KBR Risk Management

NC State ERM Roundtable

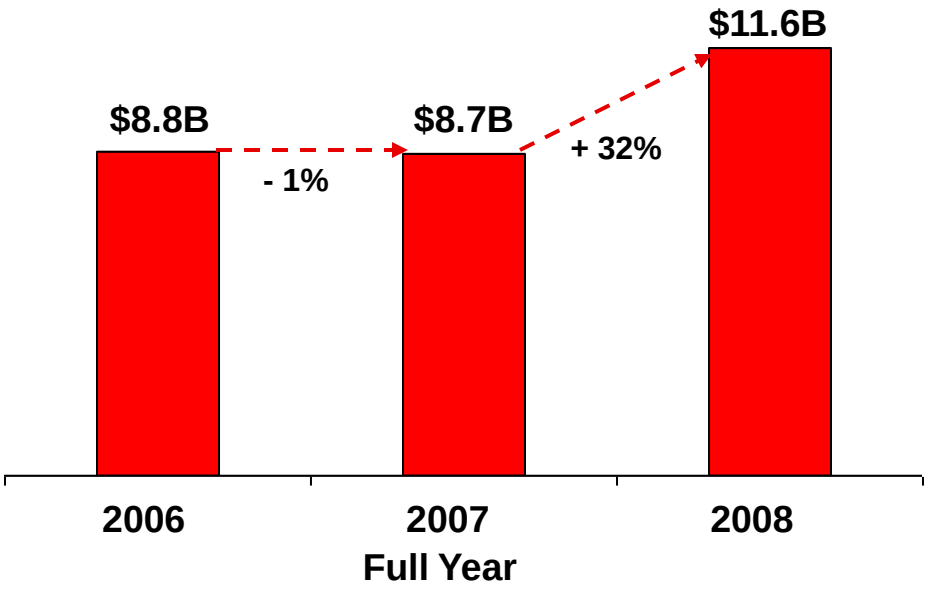
April 24, 2009

Overview of Presentation

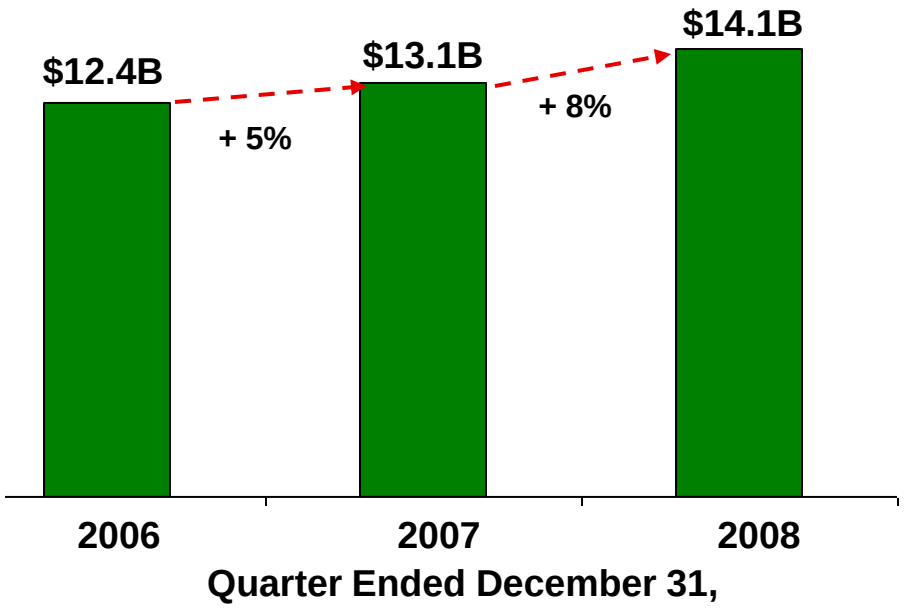
- Getting Started
  - Summary of KBR
  - Situation at Separation
  - Why is ERM Important?
  - What is ERM?
- KBR's Rollout of ERM
  - Tone at the Top & Culture
  - Methodology
  - Packaging
- ERM Today and Tomorrow
  - Lessons from 2008
  - Other Constructs
  - Future of ERM

