GLOBAL PARTNERS LP
Form 10-Q
November 05, 2010

# UNITED STATES

# SECURITIES AND EXCHANGE COMMISSION

**WASHINGTON, DC 20549**

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# FORM 10-Q

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**(Mark One)**

**Q QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the quarterly period ended September 30, 2010**

**OR**

**o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the transition period from to**

**Commission file number 001-32593**

# Global Partners LP

(Exact name of registrant as specified in its charter)

| | |
|---|---|
| **Delaware** | **74-3140887** |
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification No.) |

**P.O. Box 9161**
**800 South Street**
**Waltham, Massachusetts 02454-9161**
(Address of principal executive offices, including zip code)

**(781) 894-8800**
(Registrant s telephone number, including area code)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files. Yes o No o

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

| | | | |
|---|---|---|---|
| Large accelerated filer o | Accelerated filer x | Non-accelerated filer o<br>(Do not check if a smaller reporting company) | Smaller reporting company o |

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

The issuer had 11,338,139 common units and 5,642,424 subordinated units outstanding as of November 1, 2010.

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**Item 1. Financial Statements**

**GLOBAL PARTNERS LP**

**CONSOLIDATED BALANCE SHEETS**

**(In thousands, except unit data)**

**(Unaudited)**

| | September 30, 2010 | December 31, 2009 |
|---|---|---|
| **Assets** | | |
| Current assets: | | |
| Cash and cash equivalents | $ 4,592 | $ 662 |
| Accounts receivable, net | 304,007 | 335,912 |
| Accounts receivable affiliates | 1,313 | 1,565 |
| Inventories | 531,782 | 465,923 |
| Brokerage margin deposits | 10,493 | 18,059 |
| Fair value of forward fixed price contracts | 13,268 | 3,089 |
| Prepaid expenses and other current assets | 56,640 | 37,648 |
| Total current assets | 922,095 | 862,858 |
| | | |
| Property and equipment, net | 417,019 | 159,292 |
| Intangible assets, net | 45,461 | 28,557 |
| Other assets | 12,630 | 1,996 |
| Total assets | $ 1,397,205 | $ 1,052,703 |
| | | |
| **Liabilities and partners equity** | | |
| Current liabilities: | | |
| Accounts payable | $ 243,415 | $ 243,449 |
| Working capital revolving credit facility current portion | 185,273 | 221,711 |
| Environmental liabilities current portion | 5,684 | 3,296 |
| Accrued expenses and other current liabilities | 78,088 | 77,604 |
| Income taxes payable | | 461 |
| Obligations on forward fixed price contracts and other derivatives | 21,414 | 21,114 |
| Total current liabilities | 533,874 | 567,635 |
| | | |
| Working capital revolving credit facility less current portion | 280,427 | 240,889 |
| Revolving credit facility | 300,000 | 71,200 |
| Environmental liabilities less current portion | 31,199 | 2,254 |
| Accrued pension benefit cost | 1,657 | 2,751 |
| Deferred compensation | 2,156 | 1,840 |
| Other long-term liabilities | 19,298 | 8,714 |
| Total liabilities | 1,168,611 | 895,283 |
| | | |
| **Partners equity** | | |
| Common unitholders (11,338,139 units issued and 11,291,312 outstanding at September 30, 2010 and 7,428,139 units issued and 7,380,996 outstanding at December 31, 2009) | 247,060 | 165,129 |
| Subordinated unitholders (5,642,424 units issued and outstanding at September 30, 2010 and December 31, 2009) | (675) | (713) |

| | | | | |
|---|---|---|---|---|
| General partner interest (230,303 equivalent units outstanding at September 30, 2010 and December 31, 2009) | | (27) | | (29) |
| Accumulated other comprehensive loss | | (17,764) | | (6,967) |
| Total partners equity | | 228,594 | | 157,420 |
| Total liabilities and partners equity | $ | 1,397,205 | $ | 1,052,703 |

The accompanying notes are an integral part of these consolidated financial statements.

**GLOBAL PARTNERS LP**

**CONSOLIDATED STATEMENTS OF INCOME**

**(In thousands, except per unit data)**

**(Unaudited)**

| | Three Months Ended September 30, 2010 | Three Months Ended September 30, 2009 | Nine Months Ended September 30, 2010 | Nine Months Ended September 30, 2009 |
|---|---|---|---|---|
| Sales | $ 1,546,839 | $ 1,285,331 | $ 5,046,285 | $ 4,119,435 |
| Cost of sales | 1,511,744 | 1,256,058 | 4,931,461 | 4,011,659 |
| Gross profit | 35,095 | 29,273 | 114,824 | 107,776 |

Cost-reimbursable contracts include contracts where the price is variable based upon our actual costs incurred for time and materials and for reimbursable labor hours. Profit on cost-reimbursable contracts may be a fixed amount, a mark-up applied to costs incurred or a combination of the two. Cost-reimbursable contracts are generally less risky than fixed-price contracts because the owner/customer retains many of the project risks.

Our GS business segment performs work under cost-reimbursable contracts with the U.K. Ministry of Defence ("MoD"), the U.S. Department of Defense (“DoD”) and other governmental agencies that are generally subject to applicable statutes and regulations. If the government concludes costs charged to a contract are not reimbursable under the terms of the contract or applicable procurement regulations, these costs are disallowed or, if already reimbursed, we may be required to refund the reimbursed amounts to the customer. Such conditions may also include interest and other financial penalties. If performance issues arise under any of our government contracts, the government retains the right to pursue remedies, which could include termination under any affected contract. Furthermore, the government has the contractual right to terminate or reduce the amount of work under our contracts at any time. See “Item 1A. Risk Factors” for more information.

Significant Customers

We provide services to a diverse customer base, including:

- international oil companies ("IOC"s) and national oil companies ("NOC"s);
- independent refiners;
- petrochemical, fertilizer and chemical producers;
- manufacturers;
- domestic and foreign governments; and
- regulated electric utilities.

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A considerable percentage of revenues is generated from transactions with Chevron Corporation ("Chevron") primarily from a major LNG project in Australia, which is nearing completion within our E&C business segment. No other customers represented 10% or more of consolidated revenues in any of the periods presented. The information in the following table has summarized data related to our revenues from Chevron.

Revenue and percent of consolidated revenues attributable to major customers by year:

| | Years ended December 31, | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | 2015 | | | 2014 | | | 2013 | | |
| Dollars in millions, except percentage amounts | $ | % | | $ | % | | $ | % | |
| Chevron revenue | 523 | 10 | % | 1,069 | 17 | % | 1,859 | 26 | % |

Information relating to our customer concentration is described in “Item 1A. Risk Factors”. Also, see further explanations in "Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations".

Raw Materials and Suppliers

Equipment and materials essential to our business are obtained from a variety of sources throughout the world. The principal equipment and materials we use in our business are subject to availability and price fluctuations due to customer demand, producer capacity and market conditions. We monitor the availability and price of equipment and materials on a regular basis. Our procurement department seeks to leverage our size and buying power to ensure that we have access to key equipment and materials at the best possible prices and delivery schedules. While we do not currently foresee any significant lack of availability of equipment and materials in the near term, the availability of these items may vary significantly from year to year and any prolonged unavailability or significant price increases for equipment and materials necessary to our projects and services could have a material adverse effect on our business. See “Item 1A. Risk Factors” for more information.

Intellectual Property

We have developed or otherwise have the right to license leading technologies, including technologies held under license from third parties, used for the production of a variety of petrochemicals and chemicals and in the areas of olefins, refining, fertilizers, coal gasification and semi-submersible technology. We also license a variety of technologies for the transformation of raw materials into commodity chemicals such as phenol used in the production of consumer-end products. In addition, we are a licensor of ammonia process technologies used in the conversion of natural gas to ammonia. We believe our technology portfolio and experience in the commercial application of these technologies and related know-how differentiates us, enhances our margins and encourages customers to utilize our broad range of EPC and construction services.

