-X. Accordingly, these financial statements do not include all information or notes required by generally accepted accounting principles for annual financial statements and should be read together with our 2022 Annual Report on Form 10-K.

The condensed consolidated financial statements include all normal and recurring adjustments necessary to present fairly our financial position as of September 29, 2023, the results of our operations for the three and nine months ended September 29, 2023 and September 30, 2022, respectively, and our cash flows for the nine months ended September 29, 2023 and September 30, 2022, respectively. Certain amounts in prior periods have been reclassified to conform with current period presentation.

There are many factors that may affect the accuracy of our cost estimates and ultimately our future profitability. These include, but are not limited to, the availability and costs of resources (such as labor, materials and equipment), productivity and weather. We generally realize both lower and higher than expected margins on projects in any given period. We recognize revisions of revenues and costs in the period in which the revisions are known. This may result in the recognition of costs before the recognition of related revenue recovery, if any. Our significant accounting policies are detailed in "Note 1. Significant Accounting Policies" of our 2022 Annual Report on Form 10-K.

We have evaluated all events and transactions occurring after the balance sheet date but before the financial statements were issued and have included the appropriate disclosures.

Principles of Consolidation

The accompanying condensed consolidated financial statements have been prepared in accordance with U.S. GAAP and include the accounts of KBR, Inc. and the subsidiaries it controls, including VIEs where it is the primary beneficiary (collectively, the "Company," "KBR", "we", "us" or "our"). We account for investments over which we have significant influence, but not a controlling financial interest, using the equity method of accounting. See Note 7 "Equity Method Investments and Variable Interest Entities" to our condensed consolidated financial statements for further discussion of our equity investments and VIEs. All material intercompany balances and transactions are eliminated in consolidation.

Basis of Presentation

On December 13, 2022, the Board of Directors approved a change in the fiscal year end from a calendar year ending on December 31 to a 52 – 53 week year ending on the Friday closest to December 31, effective as of the commencement of the Company's fiscal year on January 1, 2023. In a 52 week fiscal year, each of the Company's quarterly periods will comprise 13 weeks. The additional week in a 53 week fiscal year is added to the fourth quarter, making such quarter consist of 14 weeks. The Company's first 53 week fiscal year will occur in fiscal year 2024. The Company made the fiscal year change on a prospective basis and will not adjust operating results for prior periods. The change will impact the prior year comparability of each of the fiscal quarters and the annual period for the year ending December 31, 2023, however, the impact will not be material. The Company believes this change will improve comparability between periods by eliminating the year-over-year variability in calendar month productive days and provide a more consistent reporting cadence for operational leaders to aid in strategic decision making.

Due to this change in fiscal year, our third fiscal quarter ended on September 29 in 2023 as compared to September 30 in 2022. The three months ended September 29, 2023 and September 30, 2022 contained 90 days and 91 days, respectively. The nine months ended September 29, 2023 and September 30, 2022 contained 272 days and 273 days, respectively.

As a result of our change in a fiscal year end, goodwill will be tested annually for possible impairment as of the first day of our fourth quarter each fiscal year, and on an interim basis when indicators of possible impairment exist.

Impact of Adoption of New Accounting Standards

Effective January 1, 2023, we adopted ASU 2021-08, Business Combinations (Topic 805): Accounting for Contract Assets and Contract Liabilities from Contracts with Customers, which requires entities to recognize and measure contract assets and contract liabilities acquired in a business combination in accordance with ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*. The update will generally result in an entity recognizing contract assets and contract liabilities at amounts consistent with those recorded by the acquiree immediately before the acquisition date rather than at fair value. The adoption of this standard did not have an impact on our condensed consolidated financial statements. However, the ultimate impact is dependent upon the size and frequency of future acquisitions.

Additional Balance Sheet Information

Other Current Assets

The components of other current assets on our condensed consolidated balance sheets as of September 29, 2023, and December 31, 2022, are presented below:

<i>Dollars in millions</i>	September 29, 2023	December 31, 2022
Note hedge derivative asset	\$ 335	\$ —
Prepaid expenses	63	67
Value-added tax receivable	33	24
Advances to subcontractors	19	18
Other miscellaneous assets	73	55
Total other current assets	<u>\$ 523</u>	<u>\$ 164</u>

Other Current Liabilities

The components of other current liabilities on our condensed consolidated balance sheets as of September 29, 2023, and December 31, 2022, are presented below:

<i>Dollars in millions</i>	September 29, 2023	December 31, 2022
Embedded derivative liability	\$ 335	\$ —
Reserve for estimated losses on uncompleted contracts	16	17
Value-added tax payable	41	32
Dividend payable	19	17
Other miscellaneous liabilities	92	106
Total other current liabilities	<u>\$ 503</u>	<u>\$ 172</u>

Note 2. Business Segment Information

We provide a wide range of professional services and the management of our business is heavily focused on major projects or programs within each of our reportable segments. At any given time, government programs and joint ventures represent a substantial part of our operations. We are organized into two core business segments, Government Solutions and Sustainable Technology Solutions and one non-core business segment as described below:

Government Solutions. Our Government Solutions business segment provides full life-cycle support solutions to defense, intelligence, space, aviation and other programs and missions for military and other government agencies primarily in the U.S., U.K. and Australia. KBR's services cover the full spectrum spanning research and development, advanced prototyping, acquisition support, systems engineering, C5ISR, cyber analytics, space domain awareness, test and evaluation, systems integration and program management, global supply chain management, operations readiness and support and professional advisory services across the defense, renewable energy and critical infrastructure sectors.

Sustainable Technology Solutions. Our Sustainable Technology Solutions business segment is anchored by our portfolio of over 75 innovative, proprietary, sustainability-focused process technologies that accelerate and enable energy transition across the industrial base in four primary verticals: ammonia/syngas, chemical/petrochemicals, clean refining and circular process/circular economy solutions. STS also provides highly synergistic services including advisory and consulting focused on broad-based energy transition and net-zero carbon emission solutions, high-end engineering, design and program management centered around decarbonization, energy efficiency, environmental impact and asset optimization, as well as our digitally-enabled operating and monitoring solutions. Through early planning and scope definition, advanced technologies and facility life-cycle optimization, our STS business segment works closely with customers to provide what we believe is the optimal approach to maximize their return on investment.

Other. Our non-core Other segment includes corporate expenses and selling, general and administrative expenses not allocated to the business segments above.

Operations by Reportable Segment

	Three Months Ended		Nine Months Ended	
	September 29,	September 30,	September 29,	September 30,
	2023	2022	2023	2022
<i>Dollars in millions</i>				
Revenues:				
Government Solutions	\$ 1,345	\$ 1,293	\$ 4,025	\$ 4,064
Sustainable Technology Solutions	425	333	1,201	892
Total revenues	\$ 1,770	\$ 1,626	\$ 5,226	\$ 4,956
Operating income (loss):				
Government Solutions	\$ 108	\$ 105	\$ 182	\$ 351
Sustainable Technology Solutions	84	56	243	(18)
Other	(45)	(36)	(124)	(112)
Total operating income	\$ 147	\$ 125	\$ 301	\$ 221

Note 3. Revenue

Disaggregated Revenue

We disaggregate our revenue from customers by business unit, geographic destination and contract type for each of our segments as we believe it best depicts how the nature, amount, timing and uncertainty of our revenue and cash flows are affected by economic factors.

Revenue by business unit and reportable segment was as follows:

<i>Dollars in millions</i>	Three Months Ended		Nine Months Ended	
	September 29,	September 30,	September 29,	September 30,
	2023	2022	2023	2022
Government Solutions				
Science & Space	\$ 294	\$ 282	\$ 860	\$ 792
Defense & Intel	397	390	1,143	1,156
Readiness & Sustainment	363	352	1,161	1,256
International	291	269	861	860
Total Government Solutions	1,345	1,293	4,025	4,064
Sustainable Technology Solutions	425	333	1,201	892
Total revenue	\$ 1,770	\$ 1,626	\$ 5,226	\$ 4,956

Government Solutions revenue earned from key U.S. government customers includes U.S. DoD agencies and NASA, and is reported as Science & Space, Defense & Intel and Readiness & Sustainment. Government Solutions revenue earned from non-U.S. government customers primarily includes the U.K. MoD and the Australian Defence Force and is reported as International.

Revenue by geographic destination was as follows:

Three Months Ended September 29, 2023			
Total by Countries/Regions <i>Dollars in millions</i>	Government Solutions	Sustainable Technology Solutions	Total
United States	\$ 805	\$ 129	\$ 934
Europe	366	65	431
Middle East	36	100	136
Australia	104	27	131
Africa	16	33	49
Asia	4	46	50
Other countries	14	25	39
Total revenue	<u>\$ 1,345</u>	<u>\$ 425</u>	<u>\$ 1,770</u>
Three Months Ended September 30, 2022			
Total by Countries/Regions <i>Dollars in millions</i>	Government Solutions	Sustainable Technology Solutions	Total
United States	\$ 785	\$ 120	\$ 905
Europe	334	67	401
Middle East	33	68	101
Australia	101	18	119
Africa	23	16	39
Asia	4	35	39
Other countries	13	9	22
Total revenue	<u>\$ 1,293</u>	<u>\$ 333</u>	<u>\$ 1,626</u>

Nine Months Ended September 29, 2023			
Total by Countries/Regions <i>Dollars in millions</i>	Government Solutions	Sustainable Technology Solutions	Total
United States	\$ 2,305	\$ 398	\$ 2,703
Europe	1,200	189	1,389
Middle East	102	278	380
Australia	311	68	379
Africa	51	73	124
Asia	12	119	131
Other countries	44	76	120
Total revenue	\$ 4,025	\$ 1,201	\$ 5,226

Nine Months Ended September 30, 2022			
Total by Countries/Regions <i>Dollars in millions</i>	Government Solutions	Sustainable Technology Solutions	Total
United States	\$ 2,566	\$ 357	\$ 2,923
Europe	959	153	1,112
Middle East	123	170	293
Australia	302	29	331
Africa	63	49	112
Asia	10	105	115
Other countries	41	29	70
Total revenue	\$ 4,064	\$ 892	\$ 4,956

Many of our contracts contain cost reimbursable, time-and-materials and fixed price components. We define contract type based on the component that represents the majority of the contract. Revenue by contract type was as follows:

Three Months Ended September 29, 2023			
<i>Dollars in millions</i>	Government Solutions	Sustainable Technology Solutions	Total
Cost Reimbursable	\$ 831	\$ —	\$ 831
Time-and-Materials	254	253	507
Fixed Price	260	172	432
Total revenue	\$ 1,345	\$ 425	\$ 1,770

Three Months Ended September 30, 2022			
<i>Dollars in millions</i>	Government Solutions	Sustainable Technology Solutions	Total
Cost Reimbursable	\$ 781	\$ —	\$ 781
Time-and-Materials	258	197	455
Fixed Price	254	136	390
Total revenue	\$ 1,293	\$ 333	\$ 1,626

	Nine Months Ended September 29, 2023		
	Government Solutions	Sustainable Technology Solutions	Total
<i>Dollars in millions</i>			
Cost Reimbursable	\$ 2,477	\$ —	\$ 2,477
Time-and-Materials	788	738	1,526
Fixed Price	760	463	1,223
Total revenue	\$ 4,025	\$ 1,201	\$ 5,226

	Nine Months Ended September 30, 2022		
	Government Solutions	Sustainable Technology Solutions	Total
<i>Dollars in millions</i>			
Cost Reimbursable	\$ 2,524	\$ —	\$ 2,524
Time-and-Materials	739	571	1,310
Fixed Price	801	321	1,122
Total revenue	\$ 4,064	\$ 892	\$ 4,956

Performance Obligations and Contract Liabilities

Changes in estimates are recognized on a cumulative catch-up basis in the current period associated with performance obligations satisfied in a prior period due to the release of a constrained milestone, modification in contract price or scope or a change in the likelihood of a contingency being resolved. We recognized revenue from performance obligations satisfied in previous periods for such matters of \$8 million for the nine months ended September 29, 2023, and \$26 million and \$32 million for the three and nine months ended September 30, 2022, respectively.

On September 29, 2023, we had \$12.1 billion of transaction price allocated to remaining performance obligations. We expect to recognize approximately 36% of our remaining performance obligations as revenue within one year, 39% in years two through five and 25% thereafter. Revenue associated with our remaining performance obligations to be recognized beyond one year includes performance obligations primarily related to the Aspire Defence project, which has contract terms extending through 2041. Remaining performance obligations do not include variable consideration that was determined to be constrained as of September 29, 2023.

We recognized revenue of \$183 million and \$177 million for the nine months ended September 29, 2023 and September 30, 2022, respectively, which was previously included in the contract liability balance at the beginning of each period.

Accounts Receivable

	September 29, 2023	December 31, 2022
<i>Dollars in millions</i>		
Unbilled	\$ 569	\$ 486
Trade & other	445	456
Accounts receivable	\$ 1,014	\$ 942

Note 4. Acquisitions

VIMA Group

On August 2, 2022, we acquired VIMA Group, a U.K.-based leading provider of digital transformation solutions to defense and other public sector clients. VIMA Group is reported within our GS business segment. We accounted for this transaction as an acquisition of a business using the acquisition method under *Business Combinations (Topic 805)*.

The agreed-upon purchase price for the acquisition was \$82 million. The purchase price consisted of cash paid at closing of \$75 million, subject to certain working capital and other closing adjustments, \$4 million of deferred consideration and contingent consideration with an estimated fair value of \$3 million that was contingent upon the achievement of certain performance targets from closing through December 31, 2022. As the targets were not met, no consideration was paid and we recorded a benefit of \$3 million in our consolidated statements of operations for the year ended December 31, 2022. We recognized \$2 million as an intangible backlog asset, \$11 million in customer relationships, \$3 million in net working capital, \$2 million in deferred income tax liability and \$68 million of goodwill arising from the acquisition, which relates primarily to future growth opportunities. The purchase price allocation for the business combination is considered final. For U.S. tax purposes, the transaction is treated as a stock deal. As a result, there is no step-up in tax basis in the individual assets and liabilities acquired and the goodwill recognized is not deductible for tax purposes.

Note 5. Cash and Cash Equivalents

We consider all highly liquid investments with an original maturity of three months or less to be cash equivalents. Cash and cash equivalents include cash balances held by our wholly owned subsidiaries as well as cash held by joint ventures that we consolidate. Joint venture and the Aspire project cash balances are limited to specific project activities and are not available for other projects, new acquisitions and joint ventures, general cash needs or distribution to us without approval of the board of directors of the respective entities. The cash and cash equivalents held in consolidated joint ventures and the Aspire project are expected to be used for their respective project costs and distributions of earnings.

The components of our cash and cash equivalents balance are as follows:

<u>Dollars in millions</u>	September 29, 2023		
	International (a)	Domestic (b)	Total
Operating cash and cash equivalents	\$ 137	\$ 85	\$ 222
Short-term investments (c)	6	6	12
Cash and cash equivalents held in consolidated joint ventures and Aspire Defence subcontracting entities (d)	87	27	114
Total	<u>\$ 230</u>	<u>\$ 118</u>	<u>\$ 348</u>

<u>Dollars in millions</u>	December 31, 2022		
	International (a)	Domestic (b)	Total
Operating cash and cash equivalents	\$ 251	\$ 25	\$ 276
Short-term investments (c)	4	2	6
Cash and cash equivalents held in consolidated joint ventures and Aspire Defence subcontracting entities (d)	99	8	107
Total	<u>\$ 354</u>	<u>\$ 35</u>	<u>\$ 389</u>

(a) Includes deposits held by non-U.S. entities with operating accounts that constitute offshore cash for tax purposes.