Revenue and Backlog

KBR Revenue



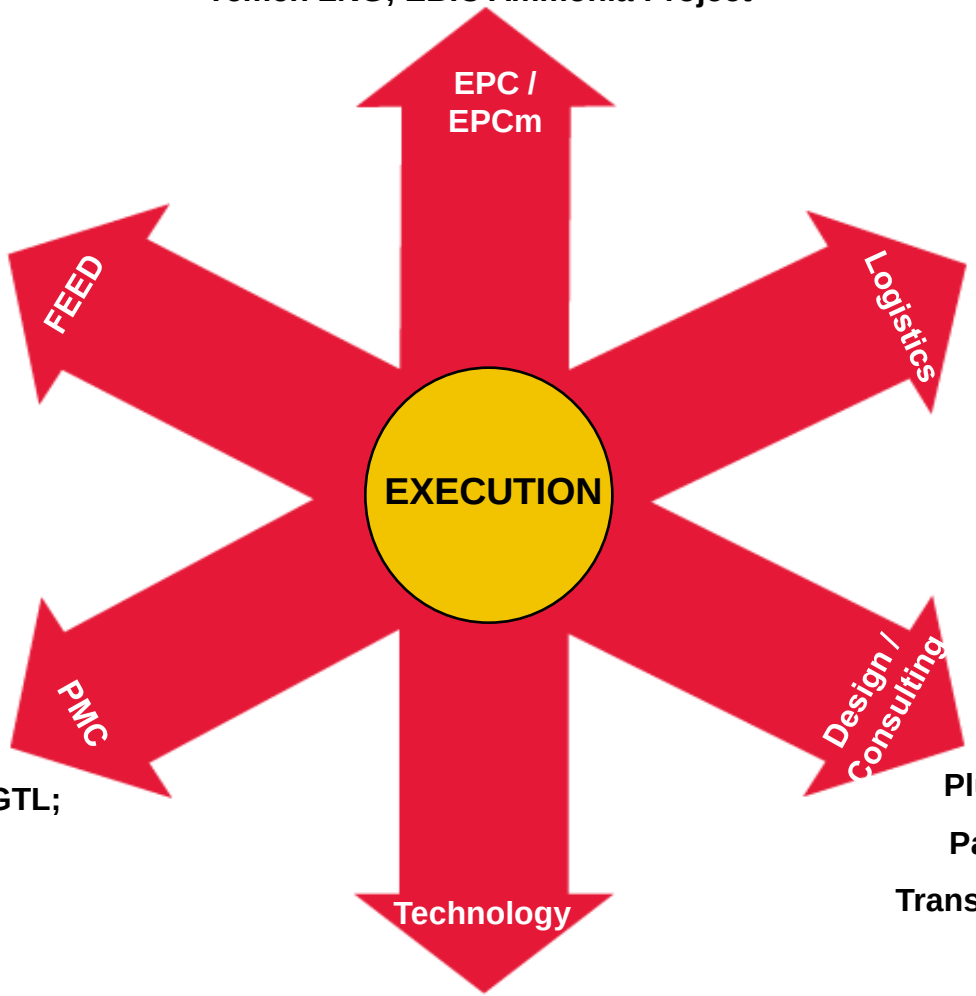
KBR Backlog



KBR's Balance Sheet remains strong; As of December 31, 2008, cash and equivalents totaled $1.1 billion and no debt; $420 million available under current Revolving Credit Facility.

“Go To” Contractor

Skikda LNG; Tangguh LNG;
Yemen LNG; EBIC Ammonia Project



Yanbu Export Refinery;
Pearl GTL; Ras Tanura;
Multiple LNG Projects;

LogCAP III & IV;
CONCAP; CONLOG;
AFCAP; CENTCOM;

Ras Tanura; Pearl GTL;
Kashagan

North Rankin 2;
Pluto Offshore Platform;
Pazflor FPSO Topsides;
Trans Caspian Oil & Gas Study

ROSE™; SUPERFLEX™;
SCORE™; KAAP™; TRIG™

A History of Successful Innovation

KBR

1942

First fluid catalytic cracking facility

DoD – WWII

Completed 359 destroyer escort and other vessels

1947

World's first offshore platform (Kerr McGee - Gulf of Mexico)

1964

First North Sea platform (BP West Sole)

2004

World's largest LNG plant in operation (SEGAS)

2004

First full scale CO_2 sequestration project (In Salah)

NASA

Architect engineer for Johnson Space Center

2005

World's largest ammonia plant at groundbreaking (BFPL Australia)

Getting Started
Situation at Separation

- 100 year old start-up
- Legacy issues
- Culture Confusion
- New NYSE listing: KBR
- New Board of Directors
- New Management Team

KBR's Rollout of ERM
Tone at the Top & Culture

- Tone at the Top

- KBR Mission, Vision and Values

  Motto: We Deliver

  Mission:

  – We safely deliver any project, any time, in any environment for the benefit of our customers, shareholders, employees and the communities we serve

  Vision:

  – To be the world's premier contractor delivering projects and services to a global marketplace

  Values:

  – Uncompromising commitment to Health, Safety and Environment
  – An open relationship with our employees based on mutual trust, respect and success
  – Transparency, Accountability and Discipline in our business
  – Best-in-Class Risk Awareness
  – Integrity in all we do
  – Financial Responsibility to our stakeholders

Getting Started
Why is ERM Important to KBR?

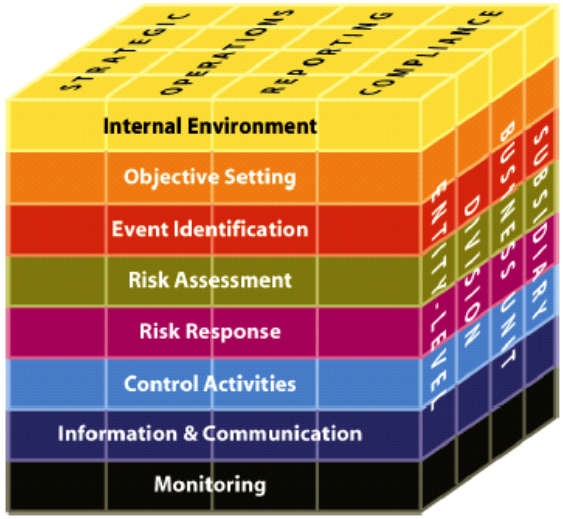
- NYSE Requirement
  - Audit Committee required to discuss with internal and external auditors how the listed company handles risks and the steps management has taken to monitor and control such risks
- SEC
  - Urging public companies to use information gleaned from ERM to enhance disclosure in MD&A
- Increasing Board Pressure to Discuss Risk
  - McKinsey survey of 1,000 board members, 76% would like to spend more time on risk
- Rating Agencies
  - Proposed use of in-depth ERM criteria for ratings of all companies

Getting Started
What is ERM?

