

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 June 30, 2021  
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

20-4536774

*(State of incorporation)*

*(I.R.S. Employer Identification No.)*

601 Jefferson Street, Suite 3400

Houston

Texas

77002

*(Address of principal executive offices)*

*(Zip Code)*

(713) 753-2000

*(Registrant's telephone number including area code)*

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

| <u>Title of each class</u>      | <u>Trading symbol</u> | <u>Name of each exchange on which listed</u> |
|---------------------------------|-----------------------|----------------------------------------------|
| 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 July 22, 2021, there were 140,783,733 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 2020 Annual Report on Form 10-K contained in Part I under "Risk Factors" and the risk factors and other cautionary statements contained in our other filings with the SEC.*

*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:

| <b>Acronym</b> | <b>Definition</b>                                                                          |
|----------------|--------------------------------------------------------------------------------------------|
| Affinity       | Affinity Flying Training Services Ltd.                                                     |
| AOCL           | Accumulated other comprehensive loss                                                       |
| ASBCA          | Armed Services Board of Contract Appeals                                                   |
| ASC            | Accounting Standards Codification                                                          |
| ASU            | Accounting Standards Update                                                                |
| C4ISR          | Command, Control, Communications, Computers, Intelligence, Surveillance and Reconnaissance |
| COFC           | U.S. Court of Federal Claims                                                               |
| DCAA           | Defense Contract Audit Agency                                                              |
| DCMA           | Defense Contract Management Agency                                                         |
| DoD            | Department of Defense                                                                      |
| DOJ            | U.S. Department of Justice                                                                 |
| EBIC           | Egypt Basic Industries Corporation                                                         |
| EPC            | Engineering, procurement and construction                                                  |
| 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                                                                       |
| HETs           | Heavy equipment transporters                                                               |
| ICC            | International Chamber of Commerce                                                          |
| 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                                                                   |
| 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                                                    |
| SMA            | Scientific Management Associates (Operations) Pty Ltd                                      |
| 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 |                | Six Months Ended |                 |
|--------------------------------------------------------------|--------------------|----------------|------------------|-----------------|
|                                                              | June 30,           |                | June 30,         |                 |
|                                                              | 2021               | 2020           | 2021             | 2020            |
| Revenues                                                     | \$ 1,536           | \$ 1,385       | \$ 2,997         | \$ 2,922        |
| Cost of revenues                                             | (1,329)            | (1,243)        | (2,622)          | (2,594)         |
| <b>Gross profit</b>                                          | <b>207</b>         | <b>142</b>     | <b>375</b>       | <b>328</b>      |
| Equity in earnings (losses) of unconsolidated affiliates     | (186)              | 16             | (174)            | 17              |
| Selling, general and administrative expenses                 | (103)              | (73)           | (192)            | (170)           |
| Acquisition and integration related costs                    | (3)                | —              | (4)              | —               |
| Goodwill impairment                                          | —                  | (37)           | —                | (99)            |
| Restructuring charges and asset impairments                  | (2)                | (59)           | (2)              | (175)           |
| (Loss) gain on disposition of assets and investments         | (1)                | (1)            | (2)              | 18              |
| <b>Operating (loss) income</b>                               | <b>(88)</b>        | <b>(12)</b>    | <b>1</b>         | <b>(81)</b>     |
| Interest expense                                             | (23)               | (19)           | (45)             | (42)            |
| Other non-operating income (loss)                            | 2                  | (2)            | (1)              | 5               |
| <b>Loss before income taxes and noncontrolling interests</b> | <b>(109)</b>       | <b>(33)</b>    | <b>(45)</b>      | <b>(118)</b>    |
| Provision for income taxes                                   | (40)               | (6)            | (56)             | (5)             |
| <b>Net loss</b>                                              | <b>(149)</b>       | <b>(39)</b>    | <b>(101)</b>     | <b>(123)</b>    |
| Net income attributable to noncontrolling interests          | (3)                | —              | (4)              | (20)            |
| <b>Net loss attributable to KBR</b>                          | <b>\$ (152)</b>    | <b>\$ (39)</b> | <b>\$ (105)</b>  | <b>\$ (143)</b> |
| <b>Net loss attributable to KBR per share:</b>               |                    |                |                  |                 |
| Basic                                                        | \$ (1.08)          | \$ (0.28)      | \$ (0.75)        | \$ (1.00)       |
| Diluted                                                      | \$ (1.08)          | \$ (0.28)      | \$ (0.75)        | \$ (1.00)       |
| <b>Basic weighted average common shares outstanding</b>      | <b>141</b>         | <b>142</b>     | <b>141</b>       | <b>142</b>      |
| <b>Diluted weighted average common shares outstanding</b>    | <b>141</b>         | <b>142</b>     | <b>141</b>       | <b>142</b>      |
| <b>Cash dividends declared per share</b>                     | <b>\$ 0.11</b>     | <b>\$ 0.10</b> | <b>\$ 0.22</b>   | <b>\$ 0.20</b>  |

See accompanying notes to condensed consolidated financial statements

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

|                                                                     | Three Months Ended<br>June 30, |               | Six Months Ended<br>June 30, |                 |
|---------------------------------------------------------------------|--------------------------------|---------------|------------------------------|-----------------|
|                                                                     | 2021                           | 2020          | 2021                         | 2020            |
| <b>Net loss</b>                                                     | \$ (149)                       | \$ (39)       | \$ (101)                     | \$ (123)        |
| Other comprehensive income (loss):                                  |                                |               |                              |                 |
| Foreign currency translation adjustments                            | 5                              | 34            | 12                           | (48)            |
| Pension and post-retirement benefits                                | 7                              | 6             | 16                           | 12              |
| Changes in fair value of derivatives                                | —                              | (1)           | 19                           | (23)            |
| <b>Other comprehensive income (loss)</b>                            | 12                             | 39            | 47                           | (59)            |
| Income tax (expense) benefit:                                       |                                |               |                              |                 |
| Foreign currency translation adjustments                            | (1)                            | —             | (1)                          | —               |
| Pension and post-retirement benefits                                | (1)                            | (1)           | (3)                          | (2)             |
| Changes in fair value of derivatives                                | (1)                            | —             | (5)                          | 5               |
| <b>Income tax (expense) benefit</b>                                 | (3)                            | (1)           | (9)                          | 3               |
| <b>Other comprehensive income (loss), net of tax</b>                | 9                              | 38            | 38                           | (56)            |
| Comprehensive (loss)                                                | (140)                          | (1)           | (63)                         | (179)           |
| Less: Comprehensive (loss) attributable to noncontrolling interests | (3)                            | —             | (4)                          | (20)            |
| <b>Comprehensive (loss) attributable to KBR</b>                     | <b>\$ (143)</b>                | <b>\$ (1)</b> | <b>\$ (67)</b>               | <b>\$ (199)</b> |

See accompanying notes to condensed consolidated financial statements

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

|                                                                                                                                                                            | June 30,<br>2021 | December 31,<br>2020 |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------|----------------------|
|                                                                                                                                                                            | (Unaudited)      |                      |
| <b>Assets</b>                                                                                                                                                              |                  |                      |
| <b>Current assets:</b>                                                                                                                                                     |                  |                      |
| Cash and equivalents                                                                                                                                                       | \$ 483           | \$ 436               |
| Accounts receivable, net of allowance for credit losses of \$13 and \$13                                                                                                   | 934              | 899                  |
| Contract assets                                                                                                                                                            | 183              | 178                  |
| Other current assets                                                                                                                                                       | 126              | 121                  |
| <b>Total current assets</b>                                                                                                                                                | <b>1,726</b>     | <b>1,634</b>         |
| Claims and accounts receivable                                                                                                                                             | 30               | 30                   |
| Property, plant, and equipment, net of accumulated depreciation of \$431 and \$419 (including net PPE of \$22 and \$24 owned by a variable interest entity)                | 136              | 130                  |
| Operating lease right-of-use assets                                                                                                                                        | 161              | 154                  |
| Goodwill                                                                                                                                                                   | 1,763            | 1,761                |
| Intangible assets, net of accumulated amortization of \$265 and \$228                                                                                                      | 654              | 683                  |
| Equity in and advances to unconsolidated affiliates                                                                                                                        | 662              | 881                  |
| Deferred income taxes                                                                                                                                                      | 245              | 297                  |
| Other assets                                                                                                                                                               | 145              | 135                  |
| <b>Total assets</b>                                                                                                                                                        | <b>\$ 5,522</b>  | <b>\$ 5,705</b>      |
| <b>Liabilities and Shareholders' Equity</b>                                                                                                                                |                  |                      |
| <b>Current liabilities:</b>                                                                                                                                                |                  |                      |
| Accounts payable                                                                                                                                                           | \$ 633           | \$ 574               |
| Contract liabilities                                                                                                                                                       | 278              | 356                  |
| Accrued salaries, wages and benefits                                                                                                                                       | 293              | 283                  |
| Nonrecourse project debt                                                                                                                                                   | —                | 5                    |
| Operating lease liabilities                                                                                                                                                | 41               | 44                   |
| Other current liabilities                                                                                                                                                  | 198              | 193                  |
| <b>Total current liabilities</b>                                                                                                                                           | <b>1,443</b>     | <b>1,455</b>         |
| Pension obligations                                                                                                                                                        | 339              | 381                  |
| Employee compensation and benefits                                                                                                                                         | 99               | 110                  |
| Income tax payable                                                                                                                                                         | 95               | 96                   |
| Deferred income taxes                                                                                                                                                      | 16               | 26                   |
| Nonrecourse project debt                                                                                                                                                   | 2                | 2                    |
| Long-term debt                                                                                                                                                             | 1,585            | 1,584                |
| Operating lease liabilities                                                                                                                                                | 194              | 186                  |
| Other liabilities                                                                                                                                                          | 248              | 256                  |
| <b>Total liabilities</b>                                                                                                                                                   | <b>4,021</b>     | <b>4,096</b>         |
| <b>KBR shareholders' equity:</b>                                                                                                                                           |                  |                      |
| Preferred stock, \$0.001 par value, 50,000,000 shares authorized, none issued                                                                                              | —                | —                    |
| Common stock, \$0.001 par value 300,000,000 shares authorized, 179,837,924 and 179,087,655 shares issued, and 140,780,015 and 140,766,052 shares outstanding, respectively | —                | —                    |
| PIC                                                                                                                                                                        | 2,240            | 2,222                |
| Retained earnings                                                                                                                                                          | 1,169            | 1,305                |
| Treasury stock, 39,057,909 shares and 38,321,603 shares, at cost, respectively                                                                                             | (895)            | (864)                |
| AOCL                                                                                                                                                                       | (1,045)          | (1,083)              |
| <b>Total KBR shareholders' equity</b>                                                                                                                                      | <b>1,469</b>     | <b>1,580</b>         |
| Noncontrolling interests                                                                                                                                                   | 32               | 29                   |
| <b>Total shareholders' equity</b>                                                                                                                                          | <b>1,501</b>     | <b>1,609</b>         |
| <b>Total liabilities and shareholders' equity</b>                                                                                                                          | <b>\$ 5,522</b>  | <b>\$ 5,705</b>      |

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>                         | <u>Total</u>    | <u>PIC</u>      | <u>Retained Earnings</u> | <u>Treasury Stock</u> | <u>AOCL</u>       | <u>NCI</u>   |
|----------------------------------------------------|-----------------|-----------------|--------------------------|-----------------------|-------------------|--------------|
| Balance at March 31, 2021                          | \$ 1,675        | \$ 2,230        | \$ 1,336                 | \$ (866)              | \$ (1,054)        | 29           |
| Share-based compensation                           | 4               | 4               | —                        | —                     | —                 | —            |
| Common stock issued upon exercise of stock options | 6               | 6               | —                        | —                     | —                 | —            |
| Dividends declared to shareholders (\$0.11/share)  | (15)            | —               | (15)                     | —                     | —                 | —            |
| Repurchases of common stock                        | (28)            | —               | —                        | (28)                  | —                 | —            |
| Issuance of ESPP shares                            | —               | —               | —                        | —                     | —                 | —            |
| Investments by noncontrolling interests            | —               | —               | —                        | —                     | —                 | —            |
| Distributions to noncontrolling interests          | (1)             | —               | —                        | —                     | —                 | (1)          |
| Other                                              | —               | —               | —                        | (1)                   | —                 | 1            |
| Net loss                                           | (149)           | —               | (152)                    | —                     | —                 | 3            |
| Other comprehensive income, net of tax             | 9               | —               | —                        | —                     | 9                 | —            |
| Balance at June 30, 2021                           | <u>\$ 1,501</u> | <u>\$ 2,240</u> | <u>\$ 1,169</u>          | <u>\$ (895)</u>       | <u>\$ (1,045)</u> | <u>\$ 32</u> |

| <i>Dollars in millions</i>                         | <u>Total</u>    | <u>PIC</u>      | <u>Retained Earnings</u> | <u>Treasury Stock</u> | <u>AOCL</u>       | <u>NCI</u>   |
|----------------------------------------------------|-----------------|-----------------|--------------------------|-----------------------|-------------------|--------------|
| Balance at December 31, 2020                       | \$ 1,609        | \$ 2,222        | \$ 1,305                 | \$ (864)              | \$ (1,083)        | 29           |
| Share-based compensation                           | 8               | 8               | —                        | —                     | —                 | —            |
| Common stock issued upon exercise of stock options | 10              | 10              | —                        | —                     | —                 | —            |
| Dividends declared to shareholders (\$0.22/share)  | (31)            | —               | (31)                     | —                     | —                 | —            |
| Repurchases of common stock                        | (32)            | —               | —                        | (32)                  | —                 | —            |
| Issuance of ESPP shares                            | 2               | —               | —                        | 2                     | —                 | —            |
| Investments by noncontrolling interests            | —               | —               | —                        | —                     | —                 | —            |
| Distributions to noncontrolling interests          | (1)             | —               | —                        | —                     | —                 | (1)          |
| Other                                              | (1)             | —               | —                        | (1)                   | —                 | —            |
| Net loss                                           | (101)           | —               | (105)                    | —                     | —                 | 4            |
| Other comprehensive income, net of tax             | 38              | —               | —                        | —                     | 38                | —            |
| Balance at June 30, 2021                           | <u>\$ 1,501</u> | <u>\$ 2,240</u> | <u>\$ 1,169</u>          | <u>\$ (895)</u>       | <u>\$ (1,045)</u> | <u>\$ 32</u> |

| <i>Dollars in millions</i>                         | <b>Total</b>    | <b>PIC</b>      | <b>Retained Earnings</b> | <b>Treasury Stock</b> | <b>AOCL</b>       | <b>NCI</b>   |
|----------------------------------------------------|-----------------|-----------------|--------------------------|-----------------------|-------------------|--------------|
| Balance at March 31, 2020                          | \$ 1,654        | \$ 2,210        | \$ 1,316                 | \$ (819)              | \$ (1,081)        | \$ 28        |
| Share-based compensation                           | 5               | 5               | —                        | —                     | —                 | —            |
| Common stock issued upon exercise of stock options | 1               | 1               | —                        | —                     | —                 | —            |
| Dividends declared to shareholders (\$0.10/share)  | (15)            | —               | (15)                     | —                     | —                 | —            |
| Distributions to noncontrolling interests          | (2)             | —               | —                        | —                     | —                 | (2)          |
| Other                                              | —               | —               | —                        | (1)                   | —                 | 1            |
| Net loss                                           | (39)            | —               | (39)                     | —                     | —                 | —            |
| Other comprehensive loss, net of tax               | 38              | —               | —                        | —                     | 38                | —            |
| Balance at June 30, 2020                           | <u>\$ 1,642</u> | <u>\$ 2,216</u> | <u>\$ 1,262</u>          | <u>\$ (820)</u>       | <u>\$ (1,043)</u> | <u>\$ 27</u> |

| <i>Dollars in millions</i>                         | <b>Total</b>    | <b>PIC</b>      | <b>Retained Earnings</b> | <b>Treasury Stock</b> | <b>AOCL</b>       | <b>NCI</b>   |
|----------------------------------------------------|-----------------|-----------------|--------------------------|-----------------------|-------------------|--------------|
| Balance at December 31, 2019                       | \$ 1,853        | \$ 2,206        | \$ 1,437                 | \$ (817)              | \$ (987)          | \$ 14        |
| Cumulative adjustment for the adoption of ASC 326  | (3)             | —               | (3)                      | —                     | —                 | —            |
| Adjusted balance at January 1, 2020                | 1,850           | 2,206           | 1,434                    | (817)                 | (987)             | 14           |
| Share-based compensation                           | 7               | 7               | —                        | —                     | —                 | —            |
| Common stock issued upon exercise of stock options | 3               | 3               | —                        | —                     | —                 | —            |
| Dividends declared to shareholders (\$0.20/share)  | (29)            | —               | (29)                     | —                     | —                 | —            |
| Repurchases of common stock                        | (4)             | —               | —                        | (4)                   | —                 | —            |
| Issuance of ESPP shares                            | 2               | —               | —                        | 2                     | —                 | —            |
| Distributions to noncontrolling interests          | (2)             | —               | —                        | —                     | —                 | (2)          |
| Other noncontrolling interests activity            | (6)             | —               | —                        | (1)                   | —                 | (5)          |
| Net loss                                           | (123)           | —               | (143)                    | —                     | —                 | 20           |
| Other comprehensive loss, net of tax               | (56)            | —               | —                        | —                     | (56)              | —            |
| Balance at June 30, 2020                           | <u>\$ 1,642</u> | <u>\$ 2,216</u> | <u>\$ 1,262</u>          | <u>\$ (820)</u>       | <u>\$ (1,043)</u> | <u>\$ 27</u> |

See accompanying notes to condensed consolidated financial statements.

