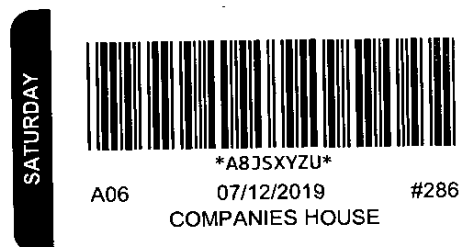


**Kellogg Brown & Root Holdings
Limited**

Annual report and consolidated
financial statements

Registered number 3780592

31 December 2018



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Strategic Report

Principal activities

The group provides a wide range of differentiated, professional services and technologies across the asset and program life-cycle within the government services and hydrocarbons industries. Our capabilities include feasibility and solutions development, specialised technical consulting, systems integration, engineering and design services, process technologies, highly specialised mission and logistics support solutions, program management, construction services, commissioning and startup services, asset operations and maintenance services. We provide these and other support services to a diverse customer base, including domestic and foreign governments, international and national oil and gas companies, oil refiners, petrochemical producers, fertilizer producers and speciality chemicals manufacturers.

Our business is organised into three segments:

- Government Services
- Hydrocarbons Services
- Technology

Results

The Group's turnover for the year was £732,037,000 (2017: £452,657,000). The group profit for the year, after taxation and minority interests, was £25,998,000 (2017: profit £20,356,000).

We have summarised our revenues by business activities as follows:

| | 2018 £000 | 2017 £000 |
|-------------------------|----------------|----------------|
| Hydrocarbons services | 181,425 | 145,725 |
| Technology & Consulting | 28,925 | 47,084 |
| Government Services | <u>521,687</u> | <u>259,848</u> |
| | <u>732,037</u> | <u>452,657</u> |

The significant increase of the Group's turnover in 2018 is mainly due to the business combination involving Aspire Services and Aspire Construction businesses (see note 2).

Business Strategy

The group's vision is to be a leading provider of full life-cycle professional services, project delivery and technologies supporting the global hydrocarbons and international government services market segments. Our key areas of strategic focus are as follows:

- **Government Services** : A wide range of professional services across defence, programme management and consulting, operational and platform support, logistics and facilities, training and security. This business segment focuses on long-term service contracts particularly for the United Kingdom Government and NATO.
- **Hydrocarbons** : In the global hydrocarbons sector we offer services within the following areas of focus:
 - **Proprietary Technology**: A broad spectrum of front-end services and solutions, including licensing of technologies, basic engineering and design services.

Strategic Report (*continued*)

- **Specialised Consulting:** A broad range of specialised consulting services across upstream, midstream, downstream and speciality chemicals; which includes:
 - Front-end consulting services related to field development planning, technology selection and capital expenditure optimisation;
 - Plant integrity management;
 - Specialised naval architecture technology (drillships, floating production, storage and offshore ("FPSO"), floating production units ("FPUs") and structural engineering);
 - Feasibility studies, revamp studies, planning/development and construction studies for oil and gas (upstream industry), liquified natural gas ("LNG"), refining, petrochemicals, chemicals and fertilisers (downstream industries).
- **Project Delivery Solutions:** From conceptual design, through front end engineering design and execution planning, to full engineering, procurement and construction ("EPC")/engineering, procurement, construction and management ("EPCM") for the development, construction and commissioning of projects across the entire hydrocarbons value chain, including offshore and onshore oil and gas industries, LNG/ gas to liquids ("GTL") markets, as well as for refining, petrochemicals, chemicals, speciality chemicals and fertilisers industries.

We operate in highly competitive markets and we believe that the following are the areas in which we have a competitive advantage: We operate in global markets with customers who demand added value, know-how, technology and delivery solutions, and we seek to differentiate ourselves in areas we believe we have a competitive advantage, including:

- **Health, Safety, Security & Environment**
 - World-class planning, assessment, and execution practices and performance ('Zero Harm')
- **People**
 - Distinctive, competitive and customer-focused culture, through our people ('One KBR')
 - Large numbers of employees with U.K. government-issued security clearances
- **Customer Relationships**
 - Customer objectives are placed at the centre of our planning and delivery
 - Long-term relationships in government services and with major oil and gas customers such as British Petroleum, Chevron Corporation and Shell Corporation
- **Project Delivery**
 - A reputation for successful delivery of large, complex and difficult projects globally - using world-class processes (the 'KBR Way'), including programme management integrator
- **Technical Excellence**
 - Quality, world-class technology, know-how and technical solutions
- **Full Life-cycle Asset Support**
 - Comprehensive asset services through long-term contracts
- **Financial Strength**
 - Through liquidity, capital capacity and ability to support warranties

Strategic Report (*continued*)

Business Review

Government Services

In 2018 the Government Services (“GS”) segment acquired the remaining 50% interest in its joint ventures providing construction and facilities management services to Aspire Defence Limited (“ADL”). This resulted in the increase in segment’s revenue by more than 100% compared to 2017.

The GS segment invests KBR equity alongside clients’ equity in major projects where it can also perform procurement, construction management and operations and maintenance roles. Via ADL, a joint venture with 2 institutional investors, the group continued to successfully deliver its PFI contract to provide hard and soft facilities management of Army accommodation and facilities on Salisbury Plain and at Aldershot. The construction aspects of the original project scope have been completed. However, in 2016 the contract was amended to include further scope associated with the Army Basing Programme (“ABP”) with the delivery period ending in 2041. During 2018, 71 (2017: 21) ABP related assets were delivered successfully out of approximately 136 that form the ABP related work.

On 15 January 2018, Carillion plc (“Carillion”) announced its compulsory liquidation. The Group and Carillion each had a 50% interest in two unincorporated joint ventures acting as sub-contractors of ADL, Aspire Defence Capital Works (“ADCW”) and Aspire Defence Services (“ADS”) as well as in Aspire Defence Services Limited (“ADSL”), a supplier of ADS. The liquidation caused, inter alia, a potential event of default under the terms of the project’s financing agreements. This resulted in the group taking full control of the joint ventures. On 18 April 2018, the group acquired Carillion’s economic interests in ADCW, ADS and ADSL.

The 7 year contract by the Metropolitan Police for a Facilities Management Integrator service, which started in 2014, was in a stable service delivery state in 2018. Other Facilities Management Integrator contracts awarded by the London Fire Brigade and the Crown Commercial Service were also successfully delivering during the year.

The work continued on the UK Home Office contract to support its Emergency Services Mobile Communications Programme.

In 2016 the KBR’s joint venture with Elbit Systems - Affinity Flying Training Limited was awarded an 18 year contract to procure and operate a fleet of 33 training aircraft in support of the UK Ministry of Defence’s Military Flying Training System (“MFTS”).

The principal activities in 2018 included achieving final milestones for two of the aircraft platforms together with the preparation of the maintenance organisation at the third operating site.

Hydrocarbons Services

The principal engineering & construction activities accounted for in these financial statements included services for Front End Engineering and Design (FEED), Detailed Design engineering, Procurement services, Project management and Construction and commissioning services related to Onshore and Offshore Oil & Gas production facilities, Liquefied Natural Gas (LNG), Refining and Petrochemical processing. Key clients supported by this division included BP, Statoil (now known as Equinor), Shell, Dupont, Saudi ARAMCO, Oman LNG LLC and State Oil Company of Azerbaijan.

Projects were contracted under reimbursable schedules of rates as well as on a fixed price basis.

In 2018 the group executed numerous projects, the most significant of which were:

- Azeri Central East (ACE) – The FEED contract is 99% complete, Pre-Execute contract is 61% complete based on total forecast costs.

Strategic Report (continued)

- Johan Sverdrup Living Quarters Platform Topside – Engineering Procurement and Construction (EPC) contract was awarded by Equinor to K2JV ANS, the joint venture between KBR and Kvaerner with KBR contracted to perform engineering work. At the end of 2018 the project is 96% complete.
- JV Gas Amenias – the project based in Algeria began in 2017 and is an EPC management services contract which successfully continued in 2018.
- Dupont De Nemours Tyvek – the contract awarded in 2017 is for the provision of the project management, engineering, procurement and construction management services.
- BP's Tortue West Field Development – the pre-FEED contract was awarded in 2018 for Phase 1 Tortue field Hub/Terminal development located on the maritime border between Senegal and Mauritania.
- Nigeria LNG Train 7 – the FEED contract was awarded in 2018 and successfully progressed through the year.
- Through its subsidiary in Saudi Arabia the group continued to provide engineering services to Saudi Aramco during 2018.

The consulting business, which integrated in 2018 into Hydrocarbons Services, continued to be conducted mainly through Granherne Ltd. This company's expertise in field development planning, concept evaluation, experience in application of technology and know-how enables improved cost-benefit evaluation for clients.

Technology

The Technology segment remains a relatively small part of the group's business, but is very important as a result of the high profitability of technology licensing projects.

In 2018 the segment continued execution of the TAIF Group contract to provide licensing and engineering services for the Veba Combi Cracker (VCC) to be implemented at the Nizhnikamsk refinery, Russia. Under the terms of the contract, KBR provides the Licence, Basic Engineering Package (LBEP), and other services for TAIF's VCC-based Deep Conversion Complex.

The segment continued work on implementation of the refining technologies including Residuum Oil Supercritical Extraction (ROSE) and Fluid Catalytic Cracking (FCC) for Neste Oil Corporation, Shell, Eni, Total, Repsol and other clients, as well as several Syngas Technology projects.

Through its member Plinke GmbH, the group continued to execute successfully the technology projects in the area of treatment and concentration of inorganic acids and acidic waste water.

Defined benefit pension scheme deficit

At year end the net liability of the Kellogg Brown & Root (U.K.) Limited defined benefit pension scheme operated by the group decreased from £272,691,000 in 2017 to £179,480,000 as a result of a full actuarial valuation which was carried out as at 1 April 2018 and updated to 31 December 2018 by a qualified independent actuary. The main changes in assumptions which have contributed to the lower present value of defined benefit obligations are related to the discount rate increase and lower assumed life expectancy on retirement. The list of assumptions used can be seen in note 24 of these financial statements.

Asset-backed funding arrangement

On 24 June 2016, KBR Netherlands Investment BV (a KBR, Inc. Group Company) sold the Leatherhead campus property for £53.6m to a newly formed entity - a Scottish Limited Partnership ("Partnership") KBR Property Holdings

Strategic Report (continued)

LP. The Partnership was created with the purpose of partially funding the Kellogg Brown & Root (U.K.) Limited's defined benefit pension plan ("Pension Plan"). Under the arrangement, the Pension Plan is entitled to annual distributions supported by lease payments on the property held by the Partnership. An intergroup lease arrangement is currently in place where the tenant is Kellogg Brown & Root Limited ("KBRL") and the landlord is the Partnership. The lease, which has been in place for almost 20 years, expires in September 2021. Lease payments are currently £3.63m p.a.

Future outlook

The group will continue to focus on the many opportunities in the growing end markets and to capitalise on leadership positions in growth markets. This will include selectively pursuing new projects to enhance profitability and mitigate risk by maintaining a balanced and diversified portfolio.

This group strategy will provide customers with differentiated project delivery offerings across the entire engineering, construction and operations project lifecycle as a vertically integrated global contractor. This is executed on a global scale delivering consistent, predictable results in all markets. An essential feature of the group's global strategy is to establish local operations in market geographies where demand for services is expected to grow.

As such the group will continue to expand and enhance the core competencies of the business segments to differentiate them from competitors by broadening services offered to existing customers and cross selling to adjacent markets.

Principal risks and uncertainties

The management of the business and the execution of the group's strategy are subject to a number of risks. The key business risks and uncertainties affecting the group are considered to relate to the following:

Cash flow risk

Cash flow is dependent on large scale projects and often the timing of new project awards is unpredictable and the uncertainty of contract award timing can also present difficulties in matching workforce size with contract needs. Our results of operations and cash flows may therefore be subject to significant period fluctuations. Any decrease in the magnitude of work done for the MoD, decrease in capital spending for infrastructure or other projects could have a material adverse effect on our business and cash flows.

Pricing risk

A significant portion of our projects are on a fixed or agreed price basis, subjecting the company to risk associated with cost over-runs, operating cost inflation and any potential claims for liquidated damages. If our long-term contracts are on a fixed price basis any failure to accurately estimate the resources and time required to complete our contractual obligations within the time frame and costs committed could have a material adverse effect on the business, results of operations and financial condition, since the company would bear the risk.

Our projects are frequently awarded through a competitive bidding process which is standard in the industry. Hence there is constant competition for project awards based on pricing and breadth and technical sophistication of our services. Any increase in competition or reduction in our competitive capabilities could have a significant adverse impact on the margins we generate from our projects or our ability to retain market share.

Credit and liquidity risk

Customers may require the company to provide credit enhancements including bonds, letters of credit or financial guarantees. In line with industry practice we are often required to provide performance and surety bonds to customers. These bonds indemnify the customer should we fail to perform our obligations under the contract. If a bond is required for a particular project and we are unable to obtain this we may be unable to pursue that project. Because of liquidity

Strategic Report *(continued)*

and other issues we may at times be unable to provide necessary letters of credit. In addition future projects may require the company to obtain letters of credit that extend beyond the terms of our current credit facility. Further, our credit facility limits the amount of new letters of credit and other debt we can incur outside of the credit facility, which could adversely affect our ability to bid competitively on future projects.

Other key risks include:

- A highly competitive market, with many competitive factors affecting sales such as price, product and service and quality delivery which could reduce market share and profits.
- Attracting and maintaining a sufficient number of trained engineers and other skilled workers may affect the ability of the business to pursue projects and costs may increase.
- Exchange rate risks due to fluctuating currencies and large foreign currency balances.
- Operations in some countries may be adversely affected by unsettled political conditions, acts of terrorism and civil unrest together with exchange control and currency problems. However due to the geographical diversification of the business activities the risk is reduced to minimise the effect of a loss of operations in any one country.
- Demand for services depends on capital spending by customers in their target markets, many of which are cyclical in nature.
- Risks related to the defined benefit pension scheme liabilities and investment performance of pension assets.
- The potential effect of Brexit on the group's financial position should be limited as the group have only insignificant operations in the European Union. It is impossible to predict the scale of possible future implications of Brexit for the group.

Other matters

The US Department of Justice (DOJ), Securities and Exchange Commission (SEC) and UK Serious Fraud Office (SFO) are conducting investigations of Unaoil, a Monaco based company, in relation to international projects involving several global companies, including KBR, whose interactions with Unaoil are a subject of those investigations. KBR believes it is cooperating with the DOJ, SEC and the SFO in their investigations, including through the voluntary submission of information and responding to formal document requests.

Key performance indicators

The key performance indicators used to review and monitor the business are set by the directors of the group. The Senior Management team and the Board regularly monitor the performance of the group through a range of key performance indicators, which are related to financial performance, health and safety performance and a number of operational metrics. The main areas are as follows:

- **Backlog**

Backlog is commonly used as a key indicator of financial performance. It represents the amount of revenue the group expects to realise in the future as a result of performing work on contracts awarded and in progress. Expected revenue is generally included in backlog when a contract is awarded or the scope is defined. In many instances, arrangements

Strategic Report (continued)

included in backlog are complex, non-repetitive in nature, and may fluctuate depending on expected revenue and timing. Where contract duration is indefinite, projects included in backlog are limited to the estimated amount of expected revenue within the following twelve months. Certain contracts provide maximum limits with actual authorisation to perform work under the contract being agreed upon on a periodic basis with the customer. In these arrangements, only the amounts authorised are included in backlog. For projects where the group acts solely in a project management capacity, only the management fee revenue of each project is included in backlog.

At 31 December 2018 the backlog totalled £5.979 million (2017: £2,833 million).

- **Profit before tax**

The level of profitability is a key measure of performance. The group profit before tax was £35,198,000 (2017: profit £27,659,000).