KBR

COSO ERM Framework

- Aligning Risk Tolerance with Strategy



Source: COSO ERM Framework

KBR, 2007

- Best-in-Class Risk Awareness

KBR, 2009

- Best-in-Class Risk Awareness Married with Expert and Timely Perspectives about Emerging and Strategic Issues

KBR's Rollout of ERM
Methodology - Survey Question Format

The next step in this risk assessment exercise is to prioritize the risks by rating them based on impact and likelihood.

Example:

Risk:		**Impact**						**Likelihood**				
Effect of an acquisition, merger or divestiture		1	2	(3)	4	5		1	2	3	(4)	5

Explanation and Rationale of risk example:

1. Rate the impact of each risk, without regard to the likelihood of occurrence. The rating should be based on the **cumulative effect** on KBR's **profit or cash flow** over the **next three years** if a significant adverse event or prolonged situation were to occur within the particular risk exposure. Furthermore, rate the impact of each risk **as it is currently being controlled today**.

   Please circle only one response for each risk from the following scale:

   Impact:
   1 – Significant, between $1 - $15 MM
   2 – Material, between $15 - $50 MM
   3 – Severe, between $50 - $100 MM
   4 – Extreme, between $100 - $300 MM
   5 – Catastrophic, more than $300 MM

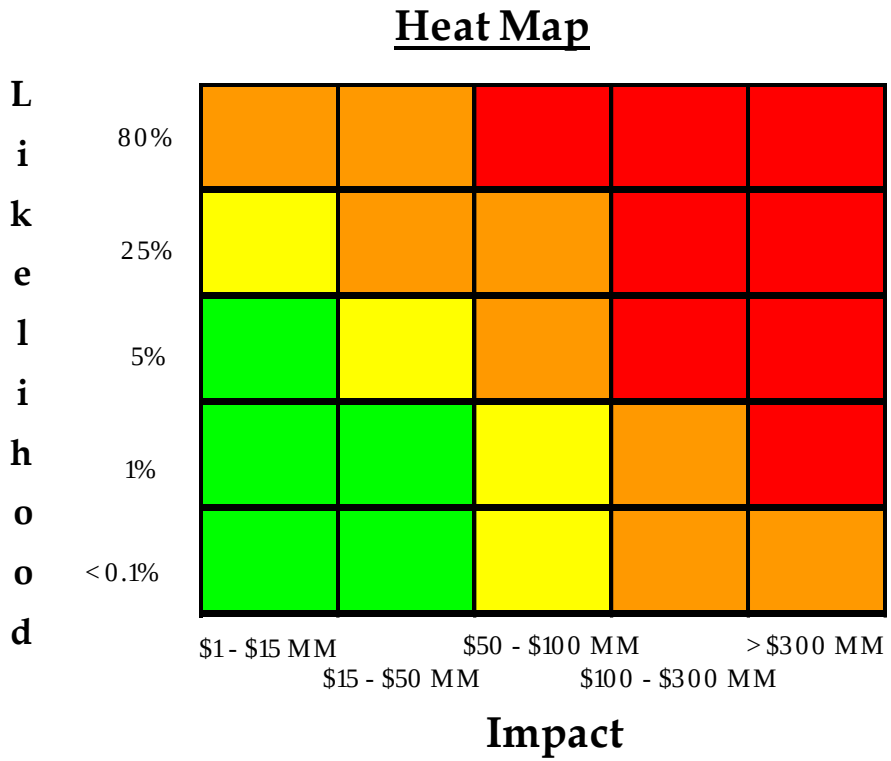
2. After ranking the risk for impact, rank the likelihood that the risk will occur based on KBR's history and frequency of such occurrences.

   Likelihood:
   1 – Highly Improbable, 0.1% probability of occurrence within three years
   2 – Improbable, 1% probability of occurrence within three years
   3 – Unlikely, 5% probability of occurrence within three years
   4 – Possible, 25% probability of occurrence within three years
   5 – Probable, 80% probability of occurrence within three years

Space is provided at the end of each survey to clarify your responses, if necessary.

KBR's Rollout of ERM

Methodology - Heat Map of Individual Responses



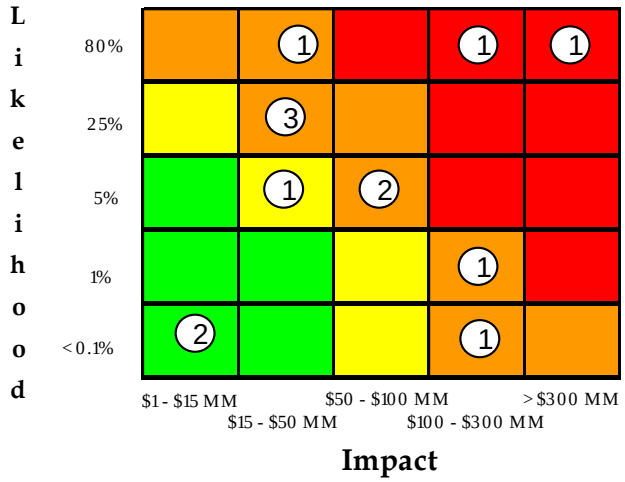
KBR's Rollout of ERM
Methodology – Assessment and Alignment

Rank	Risk Description	Exec Mngt	Sr. Mngt	BU Mngt
1	Risk 1	Extreme	High	High
2	Risk 2	Extreme	High	High
3	Risk 3	Extreme	High	Moderate
4	Risk 4	Extreme	High	High
5	Risk 5	High	Extreme	High
6	Risk 6	Not Surveyed	High	High
7	Risk 7	High	High	Extreme
8	Risk 8	High	High	High
9	Risk 9	High	High	Moderate
10	Risk 10	Moderate	High	Moderate

- Risk Assessment
- Focus on Alignment

Identified Risk

Heat Map



KBR's Rollout of ERM
Methodology - 2007 & 2008 ERM Activities

- Strategize
  - ERM strategy established in collaboration with Internal Audit and Financial Controls in 2007
  - Methodology for scoring Impact and Likelihood developed in 2007
- Identify
  - Survey Questionnaire completed 2007
- Assess
  - Executive Risk Assessment, 2007
  - Senior Management Risk Assessment, 2007
  - Audit Committee ERM Overview, 2007
  - All Business Unit Risk Assessments completed 2008
  - Audit Committee ERM Overview, 2008

- ERM is about packaging and promoting all corporate risk management programs into one risk narrative.