(b) Includes U.S. dollar and foreign currency deposits held in U.S. entities with operating accounts that constitute onshore cash for tax purposes but may reside either in the U.S. or in a foreign country.

(c) Includes time deposits, money market funds and other highly liquid short-term investments.

(d) Includes short-term investments held by Aspire Defence subcontracting entities for \$64 million and \$46 million as of September 29, 2023 and December 31, 2022, respectively.

Note 6. Unapproved Change Orders and Claims Against Clients and Estimated Recoveries of Claims Against Suppliers and Subcontractors

The amounts of unapproved change orders and claims against clients and estimated recoveries of claims against suppliers and subcontractors included in determining the profit or loss on contracts are as follows:

<i>Dollars in millions</i>	Nine Months Ended	
	September 29, 2023	September 30, 2022
Amounts included in project estimates-at-completion at January 1,	\$ 48	\$ 426
Net increase (decrease) in project estimates	11	(121)
Approved change orders	—	(271)
Foreign currency impact	—	7
Ending balance	<u>\$ 59</u>	<u>\$ 41</u>

The balance as of September 29, 2023 primarily relates to projects in our Government Solutions segment.

Changes in Project-related Estimates

There are many factors that may affect the accuracy of our cost estimates and ultimately our future profitability. These include, but are not limited to, the availability and costs of resources (such as labor, materials and equipment), productivity, weather and ongoing resolution of legacy projects and legal matters, including any new or ongoing disputes with our business partners and others in our supply chain. We generally realize both lower and higher than expected margins on projects in any given period. We recognize revisions of revenues and costs in the period in which the revisions are known. This may result in the recognition of costs before the recognition of related revenue recovery, if any.

Sanctions and trade control measures were implemented against Russia due to the ongoing conflict between Russia and Ukraine. These measures impacted our ability to operate in the region as we carried out efforts to wind down our operations in Russia. During the nine months ended September 30, 2022, we recognized an unfavorable change of \$22 million in gross profit and incurred \$6 million in severance and asset impairments costs associated with exiting commercial projects in Russia.

During the nine months ended September 30, 2022, within our STS business segment, we recognized a non-cash charge to equity in earnings of unconsolidated affiliates of \$137 million as a result of changes in estimates on the Ichthys LNG Project in connection with a settlement agreement (the “Subcontractor Settlement Agreement”) entered into to resolve outstanding claims and disputes between JKC and the consortium of subcontractors. During the three and nine months ended September 30, 2022, within our GS business segment, we recorded a charge to equity in earnings of unconsolidated affiliates on a joint venture acquired from a historical GS acquisition of \$10 million based on our funding obligations of projected losses.

During the three and nine months ended September 30, 2022, within our GS business segment, we recognized a net favorable change in gross profit of \$10 million and \$1 million, respectively, associated with changes in estimates related to ongoing contract negotiations, some of which have been resolved.

Note 7. Equity Method Investments and Variable Interest Entities

We conduct some of our operations through joint ventures, which operate through partnerships, corporations and undivided interests and other business forms and are principally accounted for using the equity method of accounting. Additionally, the majority of our joint ventures are VIEs.

The following table presents a rollforward of our equity in and advances to unconsolidated affiliates:

	Nine Months Ended September 29,	Year Ended December 31,
	2023	2022
<i>Dollars in millions</i>		
Beginning balance at January 1,	\$ 188	\$ 576
Equity in earnings (losses) of unconsolidated affiliates (a)	78	(80)
Distributions of earnings of unconsolidated affiliates (b)	(46)	(53)
Payments from unconsolidated affiliates, net	(13)	(14)
(Return of) investments in equity method investment, net (c)	(61)	(198)
Sale of equity method investment (d)(a)	—	(31)
Foreign currency translation adjustments	—	(15)
Other (e)	47	3
Ending balance	<u>\$ 193</u>	<u>\$ 188</u>

- (a) During 2022, a non-cash charge of \$137 million was recorded for settlement agreements associated with the Ichthys LNG project. Additionally, during the third quarter of 2022, we recorded a charge against a joint venture acquired from a historical GS acquisition of \$10 million based on our funding obligations of projected losses. In the fourth quarter of 2022, we divested this joint venture and recorded an incremental loss on sale of \$3 million. The remaining equity in earnings (losses) of unconsolidated affiliates in 2023 and 2022 is related to normal activities within our other joint ventures.
- (b) In the normal course of business, our joint ventures will declare a distribution in the current quarter that is not paid until the subsequent quarter. As such, the distributions declared during the current quarter may not agree to the distributions of earnings from unconsolidated affiliates on our condensed consolidated statements of cash flows.
- (c) During the nine months ended September 29, 2023, we received a return of investment from JKC of approximately \$61 million related to the second payment received from the Subcontractor Settlement Agreement. For the year ended December 31, 2022, we received a return of investment from JKC of approximately \$190 million related to the first payment from the Subcontractor Settlement Agreement and from BRIS of \$10 million as our cumulative distributions from inception of the joint venture exceeded our cumulative earnings.
- (d) During the first quarter of 2022, we sold two of our four U.K. Road investments. The carrying value of our investment was \$22 million. We received \$18 million in cash proceeds and the purchaser agreed to assume the \$4 million of consortium relief. In the second quarter of 2022, we sold an additional U.K. Road investment with a carrying value of \$19 million and recorded a gain of approximately \$16 million upon receipt of \$35 million in cash proceeds, in addition to receipt of \$2 million of deferred consideration from the first quarter 2022 sales.
- (e) During the nine months ended September 29, 2023, Other included a net liability position of \$52 million related to our investment in JKC. The net liability position is attributed to our proportionate share of the provision that JKC continues to maintain for the paint and insulation claims against the insurer and paint manufacturer net of expected tax benefits.

Related Party Transactions

We often provide engineering, construction management and other subcontractor services to our unconsolidated joint ventures, and our revenues include amounts related to these services. For the nine months ended September 29, 2023 and September 30, 2022, respectively, our revenues included \$390 million and \$295 million related to the services we provided primarily to the Aspire Defence Limited joint venture within our GS business segment and a joint venture within our STS business segment.

Amounts included in our condensed consolidated balance sheets related to services we provided to our unconsolidated joint ventures as of September 29, 2023, and December 31, 2022 are as follows:

<i>Dollars in millions</i>	September 29, 2023	December 31, 2022
Accounts receivable, net of allowance for credit losses	\$ 82	\$ 56
Contract assets	\$ —	\$ 2
Other current assets	\$ —	\$ 12
Contract liabilities	\$ 79	\$ 39

Note 8. Retirement Benefits

We have two frozen defined benefit pension plans in the U.S., one frozen and one active plan in the U.K. and one frozen plan in Germany. All of these plans are immaterial except for the frozen U.K. defined benefit pension plan. The components of net periodic pension benefit related to the U.K. pension for the three and nine months ended September 29, 2023 and September 30, 2022, respectively, were as follows:

<i>Dollars in millions</i>	Three Months Ended	
	September 29, 2023	September 30, 2022
Components of net periodic pension benefit		
Service cost	\$ —	\$ —
Interest cost	15	8
Expected return on plan assets	(26)	(20)
Amortization of prior service cost	1	1
Recognized actuarial loss	—	5
Net periodic pension benefit	<u>\$ (10)</u>	<u>\$ (6)</u>

<i>Dollars in millions</i>	Nine Months Ended	
	September 29, 2023	September 30, 2022
Components of net periodic pension benefit		
Service cost	\$ —	\$ 1
Interest cost	45	26
Expected return on plan assets	(76)	(63)
Amortization of prior service cost	1	1
Recognized actuarial loss	—	17
Net periodic pension benefit	<u>\$ (30)</u>	<u>\$ (18)</u>

For the nine months ended September 29, 2023, we have contributed approximately \$6 million of the \$8 million we expect to contribute to our U.K. pension plan in 2023. On October 17, 2022, we made an advance payment to our U.K. pension plan for approximately £29 million of the £33 million required minimum annual contributions for the year ending December 29, 2023.

Note 9. Debt and Other Credit Facilities

Our outstanding debt consisted of the following at the dates indicated:

<i>Dollars in millions</i>	September 29, 2023	December 31, 2022
Term Loan A	\$ 593	\$ 398
Term Loan B	502	506
Senior Notes	250	250
Senior Credit Facility	220	260
Convertible Senior Notes (a)	250	350
Unamortized debt issuance costs and discount - Convertible Senior Notes (a)	(40)	(2)
Unamortized debt issuance costs - Term Loan A	(8)	(9)
Unamortized debt issuance costs and discount - Term Loan B	(9)	(10)
Unamortized debt issuance costs and discount - Senior Notes	(3)	(3)
Total debt	1,755	1,740
Less: current portion	239	364
Total long-term debt, net of current portion	\$ 1,516	\$ 1,376

(a) The unamortized debt issuance costs related to the Convertible Notes were impacted by the cash election and repurchase of Convertible Notes that occurred in the second quarter of 2023. See Note 18 "Cash Election and Repurchase of Convertible Notes" for additional information regarding these transactions.

Senior Credit Facility

We entered into Amendment No. 10 on July 26, 2023, to our existing Credit Agreement, dated as of April 25, 2018, as amended ("Credit Agreement"), consisting of a \$1 billion revolving credit facility (the "Revolver"), a Term Loan A ("Term Loan A") with debt tranches denominated in U.S. dollars and British pound sterling and a Term Loan B ("Term Loan B") ("Senior Credit Facility"). Amendment No. 10 provided for an additional \$200 million loan tranche under Term Loan A. We borrowed the full \$200 million principal amount available under this additional loan tranche, and this \$200 million borrowing was applied as a partial repayment of the outstanding amounts of principal and accrued interest under the Revolver.

We had borrowings of \$430 million and repayments of \$270 million on our Senior Credit Facility that occurred during the nine months ended September 29, 2023. Of these borrowings on our Senior Credit Facility, we borrowed \$255 million on June 16, 2023 to fund our repurchase of a portion of Convertible Notes and termination of the corresponding portions of the Note Hedge Transactions and Warrant Transactions. See Note 18 "Cash Election and Repurchase of Convertible Notes" for additional information.

The interest rates with respect to the Revolver and Term Loan A are based on, at the Company's option, the applicable adjusted reference rate plus an additional margin or base rate plus additional margin. The interest rate with respect to the Term Loan B is SOFR plus 2.75% plus an additional margin, per annum. Additionally, there is a commitment fee applicable to available amounts under the Revolver.

The details of the applicable margins and commitment fees under the amended Senior Credit Facility are based on the Company's consolidated net leverage ratio as follows:

Consolidated Net Leverage Ratio	Revolver and Term Loan A		Commitment Fee
	Reference Rate (a)	Base Rate	
Greater than or equal to 4.25 to 1.00	2.25 %	1.25 %	0.33 %
Less than 4.25 to 1.00 but greater than or equal to 3.25 to 1.00	2.00 %	1.00 %	0.30 %
Less than 3.25 to 1.00 but greater than or equal to 2.25 to 1.00	1.75 %	0.75 %	0.28 %
Less than 2.25 to 1.00 but greater than or equal to 1.25 to 1.00	1.50 %	0.50 %	0.25 %
Less than 1.25 to 1.00	1.25 %	0.25 %	0.23 %

- (a) The reference rate for the Revolver and the U.S. dollar tranches of Term Loan A is SOFR plus 10 bps Credit Spread Adjustment and the British pound sterling tranche is SONIA plus 12 bps Credit Spread Adjustment.

Term Loan A provides for quarterly principal payments of 0.625% of the aggregate principal amount that commenced with the fiscal quarter ended March 31, 2022, increasing to 1.25% starting with the quarter ending March 29, 2024. Term Loan B provides for quarterly principal payments of 0.25% of the initial aggregate principal amounts that commenced with the fiscal quarter ended June 30, 2020. Term Loan A and the Revolver mature in November 2026 and Term Loan B matures in February 2027.

The Senior Credit Facility contains financial covenants of a maximum consolidated net leverage ratio and a consolidated interest coverage ratio (as such terms are defined in the Senior Credit Facility). Our consolidated net leverage ratio as of the last day of any fiscal quarter may not exceed 4.50 to 1 through 2022, reducing to 4.25 to 1 in 2023 and 4.00 to 1 in 2024 and thereafter. Our consolidated interest coverage ratio may not be less than 3.00 to 1 as of the last day of any fiscal quarter. As of September 29, 2023, we were in compliance with our financial covenants related to our debt agreements.

Convertible Senior Notes

Convertible Senior Notes. On November 15, 2018, we issued and sold \$350 million of 2.50% Convertible Senior Notes due 2023 (the "Convertible Notes") pursuant to an indenture between us and Citibank, N.A., as trustee. The Convertible Notes are senior unsecured obligations and bear interest at 2.50% per year, and interest is payable on May 1 and November 1 of each year. The Convertible Notes mature on November 1, 2023, and may not be redeemed by us prior to maturity. As such, the Convertible Notes are classified as current liabilities on our condensed consolidated balance sheets as of September 29, 2023.

In April 2023, we elected cash as the settlement method to settle the principal and any excess value upon early conversion or maturity of the Convertible Notes. On June 1, 2023, we entered into privately-negotiated transactions to repurchase \$100 million in principal amount of the outstanding Convertible Notes (the "Convertible Notes repurchase"), using funds borrowed under our Revolver to pay the purchase price. Concurrent with the Convertible Notes repurchase, we entered into agreements with the option counterparties to terminate the corresponding portions of the Note Hedge Transactions and Warrant Transactions (collectively, the "Unwind Agreements"). See Note 18 "Cash Election and Repurchase of Convertible Notes" for additional information regarding these transactions.

On August 23, 2023, we declared a quarterly cash dividend of \$0.135 per Common Share, which exceeded our per share dividend threshold and adjusted the conversion rate to 39.6890 Common Shares per \$1,000 principal amount of Convertible Notes at a strike price of \$25.20.

Convertible Notes Call Spread Overlay. Concurrent with the issuance of the Convertible Notes, we entered into privately negotiated convertible note hedge transactions (the "Note Hedge Transactions") and warrant transactions (the "Warrant Transactions") with the option counterparties. These transactions represent a call spread overlay, whereby the cost of the Note Hedge Transactions we purchased to cover the cash outlay upon conversion of the Convertible Notes was reduced by the sales price of the Warrant Transactions. The updated strike price of the net-share settled warrants as of September 29, 2023 was \$39.52.

The Note Hedge Transactions and the Warrant Transactions are separate transactions, in each case entered into by us with the option counterparties, and are not part of the terms of the Convertible Notes and will not affect any holder's rights under the Convertible Notes.

As of September 29, 2023, the if-converted value of the Convertible Notes, based on the closing share price, exceeded the remaining \$250 million principal amount by approximately \$335 million. The incremental value over the principal amount would be fully offset by the cash delivered from the Note Hedge Transactions. However, the counterparties holding the warrants also have the right to purchase the total convertible number of shares at the current conversion rate at a strike price of \$39.52 resulting in value of \$193 million that would have been delivered to the counterparties as of September 29, 2023.