Our rights to make use of technologies licensed to us are governed by written agreements of varying durations, including some with fixed terms that are subject to renewal based on mutual agreement. Generally, each agreement may be further extended and we have historically been able to renew existing agreements before they expire. We expect these and other similar agreements to be extended so long as it is mutually advantageous to both parties at the time of renewal. However, the majority of our license fees tend to result in a one-time payment per agreement rather than ongoing royalty-type payments. For technologies we own, we protect our rights, know-how and trade secrets through patents and confidentiality agreements. Our expenditures for research and development activities were immaterial in each of the past three fiscal years.

Seasonality

Our operations are not generally affected by seasonality. However, weather and natural phenomena can temporarily affect the performance of our services.

Employees

As of December 31, 2015, we had approximately 22,000 employees world-wide, of which approximately 8% were subject to collective bargaining agreements. Based upon the geographic diversification of our employees, we believe any risk of loss from employee strikes or other collective actions would not be material to the conduct of our operations taken as a whole.

Health and Safety

We are subject to numerous health and safety laws and regulations. In the U.S., these laws and regulations include the Federal Occupational Safety and Health Act and comparable state legislation, the Mine Safety and Health Administration laws, and safety requirements of the Departments of State, Defense, Energy and Transportation of the U.S. government. We are also subject to similar requirements in other countries in which we have extensive operations, including the U.K. where we are subject to the various regulations enacted by the Health and Safety Act of 1974.

These laws and regulations are frequently changing and it is impossible to predict the effect of such laws and regulations on us in the future. We actively seek to maintain a safe, healthy and environmentally friendly work place for all of our employees and those who work with us. However, we provide some of our services in high-risk locations and may incur substantial costs to maintain the safety and security of our personnel in these locations.

We embarked on a global Zero Harm initiative in order to reinforce health, safety, security and environment as key components of the KBR culture and lifestyle. This initiative incorporates three dynamic components, Zero Harm, 24/7 and courage to care which empowers individuals to take responsibility for their health and safety, as well as that of their colleagues.

Environmental Regulation

Information relating to environmental regulations is described in "Item 1A. Risk Factors" and in Note 15 to our consolidated financial statements, and the information discussed therein is incorporated by reference into this Item 1.

Compliance

Conducting our business with ethics and integrity is a key priority for KBR. We are subject to numerous compliance-related laws and regulations, including the U.S. Foreign Corrupt Practices Act (the "FCPA"), the U.K. Bribery Act, other applicable anti-bribery legislation and laws and regulations regarding trade and exports. We are also governed by our own Code of Business Conduct and other compliance-related corporate policies and procedures that mandate compliance with these laws. Our Code of Business Conduct is a guide for every employee in applying legal and ethical practices to our everyday work. The Code of Business Conduct describes not only our standards of integrity but also some of the specific principles and areas of the law that are most likely to affect our business. We regularly train our employees regarding anti-bribery issues and our Code of Business Conduct.

Website Access

Our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 are made available free of charge on our Internet website at www.kbr.com as soon as reasonably practicable after we have electronically filed the material with, or furnished it to, the U.S. Securities and Exchange Commission (the "SEC"). The public may read and copy any materials we have filed with the SEC at the SEC's Public Reference Room at 100 F Street, NE, Washington, DC 20549. Information on the operation of the Public Reference Room may be obtained by calling the SEC at 1-800-SEC-0330. The SEC maintains an Internet website that contains our reports, proxy and information statements and our other SEC filings. The address of that website is www.sec.gov. We have posted on our website our Code of Business Conduct, which applies to all of our employees and Directors and serves as a code of ethics for our principal executive officer, principal financial officer, principal accounting officer and other persons performing similar functions.

Item 1A. Risk Factors

Risks Related to Operations of our Business

Our results of operations depend on the award of new contracts and the timing of the performance of these contracts.

A substantial portion of our revenues is directly or indirectly derived from new contract awards. Reductions in the number and amounts of new awards, delays in the timing of the awards or potential cancellations of such prospects as a result of economic conditions, material and equipment pricing and availability or other factors could adversely impact our long-term projected results. It is particularly difficult to predict whether or when we will receive large-scale international and domestic projects as these contracts frequently involve a lengthy and complex bidding and selection process, which is affected by a number of factors, such as market conditions as well as governmental and environmental approvals. Since a significant portion of our revenues is generated from such projects, our results of operations and cash flows can fluctuate significantly from quarter to quarter depending on the timing of our contract awards and the commencement or progress of work under awarded contracts. In addition, many of these contracts are subject to financing contingencies and, as a result, we are subject to the risk that the customer will not be able to secure the necessary financing for the project to proceed.

The uncertainty of our contract award timing can also present difficulties in matching workforce size with contract needs. In some cases, we maintain and bear the cost of a ready workforce that is larger than necessary under existing contracts in anticipation of future workforce needs for expected contract awards. If an expected contract award is delayed or not received, we may incur additional costs resulting from reductions in staff or redundancy of facilities which could have a material adverse effect on our business, financial condition and results of operations.

The nature of our contracts, particularly those that are fixed-price, subjects us to risks associated with cost over-runs, operating cost inflation and potential claims for liquidated damages.

We conduct our business under various types of contracts where costs must be estimated in advance of our performance. Approximately 22% of the value of our backlog is attributable to fixed-price contracts, which include our unit-rate contracts where we bear a significant portion of the risk of cost over-runs. These types of contracts are priced, in part, on cost and scheduling estimates that are based on assumptions including prices and availability of labor, equipment and materials as well as productivity, performance and future economic conditions. If these estimates prove inaccurate, if there are errors or ambiguities as to contract specifications or if circumstances change due to, among other things, unanticipated technical problems, difficulties in obtaining permits or approvals, changes in local laws or labor conditions, weather delays, changes in the costs of equipment and materials or our suppliers' or subcontractors' inability to perform, then cost overruns may occur. We may not be able to obtain compensation for additional work performed or expenses incurred. Additionally, we may be required to pay liquidated damages upon our failure to meet schedule or performance requirements of our contracts. Our failure to accurately estimate the resources and time required for fixed-price contracts or our failure to complete our contractual obligations within the time frame and costs committed could result in reduced profits or, in certain cases, a loss for that contract. If the contract is significant, or we encounter issues that impact multiple contracts, cost overruns could have a material adverse effect on our business, financial condition and results of operations.

If we are unable to attract and retain a sufficient number of affordable trained engineers, craft labor, and other skilled workers, our ability to pursue projects may be adversely affected and our costs may increase.

Our rate of growth and the success of our business depend upon our ability to attract, develop and retain a sufficient number of affordable trained engineers, craft labor and other skilled workers either through direct hire or acquisition of other firms employing such professionals. The market for these professionals is competitive. If we are unable to attract and retain a sufficient number of skilled personnel, our ability to pursue projects may be adversely affected, the costs of executing our existing and future projects may increase and our financial performance may decline.

Dependence on craft labor, subcontractors and equipment manufacturers could adversely affect our profits.
We rely on local craft labor, third-party subcontractors as well as third party equipment manufacturers to complete our projects. To the extent that we cannot engage craft labor, subcontractors or acquire equipment or materials, our ability to complete a project in a timely fashion or at a profit may be impaired. If the amount we are required to pay for these goods and services exceeds the amount we have estimated in bidding for fixed-price contracts, we could experience losses in the performance of these contracts. In addition, if a subcontractor or a manufacturer is unable to deliver its services, equipment or materials according to the negotiated terms for any reason, including the deterioration of its financial condition, we may be required to purchase the services, equipment or materials from another source at a higher price. This may reduce the profit we expect to realize or result in a loss on a project for which the services, equipment or materials were needed.

We conduct a portion of our engineering and construction operations through joint ventures and partnerships exposing us to risks and uncertainties, many of which are outside of our control.

We conduct a portion of our EPC operations through large project-specific joint ventures where control may be shared with unaffiliated third parties. As with any joint venture arrangement, differences in views among the joint venture participants may result in delayed decisions or in failures to agree on major issues. We also cannot control the actions of our joint venture partners, including any nonperformance, default or bankruptcy of our joint venture partners, and we typically share liabilities on a joint and several basis with our joint venture partners under these arrangements. If our partners do not meet their contractual obligations, the joint venture may be unable to adequately perform and deliver its contracted services, requiring us to make additional investments or perform additional services to ensure the adequate performance and delivery of services to our customer. We could be liable for both our obligations and those of our partners, which may result in reduced profits or, in some cases, significant losses on the project. Additionally, these factors could have a material adverse effect on the business operations of the joint venture and, in turn, our business operations and reputation.