KBR's Rollout of ERM
Packaging – Governance, Compliance and QHSE

Governance, Compliance, and QHSE

Basic blocking and tackling. We ensure that employees are safe, procedures are followed, and compliance with laws. We protect the environment and we provide jobs to local communities.

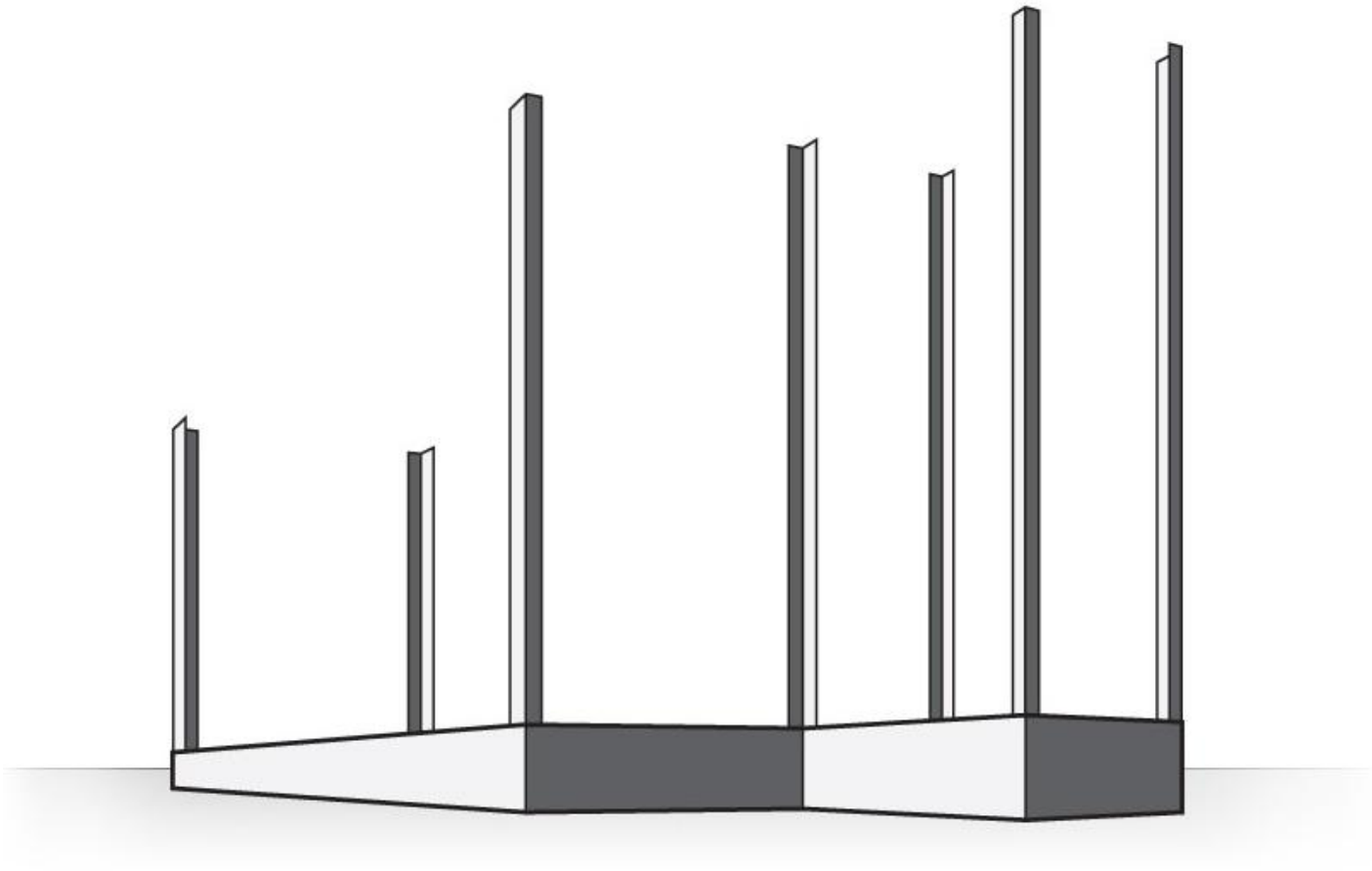
KBR's Rollout of ERM
Packaging – Governance, Compliance and QHSE

- Audit Committee & Internal Audit Dept.
- Code of Business Conduct
- Internal Control Committee
- Disclosure Committee
- CEO/CFO Certification Meeting
- Policies & Procedures
- Delegation of Authority

- Bureau of Labor Statistics Recordable Incident Rates
  - 2004 KBR: 1.10 vs. Industry: 5.90
  - 2005 KBR: 1.11 vs. Industry: 5.60
  - 2006 KBR: 0.83 vs. Industry: 5.30
  - 2007 KBR: 0.53 vs. Industry: 4.90