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

|                                                                                             | Six Months Ended June 30, |                 |
|---------------------------------------------------------------------------------------------|---------------------------|-----------------|
|                                                                                             | 2021                      | 2020            |
| <b>Cash flows from operating activities:</b>                                                |                           |                 |
| Net loss                                                                                    | \$ (101)                  | \$ (123)        |
| Adjustments to reconcile net income to net cash provided by (used in) operating activities: |                           |                 |
| Depreciation and amortization                                                               | 76                        | 48              |
| Equity in (earnings) losses of unconsolidated affiliates                                    | 174                       | (17)            |
| Deferred income tax                                                                         | 35                        | (16)            |
| Loss (gain) on disposition of assets                                                        | 2                         | (18)            |
| Goodwill impairment                                                                         | —                         | 99              |
| Asset impairments                                                                           | —                         | 90              |
| Other                                                                                       | 23                        | 8               |
| Changes in operating assets and liabilities:                                                |                           |                 |
| Accounts receivable, net of allowance for credit losses                                     | (29)                      | (40)            |
| Contract assets                                                                             | (4)                       | 38              |
| Accounts payable                                                                            | 65                        | 23              |
| Contract liabilities                                                                        | (56)                      | (92)            |
| Accrued salaries, wages and benefits                                                        | 13                        | 22              |
| Payments on operating lease obligation                                                      | (30)                      | (28)            |
| Payments from unconsolidated affiliates, net                                                | 10                        | 7               |
| Distributions of earnings from unconsolidated affiliates                                    | 26                        | 15              |
| Pension funding                                                                             | (24)                      | (20)            |
| Restructuring reserve                                                                       | (14)                      | 38              |
| Other assets and liabilities                                                                | (12)                      | 116             |
| <b>Total cash flows provided by operating activities</b>                                    | <b>\$ 154</b>             | <b>\$ 150</b>   |
| <b>Cash flows from investing activities:</b>                                                |                           |                 |
| Purchases of property, plant and equipment                                                  | \$ (16)                   | \$ (4)          |
| Proceeds from disposition of assets and investments                                         | —                         | 1               |
| Investments in equity method joint ventures                                                 | (7)                       | (12)            |
| Acquisition of businesses, net of cash acquired                                             | —                         | (9)             |
| Acquisition of technology license                                                           | (7)                       | —               |
| Other                                                                                       | (8)                       | (1)             |
| <b>Total cash flows used in investing activities</b>                                        | <b>\$ (38)</b>            | <b>\$ (25)</b>  |
| <b>Cash flows from financing activities:</b>                                                |                           |                 |
| Borrowings on long-term debt                                                                | —                         | 113             |
| Payments on short-term and long-term borrowings                                             | (19)                      | (263)           |
| Debt issuance costs                                                                         | —                         | (3)             |
| Payments of dividends to shareholders                                                       | (30)                      | (26)            |
| Net proceeds from issuance of common stock                                                  | 10                        | 3               |
| Payments to reacquire common stock                                                          | (32)                      | (4)             |
| Distributions to noncontrolling interests                                                   | (2)                       | (2)             |
| Other                                                                                       | (1)                       | (1)             |
| <b>Total cash flows used in financing activities</b>                                        | <b>\$ (74)</b>            | <b>\$ (183)</b> |
| Effect of exchange rate changes on cash                                                     | 5                         | (19)            |
| Increase (decrease) in cash and equivalents                                                 | 47                        | (77)            |
| Cash and equivalents at beginning of period                                                 | 436                       | 712             |
| <b>Cash and equivalents at end of period</b>                                                | <b>\$ 483</b>             | <b>\$ 635</b>   |
| <b>Noncash financing activities</b>                                                         |                           |                 |
| Dividends declared                                                                          | \$ 15                     | \$ 14           |

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 2020 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 June 30, 2021, and the results of our operations for the three and six months ended June 30, 2021 and 2020, and our cash flows for the six months ended June 30, 2021 and 2020.

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 2020 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. We account for investments over which we have significant influence, but not a controlling financial interest, using the equity method of accounting. See Note 8 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.

***Segment Reorganization***

Effective January 1, 2021, we implemented a strategic change to the structure of our internal organization and transitioned from a three-core business segment model to a two-core business segment model comprised of Government Solutions and Sustainable Technology Solutions. The new Sustainable Technology Solutions segment is anchored by our innovative, proprietary process technologies. It also includes our highly synergistic advisory practice focused on energy transition and net-zero carbon emission consulting as well as the technology-led industrial solutions focused on innovative digital operations and maintenance ("O&M") solutions and advanced remote operations capabilities to improve throughput, reliability and environmental sustainability. Infusing high-end, sustainability expertise, client relationships and innovative, technology-led O&M solutions into Sustainable Technology Solutions is expected to increase resilience, generate new opportunities, simplify the business model and better position us to deliver its offerings across a broader industrial base.

Effective January 1, 2021, we reorganized our reportable segments and businesses as follows:

- **Government Solutions** includes the following four business units: Defense & Intel, formerly the Defense Systems Engineering and Centauri businesses; Science & Space, formerly called Space & Mission Solutions; Readiness & Sustainment, formerly called Logistics; and International.
- **Sustainable Technology Solutions** includes Energy Solutions segment, Technology Solutions segment, and Non-strategic Business segment, with the exception of our Australian infrastructure business which moved to GS International in our Government Solutions segment.
- **Other**

We have presented our segment results reflecting these changes for all periods presented. See Note 2 to our condensed consolidated financial statements for further discussion on our segments.

The following should be read together with *Revenue Recognition* in our significant accounting policies as detailed in "Note 1. Significant Accounting Policies" of our 2020 Annual Report on Form 10-K.

## ***Revenue Recognition***

### *Contract Types*

The Company performs work under contracts that broadly consists of fixed-price, cost-reimbursable, time-and-materials, or a combination of the three.

Fixed-price contracts include both lump-sum and unit-rate contracts. Under lump-sum contracts, we perform a defined scope of work for a specified fee to cover all costs and any profit element. Lump-sum contracts entail significant risk to us because they require us to predetermine the work to be performed, the project execution schedule and all the costs associated with the scope of work. Unit-rate contracts are essentially fixed-price contracts with the only variable being units of work to be performed. Although fixed-price contracts involve greater risk than cost-reimbursable contracts, they also are potentially more profitable because the owner/customer pays a premium to transfer project risks to us.

Time-and-materials contracts typically provide for negotiated fixed hourly rates for specified categories of direct labor. The rates cover the cost of direct labor, indirect expense and fee. These contracts can also allow for reimbursement of cost of material plus a fee, if applicable. In US Government contracting, this type of contract is generally used when there is uncertainty of the extent or duration of the work to be performed by the contractor at the time of contract award or it is not possible to anticipate costs with any reasonable degree of confidence. With respect to time-and-materials contracts, we assume the price risk because our costs of performance may exceed negotiated hourly rates. In commercial and non-US government contracting, this contract is generally used for defined and non-defined scope contracts where there is a higher degree of uncertainty and risks as to the scope of work. These types of contracts may also provide for a guaranteed maximum price where the total cost plus the fee cannot exceed an agreed upon guaranteed maximum price or not-to-exceed provisions.

Under cost-reimbursable contracts, the price is generally variable based upon our actual allowable costs incurred for materials, equipment, reimbursable labor hours, overhead, and general and administrative expenses. Profit on cost-reimbursable contracts may be in the form of a fixed fee or a mark-up applied to costs incurred, or a combination of the two. The fee may also be an incentive fee based on performance indicators, milestones or targets and can be based on customer discretion or in form of an award fee determined based on customer evaluation of the Company's performance against contractual criteria. Cost-reimbursable contracts may also provide for a guaranteed maximum price where the total fee plus the total cost cannot exceed an agreed upon guaranteed maximum price. Cost-reimbursable contracts are generally less risky because the owner/customer retains many of the project risks, however it generally requires us to use our best efforts to accomplish the scope of the work within a specified time and budget. Cost-reimbursable contracts with the U.S. government are generally subject to the Federal Acquisition Regulation (FAR) and are competitively priced based on estimated or actual costs of providing the contractual goods or services. The FAR provides guidance on types of costs that are allowable in establishing prices for goods and services provided to the U.S. government and its agencies. Pricing for non-U.S. government agencies and commercial customers is based on specific negotiations with each customer.

See Note 3 to our condensed consolidated financial statements for further discussion of our revenue by contract type.

### ***Additional Balance Sheet Information***

#### ***Other Current Liabilities***

The components of "Other current liabilities" on our condensed consolidated balance sheets as of June 30, 2021, and December 31, 2020, are presented below:

| <i>Dollars in millions</i>                            | <b>June 30,<br/>2021</b> | <b>December 31,<br/>2020</b> |
|-------------------------------------------------------|--------------------------|------------------------------|
| Current maturities of long-term debt                  | \$ 14                    | \$ 12                        |
| Reserve for estimated losses on uncompleted contracts | 18                       | 16                           |
| Retainage payable                                     | 13                       | 22                           |
| Income taxes payable                                  | 7                        | 16                           |
| Restructuring reserve                                 | 24                       | 32                           |
| Value-added tax payable                               | 43                       | 29                           |
| Dividend payable                                      | 16                       | 14                           |
| Other miscellaneous liabilities                       | 63                       | 52                           |
| Total other current liabilities                       | <u>\$ 198</u>            | <u>\$ 193</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, C4ISR, cyber analytics, space domain awareness, test and evaluation, systems integration and program management, and operations support, and readiness.

**Sustainable Technology Solutions.** Our Sustainable Technology Solutions business segment is anchored by our innovative, proprietary process technologies that span ammonia/syngas/fertilizers, chemical/petrochemicals, clean refining and circular process/circular economy solutions. STS also includes our highly synergistic advisory and consulting practice focused on energy transition and net-zero carbon emission consulting, our high-end engineering and professional services offerings, as well as our technology-led industrial solutions focused on innovative digital operations and maintenance solutions and advanced remote operations capabilities to improve throughput, reliability, environmental sustainability, and ultimately profitability. From early planning through scope definition, advanced technologies and project life-cycle support, 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 |                | Six Months Ended |                 |
|------------------------------------------------------------------|--------------------|----------------|------------------|-----------------|
|                                                                  | June 30,           |                | June 30,         |                 |
|                                                                  | 2021               | 2020           | 2021             | 2020            |
| <i>Dollars in millions</i>                                       |                    |                |                  |                 |
| <b>Revenues:</b>                                                 |                    |                |                  |                 |
| Government Solutions                                             | \$ 1,231           | \$ 953         | \$ 2,395         | \$ 1,935        |
| Sustainable Technology Solutions                                 | 305                | 432            | 602              | 987             |
| Total revenues                                                   | \$ 1,536           | \$ 1,385       | \$ 2,997         | \$ 2,922        |
| <b>Gross profit:</b>                                             |                    |                |                  |                 |
| Government Solutions                                             | \$ 130             | \$ 117         | \$ 246           | \$ 246          |
| Sustainable Technology Solutions                                 | 77                 | 25             | 129              | 82              |
| Total gross profit                                               | \$ 207             | \$ 142         | \$ 375           | \$ 328          |
| <b>Equity in earnings (losses) of unconsolidated affiliates:</b> |                    |                |                  |                 |
| Government Solutions                                             | \$ 8               | \$ 7           | \$ 15            | \$ 12           |
| Sustainable Technology Solutions                                 | (194)              | 9              | (189)            | 5               |
| Total equity in earnings (losses) of unconsolidated affiliates   | (186)              | 16             | (174)            | 17              |
| <b>Selling, general and administrative expenses:</b>             |                    |                |                  |                 |
| Government Solutions                                             | \$ (49)            | \$ (30)        | \$ (98)          | \$ (71)         |
| Sustainable Technology Solutions                                 | (21)               | (19)           | (35)             | (43)            |
| Other                                                            | (33)               | (24)           | (59)             | (56)            |
| Total selling, general and administrative expenses               | (103)              | (73)           | (192)            | (170)           |
| Acquisition and integration related costs                        | (3)                | —              | (4)              | —               |
| Goodwill impairment                                              | —                  | (37)           | —                | (99)            |
| Restructuring charges and asset impairments                      | (2)                | (59)           | (2)              | (175)           |
| (Loss) gain on disposition of assets and investments             | (1)                | (1)            | (2)              | 18              |
| <b>Operating (loss) income</b>                                   | <b>\$ (88)</b>     | <b>\$ (12)</b> | <b>\$ 1</b>      | <b>\$ (81)</b>  |
| Interest expense                                                 | (23)               | (19)           | (45)             | (42)            |
| Other non-operating income (loss)                                | 2                  | (2)            | (1)              | 5               |
| <b>Loss before income taxes and noncontrolling interests</b>     | <b>\$ (109)</b>    | <b>\$ (33)</b> | <b>\$ (45)</b>   | <b>\$ (118)</b> |

### 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:

|                                         | Three Months Ended |                 | Six Months Ended |                 |
|-----------------------------------------|--------------------|-----------------|------------------|-----------------|
|                                         | June 30,           |                 | June 30,         |                 |
| <i>Dollars in millions</i>              | 2021               | 2020            | 2021             | 2020            |
| <b>Government Solutions</b>             |                    |                 |                  |                 |
| Science & Space                         | \$ 261             | \$ 241          | \$ 508           | \$ 478          |
| Defense & Intel                         | 395                | 207             | 746              | 412             |
| Readiness & Sustainment                 | 315                | 269             | 644              | 555             |
| International                           | 260                | 236             | 497              | 490             |
| <b>Total Government Solutions</b>       | <b>1,231</b>       | <b>953</b>      | <b>2,395</b>     | <b>1,935</b>    |
| <b>Sustainable Technology Solutions</b> | <b>305</b>         | <b>432</b>      | <b>602</b>       | <b>987</b>      |
| <b>Total revenue</b>                    | <b>\$ 1,536</b>    | <b>\$ 1,385</b> | <b>\$ 2,997</b>  | <b>\$ 2,922</b> |

Government Solutions revenue earned from key U.S. government customers includes U.S. DoD and intelligence agencies, NASA, and other federal civilian agencies 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 June 30, 2021                         |                         |                                        |                 |
|----------------------------------------------------------|-------------------------|----------------------------------------|-----------------|
| Total by Countries/Regions<br><i>Dollars in millions</i> | Government<br>Solutions | Sustainable<br>Technology<br>Solutions | Total           |
| United States                                            | \$ 804                  | \$ 109                                 | \$ 913          |
| Middle East                                              | 143                     | 54                                     | 197             |
| Europe                                                   | 161                     | 61                                     | 222             |
| Australia                                                | 90                      | —                                      | 90              |
| Canada                                                   | —                       | 1                                      | 1               |
| Africa                                                   | 19                      | 24                                     | 43              |
| Asia                                                     | 1                       | 51                                     | 52              |
| Other countries                                          | 13                      | 5                                      | 18              |
| Total revenue                                            | <u>\$ 1,231</u>         | <u>\$ 305</u>                          | <u>\$ 1,536</u> |

  

| Three Months Ended June 30, 2020                         |                         |                                        |                 |
|----------------------------------------------------------|-------------------------|----------------------------------------|-----------------|
| Total by Countries/Regions<br><i>Dollars in millions</i> | Government<br>Solutions | Sustainable<br>Technology<br>Solutions | Total           |
| United States                                            | \$ 521                  | \$ 198                                 | \$ 719          |
| Middle East                                              | 171                     | 59                                     | 230             |
| Europe                                                   | 159                     | 38                                     | 197             |
| Australia                                                | 68                      | 11                                     | 79              |
| Canada                                                   | —                       | 5                                      | 5               |
| Africa                                                   | 19                      | 14                                     | 33              |
| Asia                                                     | —                       | 56                                     | 56              |
| Other countries                                          | 15                      | 51                                     | 66              |
| Total revenue                                            | <u>\$ 953</u>           | <u>\$ 432</u>                          | <u>\$ 1,385</u> |

| Six Months Ended June 30, 2021                           |                         |                                        |                 |
|----------------------------------------------------------|-------------------------|----------------------------------------|-----------------|
| Total by Countries/Regions<br><i>Dollars in millions</i> | Government<br>Solutions | Sustainable<br>Technology<br>Solutions | Total           |
| United States                                            | \$ 1,553                | \$ 222                                 | \$ 1,775        |
| Middle East                                              | 276                     | 98                                     | 374             |
| Europe                                                   | 334                     | 105                                    | 439             |
| Australia                                                | 167                     | 4                                      | 171             |
| Canada                                                   | —                       | 1                                      | 1               |
| Africa                                                   | 38                      | 44                                     | 82              |
| Asia                                                     | 1                       | 102                                    | 103             |
| Other countries                                          | 26                      | 26                                     | 52              |
| Total revenue                                            | <u>\$ 2,395</u>         | <u>\$ 602</u>                          | <u>\$ 2,997</u> |

| Six Months Ended June 30, 2020                           |                         |                                        |                 |
|----------------------------------------------------------|-------------------------|----------------------------------------|-----------------|
| Total by Countries/Regions<br><i>Dollars in millions</i> | Government<br>Solutions | Sustainable<br>Technology<br>Solutions | Total           |
| United States                                            | \$ 1,034                | \$ 447                                 | \$ 1,481        |
| Middle East                                              | 358                     | 123                                    | 481             |
| Europe                                                   | 349                     | 97                                     | 446             |
| Australia                                                | 126                     | 40                                     | 166             |
| Canada                                                   | —                       | 31                                     | 31              |
| Africa                                                   | 38                      | 37                                     | 75              |
| Asia                                                     | —                       | 124                                    | 124             |
| Other countries                                          | 30                      | 88                                     | 118             |
| Total revenue                                            | <u>\$ 1,935</u>         | <u>\$ 987</u>                          | <u>\$ 2,922</u> |

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 June 30, 2021 |                         |                                        |                 |
|----------------------------------|-------------------------|----------------------------------------|-----------------|
| <i>Dollars in millions</i>       | Government<br>Solutions | Sustainable<br>Technology<br>Solutions | Total           |
| Cost Reimbursable                | \$ 728                  | \$ —                                   | \$ 728          |
| Time-and-Materials               | 226                     | 187                                    | 413             |
| Fixed Price                      | 277                     | 118                                    | 395             |
| Total revenue                    | <u>\$ 1,231</u>         | <u>\$ 305</u>                          | <u>\$ 1,536</u> |

| Three Months Ended June 30, 2020 |                         |                                        |                 |
|----------------------------------|-------------------------|----------------------------------------|-----------------|
| <i>Dollars in millions</i>       | Government<br>Solutions | Sustainable<br>Technology<br>Solutions | Total           |
| Cost Reimbursable                | \$ 570                  | \$ —                                   | \$ 570          |
| Time-and-Materials               | 140                     | 297                                    | 437             |
| Fixed Price                      | 243                     | 135                                    | 378             |
| Total revenue                    | <u>\$ 953</u>           | <u>\$ 432</u>                          | <u>\$ 1,385</u> |

| Six Months Ended June 30, 2021 |                      |                                  |          |
|--------------------------------|----------------------|----------------------------------|----------|
|                                | Government Solutions | Sustainable Technology Solutions | Total    |
| <i>Dollars in millions</i>     |                      |                                  |          |
| Cost Reimbursable              | \$ 1,417             | \$ —                             | \$ 1,417 |
| Time-and-Materials             | 438                  | 377                              | 815      |
| Fixed Price                    | 540                  | 225                              | 765      |
| Total revenue                  | \$ 2,395             | \$ 602                           | \$ 2,997 |

  

| Six Months Ended June 30, 2020 |                      |                                  |          |
|--------------------------------|----------------------|----------------------------------|----------|
|                                | Government Solutions | Sustainable Technology Solutions | Total    |
| <i>Dollars in millions</i>     |                      |                                  |          |
| Cost Reimbursable              | \$ 1,153             | \$ —                             | \$ 1,153 |
| Time-and-Materials             | 264                  | 701                              | 965      |
| Fixed Price                    | 518                  | 286                              | 804      |
| Total revenue                  | \$ 1,935             | \$ 987                           | \$ 2,922 |

### ***Performance Obligations and Contract Liabilities***

We recognized revenue from performance obligations satisfied in previous periods of \$9 million for the three months ended June 30, 2020, and \$18 million and \$37 million for the six months ended June 30, 2021 and 2020, respectively.