Operating through joint ventures in which we have a minority interest could result in us having limited control over many decisions made with respect to projects and internal controls relating to projects. These joint ventures may not be subject to the same requirements regarding internal controls and internal control reporting that we follow. As a result, internal control issues may arise, which could have a material adverse effect on our financial condition and results of operations. Additionally, in order to establish or preserve relationships with our joint venture partners, we may agree to risks and contributions of resources that are proportionately greater than the returns we could receive, which could reduce our income and returns on these investments compared to what we may have received if the risks and resources we contributed were always proportionate to our returns.

The nature of our engineering and construction business exposes us to potential liability claims and contract disputes which may exceed or be excluded from existing insurance coverage.

We engage in engineering and construction activities for large facilities where design, construction or systems failures can result in substantial injury or damage to employees or other third parties or delays in completion or commencement of commercial operations, exposing us to legal proceedings, investigations and disputes. The nature of our business results in clients, subcontractors and vendors occasionally presenting claims against us for recovery of costs they incurred in excess of what they expected to incur or for which they believe they are not contractually liable. When it is determined that we have liability, we may not be covered by insurance or, if covered, the dollar amount of these liabilities may exceed our policy limits. Our professional liability coverage is on a “claims-made” basis covering only claims actually made during the policy period currently in effect. In addition, even where insurance is maintained for such exposures, the policies have deductibles, which result in our assumption of exposure for a layer of coverage with respect to any such claims. Any liability not covered by our insurance, in excess of our insurance limits or if covered by insurance but subject to a high deductible could result in a significant loss for us, which may reduce our profits and cash available for operations.

We occasionally bring claims against project owners for additional costs exceeding the contract price or for amounts not included in the original contract price. These types of claims occur due to matters such as owner-caused delays or changes from the initial project scope which may result in additional direct and indirect costs. Often these claims can be the subject of lengthy arbitration or litigation proceedings, and it is difficult to accurately predict when these claims will be fully resolved. When these types of events occur and unresolved claims are pending, we may invest significant working capital in projects to cover cost overruns pending the resolution of the relevant claims. A failure to promptly recover on these types of claims could have a material adverse impact on our liquidity and financial results.

International and political events may adversely affect our operations.

A significant portion of our revenues is derived from foreign operations, which exposes us to risks inherent in doing business in each of the countries where we transact business. The occurrence of any of the risks described below could have a material adverse effect on our business operations and financial performance. With respect to any particular country, these risks may include, but not be limited to:

- expropriation and nationalization of our assets in that country;
- political and economic instability;
- civil unrest, acts of terrorism, force majeure, war or other armed conflict;
- currency fluctuations, devaluations and conversion restrictions;
- confiscatory taxation or other adverse tax policies; or
-

governmental activities or judicial actions that limit or disrupt markets, restrict payments, limit the movement of funds, result in the deprivation of contract rights or result in the inability for us to obtain or retain licenses required for operation.

Due to the unsettled political conditions in many oil-producing countries and other countries where we provide governmental logistical support, our financial performance is subject to the adverse consequences of war, the effects of terrorism, civil unrest, strikes, currency controls and governmental actions. Our operations are conducted in areas that have significant political risk. In addition, military action or unrest in such locations as the Middle East could restrict the supply of oil and gas, disrupt our operations in the region and elsewhere and increase our costs related to security worldwide.

We may have additional tax liabilities associated with our domestic and international operations.

We are subject to income taxes in the U.S. and numerous foreign jurisdictions, many of which are developing countries. Significant judgment is required in determining our worldwide provision for income taxes due to lack of clear and concise tax laws and regulations in certain jurisdictions. It is not unlikely that laws may be changed or clarified and such changes may require material changes to our tax provisions. We are audited by various U.S. and foreign tax authorities and in the ordinary course of our business, there are many transactions and calculations where the ultimate tax determination may be uncertain. Although we believe that our tax estimates are reasonable, the final outcome of tax audits and related litigation could be materially different from that which is reflected in our financial statements. In addition, because of the changing nature of our projects, geographic locations, etc. our effective tax rates in future years may differ materially from previous years.

We work in international locations where there are high security risks, which could result in harm to our employees and contractors or substantial costs.

Some of our services are performed in high-risk locations, including but not limited to, Iraq, Afghanistan, certain parts of Africa and the Middle East, where the country or surrounding area is suffering from political, social or economic issues, war or civil unrest. In those locations where we have employees or operations, we have and may continue to incur substantial costs to maintain the safety of our personnel. Despite these precautions, we have suffered the loss of employees and contractors that has resulted in claims and litigation. In the future, the safety of our personnel in these and other locations may continue to be at risk, exposing us to the potential loss of additional employees and contractors that could lead to future claims and litigation.

We ship a significant amount of cargo using seagoing vessels exposing us to certain maritime risks.

We execute different projects in remote locations around the world. Depending on the type of contract, location and the nature of the work, we may charter seagoing vessels under time and bareboat charter arrangements and assume certain risks typical of those agreements. Such risks may include damage to the ship, liability for cargo and liability which charterers and vessel operators have to third parties “at law.” In addition, we ship a significant amount of cargo and are subject to hazards of the shipping and transportation industry.

Demand for our services depends on demand and capital spending by customers in their target markets, many of which are cyclical in nature.

Demand for many of our services in our commodity-based markets depends on capital spending by oil and natural gas companies, including national and international oil companies, and by industrial companies, which is directly affected by trends in oil, natural gas and commodities prices. Market prices for oil, natural gas and commodities have significantly declined within the past year reducing the revenues and earnings of our customers. As a result, several leading international and national oil companies have announced their intention to reduce capital expenditures in 2016. Capital expenditures for refining and distribution facilities by large oil and gas companies have a significant impact on the activity levels of our businesses. Demand for LNG facilities for which we provide services could decrease in the event of a sustained reduction in the price and demand for crude oil or natural gas. Perceptions of longer-term lower oil and natural gas prices by oil and gas companies or longer-term higher material and contractor prices impacting facility costs can similarly reduce or defer major expenditures given the long-term nature of many large-scale projects. Prices of oil, natural gas and commodities are subject to large fluctuations in response to relatively minor changes in supply and demand, market uncertainty and a variety of other factors that are beyond our control. Factors affecting the prices of oil, natural gas and other commodities include, but are not limited to:

- worldwide or regional political, social or civil unrest, military action and economic conditions;

- the level of demand for oil, natural gas, and industrial services;
- governmental regulations or policies, including the policies of governments regarding the use of energy and the exploration for and production and development of their oil and natural gas reserves;
- a reduction in energy demand as a result of energy taxation or a change in consumer spending patterns;
- global economic growth or decline;
- the global level of oil and natural gas production;
- global weather conditions and natural disasters;
- oil refining capacity;
- shifts in end-customer preferences toward fuel efficiency and the use of natural gas;
- potential acceleration of the development and expanded use of alternative fuels;
- environmental regulation, including limitations on fossil fuel consumption based on concerns about its relationship to climate change; and
- reduction in demand for the commodity-based markets in which we operate.

Crude oil and natural gas prices are extremely volatile. A continued decline in the price of oil and natural gas could adversely affect our results of operations.

Current global economic conditions, including the significant decline in oil and gas prices, have reduced and continue to negatively impact our customers' willingness and ability to fund their projects. These conditions reduce customer's revenues and earnings and make it difficult for our customers to accurately forecast and plan future business trends and activities, thereby causing our clients to slow or curtail spending on our services, or seek contract terms more favorable to them.

