

HALLIBURTON

Halliburton Addresses Defense Draft Audit; Company Says Work Is Fairly Priced, High Quality

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HOUSTON, Dec. 18 /PRNewswire-FirstCall/ -- The Company officials issued a news release today after delivering a response to a draft audit issued by the Defense Contract Audit Agency (DCAA). The document suggested that Halliburton, through its KBR subsidiary, may have overcharged taxpayers \$61 million on a contract to supply fuel to war-torn Iraq. Questions raised in the draft audit created an unwarranted torrent of criticism of Halliburton from elected officials, candidates, critics of the US effort in Iraq and the national news media.

"We believe our response proves KBR delivered fuel to Iraq at the best value, the best price and the best terms," said Randy Harl, president and CEO of KBR.

The Defense Department approved that fuel be delivered from Kuwait, even though it was at a higher cost than Turkey. It's unfair to accuse Halliburton of paying too much for Kuwaiti fuel without full knowledge of the facts.

Harl added, "Defense Department auditors, third party auditors and internal auditors are checking our books every single day. In the normal course of events Halliburton would have an opportunity to respond to these audit findings. We believe that once the DCAA receives our response, it should be clear that no overcharges have occurred."

Following a Pentagon news conference last week, critics across the country attacked Halliburton. Some suggested that all of the fuel supplies for Iraq be purchased from Turkey as opposed to both Turkey and Kuwait. Others even suggested that Halliburton had gouged taxpayers by importing fuels from Kuwait.

Harl added, "KBR actually recommended that a contractor from Turkey be 'sourced' as a second fuel supplier."

The original mission detailed by the Army Corps of Engineers was to find a fuel source in the region. The first fuel source found was in Kuwait. KBR initiated the idea to source fuel from Turkey. KBR presented this idea to its customer, and because of this, saved taxpayers well over \$100 million. "Most importantly, this plan allowed the Iraqi people to get the fuels they need, while ensuring KBR subcontractors and employees had a less hazardous and closer route to Baghdad," said Harl.

KBR said Turkey currently supplies about two-thirds of the fuel to Iraq, which maxes out their capacity, while Kuwait provides one-third of the products.

The mission to deliver fuel to Iraq is extremely hazardous. Not many people want to drive eight to fifteen days through a war zone with a truck full of flammable materials. Three drivers have been killed and many others injured while performing this mission and 60 vehicles have been damaged.

In its response, KBR has provided additional details to the DCAA, including documentation and direction from the customer on all the bids that were solicited and received for Kuwaiti fuels.

The Company sought and received bids from multiple Kuwaiti suppliers. Only one met the Corps' specifications and that is the one approved by the Corps. KBR followed government-approved procedures in responding to this significant, challenging and dangerous mission.

A separate issue concerning a potential overcharge for cafeteria services had also been raised. An overcharge did not occur. KBR's response said issues raised concerning cafeteria services are misunderstood. KBR did not send an invoice for this work. KBR sent a proposal for work that was never billed; thus this proposal did not cost taxpayers any money.

"We want to correct the misperceptions about Halliburton," said Harl. "KBR is delivering what it promised. We are proud to serve our troops, and proud of the more than 4,500 KBR employees who are working to restore normalcy to Iraq."

Summary of Answers Halliburton Provided about the Draft Audit

Question #1

The agency questioned why KBR did not obtain cost or pricing data when it awarded a fuel contract to a Kuwaiti company.

Response: The Army Corps of Engineers approved the purchase and delivery of fuel from a Kuwaiti subcontractor. KBR sought and received bids from four suppliers in Kuwait. Only one met the Corps' specifications and that is the one the Corps approved.

Question #2

DCAA asked about the internal documentation or analysis required when one company is the sole source for a product or service.

Response: The Company did perform the required analysis. Documentation has been delivered to DCAA.

Question #3

Critics have said that KBR should have purchased all of the fuels needed in Iraq from Turkey because the price was lower.

Response: The U.S. Army Corps of Engineers said to find a fuel source in Kuwait. In fact, KBR was the first to suggest that Turkey be used as a second source for fuel. That recommendation resulted in a \$164 million savings for American taxpayers.

-- Most of the fuel (about two-thirds) is purchased from Turkey

- The average cost for the fuel from both Turkey and Kuwait is \$1.60 per gallon, well within what auditors think it should be
- It costs more to deliver Kuwaiti fuel because it has to be delivered further, and it is more dangerous
- Three drivers have died and ten injured doing this job. Sixty vehicles have been damaged
- KBR and the Army Corps of Engineers has repeatedly tried to turn the fuel mission over to local suppliers and other government agencies, but so far, no reliable replacement can be found

Question #4

KBR was asked about its responsibility to obtain the best value at the lowest price.

Response: The company not only got the best price, it also got the best value. In this case, the government preferred "best value" over "low price" bidder. But in this case, the taxpayers got both.

Question #5

There was a question about cafeteria services in addition to audit questions.

Response: There was no overcharge. The issue on cafeteria services is nothing more than a proposal for work that was never billed; thus this proposal did not cost taxpayers any money.

SOURCE Halliburton