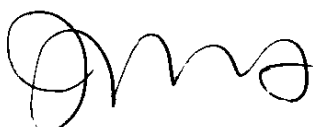
- **Accident frequency rate**

Paramount to KBR is our commitment to Zero Harm to people, property and the environment. At KBR, Zero Harm means a culture in which we make safety conscious decisions that are governed by personal values. We make a personal choice to work safely and to look out for each other in a true interdependent culture.

A Zero Harm culture embraces the courage to care through intervention and engagement in safety-related conversations with our peers. This culture is one in which all incidents are intolerable, and there is a desire and commitment to make sure we do everything in our power to avoid any situation that could put our employees, subcontractors or clients at risk of being hurt or cause harm to the environment.

The common measure of safety performance is the lost time (1 day plus) incident accident frequency rate. In 2018 the group experienced 0.14 lost time incidents per 1 million man hours worked (2017: 0.20 hours lost time accidents per 1 million man hours worked).

The report was approved by the board of directors on 6 December 2019 and signed on behalf of the board by:



J A Barrett

Director

Registered office:
Hill Park Court
Springfield Drive
Leatherhead
Surrey
KT22 7NL

Company Registration Number: 3780592

Directors' report

The directors present their annual report on the affairs of the group, together with the financial statements and auditor's report, for the year ended 31 December 2018.

Proposed dividend

No dividends were paid in the year (2017: £ nil).

The directors recommend that no final dividend be paid (2017: £nil) and that the remaining group profit after tax be transferred to reserves.

Directors

The directors who held office during the year were as follows:

M Nelhams
J A Barrett

Charitable and political donations

During the year the group made no political donations (2017: £nil) and charitable donations of £48,000 (2017: £51,000).

Employment policies

Each company in the group is encouraged to implement comprehensive employment policies designed to enable employees to associate their achievements with those of the company.

Employee involvement and communication programmes continue to be developed and the group provides equal opportunity to all its employees, irrespective of sex, race or religion. Each company endeavours to provide equality of opportunity in recruiting, training, promoting and developing the careers of disabled persons.

Employee involvement

The group has continued the regular distribution to employees of news bulletins and parent company publications. It is the group's continuing policy to seek improvements to the existing channels of communication.

The community and education

The group continues to be committed to maintaining an active role in the community. It has established a UK-wide community relations programme aimed at developing partnerships with the voluntary and public sectors, and education. It supports numerous charity initiatives giving priority to the local communities where it has business operations. The group is particularly active in developing links with education and supports initiatives to raise awareness in science and technology and the promotion of careers in engineering. Encouraging employee involvement is at the core of its community programme.

Employment of disabled persons

In pursuit of its equal opportunity policy, the group gives full and fair consideration to the employment of disabled persons, taking into account the degree of disablement, proposed job function and working environment. An employee who becomes disabled whilst in the group's employment will continue where possible in the employment in which he or she was engaged prior to the disablement. Training and development is undertaken by the group for all employees including disabled persons.

Directors' report *(continued)*

Disclosure of information to auditor

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the company's auditor is unaware; and each director has taken all the steps that he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the company's auditor is aware of that information.

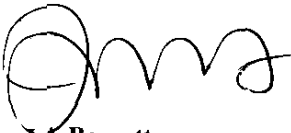
Other information

An indication of likely future developments in the business and particulars of significant events which have occurred since the end of the financial year have been included in the Strategic Report on page 7.

Auditor

Pursuant to Section 487 of the Companies Act 2006, the auditor will be deemed to be reappointed and KPMG LLP will therefore continue in office.

The report was approved by the board of directors on 6 December 2019 and signed on behalf of the board by.



J A Barrett
Director

Registered office:
Hill Park Court
Springfield Drive
Leatherhead
Surrey
KT22 7NL

Company Registration Number: 3780592

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE STRATEGIC REPORT, THE DIRECTORS' REPORT AND THE FINANCIAL STATEMENTS

The directors are responsible for preparing the Strategic Report, the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the group and parent company financial statements in accordance with UK accounting standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*.

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and parent company and of their profit or loss for that period. In preparing each of the group and parent company financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- assess the group and parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent company's transactions and disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the group and to prevent and detect fraud and other irregularities.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF Kellogg Brown & Root Holdings Limited

Opinion

We have audited the financial statements of Kellogg Brown & Root Holdings Limited ("the company") for the year ended 31 December 2018 which comprise the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated Statement of Financial Position, the Consolidated Statement of Changes in Equity, the Consolidated Cash Flow Statement the Company Statement of Financial Position and the Company Statement of Changes in Equity and related notes, including the accounting policies in note 1.

In our opinion the financial statements:

- give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2018 and of the group's profit for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the group in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Other matter

The impact of uncertainties due to the UK exiting the European Union on our audit

Uncertainties related to the effects of Brexit are relevant to understanding our audit of the financial statements. All audits assess and challenge the reasonableness of estimates made by the Directors, related disclosures and the appropriateness of the going concern basis of preparation of the financial statements. All of these depend on assessments of the future economic environment and the company's future prospects and performance.

Brexit is one of the most significant economic events for the UK, and at the date of this report its effects are subject to unprecedented levels of uncertainty of outcomes, with the full range of possible effects unknown. We applied a standardised firm-wide approach in response to that uncertainty when assessing the company's future prospects and performance. However, no audit should be expected to predict the unknowable factors or all possible future implications for a company and this is particularly the case in relation to Brexit.

Going concern

The directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the group or the company or to cease their operations, and as they have concluded that the group and the company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over their ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least a year from the date of approval of the financial statements. In our evaluation of the directors' conclusions, we considered the inherent risks to the group's business model, including the impact of Brexit, and analysed how those risks might affect the group and company's financial resources or ability to continue operations over the going concern period. We have nothing to report in these respects.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF Kellogg Brown & Root Holdings Limited (continued)

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the group or the company will continue in operation.

Strategic report and directors' report

The directors are responsible for the strategic report and the directors' report. Our opinion on the financial statements does not cover those reports and we do not express an audit opinion thereon.

Our responsibility is to read the strategic report and the directors' report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

- we have not identified material misstatements in the strategic report and the directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

Matters on which we are required to report by exception

Under the Companies Act 2006, we are required to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in these respects.

Directors' responsibilities

As explained more fully in their statement set out on page 12, the directors are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the group and parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

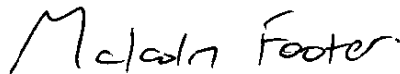
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF Kellogg Brown & Root Holdings Limited (continued)

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.¹

The purpose of our audit work and to whom we owe our responsibilities

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members, as a body, for our audit work, for this report, or for the opinions we have formed.



Malcolm Footer (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square
London
E14 5GL

6.12.19.

Consolidated Income Statement
for the year ended 31 December 2018

| | <i>Note</i> | 2018 £000 | 2017 £000 |
|--|-------------|----------------------------|--------------|
| Turnover | 3 | 732,037 | 452,657 |
| Cost of sales | | (636,047) | (386,534) |
| | | <hr/> | <hr/> |
| Gross profit | | 95,990 | 66,123 |
| Administrative expenses | 4 | (112,499) | (84,710) |
| | | <hr/> | <hr/> |
| Group operating loss | | (16,509) | (18,587) |
| Group's share of profit in Joint Ventures | 12 | 22,702 | 25,972 |
| Other interest receivable and similar income | 7 | 42,817 | 36,498 |
| Other finance (expenses)/income | | (337) | 98 |
| Interest payable and similar charges | 8 | (13,475) | (16,322) |
| | | <hr/> | <hr/> |
| Profit before taxation | | 35,198 | 27,659 |
| Tax on profit | 9 | (9,200) | (7,303) |
| | | <hr/> | <hr/> |
| Profit after taxation | | 25,998 | 20,356 |
| | | <hr/> | <hr/> |
| <i>Profit or loss attributable to</i> | | | |
| Shareholders of the parent company | | 20,035 | 18,885 |
| Non-controlling interest | | 5,963 | 1,471 |
| | | <hr/> | <hr/> |
| Profit for the financial year | | 25,998 | 20,356 |
| | | <hr/> | <hr/> |

The accompanying notes on pages 24 to 68 form an integral part of this income statement.

Consolidated Statement of Comprehensive Income

For year ended 31 December 2018

| | 2018 £000 | 2017 £000 |
|---|----------------------------|--------------|
| Profit for the year | 25,998 | 20,356 |
| Revaluation of joint ventures assets | 143,230 | - |
| Foreign exchange differences on translation of foreign operations | 1,046 | 82 |
| Re-measurement of the net defined benefit plan liability | 95,446 | 119,460 |
| Deferred tax movement on the net defined benefit plan liability | (16,226) | (20,308) |
| Fair value movements on cash flow hedges instruments | 9 | 9 |
| Reclassification from fair value reserve to profit and loss on cash flow hedges | 35 | 177 |
| Deferred tax on gain on cash flow hedges | (8) | 10 |
| Group's share of other comprehensive income of joint ventures | (205) | (4,214) |
| | <hr/> | <hr/> |
| Other comprehensive income for the year, net of income tax | 223,327 | 95,216 |
| | <hr/> | <hr/> |
| Total comprehensive income for the year | 249,325 | 115,572 |
| | <hr/> | <hr/> |
| <i>Profit or loss attributable to</i> | | |
| Shareholders of the parent company | 20,035 | 18,885 |
| Non-controlling interests | 5,963 | 1,471 |
| Total profit or loss | 25,998 | 20,356 |
| | <hr/> | <hr/> |
| <i>Total comprehensive income attributable to</i> | | |
| Shareholders of the parent company | 186,003 | 114,052 |
| Non-controlling interests | 63,322 | 1,520 |
| Total comprehensive income | 249,325 | 115,572 |
| | <hr/> | <hr/> |

The accompanying notes on pages 24 to 68 form an integral part of this income statement.

Consolidated Statement of Financial Position

| At 31 December 2018 | Note | 2018 £000 | 2017 Restated* £000 |
|--|------|--------------|------------------------|
| Fixed assets | | | |
| <i>Intangible assets</i> | | | |
| Goodwill | 10 | 24,355 | 26,779 |
| Negative goodwill | 10 | (12,765) | - |
| | | 11,590 | 26,779 |
| Other intangibles | 10 | 179,399 | 14,987 |
| <i>Tangible assets</i> | 11 | 59,089 | 59,030 |
| Investments | | | |
| Investments in Joint Ventures | 12 | 64,916 | 70,699 |
| | | 303,404 | 144,716 |
| Current assets | | | |
| Stocks | | 1,321 | 654 |
| Debtors (including £79,315,000 (2017:£ 56,106,000)) due after more than one year) | 13 | 1,295,995 | 1,300,614 |
| Cash at bank and in hand | 14 | 371,701 | 158,647 |
| | | 1,669,017 | 1,459,915 |
| Creditors: amounts falling due within one year | 15 | (531,172) | (338,516) |
| Net current assets | | 1,137,845 | 1,121,399 |
| Total assets less current liabilities | | 1,452,839 | 1,292,894 |
| Creditors: amounts falling due after more than one year | 16 | (42,776) | (44,519) |
| Provisions for liabilities | | | |
| Other provisions | 18 | (37,728) | (6,957) |
| Net assets excluding net defined benefit pension plan liability | | 1,372,335 | 1,241,418 |
| Net defined benefit pension plan liability | 21 | (180,034) | (272,691) |
| Net assets | | 1,192,301 | 968,727 |
| Capital and reserves | | | |
| Called up share capital | | - | - |
| Share premium account | | 445,738 | 445,738 |
| Business combination reserve | | (175,516) | (211,676) |
| Revaluation reserve | | 86,321 | - |
| Capital contribution from parent | | 10,694 | 10,694 |
| Share based payments contribution from parent | | 2,157 | 2,157 |
| Foreign exchange differences on translation of subsidiary undertakings | | 278 | (318) |
| Cash flow hedge reserve | | (563) | (394) |
| Profit and loss account | | 820,030 | 720,775 |
| Equity attributable to the parent's shareholders | | 1,189,139 | 966,976 |
| Non-controlling interests | | 3,162 | 1,751 |
| Shareholders' funds | | 1,192,301 | 968,727 |

*Financial statements have been restated to include deferred tax on defined benefit pension liability within debtors (see note 26).

The accompanying notes on pages 24 to 68 form an integral part of this statement of financial position. These financial statements were approved by the board of directors on 6 December 2019 and were signed on its behalf by



J-A Barrett
Director

Company registered number: 3780592

Company Statement of Financial Position

At 31 December 2018

| | Note | 2018 | 2017 |
|---|------|------------------|------------------|
| | | £000 | £000 |
| Fixed assets | | | |
| Investments in subsidiaries | 12 | 458,236 | 458,236 |
| Current assets | | | |
| Debtors | 13 | 1 | 2,536 |
| Creditors: amounts falling due within one year | 15 | (9,734) | (12,094) |
| Net current (liabilities)/assets | | <u>(9,733)</u> | <u>(9,558)</u> |
| Total assets less current liabilities | | <u>448,503</u> | <u>448,678</u> |
| Provisions for liabilities | | | |
| Other provisions | 18 | <u>(107,688)</u> | <u>(163,615)</u> |
| Net assets | | <u>340,815</u> | <u>285,063</u> |
| Capital and reserves | | | |
| Called up share capital | | - | - |
| Share premium account | | 445,738 | 445,738 |
| Profit and loss account | | (104,923) | (160,675) |
| Shareholders' funds | | <u>340,815</u> | <u>285,063</u> |

The accompanying notes on pages 24 to 68 form an integral part of this statement of financial position.

These financial statements were approved by the board of directors on 6 December 2019 and were signed on its behalf by:



J A Barrett

Director

Company registered number: 3780592

Consolidated Statement of Changes in Equity (continued)

| | Called up Share capital £000 | Share Premium account £000 | Business combination reserve £000 | Capital contribution reserve £000 | Share-based payments from parent £000 | Foreign exchange translation reserve £000 | Cash flow hedge reserve £000 | Profit & loss account £000 | Total shareholder's equity £000 | Non-controlling interests £000 | Total equity £000 |
|--|---------------------------------|-------------------------------|--------------------------------------|--------------------------------------|--|--|---------------------------------|-------------------------------|------------------------------------|-----------------------------------|----------------------|
| Balance at 1 January 2017 | - | 445,738 | (211,676) | 10,694 | 2,157 | (351) | 4,503 | 601,859 | 852,924 | 2,244 | 855,168 |
| Total comprehensive income for the period | | | | | | | | | | | |
| Profit or loss | - | - | - | - | - | - | - | 18,885 | 18,885 | 1,471 | 20,356 |
| Other comprehensive income | - | - | - | - | - | 33 | - | - | 33 | 49 | 82 |
| - Foreign exchange differences on translation of subsidiary undertakings | - | - | - | - | - | - | - | 119,460 | 119,460 | - | 119,460 |
| Re-measurement of the net defined benefit pension plan liability | - | - | - | - | - | - | - | (20,308) | (20,308) | - | (20,308) |
| Deferred tax on the re-measurement of the net defined benefit pension plan liability | - | - | - | - | - | - | - | - | - | - | - |
| Fair value movements on cash flow hedges | - | - | - | - | - | - | 9 | - | 9 | - | 9 |
| Group's share of other comprehensive income of joint ventures | - | - | - | - | - | - | (5,093) | 879 | (4,214) | - | (4,214) |
| Reclassification from fair value reserve to profit & loss account | - | - | - | - | - | - | 177 | - | 177 | - | 177 |
| Deferred tax on fair value reserve on cash flow hedging instruments | - | - | - | - | - | - | 10 | - | 10 | - | 10 |
| Total comprehensive income for the period | - | - | - | - | - | 33 | (4,897) | 118,916 | 114,052 | 1,520 | 115,572 |
| Dividends paid to minority interests | - | - | - | - | - | - | - | - | - | (2,013) | (2,013) |
| Total contributions by and distributions to owners | - | - | - | - | - | - | - | - | - | (2,013) | (2,013) |
| Balance at 31 December 2017 | - | 445,738 | (211,676) | 10,694 | 2,157 | (318) | (394) | 720,775 | 966,976 | 1,751 | 968,727 |