On June 30, 2021, we had \$11.5 billion of transaction price allocated to remaining performance obligations. We expect to recognize approximately 30% of our remaining performance obligations as revenue within one year, 33% in years two through five, and 37% thereafter. Revenue associated with our remaining performance obligations to be recognized beyond one year includes performance obligations related to the Aspire Defence and Fasttrax projects, which have contract terms extending through 2041 and 2023, respectively. Remaining performance obligations does not include variable consideration that was determined to be constrained as of June 30, 2021.

We recognized revenue of \$144 million for the six months ended June 30, 2021, which was previously included in the contract liability balance at December 31, 2020.

### ***Accounts Receivable***

|                            | June 30,<br>2021 | December 31,<br>2020 |
|----------------------------|------------------|----------------------|
| <i>Dollars in millions</i> |                  |                      |
| Unbilled                   | \$ 479           | \$ 476               |
| Trade & other              | 455              | 423                  |
| Accounts receivable        | \$ 934           | \$ 899               |

## **Note 4. Acquisitions**

### ***Centauri Platform Holdings, LLC***

On October 1, 2020, we acquired Centauri for \$830 million subject to certain working capital, net debt and other post-closing adjustments, if applicable. As of June 30, 2021, the estimated fair values of net assets acquired were preliminary, with possible updates primarily in our finalization of tax returns with the seller. The Company recognized goodwill of \$576 million primarily related to future growth opportunities based on an expanded service offering from intellectual capital and a highly skilled assembled workforce and other expected synergies from the combined operations. Intangible assets of \$226 million were recognized and comprised of customer relationships and backlog, which will be amortized over a weighted-average period of 13 years. For U.S. tax purposes, the transaction is treated as a stock deal. As a result, there is no step-up in tax basis and the goodwill and stepped-up acquired intangibles were not deductible for tax purposes.

During the three and six months ended June 30, 2021, the Company recognized direct, incremental costs related to this acquisition of \$1 million and \$2 million, respectively, which are included in "Acquisition and integration related costs" on the condensed consolidated statements of operations. The acquired Centauri business contributed \$181 million and \$313 million of revenues and \$20 million and \$37 million of gross profit for the three and six months ended June 30, 2021, respectively.

The following supplemental pro forma, combined financial information has been prepared from historical financial statements that have been adjusted to give effect to the acquisition of Centauri as though it had been acquired on January 1, 2020. Pro forma adjustments were primarily related to the amortization of intangibles, interest on borrowings related to the acquisition, significant nonrecurring transactions and acquisition related transaction costs. Accordingly, this supplemental pro forma financial information is presented for informational purposes only and is not necessarily indicative of what the actual results of operations of the combined company would have been had the acquisition occurred on January 1, 2020, nor is it indicative of future results of operations.

|                              | Three Months Ended | Six Months Ended |
|------------------------------|--------------------|------------------|
|                              | June 30, 2020      | June 30, 2020    |
|                              | (Unaudited)        | (Unaudited)      |
| Revenue                      | \$ 1,524           | \$ 3,191         |
| Net loss attributable to KBR | \$ (37)            | \$ (141)         |
| Diluted earnings per share   | \$ (0.26)          | \$ (0.98)        |

### ***Scientific Management Associates (Operations) Pty Ltd***

On March 6, 2020, we acquired certain assets and assumed certain liabilities related to the government defense business of Scientific Management Associates (Operations) Pty Ltd ("SMA"). The acquired business of SMA provides technical training services to the Royal Australian Navy and is reported within our GS business segment. We accounted for this transaction using the acquisition method under ASC 805, Business Combinations. The agreed-upon purchase price for the acquisition was \$13 million, less purchase price adjustments totaling \$4 million resulting in net cash consideration paid of \$9 million. We recognized goodwill of \$12 million arising from the acquisition, which relates primarily to future growth opportunities to expand services provided to the Royal Australian Navy. During the first quarter of 2021, contingent consideration liability that was recorded at the time of acquisition was settled for \$1 million.

### **Note 5. Cash and Equivalents**

We consider all highly liquid investments with an original maturity of three months or less to be cash equivalents. Cash and 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, general cash needs or distribution to us without approval of the board of directors of the respective entities. We expect to use this cash for project costs and distributions of earnings.

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

| <i>Dollars in millions</i>                                                                          | June 30, 2021     |              |               |
|-----------------------------------------------------------------------------------------------------|-------------------|--------------|---------------|
|                                                                                                     | International (a) | Domestic (b) | Total         |
| Operating cash and equivalents                                                                      | \$ 245            | \$ 95        | \$ 340        |
| Short-term investments (c)                                                                          | 12                | —            | 12            |
| Cash and equivalents held in consolidated joint ventures and Aspire Defence subcontracting entities | 131               | —            | 131           |
| Total                                                                                               | <u>\$ 388</u>     | <u>\$ 95</u> | <u>\$ 483</u> |

| <i>Dollars in millions</i>                                                                          | December 31, 2020 |              |               |
|-----------------------------------------------------------------------------------------------------|-------------------|--------------|---------------|
|                                                                                                     | International (a) | Domestic (b) | Total         |
| Operating cash and equivalents                                                                      | \$ 228            | \$ 54        | \$ 282        |
| Short-term investments (c)                                                                          | 3                 | —            | 3             |
| Cash and equivalents held in consolidated joint ventures and Aspire Defence subcontracting entities | 151               | —            | 151           |
| Total                                                                                               | <u>\$ 382</u>     | <u>\$ 54</u> | <u>\$ 436</u> |

(a) Includes deposits held in non-U.S. operating accounts.

(b) Includes U.S. dollar and foreign currency deposits held in 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.

#### **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>                                        | June 30, 2021 | June 30, 2020 |
|-------------------------------------------------------------------|---------------|---------------|
| Amounts included in project estimates-at-completion at January 1, | \$ 1,048      | \$ 978        |
| (Decrease) increase in project estimates                          | (228)         | (1)           |
| Approved change orders                                            | (11)          | (6)           |
| Foreign currency impact                                           | (1)           | (16)          |
| Amounts included in project estimates-at-completion at June 30,   | <u>\$ 808</u> | <u>\$ 955</u> |
| Amounts recognized over time based on progress at June 30,        | <u>\$ 808</u> | <u>\$ 955</u> |

As of June 30, 2021 and 2020, the predominant component of change orders, customer claims and estimated recoveries of claims against suppliers and subcontractors above relates to our 30% proportionate share of unapproved change orders and subcontractor claims recovery associated with the Ichthys LNG Project discussed below.

KBR is currently pursuing approval and collection of amounts due under major unapproved change orders and claims, against the clients and recoveries from subcontractors. Further, there are additional claims that KBR believes it is entitled to recover from its client and from subcontractors which have been excluded from estimated revenues and profits at completion as appropriate under U.S. GAAP. These commercial matters may not be resolved in the near term. Our current estimates for the above unapproved change orders, client claims and estimated recoveries of claims against suppliers and subcontractors may prove inaccurate and any material change could have a material adverse effect on our results of operations, financial position and cash flows.

## ***Ichthys LNG Project***

### ***Project Status***

We have a 30% ownership interest in the JKC joint venture, which was contracted to perform the engineering, procurement, supply, construction and commissioning of onshore LNG facilities for a client in Darwin, Australia (the "Ichthys LNG Project"). The contract between JKC and its client is a hybrid contract containing both cost-reimbursable and fixed-price (including unit-rate) scopes. We, along with our joint venture partners, are jointly and severally liable to the client.

The construction and commissioning of the Ichthys LNG Project is complete and all performance tests have been successfully performed. The entire facility, including two LNG liquefaction trains, cryogenic tanks and the combined cycle power generation facility, has been handed over to the client and is producing LNG. JKC is in the process of completing administrative close-out activities and continues to progress the various legal and commercial disputes with the client, suppliers and other third parties as further described below.

### ***Unapproved Change Orders and Claims Against Client***

Under the cost-reimbursable scope of the contract, JKC has entered into commercial contracts with multiple suppliers and subcontractors to execute various scopes of work on the project. Certain suppliers and subcontractors made contract claims against JKC for recovery of costs and extensions of time to progress the works under the scope of their respective contracts due to a variety of issues related to alleged changes to the scope of work, delays and lower than planned subcontractor productivity. In addition, JKC incurred costs related to scope increases and other factors and has made claims to its client for matters for which JKC believes it is entitled to reimbursement under the contract.

JKC believes any amounts paid or payable to the suppliers and subcontractors in settlement of their contract claims related to the cost-reimbursable scope are an adjustment to the contract price, and accordingly JKC has made claims for contract price adjustments under the cost-reimbursable scope of the contract between JKC and its client. However, the client disputed some of these contract price adjustments and subsequently withheld certain payments. In order to facilitate the continuation of work under the contract while JKC worked to resolve this dispute, the client agreed to a contractual mechanism ("Funding Deed") in 2016 providing funding in the form of an interim contract price adjustment to JKC and consented to settlement of subcontractor claims as of that date related to the cost-reimbursable scope. While the client reserved its contractual rights under this funding mechanism, settlement funds (representing the interim contract price adjustment) have been paid by the client. JKC in turn settled these subcontractor claims which have been funded through the Funding Deed by the client.

In October 2018, JKC received a favorable ruling in a separate arbitration related to the Funding Deed. The ruling determined a contract interpretation in JKC's favor, to the effect that delay and disruption costs payable to subcontractors under the cost-reimbursable scope of the EPC contract are for the client's account and are reimbursable to JKC. However, the client did not agree with the impact of the arbitration award and, accordingly, we initiated the Funding Deed proceeding referenced below to obtain further determination from the arbitration tribunal.

In September 2020, JKC (1) sought a Summary Determination from the arbitration tribunal effecting a stay of the repayment date of December 31, 2020 ("Sunset Date"); and (2) presented specific legal arguments to ultimately resolve the Funding Deed without the need for a full factual enquiry.

In a partial award in December 2020, the arbitration tribunal held that it could not decide the merits of the Funding Deed issue without hearing further evidence on factual issues. No determination was reached as to the actual position on entitlement and no decision has been rendered on reimbursable subcontractor settlement costs covered by the Funding Deed. In reaching this decision the arbitration tribunal also decided in its partial award that it did not have authority to stay JKC's repayment of the funds under the Funding Deed following the passage of the Sunset Date. As the issues raised in the Funding Deed arbitration remained unresolved as of June 30, 2021, JKC could be required to refund sums funded by the client under the terms of the Funding Deed. JKC continues to assert that the subcontractor settlement sums were properly incurred and represent reimbursable costs.

In January 2021, the client demanded that JKC repay the Funding Deed amount and notified its intention to commence legal actions against JKC including claims on the parent company guarantees. The client also submitted an application to the arbitration tribunal asserting various legal theories and requesting immediate repayment of the Funding Deed. JKC opposed the application on the grounds that in seeking such relief, the client was asserting new claims that are not part of the current

arbitration. The arbitration tribunal agreed with JKC that these were new claims and declined to order immediate repayment. However, the arbitration tribunal directed the parties to incorporate the new claims into the existing consolidated arbitration process. A case management conference has been set for September 2021 on these matters. Subsequently, the client initiated parent company guarantee proceedings against our partner JGC Corporation in Japanese courts with respect to payment of the Funding Deed. If the client is successful against JGC, KBR would be liable to JGC for its proportional share.

Our proportionate share of the total amount of the contract price adjustments under the Funding Deed included in the unapproved change orders and claims related to JKC discussed above was \$157 million as of June 30, 2021, and December 31, 2020. These amounts are subject to currency fluctuation risk and possible applicable taxes.

In September and October 2017, additional settlements pertaining to suppliers and subcontractors under the cost-reimbursable scope of the contract were presented to the client. The client consented to these settlements and paid for them but reserved its contractual rights. In reliance, JKC in turn settled these claims with the associated suppliers and subcontractors. The formal contract price adjustments for these settlements remained pending at June 30, 2021. However, unlike amounts funded under the Funding Deed, there is no requirement to refund these amounts to the client by a certain date.

There has been deterioration of paint and insulation on certain exterior areas of the plant. The client previously requested and funded paint remediation for a portion of the facilities. JKC's profit estimate at completion includes a portion of revenues and costs for these remediation activities. Revenue for the client-funded amounts are included in the table above. In the first quarter of 2019, the client demanded repayment of the amounts previously funded to JKC. JKC is disputing the client's demand. The client has also requested a proposal to remediate any remaining non-conforming paint and insulation, but JKC and its client have not resolved the nature and extent of the non-conformances, the method and degree of remediation that was and is required, or who is responsible. We believe the remaining remediation costs will be material given the plant is now operating and there will be several operating constraints on any such works.

In addition, JKC has started proceedings against the paint manufacturer and initiated claims against the subcontractors. JKC has also made demands on insurance policies in respect of these matters. JKC believes that project insurance should significantly limit any exposure it has on painting and insulation damages. Proceedings and claims against the paint manufacturer, certain subcontractors and insurance policies are ongoing. As the principal insured, it is incumbent upon the client to pursue the insurance claims with diligence. JKC is urging the client to meet its contractual obligations.

#### *Other Matters*

JKC is entitled to an amount of profit and overhead ("TRC Fee") which is a fixed percentage of the target reimbursable costs ("TRC") under the reimbursable component of the contract which was to be agreed by JKC and its client. At the time of the contract, JKC and its client agreed to postpone the fixing of the TRC until after a specific milestone in the project had been achieved. Although the milestone was achieved, JKC and its client have been unable to reach agreement on the TRC. This matter was taken to arbitration in 2017. A decision was issued in December 2017 concluding that the TRC should be determined based on project estimate information available at April 2014. JKC has submitted the revised estimate of the TRC Fee to the client. The parties have not agreed to the revised estimate, and JKC has started an additional arbitration on this dispute.

In late 2019, the International Chamber of Commerce consolidated the Funding Deed arbitration, TRC arbitration and certain other claims asserted by JKC along with claims asserted by its client. Pursuant to a recent procedural order, the client is expected to file a detailed statement of its claim in August 2021. The arbitration panel has been constituted but a hearing date has not been scheduled.

#### *Ongoing Negotiations with the Client*

In Q2 2021, significant settlement discussions occurred with the client. As a result, KBR recorded a non-cash charge to equity in earnings of unconsolidated affiliates as of June 30, 2021 in the amount of \$193 million, which reflects KBR's proportionate share of the unpaid, unapproved change orders and claims. This non-cash charge does not impact JKC's pursuit of subcontractor claims associated with the combined cycle power plant described below.

#### *Combined Cycle Power Plant*

Pursuant to JKC's fixed-price scope of its contract with its client, JKC awarded a fixed-price EPC contract to a subcontractor for the design, construction and commissioning of the Combined Cycle Power Plant (the "Power Plant"). The

subcontractor was a consortium consisting of General Electric and GE Electrical International Inc. and a joint venture between UGL Infrastructure Pty Limited and CH2M Hill (collectively, the "Consortium"). On January 25, 2017, JKC received a Notice of Termination from the Consortium, and the Consortium ceased work on the Power Plant and abandoned the construction site. JKC believes the Consortium materially breached its subcontract and repudiated its obligation to complete the Power Plant, plus undertook actions making it more difficult and more costly for the works to be completed by others after the Consortium abandoned the site. Subsequently, the Consortium filed a request for arbitration with the ICC asserting that JKC repudiated the contract. The Consortium also sought an order that the Consortium validly terminated the subcontract. JKC has responded to this request, denying JKC committed any breach of its subcontract with the Consortium and restated its claim that the Consortium breached and repudiated its subcontract with JKC and is liable to JKC for all costs to complete the Power Plant.

In March 2017, JKC prevailed in a legal action against the Consortium requiring the return of materials, drawings and tools following their unauthorized removal from the site by the Consortium. After taking over the work, JKC discovered incomplete and defective engineering designs, defective workmanship on the site, missing, underreported and defective materials and the improper termination of key vendors/suppliers. JKC's investigations also indicate that progress of the work claimed by the Consortium was over-reported. JKC has completed the Consortium's work and the incurred costs significantly exceed the awarded fixed-price subcontract value. JKC's cost to complete the Power Plant includes re-design efforts, additional materials and significant re-work.