- Lloyd's Register Quality Assurance Global Integrated Certification awarded to Energy & Chemicals
  - ISO 9001:2000 for Quality
  - ISO 14001:2004 for Environment
  - OSHAS 18001:1999 for Occupational Health and Safety

KBR's Rollout of ERM
Packaging – Project Risk Management

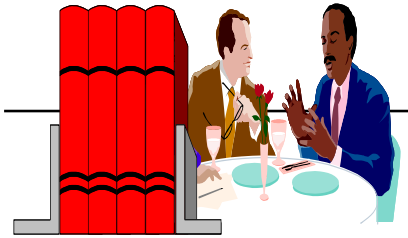


Project Risk Management

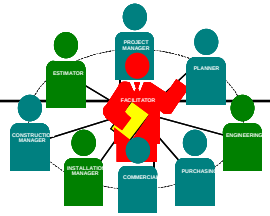
Takes a deep dive into each project with its Risk Breakdown Structure, Risk Register, and Risk Management System.

KBR's Rollout of ERM

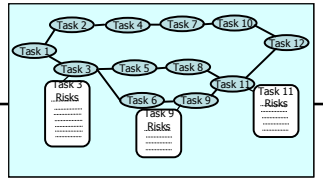
Packaging – Project Risk Management



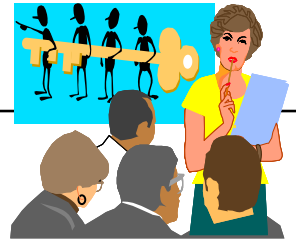
Briefing by PM and Review of Project History / Requirements



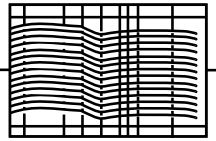
Identification of Threats/ Opportunities



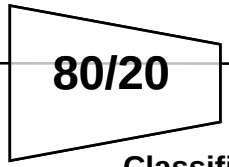
ID of Risks In Task Flow Network

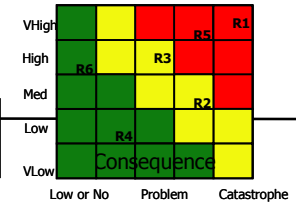


Interview Risk Owners

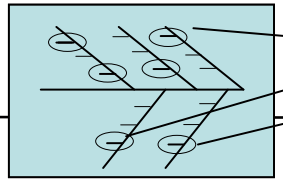


Risk Register

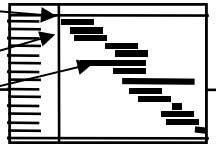




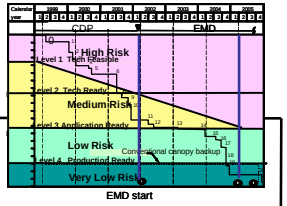
Classification of Critical and Important Risks