Our revenues are highly dependent on capital expenditures for LNG, refining and distribution facilities and other investments by oil and gas companies. The demand for these facilities and the ability of our customers to obtain capital on attractive terms to finance these projects is also substantially dependent upon crude oil and natural gas prices. As seen in the recent decline in oil and natural gas prices, these commodities are subject to large fluctuations in response to changes in supply and demand, market uncertainty and a variety of other factors that are beyond our control. Demand for the services we provide could significantly decrease in the event of a sustained reduction in demand for crude oil or natural gas, or a continued decline in oil and gas prices. Oil and gas companies (our customers) have begun to reduce or defer their major expenditures due to perceptions of long-term decline in crude oil and natural gas prices and other market uncertainties.

Our backlog is subject to unexpected adjustments and cancellations and, therefore, may not be a reliable indicator of our future revenues or earnings.

As of December 31, 2015, our backlog was approximately $12.3 billion. We cannot guarantee that the revenues projected in our backlog will be realized or that the projects will be profitable. Many of our contracts are subject to cancellation, termination or suspension at the discretion of the customer. From time to time, changes in project scope may occur with respect to contracts reflected in our backlog and could reduce the dollar amount of our backlog and the timing of the revenues and profits that we actually earn. Projects may remain in our backlog for an extended period of time because of the nature of the project and the timing of the particular services or equipment required by the project. Delays, suspensions, cancellations, payment defaults, scope changes and poor project execution could materially reduce or eliminate profits that we actually realize from projects in backlog. We cannot predict the impact that future economic conditions may have on our backlog, which could include a diminished ability to replace backlog once projects are completed or could result in the termination, modification or suspension of projects currently in our backlog. Such developments could have a material adverse effect on our financial condition, results of operations and cash flows.

Intense competition in the engineering and construction industry could reduce our market share and profits.

We serve markets that are global and highly competitive and in which a large number of multinational companies compete. These highly competitive markets require substantial resources and capital investment in equipment, technology and skilled personnel. Our projects are frequently awarded through a competitive bidding process, which is standard in our industry. We are constantly competing for project awards based on pricing, schedule and the breadth and technical sophistication of our services. Any increase in competition or reduction in our competitive capabilities could have a material adverse effect on the margins we generate from our projects as well as our ability to maintain or increase market share.

A portion of our revenues is generated by large, recurring business from certain significant customers. A loss, cancellation or delay in projects by our significant customers in the future could negatively affect our revenues.

While we provide services to a diverse customer base, including international and national oil and gas companies, independent refiners, petrochemical producers, fertilizer producers and domestic and foreign governments, a considerable percentage of our revenues, particularly in our E&C business segment, is generated from transactions with certain significant customers. Revenues from Chevron represented 10% of our total consolidated revenues for the year ended December 31, 2015. The loss of our significant customers, or the cancellation or delay in their projects, could adversely affect our revenues and results of operations.

If we are unable to enforce our intellectual property rights, or if our intellectual property rights become obsolete, our competitive position could be adversely impacted.

We utilize a variety of intellectual property rights in providing services to our customers. We view our portfolio of process and design technologies as one of our competitive strengths and we use it as part of our efforts to differentiate our service offerings. We may not be able to successfully preserve these intellectual property rights in the future, and these rights could be invalidated, circumvented, challenged or infringed upon. In addition, the laws of some foreign countries in which our services may be sold do not protect intellectual property rights to the same extent as the laws of the United States. Since we license technologies from third parties, there is a risk that our relationships with licensors may terminate, expire or be interrupted or harmed. In some, but not all cases, we may be able to obtain the necessary intellectual property rights from alternative sources. If we are unable to protect and maintain our intellectual property rights, or if there are any successful intellectual property challenges or infringement proceedings against us, our ability to differentiate our service offerings could diminish. In addition, if our intellectual property rights or work processes become obsolete, we may not be able to differentiate our service offerings and some of our competitors may be able to offer more attractive services to our customers. As a result, our business and financial performance could be materially and adversely affected.

Our current business strategy includes the possibility of acquisitions, which may present certain risks and uncertainties.

We may seek business acquisitions as a means of broadening our offerings and capturing additional market opportunities by our business segments and we may be exposed to certain additional risks resulting from these activities. These risks include, but are not limited to the following:

- valuation methodologies may not accurately capture the value proposition;
- future completed acquisitions may not be integrated within our operations with the efficiency and effectiveness initially expected, resulting in a potentially significant detriment to the associated product/service line financial results and posing additional risks to our operations as a whole;
- we may have difficulty managing our growth from acquisition activities;
- key personnel within an acquired organization may resign from their related positions resulting in a significant loss to our strategic and operational efficiency associated with the acquired company;
- the effectiveness of our daily operations may be reduced by the redirection of employees and other resources to acquisition activities;
- we may assume liabilities of an acquired business (e.g. litigation, tax liabilities, contingent liabilities, environmental issues), including liabilities that were unknown at the time of the acquisition, that pose future risks to our working capital needs, cash flows and the profitability of related operations;
- we may assume unprofitable projects that pose future risks to our working capital needs, cash flows and the profitability of related operations;
- business acquisitions may include substantial transactional costs to complete the acquisition that exceed the estimated financial and operational benefits; or
- future acquisitions may require us to obtain additional equity or debt financing, which may not be available on attractive terms, if at all. Moreover, to the extent an acquisition results in additional goodwill, it will reduce our tangible net worth, which might have an adverse effect on our credit capacity.

We rely on information technology ("IT") systems to conduct our business, and disruption, failure or security breaches of these systems could adversely affect our business and results of operations.

We rely heavily on IT systems in order to achieve our business objectives. We also rely upon industry accepted security measures and technology to secure confidential and proprietary information maintained on our IT systems.

However, our portfolio of hardware and software products, solutions and services and information contained within our enterprise IT systems may be vulnerable to damage or disruption caused by circumstances beyond our control such as catastrophic events, cyber-attacks, other malicious activities from unauthorized third parties, power outages, natural disasters, computer system or network failures, or computer viruses. The failure of our IT systems to perform as anticipated for any reason could disrupt our business and result in decreased performance, significant remediation costs, transaction errors, loss of data, processing inefficiencies, downtime, litigation and the loss of suppliers or customers. We have experienced security threats in the past, none of which we considered to be significant to our business or results of operations, but future significant disruptions or failures could have a material adverse effect on our business operations, financial performance and financial condition.

An impairment of all or part of our goodwill or our intangible assets could have a material adverse impact on our net earnings and net worth.

As of December 31, 2015, we had $324 million of goodwill and $35 million of intangible assets recorded on our consolidated balance sheets. Goodwill represents the excess of cost over the fair market value of net assets acquired in business combinations. If our market capitalization drops significantly below the amount of net equity recorded on our balance sheets, it might indicate a decline in our fair value and would require us to further evaluate whether our goodwill has been impaired. We perform an annual and an interim analysis, as appropriate, of our goodwill to determine if it has become impaired. The analysis requires us to make assumptions in estimates of fair value of our reporting units. If actual results are significantly different from the estimates, we may be required to write down the impaired portion of goodwill. An impairment of all or a part of our goodwill or intangible assets could have a material adverse effect on our net earnings and net worth.

Our use of the percentage-of-completion method of revenue recognition could result in a reduction or reversal of previously recorded revenues and profits.

A substantial portion of our revenues and profits are measured and recognized using the percentage-of-completion method of revenue recognition. Our use of this accounting method results in recognition of revenues and profits over the life of a contract, based generally on the proportion of costs incurred to date to total costs expected to be incurred for the entire project, the ratio of hours performed to date to our estimate of total expected hours at completion, or the physical progress on the project. The effects of revisions to estimated revenues and estimated costs are recorded when the amounts are known or can be reasonably estimated. Such revisions could occur in any period and their effects could be material. Although we have historically made reasonably reliable estimates of the progress towards completion of long-term engineering, program management, construction management or construction contracts, the uncertainties inherent in the estimating process make it possible for actual costs to vary materially from estimates, including reductions or reversals of previously recorded revenues and profits.

Our reorganization activities may not achieve the results we expect, which could materially and adversely affect our results of operations and financial condition.

In 2014, we announced and began to implement reorganization activities, which included the decision to no longer bid on certain types of work and exit certain non-strategic businesses. This decision resulted in a significant reduction in our forecasts of future cash flows for three of our previous reporting units and triggered a goodwill impairment test. There can be no assurance that our reorganization activities will produce the cost savings we anticipate in the expected time frame. Any delay or failure to achieve the expected cost savings would likely cause our future earnings to be lower than anticipated.