The accompanying notes on pages 24 to 68 form an integral part of this statement of financial position

Consolidated Statement of Changes in Equity (continued)

| | Called up share capital £000 | Share premium account £000 | Business combination reserve £000 | Revaluation reserve £000 | Capital contribution reserve £000 | Share based payments contribution from parent £000 | Foreign exchange translation reserve £000 | Cash flow hedge reserve £000 | Profit & loss account £000 | Total shareholder's equity £000 | Non-controlling interests £000 | Total equity £000 |
|---|---------------------------------|-------------------------------|--------------------------------------|-----------------------------|--------------------------------------|---|--|---------------------------------|-------------------------------|------------------------------------|-----------------------------------|----------------------|
| Balance at 1 January 2018 | - | 445,738 | (211,676) | - | 10,694 | 2,157 | (318) | (394) | 720,775 | 966,976 | 1,751 | 968,727 |
| Total comprehensive income for the period | - | - | - | - | - | - | - | - | 20,035 | 20,035 | 5,963 | 25,998 |
| Profit or loss | - | - | - | - | - | - | - | - | 20,035 | 20,035 | 5,963 | 25,998 |
| Other comprehensive income | - | - | - | - | - | - | - | - | - | - | - | - |
| - Re-measurement of Joint venture assets | - | - | - | 86,321 | - | - | - | - | - | 86,321 | 56,909 | 143,230 |
| - Foreign exchange differences on translation of subsidiary undertakings | - | - | - | - | - | - | 596 | - | - | 596 | 450 | 1,046 |
| - Re-measurement of the net defined benefit pension plan liability | - | - | - | - | - | - | - | - | 95,446 | 95,446 | - | 95,446 |
| - Deferred tax on the remeasurement of the net defined benefit pension plan liability | - | - | - | - | - | - | - | - | (16,226) | (16,226) | - | (16,226) |
| - Group's share of other comprehensive income of joint ventures | - | - | - | - | - | - | - | (205) | - | (205) | - | (205) |
| - Fair value movements on cash flow hedges | - | - | - | - | - | - | - | 9 | - | 9 | - | 9 |
| - Reclassification from cash flow hedge reserve to profit & loss | - | - | - | - | - | - | - | 35 | - | 35 | - | 35 |
| - Deferred tax on gain on cash flow hedges | - | - | - | - | - | - | - | (8) | - | (8) | - | (8) |
| Total comprehensive income for the period | - | - | - | 86,321 | - | - | 602 | (169) | 99,255 | 186,003 | 63,322 | 249,235 |
| Recognition of pre-acquisition non-controlling interest | - | - | - | - | - | - | - | - | - | - | 5,853 | 5,853 |
| Acquisition of non-controlling interest | - | - | 36,160 | - | - | - | - | - | - | 36,160 | (66,448) | (30,288) |
| Distributions to owners | - | - | - | - | - | - | - | - | - | - | (1,316) | (1,316) |
| Total investments by and distributions to owners | - | - | 36,160 | - | - | - | - | - | - | 36,160 | (61,911) | (25,751) |
| Balance at 31 December 2018 | - | 445,738 | (175,516) | 86,321 | 10,694 | 2,157 | 278 | (563) | 820,030 | 1,189,139 | 3,162 | 1,192,301 |

The accompanying notes on pages 24 to 68 form an integral part of this statement of changes in equity.

Company Statement of Changes in Equity

| | Called up share capital | Share premium account | Profit and loss account | Total equity |
|--|-------------------------------|-----------------------------|-------------------------------|-----------------|
| | £000 | £000 | £000 | £000 |
| Balance at 1 January 2017 | - | 445,738 | (240,019) | 205,719 |
| Total comprehensive income for the period | | | | |
| Profit for the year | - | - | 79,344 | 79,344 |
| Total comprehensive income for the period | - | - | 79,344 | 79,344 |
| Balance at 31 December 2017 | - | 445,738 | (160,675) | 285,063 |
| Balance at 1 January 2018 | - | 445,738 | (160,675) | 285,063 |
| Total comprehensive income for the period | | | | |
| Profit for the year | - | - | 55,752 | 55,752 |
| Total comprehensive income for the period | - | - | 55,752 | 55,752 |
| Balance at 31 December 2018 | - | 445,738 | (104,923) | 340,815 |

The accompanying notes on pages 24 to 68 form an integral part of this statement of financial position.

Consolidated Cash Flow Statement

for year ended 31 December 2018

| | <i>Note</i> | 2018 £000 | 2017 £000 |
|---|-------------|----------------------------|--------------|
| Cash flows from operating activities | | | |
| Profit for the year | | 25,998 | 20,356 |
| Adjustments for: | | | |
| Depreciation, amortisation and impairment | | 35,410 | 26,233 |
| Income from joint ventures | | (22,702) | (25,972) |
| Foreign exchange (gains)/ losses | | (274) | 2,811 |
| Interest receivable and similar income | | (42,480) | (36,596) |
| Interest payable and similar charges | | 13,475 | 16,322 |
| Loss on sale of tangible fixed assets | | 53 | 32 |
| Equity settled share-based payment expenses | | 644 | 1,014 |
| Defined benefit pension costs net of interest | | 20,307 | 3,969 |
| Taxation expense/ (Income) | | 9,200 | 7,303 |
| | | 39,631 | 15,472 |
| Increase in intangible assets on consolidation of JV | | (2,957) | - |
| Increase in tangible assets on consolidation of JV | | (3,702) | - |
| Decrease/ (Increase) in trade and other debtors | | (11,226) | 18,002 |
| Decrease in stocks | | (667) | (311) |
| Increase in trade and other creditors | | 192,451 | 36,995 |
| (Decrease)/increase in provisions and employee benefits | | 30,771 | (2,047) |
| | | 244,301 | 68,111 |
| Interest received | | 9,717 | 7,573 |
| Interest paid | | (1,010) | (900) |
| Defined benefit pension contributions paid | | (28,000) | (28,037) |
| Tax refunds received | | 294 | 664 |
| Net cash from operating activities | | 225,302 | 47,411 |
| Cash flows from investing activities | | | |
| Proceeds from sale of tangible fixed assets | | - | 16 |
| Dividends received | | 20,252 | 16,395 |
| Acquisition of business | 2 | (35,500) | - |
| Acquisition of tangible fixed assets | | (428) | (683) |
| Net cash from investing activities | | (15,676) | 15,728 |
| Cash flows from financing activities | | | |
| Dividends paid | | (1,316) | (2,013) |
| Net cash from financing activities | | (1,316) | (2,013) |
| Net increase in cash and cash equivalents | | 208,310 | 61,126 |
| Cash and cash equivalents at 1 January | | 158,647 | 100,259 |
| Effect of exchange rate fluctuations on cash held | | 4,744 | (2,738) |
| Cash and cash equivalents at 31 December | 14 | 371,701 | 158,647 |

The accompanying notes on pages 24 to 68 form an integral part of this statement of cash flow.

Notes

(forming part of the financial statements)

1 Accounting policies

Kellogg Brown & Root Holdings Limited (the “Company”) is a company limited by shares and incorporated and domiciled in the UK.

These Group and parent company financial statements were prepared in accordance with Financial Reporting Standard 102 *The Financial Reporting Standard* applicable in the UK and Republic of Ireland (“*FRS 102*”) as issued in August 2014. The amendments to FRS 102 issued in March 2018 and effective immediately have been applied. The presentation currency of these financial statements is sterling.

In the transition to FRS 102 from old UK GAAP, the Group and the Company has made measurement and recognition adjustments.

FRS 102 grants certain first-time adoption exemptions from the full requirements of FRS 102. The following exemptions have been taken in these financial statements:

- Business combinations – Business combinations that took place prior to 1 January 2014 have not been restated.
- Lease arrangements – in order to determine whether an arrangement contains a lease, the Group and Company has analysed facts and circumstances existing at 1 January 2014 rather than commencement date of the arrangement.
- Lease incentives – for leases commenced before 1 January 2014 the Group and Company continued to account for lease incentives under previous UK GAAP.

Notes (continued)

1 Accounting policies (continued)

The parent company is included in the consolidated financial statements, and is considered to be a qualifying entity under FRS 102 paragraphs 1.8 to 1.12. The following exemptions available under FRS 102 in respect of certain disclosures for the parent company financial statements have been applied:

- The reconciliation of the number of shares outstanding from the beginning to the end of the period has not been included a second time;
- No separate parent company Cash Flow Statement with related notes is included;
- Key Management Personnel compensation has not been included a second time;
- Certain disclosures required by FRS 102.26 Share Based Payments; and
- The disclosures required by FRS 102.11 Basic Financial Instruments and FRS 102.12 Other Financial Instrument Issues in respect of financial instruments not falling within the fair value accounting rules of Paragraph 36(4) of Schedule 1.

The Company proposes to continue to adopt the reduced disclosure framework of FRS 102 in its next financial statements.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements. On first time adoption of FRS 102, the Group and Company has not retrospectively changed its accounting under old UK GAAP for de-recognition of financial assets and liabilities before the date of transition, hedge accounting for any hedging relationships that no longer existed at the date of transition, accounting estimates or discontinued operations.

1.1 Measurement convention

The financial statements are prepared on the historical cost basis.

1.2 Going concern

The group's business activities together with factors likely to affect its future development, performance and position are set out in the Strategic Report on pages 3 to 8. The directors have considered the future profitability of the Group and its ability to continue as a going concern and have prepared profit forecasts into the future. Based on these projections the directors are satisfied that, for the foreseeable future, the Group can meet its projected working capital requirements. Consequently the financial statements have been prepared on a going concern basis.

1.3 Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiary undertakings made up to 31 December 2017. A subsidiary is an entity that is controlled by the parent. The results of subsidiary undertakings are included in the consolidated profit and loss account from the date that control commences until the date that control ceases. Control is established when the Company has the power to govern the operating and financial policies of an entity so as to obtain benefits from its activities. In assessing control, the Group takes into consideration potential voting rights that are currently exercisable.

A joint venture is a contractual arrangement undertaking in which the Group exercises joint control over the operating and financial policies of the entity. Where the joint venture is carried out through an entity, it is treated as a jointly controlled entity. The Group's share of the profits less losses of associates and of jointly controlled entities is included in the consolidated profit and loss account and its interest in their net assets is recorded on the balance sheet using the equity method.

In respect of its interest in a jointly controlled asset, the Company recognises in its financial statements:

- (a) its share of the jointly controlled assets, classified according to the nature of the assets;
- (b) any liabilities that it has incurred;
- (c) its share of any liabilities incurred jointly with the other venturers in relation to the joint venture;
- (d) any income from the sale or use of its share of the output of the joint venture, together with its share of any expenses incurred by the joint venture; and (e) any expenses that it has incurred in respect of its interest in the joint venture.

All such amounts are measured in proportion to the Company's interest in the joint asset.

Notes (continued)

1 Accounting policies (continued)

Under Section 408 of the Companies Act 2006 the Company is exempt from the requirement to present its own profit and loss account.

In the parent financial statements, investments in subsidiaries and jointly controlled entities are carried at cost less impairment.

1.4 Foreign currency

Transactions in foreign currencies are translated to the Group companies' functional currency at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are retranslated to the functional currency at the foreign exchange rate ruling at that date. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Foreign exchange differences arising on translation of foreign operations are recognised in the profit and loss account.

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on consolidation, are translated to Sterling, at foreign exchange rates ruling at the balance sheet date. The revenues and expenses of foreign operations are translated at the foreign exchange rates ruling at the dates of the transactions. Foreign exchange differences arising on translation are recognised in Other Comprehensive Income.

Foreign currency gains and losses are reported on a net basis.

1.5 Classification of financial instruments issued by the group

In accordance with FRS 102.22, financial instruments issued by the group are treated as equity only to the extent that they meet the following two conditions:

- (a) they include no contractual obligations upon the group to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the group; and
- (b) where the instrument will or may be settled in the entity's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the entity's own equity instruments or is a derivative that will be settled by the entity exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

To the extent that this definition is not met, the proceeds of issue are classified as a financial liability. Where the instrument so classified takes the legal form of the entity's own shares, the amounts presented in these financial statements for called up share capital and share premium account exclude amounts in relation to those shares.

1.6 Basic financial instruments

Trade and other debtors / creditors

Trade and other debtors are recognised initially at transaction price less attributable transaction costs. Trade and other creditors are recognised initially at transaction price plus attributable transaction costs. Subsequent to initial recognition they are measured at amortised cost less any impairment losses in the case of trade debtors.

Interest-bearing borrowings classified as basic financial instruments

Interest-bearing borrowings are recognised initially at the present value of future payments discounted at a market rate of interest. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost using the effective interest method, less any impairment losses.

Investments in preference and ordinary shares

Investments in equity instruments are measured initially at fair value, which is normally the transaction price. Subsequent to initial recognition they are recognised at transaction price. Other investments are measured at cost less impairment in profit or loss.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Company's cash management are included as a component of cash and cash equivalents for the purpose only of the cash flow statement.

Notes (continued)

1 Accounting policies (continued)

1.7 Other financial instruments

Financial instruments not considered to be Basic financial instruments (Other financial instruments)

Other financial instruments not meeting the definition of Basic Financial Instruments are recognised initially at fair value. Subsequent to initial recognition other financial instruments are measured at fair value with changes recognised in profit or loss except as follows:

- investments in equity instruments that are not publicly traded and whose fair value cannot otherwise be measured reliably shall be measured at cost less impairment; and
- hedging instruments in a designated hedging relationship shall be recognised as set out below.

Derivative financial instruments and hedging

Derivative financial instruments are recognised at fair value. The gain or loss on re-measurement to fair value is recognised immediately in profit or loss. However, where derivatives qualify for hedge accounting, recognition of any resultant gain or loss depends on the nature of the item being hedged (see below).

Fair value hedges

Where a derivative financial instrument is designated as a hedge of the variability in fair value of a recognised asset or liability or an unrecognised firm commitment, all changes in the fair value of the derivative are recognised immediately in profit or loss. The carrying value of the hedged item is adjusted by the change in fair value that is attributable to the risk being hedged (even if it is normally carried at cost or amortised cost) and any gains or losses on re-measurement are recognised immediately in the income statement (even if those gains would normally be recognised directly in reserves). If hedge accounting is discontinued and the hedged financial asset or liability has not been derecognised, any adjustments to the carrying amount of the hedged item are amortised into profit or loss using the effective interest method over the remaining life of the hedged item.

Cash flow hedges

Where a derivative financial instrument is designated as a hedge of the variability in cash flows of a recognised asset or liability, or a highly probable forecast transaction, the effective part of any gain or loss on the derivative financial instrument is recognised directly in other comprehensive income. Any ineffective portion of the hedge is recognised immediately in profit or loss.

For cash flow hedges, where the forecast transactions resulted in the recognition of a non-financial asset or non-financial liability, the hedging gain or loss recognised in OCI is included in the initial cost or other carrying amount of the asset or liability. Alternatively when the hedged item is recognised in profit or loss the hedging gain or loss is reclassified to profit or loss. When a hedging instrument expires or is sold, terminated or exercised, or the entity discontinues designation of the hedge relationship but the hedged forecast transaction is still expected to occur, the cumulative gain or loss at that point remains in equity and is recognised in accordance with the above policy when the transaction occurs. If the hedged transaction is no longer expected to take place, the cumulative unrealised gain or loss recognised in equity is recognised in the income statement immediately.

1.8 Hedge accounting

The effective portion of the gain or loss on the hedging instrument is recognised in OCI in the cash flow hedge reserve, while any ineffective portion is recognised immediately in the statement of profit or loss.