JKC is pursuing recourse against the Consortium to recover all of the costs to complete the Power Plant, plus the additional interest, and/or general damages by all means inclusive of calling bank guarantees provided by the Consortium partners. In April 2018, JKC prevailed in a legal action to call bank guarantees (bonds) and received funds totaling \$52 million. Each of the Consortium partners has joint and several liability with respect to all obligations under the subcontract. JKC intends to pursue recovery of all additional amounts due from the Consortium via various legal remedies available to JKC.

Costs incurred to complete the Power Plant that have been determined to be probable of recovery from the Consortium under U.S. GAAP have been included as a reduction of cost in our estimate of profit at completion. The estimated recoveries exclude interest, liquidated damages and other related costs which JKC intends to pursue recovery from the Consortium. Amounts expected to be recovered from the Consortium are included in the table above at the beginning of this Note 6.

As of June 30, 2021, JKC's claims against the Consortium were approximately \$1.8 billion (net of bonds and remaining lump sum contract value) for recovery of JKC's costs. The opening hearing of the power plant arbitration was held in April 2021. The final hearing is expected to be held in April and May 2022. The previous hearing dates were vacated due to the COVID-19 delay and the current dates may continue to be impacted by the COVID-19 pandemic.

JKC asked the Australian courts to require the parent company guarantors of the Consortium to issue payment to JKC in advance of the completion of the arbitration proceedings. The court concluded that the parent companies are responsible for Consortium's liability resulting from the arbitration outcome, but they are not required to pay in advance of the arbitration. JKC continues to pursue the resolution of this matter and will seek collection from the Consortium and their parent guarantors who are all jointly and severally liable for any damages owed to JKC.

To the extent JKC is unsuccessful in prevailing in the Arbitration or the Consortium members are unable to satisfy their financial obligations in the event of a decision favorable to JKC, we would be responsible for our pro-rata portion of unrecovered costs from the Consortium. This could have a material adverse impact on the profit at completion of the overall contract and thus on our consolidated statements of operations and financial position.

#### *Ichthys Project Funding*

As a result of the ongoing disputes with the client and pursuit of recoveries against the Consortium through the Arbitration, we have funded our proportionate share of the working capital requirements of JKC to complete the project. We made investment contributions to JKC of approximately \$484 million on an inception-to-date basis to fund project execution activities.

If we experience unfavorable outcomes associated with the various legal and commercial disputes, our total investment contributions could increase which could have a material adverse effect on our financial position and cash flows. Further, if either of our joint venture partners in JKC do not fulfill their responsibilities under the JKC joint venture agreement or subcontract, we could be exposed to additional funding requirements as a result of the nature of the JKC joint venture agreement.

As of June 30, 2021, we had \$164 million in letters of credit outstanding in support of performance and warranty guarantees provided to the client.

All of the Ichthys LNG project commercial matters are complex and involve multiple interests, including the client, joint venture partners, suppliers and other third parties. Ultimate resolution may not occur in the near term and could be impacted by the COVID-19 pandemic. Our current estimates for resolving these matters may prove inaccurate and, if so, any material change could have a material adverse effect on our results of operations, financial position and cash flows.

See Note 8 "Equity Method Investments and Variable Interest Entities" to our condensed consolidated financial statements for further discussion regarding our equity method investment in JKC.

### ***Changes in all other 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. 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.

### ***Sustainable Technology Solutions***

During the three months and six months ended June 30, 2021, we recognized a non-cash charge to equity in earnings of unconsolidated affiliates of \$193 million as a result of changes in estimates on the Ichthys LNG project described above. Additionally, during the quarter, we recognized a favorable change of \$37 million in gross profit associated with the settlement of a legacy EPC project matter, partially offset by \$16 million related to the resolution of other legacy matters.

During the six months ended June 30, 2020, we recognized a favorable change of \$16 million in estimated revenues and gross profit associated with variable consideration resulting from resolution of a contingency of a legacy EPC project.

### **Note 7. Restructuring Charges**

During 2020, our management initiated and approved a broad restructuring plan in response to the dislocation of the global energy market resulting from the decline in oil prices and the COVID-19 pandemic. As part of the plan, management approved strategic business restructuring activities and decided to discontinue pursuing certain projects, principally lump-sum EPC and commoditized construction services. The restructuring plan was designed to refine our market focus, optimize costs, and improve operational efficiencies. The restructuring charges were substantially completed in 2020 and the details of the restructuring charges and asset impairments incurred through fiscal year 2020 are provided in the table below.

| <i>Dollars in millions</i>       | Severance    | Lease<br>Abandonment | Other        | Total<br>Restructuring<br>Charges | Asset<br>Impairments | Total<br>Restructuring<br>Charges & Asset<br>Impairments |
|----------------------------------|--------------|----------------------|--------------|-----------------------------------|----------------------|----------------------------------------------------------|
| Government Solutions             | \$ 2         | \$ —                 | \$ —         | \$ 2                              | \$ —                 | \$ 2                                                     |
| Sustainable Technology Solutions | 29           | 4                    | 6            | 39                                | 49                   | 88                                                       |
| Other                            | 1            | 54                   | 20           | 75                                | 49                   | 124                                                      |
| Total                            | <u>\$ 32</u> | <u>\$ 58</u>         | <u>\$ 26</u> | <u>\$ 116</u>                     | <u>\$ 98</u>         | <u>\$ 214</u>                                            |

The restructuring liability at June 30, 2021, was \$78 million, of which \$24 million is included in "Other current liabilities" and \$54 million is included in "Other liabilities." A reconciliation of the beginning and ending restructuring liability balances is provided in the following table.

| <i>Dollars in millions</i>                                         | Severance   | Lease<br>Abandonment | Other        | Total        |
|--------------------------------------------------------------------|-------------|----------------------|--------------|--------------|
| Balance at January 1, 2021                                         | \$ 15       | \$ 52                | \$ 24        | \$ 91        |
| Lease restructuring charges related to operating lease liabilities | —           | 2                    | —            | 2            |
| Cash payments / settlements during the period                      | (7)         | (3)                  | (3)          | (13)         |
| Currency translation and other adjustments                         | (2)         | —                    | —            | (2)          |
| Balance at June 30, 2021                                           | <u>\$ 6</u> | <u>\$ 51</u>         | <u>\$ 21</u> | <u>\$ 78</u> |

## Note 8. 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:

|                                                            | Six Months Ended<br>June 30, | Year Ended<br>December 31, |
|------------------------------------------------------------|------------------------------|----------------------------|
| <i>Dollars in millions</i>                                 | 2021                         | 2020                       |
| Beginning balance at January 1,                            | \$ 881                       | \$ 846                     |
| Equity in earnings (losses) of unconsolidated affiliates   | (174)                        | 30                         |
| Distributions of earnings of unconsolidated affiliates     | (26)                         | (38)                       |
| Advances to (payments from) unconsolidated affiliates, net | (10)                         | (15)                       |
| Investments (a)                                            | 7                            | 26                         |
| Impairment of equity method investments (b)                | —                            | (19)                       |
| Foreign currency translation adjustments                   | (23)                         | 50                         |
| Other                                                      | 7                            | 1                          |
| Ending balance                                             | <u>\$ 662</u>                | <u>\$ 881</u>              |

(a) Investments include \$7 million and \$24 million in funding contributions to JKC for the six months ended June 30, 2021, and the year ended December 31, 2020, respectively.

(b) During the year ended December 31, 2020, we recognized an impairment of \$13 million associated with our investment in a joint venture project located in the Middle East, and a \$6 million impairment related to other equity method investments.

## Unconsolidated Variable Interest Entities

For the VIEs in which we participate, our maximum exposure to loss consists of our equity investment in the VIE, any amounts owed to us for services we may have provided to the VIE, and any amounts that we may be contractually or constructively obligated to fund in the future reduced by any unearned revenues on the project. Our maximum exposure to loss may also include our obligation to fund our proportionate share of any future losses incurred. During the quarter, we recognized a non-cash charge in the amount of \$193 million associated with the Ichthys LNG project. Where our performance and financial obligations are joint and several to the client with our joint venture partners, we may be further exposed to losses above our ownership interest in the joint venture.

The following summarizes the total assets and total liabilities as reflected in our condensed consolidated balance sheets related to our unconsolidated VIEs in which we have a significant variable interest but are not the primary beneficiary.

| <i>Dollars in millions</i>                               | June 30, 2021 |                   |
|----------------------------------------------------------|---------------|-------------------|
|                                                          | Total Assets  | Total Liabilities |
| Affinity joint venture (U.K. MFTS project)               | \$ 10         | \$ 9              |
| Aspire Defence Limited                                   | \$ 68         | \$ 5              |
| JKC joint venture (Ichthys LNG project)                  | \$ 375        | \$ 6              |
| U.K. Roads project joint ventures                        | \$ 54         | \$ —              |
| Middle East Petroleum Corporation (EBIC ammonia project) | \$ 38         | \$ 1              |

| <i>Dollars in millions</i>                               | December 31, 2020 |                   |
|----------------------------------------------------------|-------------------|-------------------|
|                                                          | Total Assets      | Total Liabilities |
| Affinity joint venture (U.K. MFTS project)               | \$ 11             | \$ 9              |
| Aspire Defence Limited                                   | \$ 68             | \$ 5              |
| JKC joint venture (Ichthys LNG project)                  | \$ 606            | \$ 44             |
| U.K. Roads project joint ventures                        | \$ 59             | \$ —              |
| Middle East Petroleum Corporation (EBIC ammonia project) | \$ 31             | \$ 1              |

### ***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 six months ended June 30, 2021 and 2020, our revenues included \$194 million and \$276 million, respectively, related to the services we provided primarily to the Aspire Defence Limited joint venture within our GS business segment and two other joint ventures 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 June 30, 2021, and December 31, 2020 are as follows:

| <i>Dollars in millions</i>                              | June 30,<br>2021 | December 31,<br>2020 |
|---------------------------------------------------------|------------------|----------------------|
| Accounts receivable, net of allowance for credit losses | \$ 53            | \$ 83                |
| Contract assets (a)                                     | \$ 1             | \$ 2                 |
| Contract liabilities (a)                                | \$ 11            | \$ 53                |

(a) Reflects contract assets and contract liabilities related to joint ventures within our GS and STS business segments.

## Consolidated Variable Interest Entities

We consolidate VIEs if we determine we are the primary beneficiary of the project entity because we control the activities that most significantly impact the economic performance of the entity. The following is a summary of the significant VIEs where we are the primary beneficiary:

| <i>Dollars in millions</i>                                      | June 30, 2021 |                   |
|-----------------------------------------------------------------|---------------|-------------------|
|                                                                 | Total Assets  | Total Liabilities |
| Fasttrax Limited (Fasttrax project)                             | \$ 30         | \$ 3              |
| Aspire Defence subcontracting entities (Aspire Defence project) | \$ 447        | \$ 214            |

| <i>Dollars in millions</i>                                      | December 31, 2020 |                   |
|-----------------------------------------------------------------|-------------------|-------------------|
|                                                                 | Total Assets      | Total Liabilities |
| Fasttrax Limited (Fasttrax project)                             | \$ 45             | \$ 18             |
| Aspire Defence subcontracting entities (Aspire Defence project) | \$ 448            | \$ 205            |

## Note 9. Retirement Benefits

The components of net periodic benefit cost related to pension benefits for the three and six months ended June 30, 2021 and 2020 were as follows:

| <i>Dollars in millions</i>                               | Three Months Ended June 30, |        |               |       |
|----------------------------------------------------------|-----------------------------|--------|---------------|-------|
|                                                          | 2021                        |        | 2020          |       |
|                                                          | United States               | Int'l  | United States | Int'l |
| <b>Components of net periodic pension cost (benefit)</b> |                             |        |               |       |
| Interest cost                                            | \$ 1                        | \$ 8   | \$ —          | \$ 9  |
| Expected return on plan assets                           | (1)                         | (22)   | (1)           | (14)  |
| Amortization of prior service cost                       | —                           | 1      | —             | 1     |
| Recognized actuarial loss                                | —                           | 8      | 1             | 5     |
| Net periodic benefit cost (benefit)                      | \$ —                        | \$ (5) | \$ —          | \$ 1  |

| <i>Dollars in millions</i>                               | Six Months Ended June 30, |         |               |       |
|----------------------------------------------------------|---------------------------|---------|---------------|-------|
|                                                          | 2021                      |         | 2020          |       |
|                                                          | United States             | Int'l   | United States | Int'l |
| <b>Components of net periodic pension cost (benefit)</b> |                           |         |               |       |
| Interest cost                                            | \$ 1                      | \$ 16   | \$ 1          | \$ 19 |
| Expected return on plan assets                           | (2)                       | (43)    | (2)           | (29)  |
| Amortization of prior service cost                       | —                         | 1       | —             | 1     |
| Recognized actuarial loss                                | 1                         | 16      | 1             | 11    |
| Net periodic pension cost (benefit)                      | \$ —                      | \$ (10) | \$ —          | \$ 2  |

For the six months ended June 30, 2021, we have contributed approximately \$24 million of the \$50 million we expect to contribute to our plans in 2021.

## Note 10. Debt and Other Credit Facilities

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

| <i>Dollars in millions</i>                                              | June 30, 2021   | December 31, 2020 |
|-------------------------------------------------------------------------|-----------------|-------------------|
| Term Loan A                                                             | \$ 281          | \$ 285            |
| Term Loan B                                                             | 514             | 516               |
| Convertible Senior Notes                                                | 350             | 350               |
| Senior Notes                                                            | 250             | 250               |
| Senior Credit Facility                                                  | 260             | 260               |
| Unamortized debt issuance costs - Term Loan A                           | (3)             | (4)               |
| Unamortized debt issuance costs and discount - Term Loan B              | (14)            | (16)              |
| Unamortized debt issuance costs and discount - Convertible Senior Notes | (34)            | (40)              |
| Unamortized debt issuance costs and discount - Senior Notes             | (5)             | (5)               |
| Total debt                                                              | 1,599           | 1,596             |
| Less: current portion                                                   | 14              | 12                |
| Total long-term debt, net of current portion                            | <u>\$ 1,585</u> | <u>\$ 1,584</u>   |

### Senior Credit Facility

On July 2, 2020, we amended our Senior Credit Facility to consist of a \$1 billion revolving credit facility ("Revolver"), a \$275 million Loan A, ("Term Loan A") of which a portion is denominated in Australian dollars, and a \$520 million Term Loan B ("Term Loan B"), with an aggregate capacity of \$1.795 billion. The Revolver and Term Loan A mature in February 2025 and Term Loan B matures in February 2027.

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

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

| Consolidated Leverage Ratio                                      | Revolver and Term Loan A |                  |                |
|------------------------------------------------------------------|--------------------------|------------------|----------------|
|                                                                  | LIBOR Margin             | Base Rate Margin | Commitment Fee |
| Greater than or equal to 3.25 to 1.00                            | 2.25 %                   | 1.25 %           | 0.35 %         |
| Less than 3.25 to 1.00 but greater than or equal to 2.25 to 1.00 | 2.00 %                   | 1.00 %           | 0.30 %         |
| Less than 2.25 to 1.00 but greater than or equal to 1.25 to 1.00 | 1.75 %                   | 0.75 %           | 0.25 %         |
| Less than 1.25 to 1.00                                           | 1.50 %                   | 0.50 %           | 0.20 %         |

The Term Loan A provides for quarterly principal payments of 0.625% of the aggregate principal amount commencing with the fiscal quarter ending June 30, 2020, increasing to 1.25% starting with the quarter ending June 30, 2022. The Term Loan B provides for quarterly principal payments of 0.25% of the initial aggregate principal amounts commencing with the fiscal quarter ending June 30, 2020.

The Senior Credit Facility contains financial covenants of a maximum consolidated leverage ratio and a consolidated interest coverage ratio (as such terms are defined in the Senior Credit Facility). Our consolidated leverage ratio as of the last day of any fiscal quarter may not exceed 4.25 to 1 through 2021, reducing to 4.00 to 1 in 2022 and 3.75 to 1 in 2023. Our consolidated interest coverage ratio as of the last day of any fiscal quarter, commencing with the fiscal quarter ending June 30, 2020 and thereafter, may not be less than 3.00 to 1. As of June 30, 2021, 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.

The Convertible Notes are convertible into cash, shares of our common stock or a combination of cash and shares of our common stock, at our election. It is our current intent and policy to settle the principal balance of the Convertible Notes in cash and any excess value upon conversion in shares of our common stock. The initial conversion price of the Convertible Notes is approximately \$25.51 (subject to adjustment in certain circumstances), based on the initial conversion rate of 39.1961 Common Shares per \$1,000 principal amount of Convertible Notes. Prior to May 1, 2023, the Convertible Notes will be convertible only upon the occurrence of certain events and during certain periods, and thereafter, until the close of business on the second scheduled trading day immediately preceding the maturity date. On May 20, 2021, we declared a quarterly cash dividend of \$0.11 per Common Share, which exceeded our per share dividend threshold and adjusted the conversion rate to 39.3964 at a strike price of \$25.38. The impact of dilution on our earnings per share from Convertible Notes is measured using the "treasury stock method". As of June 30, 2021, the "if-converted" value of the Convertible Notes exceeded the \$350 million principal amount by approximately \$176 million.

The net carrying value of the equity component related to the Convertible Senior Notes was \$57 million as of June 30, 2021, and December 31, 2020. The amount of interest cost recognized relating to the contractual interest coupon was \$2 million and \$4 million for the three and six months ended June 30, 2021 and 2020, respectively. The amount of interest cost recognized relating to the amortization of the discount and debt issuance costs was \$3 million and \$7 million for the three and six months ended June 30, 2021, respectively, and \$3 million and \$6 million for the three and six months ended June 30, 2020, respectively. The effective interest rate on the liability component was 6.50% as of June 30, 2021, and December 31, 2020.

*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. Each of these transactions is described below.

The Note Hedge Transactions cost an aggregate \$62 million and are expected generally to reduce the potential dilution of common stock and/or offset the cash payments we are required to make in excess of the principal amount upon conversion of the Convertible Notes in the event that the market price of our common stock is greater than the strike price of the Note Hedge Transactions, which was initially \$25.51 (subject to adjustment), corresponding approximately to the initial conversion price of the Convertible Notes. The Note Hedge Transactions were accounted for by recording the cost as a reduction to "Additional paid-in capital" based on the Note Hedge meeting certain scope exceptions provided under ASC Topic 815.