Risks Related to our Government Operations Business

The U.S. government awards its contracts through a rigorous competitive process and our efforts to obtain future contracts from the U.S. government may be unsuccessful.

The U.S. government conducts a rigorous competitive process for awarding most contracts. In the services arena, the U.S. government uses multiple contracting approaches. Historically, omnibus contract vehicles have been used for work that is done on a contingency or as-needed basis. In more predictable "sustainment" environments, contracts may include both fixed-price and cost-reimbursable elements. The U.S. government has also favored multiple award task order contracts in which several contractors are selected as eligible bidders for future work. Such processes require successful contractors to continually anticipate customer requirements and develop rapid-response bid and proposal teams as well as have supplier relationships and delivery systems in place to react to emerging needs. We will face rigorous competition and pricing pressures for any additional contract awards from the U.S. government, and we may be required to qualify or continue to qualify under the various multiple award task order contract criteria. It may be more difficult for us to win future awards from the U.S. government and we may have other contractors sharing in any U.S. government awards that we win. In addition, negative publicity regarding findings stemming from audits by the Defense Contract Audit Agency (the "DCAA"), congressional investigations and litigation may adversely affect our ability to obtain future awards. See "Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Analysis - U.S. Government Matters."

Demand for our services provided under government contracts are directly affected by spending by our customers.

We derive a portion of our revenues from contracts with agencies and departments of the U.K., Australia and U.S. governments, which is directly affected by changes in government spending and availability of adequate funding. Additionally, U.S. government regulations generally include the right for government agencies to modify, delay, curtail, renegotiate or terminate contracts at their convenience any time prior to their completion. As a defense contractor, our financial performance is affected by the allocation and prioritization of defense spending. Factors that could affect current and future government spending include:

- policy or spending changes implemented by the current administration, defense department or other government agencies;
- changes, delays or cancellations of government programs or requirements;
- adoption of new laws or regulations that affect companies providing services to the governments;
- curtailment of the governments' outsourcing of services to private contractors; or
- level of political instability due to war, conflict or natural disasters.

We face uncertainty with respect to our government contracts due to the fiscal and economic and budgetary challenges facing our customers. Potential contract cancellations, modifications or terminations may arise from resolution of these issues and could cause our revenues, profits and cash flows to be lower than our current projections. The loss of work we perform for governments or decreases in governmental spending and outsourcing could have a material adverse effect on our business, results of operations and cash flows.

Our U.S. government contract work is regularly reviewed and audited by our customer, U.S. government auditors and others, and these reviews can lead to withholding or delay of payments to us, non-receipt of award fees, legal actions, fines, penalties and liabilities and other remedies against us.

U.S. government contracts are subject to specific regulations such as the Federal Acquisition Regulation ("FAR"), the Truth in Negotiations Act, the Cost Accounting Standards ("CAS"), the Service Contract Act and DoD security regulations. Failure to comply with any of these regulations, requirements or statutes may result in contract price adjustments, financial penalties or contract termination. Our U.S. government contracts are subject to audits, cost reviews and investigations by U.S. government contracting oversight agencies such as the DCAA. The DCAA reviews the adequacy of, and our compliance with, our internal control systems and policies, including our labor, billing, accounting, purchasing, property, estimating, compensation and management information systems. The DCAA has the authority to conduct audits and reviews to determine if KBR is complying with the requirements under FAR and CAS, pertaining to the allocation, period assignment and allowability of costs assigned to U.S. government contracts. The DCAA presents its report findings to the Defense Contract Management Agency ("DCMA"). Should the DCMA determine that we have not complied with the terms of our contract and applicable statutes and regulations, payments to us may be disallowed, which could result in adjustments to previously reported revenues and refunding of previously collected cash proceeds. Additionally, we may be subject to qui tam litigation brought by private individuals on behalf of the U.S. government under the Federal False Claims Act, which could include claims for treble damages.

Given the demands of working for the U.S. government, we may have disagreements or experience performance issues. When performance issues arise under any of our U.S. government contracts, the U.S. government retains the right to pursue remedies, which could include termination under any affected contract. If any contract were so terminated, our ability to secure future contracts could be adversely affected, although we would receive payment for amounts owed for our allowable costs under cost-reimbursable contracts. Other remedies that could be sought by our government customers for any improper activities or performance issues include sanctions such as forfeiture of profits, suspension of payments, fines and suspensions or debarment from doing business with the government.

Further, the negative publicity that could arise from disagreements with our customers or sanctions as a result thereof could have an adverse effect on our reputation in the industry, reduce our ability to compete for new contracts and may also have a material adverse effect on our business, financial condition, results of operations and cash flows.

Some of our U.S. government work requires KBR and certain of its employees to qualify for and retain a government-issued security clearance.

A KBR subsidiary currently holds a U.S. government-issued facility security clearance and certain of its employees have qualified for and hold U.S. government-issued personal security clearances which are necessary in order to qualify for and ultimately perform certain of our U.S. government contracts. Our facility security clearance could be marked as "invalid" for several reasons including unapproved foreign ownership, control or influence, mishandling of classified materials, or failure to properly report required activities. An inability to maintain our facility security clearance could disqualify us from bidding for and winning new contracts with security requirements as well as termination of any existing contracts requiring such clearances.

Risks Related to Governmental Regulations and Law

We could be adversely impacted if we fail to comply with international export and domestic laws, which are the subject of rigorous enforcement by the U.S. government.

To the extent that we export products, technical data and services outside of the United States, we are subject to laws and regulations governing trade and exports, including, but not limited to, the International Traffic in Arms Regulations, the Export Administration Regulations and trade sanctions against embargoed countries, which are administered by the Office of Foreign Asset Control within the Department of the Treasury. A failure to comply with these laws and regulations could result in civil or criminal sanctions, including the imposition of fines upon us as well as the denial of export privileges and debarment from participation in U.S. government contracts. U.S. government contract violations could result in the imposition of civil and criminal penalties or sanctions, contract termination, forfeiture of profit or suspension of payment, any of which could make us lose our status as an eligible U.S. government contractor and cause us to suffer serious harm to our reputation. Any suspension or termination of our U.S. government contractor status could have a material adverse effect on our business, financial condition or results of operations.

We are subject to anti-bribery laws in the U.S. and other jurisdictions, violations of which could include suspension or debarment of our ability to contract with the U.S. state or local governments, U.S. government agencies or the U.K. MoD, third-party claims, loss of customers, adverse financial impact, damage to reputation and adverse consequences on financing for current or future projects.

The FCPA, the U.K. Bribery Act and similar anti-bribery laws ("Anti-bribery Laws") in other jurisdictions generally prohibit companies and their intermediaries from making improper payments to government officials for the purpose of obtaining or retaining business. Our policies mandate compliance with these Anti-bribery Laws. We operate in many parts of the world that have experienced governmental corruption to some degree and, in certain circumstances, strict compliance with Anti-bribery Laws may conflict with local customs and practices. We train our staff concerning Anti-bribery Laws and we also inform our partners, subcontractors, agents and other third parties who work for us or on our behalf that they must comply with the requirements of these Anti-bribery Laws. We also have procedures and controls in place to monitor internal and external compliance. We cannot provide complete assurance that our internal controls and procedures will always protect us from the reckless or criminal acts committed by our employees or third parties working on our behalf. If we are found to be liable for violations of these laws (either due to our own acts or our inadvertence, or due to the acts or inadvertence of others), we could suffer from criminal or civil penalties or other sanctions, which could have a material adverse effect on our business.

Our work sites are inherently dangerous and we are subject to various environmental, health and safety laws and regulations. If we fail to maintain safe work sites or to comply with these laws and regulations, we may incur significant costs and penalties that could have a material adverse effect on our business, financial condition, results of operations and cash flows.

Our work sites often expose our employees and others to chemical and manufacturing processes, large pieces of mechanized equipment, and moving vehicles. Failure to implement effective safety procedures may result in injury, disability or loss of life to these parties. In addition, the projects may be delayed and we may be exposed to litigation or investigations.