The group uses forward currency contracts as hedges of its exposure to foreign currency risk in forecast transactions and firm commitments. The ineffective portion relating to foreign currency contracts is recognised in cost of sales. Amounts recognised in OCI are transferred to profit and loss when the hedges transaction affects profit or loss such as when the hedged financial income or financial expense is recognised or when a forecast sale occurs. When the hedges item is the cost of a non-financial asset or liability, the amounts recognised as OCI are transferred to the initial carrying amount of the non-financial asset or liability.

If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover (as part of the hedging strategy) or if its designation as a hedge is revoked or when the hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss previously recognised in OCI remains separately in equity until the forecast transaction occurs or the foreign currency firm commitment is met.

Notes (continued)

1 Accounting policies (continued)

1.9 Tangible fixed assets

Tangible fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses.

Where parts of an item of tangible fixed assets have different useful lives, they are accounted for as separate items of tangible fixed assets, for example land is treated separately from buildings.

Leases in which the entity assumes substantially all the risks and rewards of ownership of the leased asset are classified as finance leases. All other leases are classified as operating leases. Leased assets acquired by way of finance lease are stated on initial recognition at an amount equal to the lower of their fair value and the present value of the minimum lease payments at inception of the lease, including any incremental costs directly attributable to negotiating and arranging the lease. At initial recognition a finance lease liability is recognised equal to the fair value of the leased asset or, if lower, the present value of the minimum lease payments. The present value of the minimum lease payments is calculated using the interest rate implicit in the lease.

The company assesses at each reporting date whether tangible fixed assets (including those leased under a finance lease) are impaired.

Depreciation is charged to the profit and loss account on a straight-line basis over the estimated useful lives of each part of an item of tangible fixed assets. Leased assets are depreciated over the shorter of the lease term and their useful lives. Land is not depreciated. The estimated useful lives are as follows:

- buildings 10 – 50 years
- plant and equipment 3 – 17 years
- leasehold buildings and improvements 50 years or length of lease if shorter

Fixed assets under construction are held at cost until completion at which time they are capitalised and depreciated accordingly.

Depreciation methods, useful lives and residual values are reviewed if there is an indication of a significant change since last annual reporting date in the pattern by which the company expects to consume an asset's future economic benefits.

1.10 Business combinations

Business combinations are accounted for using the purchase method as at the acquisition date, which is the date on

At the acquisition date, the group recognises goodwill at the acquisition date as:

the fair value of the consideration (excluding contingent consideration) transferred; plus

estimated amount of contingent consideration (see below); plus

the fair value of the equity instruments issued; plus

directly attributable transaction costs; less

the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities and contingent liabilities assumed.

When the excess is negative, this is recognised and separately disclosed on the face of the balance sheet as negative goodwill.

Where control is achieved following a series of transactions, the cost of the business combination is the aggregate the fair values of the assets given, liabilities assumed and equity instruments issued by the acquirer at the date of each transaction in the series

Notes (continued)

1 Accounting policies (continued)

At the acquisition date, any non-controlling interest in acquiree is stated at the non-controlling interest's share of the net amount of the identifiable assets, liabilities and provisions for contingent liabilities so recognised. The changes in parent's controlling interest in a subsidiary that do not result in a loss of control are treated as transactions with equity holders in line with FRS102.22.19. Accordingly, the carrying amount of the non-controlling interest is adjusted to reflect the change in the parent's interest in the subsidiary's net assets. Any difference between the amount by which the non-controlling interest is so adjusted and the fair value of the consideration paid or received, if any, is recognised directly in equity. The gain or loss on these changes is not recognised. The purchase of non-controlling interest in subsidiary as a result of business combination achieved in stages is recognised in the business combination reserve.

FRS 102.35 grants certain exemptions from the full requirements of FRS 102 in the transition period. The Group elected not to restate business combinations that took place prior to 1 January 2014. In respect of acquisitions prior to this, goodwill is included on the basis of its deemed cost, which represents the amount recorded under old UK GAAP. Intangible assets previously included in goodwill, are not recognised separately.

1.11 Intangible assets, goodwill and negative goodwill

Goodwill

Goodwill is stated at cost less any accumulated amortisation and accumulated impairment losses.

Negative goodwill

Negative goodwill arising on business combinations in respect of acquisitions is included on the balance sheet immediately below any positive goodwill and released to the profit and loss account in the periods in which the non-monetary assets arising on the same acquisition are recovered. Any excess exceeding the fair value of non-monetary assets acquired shall be recognised in profit or loss in the periods expected to benefit.

Research and development

Expenditure on research activities is recognised in the profit and loss account as an expense as incurred.

Notes *(continued)*

1 Accounting policies *(continued)*

1.11 Intangible assets, goodwill and negative goodwill *(continued)*

Other intangible assets

Other intangible assets that are acquired by the Company are stated at cost less accumulated amortisation and less accumulated impairment losses.

The cost of intangible asset acquired in a business combination is capitalised separately from goodwill if the fair value can be measured reliably at the acquisition date.

Amortisation

During 2010, the group capitalised the costs of acquiring the right to sell VEBA Combination Cracking licences (VCC) to third parties. The resulting intangible asset is being amortised in equal annual instalments over 25 years, as it is the period for which the group has acquired the right to sell VCC licences to third parties.

During 2016, the group capitalised the costs of acquiring the intellectual property related to the concrete technology and Plinke GmbH, the German company specialising in concrete technology. The resulting intangible assets are being amortised in equal annual instalments over 10 years.

During 2018, the group has acquired the Aspire Services business and capitalised its contract intangibles and recognised goodwill on acquisition. Amortisation is calculated so as to write off the cost of an asset, less its estimated residual value, over the useful life :

- Goodwill - Over 276 months
- Contracts - Over 276 months

During 2018, the group has acquired the Aspire Construction business with the useful life of the contract intangibles of 48 month.

If there is an indication that there has been a significant change in amortisation rate, useful life or residual value of an intangible asset, the amortisation is revised prospectively to reflect the new estimates.

Goodwill is amortised on a straight line basis over its useful life. Goodwill has no residual value. The finite useful life of goodwill is estimated to be 5 years. This is the period during which the directors estimate that benefits may reasonably be expected to arise.

If there is an indication that there has been a significant change in amortisation rate, useful life or residual value of an intangible asset, the amortisation is revised prospectively to reflect the new estimates.

Goodwill and other intangible assets are tested for impairment in accordance with Section 27 of FRS 102. Impairment of assets when there is an indication that goodwill or an intangible asset may be impaired.

1.12 Investments

Company - Investments in incorporated undertakings are stated in the company's financial statements at cost less amounts written off. Dividends received and receivable are credited to the company's profit and loss account.

Group - In the group accounts, investments in associates and joint ventures are accounted as described in *1.3 Basis of consolidation*.

1.13 Long- term contract debtors

Long-term contract debtors represent the gross unbilled amount for contract work performed to date. They are measured at cost plus profit recognised to date less a provision for foreseeable losses and less progress billings. Variations are included in contract revenue when they are reliably measurable and it is probable that the customer will approve the variation itself and the revenue arising from the variation. Claims are included in contract revenue only when they are reliably measurable and negotiations have reached an advanced stage such that it is probable that the customer will accept the claim. Cost includes all expenditure related directly to specific projects and an allocation of fixed and variable overheads incurred in the entity's contract activities based on normal operating capacity.

Notes (continued)

1 Accounting policies (continued)

1.13 Long-term contract debtors (continued)

Long-term contract debtors are presented as part of debtors in the balance sheet. If payments received from customers exceed the income recognised, then the difference is presented as accruals and deferred income in the balance sheet.

1.14 Impairment

Financial assets (including trade and other debtors)

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. For financial instruments measured at cost less impairment, an impairment is calculated as the difference between its carrying amount and the best estimate of the amount that the Company would receive for the asset if it were to be sold at the reporting date. Interest on the impaired asset continues to be recognised through the unwinding of the discount. Impairment losses are recognised in profit or loss. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

Non-financial assets

The carrying amounts of the entity's non-financial assets, other than stocks and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit"). The goodwill acquired in a business combination, for the purpose of impairment testing is allocated to cash-generating units, or ("CGU") that are expected to benefit from the synergies of the combination. For the purpose of goodwill impairment testing, if goodwill cannot be allocated to individual CGUs or groups of CGUs on a non-arbitrary basis, the impairment of goodwill is determined using the recoverable amount of the acquired entity in its entirety, or if it has been integrated then the entire group of entities into which it has been integrated.

An impairment loss is recognised if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the units, and then to reduce the carrying amounts of the other assets in the unit (group of units) on a *pro rata* basis.

1.15 Employee benefits

Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which the company pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an expense in the profit and loss account in the periods during which services are rendered by employees.

Defined benefit plan

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Company's net obligation in respect of defined benefit plans is calculated by estimating the amount of future benefit that employees have earned in return for their service in prior periods; that benefit is discounted to determine its present value. The fair value of any plan assets is deducted. The Company determines the net interest expense (income) on the net defined benefit liability (asset) for the period by applying the discount rate as determined at the beginning of the annual period to the net defined benefit liability (asset) taking account of changes arising as a result of contributions and benefit payments.

Notes (continued)

1 Accounting policies (continued)

The discount rate is the yield at the balance sheet date on AA credit rated bonds denominated in the currency of, and having maturity dates approximating to the terms of the Company's obligations. A valuation is performed annually by a qualified actuary using the projected unit credit method. The Company recognises net defined benefit plan assets to the extent that it is able to recover the surplus either through reduced contributions in the future or through refunds from the plan.

Changes in the net defined benefit liability arising from employee service rendered during the period, net interest on net defined benefit liability, and the cost of plan introductions, benefit changes, curtailments and settlements during the period are recognised in the income statement.

Re-measurement of the net defined benefit liability/asset is recognised in other comprehensive income in the period in which it occurs.

Multi-employer defined benefit plan

One of the company's subsidiaries participates in a multi-employer defined benefit scheme. The assets of the scheme are held separately from those of the subsidiary. Contributions in to this scheme are set by the scheme's actuaries. There are no valuations of the scheme presently available. The subsidiary cannot determine its share of the underlying assets and liabilities in the scheme on a consistent and reasonable basis, and therefore accounts for the scheme as a defined contribution scheme.

Share-based payment transactions

Where the company's parent grants rights to its equity instruments to the group's or the company's employees, which are accounted for as equity-settled in the consolidated accounts of the parent, the group or the company as the case may be account for these share-based payments as equity-settled. Amounts recharged by the parent are recognised as a recharge liability with a corresponding debit to the profit and loss account over the vesting period.

The grant date fair value of share-based payments awards granted to employees is recognised as an employee expense, with a corresponding increase in equity, over the period in which the employees become unconditionally entitled to the awards. The fair value of the awards granted is measured based on company specific observable market data using an option valuation model, taking into account the terms and conditions upon which the awards were granted. The amount recognised as an expense is adjusted to reflect the actual number of awards for which the related service and non-market vesting conditions are expected to be met, such that the amount ultimately recognised as an expense is based on the number of awards that do meet the related service and non-market performance conditions at the vesting date.

1.16 Provisions

A provision is recognised in the balance sheet when the entity has a present legal or constructive obligation as a result of a past event, that can be reliably measured and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are recognised at the best estimate of the amount required to settle the obligation at the reporting date.

Where the parent Company enters into financial guarantee contracts to guarantee the indebtedness of other companies within its group, the company treats the guarantee contract as a contingent liability in its individual financial statements until such time as it becomes probable that the company will be required to make a payment under the guarantee.

1.17 Turnover

Turnover comprises sales in the ordinary course of business to external customers of goods supplied and services rendered (excluding sales related taxes) and in the case of long term contracts, the proportion of contract revenue applicable to the period. Progress is generally based upon physical progress, man-hours or costs incurred depending on the type of job. Revenues recognised in excess of amounts billed are classified as amounts recoverable on contracts and are included within debtors. Amounts billed in excess of revenues recognised to date are classified as payments on account and are included in creditors.

Notes (continued)

1 Accounting policies (continued)

1.18 Basis of accounting for contracts

Income from engineering, project management, construction and procurement service contracts is recognised in the period in which those services are performed. The group follows the generally accepted practice of reporting income from long-term construction, engineering and project management contracts on the percentage of completion basis as costs are incurred and provides for all known or anticipated losses on such contracts when they become evident.

1.19 Accounting for pre-contract costs

Pre-contract costs incurred in anticipation of a specific contract award are deferred only if the costs can be directly associated with a specific anticipated contract and their recoverability from that contract is probable. Pre-contract costs related to unsuccessful bids are written off no later than the period of being informed that specific contract had not been awarded. Costs related to one-time activities such as introducing a new product or service, conducting business in a new territory, conducting business with a new class of customer or commencing new operations are expensed when incurred.

1.20 Expenses

Operating lease

The Group enters into operating leases as described in note 25. Payments (excluding costs for services and insurance) made under operating leases are recognised in the profit and loss account on a straight-line basis over the term of the lease. Lease incentives received are recognised in profit and loss over the term of the lease as an integral part of the total lease expense.

Finance lease

Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability using the rate implicit in the lease. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. Contingent rents are charged as expenses in the periods in which they are incurred

Interest receivable and Interest payable

Interest payable and similar charges include borrowing costs that are directly attributable to the acquisition, construction or production of an asset that takes a substantial time to be prepared for use are expensed as incurred.

Other interest receivable and similar income include interest receivable on funds invested.

Interest income and interest payable are recognised in profit or loss as they accrue, using the effective interest method.

1.21 Dividend income

Dividend income is recognised in the profit and loss account on the date the entity's right to receive payments is established.

1.22 Taxation

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the profit and loss account except to the extent that it relates to items recognised directly in equity or other comprehensive income, in which case it is recognised directly in equity or other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided on timing differences which arise from the inclusion of income and expenses in tax assessments in periods different from those in which they are recognised in the financial statements. Deferred tax is not recognised on permanent differences arising because certain types of income or expense are non-taxable or are disallowable for tax or because certain tax charges or allowances are greater or smaller than the corresponding income or expense.

Notes *(continued)*

1 Accounting policies *(continued)*

1.22 Taxation *(continued)*

Deferred tax is provided in respect of the additional tax that will be paid or avoided on differences between the amount at which an asset (other than goodwill) or liability is recognised in a business combination and the corresponding amount that can be deducted or assessed for tax. Goodwill is adjusted by the amount of such deferred tax.

Deferred tax is measured at the tax rate that is expected to apply to the reversal of the related difference, using tax rates enacted or substantively enacted at the balance sheet date.

Deferred tax balances are not discounted.

Unrelieved tax losses and other deferred tax assets are recognised only to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits.

Notes (continued)

2 Acquisitions of businesses

The acquired joint ventures contributed £196 million of revenues and £16 million of net profit within the Group's GS business segment during the year ended December 31, 2018.

On 18 April, 2018 the Group purchased the Carillion's interests in the joint ventures for £35,500,000. The acquisition of non-controlling interest in the incorporated joint venture ADSL was considered as an equity transaction and the difference between the consideration and non-controlling interest is recognised in these financial statements in the business combination reserve.