We received proceeds of \$22 million for the Warrant Transactions, in which we sold net-share-settled warrants to the option counterparties in an amount equal to the number of shares of our common stock initially underlying the Convertible Notes, subject to customary anti-dilution adjustments. The original strike price of the warrants was \$40.02 per share. The updated strike price as of June 30, 2021 was \$39.82. The Warrant Transactions could have a dilutive effect to our stockholders to the extent the market price per share of our common stock, as measured under the terms of the Warrant Transactions, exceeds the applicable strike price of the warrants. The Warrant Transactions have been accounted for by recording the proceeds received as "Additional paid-in capital".

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.

## ***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. The net proceeds from the offering was approximately \$245 million, after deducting fees and estimated offering expenses and were used to finance a portion of the purchase price for the acquisition of Centauri and pay related fees and expenses. 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 may redeem 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 may redeem 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 June 30, 2021, we had \$1 billion in a committed line of credit under the Senior Credit Facility and \$365 million of uncommitted lines of credit to support the issuance of letters of credit. As of June 30, 2021, with respect to our Senior Credit Facility, we had \$260 million of outstanding borrowings previously issued to fund the acquisition of Centauri and \$114 million of outstanding letters of credit. With respect to our \$365 million of uncommitted lines of credit, we had utilized \$210 million for letters of credit as of June 30, 2021. The total remaining capacity of these committed and uncommitted lines of credit was approximately \$781 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, \$168 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.

### ***Nonrecourse Project Debt***

Fastrax Limited, a consolidated joint venture in which we indirectly own a 50% equity interest with an unrelated partner, was awarded a concession contract in 2001 with the U.K. MoD to provide a Heavy Equipment Transporter Service to the British Army. Fastrax Limited operates and maintains 91 HETs for a term of 22 years. The purchase of the HETs by the joint venture was financed through two series of bonds secured by the assets of Fastrax Limited and subordinated debt from the joint venture partners. The secured bonds are an obligation of Fastrax Limited and are not a debt obligation of KBR as they are nonrecourse to the joint venture partners. Accordingly, in the event of a default on the notes, the lenders may only look to the assets of Fastrax Limited for repayment.

The secured bonds were issued in two classes consisting of Class A 3.5% Index Linked Bonds in the amount of £56.0 million and Class B 5.9% Fixed Rate Bonds in the amount of £20.7 million. Semi-annual payments on both classes of bonds continued through maturity in March 2021. The subordinated notes payable to each of the partners initially bear interest at 11.25% increasing to 16.00% over the term of the notes until maturity in 2025. For financial reporting purposes, only our partner's portion of the subordinated notes appears in the condensed consolidated financial statements.

## **Note 11. Income Taxes**

The effective tax rate was approximately (37)% and (124)% for the three and six months ended June 30, 2021, respectively. The effective tax rate was approximately (18)% and (4)% for the three and six months ended June 30, 2020, respectively. The effective tax rate for the six months ended June 30, 2021, as compared to the U.S. statutory rate of 21%, was primarily impacted by an equity adjustment on an LNG project and the enactment of a tax rate change in the United Kingdom. An equity adjustment was booked in Q2 2021 on an entity in which KBR is a JV partner. Since the tax impact for this adjustment was taxed at the JV level, KBR will not receive a tax benefit. In Q2 2021, the U.K. enacted legislation to raise the corporate tax rate from 19% to 25% beginning April 1, 2023. All deferred tax balances in this region were remeasured and the tax impact was booked accordingly. Excluding the tax impact of these adjustments, our tax rate would be 25% for the three and six months ended June 30, 2021. The three and six months ended June 30, 2020 was primarily impacted by impairment and restructuring charges incurred during the period. Excluding the tax impact of these adjustments, our tax rate would have been 27% for the three and six months ended June 30, 2020.

Our estimated annual effective rate for 2021 is 25% excluding the effects of discrete items. Our estimated annual

effective rate is subject to change based on the actual jurisdictions where our 2021 earnings are generated.

The valuation allowance for deferred tax assets as of June 30, 2021 and December 31, 2020 was \$219 million and \$220 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, are not more likely than not to be realized. 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 \$690 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 \$581 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 June 30, 2021, and December 31, 2020 was \$95 million and \$96 million, respectively.

#### **Note 12. Claims and Accounts Receivable**

Our claims and accounts receivable balance not expected to be collected within the next 12 months was \$30 million as of June 30, 2021, and December 31, 2020. Claims and accounts receivable primarily reflect claims filed with the U.S. government related to payments not yet received for costs incurred under various U.S. government cost reimbursable contracts within our GS business segment. These claims relate to disputed costs or contracts where our costs have exceeded the U.S. government's funded value on the task order and included in the amount is \$1 million as of June 30, 2021, and December 31, 2020. The remaining assets and liabilities associated with the previously issued Form 1s issued by the U.S. government questioning or objecting to costs billed to them are immaterial to our condensed consolidated balance sheet as of June 30, 2021, as a result of an unfavorable FKTC containers claim ruling. See Note 13 "U.S. Government Matters" for additional information. The amount also includes \$29 million as of June 30, 2021 and December 31, 2020, related to contracts where our reimbursable costs have exceeded the U.S. government's funded values on the underlying task orders or task orders where the U.S. government has not authorized us to bill. We believe the remaining disputed costs will be resolved in our favor, at which time the U.S. government will be required to obligate funds from appropriations for the year in which resolution occurs.

#### **Note 13. U.S. Government Matters**

We provide services to various U.S. governmental agencies, including the U.S. DoD, NASA, and the Department of State. We may have disagreements or experience performance issues on our U.S. government contracts. When performance issues arise under any of these contracts, the U.S. government retains the right to pursue various remedies, including challenges to expenditures, suspension of payments, fines and suspensions or debarment from future business with the U.S. government. 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.

##### ***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 resolution of these outstanding matters. However, for certain of these matters, we have filed claims with the ASBCA or the COFC. 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.

The Company established a reserve for unallowable costs associated with open government matters related to the heritage KBR U.S. Government Services business in the amounts of \$33 million as of June 30, 2021, and December 31, 2020, and are recorded in "Other liabilities."

### ***Investigations, Qui Tams and Litigation***

The following matters relate to ongoing litigation or federal investigations involving U.S. government contracts. Many of these matters involve allegations of violations of the FCA, which prohibits in general terms fraudulent billings to the U.S. government. Suits brought by private individuals are called "qui tams." We believe the costs of litigation and any damages that may be awarded in the FKTC matters described below are billable under the LogCAP III. 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 all its claims under various LogCAP III subcontracts. After complete hearings on all claims, the arbitration panel awarded FKTC \$17 million plus interest for claims involving damages on lost or unreturned vehicles. In addition, we determined that we owe FKTC \$32 million in connection with other subcontracts provided we are reimbursed for these same costs by the U.S. government. We lost our claims against the government as referenced below and have exercised our offset or clawback rights as against FKTC in the arbitration. FKTC does not agree with our right of offset and a final hearing will be needed to resolve this issue and our other counterclaims against FKTC. A hearing has been set for November 2021. Management accrued an amount that it feels is adequate to cover either liability as determined by the panel or a negotiated settlement with FKTC on this matter.

***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. Depositions of some DCMA and KBR personnel have taken place and more were expected to occur in early 2020 but have been postponed due to COVID-19. KBR and the relators filed various motions including a motion to dismiss by KBR. Although KBR's motion to dismiss was not granted, it remains an option on appeal. The deadline for all fact discovery and depositions has been extended due to COVID-19 travel restrictions and related delays and discovery continues. We believe the allegations of fraud by the relators are without merit and, as of June 30, 2021, no amounts have been accrued.

***DOJ False Claims Act complaint - Iraq Subcontractor.*** In January 2014, the DOJ filed a complaint in the U.S. District Court for the Central District of Illinois against KBR and two former KBR subcontractors, including FKTC, alleging that three former KBR employees were offered and accepted kickbacks from these subcontractors in exchange for favorable treatment in the award and performance of subcontracts to be awarded during the course of KBR's performance of the LogCAP III contract in Iraq. The complaint alleges that as a result of the kickbacks, KBR submitted invoices with inflated or unjustified subcontract prices, resulting in alleged violations of the FCA and the Anti-Kickback Act. The DOJ's investigation dates back to 2004. We self-reported most of the violations and tendered credits to the U.S. government as appropriate. On May 22, 2014, FKTC filed a motion to dismiss, which the U.S. government opposed. Following the submission of our answer in April 2014, the U.S. government was granted a Motion to Strike certain affirmative defenses in March 2015. We do not believe this limits KBR's ability to fully defend all allegations in this matter.

Discovery for this complaint is now mostly complete. On March 30, 2020, the Court granted KBR's motion to transfer the case to the Southern District of Texas and the court recently ruled on various discovery motions allowing one additional deposition to take place. KBR and the U.S. government have filed various dispositive motions which remained under consideration by the Court for an extended period. In March 2021, while granting some of KBR's motions for summary judgment, the court also concluded that we breached the FCA as a matter of law as to several subcontracts. We filed for two motions for reconsideration, one addressing the ruling on KBR's motion for summary judgment and one addressing the U.S. government's motion. A preliminary meeting was held and the Court issued a ruling on both motions, granting in part and denying in part on both motions. The Court also set a trial date for February 2022 and told the parties that no further motions would be considered. Despite that ruling, the Government filed a Motion of Clarification which is now pending. As of June 30, 2021, we have accrued our best estimate of probable loss related to an unfavorable settlement of this matter in "Other liabilities" on our condensed consolidated balance sheets.

## ***Other matters***

***KBR Contract Claim on FKTC containers.*** KBR previously filed a claim before the ASBCA to recover the costs paid to FKTC to settle its requests for equitable adjustment. The DCMA had disallowed the majority of those costs. Those contract claims were stayed in 2013 at the request of the DOJ so that they could pursue the FCA case referenced above. Those claims were reinstated in 2016. We tried our contract appeal in September 2017. In November 2018, we received an unfavorable ruling from the ASBCA disallowing all of our costs paid to FKTC. KBR's motion for reconsideration by a senior panel of judges at the ASBCA was denied. KBR filed its brief on appeal in September 2019. Oral arguments occurred in May 2020 and a decision was issued on September 1, 2020. Although the court agreed with KBR that the wrong legal standard was applied by the trial court, the appellate court made its own fact findings on damages based on an incomplete record and denied KBR any recovery. KBR filed a motion for rehearing which was denied and therefore the dispute with the U.S. government has concluded. As of June 30, 2021, we believe our recorded accruals are adequate to resolve this matter. We are in discussions with the U.S. government regarding payment.

## **Note 14. Other Commitments and Contingencies**

***Chadian Employee Class Action.*** In May 2018, former employees of our former Chadian subsidiary, Subsahara Services, Inc. ("SSI"), filed a class action suit claiming unpaid damages arising from the ESSO Chad Development Project for Exxon Mobil Corporation ("Exxon") dating back to the early 2000s. Exxon is also named as a defendant in the case. The SSI employees previously filed two class action cases in or around 2005 and 2006 for alleged unpaid overtime and bonuses. The Chadian Labour Court ruled in favor of the SSI employees for unpaid overtime resulting in a settlement of approximately \$25 million which was reimbursed by Exxon under its contract with SSI. The second case for alleged unpaid bonuses was ultimately dismissed by the Supreme Court of Chad.

The current case claims \$122 million in unpaid bonuses characterized as damages rather than employee bonuses to avoid the previous Chadian Supreme Court dismissal and a 5-year statute of limitations on wage-related claims. SSI's initial defense was filed and a hearing was held in December 2018. A merits hearing was held in February 2019. In March 2019, the Labour Court issued a decision awarding the plaintiffs approximately \$34 million including a \$2 million provisional award. Exxon and SSI have appealed the award and requested suspension of the provisional award which was approved on April 2, 2019. Exxon and SSI filed a submission to the Court of Appeal on June 21, 2019, and filed briefs at a hearing on February 28, 2020. The plaintiffs failed to file a response on March 13, 2020, and a hearing was scheduled for April 17, 2020. The hearing was postponed due to COVID-19 but took place on September 18, 2020. On October 9, 2020, the appellate court of Moundou awarded the plaintiffs approximately \$19 million. SSI filed an appeal of this decision to the Chadian Supreme Court on December 28, 2020. SSI's request for suspension on the enforceability of the award from the Chadian Supreme Court was granted on January 4, 2021, and therefore there is no current risk of enforcement of the judgment.

At this time, we do not believe a risk of material loss is probable related to this matter. SSI is no longer an existing entity in Chad or the United States. Further, we believe any amounts ultimately paid to the former employees related to this adverse ruling would be reimbursable by Exxon based on the applicable contract.

***North West Rail Link Project.*** We participate in an unincorporated joint venture with two partners to provide engineering and design services in relation to the operations, trains and systems of a metro rail project in Sydney, Australia. The project commenced in 2014 and during its execution encountered delays and disputes resulting in claims and breach notices submitted to the joint venture by the client. Since November 2018, the client has submitted multiple claims alleging breach of contract and breach of duty by the joint venture in its execution of the services, claiming losses and damages of up to approximately \$300 million Australian dollars. We currently believe the gross amount of the claims significantly exceeds the client's entitlement as well as the joint venture's limits of liability under the contract and that the claims will be covered by project-specific professional indemnity insurance subject to deductibles.

In August 2019, the client advised that it had filed legal proceedings in the Supreme Court of New South Wales to preserve its position with regards to statute of limitations. The joint venture was served a notice of proceedings in November 2019 and an initial hearing was expected to occur in April 2020 but was postponed. The client submitted an amended statement on May 28, 2020 claiming damages of \$301 million Australian dollars but did not provide any detail to support that sum. KBR has a 33% participation interest in the joint venture and the partners have joint and several liability with respect to all obligations under the contract. As of June 30, 2021, we have reserved an amount that is immaterial for this matter. However, it is reasonably possible that we may ultimately be required to pay material amounts in excess of reserves. At this time, fact discovery and expert review are still ongoing. Additionally, we have not received substantiation of the client's alleged damages and therefore, a more precise estimate cannot be made at this time. The joint venture, joint venture insurers, and client continue to be engaged in discussions concerning potential resolution of the claims.

## Note 15. Accumulated Other Comprehensive Loss

### *Changes in AOCL, net of tax, by component*

| <i>Dollars in millions</i>                                      | Accumulated<br>foreign<br>currency<br>translation<br>adjustments | Accumulated<br>pension<br>liability<br>adjustments | Changes in fair<br>value of<br>derivatives | Total             |
|-----------------------------------------------------------------|------------------------------------------------------------------|----------------------------------------------------|--------------------------------------------|-------------------|
| Balance at December 31, 2020                                    | \$ (291)                                                         | \$ (764)                                           | \$ (28)                                    | \$ (1,083)        |
| Other comprehensive income adjustments before reclassifications | 8                                                                | —                                                  | 8                                          | 16                |
| Amounts reclassified from AOCL                                  | 3                                                                | 13                                                 | 6                                          | 22                |
| Net other comprehensive income (loss)                           | 11                                                               | 13                                                 | 14                                         | 38                |
| Balance at June 30, 2021                                        | <u>\$ (280)</u>                                                  | <u>\$ (751)</u>                                    | <u>\$ (14)</u>                             | <u>\$ (1,045)</u> |

| <i>Dollars in millions</i>                                      | Accumulated<br>foreign<br>currency<br>translation<br>adjustments | Accumulated<br>pension<br>liability<br>adjustments | Changes in fair<br>value of<br>derivatives | Total             |
|-----------------------------------------------------------------|------------------------------------------------------------------|----------------------------------------------------|--------------------------------------------|-------------------|
| Balance at December 31, 2019                                    | \$ (315)                                                         | \$ (654)                                           | \$ (18)                                    | \$ (987)          |
| Other comprehensive income adjustments before reclassifications | (37)                                                             | —                                                  | (23)                                       | (60)              |
| Amounts reclassified from AOCL                                  | (11)                                                             | 10                                                 | 5                                          | 4                 |
| Net other comprehensive income (loss)                           | (48)                                                             | 10                                                 | (18)                                       | (56)              |
| Balance at June 30, 2020                                        | <u>\$ (363)</u>                                                  | <u>\$ (644)</u>                                    | <u>\$ (36)</u>                             | <u>\$ (1,043)</u> |

### *Reclassifications out of AOCL, net of tax, by component*

|                                                           | Six Months Ended June 30, |                | Affected line item on the Condensed Consolidated Statements of Operations                             |
|-----------------------------------------------------------|---------------------------|----------------|-------------------------------------------------------------------------------------------------------|
| <i>Dollars in millions</i>                                | 2021                      | 2020           |                                                                                                       |
| <b>Accumulated foreign currency adjustments</b>           |                           |                |                                                                                                       |
| Reclassification of foreign currency adjustments          | \$ (3)                    | \$ 11          | Gain on disposition of assets and investments and Net income attributable to noncontrolling interests |
| Tax benefit                                               | —                         | —              | Provision for income taxes                                                                            |
| Net accumulated foreign currency                          | <u>\$ (3)</u>             | <u>\$ 11</u>   | Net of tax                                                                                            |
| <b>Accumulated pension liability adjustments</b>          |                           |                |                                                                                                       |
| Amortization of actuarial loss (a)                        | \$ (16)                   | \$ (12)        | See (a) below                                                                                         |
| Tax benefit                                               | 3                         | 2              | Provision for income taxes                                                                            |
| Net pension and post-retirement benefits                  | <u>\$ (13)</u>            | <u>\$ (10)</u> | Net of tax                                                                                            |
| <b>Changes in fair value for derivatives</b>              |                           |                |                                                                                                       |
| Foreign currency hedge and interest rate swap settlements | \$ (8)                    | \$ (6)         | Other non-operating income                                                                            |
| Tax benefit                                               | 2                         | 1              | Provision for income taxes                                                                            |
| Net changes in fair value of derivatives                  | <u>\$ (6)</u>             | <u>\$ (5)</u>  | Net of tax                                                                                            |

(a) This item is included in the computation of net periodic pension cost. See Note 9 "Retirement Benefits" to our condensed consolidated financial statements for further discussion.