The Convertible Notes matured November 1, 2023, with principal amounts totaling \$250 million with the aggregate cash conversion consideration totaling \$593 million. Concurrently, the Note Hedge Transactions were settled with payments to the Company totaling \$343 million. The aggregate cash conversion consideration of \$593 million was fulfilled with proceeds received from Note Hedge Transactions totaling \$343 million, a \$200 million borrowing on our Revolver and \$50 million in available cash. The Warrant Transactions remain outstanding as of November 1, 2023.

Senior Notes

On September 30, 2020, we issued and sold \$250 million aggregate principal amount of 4.750% Senior Notes due 2028 (the "Senior Notes") pursuant to an indenture among us, the guarantors party thereto and Citibank, N.A., as trustee. The Senior Notes are senior unsecured obligations and are fully and unconditionally guaranteed by each of our existing and future domestic subsidiaries that guarantee our obligations under the Senior Credit Facility and certain other indebtedness. Interest is payable semi-annually in arrears on March 30 and September 30 of each year, beginning on March 30, 2021, and the principal is due on September 30, 2028.

At any time prior to September 30, 2023, we could have redeemed all or part of the Senior Notes at a redemption price equal to 100% of the principal amount of the Senior Notes redeemed, plus accrued and unpaid interest, if any, to (but not including) the redemption date, plus a specified "make-whole premium." On or after September 30, 2023, we may redeem all or part of the Senior Notes at our option, at the redemption prices set forth in the Senior Notes, plus accrued and unpaid interest, if any, to (but not including) the redemption date. At any time prior to September 30, 2023, we could have redeemed up to 35% of the original aggregate principal amount of the Senior Notes with the net cash proceeds of certain equity offerings at a redemption price equal to 104.750% of the principal amount of the Senior Notes, together with accrued and unpaid interest, if any, to (but not including) the redemption date. If we undergo a change of control, we may be required to make an offer to holders of the Senior Notes to repurchase all of the Senior Notes at a purchase price equal to 101% of the principal amount thereof, plus accrued and unpaid interest.

Letters of credit, surety bonds and guarantees

In connection with certain projects, we are required to provide letters of credit, surety bonds or guarantees to our customers in the ordinary course of business as credit support for contractual performance guarantees, advanced payments received from customers and future funding commitments. As of September 29, 2023, we had \$1 billion in a committed line of credit on the Revolver under our Senior Credit Facility and \$376 million of bilateral and uncommitted lines of credit to support the issuance of letters of credit. As of September 29, 2023, with respect to our Revolver, we had \$220 million of outstanding borrowings. We also have \$14 million of outstanding letters of credit on our Senior Credit Facility. With respect to our \$376 million of bilateral and uncommitted lines of credit, we utilized \$265 million for letters of credit as of September 29, 2023. The total remaining capacity of these committed and uncommitted lines of credit was approximately \$877 million. Of the letters of credit outstanding under the Senior Credit Facility, none have expiry dates beyond the maturity date of the Senior Credit Facility. Of the total letters of credit outstanding under our bilateral facilities, \$85 million relate to our joint venture operations where the letters of credit are posted using our capacity to support our pro-rata share of obligations under various contracts executed by joint ventures of which we are a member.

Note 10. Income Taxes

The effective tax rate was approximately (32)% and 45% for the nine months ended September 29, 2023 and September 30, 2022, respectively. The effective tax rate for the nine months ended September 29, 2023 as compared to the U.S. statutory rate of 21%, was primarily impacted by the non-deductible portion of a legal settlement on a legacy matter and the non-deductible charge associated with the cash settlement method election and Convertible Notes repurchase discussed in Note 18. The implications of these non-deductible items were partially offset by the release of a previously reserved position based on developments associated with the ongoing IRS examination and appeals process for certain years. The effective tax rate for the

nine months ended September 30, 2022 was primarily impacted by the non-deductibility of losses incurred with respect to the settlement of outstanding matters related to the Ichthys LNG project to which KBR is a JV partner.

The valuation allowance for deferred tax assets as of September 29, 2023 and December 31, 2022 was \$215 million and \$217 million, respectively. The remaining valuation allowance is primarily related to foreign tax credit carryforwards and foreign and state net operating loss carryforwards that, in the judgment of management, do not meet the more likely than not realization threshold. The ultimate realization of deferred tax assets is dependent on the generation of future taxable income, in the appropriate character and source, during the periods in which those temporary differences become deductible or within the remaining carryforward period. Management considers the scheduled reversal of deferred tax liabilities (including the impact of available carryback and carryforward periods), projected future taxable income and tax-planning strategies in making this assessment.

The utilization of the unreserved foreign tax credit carryforwards is based on our ability to generate income from foreign sources of approximately \$367 million prior to their expiration. The utilization of other net deferred tax assets, excluding those associated with indefinite-lived intangible assets, is based on our ability to generate U.S. forecasted taxable income of approximately \$781 million. Changes in our forecasted taxable income, in the appropriate character and source, as well as jurisdiction, could affect the ultimate realization of deferred tax assets.

The provision for uncertain tax positions included in other liabilities and deferred income taxes on our condensed consolidated balance sheets as of September 29, 2023 and December 31, 2022 was \$71 million and \$92 million, respectively. The reduction in the provision for uncertain tax positions in the current year was primarily driven by the release of a previously reserved IRS audit position based on developments associated with the ongoing IRS examination and appeals process for certain years.

Note 11. Commitments and Contingencies

We are a party to litigation and other proceedings that arise in the ordinary course of our business. These types of matters could result in fines, penalties, cost reimbursements or contributions, compensatory or treble damages or non-monetary sanctions or relief. We believe the probability is remote that the outcome of any individual matter, including the matters described below, will have a material adverse effect on the corporation as a whole, notwithstanding that the unfavorable resolution of any matter may have a material effect on our net earnings and cash flows in any particular reporting period. Among the factors that we consider in this assessment are the nature of existing legal proceedings and claims, the asserted or possible damages or loss contingency (if estimable), the progress of the case, existing law and precedent, the opinions or views of legal counsel and other advisers, our experience in similar cases and the experience of other companies, the facts available to us at the time of assessment and how we intend to respond to the proceeding or claim. Our assessment of these factors may change over time as individual proceedings or claims progress.

Although we cannot predict the outcome of legal or other proceedings with certainty, when it is probable that a loss will be incurred and the amount is reasonably estimable, U.S. GAAP requires us to accrue an estimate of the probable loss or range of loss. In the event a loss is probable, but the probable loss is not reasonably estimable, we are required to make a statement that such an estimate cannot be made. We follow a thorough process in which we seek to estimate the reasonably possible loss or range of loss, and only if we are unable to make such an estimate do we conclude and disclose that an estimate cannot be made. Accordingly, unless otherwise indicated below in our discussion, a reasonably possible loss or range of loss associated with any individual contingency cannot be estimated. There have been no substantive developments or changes to existing claims.

Note 12. U.S. Government Matters

We provide services to various U.S. governmental agencies, including the U.S. DoD, NASA and the Department of State. The negotiation, administration and settlement of our contracts are subject to audit by the DCAA. The DCAA serves in an advisory role to the DCMA, which is responsible for the administration of the majority of our contracts. The scope of these audits includes, among other things, the validity of direct and indirect incurred costs, provisional approval of annual billing rates, approval of annual overhead rates, compliance with the FAR and CAS, compliance with certain unique contract clauses and audits of certain aspects of our internal control systems. Based on the information received to date, we do not believe any completed or ongoing government audits will have a material adverse impact on our results of operations, financial position or cash flows. The U.S. government also retains the right to pursue various remedies under any of these contracts which could result in challenges to expenditures, suspension of payments, fines and suspensions or debarment from future business with the U.S. government.

The Company accrued for probable and reasonably estimable unallowable costs associated with open government matters related to our GS business in the amounts of \$44 million as of September 29, 2023 and \$61 million as of December 31, 2022, which are recorded in other liabilities on our condensed consolidated balance sheets.

Legacy U.S. Government Matters

Between 2002 and 2011, we provided significant support to the U.S. Army and other U.S. government agencies in support of the war in Iraq under the LogCAP III contract. We have been in the process of closing out the LogCAP III contract since 2011, and we expect the contract closeout process to continue for at least another year. As a result of our work under LogCAP III, there are claims and disputes pending between us and the U.S. government that need to be resolved in order to close the contract. The contract closeout process includes resolving objections raised by the U.S. government through a billing dispute process referred to as Form 1s and MFRs. We continue to work with the U.S. government to resolve these issues and are engaged in efforts to reach mutually acceptable resolutions of these outstanding matters. We also have matters related to ongoing litigation or investigations involving U.S. government contracts. We anticipate billing additional labor, vendor resolution and litigation costs as we resolve the open matters in the future.

Investigations, Qui Tams and Litigation

The following matters relate to ongoing litigation or federal investigations involving U.S. government contracts. Some of these matters involve allegations of violations of the FCA, which prohibits in general terms fraudulent billings to the U.S. government; these suits brought by private individuals are called "qui tams." In the event we prevail in defending these allegations, a majority of our defense costs will be billable under the LogCAP III contract. All costs billed under LogCAP III are subject to audit by the DCAA for reasonableness.

First Kuwaiti Trading Company arbitration. In April 2008, FKTC, one of our LogCAP III subcontractors providing housing containers, filed for arbitration with the American Arbitration Association for several claims under various LogCAP III subcontracts. After a series of arbitration proceedings and related litigation between KBR and the U.S. government, the panel heard the final claims and we received an award on July 27, 2022. FKTC filed a motion for correction of the award asking the tribunal to change its findings. The tribunal denied FKTC's motion in an order issued on October 20, 2022. KBR filed its response on February 2, 2023. On January 5, 2023, FKTC filed a motion to vacate the arbitral award in the Eastern District of Virginia Federal District Court. On March 22, 2023, both parties presented oral arguments in the Eastern District of Virginia Federal District Court. On May 12, 2023, the District Court issued its order denying FKTC's motion to vacate the arbitration award and confirming the award. On June 12, 2023, the parties submitted their briefs in support of their calculations of the final award amount. KBR sought to confirm the net award of \$16 million in KBR's favor plus post judgment interest. FKTC sought to offset amounts awarded to KBR with amounts FKTC claimed it was owed based on unpaid principal and post award interest on the awards issued in its favor in the prior arbitration proceedings, totaling \$70 million. KBR disagreed with FKTC's interest claim and calculation. On September 22, 2023, the Court issued a decision finding the net amount due in favor of KBR from FKTC is \$8 million. FKTC has appealed this ruling. In addition, in March 2022, FKTC filed a new civil action in Kuwait civil court against KBR seeking \$100 million in damages. This action is duplicative of the claims decided in arbitration. In September 2022, we filed a motion to dismiss this action for lack of jurisdiction due to the arbitration agreement between KBR and FKTC. Based on our assessment of existing law and precedent, the opinions or views of legal counsel and the facts available to us, no amounts are accrued as of September 29, 2023.

Howard qui tam. In March 2011, Geoffrey Howard and Zella Hemphill filed a complaint in the U.S. District Court for the Central District of Illinois alleging that KBR mischarged the government \$628 million for unnecessary materials and equipment. In October 2014, the DOJ declined to intervene and the case was partially unsealed. KBR and the relators filed

various motions including a motion to dismiss by KBR, which was denied. Fact discovery and expert reports were completed. We also filed a motion for summary judgment and motions to exclude relators' experts. At the request of the parties, the court ordered a 90-day stay of the proceedings on December 28, 2022, which was later extended several times. Although we believe the allegations of fraud by the relators are without merit, we participated in mediation and discussions with the relators while continuing to prepare for trial. Any proposed framework for resolving the litigation required agreements on damages and attorneys' fees as well as necessary determinations by the Department of the Army and approval by the DOJ. On June 30, 2023, KBR executed a settlement agreement with the relators and the Department of Justice. Under the terms of the settlement, KBR denies any liability or wrongful conduct. Pursuant to the settlement, KBR paid \$109 million, of which \$57 million was in restitution damages, and \$35 million to the relators as attorney's fees. Payment of the settlement was made on July 10, 2023 and KBR took the associated charge of \$144 million during the nine months ended September 29, 2023.

Note 13. Accumulated Other Comprehensive Loss

Changes in AOCL, net of tax, by component

<i>Dollars in millions</i>	Accumulated foreign currency translation adjustments	Accumulated pension liability adjustments	Changes in fair value of derivatives	Total
Balance at December 31, 2022	\$ (352)	\$ (568)	\$ 38	\$ (882)
Other comprehensive income adjustments before reclassifications	5	—	29	34
Amounts reclassified from AOCL	—	1	(14)	(13)
Net other comprehensive income	5	1	15	21
Balance at September 29, 2023	<u>\$ (347)</u>	<u>\$ (567)</u>	<u>\$ 53</u>	<u>\$ (861)</u>

<i>Dollars in millions</i>	Accumulated foreign currency translation adjustments	Accumulated pension liability adjustments	Changes in fair value of derivatives	Total
Balance at December 31, 2021	\$ (296)	\$ (581)	\$ (4)	\$ (881)
Other comprehensive income (loss) adjustments before reclassifications	(120)	—	39	(81)
Amounts reclassified from AOCL	7	15	6	28
Net other comprehensive income (loss)	(113)	15	45	(53)
Balance at September 30, 2022	<u>\$ (409)</u>	<u>\$ (566)</u>	<u>\$ 41</u>	<u>\$ (934)</u>

Reclassifications out of AOCL, net of tax, by component

	Nine Months Ended		
	September 29,	September 30,	
<i>Dollars in millions</i>	2023	2022	Affected line item on the Condensed Consolidated Statements of Operations
Accumulated foreign currency adjustments			
Reclassification of foreign currency adjustments	\$ —	\$ (7)	Net income attributable to noncontrolling interests and Gain on disposition of assets and investments
Tax benefit	—	—	Provision for income taxes
Net accumulated foreign currency	<u>\$ —</u>	<u>\$ (7)</u>	Net of tax
Accumulated pension liability adjustments			
Amortization of prior service cost	\$ (1)	\$ (1)	See (a) below
Recognized actuarial loss	—	(17)	See (a) below
Tax benefit	—	3	Provision for income taxes
Net pension and post-retirement benefits	<u>\$ (1)</u>	<u>\$ (15)</u>	Net of tax
Changes in fair value for derivatives			
Foreign currency hedge and interest rate swap settlements	\$ 17	\$ (7)	Other non-operating expense
Tax benefit (expense)	<u>(3)</u>	<u>1</u>	Provision for income taxes
Net changes in fair value of derivatives	<u>\$ 14</u>	<u>\$ (6)</u>	Net of tax

(a) This item is included in the computation of net periodic pension cost. See Note 8 "Retirement Benefits" to our condensed consolidated financial statements for further discussion.

Note 14. Share Repurchases

Authorized Share Repurchase Program

On February 25, 2014, the Board of Directors authorized a plan to repurchase up to \$350 million of our outstanding shares of common stock, which replaced and terminated the August 26, 2011 share repurchase program. On October 18, 2022, the Board of Directors authorized an increase to the total authorization level to \$500 million. As of September 29, 2023, \$326 million remains available for repurchase under this authorization. The authorization does not obligate the Company to acquire any particular number of shares of common stock and may be commenced, suspended or discontinued without prior notice. The share repurchases are intended to be funded through the Company's current and future cash flows and the authorization does not have an expiration date.