Our operations are subject to a variety of environmental, health and safety laws and regulations governing the generation, management and use of regulated materials, the discharge of materials into the environment, the remediation of environmental contamination associated with the release of hazardous substances and human health and safety. Violations of these laws and regulations can cause significant delays and additional costs to a project. When we perform our services, our personnel and equipment may be exposed to radioactive and hazardous materials and conditions. We may be subject to claims alleging personal injury, property damage or natural resource damages by employees, customers and third parties as a result of alleged exposure to or contamination by hazardous substances. In addition, we may be subject to fines, penalties or other liabilities arising under environmental safety laws. A claim, if not covered by insurance at all or only partially, could have a material adverse impact on our financial condition, results of operations and cash flows.

Various U.S. federal, state, local, and foreign environmental laws and regulations may impose liability for property damage and costs of investigation and cleanup of hazardous or toxic substances on property currently or previously owned by us or arising out of our waste management or environmental remediation activities. These laws may impose responsibility and liability without regard to knowledge or causation of the presence of contaminants. The liability under these laws is joint and several. The ongoing costs of complying with existing environmental laws and regulations could be substantial and have a material adverse impact on our financial condition, results of operations and cash flows. Changes in the environmental laws and regulations, remediation obligations, enforcement actions, stricter interpretations of existing requirements, future discovery of contamination or claims for damages to persons, property, natural resources or the environment could result in material costs and liabilities that we currently do not anticipate.

Risks Related to Financial Conditions and Markets

Current or future economic conditions in the credit markets may negatively affect the ability to operate our or our customers' businesses, finance working capital, implement our acquisition strategy and access our cash and short-term investments.

We finance our business using cash provided by operations, but also depend on the availability of credit, including letters of credit and surety bonds. Our ability to obtain capital or financing on satisfactory terms will depend in part upon prevailing market conditions as well as our operating results. If adequate credit or funding is not available, or is not available on terms satisfactory to us, there could be a material adverse effect on our business and financial performance.

Disruptions of the capital markets could also adversely affect our clients' ability to finance projects and could result in contract cancellations or suspensions, project delays and payment delays or defaults by our clients. In addition, clients may be unable to fund new projects, may choose to make fewer capital expenditures or otherwise slow their spending on our services or to seek contract terms more favorable to them. Our government clients may face budget deficits that prohibit them from funding proposed and existing projects or that cause them to exercise their right to terminate our contracts with little or no prior notice. Furthermore, any financial difficulties suffered by our subcontractors or suppliers could increase our cost or adversely impact project schedules. These disruptions could materially impact our backlog and financial performance.

In addition, we are subject to the risk that the counterparties to our Credit Agreement (as defined below) may be unable to meet their contractual obligations to us if they suffer catastrophic demands on their liquidity. We also routinely enter into contracts with counterparties, including vendors, suppliers and subcontractors that may be negatively affected by events in the capital markets. If those counterparties are unable to perform their obligations to us or our clients, we may be required to provide additional services or make alternate arrangements on less favorable terms with other parties to ensure adequate performance and delivery of service to our clients. These circumstances could also lead to disputes and litigation with our partners or clients, which could have a material adverse effect on our reputation, business, financial condition and results of operations.

Furthermore, our cash balances and short-term investments are maintained in accounts held at major banks and financial institutions located primarily in North America, the U.K. and Australia. Deposits are in amounts that exceed available insurance. Although none of the financial institutions in which we hold our cash and investments have gone into bankruptcy, been forced into receivership or have been seized by their governments, there is a risk that this may occur in the future. If this were to occur, we would be at risk of not being able to access our cash and investments which may result in a temporary liquidity crisis that could impede our ability to fund operations.

We may be unable to obtain new contract awards if we are unable to provide our customers with letters of credit, surety bonds or other credit enhancements.

Customers may require us to provide credit enhancements, including letters of credit, bank guarantees or surety bonds. We are often required to provide performance guarantees to customers to indemnify the customer should we fail to perform our obligations under the contract. Failure to provide the required credit enhancements on terms required by a customer may result in an inability to bid, win or comply with the contract. Historically, we have had adequate letters of credit capacity but such capacity beyond our Credit Agreement is generally at the provider's sole discretion. Due to events that affect the banking and insurance markets generally, letters of credit or surety bonds may be difficult to obtain or may only be available at significant cost. Moreover, many projects are often very large and complex, which often necessitates the use of a joint venture, often with a market competitor, to bid on and perform the contract. However, entering into joint ventures or partnerships exposes us to the credit and performance risk of third parties, many of whom may not be financially strong. If our joint ventures or partners fail to perform, we could suffer negative results. In addition, future projects may require us to obtain letters of credit that extend beyond the term of our current Credit Agreement. Any inability to bid for or win new contracts due to the failure of obtaining adequate letters of credit, surety bonding or other customary credit enhancements could have a material adverse effect on our business prospects and future revenues.

Our Credit Agreement imposes restrictions that limit our operating flexibility and may result in additional expenses, and this credit agreement may not be available if financial covenants are violated or if an event of default occurs.

Our Credit Agreement provides a credit line of $1 billion and matures in September 2020 (our "Credit Agreement"). It contains a number of covenants restricting, among other things, our ability to incur liens and indebtedness, sell assets, repurchase our equity shares and make certain types of investments. We are also subject to certain financial covenants, including maintenance of a maximum ratio of consolidated debt to consolidated EBITDA and a minimum consolidated net worth as defined in the Credit Agreement.

A breach of any covenant or our inability to comply with the required financial ratios could result in a default under our Credit Agreement, and we can provide no assurance that we will be able to obtain the necessary waivers or amendments from our lenders to remedy a default. In the event of any default not cured or waived, the lenders are not obligated to provide funding or issue letters of credit and could elect to require us to apply available cash to collateralize any outstanding letters of credit and declare any outstanding borrowings, together with accrued interest and other fees, to be immediately due and payable, thus requiring us to apply available cash to repay any borrowings then outstanding. If we are unable to cash collateralize our letters of credit or repay borrowings with respect to our Credit Agreement when due, our lenders could proceed against the guarantees of our major domestic subsidiaries. If any future indebtedness under our Credit Agreement is accelerated, we can provide no assurance that our assets would be sufficient to repay such indebtedness in full.

Provisions in our charter documents, Delaware law and our Credit Agreement may inhibit a takeover or impact operational control which could adversely affect the value of our common stock.

Our certificate of incorporation and bylaws, as well as Delaware corporate law, contain provisions that could delay or prevent a change of control or changes in our management that a stockholder might consider favorable. These provisions include, among others, prohibiting stockholder action by written consent, advance notice for making nominations at meetings of stockholders, providing for the State of Delaware as the exclusive forum for lawsuits concerning certain corporate matters and the issuance of preferred stock with rights that may be senior to those of our common stock without stockholder approval. These provisions would apply even if a takeover offer may be considered beneficial by some of our stockholders. If a change of control or change in management is delayed or prevented, the market price of our common stock could decline. Additionally, our Credit Agreement contains a default provision that is triggered upon a change in control of at least 25%.

We are subject to significant foreign exchange and currency risks that could adversely affect our operations and our ability to reinvest earnings from operations. Our ability to mitigate our foreign exchange risk through hedging transactions may be limited.

We generally attempt to denominate our contracts in U.S. Dollars or in the currencies of our costs. However, we do enter into contracts that subject us to currency risk exposure, primarily when our contract revenues are denominated in a currency different from the contract costs. A significant portion of our consolidated revenues and consolidated operating expenses are in foreign currencies. As a result, we are subject to significant foreign currency risks, including risks resulting from changes in currency exchange rates and limitations on our ability to reinvest earnings from operations in one country to fund the financing requirements of our operations in other countries.

The governments of certain countries have or may in the future impose restrictive exchange controls on local currencies and it may not be possible for us to engage in effective hedging transactions to mitigate the risks associated with fluctuations of a particular currency. We are often required to pay all or a portion of our costs associated with a project in the local currency. As a result, we generally attempt to negotiate contract terms with our customer, who is often affiliated with the local government, or has a significant local presence, to provide that we are only paid in the local currency for amounts that match our local expenses. If we are unable to match our local currency costs with revenues in the local currency, we would be exposed to the risk of adverse changes in currency exchange rates.