The acquisition had the following effect on the Group's assets and liabilities.

| | Book values | Fair value adjustments | Recognised values on acquisition |
|--|-------------|------------------------|----------------------------------|
| | £000 | £000 | £000 |
| Acquirees' net assets at the acquisition date: | | | |
| Tangible fixed assets | 3,702 | - | 3,702 |
| Intangible assets | 2,842 | 172,644 | 175,486 |
| Stock | 285 | - | 285 |
| Cash at bank | 146,553 | - | 146,553 |
| Trade and other debtors | 31,713 | - | 31,713 |
| Trade and other creditors | (180,828) | - | (180,828) |
| Deferred tax liabilities | (112) | (29,349) | (29,461) |
| Provisions | (899) | - | (899) |
| Pension plan liabilities | (309) | - | (309) |
| | <hr/> | <hr/> | <hr/> |
| Net identifiable assets and liabilities | 2,947 | 143,295 | 146,242 |
| | <hr/> | <hr/> | <hr/> |
| Total cost of business combination: | | | |
| Cash paid for unincorporated part of business | | | 5,212 |
| Previously recognised interest in acquired business | | | 1,474 |
| Re-measurement of existing interest in business | | | 86,322 |
| Deferred tax recognised on re-measurement of unincorporated part of business | | | (5,000) |
| | | | <hr/> |
| Total cost of business combination | | | 88,008 |
| | | | <hr/> |
| Goodwill on acquisition | | | |
| Goodwill on incorporated part of business | | | 19,349 |
| Negative goodwill on unincorporated part of business | | | (14,817) |
| | | | <hr/> |
| Total goodwill | | | 4,532 |
| | | | <hr/> |
| Non-controlling interest in incorporated part of business | | | 62,766 |
| | | | <hr/> |

Notes (continued)

2 Acquisitions of businesses (continued)

| | |
|--|---------------|
| Purchase of non-controlling interest | |
| Non-controlling interest in incorporated part of business at 15 January 2018 | 62,766 |
| Increase in the non-controlling interest in incorporated part of business from 15 January to 18 April 2018 | 3,682 |
| Cash paid for incorporated part of business | 30,288 |
| Business combination reserve | 36,160 |

3 Turnover

| | 2018 £000 | 2017 £000 |
|--------------------------------|----------------|--------------|
| Rendering of services | 489,565 | 384,099 |
| Construction services | 242,472 | 68,558 |
| Total turnover | 732,037 | 452,657 |
| By activity: | | |
| Engineering & construction | 181,425 | 145,725 |
| Technology & consulting | 28,925 | 47,084 |
| Government services | 521,687 | 259,848 |
| | 732,037 | 452,657 |
| By geographical market: | | |
| United Kingdom | 470,195 | 224,752 |
| Rest of Europe | 95,162 | 77,060 |
| Middle and Far East | 138,047 | 143,707 |
| Rest of World | 28,633 | 7,138 |
| | 732,037 | 452,657 |

Notes (continued)

4 Expenses and auditor's remuneration

Included in profit/loss are the following:

| | 2018 | 2017 |
|---|---------------|--------|
| | £000 | £000 |
| Depreciation of tangible fixed assets | 4,226 | 3,834 |
| Amortisation of goodwill | 19,908 | 21,110 |
| Amortisation of other intangible assets | 11,276 | 1,302 |
| Loss on sale of tangible assets | 53 | 32 |
| Defined benefit plan expense | 31,630 | 14,170 |
| Defined contribution plan expense | 6,817 | 4,797 |
| Other operating lease rentals: Buildings | 8,046 | 8,376 |
| Plant and machinery | - | 185 |
| Auditors remuneration (audit of these financial statements (company £26,510 (2017: £26,510))) | 496 | 188 |
| Loss / (profit) on foreign exchange | (274) | 2,811 |

Increase in the audit fees in 2018 is due to the consolidation of the results of the joint ventures acquired in 2018 through the business combination (see Note 2).

5 Staff numbers and costs

The average number of persons employed by the Group (including directors) during the year, analysed by category, was as follows:

| | Number of employees | |
|----------------|----------------------------|-------------------|
| | 2018 | 2017 |
| Operations | 1,543 | 795 |
| Administration | 995 | 540 |
| | <hr/> 2,538 <hr/> | <hr/> 1,335 <hr/> |

The aggregate payroll costs of these persons were as follows:

| | 2018 | 2017 |
|------------------------------|----------------------------|---------------------|
| | £000 | £000 |
| Wages and salaries | 133,316 | 97,209 |
| Share based payments expense | 644 | 1,014 |
| Social security costs | 15,864 | 9,015 |
| Other pension costs | 8,141 | 8,952 |
| | <hr/> 157,965 <hr/> | <hr/> 116,190 <hr/> |

In addition to the above, the average number of persons working under contracts for services within the Group was 404 (2017:224).

Notes (continued)

6 Directors' remuneration

| | 2018 | 2017 |
|---|-------------|------------|
| | £000 | £000 |
| Directors' remuneration | 410 | 324 |
| Company contributions to money purchase pension plans | 25 | 23 |
| | <u>435</u> | <u>347</u> |

The aggregate of remuneration and amounts receivable under long term incentive schemes of the highest paid director was £265,158 (2017:£ 187,498), and company pension contributions of £13,430 (2017:£ 12,209) were made to a money purchase scheme on his behalf. During the year, the highest paid director exercised no share options and received no shares under a long term incentive scheme.

| | Number of directors 2018 | 2017 |
|--|------------------------------------|------|
| Retirement benefits are accruing to the following number of directors under: | | |
| Money purchase schemes | 2 | 2 |
| Defined benefit schemes | 2 | 2 |
| The number of directors who exercised share options was | - | - |
| The number of directors in respect of whose qualifying services shares were received or receivable under long term incentive schemes was | 2 | 2 |

7 Other interest receivable and similar income

| | 2018 | 2017 |
|--|----------------------|---------------|
| | £000 | £000 |
| Interest from affiliated undertakings | 39,041 | 34,833 |
| Interest on cash and cash equivalents | 3,625 | 1,259 |
| Gain on financial instruments | 151 | 406 |
| | <u>42,817</u> | <u>36,498</u> |
| Total interest receivable and similar income | <u>42,817</u> | <u>36,498</u> |

Affiliated undertakings include members of the KBR, Inc. Group and undertakings in which the group has participating interest.

Notes (continued)

8 Interest payable and similar charges

| | 2018 | 2017 |
|---|----------------|----------|
| | £000 | £000 |
| Interest on bank loans and overdrafts | (1,010) | (1,152) |
| Interest payable to Affiliated undertakings | (5,953) | (4,821) |
| Net finance costs in respect of defined benefit pension plans | (6,484) | (10,201) |
| Loss on financial instruments | (28) | (166) |
| | <hr/> | <hr/> |
| Total other interest payable and similar charges | 13,475 | (16,322) |
| | <hr/> | <hr/> |

9 Taxation

Total tax expense recognised in the profit and loss account, other comprehensive income and equity

| | 2018 | 2017 |
|--|---------------|---------|
| | £000 | £000 |
| <i>Current tax</i> | | |
| Current tax on income for the period | 4,481 | (1,921) |
| Adjustments in respect of prior periods | 585 | 3,291 |
| Double tax relief | (268) | (6) |
| Foreign current tax on income for the year | 4,092 | 1,874 |
| Adjustments to foreign tax in respect of prior years | 285 | 142 |
| | <hr/> | <hr/> |
| Total current tax | 9,176 | 3,380 |
| <i>Deferred tax (see note 17)</i> | | |
| Origination and reversal of timing differences | 16,297 | 24,236 |
| Adjustments to deferred taxation in respect of prior years | (39) | (5) |
| | <hr/> | <hr/> |
| Total deferred tax | 16,258 | 24,231 |
| | <hr/> | <hr/> |
| Total tax | 25,434 | 27,611 |
| | <hr/> | <hr/> |

Notes (continued)

9 Taxation (continued)

| | £000 | 2018 £000 | £000 | £000 | 2017 £000 | £000 |
|--|-------------|--------------|-----------|-------------|--------------|-----------|
| | Current tax | Deferred tax | Total tax | Current tax | Deferred tax | Total tax |
| Recognised in Profit and loss account | 9,176 | 24 | 9,200 | 3,380 | 3,923 | 7,303 |
| Recognised in Other comprehensive income | - | 16,234 | 16,234 | - | 20,308 | 20,308 |
| Total tax | 9,176 | 16,258 | 25,434 | 3,380 | 24,231 | 27,611 |

Analysis of current tax recognised in profit and loss

| | 2018 £000 | 2017 £000 |
|---|--------------|--------------|
| UK corporation tax | 5,066 | 1,370 |
| Double taxation relief | (268) | (6) |
| Foreign tax | 4,378 | 2,016 |
| Total current tax recognised in profit and loss | 9,176 | 3,380 |

Reconciliation of effective tax rate

| | 2018 £000 | 2017 £000 |
|--|--------------|--------------|
| Profit for the year | 25,998 | 20,356 |
| Tax on profit on ordinary activities | 9,200 | 7,303 |
| Profit excluding taxation | 35,198 | 27,659 |
| Tax using the UK corporation tax rate of 19% (2017:19.25%) | 6,688 | 5,324 |
| Group's share of profit in Joint Ventures | (4,260) | (5,007) |
| Effect of tax rates in foreign jurisdictions | 143 | 1,267 |
| Goodwill amortisation | 3,782 | 4,064 |
| Deferred tax on acquisition of intangible assets | 5,001 | - |
| Rate difference between current and deferred tax balances | 169 | 140 |
| Tax losses not recognised | 143 | 204 |
| Under / (over) provided in prior years | 831 | 3,428 |
| Net interest receivable not taxable (worldwide debt cap) | - | (748) |
| Group relief | (3,099) | (2,268) |
| Pension deduction net of charge | 633 | (141) |
| Other non-deductible expenses/(income) | (831) | 860 |
| Total tax expense included in profit or loss | 9,200 | 7,303 |

Factors that may affect future tax expense

During 2015 and 2016 rate reductions from 20% to 19% (with effect from 1 April 2017) and 17% (with effect from 1 April 2020) were substantively enacted. These rate reductions will reduce the company's future current tax charge accordingly. The deferred tax asset at December 2018 has been calculated based on the rate of 17% substantively enacted at the balance sheet date.

Notes (continued)

10 Intangible assets and goodwill (Group)

| | Technology | Software | Goodwill | Negative goodwill | Other | Total |
|------------------------------|---------------|--------------|----------------|-------------------|----------------|----------------|
| | £000 | £000 | £000 | £000 | £000 | £000 |
| Cost | | | | | | |
| At 1 January 2018 | 23,268 | 867 | 147,100 | (107) | - | 171,128 |
| Additions | 31 | 3,496 | 19,349 | (14,817) | 172,644 | 180,703 |
| Foreign exchange adjustments | 86 | - | 383 | - | - | 469 |
| At 31 December 2018 | 23,385 | 4,363 | 166,832 | (14,924) | 172,644 | 352,300 |
| Amortisation | | | | | | |
| At 1 January 2018 | 8,364 | 784 | 120,321 | (107) | - | 129,362 |
| Additions | - | 539 | - | - | - | 539 |
| Charge for the year | 1,291 | 285 | 21,960 | (2,052) | 9,700 | 31,184 |
| Foreign exchange adjustments | 30 | - | 196 | - | - | 226 |
| At 31 December 2018 | 9,685 | 1,608 | 142,477 | (2,159) | 9,700 | 161,311 |
| Net book value | | | | | | |
| At 31 December 2018 | 13,700 | 2,755 | 24,355 | (12,765) | 162,944 | 190,989 |
| At 31 December 2017 | 14,904 | 83 | 26,779 | - | - | 41,766 |

Amortisation and impairment charge

The amortisation is recognised in the following line items in the profit and loss account:

| | 2018 £000 | 2017 £000 |
|-------------------------|---------------|---------------|
| Administrative expenses | 31,183 | 22,412 |
| | 31,183 | 22,412 |

Negative goodwill of £107,000 arising on the acquisition of Kellogg Brown & Root GmbH was fully amortised on acquisition as it arose on an intra-group acquisition and is presumed to have no useful economic life.

Negative goodwill of £14,817,000 arising on the business acquisition of the Aspire services business is amortised over the period of 278 months and 48 months respectively.

Notes *(continued)*

11 Tangible fixed assets

| <i>Group</i> | Land & Buildings Freehold £000 | Land & buildings Leasehold £000 | Machinery, equipment & vehicles £000 | Total £000 |
|---|---|--|---|-----------------------|
| Cost | | | | |
| Balance at 1 January 2018 | 54,142 | 8,581 | 17,776 | 80,499 |
| Additions | 3,452 | 81 | 6,624 | 10,157 |
| Disposals | - | - | (913) | (913) |
| Effect of movements in foreign exchange | - | 361 | 333 | 694 |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| Balance at 31 December 2018 | 57,594 | 9,023 | 23,820 | 90,437 |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| Depreciation and impairment | | | | |
| Balance at 1 January 2018 | 1,501 | 6,713 | 13,255 | 21,469 |
| Additions | 1,152 | - | 4,875 | 6,027 |
| Depreciation charge for the year | 1,352 | 767 | 2,107 | 4,226 |
| Disposals | - | - | (913) | (913) |
| Effect of movements in foreign exchange | - | 310 | 229 | 539 |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| Balance at 31 December 2018 | 4,005 | 7,790 | 19,553 | 31,348 |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| Net book value | | | | |
| At 1 January 2018 | 52,641 | 1,868 | 4,521 | 59,030 |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| At 31 December 2018 | 53,589 | 1,233 | 4,267 | 59,089 |
| | <hr/> | <hr/> | <hr/> | <hr/> |

The Company has no tangible fixed assets (2017:£nil).

Notes (continued)

12 Fixed asset investments

Fixed asset investments – Group

| | Interests in Joint Ventures | Total |
|---|-----------------------------------|---------------|
| | £000 | £000 |
| Group | | |
| <i>Cost</i> | | |
| At beginning of year | 7,515 | 7,515 |
| At end of year | 7,515 | 7,515 |
| <i>Share of post acquisition reserves</i> | | |
| At beginning of year | 63,184 | 63,184 |
| Disposals | (5,857) | (5,857) |
| Retained profits less losses | 21,257 | 21,257 |
| Other comprehensive income | (931) | (931) |
| Distributions | (20,252) | (20,252) |
| At end of year | 57,401 | 57,401 |
| <i>Net book value</i> | | |
| At 31 December 2018 | 64,916 | 64,916 |
| At 31 December 2017 | 70,699 | 70,699 |

Fixed asset investments – Company

| | Shares in group undertakings | Total |
|-----------------------|------------------------------------|---------|
| | £000 | £000 |
| Company | | |
| <i>Cost</i> | | |
| At 1 January 2018 | 458,236 | 458,236 |
| Additions | - | - |
| At 31 December 2018 | 458,236 | 458,236 |
| <i>Net book value</i> | | |
| At 31 December 2017 | 458,236 | 458,236 |
| At 31 December 2018 | 458,236 | 458,236 |

Notes (continued)

13 Debtors

| | Group 2018 | 2017 Restated* | Company 2018 | 2017 |
|--|------------------|-------------------|-----------------|--------------|
| | £000 | £000 | £000 | £000 |
| Trade debtors | 41,118 | 43,160 | - | - |
| Amounts recoverable on long term contracts | 71,789 | 38,686 | - | - |
| Amounts owed by affiliated undertakings | 996,488 | 1,048,017 | 1 | 2,536 |
| Amounts owed by undertakings in which the company has a participating interest | 122,503 | 90,337 | - | - |
| Corporation tax | 6,516 | 6,608 | - | - |
| Other debtors | 14,514 | 10,859 | - | - |
| Prepayments and accrued income | 8,666 | 8,447 | - | - |
| Deferred tax asset (see note 17) | 34,271 | 49,451 | - | - |
| Loan receivable | - | 4,812 | - | - |
| Derivative financial assets | 130 | 237 | - | - |
| | <u>1,295,995</u> | <u>1,300,614</u> | <u>1</u> | <u>2,536</u> |

The debtors above include the following amounts falling due after more than one year:

| | Group 2018 | 2017 Restated* | Company 2018 | 2017 |
|--|---------------|-------------------|-----------------|----------|
| | £000 | £000 | £000 | £000 |
| Amounts owed by undertakings in which the company has a participating interest | 48,803 | 51,204 | - | - |
| Deferred tax asset (see note 17) | 30,512 | 49,451 | - | - |
| | <u>79,315</u> | <u>102,463</u> | <u>-</u> | <u>-</u> |

*Comparatives restated to include the deferred tax on defined benefit pension liability (see note 26)

14 Cash and cash equivalents

| | 2018 £000 | 2017 £000 |
|--|----------------|----------------|
| Cash at bank and in hand | 371,701 | 158,647 |
| Cash and cash equivalents per cash flow statements | <u>371,701</u> | <u>158,647</u> |

Notes (continued)

15 Creditors: amounts falling due within one year

| | Group | | Company | |
|---|----------------|---------|----------------|--------|
| | 2018 | 2017 | 2018 | 2017 |
| | £000 | £000 | £000 | £000 |
| Payments received on account for contract work | 24,267 | 15,836 | - | - |
| Trade creditors | 34,278 | 10,181 | - | - |
| Amounts owed to group undertakings | 233,035 | 190,956 | 9,734 | 12,094 |
| Amounts owed to undertakings in which the entity has a participating interest | 22 | 8,787 | - | - |
| Taxation and social security | 9,945 | 7,134 | - | - |
| Accruals and deferred income | 217,601 | 93,526 | - | - |
| VAT | 278 | 193 | - | - |
| Corporation tax | 6,582 | - | - | - |
| Overseas tax | 1,400 | 1,892 | - | - |
| Deferred tax liability (see Note 17) | - | 7,996 | - | - |
| Derivative financial liabilities | 149 | 212 | - | - |
| Other creditors | 3,615 | 1,803 | - | - |
| | 531,172 | 338,516 | 9,734 | 12,094 |

An arrangement is in place with two banks to offset cash and overdraft balances between the company and its subsidiary undertakings.