Withheld to Cover Program

We have in place a "withhold to cover" program, which allows us to withhold common shares from employees in connection with the settlement of income tax and related benefit withholding obligations arising from the issuance of share-based equity awards under the KBR, Inc. 2006 Stock and Incentive Plan.

The table below presents information on our share repurchases activity under these programs:

	Three Months Ended September 29, 2023			Nine Months Ended September 29, 2023		
	Number of Shares	Average Price per Share	Dollars in Millions	Number of Shares	Average Price per Share	Dollars in Millions
Repurchases under the \$500 million authorized share repurchase program	—	\$ —	\$ —	2,222,293	\$ 56.23	\$ 125
Withhold to cover shares	4,244	\$ 61.47	—	218,842	\$ 54.07	\$ 12
Total	4,244	\$ 61.47	\$ —	2,441,135	\$ 56.04	\$ 137

	Three Months Ended September 30, 2022			Nine Months Ended September 30, 2022		
	Number of Shares	Average Price per Share	Dollars in Millions	Number of Shares	Average Price per Share	Dollars in Millions
Repurchases under the \$350 million authorized share repurchase program	1,053,840	\$ 47.43	\$ 50	2,396,505	\$ 47.97	\$ 115
Withhold to cover shares	2,300	\$ 49.11	—	184,823	\$ 48.49	\$ 9
Total	1,056,140	\$ 47.43	\$ 50	2,581,328	\$ 48.01	\$ 124

Note 15. Income (loss) per Share

Basic income (loss) per share is based upon the weighted average number of common shares outstanding during the period. Dilutive income (loss) per share includes additional common shares that would have been outstanding if potential common shares with a dilutive effect had been issued using the if-converted method for Convertible Debt and the treasury stock method for all other instruments.

A summary of the basic and diluted net income (loss) per share calculations is as follows:

<i>Shares in millions</i>	Three Months Ended		Nine Months Ended	
	September 29, 2023	September 30, 2022	September 29, 2023	September 30, 2022
Net income (loss) attributable to KBR:				
Net Income (loss) attributable to KBR	\$ (21)	\$ 74	\$ (286)	\$ 97
Less earnings allocable to participating securities	\$ —	\$ —	\$ —	\$ (1)
Basic net income (loss) attributable to KBR	\$ (21)	\$ 74	\$ (286)	\$ 96
Reversal of Convertible Debt interest expense	—	2	—	5
Diluted net income (loss) attributable to KBR	\$ (21)	\$ 76	\$ (286)	\$ 101
Weighted average common shares outstanding:				
Basic weighted average common shares outstanding	135	139	136	139
Convertible Debt	—	14	—	14
Warrants	—	3	—	3
Diluted weighted average common shares outstanding	135	156	136	156
Net income (loss) attributable to KBR per share:				
Basic	\$(0.16)	\$0.53	\$ (2.10)	\$0.69
Diluted	\$(0.16)	\$0.49	\$ (2.10)	\$0.65

Due to our net loss position for both the three and nine months ended September 29, 2023, our basic net loss attributable to KBR per share and diluted net loss attributable to KBR per share are identical as the effect of all potential common shares is anti-dilutive and therefore excluded.

We apply the if-converted method to our Convertible Debt when calculating diluted net income (loss) attributable to KBR per share until the date of election of cash as the settlement method. Under the if-converted method, the principal amount and any conversion spread of the Convertible Debt, to the extent dilutive, are assumed to be converted into common stock at the beginning of the period and net income (loss) attributable to KBR is adjusted to reverse the effect of any interest expense associated with the Convertible Debt.

For the three months ended September 29, 2023, the diluted net income (loss) attributable to KBR per share calculation excluded the following weighted-average potential common shares because their inclusion would have been anti-dilutive: 9.9 million related to the Warrant Transactions and 1.3 million related to our stock options and restricted stock awards. For the nine months ended September 29, 2023, the diluted net income (loss) attributable to KBR per share calculation excluded the following weighted-average potential common shares because their inclusion would have been anti-dilutive: 5.3 million related to the Convertible Debt, 12.1 million related to the Warrant Transactions and 1.4 million related to our stock options and restricted stock awards. For the three and nine months ended September 30, 2022, the diluted net income (loss) attributable to KBR per share calculation excluded the following weighted-average potential common shares because their inclusion would have been anti-dilutive: 11.2 million related to the Warrant Transactions and 0.5 million related to our stock options and restricted stock awards.

Note 16. Fair Value of Financial Instruments and Risk Management

Fair value measurements. The fair value of an asset or liability is the price that would be received to sell an asset or transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. The Company utilizes a fair value hierarchy that maximizes the use of observable inputs and minimizes the use of unobservable inputs when measuring fair value and defines three levels of inputs that may be used to measure fair value. Level 1 inputs are quoted prices in active markets for identical assets or liabilities. Level 2 inputs are inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly, including quoted prices for similar assets or liabilities in active markets, quoted prices in markets that are not active, inputs other than quoted prices that are observable for the asset or liability or inputs derived from observable market data. Level 3 inputs are unobservable inputs that are supported by little or no market activity and are significant to the fair value of the assets or liabilities.

The carrying amount of cash and cash equivalents, accounts receivable and accounts payable, as reflected in the condensed consolidated balance sheets, approximates fair value due to the short-term maturities of these financial instruments. The carrying values and estimated fair values of our financial instruments that are not required to be recorded at fair value in our condensed consolidated balance sheets are provided in the following table.

The fair value of our note hedge derivative asset and embedded derivative liability are included in other current assets and other current liabilities on our condensed consolidated balance sheets at September 29, 2023. The fair values of these derivatives are considered Level 2 under ASC 820, Fair Value Measurement, as they are based on quoted prices directly observable in active markets.

<u>Dollars in millions</u>		September 29, 2023		December 31, 2022		
		Carrying Value	Fair Value	Carrying Value	Fair Value	
Assets:						
Note Hedge Derivative Asset	Level 2	\$ 335	\$ 335	\$ —	\$ —	
Liabilities (including current maturities):						
Term Loan A	Level 2	\$ 593	\$ 593	\$ 398	\$ 398	
Term Loan B	Level 2	502	504	506	511	
Convertible Notes and Conversion Option	Level 2	585	585	350	731	
Senior Notes	Level 2	250	220	250	220	
Senior Credit Facility	Level 2	220	220	260	260	

The carrying value of the debt instruments listed above exclude debt issuance costs for the respective instrument. See Note 9 "Debt and Other Credit Facilities" for the debt issuance costs of these instruments and further discussion of our term loans, Convertibles Notes, Senior Notes and Revolver. The increase in carrying value of the Convertible Notes and conversion option is due to the bifurcation of the Convertible Notes' conversion option in April 2023. See Note 18 "Cash Election and Repurchase of Convertible Notes" for additional information regarding this bifurcation.

The following disclosures for foreign currency risk and interest rate risk includes the fair value hierarchy levels for our assets and liabilities that are measured at fair value on a recurring basis.

Foreign currency risk. We conduct business globally in numerous currencies and are therefore exposed to foreign currency fluctuations. We may use derivative instruments to reduce the volatility of earnings and cash flows associated with changes in foreign currency exchange rates. We do not use derivative instruments for speculative trading purposes. We generally utilize foreign exchange forwards and currency option contracts to hedge exposures associated with forecasted future cash flows and to hedge exposures present on our balance sheet.

As of September 29, 2023, the gross notional value of our foreign currency exchange forwards and option contracts used to hedge balance sheet exposures was \$45 million, all of which had durations of 16 days or less. We also had approximately \$3 million (gross notional value) of cash flow hedges which had durations of 9 months or less. The cash flow hedges are related to the British Pound.

The fair value of our balance sheet hedges and cash flow hedges are included in other current assets and other current liabilities on our condensed consolidated balance sheets at September 29, 2023, and December 31, 2022. The fair values of these derivatives are considered Level 2 under ASC 820, Fair Value Measurement, as they are based on quoted prices directly observable in active markets.

The following table summarizes the recognized changes in fair value of our balance sheet hedges offset by remeasurement of balance sheet positions. These amounts are recognized in our condensed consolidated statements of operations for the periods presented. The net of our changes in fair value of hedges and the remeasurement of our assets and liabilities is included in other non-operating expense on our condensed consolidated statements of operations.

<i>Dollars in millions</i>	Three Months Ended		Nine Months Ended	
	September 29,	September 30,	September 29,	September 30,
	2023	2022	2023	2022
Balance Sheet Hedges - Fair Value	\$ (1)	\$ (1)	\$ —	\$ 4
Balance Sheet Position - Remeasurement	—	(2)	(4)	(3)
Net gain (loss)	<u>\$ (1)</u>	<u>\$ (3)</u>	<u>\$ (4)</u>	<u>\$ 1</u>

Interest rate risk. We use interest rate swaps to reduce interest rate risk and to manage net interest expense by converting a portion of our variable rate debt under our Senior Credit Facility into fixed-rate debt. During the nine months ended September 29, 2023, we amended all of our existing interest rate swap agreements to term SOFR effective March 2023. We elected to apply the optional expedient in ASC 848 in connection with transitioning our interest rate swaps from LIBOR to term SOFR that allowed the amended swaps to be considered as a continuation of the existing hedges. As a result, the reference rate transition did not have an impact on our hedge accounting or a material impact to our condensed consolidated financial statements. Additionally, in March 2023, we entered into additional USD and GBP denominated interest rate swap agreements.

Our portfolio of interest rate swaps consists of the following:

<i>Dollars in millions</i>	Notional Amount at September 29, 2023	Pay Fixed Rate (Weighted Average)	Receive Variable Rate	Settlement and Termination
March 2020 Interest Rate Swaps	\$ 400	0.89 %	Term SOFR	Monthly through January 2027
September 2022 Interest Rate Swaps (a)	\$ 250	3.43 %	Term SOFR	Monthly through January 2027
March 2023 Interest Rate Swaps	\$ 205	3.61 %	Term SOFR	Monthly through January 2027
March 2023 Amortizing Interest Rate Swaps	£ 118	3.81 %	Term SONIA	Monthly through November 2026

(a) Effective November 2023, the notional value will increase to \$350 million through maturity in January 2027.

Our interest rate swaps are reported at fair value using Level 2 inputs. The fair value of the interest rate swaps at September 29, 2023 was a \$65 million asset, of which \$29 million is included in other current assets and \$36 million is included in other assets. The unrealized net gain on these interest rate swaps was \$65 million and is included in AOCL as of September 29, 2023. The fair value of the interest rate swaps at December 31, 2022, was a \$48 million net asset, of which \$19 million is included in other current assets and \$29 million is included in other assets. The unrealized net gains on these interest rate swaps was \$48 million and is included in AOCL as of December 31, 2022.

Sales of Receivables. From time to time, we sell certain receivables to unrelated third-party financial institutions under various accounts receivable monetization programs. One such program is with MUFG Bank, Ltd. (“MUFG”) under a Master Accounts Receivable Purchase Agreement (the “RPA”), which provides the sale to MUFG of certain of our designated eligible receivables, with a significant portion of such receivables being owed by the U.S. government. During the nine months ended September 29, 2023, the Company has derecognized \$2,250 million of accounts receivables from the balance sheet under these agreements, of which certain receivables totaling \$2,208 million were sold under the MUFG RPA. The fair value of the sold receivables approximated their book value due to their short-term nature. The fees incurred are presented in other non-operating expense on the condensed consolidated statements of operations.

Activity for third-party financial institutions consisted of the following:

<u>Dollars in millions</u>	Nine Months Ended	
	September 29, 2023	September 30, 2022
Beginning balance	\$ 134	481
Sale of receivables	2,250	2,236
Settlement of receivables	(2,243)	(2,612)
Cash collected, not yet remitted	—	(4)
Outstanding balances sold to financial institutions	<u>\$ 141</u>	<u>\$ 101</u>

Other Investments. Other investments include investments in equity securities of privately held companies without readily determinable fair values and are included in other assets on our condensed consolidated balance sheets. These investments are accounted for under the measurement alternative, provided that KBR does not have the ability to exercise significant influence or control over the investees.

In June 2022, we entered into an agreement to invest an additional £80 million in Mura Technology ("Mura"). Funding occurred in two tranches with the first payment made in June 2022 and the second payment made in April 2023, increasing KBR's aggregate investment in Mura to approximately 17%. The additional payment in 2023 increased the carrying value of our investment to \$123 million at September 29, 2023. The carrying value of our investment was \$83 million at December 31, 2022.

Note 17. Recent Accounting Pronouncements

New accounting pronouncements requiring implementation in future periods are discussed below.

In 2017, the United Kingdom's Financial Conduct Authority announced that after 2021 it would no longer compel banks to submit the rates required to calculate the London Interbank Offered Rate (LIBOR), which have been widely used as reference rates for various securities and financial contracts, including loans, debts and derivatives. This announcement indicates that the continuation of LIBOR on the current basis is not guaranteed after 2021. Subsequently in March 2021, the Financial Conduct Authority announced some USD LIBOR tenors (overnight, 1-month, 3-month, 6-month and 12-month) will continue to be published until June 30, 2023. Regulators in the U.S. and other jurisdictions have been working to replace these rates with alternative reference interest rates that are supported by transactions in liquid and observable markets, such as the SOFR for USD LIBOR. All of our debt instruments that referenced LIBOR base rates have been amended to utilize alternative reference rates. We have adhered to the ISDA 2020 IBOR Fallbacks Protocol, which will govern our derivatives upon the final termination of USD LIBOR index benchmark. ASU 2020-04, *Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting*, as amended, helps limit the accounting impact from contract modifications, including hedging relationships, due to the transition from LIBOR to alternative reference rates that are completed by December 31, 2022. In December 2022, the FASB issued ASU 2022-06, *Reference Rate Reform (Topic 848): Deferral of the Sunset Date of Topic 848*, which extends the period of time entities can utilize the reference rate reform guidance under ASU 2020-04 from December 31, 2022 to December 31, 2024. We elected to apply the optional expedient in ASC 848 in connection with transitioning our interest rate swaps from LIBOR to term SOFR that allowed the amended swaps to be considered as a continuation of the existing hedges. As a result, the reference rate transition did not have an impact on our hedge accounting or a material impact to our condensed consolidated financial statements. Additionally, the transition of our Senior Credit Facility from LIBOR to an alternate reference rate, did not have a significant impact to our financial results, financial position or cash flows as we elected to apply the optional expedients.

In March 2023, the FASB issued 2023-01, *Leases (Topic 842) - Common Control Arrangements*, which requires leasehold improvements associated with common control leases to be amortized over the useful life of the leasehold improvements to the common control group as long as the lessee controls the underlying asset through a lease. The amendments are effective for all entities for fiscal years beginning after December 15, 2023, including interim periods within those fiscal years. Early adoption is permitted for both interim and annual financial statements. We are currently evaluating the future impact of this standard.