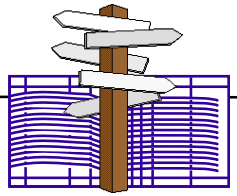
Detail Cause/Effect Fishbone Diagram



Risk Impact Task Schedule

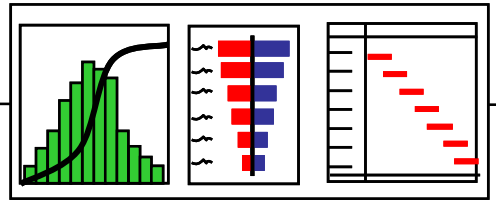


Risk Response Plans

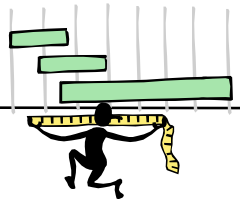


Risk Mapping

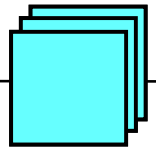
Schedule / Cost Model, Validate & Range



Risk Assessment Deliverables



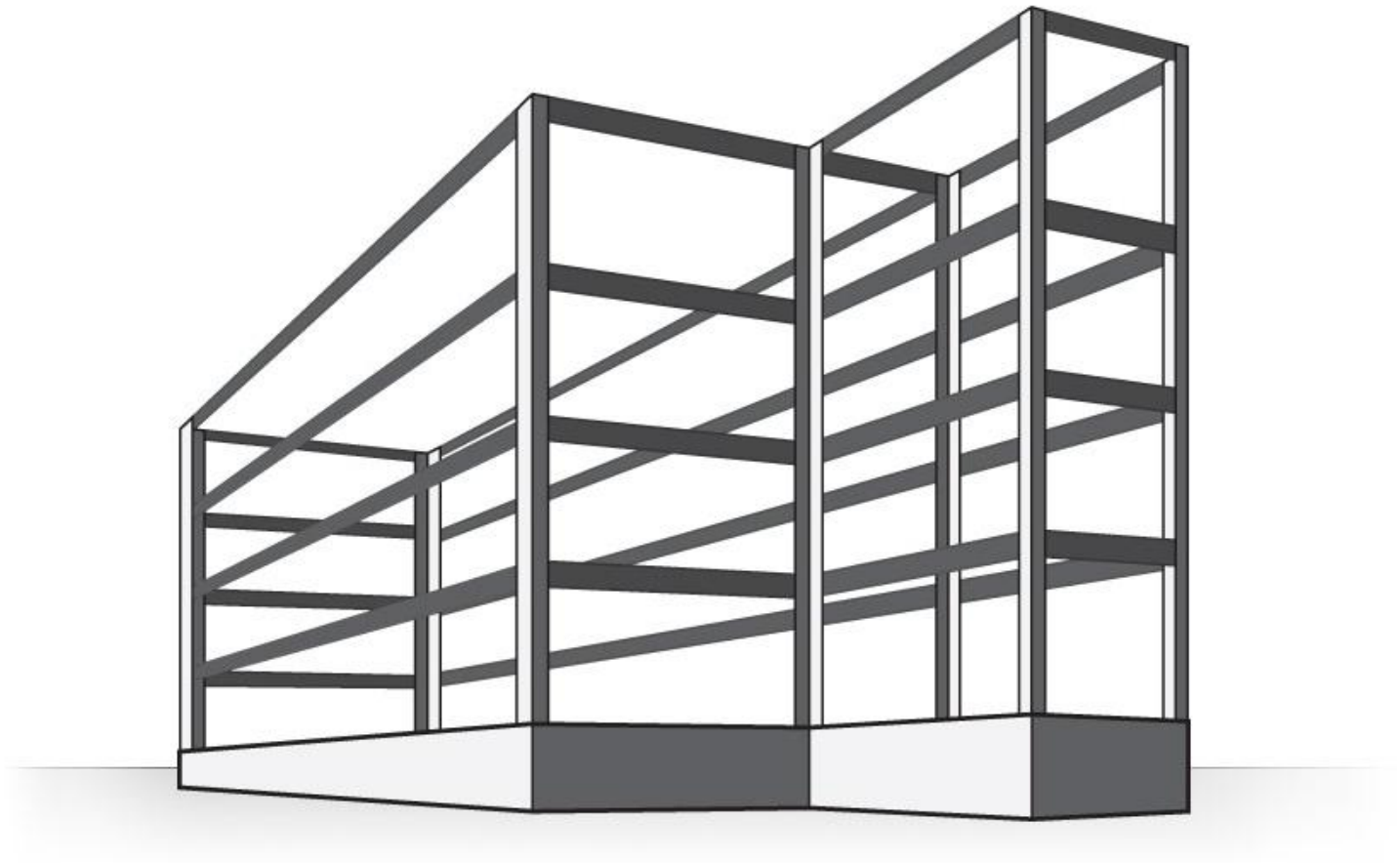
Comparative Benchmarks



Report Profile

Ongoing Monitoring

KBR's Rollout of ERM
Packaging - Business Development Oversight

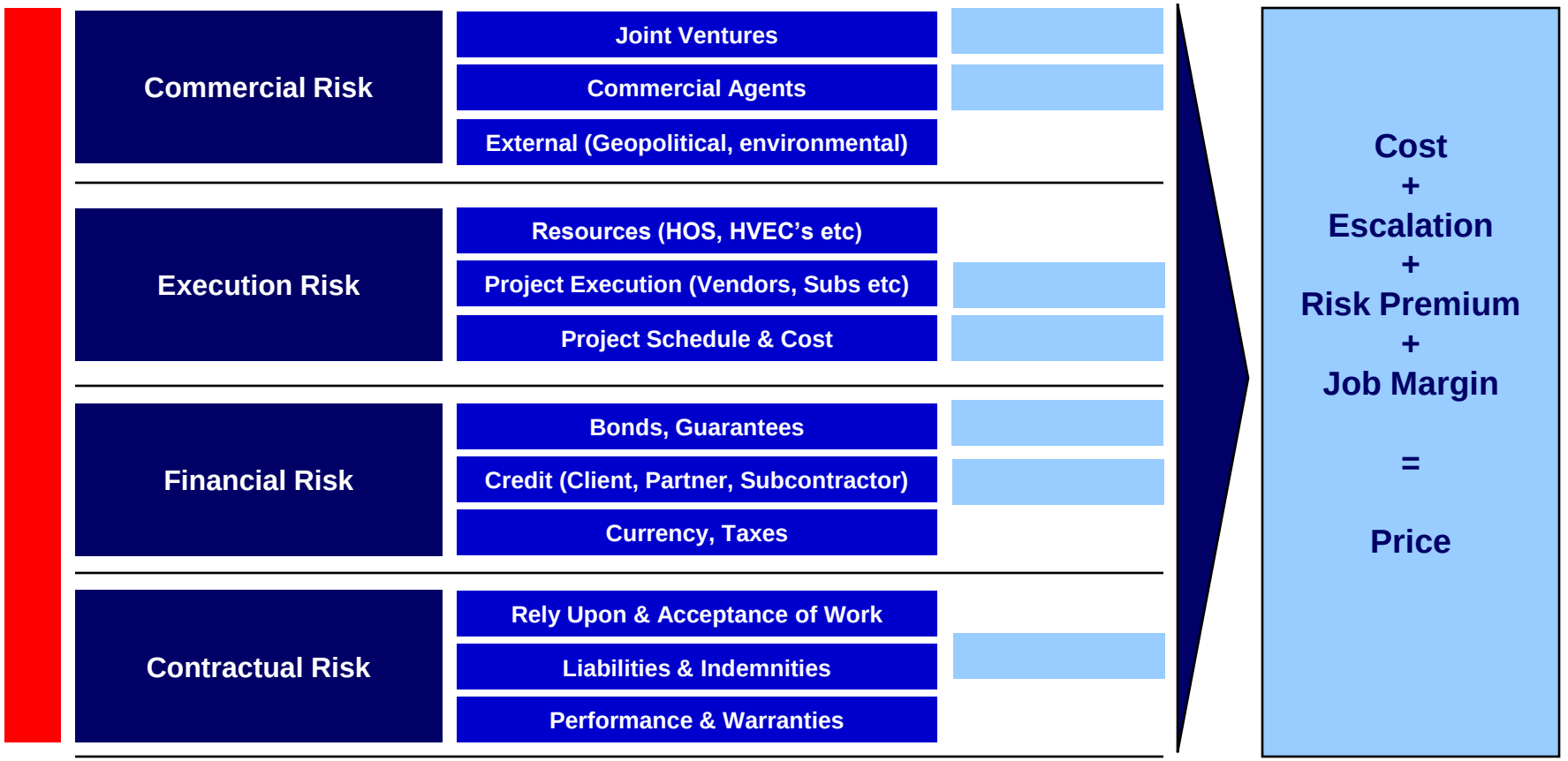