If we need to sell or issue additional common shares to finance future acquisitions, our existing shareholder ownership could be diluted.

Part of our business strategy is to expand into new markets and enhance our position in existing markets, both domestically and internationally, which may include the acquiring and merging of complementary businesses. To successfully fund and complete such potential acquisitions, we may issue additional equity securities that may result in dilution of our existing shareholder ownership's earnings per share.

We make equity investments in privately financed projects in which we could sustain significant losses.

We participate in privately financed projects that enable governments and other customers to finance large-scale projects, such as the acquisition and maintenance of major military equipment, capital projects and service purchases. These projects typically include the facilitation of nonrecourse financing, the design and construction of facilities and the provision of operation and maintenance services for an agreed-upon period after the facilities have been completed. We may incur contractually reimbursable costs and typically make investments prior to an entity achieving operational status or receiving project financing.

If a project is unable to obtain financing, we could incur losses on our investments and any related contractual receivables. After completion of these projects, the return on our investments can be dependent on the operational success of the project and market factors which may not be under our control. As a result, we could sustain a loss on our equity investment in these projects.

Item 1B. Unresolved Staff Comments

None.

Item 2.Properties

We own or lease properties in domestic and foreign locations. The following locations represent our major facilities.

| Location | Owned/Leased | Description | Business Segment |
|---|---|---|---|
| North America: | | | |
| Birmingham, Alabama | Leased | Office facilities | Engineering & Construction |
| Houston, Texas | Leased | Office facilities | All and Other |
| Monterrey, Nuevo Leon, Mexico | Leased | Office facilities | Engineering & Construction |
| Newark, Delaware | Leased | Office facilities | Engineering & Construction |
| Europe, Middle East and Africa: | | | |
| Leatherhead, United Kingdom | Owned | Office facilities | Engineering & Construction and Government Services |
| Al Khobar, Saudi Arabia | Leased | Office facilities | Engineering & Construction |
| Asia-Pacific: | | | |
| Singapore | Leased | Office facilities | Technology & Consulting and Engineering & Construction |
| Sydney, Australia | Leased | Office facilities | Engineering & Construction |
| Perth, Australia | Leased | Office and project facilities | Engineering & Construction |

We also own or lease numerous small facilities that include sales offices and project offices throughout the world and lease office space in other buildings owned by unrelated parties. Our owned property is unencumbered and we believe all properties that we currently occupy are suitable for their intended use.

Item 3.Legal Proceedings

Information relating to various commitments and contingencies is described in “Item 1A. Risk Factors” and in Notes 14 and 15 to our consolidated financial statements, and the information discussed therein is incorporated by reference into this Item 3.

Item 4.Mine Safety Disclosures

Not applicable.

PART II

Item 5. Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Our common stock is traded on the New York Stock Exchange under the symbol “KBR.” The following table sets forth, on a per share basis for the periods indicated, the high and low sales prices per share for our common stock as reported by the New York Stock Exchange and dividends declared. In the fourth quarter of 2015, we declared a dividend of $0.08 per share on October 28, 2015.

| | Common Stock Price Range | | Dividends |
|---|---|---|---|
| | High | Low | Declared Per Share |
| Fiscal Year 2015 | | | |
| First quarter ended March 31, 2015 | $18.35 | $14.00 | $0.08 |
| Second quarter ended June 30, 2015 | $20.77 | $14.30 | $0.08 |
| Third quarter ended September 30, 2015 | $19.65 | $15.64 | $0.08 |
| Fourth quarter ended December 31, 2015 | $19.94 | $16.34 | $0.08 |
| Fiscal Year 2014 | | | |
| First quarter ended March 31, 2014 | $34.77 | $26.34 | $0.08 |
| Second quarter ended June 30, 2014 | $28.29 | $22.48 | $0.08 |
| Third quarter ended September 30, 2014 | $24.44 | $18.77 | $0.08 |
| Fourth quarter ended December 31, 2014 | $20.48 | $14.65 | $0.08 |

At January 29, 2016, there were 108 shareholders of record. In calculating the number of shareholders, we consider clearing agencies and security position listings as one shareholder for each agency or listing.

Share Repurchases

On February 25, 2014, our Board of Directors authorized a $350 million share repurchase program, which replaced and terminated the August 26, 2011 share repurchase program. The authorization does not obligate the Company to acquire any particular number of common shares and may be commenced, suspended or discontinued without prior notice. The share repurchases are intended to be funded through the Company’s current and future cash and the authorization does not have an expiration date.

Under our Credit Agreement, we are permitted to repurchase our equity shares provided that no such repurchases shall be made from the proceeds borrowed under the Credit Agreement and that the aggregate purchase price and dividends paid after September 25, 2015 does not exceed the Distribution Cap. As of December 31, 2015, the remaining availability under the Distribution Cap was approximately $698 million. The declaration, payment or increase of any future dividends will be at the discretion of our Board of Directors and will depend upon, among other things, future earnings, general financial condition and liquidity, success in business activities, capital requirements and general business conditions. Since January 2007, we have repurchased $793 million of our outstanding common stock and have paid $286 million in dividends.

The following is a summary of share repurchases of our common stock settled during the three months ended December 31, 2015.

| Purchase Period | Total Number of Shares Purchased [1] | Average Price Paid per Share | Total Number of Shares Purchased as Part of Publicly Announced Plan | Dollar Value of Maximum Number of Shares that May Yet Be Purchased Under the Plan |
|---|---|---|---|---|
| October 1 – 31, 2015 | 736 | $17.83 | — | $248,455,904 |
| November 3 – 28, 2015 | 814,671 | $18.89 | 814,648 | $233,068,430 |
| December 1 – 31, 2015 | 1,450,530 | $17.48 | 1,431,599 | $208,030,228 |
| Total | 2,265,937 | $17.99 | 2,246,247 | $208,030,228 |

(1) In connection with the settlement of income tax and related benefit withholding obligations arising from issuance of share-based equity awards under the KBR Stock and Incentive Plan, we acquired 736 shares at an average price of $17.83, 23 shares at an average price of $18.15 and 18,931 shares at an average price of $17.03 in October, November and December, respectively, for a total of 19,690 shares at an average price of $17.06.

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Performance Graph

The chart below compares the cumulative total shareholder return on shares of our common stock for the five-year period ended December 31, 2015, with the cumulative total return on the Dow Jones Heavy Construction Industry Index and the Russell 1000 Index for the same period. The comparison assumes the investment of $100 on December 31, 2010 and reinvestment of all dividends. The shareholder return is not necessarily indicative of future performance.

| | 12/31/2010 | 12/31/2011 | 12/31/2012 | 12/31/2013 | 12/31/2014 | 12/31/2015 |
|---|---|---|---|---|---|---|
| KBR | $ 100.00 | $ 92.08 | $ 99.53 | $ 106.09 | $ 56.39 | $ 56.29 |
| Dow Jones Heavy Construction | 100.00 | 82.13 | 99.22 | 129.68 | 96.09 | 84.45 |
| Russell 1000 | 100.00 | 99.49 | 113.34 | 147.85 | 164.21 | 162.42 |

Item 6.Selected Financial Data

The following table presents selected financial data for the last five years and should be read in conjunction with "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" and the consolidated financial statements and the related notes to the consolidated financial statements.