Note 18. Cash Election and Repurchase of Convertible Notes

Cash Election for Convertible Notes. Upon issuance of the Convertible Notes, we had the right to elect to settle the Convertible Notes in cash, shares of our common stock or a combination of cash and shares of our common stock. As a result,

our conversion option qualified for the equity scope exception under ASC 815 *Derivatives and Hedging* (“ASC 815”) that does not require the conversion option to be accounted for as a separate instrument. The Note Hedge Transactions and Warrant Transactions also qualified for the equity scope exception under ASC 815.

In April 2023, we elected cash as the settlement method to settle the principal and any excess value upon early conversion or maturity of the Convertible Notes and Note Hedge. Upon that election, both instruments no longer qualified for the equity scope exception under ASC 815. The conversion option of the Convertible Notes was deemed to be embedded, which required bifurcation from the host contract, and the Note Hedge was reclassified to a freestanding derivative instrument.

Upon bifurcation of the Convertible Notes' conversion option, we recorded an embedded derivative liability at fair value of \$454 million, a debt discount of \$350 million reducing the carrying value of our Convertible Notes to zero, and a \$104 million loss. Upon reclassification of the Note Hedge, we recorded a derivative asset of \$454 million at fair value, with an offset of \$454 million to PIC. Any changes related to the fair value of the derivative asset will be directly offset by the change in fair value of the embedded derivative liability. The fair value of the derivative asset and embedded derivative liability at September 29, 2023 was \$335 million.

We have recorded \$114 million and \$242 million of accretion during the three and nine months ended September 29, 2023, respectively, and accelerated the accretion of \$69 million as a loss on debt extinguishment associated with the repurchase of \$100 million of Convertible Senior Notes in the second quarter of 2023. At September 29, 2023, the remaining debt discount of \$40 million will be accreted over the remaining term of the Convertible Notes using the straight-line method if held through the maturity date of November 1, 2023.

Convertible Senior Notes Repurchase and Unwind Agreements. On June 1, 2023, we entered into privately-negotiated transactions to repurchase \$100 million in principal amount of the outstanding Convertible Notes (the “Convertible Notes repurchase”), using funds borrowed under our Revolver to pay the purchase price. Concurrent with the Convertible Notes repurchase, we entered into agreements with the option counterparties to terminate the corresponding portions of the Note Hedge Transactions and Warrant Transactions (collectively, the “Unwind Agreements”). We paid \$250 million related to the Convertible Notes repurchase and received a net amount of \$49 million related to the Unwind Agreements.

The portion of warrants settled in cash during the second quarter of 2023 no longer qualified for the equity scope exception under ASC 815 upon execution of the Unwind Agreements on June 1, 2023. This resulted in the recognition of a derivative liability of \$89 million, with an offset of \$89 million to PIC. Upon settlement of the Unwind Agreements, during the second quarter of 2023 we recognized \$12 million in loss due to the change in fair value of the derivative liability between the initial recognition date and settlement date. This loss was recorded within “Charges associated with Convertible Notes” on our condensed consolidated statement of operations.

The Convertible Notes repurchase was accounted for as a debt extinguishment under ASC 470 *Debt* (“ASC 470”). ASC 470 requires the settlement consideration of \$250 million to be allocated to both the carrying value of the debt instrument and the embedded derivative liability related to the conversion option. We recognized a loss on extinguishment of debt of \$70 million due to the difference between the consideration paid of \$250 million and the carrying value of the conversion option’s derivative liability and Convertible Notes, net of debt discount on the date of repurchase.

See below for summary of items related to the cash election and repurchase of Convertible Notes and Note Hedge Transactions on our Condensed Consolidated Statement of Operations for the three and nine months ended September 29, 2023.

	Three Months Ended September 29, 2023	Nine Months Ended September 29, 2023
<i>Dollars in millions</i>		
Condensed Consolidated Statement of Operations		
Loss on derivative bifurcation	\$ —	\$ 104
Loss on debt extinguishment	—	70
Loss on settlement of warrants	—	12
Accretion of Convertible Notes debt discount	114	242
Charges associated with Convertible Notes	\$ 114	\$ 428

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Introduction

The purpose of MD&A is to disclose material changes in our financial condition since the most recent fiscal year-end and results of operations during the current fiscal period as compared to the corresponding period of the preceding fiscal year. The MD&A should be read in conjunction with the condensed consolidated financial statements, accompanying notes and our 2022 Annual Report on Form 10-K.

Overview

KBR, Inc., a Delaware corporation ("KBR"), delivers science, technology, engineering and logistics support solutions to governments and companies around the world. Drawing from its rich 100-year history and culture of innovation and mission focus, KBR creates sustainable value by combining deep domain expertise with its full life cycle capabilities to help clients meet their most pressing challenges. Our capabilities and offerings include the following:

- Scientific research such as quantum science and computing; health and human performance; materials science; life science research; and earth sciences;
- Defense systems engineering such as rapid prototyping; test and evaluation; aerospace acquisition support; systems and platform integration; and sustainment engineering;
- Operational support such as space domain awareness; C5ISR; human spaceflight and satellite operations; integrated supply chain and logistics; and military aviation support;
- Information operations such as cyber analytics and cybersecurity; data analytics; mission planning systems; virtual/augmented reality and technical training; and artificial intelligence and machine learning;
- Professional advisory services across the defense, renewable energy and critical infrastructure sectors; and
- Sustainable decarbonization solutions that accelerate and enable energy transition and climate change solutions such as proprietary, sustainability-focused process licensing; advisory services focused on energy transition; high-end engineering, design and management program offerings; and digitally-enabled asset optimization solutions.

KBR's strategic growth vectors include:

- Defense modernization;
- Space superiority;
- Health and human performance;
- Sustainable technology;
- High-end engineering;
- Energy transition and security; and
- Technology-led asset optimization

Key customers include U.S. DoD agencies such as the U.S. Army, U.S. Navy and U.S. Air Force, Missile Defense Agency, National Geospatial-Intelligence Agency, National Reconnaissance Office and other intelligence agencies; U.S. civilian agencies such as NASA, U.S. Geological Survey and National Oceanic and Atmospheric Administration; the U.K. MoD, London Metropolitan Police, and other U.K. Crown Services; the Royal Australian Air Force, Navy and Army; other national governments; and a wide range of commercial and industrial companies.

Our deployment priorities are to fund organic growth, maintain responsible leverage, maintain an attractive dividend, make strategic, accretive acquisitions and repurchase shares. As demonstrated by our acquisitions of Frazer Nash Consultancy Limited, VIMA Group and others in the past few years, our acquisition thesis is centered around moving upmarket, expanding capabilities and broadening customer sets across strategic growth vectors. KBR also develops and prioritizes investment in technologies that are disruptive, innovative and sustainability- and safety-focused. These technologies and engineering solutions enable clients to achieve a cleaner, greener, more energy efficient global future.

Business Environment and Trends

Government Outlook

On March 9, 2023, President Biden provided his proposed fiscal 2024 budget of \$1.7 trillion, which included \$886 billion in defense spending and \$844 billion for non-defense discretionary spending which represents an increase from the fiscal 2023 budget of 3% and 9%, respectively. The U.S. defense spending budget prioritizes initiatives outlined in the fiscal 2023 budget in addition to, among other things, addressing strategic competition and making significant, long-term investments in a resilient force posture in the Indo-Pacific to deter aggression, supporting our partners in the region and strengthening the U.S. and regional defense industrial base. The fiscal 2024 request also continues increased support for the U.S. European Command and investment in integrated deterrence and military credibility. The non-defense discretionary spending proposal includes \$27 billion, or a 7% increase from the fiscal 2023 budget, in funding for NASA to strengthen U.S. leadership in scientific research, exploration and space technology innovation, advance robotic exploration of Mars and support efforts to establish the first long-term presence on the Moon and then on to Mars.

On June 3, 2023, President Biden signed into law the Fiscal Responsibility Act of 2023, which suspends the public debt ceiling limit through January 2, 2025. This law includes provisions that will impact future fiscal year budgets for the United States. Key provisions in this law include statutory caps on discretionary funding in 2024 and 2025 and limits on discretionary funding for the years 2026 through 2029. The 2024 statutory cap on discretionary funding totals \$1.6 trillion, which included \$886 million for defense spending and \$704 million for non-defense spending. The 2024 statutory cap on defense spending does not impact President Biden's proposed fiscal 2024 budget, however the 2024 statutory cap on non-defense spending is 14% lower than President Biden's proposed fiscal 2024 budget. The effect of the non-defense discretionary spending statutory cap on individual programs or KBR cannot be predicted at this time.

The U.S. government has not yet enacted an annual budget for fiscal year 2024; these proposed 2024 budgetary amounts are subject to change. To avert a government shutdown, a continuing resolution funding measure has been enacted to finance all U.S. government activities through November 16, 2023. Under the continuing resolution, partial-year funding at amounts consistent with appropriated levels for fiscal year 2023 are available, subject to certain restrictions, but new spending initiatives are not authorized. Uncertainty continues to exist regarding whether a divided Congress will be able to pass appropriation bills or additional continuing resolutions once the current continuing resolution expires on November 16, 2023. We believe our key programs will continue to be supported and funded in the continuing resolution financing mechanism. The effect of a potential government shutdown or the finalized fiscal year 2024 budget on KBR or our individual programs cannot be predicted at this time. However, if a government shutdown were to occur and were to continue for an extended period, we could be at risk of program cancellations, schedule delays and other disruptions and nonpayment, which could adversely affect our results of operations. We anticipate the federal budget will continue to be subject to debate and compromise shaped by, among other things, heightened political tensions, the global security environment, inflationary pressures and macroeconomic conditions. The result may be shifting funding priorities, which could have material impacts on defense spending broadly and our programs.

Internationally, our Government Solutions work is performed primarily for the U.K. MoD and the Australian Department of Defence. In March 2023, the U.K. government announced its intent to increase its defense budget by £11 billion over the next five years, increasing the defense budget to 2.25% of GDP by 2025. Recognizing the importance of strong defense and the role the U.K. plays across the globe, the U.K. has prioritized investment in military research and investment in key areas to advance and develop capabilities around artificial intelligence, cyber security and space superiority. The Australian government continues to invest in defense spending, with particular focus on enhancing regional security, modernizing defense capabilities, strengthening cyber defenses and promoting broader economic stability. The fiscal year budget for Australia for the 2023 - 2024 financial year was finalized, with the Australian government increasing defense spending by 5% to AUD 51.0 billion, or approximately 2.00% of GDP.

In 2021, the U.S., U.K. and Australia announced AUKUS, a security pact that will promote a free and open Indo-Pacific through a shared long-term investment to strengthen their combined capabilities and enhance their ability to deter aggression. AUKUS' first major initiative (Pillar 1) is a joint effort to provide Australia with conventionally armed, nuclear powered submarine ("NPS") capability and strengthen the capacity of the submarine workforce and industrial base. In 2023, these countries announced an arrangement for Australia to acquire a NPS through the AUKUS security pact. This arrangement outlines an approach that will provide Australia with the capability to operate and maintain a NPS before the expected sale of these submarines from the United States to Australia in the early 2030s (subject to Congressional approval). Pillar 2 of this security pact will focus on enabling technologies to maintain a secure and stable trade through the region including undersea

technologies, quantum technologies, advanced cyber, artificial intelligence and autonomy, hypersonic research and development, electronic warfare and innovation.

With defense and civil budgets driven in part by political instability, military conflicts, aging platforms and infrastructure and the need for technology advances, we expect continued opportunities to provide solutions and technologies to mission critical work aligned with our customers' and our nation's critical priorities.

Sustainable Technology Outlook

Long-range commercial market fundamentals are supported by global population growth, expanding global development and an acceleration of demand for energy transition, renewable energy sources and climate change solutions. The globe is in search of the solution to the energy trilemma, the balance between energy affordability, ensuring energy security and achieving environmental sustainability. Clients are prioritizing their efforts to solve the energy trilemma by investing in digital solutions to optimize operations, increase end-product flexibility and energy efficiency, reduce unplanned downtime and minimize environmental footprint. As the global focus on energy security intensifies and companies continue to commit to near-term carbon neutrality and longer-range net-zero carbon emissions, we expect spending to continue in areas such as decarbonization; carbon capture, utilization and sequestration; biofuels; and circular economy. Further, leading companies across the world are proactively evaluating clean energy alternatives, including hydrogen and green ammonia, which complements KBR's proprietary process technologies, solutions and capabilities.

We expect climate change and energy transition to continue to be areas of priority and investment as many countries, including the U.S., look to boost their economies and invest in a cleaner future. Specifically, on August 16, 2022, the President signed the Inflation Reduction Act into law which includes provisions intended to, among other things, incentivize domestic clean energy, manufacturing and production. Additionally, in March 2023, the Canadian government announced its federal budget which includes billions of dollars for investment in the transition to a low-carbon economy.

Our Business

KBR's business is organized into two core and one non-core business segments as follows:

Core business segments

- Government Solutions
- Sustainable Technology Solutions

Non-core business segment

- Other

See additional information on our business segments in Note 2 "Business Segment Information" to our condensed consolidated financial statements.

Results of Operations

Three months ended September 29, 2023 compared to the three months ended September 30, 2022

The information below is an analysis of our consolidated results for the three months ended September 29, 2023, compared to the three months ended September 30, 2022. See *Results of Operations by Business Segment* below for additional information describing the performance of each of our reportable segments.

Consolidated Results

<i>Dollars in millions</i>	Three Months Ended			
	September 29,	September 30,	2023 vs. 2022	
	2023	2022	\$	%
Revenues	\$ 1,770	\$ 1,626	\$ 144	9 %
Cost of revenues	\$ (1,526)	\$ (1,401)	\$ 125	9 %
Gross profit	\$ 244	\$ 225	\$ 19	8 %
Equity in earnings of unconsolidated affiliates	\$ 32	\$ 5	\$ 27	n/m
Selling, general and administrative expenses	\$ (127)	\$ (103)	\$ 24	23 %
Other	\$ (2)	\$ (2)	\$ —	— %
Operating income	\$ 147	\$ 125	\$ 22	18 %
Interest expense	\$ (30)	\$ (23)	\$ 7	30 %
Charges associated with Convertible Notes	\$ (114)	\$ —	\$ 114	n/m
Other non-operating income (expense)	\$ 2	\$ (2)	\$ (4)	n/m
Income (loss) before income taxes	\$ 5	\$ 100	\$ (95)	(95)%
Provision for income taxes	\$ (23)	\$ (27)	\$ (4)	(15) %
Net income (loss)	\$ (18)	\$ 73	\$ (91)	n/m
Less: Net income (loss) attributable to noncontrolling interests	\$ 3	\$ (1)	\$ 4	n/m
Net income (loss) attributable to KBR	\$ (21)	\$ 74	\$ (95)	n/m

n/m - not meaningful

Revenues. The increase in overall revenue of \$144 million, or 9%, was primarily attributable to revenue growth across our GS business segment primarily from contract growth and increased revenues in STS primarily from engineering and professional services and technology sales.

Gross profit. The increase in overall gross profit of \$19 million, or 8%, was primarily driven by increased profitability in our STS business and, as described above, increased revenues in STS from engineering and professional services and technology sales. Our GS business segment also experienced contract growth in the third quarter of 2023 that resulted in additional increases to gross profit in the current quarter.