Business Development Oversight

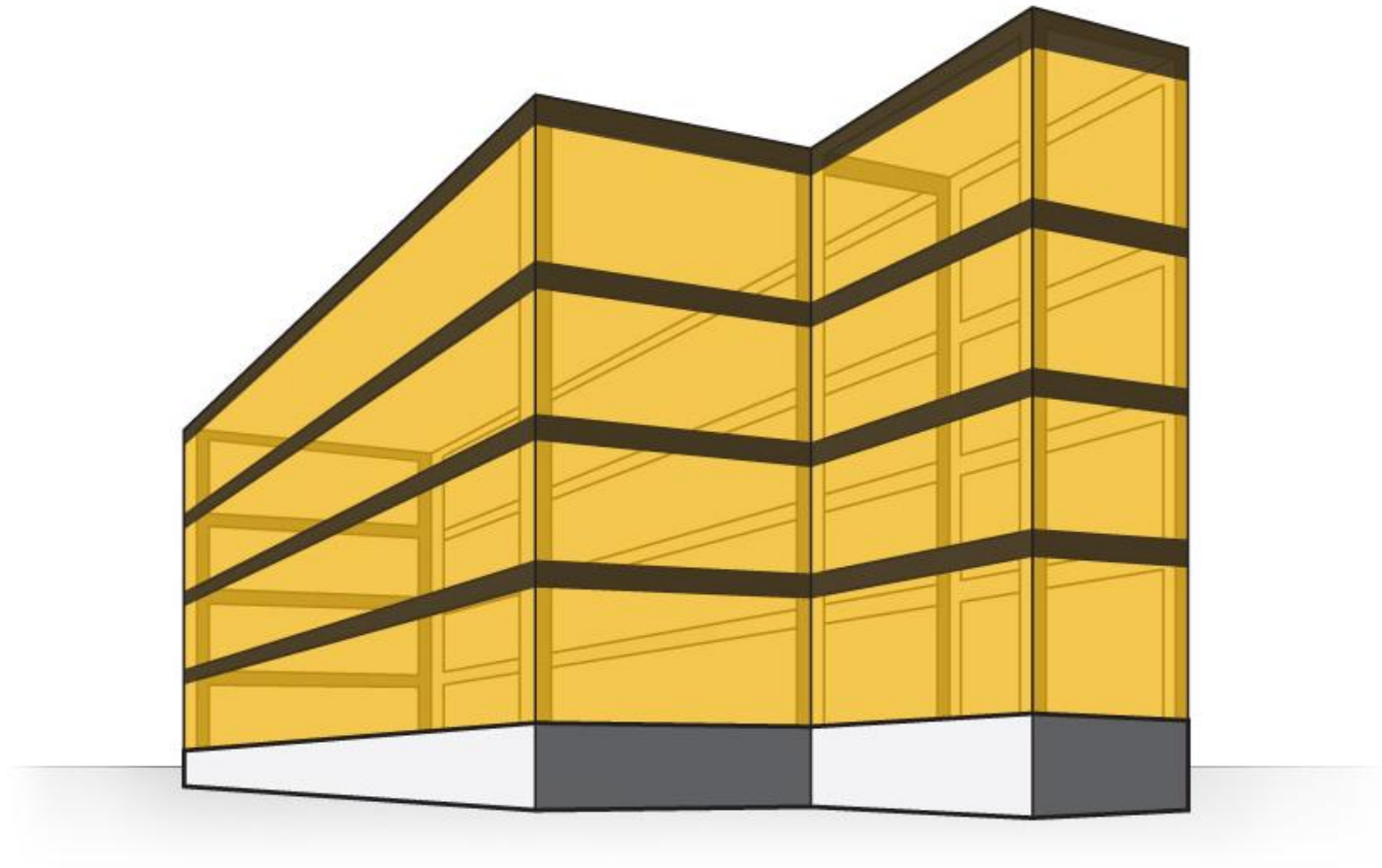
Looks across all projects to facilitate greater risk awareness, provide portfolio view of risk and return, and ensure smooth handover from sales to operations.

KBR's Rollout of ERM
Packaging - Business Development Oversight

- KBR's project decisions are based on a Cover Analysis that provides KBR Executive Management with an objective and transparent assessment of a transaction's cost exposure associated with operations risk, liabilities and funding.