16 Creditors: amounts falling after more than one year

| | Group | Group |
|------------------------------------|---------------|--------|
| | 2018 | 2017 |
| | £000 | £000 |
| Accruals and deferred income | 11,287 | 12,391 |
| Amounts owed to group undertakings | 27,692 | 28,912 |
| Derivative financial liabilities | 10 | 276 |
| Employees defined benefit pension | 3,787 | 2,940 |
| | 42,776 | 44,519 |

Included within accruals and deferred income are amounts repayable after five years by instalments of £6,593,000 (2017:£ 7,540,000).

The Company had no creditor amounts falling due after more than one year at 31 December 2018 (2017:£nil).

Notes (continued)

17 Deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

| Group | 2018 | 2017 |
|-------------------------------------|-----------------|-------------------|
| | £000 | Restated* £000 |
| Accelerated capital allowances | 1,158 | 961 |
| Intangibles on business combination | (27,700) | - |
| Defined benefit pension liability | 30,512 | 46,357 |
| Other | (2,471) | (5,863) |
| | <hr/> | <hr/> |
| Tax assets/(liabilities) | 1,499 | 41,455) |
| Deferred tax in debtors | 34,271 | 49,451 |
| Deferred tax in provisions | (32,772) | - |
| Deferred tax in creditors | - | (7,996) |
| | <hr/> | <hr/> |
| Tax assets/(liabilities) | 1,499 | 41,455 |
| | <hr/> | <hr/> |

*Comparatives have been restated to include deferred tax on defined benefit pension liability (see note 26)

In 2017 deferred tax on defined benefit pension liability was included in the net defined benefit pension plan liability.

The Company did not have any deferred tax assets or liabilities as at 31 December 2018 (2017:£nil).

Notes (continued)

18 Provisions

| Group | Provision for property reinstatement £000 | Restructuring provision £000 | Provision for joint venture losses £000 | Deferred tax £000 | Other Provisions £000 | Total £000 |
|-------------------------------------|--|------------------------------------|---|-------------------------|-----------------------------|---------------|
| Balance at 1 January 2018 | 19 | 23 | 2,876 | - | 4,039 | 6,957 |
| Provisions made during the year | - | - | - | 34,552 | 923 | 35,475 |
| Provisions used during the year | - | - | - | (1,780) | (730) | (2,510) |
| Provisions reversed during the year | - | (23) | (2,171) | - | - | (2,194) |
| | 19 | - | 705 | 32,772 | 4,232 | 37,728 |

Provision for property reinstatement

Provision for property reinstatement consists of £19,000 relating to asset retirement obligations. Remediation work was completed in 2018.

Company Provisions

Kellogg Brown & Root Holdings Limited acts as the Principal Guarantor for the Kellogg Brown & Root (U.K.) Limited defined benefit pension plan scheme, along with Kellogg Brown & Root Holdings (U.K.) Limited (First Additional Guarantor) and Kellogg Brown & Root Limited (Second Additional Guarantor).

The Co-Guarantors have jointly and severally guaranteed that if the assets of the plan become insufficient to secure the benefits in full to the beneficiaries, each beneficiary would receive the benefits to which he or she is entitled to in full. The liability included in Kellogg Brown & Root Holdings Limited is £107,688,000 (2017: £163,615,000). This represents 60% of the net pension liability £179,480,000 (2017: £272,691,000) of the Kellogg Brown & Root (U.K.) Limited scheme. The remaining liability is split equally between Kellogg Brown & Root Limited and Kellogg Brown & Root Holdings (U.K.) Limited in accordance with an arrangement reached between these companies.

19 Capital and reserves

Share capital

| | 2018 | 2017 |
|---|------------|-------|
| Authorised | | |
| 60,000 ordinary shares of £0.01 each | 600 | 600 |
| | <hr/> | <hr/> |
| Issued, allotted, called-up and fully paid | | |
| 10,300 (2017: 10,300) ordinary shares of £0.01 each | 103 | 103 |
| | <hr/> | <hr/> |

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company.

Business combination reserve. This reserve was created as a result of applying merger accounting during group reconstructions and business acquisitions.

Notes *(continued)*

19 Capital and reserves *(continued)*

Capital contribution from parent. This is a reserve created through the cash contributions from the parent, Kellogg Brown & Root Holdings (U.K.) limited to the Company.

Share based payments contribution from parent. This reserve was created when KBR, Inc's shares were awarded to the group's employees for no consideration.

Foreign exchange differences on translation of subsidiary. This is the reserve which comprises foreign exchange differences due to the translation of the financial statements of the members of the Group which are presented in currencies other than pound sterling.

Cash flow hedge reserve. The hedging reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions that have not yet occurred.

The reconciliations of the reserves is provided in the Consolidated Statement of Changes in Equity and the Company Statement of Changes in Equity on pages 20 to 22.

20 Financial instruments

Carrying amounts of financial assets and liabilities include:

| | 2018 | 2017 |
|---|------------------|-----------|
| | £000 | £000 |
| Assets measured at fair value through profit or loss | 130 | 237 |
| Assets measured at amortised cost | 1,118,991 | 1,143,166 |
| Liabilities measured at fair value through profit or loss | (159) | (488) |
| Liabilities measured at amortised cost | (260,749) | (228,655) |
| | <hr/> | <hr/> |

The group has entered into derivatives designated as hedging instruments through the use of foreign exchange forward contracts to manage some of its foreign currency transaction exposures. The foreign currency exchange forward contracts are designated as cash flow hedges and are entered into for periods consistent with the foreign currency exposure of the underlying transactions.

Foreign exchange forward contracts measured at fair value through OCI are cash flow hedges of forecast purchases and sales in US Dollars, Euros and Omani Rials.

Notes (continued)

20 Financial instruments (continued)

The following table indicates the periods in which the cash flows associated with cash flow hedging instruments are expected to occur as required by FRS 102.29(a) for the cash flow hedge accounting models:

| 2018 | Carrying amount £000 | Expected cash flows £000 | 1 year or less £000 | 1-2 years £000 | 2-5 years £000 |
|-------------------------------|----------------------------|--------------------------------|------------------------|-------------------|-------------------|
| Forward exchange contracts | | | | | |
| Assets | 130 | 4,929 | 4,015 | 914 | - |
| Liabilities | (159) | (3,944) | (3,618) | (326) | - |
| Total | <u>(29)</u> | <u>985</u> | <u>397</u> | <u>588</u> | <u>-</u> |
| 2017 | Carrying amount £000 | Expected cash flows £000 | 1 year or less £000 | 1-2 years £000 | 2-5 years £000 |
| Forward exchange contracts | | | | | |
| Assets | 237 | 6,330 | 3,730 | 2,600 | - |
| Liabilities | (488) | (6,258) | (2,281) | (2,670) | (1,307) |
| Total | <u>(251)</u> | <u>72</u> | <u>1,449</u> | <u>(70)</u> | <u>(1,307)</u> |

The company has not elected to separately account for the time value of the hedges. Hence only the intrinsic value of the foreign exchange spot rate component will be considered for effectiveness. During the period ended 31 December 2018, a net gain of £123,000 (2017: gain of £240,000) was recorded in the profit and loss relating to the time value of hedges and ineffectiveness.

The amount of the change in fair value of the hedging instruments tax recognised in other comprehensive income for the year is £9,000 (2017: £9,000). The amount reclassified from equity to profit and loss for the year is a gain of £35,000 (2017: £177,000).

21 Employee benefits

Pension commitments

The group operates a number of pension schemes. The major schemes being both defined contribution and defined benefit, with assets held in separate trustee administered funds.

Kellogg Brown & Root (U.K.) Limited Scheme

Kellogg Brown & Root (U.K.) Limited ("the sponsoring company") operates a funded pension scheme providing a variety of benefits for different categories of membership.

Defined contribution plans

The amount recognised in the sponsoring company's profit or loss as an expense in relation to defined contribution plans was £5,603,000 (2017: £4,797,000).

Notes (continued)

21 Employee benefits (continued)

Defined benefit plans

The sponsoring company operates a funded pension scheme providing a variety of benefits for different categories of membership. Up to 31 March 2005 the majority of the benefit was held in defined benefit (the "Defined Benefit Scheme") with some benefit held in defined contribution (the "Defined Contribution Scheme"). From 1 April 2005, the "Defined Benefit Scheme" was closed to future accrual. Instead employees were given the option to contribute to the "Defined Contribution Scheme". The benefit now held in the "Defined Benefit" fund is frozen and is increased annually in line with inflation.

The assets of the Plan are held separately from those of the sponsoring company.

A full actuarial valuation was carried out as at 1 April 2015 and updated to 31 December 2018 by a qualified independent actuary.

The statement of financial position net defined benefit liability is determined as follows:

| | 2018 | 2017 |
|--|--------------------|-------------|
| | £000 | £000 |
| Present value of defined benefit obligations | (1,354,163) | (1,510,684) |
| Fair value of plan assets | 1,174,683 | 1,237,993 |
| | (179,480) | (272,691) |
| Deferred tax asset | 30,512 | 46,357 |
| Net defined benefit pension plan liability | (148,968) | (226,334) |

Changes in the present value of the defined benefit obligations are as follows:

| | 2018 |
|--------------------------------------|------------------|
| | £000 |
| At 1 January 2018 | 1,510,684 |
| Current service costs | 442 |
| Interest expense | 36,913 |
| Benefits paid | (68,788) |
| Insurance premiums for risk benefits | (442) |
| Re-measurements: | |
| Actuarial gains and losses | (143,668) |
| At 31 December 2018 | 1,354,163 |

Changes in the fair value of plan assets are as follows:

| | 2018 |
|---|------------------|
| | £000 |
| At 1 January 2018 | 1,237,993 |
| Interest income | 30,438 |
| Benefits paid | (68,788) |
| Contributions by employer | 28,000 |
| Administrative expenses paid from plan assets | (4,417) |
| Insurance premiums for risk benefits | (442) |
| Re-measurements: | |
| Return on plan assets, excluding amount included in interest income | (48,101) |
| At 31 December 2018 | 1,174,683 |

Notes (continued)

21 Employee benefits (continued)

The total costs for the year in relation to defined benefit plans are as follows:

| | 2018 £000 | 2017 £000 |
|--|---------------|---------------|
| Recognised in profit or loss: | | |
| Current service credit | 442 | 559 |
| Net interest expense | 6,475 | 10,201 |
| Gains and losses on settlements and curtailments | 19,022 | - |
| Administrative expenses paid from plan assets | 4,417 | 3,410 |
| | 30,356 | 14,170 |

Recognised in other comprehensive income:
Re-measurement of the net liability:

| | | |
|---|---------------|----------------|
| Actuarial gains and losses | 143,668 | 57,523 |
| Return on plan assets, excluding amounts included in net interest | (48,101) | 61,937 |
| | 95,567 | 119,460 |

The fair value of the major categories of plan assets are as follows:

| | 2018 £000 | 2017 £000 |
|--|------------------|------------------|
| Equity instruments | 22 | 411,584 |
| Debt instruments | 2 | - |
| Cash and cash equivalents | 50,616 | 4,916 |
| Other assets including government bonds and property | 1,124,043 | 821,493 |
| | 1,174,683 | 1,237,993 |

The return on plan assets are as follows:

| | 2018 £000 | 2017 £000 |
|----------------------------------|--------------|--------------|
| Return on assets of benefit plan | (17,663) | 92,313 |

The principal actuarial assumptions as at the statement of financial position date were:

| | 2018 % | 2017 % |
|---------------------------------------|-----------|-----------|
| Discount rate | 2.90 | 2.50 |
| Expected rate of increase in pensions | 3.00 | 3.00 |
| Inflation assumption | 3.20 | 3.20 |

For the defined benefit scheme, the assumed life expectancy is as follows:

| | 2018 Years | 2017 years |
|--|---------------|---------------|
| Member aged 65 (current life expectancy) | 22.2 | 22.3 |
| Member aged 40 (life expectancy at 65) | 23.6 | 23.7 |

Notes (continued)

21 Employee benefits (continued)

Aspire Defence Services Limited defined contribution pension scheme

Aspire Defence Services Limited operates a defined contribution pension scheme. The pension cost charge for the period represents contributions payable by the company to the scheme and amounted to £1,081,000 (2017: £1,084,000). There were no outstanding or prepaid contributions at either the beginning or end of the financial year.

Aspire Defence Services Limited defined benefit pension scheme

Aspire Defence Services Limited also operates a pension scheme providing benefits based on final pensionable pay which started in April 2008. The latest full actuarial valuation was carried out as at 5 April 2016 by a qualified independent actuary. The latest FRS102 valuation was carried out as at 31 December 2018 by a qualified independent actuary.

The pension scheme was reviewed as part of a due diligence review by Aspire and the Pension Trustee and remains unaffected by the liquidation of Carillion.

The estimated GMP equalisation impact for the scheme is an increase of 0.03% of the value of the scheme liabilities. Following discussion with the Company's actuary, the Directors consider that the potential range of impact for the scheme to be between 0.02% and 0.1% of the total value of the scheme liabilities. Due to the immaterial impact of the increase in liability (c£5,000), no amendment has been made by the Directors in respect of GMP.

The information disclosed below is in respect of the whole of the plans for which the company is either the sponsoring employer or has been allocated a share of cost under an agreed group policy throughout the periods shown.