## Note 16. Share Repurchases

### *Authorized Share Repurchase Program*

On February 25, 2014, our 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. As of December 31, 2019, \$160 million remained available under this authorization. On February 19, 2020, our Board of Directors authorized an increase of approximately \$190 million to our share repurchase program, returning the authorization level to \$350 million. As of June 30, 2021, \$275 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 "withheld 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 this program:

|                                                                         | Three Months Ended<br>June 30, 2021 |                               |                        | Six Months Ended<br>June 30, 2021 |                               |                        |
|-------------------------------------------------------------------------|-------------------------------------|-------------------------------|------------------------|-----------------------------------|-------------------------------|------------------------|
|                                                                         | Number of<br>Shares                 | Average<br>Price per<br>Share | Dollars in<br>Millions | Number of<br>Shares               | Average<br>Price per<br>Share | Dollars in<br>Millions |
| Repurchases under the \$350 million authorized share repurchase program | 681,284                             | \$ 40.89                      | \$ 28                  | 681,284                           | \$ 40.89                      | \$ 28                  |
| Withheld to cover shares                                                | 11,873                              | \$ 40.97                      | —                      | 141,249                           | \$ 31.90                      | \$ 4                   |
| Total                                                                   | 693,157                             | \$ 40.89                      | \$ 28                  | 822,533                           | \$ 39.35                      | \$ 32                  |

  

|                                                                         | Three Months Ended<br>June 30, 2020 |                               |                        | Six Months Ended<br>June 30, 2020 |                               |                        |
|-------------------------------------------------------------------------|-------------------------------------|-------------------------------|------------------------|-----------------------------------|-------------------------------|------------------------|
|                                                                         | Number of<br>Shares                 | Average<br>Price per<br>Share | Dollars in<br>Millions | Number of<br>Shares               | Average<br>Price per<br>Share | Dollars in<br>Millions |
| Repurchases under the \$350 million authorized share repurchase program | —                                   | \$ —                          | \$ —                   | —                                 | \$ —                          | \$ —                   |
| Withheld to cover shares                                                | 11,008                              | \$ 22.79                      | —                      | 160,132                           | \$ 25.74                      | \$ 4                   |
| Total                                                                   | 11,008                              | \$ 22.79                      | \$ —                   | 160,132                           | \$ 25.74                      | \$ 4                   |

## Note 17. 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 treasury stock method.

A reconciliation of the number of shares used for the basic and diluted income per share calculations is as follows:

| <i>Shares in millions</i>                              | Three Months Ended June 30, |      | Six Months Ended June 30, |      |
|--------------------------------------------------------|-----------------------------|------|---------------------------|------|
|                                                        | 2021                        | 2020 | 2021                      | 2020 |
| Basic weighted average common shares outstanding       | 141                         | 142  | 141                       | 142  |
| Stock options, restricted shares, and convertible debt | —                           | —    | —                         | —    |
| Diluted weighted average common shares outstanding     | 141                         | 142  | 141                       | 142  |

For purposes of applying the two-class method in computing income (loss) per share, there were no net earnings allocated to participating securities, or a negligible amount per share for the three and six months ended June 30, 2021. There were no net earnings allocated to participating securities for the three and six months ended June 30, 2020. The diluted income per share calculation did not include antidilutive weighted average shares for three months ended June 30, 2021, and 0.2 million antidilutive weighted average shares for the six months ended June 30, 2021. The diluted income (loss) per share calculation did not include 1.2 million antidilutive weighted average shares for the three and six months ended June 30, 2020.

## Note 18. 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 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.

|                                                    |         | June 30, 2021  |            | December 31, 2020 |            |
|----------------------------------------------------|---------|----------------|------------|-------------------|------------|
| <i>Dollars in millions</i>                         |         | Carrying Value | Fair Value | Carrying Value    | Fair Value |
| <b>Liabilities (including current maturities):</b> |         |                |            |                   |            |
| Term Loan A                                        | Level 2 | \$ 281         | \$ 281     | \$ 285            | \$ 285     |
| Term Loan B                                        | Level 2 | 514            | 513        | 516               | 517        |
| Convertible Notes                                  | Level 2 | 350            | 543        | 350               | 480        |
| Senior Notes                                       | Level 2 | 250            | 251        | 250               | 262        |
| Senior Credit Facility                             | Level 2 | 260            | 260        | 260               | 260        |
| Nonrecourse project debt                           | Level 2 | 2              | 2          | 7                 | 7          |

See Note 10 "Debt and Other Credit Facilities" for further discussion of our term loans, convertibles notes, and nonrecourse project debt.

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 June 30, 2021, the gross notional value of our foreign currency exchange forwards and option contracts used to hedge balance sheet exposures was \$57 million, all of which had durations of 16 days or less. We also had approximately \$1 million (gross notional value) of cash flow hedges which had durations of 1 month or less. The cash flow hedges are primarily related to the British Pound.

The fair value of our balance sheet and cash flow hedges included in "Other current assets" and "Other current liabilities" on our condensed consolidated balance sheets was immaterial at June 30, 2021, and December 31, 2020. 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 income (expense)" on our condensed consolidated statements of operations.

| <i>Gains (losses) dollars in millions</i> | Three Months Ended |               | Six Months Ended |             |
|-------------------------------------------|--------------------|---------------|------------------|-------------|
|                                           | June 30,           |               | June 30,         |             |
|                                           | 2021               | 2020          | 2021             | 2020        |
| Balance Sheet Hedges - Fair Value         | \$ (1)             | \$ (1)        | \$ (1)           | \$ —        |
| Balance Sheet Position - Remeasurement    | 1                  | —             | (5)              | 6           |
| Net                                       | <u>\$ —</u>        | <u>\$ (1)</u> | <u>\$ (6)</u>    | <u>\$ 6</u> |

**Interest rate risk.** We use interest rate swaps to reduce interest rate risk and to manage net interest expense by converting our LIBOR-rate based loans into fixed-rate loans. In October 2018, we entered into interest rate swap agreements with a notional value of \$500 million, which are effective beginning October 2018 and mature in September 2022. Under the October 2018 swap agreements, we receive a one-month LIBOR rate and pay a monthly fixed rate of 3.055% for the term of the swaps. In March 2020, we entered into additional swap agreements with a notional value of \$400 million, which are effective beginning October 2022 and mature in January 2027. Under the March 2020 swap agreements, we will receive a one-month LIBOR rate and pay a monthly fixed rate of 0.965% for the term of the swaps. Our interest rate swaps are reported at fair value using Level 2 inputs. The fair value of the interest rate swaps at June 30, 2021, was a \$16 million net liability, of which \$15 million is included in "Other current liabilities," \$4 million is included in "Other liabilities," and \$3 million is included in "Other assets." The unrealized net losses on these interest rate swaps was \$16 million and is included in "AOCL" as of June 30, 2021. The fair value of the interest rate swaps at December 31, 2020, was a \$33 million liability, of which \$15 million is included in "Other current liabilities" and \$18 million is included in "Other liabilities." The unrealized net losses on these interest rate swaps was \$33 million and included in "AOCL" as of December 31, 2020.

**Credit Losses.** We are exposed to credit losses primarily related to our professional services, project delivery, and technologies offered in our STS business segment. We do not consider our GS business segment to be at risk for credit losses because substantially all services within this segment are provided to agencies of the U.S., U.K. and Australian governments. We determined our allowance for credit losses by using a loss-rate methodology, in which we assessed our historical write-off of receivables against our total receivables and contract asset balances over several years. From this historical loss-rate approach, we also considered the current and forecasted economic conditions expected to be in place over the life of our receivables and contract assets.

We monitor our ongoing credit exposure through an active review of our customers' receivables balance against contract terms and due dates. Our activities include timely performance of our accounts receivable reconciliations, assessment of our aging of receivables, dispute resolution and payment confirmation. We also monitor any change in our historical write-off of receivables utilized in our loss-rate methodology and assess for any forecasted change in market conditions to adjust our credit reserve.

At June 30, 2021, our STS business segment that is subject to credit risk reported approximately \$347 million of financial assets consisting primarily of accounts receivable and contract assets, net of allowances of \$13 million. Although there continues to be an economic disruption resulting from the impact of COVID-19, changes in our credit loss reserve was not material for the six months ended June 30, 2021. Based on an aging analysis at June 30, 2021, 85% of our accounts receivable related to this segment were outstanding for less than 90 days.

**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. The receivables sold under the agreements do not allow for recourse for any credit risk related to our customers if such receivables are not collected by the third-party financial institutions. The Company accounts for these receivable transfers as a sale under ASC Topic 860, Transfers and Servicing, as the receivables have been legally isolated from the Company, the financial institution has the right to pledge or exchange the assets received and we do not maintain effective control over the transferred accounts receivable. Our only continuing involvement with the transferred financial assets is as the collection and servicing agent. As a result, the accounts receivable balance on the condensed consolidated balance sheets is presented net of the transferred amount. The Company has derecognized \$553 million of accounts receivables from the balance sheet under these agreements, of which certain receivables totaling \$543 million were sold under the MUFG RPA as of June 30, 2021. We did not factor any material receivables in the prior year. 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 (loss) income” on the condensed consolidated statements of operations.

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

|                                                     | Six Months Ended<br>June 30, 2021 |
|-----------------------------------------------------|-----------------------------------|
| <i>Dollars in millions</i>                          |                                   |
| Sale of receivables                                 | 553                               |
| Settlement of receivables                           | (434)                             |
| Cash collected, not yet remitted                    | —                                 |
| Outstanding balances sold to financial institutions | <u>\$ 119</u>                     |

## Note 19. Recent Accounting Pronouncements

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

In March 2020, the FASB issued ASU No. 2020-04, Reference Rate Reform (Topic 848) - Facilitation of the Effects of the Interbank Offered Rate Transition on Financial Reporting to provide optional relief from applying generally accepted accounting principles to contracts, hedging relationships and other transactions affected by reference rate reform. In addition, in January 2021, the FASB issued ASU No. 2021-01, Reference Rate Reform (Topic 848) – Scope, to clarify that certain optional expedients and exceptions in Topic 848 for contract modifications and hedge accounting apply to derivatives that are affected by the discounting transition. The guidance is effective upon issuance and generally can be applied through December 31, 2022. We are currently evaluating the future impact of adoption of this standard.

In August 2020, the FASB issued ASU No. 2020-06, Debt-Debt Conversion and other Options (Subtopic 470-20) and Derivatives and Hedging - Contracts in Entity's Own Equity (Subtopic 815-40): Accounting for Convertible Instruments and Contracts in an Equity's Own Equity. This guidance simplifies the accounting for convertible instruments by reducing the number of accounting models available for convertible debt instruments. This guidance also eliminates the treasury stock method to calculate diluted earnings per share for certain convertible instruments and requires the use of the if-converted method. ASU 2020-06 is effective for us for annual reporting periods beginning after December 15, 2021, and for interim periods within those annual periods, and can be applied utilizing either a modified or full retrospective transition method. We are currently evaluating the future impact of adoption of this standard.

In May 2021, the FASB issued ASU No. 2021-04. Earnings Per Share (Topic 260), Debt - Modifications and Extinguishments (Subtopic 470-50), Compensation - Stock Compensation (Topic 718), and Derivatives and Hedging - Contracts in Entity's Own Equity (Subtopic 815-40): Issuer's Accounting for Certain Modifications or Exchanges of Freestanding Equity-Classified Written Call Options. This ASU provides guidance for a modification or an exchange of a freestanding equity-classified written call option that is not within the scope of another Topic. It specifically addresses measurement, treatment and recognition of a freestanding equity-classified written call option modification or exchange. ASU No. 2021-04 is effective for all entities for fiscal years beginning after December 15, 2021, including interim periods within those fiscal years. We are currently evaluating the future impact of adoption of this standard.

## **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 2020 Annual Report on Form 10-K.

### **Overview**

KBR, a Delaware corporation, delivers science, technology and engineering 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; C4ISR; 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; and
- Technology such as licensing of proprietary, sustainability-focused process technology; advisory services focused on energy transition; and digitally-enabled asset optimization solutions.

KBR's strategic growth vectors include:

- Defense modernization;
- Space superiority;
- Health and human performance; and
- Sustainable technology.

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. Ministry of Defence, London Metropolitan Police, 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. 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 solutions enable clients to achieve a cleaner, greener, more energy efficient global future.

On October 1, 2020, we acquired Centauri, a provider of high-end engineering and development solutions for critical, well-funded, national security missions associated with space, intelligence, cyber, and emerging technologies such as directed energy and missile defense. Additional information relating to the Centauri acquisition is described in Note 4 to our condensed consolidated financial statements.

### **Business Environment and Trends**

#### *Government Outlook*

The fiscal 2021 and proposed fiscal 2022 spending budgets prioritize and furthers a national security strategy to confront near peer threats around the world, enhances the DoD's cybersecurity strategy and cyber warfare capabilities, increases the priority of military space superiority, directs innovation to meet long-range emerging threats, and continues the restoration of military readiness. The budget includes a number of measures to strengthen emerging technologies including cyber-science and

technologies, artificial intelligence, directed energy, hypersonics, and biotechnologies. The proposed fiscal 2022 national security budget outlines spending of \$753 billion, a 1.6% increase over the fiscal 2021 amounts, and includes \$715 billion for the Department of Defense. The fiscal 2022 non-defense discretionary spending proposal includes a 16% increase in funding, including a 6.5% increase in funding for NASA to support the continuation of scientific research and exploration as well as increased funding across all agencies to tackle climate change.

The U.S. military announced a full withdrawal of U.S. forces from Afghanistan by September 11, 2021. We believe the overall impact will not be material to our financial results.

Internationally, our Government Solutions work is performed primarily for the U.K. Ministry of Defence and the Australian Department of Defence. The U.K. government was committed to spend £188 billion on defense over the coming four years, an increase of £24 billion or 14%. 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.

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, global expansion of the middle class, and acceleration of demand for energy transition and renewable energy sources for which momentum continues to build. Clients continue to prioritize investment in solutions to increase end-product flexibility and energy efficiency and to reduce their environmental footprint. As 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, sequestration and utilization; 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 technology and capabilities.

### *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, including detail with respect to changes to our reportable segments in Notes 1 and 2 to our condensed consolidated financial statements.

**Three months ended June 30, 2021 compared to the three months ended June 30, 2020**

The information below is an analysis of our consolidated results for the three months ended June 30, 2021, compared to the three months ended June 30, 2020. See Results of Operations by Business Segment below for additional information describing the performance of each of our reportable segments.

**Revenues**

| <u>Dollars in millions</u> | Three Months Ended June 30, |          |               |      |
|----------------------------|-----------------------------|----------|---------------|------|
|                            | 2021                        | 2020     | 2021 vs. 2020 |      |
|                            |                             |          | \$            | %    |
| Revenues                   | \$ 1,536                    | \$ 1,385 | \$ 151        | 11 % |

The increase in overall revenue was primarily driven by organic growth in our GS business segment, which was attributable to new program wins and on-contract expansion as well as our acquisition of Centauri in October 2020, which contributed approximately \$180 million this quarter. This growth was partially offset by a reduction in revenue to \$305 million in our STS business segment, which is in line with management expectations following the company's exit from commoditized construction services in 2020.

**Gross Profit**

| <u>Dollars in millions</u> | Three Months Ended June 30, |        |               |      |
|----------------------------|-----------------------------|--------|---------------|------|
|                            | 2021                        | 2020   | 2021 vs. 2020 |      |
|                            |                             |        | \$            | %    |
| Gross profit               | \$ 207                      | \$ 142 | \$ 65         | 46 % |

The increase in overall gross profit was primarily driven by improvements in our STS business segment due to improved execution and market recovery in 2021, expenses recognized in 2020 that did not recur in 2021, and the net favorable resolution of and provisioning for legacy matters. Gross profits also increased in our GS business segment due to the acquisition of Centauri in October 2020. The increase was partially offset by higher amortization of intangibles from the Centauri acquisition and lower construction work on the Aspire program in our GS business segment.

**Equity in Earnings (Losses) of Unconsolidated Affiliates**

| <u>Dollars in millions</u>                               | Three Months Ended June 30, |       |               |          |
|----------------------------------------------------------|-----------------------------|-------|---------------|----------|
|                                                          | 2021                        | 2020  | 2021 vs. 2020 |          |
|                                                          |                             |       | \$            | %        |
| Equity in earnings (losses) of unconsolidated affiliates | \$ (186)                    | \$ 16 | \$ (202)      | (1,263)% |

The overall decrease in equity in earnings (losses) of unconsolidated affiliates was primarily driven by a non-cash charge in the amount of \$193 million associated with the Ichthys LNG project recognized in the current quarter in our STS business segment.

**Selling, General and Administrative Expenses**

| <u>Dollars in millions</u>                   | Three Months Ended June 30, |         |               |      |
|----------------------------------------------|-----------------------------|---------|---------------|------|
|                                              | 2021                        | 2020    | 2021 vs. 2020 |      |
|                                              |                             |         | \$            | %    |
| Selling, general and administrative expenses | \$ (103)                    | \$ (73) | \$ 30         | 41 % |

Selling, general and administrative expenses in the three months ended June 30, 2021, was \$30 million higher than the same period in 2020, which was primarily driven by increased expenses attributable to the Centauri acquisition, increased costs associated with the return to the office, increased travel beginning in early 2021 compared to 2020 as well as other corporate initiatives.

**Acquisition and Integration Related Costs**

| <u>Dollars in millions</u>                | Three Months Ended June 30, |      |               |     |
|-------------------------------------------|-----------------------------|------|---------------|-----|
|                                           | 2021                        | 2020 | 2021 vs. 2020 |     |
|                                           |                             |      | \$            | %   |
| Acquisition and integration related costs | \$ (3)                      | \$ — | \$ 3          | n/m |

Acquisition and integration related costs in 2021 are primarily comprised of costs associated with our acquisition of Centauri in October 2020.