Equity in earnings of unconsolidated affiliates. The overall increase in equity in earnings of unconsolidated affiliates was primarily driven by increased services on an LNG project in the third quarter of 2023 and increases in earnings in various joint ventures due to increases in activity in the current quarter within our STS business segment. Additionally, there was a charge on a joint venture in our GS business segment in the third quarter of 2022 that did not recur in the current quarter.

Selling, general and administrative expenses. Selling, general and administrative expenses in the three months ended September 29, 2023 were \$24 million higher, a 23% increase compared to the three months ended September 30, 2022, which was primarily driven by additional expenses incurred to support the growth in both our GS and STS business segments.

Interest expense. The increase in interest expense was primarily driven by an increase in the U.S. federal reserve funds rate from the three months ended September 30, 2022 to the three months ended September 29, 2023.

Charges associated with Convertible Notes. During the three months ended September 29, 2023, we recognized a loss of \$114 million, primarily related to the election of cash as the settlement method for our Convertible Notes.

Provision for income taxes. The provision for income taxes for the three months ended September 29, 2023 reflects a 460% tax rate as compared to a 27% tax rate for the three months ended September 30, 2022. The effective tax rate of 460% for the three months ended September 29, 2023 was primarily impacted by the non-deductible charge associated with the election of cash as the settlement method for our Convertible Notes discussed in Note 18. The implication of this non-deductible item was partially offset by the release of a previously reserved position based on developments associated with the ongoing IRS examination and appeals process for certain years. The effective tax rate of 27% for the three months ended September 30, 2022 was primarily impacted by items related to non-U.S. discrete activity for the quarter. Excluding the tax impact of these adjustments, our tax rate for the three months ended September 29, 2023 and September 30, 2022 would be 26% and 25%, respectively. See Note 10 to our condensed consolidated financial statements for further discussion on income taxes.

Results of Operations by Business Segment

<i>Dollars in millions</i>	Three Months Ended			
	September 29,	September 30,	2023 vs. 2022	
	2023	2022	\$	%
Revenues:				
Government Solutions	\$ 1,345	\$ 1,293	\$ 52	4 %
Sustainable Technology Solutions	425	333	\$ 92	28 %
Total revenues	\$ 1,770	\$ 1,626	\$ 144	9 %
Operating income (loss):				
Government Solutions	\$ 108	\$ 105	\$ 3	3 %
Sustainable Technology Solutions	84	56	\$ 28	50 %
Other	(45)	(36)	\$ 9	25 %
Total operating income	\$ 147	\$ 125	\$ 22	18 %

Government Solutions

GS revenues increased by \$52 million, or 4%, to \$1,345 million in the three months ended September 29, 2023 compared to \$1,293 million in the three months ended September 30, 2022. The increase was driven by contract growth across our GS business segment.

GS operating income increased by \$3 million, or 3%, to \$108 million in the three months ended September 29, 2023 compared to \$105 million in the three months ended September 30, 2022. The increase was driven by the item discussed above.

Sustainable Technology Solutions

STS revenues increased by \$92 million, or 28%, to \$425 million in the three months ended September 29, 2023 compared to \$333 million in the three months ended September 30, 2022. The increase in revenue is primarily from engineering and professional services and technology sales.

STS operating income increased by \$28 million, or 50%, to \$84 million in the three months ended September 29, 2023 compared to \$56 million in the three months ended September 30, 2022. The increase was primarily driven by items discussed above as well as increased equity in earnings resulting from services on an LNG project.

Other

Other operating income remained materially consistent for each of the three months ended September 29, 2023 and September 30, 2022.

Results of Operations

Nine months ended September 29, 2023 compared to the nine months ended September 30, 2022

The information below is an analysis of our consolidated results for the nine months ended September 29, 2023 compared to the nine months ended September 30, 2022. See *Results of Operations by Business Segment* below for additional information describing the performance of each of our reportable segments.

Consolidated Results

<i>Dollars in millions</i>	Nine Months Ended			
	September 29, 2023	September 30, 2022	2023 vs. 2022	
			\$	%
Revenues	\$ 5,226	\$ 4,956	\$ 270	5 %
Cost of revenues	\$ (4,486)	\$ (4,334)	\$ 152	4 %
Gross profit	\$ 740	\$ 622	\$ 118	19 %
Equity in earnings (losses) of unconsolidated affiliates	\$ 78	\$ (103)	\$ 181	n/m
Selling, general and administrative expenses	\$ (370)	\$ (315)	\$ 55	17 %
Legal settlement of legacy matter	\$ (144)	\$ —	\$ 144	n/m
Gain on disposition of assets and investments	\$ —	\$ 22	\$ (22)	n/m
Other	\$ (3)	\$ (5)	\$ (2)	(40) %
Operating income	\$ 301	\$ 221	\$ 80	36 %
Interest expense	\$ (85)	\$ (64)	\$ 21	33 %
Unrealized gain on other investment	\$ —	\$ 16	\$ (16)	n/m
Charges associated with Convertible Notes	\$ (428)	\$ —	\$ 428	n/m
Other non-operating income (expense)	\$ (1)	\$ 3	\$ 4	n/m
Income (loss) before income taxes	\$ (213)	\$ 176	\$ (389)	n/m
Provision for income taxes	\$ (69)	\$ (79)	\$ (10)	(13) %
Net income (loss)	\$ (282)	\$ 97	\$ (379)	n/m
Less: Net income attributable to noncontrolling interests	\$ 4	\$ —	\$ 4	n/m
Net income (loss) attributable to KBR	\$ (286)	\$ 97	\$ (383)	n/m

n/m - not meaningful

Revenues. The increase in overall revenue of \$270 million, or 5%, to \$5,226 million for the nine months ended September 29, 2023 is primarily attributed to contract growth across our GS business and increased revenues from technology sales and engineering and professional services in our STS business. Additionally, there was increased activity to support exercises, training and other activities within the European Command. These increases in revenue are offset by approximately \$309 million of revenue recognized during the nine months ended September 30, 2022 from contingency work associated with the OAW program that was wound down and substantially completed in early 2022 and decreases in revenue due to the ramp down of construction work for the Aspire program.

Gross profit. The increase in overall gross profit of \$118 million, or 19%, was primarily driven by items increasing revenues discussed above, favorable STS licensing mix and resolutions on various legacy matters in the current year. These increases were offset by reduced volume from contingency work associated with the OAW program.

Equity in earnings (losses) of unconsolidated affiliates. Equity in earnings (losses) of unconsolidated affiliates increased by \$181 million to \$78 million in earnings for the nine months ended September 29, 2023, compared to \$103 million in losses for the nine months ended September 30, 2022. During the nine months ended September 30, 2022, a non-cash charge in the amount of \$137 million was recorded associated with the settlement agreement with the consortium of subcontractors of the Combined Cycle Power Plant for the Ichthys LNG Project that did not recur in 2023. In 2022, we also recorded a charge on a joint venture in our GS business segment that did not recur in the current year. Further, the increase is attributed to equity in earnings from services on an LNG project that commenced in the second quarter of 2022.

Selling, general and administrative expenses. Selling, general and administrative expenses in the nine months ended September 29, 2023 were \$55 million higher than the nine months ended September 30, 2022, which was primarily driven by growth in the business and favorable settlements and credits received in the first quarter of 2022 that did not recur in 2023.

Legal settlement of legacy matter. During the nine months ended September 29, 2023, we recorded a non-recurring charge of \$144 million related to the settlement of a legacy legal matter.

Gain on disposition of assets and investment. The decrease in gain on disposition of assets and investments of \$22 million was primarily driven by a gain of \$16 million from the sale of our investment interest in three U.K. Road Projects and a gain of \$5 million for the sale of a property in our GS business during the nine months ended September 30, 2022. No similar gains on the disposition of assets and investments were recognized in the nine months ended September 29, 2023.

Interest expense. The increase in interest expense was primarily driven by continued increases in the U.S. federal reserve funds rate from the nine months ended September 30, 2022 to the nine months ended September 29, 2023.

Unrealized gain on other investment. During the nine months ended September 30, 2022, we recognized an unrealized gain on other investment of \$16 million related to the appreciation in the fair value of our Mura Technology investment as a result of a revaluation triggered by our incremental investment commitment. We did not record an unrealized gain on other investment during the nine months ended September 29, 2023.

Charges associated with Convertible Notes. During the nine months ended September 29, 2023, we recognized a loss of \$428 million, primarily related to the election of cash as the settlement method for our Convertible Notes and the repurchase of a portion of our Convertible Notes.

Provision for income taxes. The provision for income taxes for the nine months ended September 29, 2023 reflects a (32)% tax rate as compared to a 45% tax rate for the nine months ended September 30, 2022. The effective tax rate of (32)%, as compared to the U.S. statutory rate of 21%, for the nine months ended September 29, 2023 was primarily impacted by the non-deductible portion of a legal settlement on a legacy matter and the non-deductible charge associated with the cash election and Convertible Notes repurchase discussed in Note 18. The implication of these non-deductible items were partially offset by the release of a previously reserved position based on developments associated with the ongoing IRS examination and appeals process for certain years. The effective tax rate of 45% for the nine months ended September 30, 2022 was primarily driven by the non-deductibility of losses incurred with respect to the settlement of outstanding matters related to the Ichthys LNG project to which KBR is a JV partner. Excluding the tax impact of these items, our tax rate would be 26% and 25% for the nine months ended September 29, 2023 and September 30, 2022, respectively. See Note 10 "Income Taxes" to our condensed consolidated financial statements for further discussion on income taxes.

Results of Operations by Business Segment

<i>Dollars in millions</i>	Nine Months Ended			
	September 29, 2023	September 30, 2022	2023 vs. 2022	
			\$	%
Revenues:				
Government Solutions	\$ 4,025	\$ 4,064	\$ (39)	(1) %
Sustainable Technology Solutions	1,201	892	309	35 %
Total revenues	\$ 5,226	\$ 4,956	\$ 270	5 %
Operating income (loss):				
Government Solutions	\$ 182	\$ 351	\$ (169)	(48) %
Sustainable Technology Solutions	243	(18)	261	n/m
Other	(124)	(112)	12	11 %
Total operating income	\$ 301	\$ 221	\$ 80	36 %

Government Solutions

GS revenues decreased by \$39 million, or 1%, to \$4,025 million for the nine months ended September 29, 2023, compared to \$4,064 million for the nine months ended September 30, 2022. The decrease was primarily attributable to approximately \$309 million of revenue recognized during the nine months ended September 30, 2022 from contingency work associated with the OAW program that was wound down and substantially completed in early 2022. Additionally, this decrease is attributed to the ramp down of construction work for the Aspire program. These decreases were partially offset by increased activity to support exercises, training and other activities within the European Command and continued contract growth across our GS business segment.

GS operating income decreased by \$169 million, or 48%, to \$182 million for the nine months ended September 29, 2023, compared to \$351 million for the nine months ended September 30, 2022. The decrease was primarily driven by the non-recurring \$144 million charge recorded in the second quarter of 2023 related to the settlement of a legacy legal matter. Additionally, operating income decreased \$22 million primarily due to the sale of our investment interest in three U.K. Road Projects recognized in the prior year that did not recur, partially offset by a favorable resolution of a legacy legal matter.

Sustainable Technology Solutions

STS revenues increased by \$309 million to \$1,201 million for the nine months ended September 29, 2023, compared to \$892 million for the nine months ended September 30, 2022. This increase is primarily driven by increased revenues from technology sales and engineering and professional services.

STS operating income increased by \$261 million, to \$243 million in operating income for the nine months ended September 29, 2023, compared to \$18 million in operating loss for the nine months ended September 30, 2022. The increase is primarily attributed to a decrease in equity in losses related to the Ichthys LNG project. During the nine months ended September 30, 2022, a non-cash charge in the amount of \$137 million was recorded for the settlement agreement with the consortium of subcontractors of the Combined Cycle Power Plant that did not recur during the nine months ended September 29, 2023. Additionally, the increase is related to increased technology sales and engineering and professional services, increased equity in earnings from services on an LNG project, a favorable resolution on a legacy matter during the nine months ended September 29, 2023 and a non-cash impact in 2022 that did not recur in 2023.

Other

Other operating loss remained materially consistent for each of the nine months ended September 29, 2023 and September 30, 2022, respectively.

Backlog of Unfilled Orders

Backlog generally represents the dollar amount of revenues we expect to realize in the future as a result of performing work on contracts and our pro-rata share of work to be performed by our unconsolidated joint ventures. We generally include total expected revenues in backlog when a contract is awarded under a legally binding agreement. In many instances, arrangements included in backlog are complex, nonrepetitive and may fluctuate over the contract period due to the release of contracted work in phases by the customer. Additionally, nearly all contracts allow customers to terminate the agreement at any time for convenience, and from time to time customers may dispute or try to renegotiate existing contracts. These and other factors may result in delays in our recognition of revenue from our backlog, and in differences between the amounts we book as backlog and the amounts we recognize as revenue. Certain contracts provide maximum dollar limits, with actual authorization to perform work under the contract agreed upon on a periodic basis with the customer. In these arrangements, only the amounts authorized are included in backlog. For projects where we act solely in a project management capacity, we only include the expected value of our services in backlog.

We define backlog, as it relates to U.S. government contracts, as our estimate of the remaining future revenue from existing signed contracts over the remaining base contract performance period (including customer approved option periods) for which work scope and price have been agreed with the customer. We define funded backlog as the portion of backlog for which funding currently is appropriated, less the amount of revenue we have previously recognized. We define unfunded backlog as the total backlog less the funded backlog. Our GS backlog does not include any estimate of future potential delivery orders that might be awarded under our government-wide acquisition contracts, agency-specific indefinite delivery/indefinite quantity contracts or other multiple-award contract vehicles, nor does it include option periods that have not been exercised by the customer.

Within our GS business segment, we calculate estimated backlog for long-term contracts associated with the U.K. government's PFIs based on the aggregate amount that our client would contractually be obligated to pay us over the life of the project. We update our estimates of the future work to be executed under these contracts on a quarterly basis and adjust backlog, if necessary.

We have included in the table below our proportionate share of unconsolidated joint ventures' estimated backlog. As these projects are accounted for under the equity method, only our share of future earnings from these projects will be recorded in our results of operations. Our proportionate share of backlog for projects related to unconsolidated joint ventures totaled \$4.6 billion at September 29, 2023, and \$3.9 billion at December 31, 2022.

As a result of U.S. Transportation Command lifting the stop work order on the HomeSafe contract in November 2022, we have booked \$54 million and \$39 million in backlog as of September 29, 2023 and December 31, 2022 for our transition work. Additionally, during the nine months ended September 29, 2023, we booked \$0.9 billion for our proportionate share of KZJV's backlog and for KBR services to be provided to KZJV as a result of receiving a full notice to proceed with Phase 2 of the Plaquemines LNG project.

The following table summarizes our backlog by business segment as of September 29, 2023, and December 31, 2022, respectively:

<i>Dollars in millions</i>	September 29, 2023	December 31, 2022
Government Solutions	\$ 12,282	\$ 11,543
Sustainable Technology Solutions	4,975	4,012
Total backlog	<u>\$ 17,257</u>	<u>\$ 15,555</u>

We estimate that as of September 29, 2023, 33% of our backlog will be executed within one year. Of this amount, 80% will be recognized in revenues on our condensed consolidated statement of operations and 20% will be recorded by our unconsolidated joint ventures. As of September 29, 2023, \$133 million of our backlog relates to active contracts that are in a loss position.