▪ Net pension liability

| | 2018 | 2017 |
|----------------------------|-------------|----------|
| | £000 | £000 |
| Defined benefit obligation | (17,707) | (17,808) |
| Plan assets | 17,153 | 17,499 |
| | <hr/> | <hr/> |
| Net pension liability | (554) | (309) |
| | <hr/> | <hr/> |

▪ Movements in present value of defined benefit obligation

| | 2018 | 2017 |
|--------------------------|-------------|---------|
| | £000 | £000 |
| At 1 January | 17,808 | 17,869 |
| Current service cost | 1,179 | 1,177 |
| Expenses | 86 | 83 |
| Interest expense | 453 | 485 |
| Actuarial (gains)/losses | (1,187) | (1,395) |
| Contributions by members | 68 | 73 |
| Benefits paid | (700) | (484) |
| | <hr/> | <hr/> |
| At 31 December | 17,707 | 17,808 |
| | <hr/> | <hr/> |

Notes (continued)

21 Employee benefits (continued)

▪ *Movements in fair value of plan assets*

| | 2018 | 2017 |
|---------------------------|----------------|--------|
| | £000 | £000 |
| At 1 January | 17,499 | 15,635 |
| Interest income | 444 | 424 |
| Contributions by employer | 1,150 | 1,128 |
| Contributions by members | 68 | 73 |
| Benefits paid | (700) | (484) |
| Actuarial (losses)/gains | (1,308) | 723 |
| | <hr/> | <hr/> |
| At 31 December | 17,153 | 17,499 |
| | <hr/> | <hr/> |

▪ *Expense recognised in the profit and loss account*

| | 2018 | 2017 |
|--|----------------|---------|
| | £000 | £000 |
| Current service cost | (1,179) | (1,177) |
| Expenses | (86) | (83) |
| Net interest (payable)/receivable on net defined benefit liability | (9) | (61) |
| | <hr/> | <hr/> |
| Total expense recognised in profit or loss | (1,274) | (1,321) |
| | <hr/> | <hr/> |

▪ *The fair value of the plan assets and the return on those assets were as follows:*

| | 2018 | 2017 |
|-----------------|-------------------|------------|
| | Fair value | Fair value |
| | £000 | £000 |
| Equities | 11,206 | 11,463 |
| Corporate bonds | 5,911 | 5,985 |
| Other | 35 | 51 |
| | <hr/> | <hr/> |
| | 17,152 | 17,499 |
| | <hr/> | <hr/> |

Principal actuarial assumptions (expressed as weighted averages) at the year-end were as follows:

| | 2018 | 2017 |
|-------------------------|-------------|-------|
| | % | % |
| Discount rate | 2.85 | 2.50 |
| Future salary increases | 2.50 | 2.50 |
| Inflation (RPI) | 3.45 | 3.40 |
| | <hr/> | <hr/> |

Last full actuarial valuation was performed as at 5 April 2016. The actuarial valuation for the purpose of these accounts was undertaken by a qualified actuary applying appropriate economic assumptions to value liabilities and assets.

Notes *(continued)*

21 Employee benefits *(continued)*

In valuing the liabilities of the pension fund at 31 December 2018, mortality assumptions have been made as indicated below.

The assumptions relating to longevity underlying the pension liabilities at the balance sheet date are based on standard actuarial mortality tables and include an allowance for future improvements in longevity. The assumptions are equivalent to expecting a 60-year-old to live for a number of years as follows:

- Current pensioner aged 60: 26.6 years (male), 28.6 years (female).
- Future retiree upon reaching 60: 28.1 years (male), 30.2 years (female).

Share based payments

The company's parent grants rights to its equity instruments to the Group's or the company's employees. These are accounted for as equity-settled in the consolidated accounts of the group. Amounts recharged by the parent are recognised as a recharge liability with a corresponding debit to the profit and loss account over the vesting period.

The fair value of share options is estimated using the Black-Scholes option pricing model, taking into account the terms and conditions upon which the options were granted, and the fair value of restricted shares is derived from fair market value of the associated common stock on the date of grant.

Previously, certain KBR employees participated in Halliburton compensation plans and received grants under these plans in 2002 through 2005. Certain of these restricted shares and options remained unvested or unexercised at 1 January 2007. Those unvested shares and unexercised options were converted to KBR share-based compensation, in accordance with the KBR Transitional Stock Adjustment Plan. This occurred on 7 April 2007, immediately following our parent company's separation from Halliburton. In addition, share based compensation was granted to the company's employees in 2011 under KBR stock-based compensation plans. KBR employees participate in the share based payment scheme, which is considered to be a benefit to company employees, and therefore Kellogg Brown & Root Limited recognises the associated expense

Halliburton share based payment plans

1993 Stock and Incentive Plan

Halliburton has stock-based employee compensation plans in which, prior to KBR's separation from Halliburton on 5 April 2007, certain key employees of KBR participated. In accordance with KBR's Transitional Stock Adjustment Plan and upon our complete separation from Halliburton, unexercised stock options and unvested restricted stock awards previously granted to KBR employees under Halliburton's 1993 Stock and Incentive Plan (the "Halliburton Plan") were converted to stock options and restricted stock awards associated with KBR common stock.

Restricted shares issued under the Halliburton Plan are restricted as to sale or disposition. These restrictions lapse periodically over an extended period of time not exceeding 10 years. Restrictions may also lapse upon qualifying retirement or upon other conditions in accordance with Halliburton's established policies. Upon termination of employment, shares on which restrictions have not lapsed must be returned to Halliburton, resulting in restricted stock forfeitures. The fair market value of the stock on the date of grant is amortized and ratably charged to income over the period during which the restrictions lapse.

All stock options granted under the Halliburton plan were granted at the fair market value of the common stock on the date of grant. However, there were no Halliburton restricted shares granted to KBR employees in 2016 or 2015 and no Halliburton options granted to KBR employees in 2016 or 2015. Subsequent to our separation from Halliburton and as of 31 December 2016, UK KBR employees held no unvested Halliburton restricted shares and no unexercised Halliburton Options.

Notes *(continued)*

21 Employee benefits *(continued)*

KBR Transitional Stock Adjustment Plan

The Transitional Stock Adjustment Plan provides for stock options to purchase KBR common stock and for restricted shares of the Company's common stock that would be issued to holders of outstanding options and restricted shares under the Halliburton 1993 Stock and Incentive Plan. The plan was adopted solely for the purpose of converting Halliburton equity awards to KBR equity awards. No new awards can be made under the plan. The converted equity awards are subject to substantially the same terms as they were under the Halliburton 1993 Stock and Incentive Plan prior to conversion.

KBR 2006 Stock and Incentive Plan

In November 2006, KBR established the KBR 2006 Stock and Incentive Plan (the "KBR 2006 Plan") which provides for the grant of the following types of share-based awards:

- Stock options, including incentive stock options and nonqualified stock options;
- Stock appreciation rights, in tandem with stock options or freestanding;
- Restricted stock;
- Restricted stock units;
- Performance awards, and
- Stock value equivalent awards.

In accordance with the KBR 2006 Plan, effective as of the closing date of the 2006 KBR initial public offering, stock options were granted; with an exercise price not less than the fair market value of the common stock on the date of the grant and a term no greater than 10 years. The option terms and vesting periods are established at the discretion of the Compensation Committee at the time of each grant.

Restricted shares were also issued under the KBR 2006 Plan. These shares carry restrictions that lapse periodically over an extended period of time not exceeding 10 years. Restrictions may also lapse upon qualifying retirement or in the presence of other conditions established under KBR's policies. Upon retirement, unvested restricted shares must be returned, resulting in restricted stock forfeitures.

The terms and conditions of grants are as follows, whereby all options are settled by physical delivery of shares:

| Grant date / employees entitled | Method of settlement accounting | Number of instruments | Vesting conditions | Contractual life |
|---|--|------------------------------|---------------------------|--------------------------|
| Restricted stock settled award to KBRUKL* employees granted by parent on 27 February and 21 March 2018. | Equity | 53,146 | Vest over 5 years | No greater than 10 years |
| No stock options were awarded to KBRUKL* employees during the year | Equity | - | Vest over 3 years | No greater than 10 years |

The number and weighted average grant date values of restricted KBR shares are as follows:

Notes (continued)

21 Employee benefits (continued)

Restricted Stock

| | Weighted average grant date value per share (\$) 2018 | Number of shares 2018 | Weighted average grant date value per share (\$) 2017 | Number of shares 2017 |
|--|--|-----------------------------|--|-----------------------------|
| Non-vested shares at the beginning of the year | 15.40 | 99,021 | 16.72 | 207,977 |
| Forfeited during the year | 14.87 | (3,442) | 15.61 | (9,733) |
| Vested during the year | 16.01 | (88,077) | 18.23 | (99,957) |
| Granted during the year | 15.62 | 53,146 | - | - |
| Adjustments | 15.80 | 59,152 | 30.30 | 734 |
| Non-vested shares at the end of the year | 15.26 | 119,800 | 15.40 | 99,021 |

The number and weighted average exercise prices of KBR share options are as follows:

Stock Options

| | Weighted average exercise price per share (\$) 2018 | Number of options 2018 | Weighted average exercise value per share (\$) 2017 | Number of options 2017 |
|--|---|------------------------------|---|------------------------------|
| Outstanding at the beginning of the year | 24.49 | 484,061 | 24.39 | 521,177 |
| Forfeited during the year | - | - | 16.68 | (6,145) |
| Exercised during the year | 12.29 | (14,727) | 12.75 | (5,425) |
| Granted during the year | - | - | - | - |
| Expired during the year | 27.77 | (13,737) | 26.33 | (25,546) |
| Adjustments | 21.39 | 4,050 | - | - |
| Outstanding at the end of the year | 24.78 | 459,647 | 24.52 | 484,061 |
| Exercisable at the end of the year | 24.78 | 455,597 | 25.43 | 433,744 |

* Kellogg Brown & Root (U.K.) Limited, a subsidiary undertaking of the company.

The weighted average fair value of share options granted during the year was \$nil (2017: \$nil)

The weighted average share price at the date of exercise of share options exercised during the period was \$19.67. The options outstanding at the yearend have an exercise price in the range of \$3.8-\$38.33 and a weighted average contractual life of 4.23 years.

Notes *(continued)*

21 Employee benefits *(continued)*

The total expenses recognised for the year and the total liabilities recognised at the end of the year arising from share-based payments are as follows:

| | 2018 | 2017 |
|-----------------------------------|-------------|-------|
| | £000 | £000 |
| Total share based payment expense | 644 | 1,014 |

22 Asset-backed funding arrangement

On 24 June 2016, KBR Property Holdings LP, a Scottish Limited Partnership ("the Partnership") was created. KBR General Partner Limited is general partner and Kellogg Brown & Root Trustees Limited, the Trustee of the Kellogg Brown & Root (U.K.) Limited's Pension Scheme ("the KBR (U.K.) Pension Scheme") subsidiary of the Company and the Company itself are the limited partners in the Partnership. As such the Partnership is included in the consolidated results of the Group.

The Partnership has taken advantage of the exemptions in the Partnership (Accounts) regulations 2008 not to file separate accounts on this basis.

The terms of the KBR (U.K.) Pension Scheme's interest in the Partnership give the pension scheme obligatory rights to cash returns but insignificant operational control over the Partnership. As such the interest has been classified in the Partnership's accounts as a financial liability and is accounted on a fair value through profit and loss basis.

The Partnership is a beneficial owner of the Leatherhead campus property acquired on 24 June 2016 from KBR Netherlands Investment BV (a KBR, Inc., Group Company) for £53.6m with transfer of the intergroup lease arrangement where the tenant is Kellogg Brown & Root Limited. KBR (U.K.) Pension Scheme is entitled to quarterly distributions supported by lease payments on the property held by the Partnership.

23 Operating leases

Non-cancellable operating lease rentals are payable as follows:

| | Group | Group |
|----------------------------|---------------|--------|
| | 2018 | 2017 |
| | £000 | £000 |
| Less than one year | 7,918 | 7,293 |
| Between one and five years | 12,407 | 13,832 |
| More than five years | 176 | - |
| | 20,501 | 21,125 |

The group leases certain properties, transportation and general equipment on various non-cancellable operating leases expiring between 2018 and 2024. The rental on such leases in 2018 was £8,046,000 (2017:£ 8,376,000), of which £nil (2017:£nil) was applicable to the company. The rents payable under these leases are subject to renegotiation at various intervals specified in the lease agreements.

The Company does not have any lease commitments (2017:£nil)

Notes (continued)

24 Commitments

Capital commitments

At 31 December 2018 the directors had not contracted for or authorised any group capital expenditure (2017:£nil, authorised; £nil, contracted for).

25 Contingencies

Certain subsidiaries and associates have, in the normal course of business, entered into guarantees and counter-indemnities in respect of various contracts. The group's share of such contingent liabilities in respect of the Kellogg Brown & Root Holdings Limited business were £nil (2017:£nil).

In addition the company, its subsidiaries and associates are parties to other legal proceedings and claims which arise in the ordinary course of business. The directors do not anticipate that the outcome of these other proceedings and claims, either individually or in aggregate, will have a material adverse effect on the group's financial position.

26 Prior period adjustment restatement of accounts

In prior years, the accounts included the deferred tax on defined benefit pension plan liability within the balance of net defined benefit pension plan liability instead of debtors. This was corrected in these financial statements to include the deferred tax asset of £46,357,000 as at 31 December 2017 within debtors.

The following table summarises the impact on the group's financial statements.

Consolidated Statement of Financial Position

| | As previously reported | Adjustment | As restated |
|---|-----------------------------------|-------------------|--------------------|
| At 31 December 2017 | £'000 | £'000 | £'000 |
| Debtors | 1,254,257 | 46,357 | 1,300,614 |
| Net current assets | 1,075,042 | 46,357 | 1,121,399 |
| Total assets less current liabilities | 1,246,537 | 46,357 | 1,292,894 |
| Net assets excluding net defined benefit pension plan liability | 1,195,061 | 46,357 | 1,241,418 |
| Net defined benefit pension plan liability | (226,334) | (46,357) | (272,691) |

This adjustment has no impact on the Consolidated Income Statement, Consolidated Statement of Comprehensive Income, Consolidated Statement of Changes in Equity, Consolidated Cash Flow Statement and on the company's financial statements, it also has no impact on the 2017 net assets figure.

Notes (continued)

27 Related parties

The key management personnel of the company comprises its directors. Details of their remuneration are provided in note 6.

As a subsidiary of KBR Inc. during the period from 1 January 2018 to 31 December 2018, the company has taken advantage of the exemption of schedule 1, paragraph 66 of FRS 102 not to disclose transactions with other wholly owned members of the group headed by KBR Inc.

During the year transactions, in the ordinary course of business, were entered into with related parties. Transactions entered into during 2018 are as follows:

Joint ventures of the Group:

| Related Party | Nature of Transaction | Profit and loss account Debit/(Credit) £ |
|------------------------------------|-----------------------|--|
| Fasttrax Limited | Services Rendered | (11,575,104) |
| | Services Received | 322,172 |
| | Interest Received | (437,697) |
| Aspire Defence Limited | Services Rendered | (398,009,792) |
| | Services Received | 30,000 |
| Road Management Services (A13) PLC | Services Rendered | (1,078,178) |
| Road Management Services | Services Rendered | (121,201) |
| (Darrington) Holdings Limited | Interest Received | (279,978) |
| Road Management Group Limited | Services Rendered | (148,099) |
| | Interest Received | (1,070,632) |
| Affinity Capital Works Limited | Services Rendered | (3,844) |
| Affinity Flying Services Limited | Services Rendered | (342,077) |
| Affinity Flying Training Services | Services Rendered | (186,785) |
| Limited | Interest Received | (1,355,681) |
| B7JV (UK) Limited | Services Rendered | (6,273,917) |

Joint ventures of affiliated KBR, Inc. companies:

| Related Party | Nature of Transaction | Profit and loss account Debit/(Credit) £ |
|--------------------------------|-----------------------|--|
| Kellogg Joint Venture - Gorgon | Services Rendered | (665,015)- |
| SOCAR KBR LLC | Services Rendered | (37,008,288) |

Notes (continued)

27 Related parties (continued)

Transactions entered into during 2017 are as follows:

| Related Party | Nature of Transaction | Profit and loss account Debit/(Credit) £ |
|--|--------------------------------|--|
| Fasttrax Limited | Services Rendered | (13,348,781) |
| | Services Received | 337,544 |
| | Interest Received | (467,920) |
| Aspire Defence Limited | Services Rendered | (146,806,203) |
| | Services Received | 138,000 |
| Aspire Defence Holdings Limited | Interest Received | (6,211,000) |
| Aspire Defence Services Limited | Services Rendered | (178,488) |
| | Services Received | 56,898,000 |
| Road Management Services (A13) PLC | Services Rendered | (806,459) |
| Road Management Services (Darrington) Holdings Limited | Services Rendered | (117,579) |
| Road Management Group Limited | Interest Received | (296,464) |
| | Services Rendered | (139,184) |
| Affinity Capital Works Services Rendered Limited | Interest Received | (956,231) |
| | Services Rendered | (4,997,658) |
| Affinity Flying Services Limited | Services Rendered | (630,103) |
| Affinity Flying Training Services Limited | Services Rendered | (173,427) |
| | Interest Receivable Accrued | (1,319,000) |

Joint ventures of affiliated KBR, Inc. companies:

| Related Party | Nature of Transaction | Profit and loss account Debit/(Credit) £ |
|--------------------------------|-----------------------|--|
| Kellogg Joint Venture - Gorgon | Services Rendered | (486,464) |

The above billing amounts represent the amounts actually invoiced to related parties in the financial year. The Company recognises revenues on long-term contracts in proportion to the percentage of costs incurred to date compared to total estimated contract costs, and as such, the billing amounts cannot be directly apportioned to the amounts recognised in the Profit and Loss Account. All transactions were recorded on an arm's length basis.