KBR's Rollout of ERM
Packaging – Enterprise Risk Management

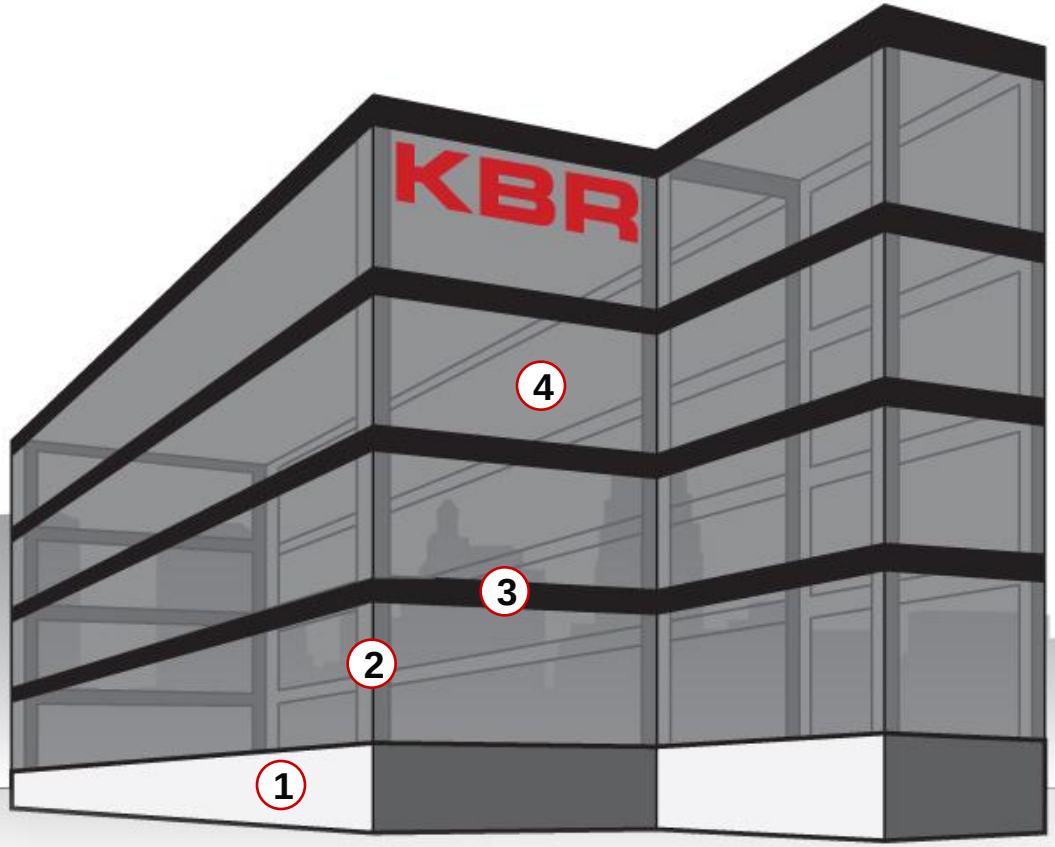


Enterprise Risk Management

Looks forward with a multi–year view to consider risks that will affect KBR as a whole. ERM will probe the periphery in an effort to detect weak signals that might provide early indicators of impending threats or possible opportunities.

KBR's Rollout of ERM

Packaging – Enterprise Risk Management



1. Governance, Compliance and QHSE
2. Project Risk Management
3. Business Development Oversight
4. Enterprise Risk Management

ERM Today and Tomorrow
Lessons from 2008

KBR

"*The problem was not a failure to appreciate complexity, but rather the opposite. It was a lack of simplicity and critical perspective, which prevented the right questions from being asked while there was still time.*"

— **Marcel Rohner**, former CEO of UBS commenting on how the bank had missed the bigger picture by relying too much on its risk management process (FT, February 13, 2009)

ERM Today and Tomorrow
Lessons from 2008

KBR

SIMPLICITY

- Process
  - Familiar tools
  - Put it on paper, not a computer screen
    - Allow for contemplation
- Organizational
  - Don't use a lot of resources
- Presentations
  - Design to promote dialogue
    - Less is more
    - What is the culture?

PERSPECTIVE

- ERM is about Socialization; not metrics
  - KBR is an engineering firm
  - Get managers out of their daily routine
- Make it interesting
  - Trends
  - Emerging Risks
- Qualitative, not:
  - Business Performance Management!
  - SarbOx!
- Probe for Emerging Risks
  - Most of the relevant information is already known within your organization

ERM Today and Tomorrow
Lessons from 2008

KBR

TIME

- Get the Risk Issue on the Table
  - Don’t get hung up on quantifying exposure (▼, ▲)
  - Move to qualitative assessment
- Create a pipeline to surface immediate concerns
  - Establish vetting process for immediate concerns
  - Agility is important
- Match the time horizon and orientation of the audience

ERM Today and Tomorrow
Other Constructs

- Parenting
  - Would a dashboard be effective in managing a teenager?
  - Risk issues surface through probing for information.

ERM Today and Tomorrow
Other Constructs

KBR

- Jazz
  - There are no wrong notes! This is jazz.
  - Harvard Business School Case about Creation and Innovation
    - *Kind of Blue* by Miles Davis, 1959

    - "Simplicity was essential to the success of *Kind of Blue."*
    - "Davis was known to have a preference for first takes…because they have magical quality that only exists when musicians are approaching something without an overly detailed plan."
    - "On a second take, musicians will try to improve their own performance, and … lose some of their ability to listen to everyone else."
    - "As a manager of musicians, Davis sometimes provoked."

Source; Harvard Business School, *Working Knowledge*, April 13, 2009. Interview of Robert D. Austin and Carl Stormer by Martha Lagace

ERM Today and Tomorrow
Future of ERM

KBR

- *Did the financial crisis damage risk management's credibility or help companies learn how to implement risk management more wisely?*
- *Should the approach be mainly Quantitative or Qualitative?*
- *Is it more about Process or Culture?*
- *What is the End Game?*
- Fundamental question remains, *"What is ERM?"*