**Goodwill Impairment, Restructuring Charges and Asset Impairments**

| <u>Dollars in millions</u>                  | Three Months Ended June 30, |         |               |     |
|---------------------------------------------|-----------------------------|---------|---------------|-----|
|                                             | 2021                        | 2020    | 2021 vs. 2020 |     |
|                                             |                             |         | \$            | %   |
| Goodwill impairment                         | \$ —                        | \$ (37) | \$ (37)       | n/m |
| Restructuring charges and asset impairments | \$ (2)                      | \$ (59) | \$ 57         | n/m |

In 2020, as a result of the economic and market volatility, management initiated a restructuring plan and we recognized goodwill impairments, restructuring charges, and assets impairments resulting from that plan.

**Interest Expense**

| <u>Dollars in millions</u> | Three Months Ended June 30, |         |               |      |
|----------------------------|-----------------------------|---------|---------------|------|
|                            | 2021                        | 2020    | 2021 vs. 2020 |      |
|                            |                             |         | \$            | %    |
| Interest expense           | \$ (23)                     | \$ (19) | \$ 4          | 21 % |

The increase in interest expense was primarily driven by increased expense associated with borrowings to finance the acquisition of Centauri.

**Other Non-operating (Loss) Income**

| <u>Dollars in millions</u>        | Three Months Ended June 30, |        |               |       |
|-----------------------------------|-----------------------------|--------|---------------|-------|
|                                   | 2021                        | 2020   | 2021 vs. 2020 |       |
|                                   |                             |        | \$            | %     |
| Other non-operating (loss) income | \$ 2                        | \$ (2) | \$ 4          | 200 % |

Other non-operating (loss) income includes interest income, foreign exchange gains and losses, and other non-operating income or expense items with the change primarily driven by foreign exchange gains and losses.

**Provision for Income Taxes**

| <u>Dollars in millions</u>                                            | Three Months Ended June 30, |         |               |       |
|-----------------------------------------------------------------------|-----------------------------|---------|---------------|-------|
|                                                                       | 2021                        | 2020    | 2021 vs. 2020 |       |
|                                                                       |                             |         | \$            | %     |
| Income before provision for income taxes and noncontrolling interests | \$ (109)                    | \$ (33) | \$ (76)       | 230 % |
| (Provision) for income taxes                                          | \$ (40)                     | \$ (6)  | \$ 34         | 567 % |

The provision for income taxes for the three months ended June 30, 2021 reflects a (37)% tax rate as compared to a (18)% tax rate for the three months ended June 30, 2020. The effective tax rate of (37)% for the three months ended June 30, 2021 was primarily impacted by an equity adjustment on an LNG project and the enactment of a tax rate change in the U.K. Excluding the tax impact of these adjustments, our tax rate would be 25% for the three months ended June 30, 2021. The effective tax rate of (18)% for the three months ended June 30, 2020 was primarily impacted by impairment and restructuring charges incurred during the period. Excluding the tax impact of these adjustments, our rate would have been 27% for the three months ended June 30, 2020. See Note 11 to our condensed consolidated financial statements for further discussion on income taxes.

# **Net Income Attributable to Noncontrolling Interests**

| <i>Dollars in millions</i>                          | Three Months Ended June 30, |      |               |     |
|-----------------------------------------------------|-----------------------------|------|---------------|-----|
|                                                     | 2021                        | 2020 | 2021 vs. 2020 |     |
|                                                     |                             |      | \$            | %   |
| Net income attributable to noncontrolling interests | \$ (3)                      | \$ — | \$ 3          | n/m |

The increase in net income attributable to noncontrolling interests was primarily driven by income earned related to a Middle East joint venture project in our STS business segment.

## **Results of Operations by Business Segment**

| <i>Dollars in millions</i>                                            | Three Months Ended June 30, |                |
|-----------------------------------------------------------------------|-----------------------------|----------------|
|                                                                       | 2021                        | 2020           |
| <b>Revenues</b>                                                       |                             |                |
| Government Solutions                                                  | \$ 1,231                    | \$ 953         |
| Sustainable Technology Solutions                                      | 305                         | 432            |
| <b>Total revenues</b>                                                 | \$ 1,536                    | \$ 1,385       |
| <b>Gross profit</b>                                                   |                             |                |
| Government Solutions                                                  | \$ 130                      | \$ 117         |
| Sustainable Technology Solutions                                      | 77                          | 25             |
| <b>Total gross profit</b>                                             | \$ 207                      | \$ 142         |
| <b>Equity in earnings (losses) of unconsolidated affiliates</b>       |                             |                |
| Government Solutions                                                  | \$ 8                        | \$ 7           |
| Sustainable Technology Solutions                                      | (194)                       | 9              |
| <b>Total equity in earnings (losses) of unconsolidated affiliates</b> | \$ (186)                    | \$ 16          |
| <b>Total selling, general and administrative expenses</b>             | \$ (103)                    | \$ (73)        |
| <b>Acquisition and integration related costs</b>                      | \$ (3)                      | \$ —           |
| <b>Goodwill impairment</b>                                            | \$ —                        | \$ (37)        |
| <b>Restructuring charges and asset impairments</b>                    | \$ (2)                      | \$ (59)        |
| <b>Gain on disposition of assets</b>                                  | \$ (1)                      | \$ (1)         |
| <b>Total operating income</b>                                         | <u>\$ (88)</u>              | <u>\$ (12)</u> |

## Government Solutions

GS revenues increased by \$278 million to \$1,231 million in the second quarter of 2021, compared to \$953 million in the second quarter of 2020. The increase was primarily driven by organic growth across each of our business units with Readiness & Sustainment posting 17% organic growth, International posting 11% organic growth, Science & Space posting 8% organic growth, Defense & Intel posting 4% organic growth, and the acquisition of Centauri in October 2020, which contributed over \$180 million during the quarter. These increases were partially offset by lower volume associated with the successful completion of non-recurring construction work on our Aspire program.

GS gross profit increased by \$13 million, or 11%, to \$130 million in the second quarter of 2021 compared to \$117 million in the second quarter of 2020. The increase was primarily driven by the growth discussed above, partially offset by the higher amortization of intangibles from the Centauri acquisition and wind down of construction work on the Aspire program.

GS equity in earnings of unconsolidated affiliates change remained flat at \$8 million in each of the three months ended June 30, 2021 and 2020.

## Sustainable Technology Solutions

STS revenues decreased by \$127 million, or 29%, to \$305 million in the second quarter of 2021 compared to \$432 million in the second quarter of 2020. The decrease was primarily driven by the company's exit from commoditized construction services in 2020.

STS gross profit increased by \$52 million, or 208% to \$77 million in the second quarter of 2021 compared to \$25 million in the second quarter of 2020. The increase was primarily driven by strong execution and market recovery in 2021, expenses recognized in 2020 but did not recur in 2021, and the net favorable resolution of and provisioning for legacy matters.

STS equity in earnings (losses) of unconsolidated affiliates decreased by \$203 million, or 2256% to \$194 million loss in the second quarter of 2021 compared to \$9 million in the second quarter of 2020. The decrease was primarily driven by a non-cash charge in the amount of \$193 million associated with the Ichthys LNG project recognized in the current quarter.

### Six months ended June 30, 2021 compared to the six months ended June 30, 2020

The information below is an analysis of our consolidated results for the six months ended June 30, 2021, compared to the six months ended June 30, 2020. See *Results of Operations by Business Segment* below for additional information describing the performance of each of our reportable segments.

#### Revenues

| <u>Dollars in millions</u> | Six Months Ended June 30, |          |               |     |
|----------------------------|---------------------------|----------|---------------|-----|
|                            | 2021                      | 2020     | 2021 vs. 2020 |     |
|                            |                           |          | \$            | %   |
| Revenues                   | \$ 2,997                  | \$ 2,922 | \$ 75         | 3 % |

The increase in overall revenue was primarily driven by organic growth in our GS business segment, which was attributable to new program wins and on-contract expansion as well as our acquisition of Centauri in October 2020. This growth was partially offset by a reduction in revenue to \$602 million in our STS business segment, which is in line with management expectations following the company's exit from commoditized construction services in 2020.

#### Gross Profit

| <u>Dollars in millions</u> | Six Months Ended June 30, |        |               |      |
|----------------------------|---------------------------|--------|---------------|------|
|                            | 2021                      | 2020   | 2021 vs. 2020 |      |
|                            |                           |        | \$            | %    |
| Gross profit               | \$ 375                    | \$ 328 | \$ 47         | 14 % |

The increase in overall gross profit was primarily driven by improvements in our STS business segment due to improved execution and market recovery in 2021, expenses recognized in 2020 that did not recur in 2021, and the net favorable resolution of and provisioning for legacy matters. Gross profits also increased in our GS business segment due to the acquisition of

Centaury in October 2020. The increase was partially offset by higher amortization of intangibles from the Centaury acquisition and lower construction work on the Aspire program in our GS business segment.

**Equity in Earnings (Losses) of Unconsolidated Affiliates**

| <u>Dollars in millions</u>                               | Six Months Ended June 30, |       |               |     |
|----------------------------------------------------------|---------------------------|-------|---------------|-----|
|                                                          | 2021                      | 2020  | 2021 vs. 2020 |     |
|                                                          |                           |       | \$            | %   |
| Equity in earnings (losses) of unconsolidated affiliates | \$ (174)                  | \$ 17 | \$ (191)      | n/m |

The overall decrease in equity earnings (losses) was primarily driven by a non-cash charge in the amount of \$193 million associated with the Ichthys LNG project recognized in the current quarter in our STS business segment.

**Selling, General and Administrative Expenses**

| <u>Dollars in millions</u>                   | Six Months Ended June 30, |          |               |      |
|----------------------------------------------|---------------------------|----------|---------------|------|
|                                              | 2021                      | 2020     | 2021 vs. 2020 |      |
|                                              |                           |          | \$            | %    |
| Selling, general and administrative expenses | \$ (192)                  | \$ (170) | \$ 22         | 13 % |

Selling, general and administrative expenses in the six months ended June 30, 2021 were \$22 million higher than the same period in 2020, which was primarily driven by increased expenses attributable to the Centaury acquisition, increased costs associated with the return to the office, increased travel beginning in early 2021 compared to 2020 as well as other corporate initiatives, partially offset by cost reductions to right-size the cost base in line with the business shift to exit non-strategic areas in our STS business segment.

**Acquisition and Integration Related Costs**

| <u>Dollars in millions</u>                | Six Months Ended June 30, |      |               |     |
|-------------------------------------------|---------------------------|------|---------------|-----|
|                                           | 2021                      | 2020 | 2021 vs. 2020 |     |
|                                           |                           |      | \$            | %   |
| Acquisition and integration related costs | \$ (4)                    | \$ — | \$ 4          | n/m |

Acquisition and integration related costs in 2021 are primarily comprised of costs associated with our acquisition of Centaury in October 2020.

**Goodwill Impairment, Restructuring Charges and Asset Impairments**

| <u>Dollars in millions</u>                  | Six Months Ended June 30, |          |               |     |
|---------------------------------------------|---------------------------|----------|---------------|-----|
|                                             | 2021                      | 2020     | 2021 vs. 2020 |     |
|                                             |                           |          | \$            | %   |
| Goodwill impairment                         | \$ —                      | \$ (99)  | \$ 99         | n/m |
| Restructuring charges and asset impairments | \$ (2)                    | \$ (175) | \$ 173        | n/m |

In 2020, as a result of the economic and market volatility, management initiated a restructuring plan and we recognized goodwill impairments, restructuring charges and asset impairments resulting from that plan.

**Interest Expense**

| <u>Dollars in millions</u> | Six Months Ended June 30, |         |               |     |
|----------------------------|---------------------------|---------|---------------|-----|
|                            | 2021                      | 2020    | 2021 vs. 2020 |     |
|                            |                           |         | \$            | %   |
| Interest expense           | \$ (45)                   | \$ (42) | \$ 3          | 7 % |

The increase in interest expense was primarily driven by increased expense associated with borrowings to finance the acquisition of Centauri.

**Other Non-operating Income (loss)**

| <u>Dollars in millions</u>        | Six Months Ended June 30, |      |               |        |
|-----------------------------------|---------------------------|------|---------------|--------|
|                                   | 2021                      | 2020 | 2021 vs. 2020 |        |
|                                   |                           |      | \$            | %      |
| Other non-operating income (loss) | \$ (1)                    | \$ 5 | \$ (6)        | (120)% |

Other non-operating income includes interest income, foreign exchange gains and losses, and other non-operating income or expense items with the change primarily driven by foreign exchange gains and losses.

**Provision for Income Taxes**

| <u>Dollars in millions</u>                                                   | Six Months Ended June 30, |          |               |       |
|------------------------------------------------------------------------------|---------------------------|----------|---------------|-------|
|                                                                              | 2021                      | 2020     | 2021 vs. 2020 |       |
|                                                                              |                           |          | \$            | %     |
| Income (loss) before provision for income taxes and noncontrolling interests | \$ (45)                   | \$ (118) | \$ 73         | (62)% |
| (Provision) benefit for income taxes                                         | \$ (56)                   | \$ (5)   | \$ 51         | n/m   |

The provision for income taxes for the six months ended June 30, 2021 reflects a (124)% tax rate as compared to a (4)% tax rate for the six months ended June 30, 2020. The effective tax rate of (124)% for the six months ended June 30, 2021 was primarily impacted by an equity adjustment on the LNG project and the enactment of a tax rate change in the U.K. Excluding the tax impact of these adjustments, our tax rate would be 25% for the six months ended June 30, 2021. The effective tax rate of (4)% for the six months ended June 30, 2020 was primarily impacted by impairment and restructuring charges incurred during the period. Excluding the tax impact of these adjustments, our tax rate would have been 27% six months ended June 30, 2020. See Note 11 to our condensed consolidated financial statements for further discussion on income taxes.

**Net Income Attributable to Noncontrolling Interests**

| <u>Dollars in millions</u>                          | Six Months Ended June 30, |         |               |     |
|-----------------------------------------------------|---------------------------|---------|---------------|-----|
|                                                     | 2021                      | 2020    | 2021 vs. 2020 |     |
|                                                     |                           |         | \$            | %   |
| Net income attributable to noncontrolling interests | \$ (4)                    | \$ (20) | \$ (16)       | n/m |

The decrease in net income attributable to noncontrolling interests was primarily driven by the resolution of a contingency on a completed LNG project and liquidation of the joint venture in 2020, partially offset by income earned related to a Middle East joint venture project in our STS business segment.

## Results of Operations by Business Segment

| <i>Dollars in millions</i>                                            | Six Months Ended June 30, |                 |
|-----------------------------------------------------------------------|---------------------------|-----------------|
|                                                                       | 2021                      | 2020            |
| <b>Revenues</b>                                                       |                           |                 |
| Government Solutions                                                  | \$ 2,395                  | \$ 1,935        |
| Sustainable Technology Solutions                                      | 602                       | 987             |
| <b>Total revenues</b>                                                 | <b>\$ 2,997</b>           | <b>\$ 2,922</b> |
| <b>Gross profit</b>                                                   |                           |                 |
| Government Solutions                                                  | \$ 246                    | \$ 246          |
| Sustainable Technology Solutions                                      | 129                       | 82              |
| <b>Total gross profit</b>                                             | <b>\$ 375</b>             | <b>\$ 328</b>   |
| <b>Equity in earnings (losses) of unconsolidated affiliates</b>       |                           |                 |
| Government Solutions                                                  | \$ 15                     | \$ 12           |
| Sustainable Technology Solutions                                      | (189)                     | 5               |
| <b>Total equity in earnings (losses) of unconsolidated affiliates</b> | <b>\$ (174)</b>           | <b>\$ 17</b>    |
| <b>Total selling, general and administrative expenses</b>             | <b>\$ (192)</b>           | <b>\$ (170)</b> |
| <b>Acquisition and integration related costs</b>                      | <b>\$ (4)</b>             | <b>\$ —</b>     |
| <b>Goodwill impairment</b>                                            | <b>\$ —</b>               | <b>\$ (99)</b>  |
| <b>Restructuring charges and asset impairments</b>                    | <b>\$ (2)</b>             | <b>\$ (175)</b> |
| <b>(Loss) gain on disposition of assets</b>                           | <b>\$ (2)</b>             | <b>\$ 18</b>    |
| <b>Total operating income</b>                                         | <b>\$ 1</b>               | <b>\$ (81)</b>  |

## ***Government Solutions***

GS revenues increased by \$460 million, or 24%, to \$2.4 billion in the six months ended June 30, 2021, compared to \$1,935 million in the six months ended June 30, 2020. The increase was primarily driven by organic growth across each of business each of our business units with Readiness & Sustainment posting 15% organic growth, Science & Space posting 6% organic growth, Defense & Intel posting 5% growth, International posting 1% growth, and the acquisition of Centauri in October 2020, which contributed \$313 million this year. These increases were partially offset by lower volume associated with the successful completion of non-recurring construction work on our Aspire program.

GS gross profit decreased by \$0 million, to \$246 million in the six months ended June 30, 2021, compared to \$246 million in the six months ended June 30, 2020, despite the increase in revenue growth of 24% year over year, which was primarily driven by an increase in gross profits from the acquisition of Centauri in October 2020, partially offset by the higher amortization of intangibles from the Centauri acquisition and wind down of construction work on the Aspire program.

GS equity in earnings of unconsolidated affiliates increased by \$3 million to \$15 million in the six months ended June 30, 2021, compared to \$12 million in the six months ended June 30, 2020. The increase was primarily driven by better performance of joint ventures and increased work in our International business, partially offset by changes in project estimates in a domestic joint venture.

## ***Sustainable Technology Solutions***

STS revenues decreased by \$385 million, or 39%, to \$602 million in the six months ended June 30, 2021, compared to \$987 million in the six months ended June 30, 2020. The decrease was primarily driven by the company's exit from commoditized construction services in 2020.

STS gross profit increased by \$47 million, or 57%, to \$129 million in the six months ended June 30, 2021, compared to \$82 million in the six months ended June 30, 2020. The increase was primarily driven by strong execution and market recovery in 2021, expenses recognized in 2020 but did not recur in 2021, and the net favorable resolution of and provisioning for legacy matters.