The above cost amounts represent the amounts actually invoiced by related parties in the financial year and charged to the Profit and Loss Account.

Notes (continued)

27 Related parties (continued)

Balances with related parties as at 31 December 2018 are as follows:

Joint Ventures of the Group:

| | | Balance Sheet Debit/(Credit) 2018 £ |
|--|---------------|--|
| Fastrax Limited | Joint Venture | 2,705,103 |
| Aspire Defence Limited | Joint Venture | 39,100,000 |
| Road Management Services (A13) PLC | Joint Venture | 254,573 |
| Road Management Group Limited | Joint Venture | 9,944,633 |
| Road Management Services (Darrington) Holdings Limited | Joint Venture | 2,750,741 |
| Affinity Capital Works Limited | Joint Venture | (1) |
| Affinity Flying Services Limited | Joint Venture | 25,754 |
| Affinity Flying Training Services Limited | Joint Venture | 13,088,489 |
| B7JV (UK) Ltd | Joint Venture | 7,225,424 |

Joint ventures of affiliated KBR, Inc. companies

| | | Balance Sheet Debit/(Credit) 2018 £ |
|---------------|---------------|--|
| SOCAR KBR LLC | Joint Venture | 12,430,339 |
| K2 JV | Joint Venture | 266,147 |

Balances with related parties as at 31 December 2017 are as follows:

Joint Ventures of the Group:

| | | Balance Sheet Debit/(Credit) 2017 £ |
|--|---------------|--|
| Fastrax Limited | Joint Venture | 3,298,803 |
| Aspire Defence Limited | Joint Venture | 326,949 |
| Aspire Defence Services Limited | Joint Venture | (7,773,569) |
| Road Management Services (A13) PLC | Joint Venture | 92,708 |
| Road Management Group Limited | Joint Venture | 9,346,094 |
| Road Management Services (Darrington) Holdings Limited | Joint Venture | 2,917,533 |
| Affinity Capital Works Limited | Joint Venture | (3,845) |
| Affinity Flying Training Services Limited | Joint Venture | 323,163 |
| Affinity Flying Training Services Limited | Joint Venture | 11,720,408 |

Notes (continued)

27 Related parties (continued)

Joint ventures of affiliated KBR, Inc. companies

| | | Balance Sheet |
|--------------------------------|---------------|-----------------------|
| | | Debit/(Credit) |
| | | 2017 |
| | | £ |
| Kellogg Joint Venture – Gorgon | Joint Venture | (177,649) |
| K2 JV | Joint Venture | 1,434,505 |

During the year, a member of the group KBR (Aspire Construction) Ltd jointly owned and controlled an unincorporated joint venture Aspire Defence Capital Works (ADCW) with Carillion (Aspire Construction) Ltd. Another member of the group KBR (Aspire Services) Ltd jointly owned and controlled an unincorporated joint venture Aspire Defence Services (ADS) with Carillion (Aspire Services) Ltd.

On 15 January 2018 Carillion plc went into voluntary liquidation thereby defaulting against the terms of the joint venture agreements and passing operational control to KBR.

On 18 April 2018 KBR concluded an agreement to acquire Carillion's interest in ADCW and ADS for a notional value. KBR (Aspire Construction) Ltd will jointly control ADCW with new entity KBR (Aspire Construction Ventures) Ltd as a joint venture and KBR (Aspire Services) Ltd will jointly control ADS with the new entity KBR (Aspire Services Ventures) Ltd as a joint venture. As required by the contractual provisions related to the PFI arrangements, these changes in ownership were approved by Aspire Defence Ltd who hold the contract with MoD and the MoD itself.

28 Ultimate parent company and parent company of larger group

The company is a wholly owned subsidiary undertaking of KBR, Inc. (601 Jefferson Street, Suite 3400, Houston, Texas, 77002, a company incorporated in the state of Delaware, U.S.A.) which heads the smallest and the largest groups in which the company is consolidated.

The financial statements of this company is available to the public and can be obtained from the Public Relations Department, Hill Park Court, Springfield Drive, Leatherhead, Surrey, KT22 7NL.

Notes (continued)

29 List of subsidiaries and joint ventures

The following is a full list of subsidiaries and joint ventures, their country of registration and type of issued shares and the percentage of equity directly or indirectly owned by Kellogg Brown & Root Holdings Limited as at 31 December 2018.

This information is provided in accordance with the Section 409 of the Companies Act 2006.

| Subsidiary Undertakings | Country of incorporation /operations | Percentage of Shares Held | Address** |
|--|---|----------------------------------|------------------|
| Kellogg Brown & Root Holdings (U.K.) Limited | England & Wales | 100.00% | 1 |
| Kellogg Brown & Root GmbH | Germany | 100.00% | 8 |
| Plinke GmbH | Germany | 100.00% | 5 |
| KBR Employment Services Limited | England & Wales | 100.00% | 1 |
| Kellogg Brown & Root (U.K.) Limited | England & Wales | 100.00% | 1 |
| Kellogg Brown & Root Limited | England & Wales | 100.00% | 1 |
| Kellogg Brown & Root Healthcare Trustee Limited | England & Wales | 100.00% | 1 |
| Brown & Root Highlands Fabricators Limited | Scotland | 100.00% | 11 |
| Kellogg Brown & Root Overseas Projects Limited | England & Wales | 100.00% | 1 |
| Kellogg Brown & Root Group Limited | England & Wales | 100.00% | 1 |
| KBR Construction Limited | England & Wales | 100.00% | 1 |
| Kellogg Brown & Root London Holdings Limited | England & Wales | 100.00% | 1 |
| Kellogg Brown & Root London Limited | England & Wales | 100.00% | 1 |
| Kellogg Brown & Root DH Limited | England & Wales | 100.00% | 1 |
| Kellogg Brown & Root (Greenford) Limited | England & Wales | 100.00% | 1 |
| Kellogg Brown & Root International (MWK) Limited | England & Wales | 100.00% | 1 |
| Kellogg Brown & Root Energy Services Limited | England & Wales | 100.00% | 1 |
| Granherne International (Holdings) Limited | England & Wales | 100.00% | 1 |
| Kellogg Brown & Root Qatar Limited | England & Wales | 100.00% | 1 |
| Granherne Limited | England & Wales | 100.00% | 1 |

Notes (continued)

29 List of subsidiaries and joint ventures (continued)

| Subsidiary Undertakings | Country of incorporation /operations | Percentage of Shares Held | Address** |
|---|--------------------------------------|---------------------------|-----------|
| Kellogg Brown & Root Projects Limited | England & Wales | 100.00% | 1 |
| Kellogg Brown & Root Overseas Operations Limited | England & Wales | 100.00% | 1 |
| Howard Humphreys & Partners Limited | England & Wales | 100.00% | 1 |
| Overseas Supply Services Limited | England & Wales | 100.00% | 14 |
| Bonny 7 Project Management Company Limited | England & Wales | 100.00% | 1 |
| KBR Aviation Limited (formerly Affinity Flying Training Services Limited) | England & Wales | 100.00% | 1 |
| FTX Logistics Limited | England & Wales | 100.00% | 1 |
| AOC International Limited | Scotland | 100.00% | 11 |
| AOC Nigeria Limited | Nigeria | 100.00% | 11 |
| Aspire Defence Services Limited | England & Wales | 100.00% | 3 |
| KBR (Aspire Construction) Holdings No 2 Limited | England & Wales | 100.00% | 1 |
| KBR (Aspire Construction) Holdings Limited | England & Wales | 100.00% | 1 |
| KBR (Aspire Construction) Limited | England & Wales | 100.00% | 1 |
| KBR (Aspire Construction Ventures) Limited | England & Wales | 100.00% | 1 |
| KBR (Aspire Construction Ventures) Holdings Limited | England & Wales | 100.00% | 1 |
| KBR (Aspire Construction Ventures) Holdings No. 2 Limited | England & Wales | 100.00% | 1 |
| KBR (Aspire Services) Holdings No.2 Limited | England & Wales | 100.00% | 1 |
| KBR (Aspire Services) Holdings Limited | England & Wales | 100.00% | 1 |
| KBR (Aspire Services) Limited | England & Wales | 100.00% | 1 |
| KBR (Aspire Services Ventures) Limited | England & Wales | 100.00% | 1 |
| KBR (Aspire Services Ventures) Holdings Limited | England & Wales | 100.00% | 1 |
| KBR (Aspire Services Ventures) Holdings No.2 Limited | England & Wales | 100.00% | 1 |

Notes *(continued)*

29 List of subsidiaries and joint ventures (continued)

| Subsidiary Undertakings | Country of incorporation /operations | Percentage of Shares Held | Address** |
|--|---|----------------------------------|------------------|
| KBR (U.K.) Investments Limited | England & Wales | 100.00% | 1 |
| Kellogg Brown & Root Trustees Limited | Scotland | 100.00% | 11 |
| IPEM Developments Limited | England & Wales | 100.00% | 1 |
| Howard Humphreys (Kenya) Limited | Kenya | 100.00% | 7 |
| KBR Arabia Limited | Saudi Arabia | 100.00% | 9 |
| KBR Al-Yusr Limited | Saudi Arabia | 60.00% | 13 |
| Kellogg Brown & Root Limited-Azmi Abdullatif Abdulhadi and Abdullah Mahana Al-Moaibed Engineering Consulting | Saudi Arabia | 67.00% | 15 |
| KBR General Partner Limited | Scotland | 100.00% | 17 |
| KBR Property Holdings Limited | Scotland | 100.00% | 17 |
| KBR (I) Limited | England & Wales | 100.00% | 1 |
| Joint Ventures | Country of incorporation /operations | Percentage of Shares Held | Address** |
| Yanchang Petroleum KBR (Beijing) Technology Co Ltd | China | 50.00% | 12 |
| Fasttrax Holdings Limited | England & Wales | 50.00% | 1 |
| Fasttrax Limited | England & Wales | 50.00% | 1 |
| Aspire Defence Holdings Limited | England & Wales | 45.00% | 3 |
| Aspire Defence Finance PLC | England & Wales | 45.00% | 3 |
| Aspire Defence Limited | England & Wales | 45.00% | 3 |

Notes (continued)

29 List of subsidiaries and joint ventures (continued)

| Joint Ventures | Country of incorporation /operations | Percentage of Shares Held | Address** |
|--|--------------------------------------|---------------------------|-----------|
| Road Management Group Limited | England & Wales | 25.00% | 6 |
| Road Management Consolidated Plc | England & Wales | 25.00% | 6 |
| Road Management Limited | England & Wales | 25.00% | 6 |
| Road Management Services (Gloucester) Limited | England & Wales | 25.00% | 6 |
| Road Management Services (Peterborough) Limited | England & Wales | 25.00% | 6 |
| Road Management Joint Venture | Unincorporated - UK | 25.00% | 6 |
| Road Management Services (A13) Holdings Limited | England & Wales | 25.00% | 16 |
| Road Management Services (A13) Plc | England & Wales | 25.00% | 16 |
| Road Management Services (Darrington) Holdings Limited | England & Wales | 25.00% | 2 |
| Road Management Services (Darrington) Limited | England & Wales | 25.00% | 2 |
| Road Management Services (Finance) PLC | England & Wales | 25.00% | 2 |
| Affinity Capital Works Limited | England & Wales | 50.00% | 18 |
| Affinity Flying Services Limited | England & Wales | 50.00% | 18 |
| Affinity Flying Training Services Limited | England & Wales | 50.00% | 18 |
| B7JV (UK)Stirling Water (2003) Limited | England & Wales | 33.33% | 1 |

All investments held in incorporated entities are in ordinary shares.

For KBR Property Holdings LP and unincorporated joint ventures percentage of partnership interest is shown.

* - Investment directly held by the Partnership

** - Addresses of the subsidiaries and joint ventures are listed below:

- 1 Hill Park Court, Springfield Drive, Leatherhead, Surrey, England & Wales KT22 7NL, United Kingdom
- 2 Third Floor Broad Quay House, Prince Street, Bristol, BS1 4DJ

Notes (continued)

29 List of subsidiaries and joint ventures (continued)

- 3 Aspire Business Centre, Ordnance Road, Tidworth, Wiltshire, SP9 7QD, United Kingdom
- 4 Avenida Arriaga, n 30-3 H,Funchal, Madeira 9000-064, Portugal
- 5 Bad Homburg, Kaiser-Friedrich Promenade 24, D-61348,Bad Homburg, Germany, Germany
- 6 Cannon Place, 78 Cannon Street, London, United Kingdom, EC4N 6AF
- 7 LR No 1870/1/569, 2nd Floor, Apollo Centre, Ring Road, Parklands, Westlands PO Box 764-00606, Nairobi, Kenya 764-00606, Kenya
- 8 Mühlenstraße 23, 29221,Celle, Germany 29221, Germany
- 9 P.O. Box 2959, Al Khobar 31952, Prince Sultan Street, Al Rakah, Saudi Arabia 31952, Saudi Arabia
- 10 Plot 90, Ajose Adeogun Street, Victoria Island, Lagos, Nigeria, Nigeria
- 11 Queens House, 13 Queens Road, Aberdeen, Scotland AB15 4YL, United Kingdom
- 12 Room 201, Building no. 7, Tianjuyuan, Chaoyang District, Beijing, People's Republic of China, China
- 13 The Law Office of Abdulaziz H Al Fahad, 4th Floor, Jarir Plaza, Olaya Street, P. O. Box 15870, Riyadh, Saudi Arabia 11454, Saudi Arabia
- 14 Wing House, Marlborough Road, Bulford Barracks, Salisbury, Wiltshire, SP4 9LZ, United Kingdom
- 15 PO Box 31952, Al Damman Highway, Rakah, Al Khobar, Saudi Arabia, Saudi Arabia
- 16 Carillion House, 84 Salop Street, Wolverhampton, United Kingdom, WV3 0SR
- 17 15 Atholl Crescent, Edinburgh, Midlothian, United Kingdom, EH3 8HA
- 18 Hangar 29, RAF Cranwell, Sleaford, Lincolnshire, NG34 8HB

For the year ended 31 December 2018 the following subsidiary companies were entitled to exemption from audit under section 479A of the Companies Act 2006:

Kellogg Brown & Root Holdings (U.K.) Limited

AOC International Limited

Kellogg Brown & Root Group Limited

Kellogg Brown & Root Qatar Limited

Kellogg Brown & Root London Limited

Kellogg Brown & Root International (MWK) Limited

Notes *(continued)*

29 List of subsidiaries and joint ventures (continued)

KBR (U.K.) Investments Limited

Kellogg Brown & Root Overseas Projects Limited

Kellogg Brown & Root DH Limited

Brown & Root Highlands Fabricators Limited

Howard Humphreys & Partners Limited

KBR General Partner Limited

Kellogg Brown & Root (Greenford) Limited

KBR (I) Limited

KBR (Aspire Construction Ventures) Holdings No.2 Limited

KBR (Aspire Construction Ventures) Holdings Limited

KBR (Aspire Services Ventures) Holdings No.2 Limited

KBR (Aspire Services Ventures) Holdings Limited