As of September 29, 2023, 9% of our backlog was attributable to fixed-price contracts, 36% was attributable to PFIs, 42% was attributable to cost-reimbursable contracts and 13% was attributable to time-and-materials contracts. For contracts that contain fixed-price, cost-reimbursable and time-and-materials components, we classify the individual components as either fixed-price, cost-reimbursable or time-and-materials according to the composition of the contract; however, for smaller contracts, we characterize the entire contract based on the predominant component. As of September 29, 2023, \$8.6 billion of our GS backlog was currently funded by our customers.

As of September 29, 2023, we had approximately \$4.5 billion of priced option periods not yet exercised by the customer for U.S. government contracts that are not included in the backlog amounts presented above.

The difference between backlog of \$17.3 billion and the remaining performance obligations as defined by ASC 606 of \$12.1 billion is primarily due to our proportionate share of backlog related to unconsolidated joint ventures which is not included in our remaining performance obligations. See Note 3 "Revenue" to our condensed consolidated financial statements for discussion of the remaining performance obligations.

Transactions with Joint Ventures

In the normal course of business, we form incorporated and unincorporated joint ventures to execute projects. In addition to participating as a joint venture partner, we often provide engineering, procurement, construction, operations or maintenance services to the joint venture as a subcontractor. Where we provide services to a joint venture that we control and therefore consolidate for financial reporting purposes, we eliminate intercompany revenues and expenses on such transactions. In situations where we account for our interest in the joint venture under the equity method of accounting, we do not eliminate any portion of our subcontractor revenues or expenses, however, we recognize profit on our subcontractor scope of work only to the extent the joint venture's scope of work to the end customer is complete. We recognize revenue over time on our services provided to joint ventures that we consolidate and our services provided to joint ventures that we record under the equity method of accounting. See Note 7 "Equity Method Investments and Variable Interest Entities" to our condensed consolidated financial statements in Part I, Item 1 of this Quarterly Report on Form 10-Q for more information. The information discussed therein is incorporated by reference into this Part I, Item 2.

Legal Proceedings

Information relating to various commitments and contingencies is described in Notes 6 "Unapproved Change Orders and Claims Against Clients and Estimated Recoveries of Claims Against Suppliers and Subcontractors", 11 "Commitments and Contingencies" and 12 "U.S. Government Matters" to our condensed consolidated financial statements in Part I, Item 1 of this Quarterly Report on Form 10-Q, and the information discussed therein is incorporated by reference into this Part I, Item 2.

Liquidity and Capital Resources

Liquidity is provided by available cash and cash equivalents, cash generated from operations, our Senior Credit Facility, (as defined below) and access to capital markets. Our operating cash flow can vary significantly from year to year and is affected by the mix, terms, timing and stage of completion of our projects. We often receive cash in advance on certain of our sustainable technology projects. On time-and-material and cost reimbursable contracts, we may utilize cash on hand or availability under our Senior Credit Facility to satisfy any periodic operating cash requirements for working capital, as we incur costs and subsequently invoice our customers.

Certain STS services projects may require us to provide credit support for our performance obligations to our customers in the form of letters of credit, surety bonds or guarantees. Our ability to obtain new project awards in the future may be dependent on our ability to maintain or increase our letter of credit and surety bonding capacity, which may be further dependent on the timely release of existing letters of credit and surety bonds. As the need for credit support arises, letters of credit may be issued under the Revolver (as defined below) or with lending counterparties on a bilateral, syndicated or other basis.

As discussed in Note 9 "Debt and Other Credit Facilities" of our condensed consolidated financial statements, we entered into Amendment No. 10 on July 26, 2023 under our existing credit agreement, dated as of April 25, 2018, as amended ("Credit Agreement"), consisting of a \$1 billion revolving credit facility (the "Revolver"), a Term Loan A ("Term Loan A") with debt tranches denominated in U.S. dollars and British pound sterling and a Term Loan B ("Term Loan B") ("Senior Credit Facility"). Amendment No. 10 provides for an additional \$200 million loan tranche under Term Loan A. We borrowed the full \$200 million principal amount available under this additional loan tranche, and this \$200 million borrowing was applied as a

partial repayment of the outstanding amounts of principal and accrued interest under the Revolver. Term Loan A and the Revolver mature in November 2026 and Term Loan B matures in February 2027.

We believe that existing cash balances, internally generated cash flows, availability under our Senior Credit Facility and other lines of credit are sufficient to support our business operations for the next 12 months. As of September 29, 2023, we were in compliance with all financial covenants related to our debt agreements.

Cash and cash equivalents totaled \$348 million at September 29, 2023, and \$389 million at December 31, 2022, and consisted of the following:

<i>Dollars in millions</i>	September 29, 2023	December 31, 2022
Domestic U.S. cash	\$ 91	\$ 27
International cash	143	255
Joint venture and Aspire Defence project cash	114	107
Total	<u>\$ 348</u>	<u>\$ 389</u>

Our cash balances are held in numerous accounts throughout the world to fund our global activities, including acquisitions, joint ventures and other business partnerships. Domestic cash relates to cash balances held by U.S. entities and is largely used to support project activities of those businesses as well as general corporate needs such as the payment of dividends to shareholders, repayment of debt and potential repurchases of our outstanding common stock.

Our international cash balances may be available for general corporate purposes but are subject to local restrictions, such as capital adequacy requirements and maintaining sufficient cash balances to support our U.K. pension plan and other obligations incurred in the normal course of business by those foreign entities. Repatriations of our undistributed foreign earnings are generally free of U.S. tax but may incur withholding and/or state taxes. We consider our future non-U.S. cash needs as 1) our anticipated foreign working capital requirements, including funding of our U.K. pension plan, 2) the expected growth opportunities across all geographical markets and 3) our plans to invest in strategic growth opportunities, which may include acquisitions, joint ventures and other business partnerships around the world, including whether foreign earnings are permanently reinvested. If management were to completely remove the indefinite investment assertion on all foreign subsidiaries, the exposure to local withholding taxes would be less than \$6 million.

Joint venture cash and Aspire Defence project cash balances reflect the amounts held by joint venture entities that we consolidate for financial reporting purposes. These amounts are limited to those entities' activities and are not readily available for general corporate purposes; however, portions of such amounts may become available to us in the future should there be a distribution of dividends to the joint venture partners. We expect that the majority of the joint venture cash balances will be utilized for the corresponding joint venture purposes or for paying dividends.

As of September 29, 2023, substantially all of our excess cash was held in interest bearing operating accounts or short-term investment accounts with the primary objectives of preserving capital and maintaining liquidity.

Cash Flows

The following table summarizes our cash flows for the periods indicated:

	Nine Months Ended	
<i>Dollars in millions</i>	September 29, 2023	September 30, 2022
Cash flows provided by operating activities	\$ 248	\$ 336
Cash flows provided by (used in) investing activities	(43)	86
Cash flows used in financing activities	(250)	(290)
Effect of exchange rate changes on cash	4	(41)
(Decrease) increase in cash and cash equivalents	<u>\$ (41)</u>	<u>\$ 91</u>

Operating Activities. Cash provided by operations totaled \$248 million and \$336 million for the nine months ended September 29, 2023 and September 30, 2022, respectively, as compared to net loss of \$282 million and net income of \$97 million for the nine months ended September 29, 2023 and September 30, 2022, respectively. Cash flows from operating activities result primarily from earnings and are affected by changes in operating assets and liabilities, which consist primarily of working capital balances for projects. Working capital levels vary from year to year and are primarily affected by the Company's volume of work. These levels are also impacted by the mix, stage of completion and commercial terms of projects. Working capital requirements also vary by project depending on the type of client and location throughout the world.

The primary components of our working capital accounts are accounts receivable, contract assets, accounts payable and contract liabilities. These components are impacted by the size and changes in the mix of our cost-reimbursable and time-and-materials projects versus fixed price projects, and as a result, fluctuations in these components are not uncommon in our business. Specifically, the decrease in operating cash flows for the nine months ended September 29, 2023 compared to the nine months ended September 30, 2022 is primarily attributed to the payment made in the third quarter of 2023 related to the settlement of a legacy legal matter. This decrease was offset by increases in operating cash flows from changes in the primary components of our working capital.

Investing Activities. Cash used in investing activities totaled \$43 million for the nine months ended September 29, 2023 and was primarily related to the second payment for an additional investment of \$39 million in Mura Technology and capital expenditures of \$60 million. This was offset by a return of investment of approximately \$61 million from JKC resulting from the receipt of the second payment from the Subcontractor Settlement Agreement. See Note 7 "Equity Method Investments and Variable Interest Entities" for further details.

Cash provided by investing activities totaled \$86 million for the nine months ended September 30, 2022 and was primarily due to a return of investment of approximately \$190 million from JKC resulting from the receipt of the first payment from the Subcontractor Settlement Agreement, a return of investment from BRIS of \$10 million as our cumulative distributions from inception of the joint venture exceeded our cumulative earnings and proceeds of \$55 million from the sale of our investment interest in three U.K. Road Projects. See Note 7 "Equity Method Investments and Variable Interest Entities" for further details. This was partially offset by our first payment related to an additional investment of \$61 million in Mura Technology, \$39 million in capital expenditures and \$73 million net cash used for the acquisition of VIMA. See Note 4 "Acquisitions" for further details..

Financing Activities. Cash used in financing activities totaled \$250 million for the nine months ended September 29, 2023 and was primarily due to a net cash outflow of \$201 million to repurchase a portion of our outstanding Convertible Notes, corresponding Note Hedge and outstanding warrants. Cash used in financing activities also included \$53 million of dividend payments to common shareholders, \$125 million for the repurchase of common stock under our share repurchase program, \$12 million for the repurchase of common stock under our "withheld to cover" program, \$270 million in payments on our revolving credit facility and \$12 million of principal payments related to our Senior Credit Facility. These decreases were partially offset by \$430 million in borrowings related to our revolving credit facility and \$5 million in net proceeds from the issuance of common stock. See Note 9 "Debt and Other Credit Facilities" for further discussion of our Senior Credit Facility.

Cash used in financing activities totaled \$290 million for the nine months ended September 30, 2022 and was primarily due to approximately \$49 million of dividend payments to common shareholders, \$115 million for the repurchase of common stock under our share repurchase program, \$9 million for the repurchase of common stock under our "withheld to cover" program, \$8 million repayment on our finance lease obligations and \$109 million in payments on borrowings related to our Senior Credit Facility. See Note 9 "Debt and Other Credit Facilities" for further discussion of our Senior Credit Facility. This was partially offset by the net proceeds received from the issuance of common stock of \$5 million.

Future sources of cash. We believe that future sources of cash include cash flows from operations (including accounts receivable monetization arrangements), cash derived from working capital management and cash borrowings under the Senior Credit Facility.

Future uses of cash. We believe that future uses of cash include working capital requirements, joint venture capital calls, capital expenditures, dividends, pension funding obligations, repayments of borrowings, share repurchases, legal settlements of any currently outstanding legal matter or any future legal proceeding and strategic investments including acquisitions, joint ventures and other business partnerships. Our capital expenditures will be focused primarily on facilities and equipment to support our businesses. In addition, we will use cash to make payments under leases and various other obligations, including potential litigation payments, as they arise.

Other factors potentially affecting liquidity

Ichthys LNG Project. As part of the settlement agreement between JKC and Ichthys LNG, Pty, Ltd (collectively, “the Parties”) in October 2021, KBR’s letters of credit were reduced to \$82 million from \$164 million. Additionally, as part of this settlement agreement, the Parties agreed to consult in good faith and to cooperate to seek maximum recovery from the insurance policies and paint manufacturer for the deterioration of paint and insulation on certain exterior areas of the plant. The Parties agreed to collectively pursue claims against the paint manufacturer and JKC has assigned claims under the insurance policy regarding the paint and insulation matters to the client. The parties have agreed that if, at the date of final resolution of the above proceedings and claims with respect to the paint and insulation matters, the recovered amount from the paint manufacturer and insurance claim is less than the stipulated ceiling amount in the settlement agreement, JKC will pay the client the difference between the stipulated ceiling amount and the recovered amount. JKC has provided for and continues to maintain a provision for this contingent liability.

U.K. pension obligation. We have recognized on our condensed consolidated balance sheets a funding surplus of \$83 million (measured as the difference between the fair value of plan assets and the projected benefit obligation as of September 29, 2023) for our frozen U.K. defined benefit pension plan. The total amount of employer pension contributions paid for the nine months ended September 29, 2023 was \$6 million for our defined benefit plan in the U.K. On October 17, 2022, we made an advance payment to our U.K. pension plan for approximately £29 million of the £33 million required minimum annual contributions for the year ending December 29, 2023. The funding requirements for our U.K. pension plan are determined based on the U.K. Pensions Act 1995. Annual minimum funding requirements are based on a binding agreement with the Trustee of the U.K. pension plan that is negotiated on a triennial basis. In June 2022, KBR and the Trustee executed an agreement requiring minimum annual contributions of approximately £33 million (\$40 million at current exchange rates) for the period through March 2028. This schedule of contributions will be reviewed by the Trustee and KBR no later than 15 months after the effective date of each actuarial valuation, due every three years. In the future, pension funding may increase or decrease depending on changes in the levels of interest rates, pension plan asset return performance and other factors. A significant increase in our funding requirements for the U.K. pension plan could result in a material adverse impact on our financial position.

Sales of Receivables. From time to time, we sell certain receivables to unrelated third-party financial institutions under various accounts receivable monetization programs. One such program is with MUFG Bank, Ltd. (“MUFG”) under a Master Accounts Receivable Purchase Agreement (the “RPA”), which provides the sale to MUFG of certain of our designated eligible receivables, with a significant portion of such receivables being owed by the U.S. government. We plan to continue to utilize these programs to ensure we have flexibility in regards to meeting our capital needs. Refer to Note 16 “Fair Value of Financial Instruments and Risk Management” to our condensed consolidated financial statements for further discussion on our sales of receivables.

Credit Agreement and Senior Credit Facility

Information relating to our Senior Credit Facility is described in Note 9 “Debt and Other Credit Facilities” to our condensed consolidated financial statements in Part I, Item 1 of this Quarterly Report on Form 10-Q, and the information discussed therein is incorporated by reference into this Part I, Item 2.

Senior Notes

Information relating to our Senior Notes is described in Note 9 “Debt and Other Credit Facilities” to our condensed consolidated financial statements in Part I, Item 1 of this Quarterly Report on Form 10-Q, and the information discussed therein is incorporated by reference into this Part I, Item 2.

Convertible Senior Notes

On November 15, 2018, we issued and sold \$350 million of our Convertible Notes pursuant to an indenture between us and Citibank, N.A., as trustee. On June 1, 2023, we entered into a privately-negotiated Convertible Notes repurchase transaction with funds from our Senior Credit Facility. The Convertible Notes mature on November 1, 2023 and, as such, are classified as current liabilities on our condensed consolidated balance sheets as of September 29, 2023. In April 2023, we elected cash as the settlement method to settle the principal and any excess value upon early conversion or maturity of the Convertible Notes.