STS equity in earnings of unconsolidated affiliates decreased by \$194 million to \$189 million loss in the six months ended June 30, 2021, compared to a \$5 million in earnings in the six months ended June 30, 2020. The decrease was primarily driven by a non-cash charge in the amount of \$193 million associated with the Ichthys LNG project recognized in the current quarter.

## **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 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. 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. Because 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 \$2.8 billion at June 30, 2021, and \$2.4 billion at December 31, 2020. Our backlog included in the table below for projects related to consolidated joint ventures with noncontrolling interests includes 100% of the backlog associated with those joint ventures and totaled \$46 million and \$52 million at June 30, 2021 and December 31, 2020, respectively.

The following table summarizes our backlog by business segment as of June 30, 2021, and December 31, 2020, respectively:

| <i>Dollars in millions</i>       | June 30,<br>2021 | December 31,<br>2020 |
|----------------------------------|------------------|----------------------|
| Government Solutions             | \$ 12,374        | \$ 12,661            |
| Sustainable Technology Solutions | 2,512            | 2,454                |
| Total backlog                    | <u>\$ 14,886</u> | <u>\$ 15,115</u>     |

We estimate that as of June 30, 2021, 27% of our backlog will be executed within one year. Of this amount, 83% will be recognized in revenues on our condensed consolidated statement of operations and 17% will be recorded by our unconsolidated joint ventures. As of June 30, 2021, \$118 million of our backlog relates to active contracts that are in a loss position.

As of June 30, 2021, 14% of our backlog was attributable to fixed-price contracts, 47% was attributable to PFIs, 25% was attributable to cost-reimbursable contracts, and 14% 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 June 30, 2021, \$9.4 billion of our GS backlog was currently funded by our customers.

As of June 30, 2021, we had approximately \$5.0 billion of priced option periods for U.S. government contracts that are not included in the backlog amounts presented above.

The difference between backlog of \$14.9 billion and the remaining performance obligation as defined by ASC 606 of \$11.5 billion is primarily due to our proportionate share of backlog related to unconsolidated joint ventures which is not included in our remaining performance obligation. See Note 3 to our condensed consolidated financial statements for discussion of the remaining performance obligation.

## Transactions with Joint Ventures

We perform many of our projects through incorporated and unincorporated joint ventures. 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. We recognize the profit on our services provided to joint ventures that we consolidate and joint ventures that we record under the equity method of accounting primarily using the percentage-of-completion method. See Note 8 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, 13 and 14 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 equivalents, cash generated from operations, our Senior Credit Facility and access to financial 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 the early phases of our larger fixed-price projects, technology projects, and those of our consolidated joint ventures in advance of incurring related costs. On 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.

STS services projects generally 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 will be issued under our \$1 billion Revolver under our Senior Credit Facility. Letters of credit may also be arranged with our banks on a bilateral, syndicated or other basis.

As discussed in Note 10 "Debt and Other Credit Facilities" of our condensed consolidated financial statements, we amended our Senior Credit Facility on July 2, 2020, to consist of a \$1 billion revolving credit facility ("Revolver"), a \$275 million Loan A, ("Term Loan A") of which a portion is denominated in Australian dollars, and a \$520 million Term Loan B ("Term Loan B"), with an aggregate capacity of \$1.795 billion. The Revolver and Term Loan A mature in February 2025 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 June 30, 2021, we were in compliance with all financial covenants related to our debt agreements.

Cash and equivalents totaled \$483 million at June 30, 2021, and \$436 million at December 31, 2020, and consisted of the following:

|                                               | June 30,<br>2021 | December 31,<br>2020 |
|-----------------------------------------------|------------------|----------------------|
| <i>Dollars in millions</i>                    |                  |                      |
| Domestic U.S. cash                            | \$ 95            | \$ 54                |
| International cash                            | 257              | 231                  |
| Joint venture and Aspire Defence project cash | 131              | 151                  |
| Total                                         | <u>\$ 483</u>    | <u>\$ 436</u>        |

Our cash balances are held in numerous accounts throughout the world to fund our global activities. 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 U.S. and 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 around the world, including whether foreign earnings are permanently reinvested.

During the quarter ending March 31 2021, we changed our permanent reinvestment assertion on the unremitted earnings, as well as all current and future earnings in a wholly owned subsidiary in India. We determined that the past unremitted earnings of \$30 million is available for future repatriation for deployment in the U.S. Accordingly, we have recorded the income tax expense expected with the future repatriation in Q1 2021. In addition in Q1 2021, we changed our permanent reinvestment assertion on all current and future earnings in our subsidiaries in Saudi Arabia. The income tax expense associated with the current and future earnings will be reflected in the interim and annual periods in which the earnings are generated.

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 projects.

As of June 30, 2021, substantially all of our excess cash was held in commercial bank time deposits or interest bearing 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:

| <u>Dollars in millions</u>                  | <u>Six Months Ended June 30,</u> |                |
|---------------------------------------------|----------------------------------|----------------|
|                                             | <u>2021</u>                      | <u>2020</u>    |
| Cash flows provided by operating activities | \$ 154                           | \$ 150         |
| Cash flows (used in) investing activities   | (38)                             | (25)           |
| Cash flows (used in) financing activities   | (74)                             | (183)          |
| Effect of exchange rate changes on cash     | 5                                | (19)           |
| Increase (decrease) in cash and equivalents | <u>\$ 47</u>                     | <u>\$ (77)</u> |

**Operating Activities.** Cash provided by operations totaled \$154 million in the first six months of 2021 as compared to net loss of \$101 million. 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, time-and-materials, and fixed price projects, and as a result, fluctuations in these components are not uncommon in our business.

**Investing Activities.** Cash used in investing activities totaled \$38 million in the first six months of 2021 and was primarily due to our acquisition of a technology license, our investment in a plastics recycling technology, and funding our proportionate share of JKC's ongoing legal and commercial costs. See Note 6 for further discussion of the legal and commercial costs.

**Financing Activities.** Cash used in financing activities totaled \$74 million in the first six months of 2021 and was primarily due to approximately \$30 million of dividend payments to common shareholders, \$28 million for the repurchase of common stock under our share repurchase program, \$7 million repayment on our finance lease obligations, \$6 million in payments on borrowings related to our Senior Credit Facility, and \$6 million repayment on our non-recourse debt associated with our Fasttrax joint venture. See Note 10 "Debt and Other Credit Facilities" for further discussion of our Senior Credit Facility.

**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 under our Senior Credit Facility, share repurchases and strategic investments including acquisitions. 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.*** In reference to Note 6 "Unapproved Change Orders, and Claims, Against Clients and Estimated Recoveries of Claims Against Suppliers and Subcontractors" to our condensed consolidated financial statements, in Q2 2021, significant settlement discussions occurred with the client. As a result, KBR recorded a non-cash charge to equity in earnings of unconsolidated affiliates as of June 30, 2021 in the amount of \$193 million, which reflects KBR's proportionate share of the unpaid, unapproved change orders and claims. This non-cash charge does not impact JKC's pursuit of subcontractor claims

associated with the combined cycle power. The client has reserved their contractual rights on certain amounts previously funded to JKC and may seek recoveries of those amounts, including calling the performance and warranty letters of credit. In January 2021, the client demanded that JKC repay the Funding Deed amount and notified JKC of its intention to commence legal actions against JKC including claims on the parent company guarantees. JKC is opposing the client's payment demand and believes that the client has not complied with the contract requirements to make these sums repayable. JKC believes the subcontractor settlement sums were properly incurred and represent reimbursable cost.

JKC incurred substantial costs to complete the power plant under the fixed-price portion of the Ichthys LNG contract. JKC believes these costs are recoverable from the Consortium who abandoned their contractual obligation to complete the power plant as the original subcontractor. We have initiated arbitrations and other legal proceedings to recover these costs which may take several years to resolve. As a result, we funded our proportionate share of JKC's capital requirements to complete the power plant as these legal proceedings progress.

We made investment contributions to JKC of approximately \$484 million to fund our proportionate share of the project execution activities on an inception-to-date basis. We continue to fund our proportionate share of ongoing legal and commercial costs. JKC's obligations to the client are guaranteed on a joint and several basis by the joint venture partners. Negotiations and legal proceedings with the client and the subcontractors are ongoing, the goal of which is to minimize these expected outflows. If we experience unfavorable outcomes associated with the various legal and commercial disputes, our total investment contributions could increase which could have a material adverse effect on our financial position and cash flows.

As of June 30, 2021, we had \$164 million in letters of credit outstanding in support of performance and warranty guarantees provided to the client.

As described in Note 6, the client demanded that JKC repay the Funding Deed amount and notified its intention to commence legal actions against JKC including claims on the parent company guarantees. The client also submitted an application to the arbitration tribunal asserting various legal theories and requesting immediate repayment of the Funding Deed. JKC opposed the application on the grounds that in seeking such relief, the client was asserting new claims that are not part of the current arbitration. The arbitration tribunal agreed with JKC that these were new claims and declined to order immediate repayment. However, the arbitration tribunal directed the parties to incorporate the new claims into the existing consolidated arbitration process. A case management conference has been set for September 2021 on these matters. Subsequently, the client initiated parent company guarantee proceedings against our partner JGC Corporation in Japanese courts with respect to payment of the Funding Deed. If the client is successful against JGC, KBR would be liable to JGC for its proportional share.

Our proportionate share of the total amount of the contract price adjustments under the Funding Deed included in the unapproved change orders and claims related to JKC discussed above was \$157 million as of June 30, 2021, and December 31, 2020. These amounts are subject to currency fluctuation risk and possible applicable taxes.

*U.K. pension obligation.* We have recognized on our condensed consolidated balance sheet a funding deficit of \$339 million (measured as the difference between the fair value of plan assets and the projected benefit obligation as of September 30, 2020) for our frozen defined benefit pension plans. The total amount of employer pension contributions paid for the six months ended June 30, 2021, was \$24 million and primarily related to our defined benefit plan in the U.K. The funding requirements for our U.K. pension plan are determined based on the U.K. Pensions Act of 1995. Annual minimum funding requirements are based on a binding agreement with the trustees of the U.K. pension plan that is negotiated on a triennial basis which is slated to commence in 2021 and is required to be completed by April 2022. The current agreement calls for minimum annual contributions of £33 million (\$47 million at current exchange rates) until the next valuation. 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.

### ***Credit Agreement and Senior Credit Facility***

Information relating to our Senior Credit Facility is described in Note 10 "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 10 "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***

Information relating to our Convertible Senior Notes is described in Note 10 "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.

### ***Nonrecourse Project Debt***

Information relating to our nonrecourse project debt is described in Note 10 "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 have entered 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 have also guaranteed that certain projects, 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 2020 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 June 30, 2021, we had no material guarantees of the work or obligations of third parties recorded.

We have committed and uncommitted lines of credit available to be used for letters of credit. As of June 30, 2021, our total capacity under these committed and uncommitted lines of credit was approximately \$1.4 billion, of which \$324 million had been utilized. Information relating to our letters of credit is described in Note 10 "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.

On October 1, 2020, the Company borrowed \$260 million on the Senior Credit Facility to fund the acquisition of Centauri. See Note 4 "Acquisitions."

### ***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 2020 Annual Report on Form 10-K, for the year ended December 31, 2020, which discussion is incorporated herein by reference.

### **Item 3. Quantitative and Qualitative Disclosures about Market Risk**

Cash and equivalents are deposited with major banks throughout the world. We invest excess cash and equivalents in short-term securities, primarily time deposits and 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 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 do not enter into derivative financial instruments for trading purposes or make speculative investments in foreign currencies. No net gain or loss was recorded for the three months ended June 30, 2021, and net loss of \$1 million was recorded for the three months ended June 30, 2020. We recorded a net loss of \$6 million and net gain of \$6 million for the six months ended June 30, 2021 and 2020, respectively, in "Other non-operating income (expense)" on our condensed consolidated statements of operations. The net loss of \$6 million during the six months ended June 30, 2021, consisted primarily of unfavorable foreign currency movements on certain intercompany balance positions denominated in British Pounds and European Euros resulting in foreign currency loss of approximately \$6 million related to changes in the fair value of balance sheet hedges.

We use derivative instruments, such as foreign exchange forward contracts and options, to hedge foreign currency risk related to non-functional currency assets and liabilities on our balance sheet. 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. The fair value of these derivatives was not material to our condensed consolidated balance sheet as of June 30, 2021. Information relating to fair value measurements is described in Note 18 "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 \$260 million of borrowings outstanding under the Revolver and \$795 million outstanding under the term loan portions of the Senior Credit Facility as of June 30, 2021. Borrowings under the Senior Credit Facility bear interest at variable rates as described in Note 10 to our condensed consolidated financial statements.

We manage interest rate exposure by entering into interest rate swap agreements pursuant to which we agree to exchange, at specified intervals, the difference between fixed and variable interest amounts calculated on an agreed-upon notional principal amount. In October 2018, we entered into interest rate swap agreements covering \$500 million of notional value of our outstanding term loans. Under these swap agreements, we receive a one month LIBOR rate and pay an average monthly fixed rate of 3.055% for the term of the swaps that expire in September 2022. In March 2020, we entered into additional swap agreements covering notional value of \$400 million of our outstanding loans which are effective beginning October 2022. Under these swap agreements, we will receive a one-month LIBOR rate and pay an average monthly fixed rate of 0.965% for the term of the swaps that expire in January 2027. The swap agreements were designated as cash flow hedges at inception in accordance with ASC Topic 815 Accounting for Derivative and Hedging Transactions. The total fair value of these derivative instruments was a net liability of approximately \$16 million as of June 30, 2021.

At June 30, 2021, we had fixed rate debt aggregating \$1.1 billion and variable rate debt aggregating \$555 million, after taking into account the effects of the interest rate swaps. Our weighted average interest rate for the six months ended June 30, 2021, was 3.79%. If interest rates were to increase by 50 basis points, pre-tax interest expense would increase by approximately \$3 million in the next twelve months net of the impact from our swap agreements, based on outstanding borrowings as of June 30, 2021.

#### **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 June 30, 2021, 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 over financial reporting during the three months ended June 30, 2021, that have materially affected, or are reasonably likely to affect, our internal controls over financial reporting.

However, we are in the process of a phased implementation of a company-wide enterprise resource planning ("ERP") system and expect this implementation to be completed within the next two to three years. During the second quarter of 2021, we substantially completed the implementation of the ERP system for a portion of our Government Solutions business. The next phases of the implementation will include Corporate, Sustainable Technology Solutions and the remaining business units of Government Solutions not yet implementing this ERP system. Each completed phase of our ERP implementation will enhance our internal control over financial reporting as we will benefit from having an integrated system to support end-to-end processes.

## PART II. OTHER INFORMATION

### Item 1. Legal Proceedings

Information relating to various commitments and contingencies is described in Notes 13 and 14 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, 2020.

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

(a) None.

(b) None.

(c) On February 25, 2014, our Board of Directors authorized a \$350 million share repurchase program. As of December 31, 2019, \$160 million remained available under this authorization. On February 19, 2020, our Board of Directors authorized an increase of approximately \$190 million to our share repurchase program, returning the authorization level to \$350 million. As of June 30, 2021, \$275 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 settled during the three months ended June 30, 2021.

| Purchase Period    | Total Shares Repurchased <sup>(1)</sup> | 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 |
|--------------------|-----------------------------------------|------------------------------|-------------------------------------------------------|-----------------------------------------------------------------------------------|
| April 1 - 30, 2021 | 767                                     | \$ 31.00                     | —                                                     | \$ 303,142,110                                                                    |
| May 1 - 31, 2021   | 653,876                                 | \$ 41.75                     | 643,088                                               | \$ 276,784,589                                                                    |
| June 1 - 30, 2021  | 38,514                                  | \$ 38.56                     | 38,196                                                | \$ 275,286,485                                                                    |

- (1) Included within shares repurchased herein are 11,873 shares acquired from employees in connection with the settlement of income tax and related benefit withholding obligations arising from issuance of share-based equity awards under the KBR Stock and Incentive Plan at an average price of \$40.97 per share.

## Item 6. Exhibits

| Exhibit Number                | Description                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |
|-------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <a href="#"><u>3.1</u></a>    | KBR Amended and Restated Certificate of Incorporation (incorporated by reference to Exhibit 3.1 to KBR's current report on Form 8-K filed June 7, 2012; File No. 001-33146)                                                                                                                                                                                                                                                                                                                                                                                                          |
| <a href="#"><u>3.2</u></a>    | Amended and Restated Bylaws of KBR, Inc. (incorporated by reference to Exhibit 3.2 to KBR's annual report on Form 10-K for the year ended December 31, 2013 filed on February 27, 2014; File No. 001-33146)                                                                                                                                                                                                                                                                                                                                                                          |
| <a href="#"><u>10.1+</u></a>  | Amended and Restated KBR, Inc. 2006 Stock and Incentive Plan, effective May 19, 2021 (incorporated by reference to Exhibit 10.1 to KBR's current report on Form 8-K filed May 21, 2021; File No. 001-33146)                                                                                                                                                                                                                                                                                                                                                                          |
| <a href="#"><u>*31.1</u></a>  | Certification of the Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |
| <a href="#"><u>*31.2</u></a>  | Certification of the Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |
| <a href="#"><u>**32.1</u></a> | Certification Furnished Pursuant to 18 U.S.C. Section 1350 as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002                                                                                                                                                                                                                                                                                                                                                                                                                                                      |
| <a href="#"><u>**32.2</u></a> | 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 March 31, 2021 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

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**Mark W. Sopp**

**Executive Vice President and Chief Financial Officer**

/s/ Shad E. Evans

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**Shad E. Evans**

**Senior Vice President of Finance Operations and Chief Accounting Officer**

Dated: July 29, 2021

Dated: July 29, 2021

**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: July 29, 2021

/s/ Stuart J. B. Bradie  
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**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: July 29, 2021

/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 June 30, 2021, 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

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**Stuart J. B. Bradie**  
**Chief Executive Officer**

Date: July 29, 2021

**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 June 30, 2021, 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

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**Mark W. Sopp**  
**Chief Financial Officer**

Date: July 29, 2021