Concurrent with the issuance of the Convertible Notes, we entered into privately negotiated Note Hedge Transactions and Warrant Transactions with the option counterparties. These transactions represent a call spread overlay, whereby the cost of the Note Hedge Transactions we purchased to cover the cash outlay upon conversion of the Convertible Notes was reduced by the sales price of the Warrant Transactions. Concurrent with the Convertible Notes repurchase, we entered into Unwind Agreements with the option counterparties to terminate the corresponding portions of the Note Hedge Transactions and Warrant Transactions. In addition, the Company has amended the warrant transaction agreements with each of the option counterparties to provide that the Company may, at its option, elect cash settlement.

As of September 29, 2023, the if-converted value of the Convertible Notes, based on the closing share price, exceeded the remaining \$250 million principal amount by approximately \$335 million. The incremental value over the principal amount would be fully offset by the cash delivered from the Note Hedge Transactions. However, the counterparties holding the warrants also have the right to purchase the total convertible number of shares at the current conversion rate at a strike price of \$39.52 resulting in value of \$193 million that would have been delivered to the counterparties as of September 29, 2023.

The Convertible Notes matured November 1, 2023, with principal amounts totaling \$250 million with the aggregate cash conversion consideration totaling \$593 million. Concurrently, the Note Hedge Transactions were settled with payments to the Company totaling \$343 million. The aggregate cash conversion consideration of \$593 million was fulfilled with proceeds received from Note Hedge Transactions totaling \$343 million, a \$200 million borrowing on our Revolver, and \$50 million in available cash. The Warrant Transactions remain outstanding as of November 1, 2023.

More information relating to our Convertible Senior Notes is described in Note 1 "Basis of Presentation" and Note 9 "Debt and Other Credit Facilities" to our condensed consolidated financial statements in Part I, Item 1 of this Quarterly Report on Form 10-Q, and the information discussed therein is incorporated by reference into this Part I, Item 2.

Off-Balance Sheet Arrangements

Letters of credit, surety bonds and guarantees. In the ordinary course of business, we may enter into various arrangements providing financial or performance assurance to customers on behalf of certain consolidated and unconsolidated subsidiaries, joint ventures and other jointly executed contracts. Such off-balance sheet arrangements include letters of credit, surety bonds and corporate guarantees to support the creditworthiness or project execution commitments of these entities and typically have various expiration dates ranging from mechanical completion of the project being constructed to a period beyond completion in certain circumstances such as for warranties. We may also guarantee that a project, once completed, will achieve specified performance standards. If the project subsequently fails to meet guaranteed performance standards, we may incur additional costs, pay liquidated damages or be held responsible for the costs incurred by the client to achieve the required performance standards. The potential amount of future payments that we could be required to make under an outstanding performance arrangement is typically the remaining estimated cost of work to be performed by or on behalf of third parties. For cost reimbursable contracts, amounts that may become payable pursuant to guarantee provisions are normally recoverable from the client for work performed under the contract. For lump-sum or fixed-price contracts, the performance guarantee amount is the cost to complete the contracted work, less amounts remaining to be billed to the client under the contract. Remaining billable amounts could be greater or less than the cost to complete the project. If costs exceed the remaining amounts payable under the contract, we may have recourse to third parties, such as owners, subcontractors or vendors for claims.

In our joint venture arrangements, the liability of each partner is usually joint and several. This means that each joint venture partner may become liable for the entire risk of performance guarantees provided by each partner to the customer. Typically, each joint venture partner indemnifies the other partners for any liabilities incurred in excess of the liabilities the other party is obligated to bear under the respective joint venture agreement. We are unable to estimate the maximum potential amount of future payments that we could be required to make under outstanding performance guarantees related to joint venture projects due to a number of factors, including but not limited to, the nature and extent of any contractual defaults by our joint venture partners, resource availability, potential performance delays caused by the defaults, the location of the projects and the

terms of the related contracts. See "Item 1A. Risk Factors" contained in Part I of our 2022 Annual Report on Form 10-K for information regarding our fixed-price contracts and operations through joint ventures and partnerships.

In certain limited circumstances, we enter into financial guarantees in the ordinary course of business, with financial institutions and other credit grantors, which generally obligate us to make payment in the event of a default by the borrower. These arrangements generally require the borrower to pledge collateral to support the fulfillment of the borrower's obligation. We account for both financial and performance guarantees at fair value at issuance in accordance with ASC 460-10 Guarantees and, as of September 29, 2023, we had no material guarantees of the work or obligations of third parties recorded.

As of September 29, 2023, we had \$1 billion in a committed line of credit on the Revolver under our Senior Credit Facility and \$376 million of bilateral and uncommitted lines of credit to support the issuance of letters of credit. As of September 29, 2023, with respect to our Revolver, we had \$220 million of outstanding borrowings. We also have \$14 million of outstanding letters of credit on our Senior Credit Facility. With respect to our \$376 million of bilateral and uncommitted lines of credit, we utilized \$265 million for letters of credit as of September 29, 2023. The total remaining capacity of these committed and uncommitted lines of credit was approximately \$877 million. Information relating to our letters of credit is described in Note 9 "Debt and Other Credit Facilities" to our condensed consolidated financial statements in Part I, Item 1 of this Quarterly Report on Form 10-Q and the information discussed therein is incorporated by reference into this Part I, Item 2. Other than discussed in this Quarterly Report on Form 10-Q, we have not engaged in any material off-balance sheet financing arrangements through special purpose entities.

Critical Accounting Policies and Estimates

There have been no material changes to our discussion of critical accounting policies and estimates from those set forth in our 2022 Annual Report on Form 10-K, for the year ended December 31, 2022, which discussion is incorporated herein by reference.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Cash and cash equivalents are deposited with major banks throughout the world. We invest excess cash and cash equivalents in short-term securities, primarily money market funds, which carry a fixed rate of return. We have not incurred any credit risk losses related to deposits of our cash and cash equivalents.

Foreign Currency Risk. Because of the global nature of our business, we are exposed to market risk associated with changes in foreign currency exchange rates. We have historically attempted to limit exposure to foreign currency fluctuations through provisions requiring the client to pay us in currencies corresponding to the currency in which cost is incurred. In addition to this natural hedge, we may use foreign exchange forward contracts and options to hedge material exposures when forecasted foreign currency revenues and costs are not denominated in the same currency and when efficient markets exist. These derivatives are generally designated as cash flow hedges and are carried at fair value.

We use derivative instruments, such as foreign exchange forward contracts, to hedge foreign currency risk related to non-functional currency assets and liabilities on our condensed consolidated balance sheets. We do not enter into derivative financial instruments for trading purposes or make speculative investments in foreign currencies. Each period, these balance sheet hedges are marked to market through earnings and the change in their fair value is largely offset by remeasurement of the underlying assets and liabilities. We recorded a net loss of \$4 million and a net gain of \$1 million for the nine months ended September 29, 2023 and September 30, 2022, respectively, in other non-operating expense on our condensed consolidated statements of operations. The fair value of these derivatives was not material to our condensed consolidated balance sheet as of September 29, 2023. Information relating to fair value measurements is described in Note 16 "Fair Value of Financial Instruments and Risk Management" to our condensed consolidated financial statements, which is incorporated by reference into this Item 3.

Interest Rate Risk. We are exposed to market risk for changes in interest rates for the Revolver and term loan borrowings under the Senior Credit Facility. We had \$220 million of borrowings issued under the Revolver as of September 29, 2023. Additionally, we had \$1,095 million outstanding under the term loan portions of the Senior Credit Facility as of September 29, 2023. Borrowings under the Senior Credit Facility bear interest at variable rates as described in Note 9 "Debt and Other Credit Facilities" to our condensed consolidated financial statements.

We use interest rate swaps to reduce interest rate risk and to manage net interest expense by converting our variable rate debt under our Senior Credit Facility into fixed-rate debt. During the nine months ended September 29, 2023, we amended all of our existing interest rate swap agreements to term SOFR effective March 2023. In March 2023, we entered into additional

USD denominated interest rate swap agreements with a notional value of \$205 million effective April 2023 and expiring January 2027. We will receive SOFR and pay a fixed rate of 3.61%. We also entered into GBP denominated amortizing swaps with an initial notional value of £118 million that are effective April 2023 and expire in November 2026. We will receive SONIA and pay a fixed rate of 3.81% for the term of the swaps. The swap agreements were designated as cash flow hedges at inception in accordance with ASC Topic 815 *Derivative and Hedging*. The fair value of the interest rate swaps at September 29, 2023 was a \$65 million asset, of which \$29 million is included in other current assets and \$36 million is included in other assets. Information relating to our portfolio of interest rate swaps is described in Note 16 "Fair Value of Financial Instruments and Risk Management" to our condensed consolidated financial statements, which is incorporated by reference into this Item 3.

At September 29, 2023, we had fixed rate debt aggregating \$1.5 billion and variable rate debt aggregating \$317 million, after taking into account the effects of the interest rate swaps that we entered into during 2023. Our weighted average interest rate net of the impact from our swap agreements for the nine months ended September 29, 2023 was 5.16%. If interest rates were to increase by 50 basis points, pre-tax interest expense would increase by approximately \$2 million in the next twelve months net of the impact from our swap agreements, based on outstanding borrowings as of September 29, 2023.

Item 4. Controls and Procedures

In accordance with Exchange Act Rules 13a-15 and 15d-15, we carried out an evaluation, under the supervision and with the participation of management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of our disclosure controls and procedures as of the end of the period covered by this report. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of September 29, 2023, to provide reasonable assurance that information required to be disclosed in our reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC rules and forms. Our disclosure controls and procedures include controls and procedures designed to ensure that information required to be disclosed in reports filed or submitted under the Exchange Act is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

There were no changes in our internal control reporting during the three months ended September 29, 2023 that have materially affected, or are reasonably likely to affect, our internal controls over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

Information relating to various commitments and contingencies is described in Notes 6, 11 and 12 to our condensed consolidated financial statements in Part I, Item 1 of this Quarterly Report on Form 10-Q, and the information discussed therein is incorporated by reference into this Part II, Item 1.

Item 1A. Risk Factors

There are no material changes from the risk factors previously disclosed in Part I, Item 1A in our Annual Report on Form 10-K, which is incorporated herein by reference, for the year ended December 31, 2022.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

On February 25, 2014, the Board of Directors authorized a \$350 million share repurchase program. On October 18, 2022, the Board of Directors authorized an increase to the total authorization level to \$500 million. As of September 29, 2023, \$326 million remains available for repurchase under this authorization. The authorization does not obligate the Company to acquire any particular number of shares of common stock and may be commenced, suspended or discontinued without prior notice. The share repurchases are intended to be funded through the Company's current and future cash flows and the authorization does not have an expiration date.

The following is a summary of share repurchases of our common stock during the three months ended September 29, 2023 and the amount available to be repurchased under the authorized share repurchase program:

Purchase Period	Total Shares Repurchased ⁽¹⁾	Average Price Paid per Share	Shares Repurchased as Part of Publicly Announced Plan	Dollar Value of Maximum Number of Shares that May Yet Be Purchased Under the Plan
July 1 - 31, 2023	—	\$ —	—	\$ 326,215,513
August 1 - 30, 2023	2,863	\$ 61.48	—	\$ 326,215,513
September 1 - 29, 2023	1,381	\$ 61.44	—	\$ 326,215,513
Total	4,244	—	—	\$ 326,215,513

- (1) Included within the shares repurchased herein are 4,244 shares acquired from employees in connection with the income tax and related benefit withholding obligations arising from issuance of share-based equity awards under the KBR, Inc. 2006 Stock and Incentive Plan at an average price of \$61.47 per share.

Item 5. Other Information

During the three months ended September 29, 2023, none of our officers or directors adopted or terminated any contract, instruction or written plan for the purchase or sale of our securities that was intended to satisfy the affirmative defense conditions of Rule 10b5-1(c) under the Exchange Act or any "non-Rule 10b5-1 trading arrangement" as defined in Item 408(c) of SEC Regulation S-K.

Item 6. Exhibits

Exhibit Number	Description
*31.1	Certification of the Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
*31.2	Certification of the Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
**32.1	Certification Furnished Pursuant to 18 U.S.C. Section 1350 as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
**32.2	Certification Furnished Pursuant to 18 U.S.C. Section 1350 as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
***101	The following financial information from this Quarterly Report on Form 10-Q of KBR, Inc. for the quarter ended September 29, 2023 formatted in iXBRL (Inline eXtensible Business Reporting Language): (i) Condensed Consolidated Statements of Operations, (ii) Condensed Consolidated Statements of Comprehensive Income, (iii) Condensed Consolidated Balance Sheets, (iv) Condensed Consolidated Statements of Shareholders' Equity, (v) Condensed Consolidated Statements of Cash Flows, and (vi) Notes to the Condensed Consolidated Financial Statements, tagged as blocks of text
104	Cover Page Interactive Data File - formatted as Inline XBRL contained in Exhibit 101
+	Management contracts or compensatory plans or arrangements
*	Filed with this Form 10-Q
**	Furnished with this Form 10-Q
***	Interactive data files

SIGNATURES

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 thereunto duly authorized:

KBR, INC.

/s/ Mark W. Sopp

Mark W. Sopp

Executive Vice President and Chief Financial Officer

/s/ Shad E. Evans

Shad E. Evans

Senior Vice President of Finance Operations and Chief Accounting Officer

Dated: November 2, 2023

Dated: November 2, 2023

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER PURSUANT TO RULE 13A-14(A) AND RULE 15D-14(A) OF THE SECURITIES
EXCHANGE ACT OF 1934, AS AMENDED**

I, Stuart J. B. Bradie, certify that:

1. I have reviewed this quarterly report on Form 10-Q of KBR, Inc. (the “registrant”);
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant’s other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and
5. The registrant’s other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Date: November 2, 2023

/s/ Stuart J. B. Bradie

Stuart J. B. Bradie
Chief Executive Officer

**CERTIFICATION OF CHIEF FINANCIAL OFFICER PURSUANT TO RULE 13A-14(A) AND RULE 15D-14(A) OF THE SECURITIES
EXCHANGE ACT OF 1934, AS AMENDED**

I, Mark W. Sopp, certify that:

1. I have reviewed this quarterly report on Form 10-Q of KBR, Inc. (the “registrant”);
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant’s other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and
5. The registrant’s other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Date: November 2, 2023

/s/ Mark W. Sopp

Mark W. Sopp
Chief Financial Officer

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER
UNDER SECTION 906 OF THE SARBANES OXLEY ACT OF 2002, 18 U.S.C. 1350**

The undersigned, the Chief Executive Officer of KBR, Inc. (the “Company”), hereby certifies that to his knowledge, on the date hereof:

- a) the Form 10-Q of the Company for the period ended September 29, 2023, filed on the date hereof with the Securities and Exchange Commission (the “Report”) fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- b) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Stuart J. B. Bradie

Stuart J. B. Bradie
Chief Executive Officer

Date: November 2, 2023

**CERTIFICATION OF CHIEF FINANCIAL OFFICER
UNDER SECTION 906 OF THE SARBANES OXLEY ACT OF 2002, 18 U.S.C. 1350**

The undersigned, the Chief Financial Officer of KBR, Inc. (the “Company”), hereby certifies that to his knowledge, on the date hereof:

- a) the Form 10-Q of the Company for the period ended September 29, 2023, filed on the date hereof with the Securities and Exchange Commission (the “Report”) fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- b) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Mark W. Sopp

Mark W. Sopp
Chief Financial Officer

Date: November 2, 2023