| | Years Ended December 31, | | | | |
|---|---|---|---|---|---|
| Dollars in millions, except per share amounts | 2015 | 2014 | 2013 | 2012 | 2011 |
| Statements of Operations Data: | | | | | |
| Revenues | $5,096 | $6,366 | $7,214 | $7,770 | $9,103 |
| Gross profit (loss) | 325 | (65) | 417 | 518 | 640 |
| Equity in earnings of unconsolidated affiliates | 149 | 163 | 137 | 151 | 158 |
| Impairment of goodwill, asset impairments and restructuring charges (a) | (70) | (660) | — | (180) | — |
| Operating income (loss) (b) | 310 | (794) | 308 | 299 | 587 |
| Net income (loss) (c) | 226 | (1,198) | 171 | 202 | 540 |
| Net income attributable to noncontrolling interests | (23) | (64) | (96) | (58) | (60) |
| Net income (loss) attributable to KBR | 203 | (1,262) | 75 | 144 | 480 |
| Basic net income (loss) attributable to KBR per share | $1.40 | $(8.66) | $0.50 | $0.97 | $3.18 |
| Diluted net income (loss) attributable to KBR per share | $1.40 | $(8.66) | $0.50 | $0.97 | $3.16 |
| Cash dividends declared per share | $0.32 | $0.32 | $0.24 | $0.28 | $0.20 |
| | | | | | |
| Balance Sheet Data (as of the end of period): | | | | | |
| Total assets (d) | $3,412 | $4,078 | $5,422 | $5,752 | $5,651 |
| Long-term nonrecourse project-finance debt | 51 | 63 | 78 | 84 | 88 |
| Total shareholders' equity | $1,052 | $935 | $2,439 | $2,511 | $2,442 |
| | | | | | |
| Other Financial Data (as of the end of period): | | | | | |
| Backlog of unfulfilled orders (e) | $12,333 | $10,859 | $14,118 | $14,931 | $10,931 |

(a) Included in 2015 are asset impairment and restructuring charges of $70 million. The 2014 balance includes a goodwill impairment charge of $446 million related to three of our previous reporting units, impairment of long-lived assets charge of $171 million and restructuring charges of $43 million. Included in 2012 is a goodwill impairment charge of $178 million related to one of our previous reporting units and a $2 million long-lived asset impairment charge.

(b) Includes gains on disposal of assets of $61 million, $7 million, $2 million, $32 million and $3 million for the years ended 2015, 2014, 2013, 2012, and 2011, respectively.

(c) Included in 2014 is $421 million of tax expense primarily related to valuation allowance on U.S. federal, foreign and state net operating loss carryforwards, foreign tax credit carryforwards, other deferred tax assets and foreign tax expense.

(d) The impact of adopting Accounting Standards Update ("ASU") 2015-17 resulted in a decrease in total assets of $121 million, $16 million, $15 million, and $15 million for the years ended 2014, 2013, 2012, and 2011, respectively.

(e) Prior to the second quarter of 2015, the amount included in backlog for long term contracts associated with the U.K. government's privately financed initiatives or projects was limited to five years. In the second quarter of 2015, we modified our backlog policy and now record the estimated value of all work forecast to be performed under these arrangements.

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Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations

Introduction

Management’s discussion and analysis (“MD&A”) should be read in conjunction with Part I of this Form 10-K as well as the consolidated financial statements and related notes included in Item 8 of this Form 10-K.

Overview

During 2015, we delivered on the strategic objectives we established in the fourth quarter of 2014, which included: (1) focusing on differentiated offerings in our core markets, with emphasis on global sales, commercial rigor and consistent delivery, (2) rebalancing our business portfolio, streamlining operations and reducing costs, (3) continuing in our efforts to proactively resolve legacy disputes and litigation and (4) retaining a strong balance sheet while employing a balanced capital allocation policy. In conjunction with our strategic initiative, effective December 2014, we reorganized our business into three segments, T&C, E&C and GS to focus on our core strengths in global hydrocarbons and international government services. Our corporate expenses and other operations that do not individually meet the criteria for group presentation are now included in our Other business segment, while operations we intend to exit upon completing the existing contracts are in our Non-strategic Business segment. Each business segment, excluding our Other business segment, reflects a reportable segment led by a separate business segment president who reports directly to our chief operating decision maker ("CODM"). See "Item 1. Business" for a description of the business segments.

Business Environment

Our portfolio includes process technologies, energy project technical consulting, engineering, program management, construction, asset life cycle solutions and other related services. We provide these services to a wide range of customers across the hydrocarbons value chain and to various international and U.S. governmental agencies. The demand for our services depends on the level of capital and operating expenditures of our customers, which is often considered against prevailing market conditions and the availability of resources to support and fund projects. The significant decline in commodity prices has resulted in some of our oil and gas customers taking steps to defer, suspend or terminate capital expenditures.

Upstream oil projects have experienced the largest reductions in capital expenditures, as the effect of declining oil prices has been more pronounced in this sector. We continue to see other opportunities in the hydrocarbons market, including midstream gas projects such as LNG to satisfy future demand, and across the downstream sector, which will benefit from low feedstock prices. We believe that success in gas monetization, specifically LNG, is driven by the fundamental economic profile of these types of projects and requires the same focus in the selection of sustainable solutions. To deliver positive outcomes in these areas we collaborate with our customers using integrated teams, from project conceptualization and technical solutions selection through project award and implementation.

The current environment of low feedstock and energy prices has created strong downstream infrastructure investment in the U.S. Continued investment in the U.S. downstream market is expected to be supported, under the current market conditions, by international demand for petrochemicals and byproducts, derived from low gas prices. We expect investors to continue to reevaluate international downstream infrastructure investments for opportunities in the U.S. that offer low feedstock (i.e. natural gas) for their projects.

We expect continued opportunities within our global GS business as we drive higher value and lower cost solutions to support governments’ increasing training needs, operation, maintenance and sustainment requirements amidst generally lower operating budgets.

We believe KBR has a balanced portfolio of upstream, midstream and downstream solutions as well as recurring government services outsourcing opportunities, which together provide us with less exposure to the oil price declines than some of our peers.

Overview of Financial Results

2015 was a transformational year on the path towards KBR achieving the strategic objectives outlined during our Analyst Day in New York, NY, on December 11, 2014. In 2015, we successfully restructured our business, refocused the company around our core strengths in the hydrocarbons and international government services businesses, rebalanced our business portfolio through sales of businesses or through formation of strategic partnerships, significantly reduced our overhead costs and deployed a balanced capital allocation strategy while maintaining a strong balance sheet. Exiting 2015, we are well on track to successfully complete our business transformation by the end of 2016.

During the year we made significant progress in winding down activities related to our Non-strategic business segment. We completed two of three fixed-price EPC Power projects, with the third EPC power project expected to be completed in 2017. We also completed the sale of our Building Group and Infrastructure Americas businesses.

We made strong progress rebalancing our business portfolio to enhance the value creation for certain businesses that were under review by the company. We executed agreements to establish two strategic relationships within our E&C business segment. These relationships allowed us to (1) establish the Brown & Root Industrial Services 50/50 joint venture, where we contributed our Industrial Services Americas business in order to grow this business in North America, and (2) acquired a minority interest in a Gulf Coast pipe fabrication business, where we contributed a majority of our Canadian pipe fabrication and module assembly business. During 2015, we completed the last of the seven loss-making Canadian pipe fabrication and module assembly projects, further reducing the risk in KBR's portfolio during the year.

In our GS business segment, we have been in the process of closeout of the legacy LogCAP III contract with the U.S. government which concluded in 2011. The U.S. government audits through 2011 are now complete with $9 million in questioned costs remaining out of approximately $46 billion in audited, incurred costs through 2011. We expect to conclude discussions regarding the questioned $9 million during 2016. We maintain provisions for all incurred cost audits and believe our settlement amount on the $9 million in disputed costs will fall within our previously provisioned amounts, further reducing risk in our legacy portfolio. However, we still have $173 million subject to issued and outstanding Form 1s. We were also successful in having numerous tort cases against us relating to alleged exposure to sodium dichromate from work performed under the LogCAP III contract dismissed on the merits. Although these cases are being appealed, we believe our risk of loss has been significantly reduced.

We made significant progress in reducing our operating expenses against our year-end 2016 strategic target of $200 million in annualized savings. To-date, we have identified and actioned more than $165 million of the $200 million in savings across the company.

Our transformation in 2015 has made KBR a leaner, more efficient and more customer-focused organization with improved operational capabilities delivering consistent and improved financial results.

Our financial results for the year ended December 31, 2015 were significantly improved from the year ended December 31, 2014. We generated net income in 2015 of $203 million compared to a net loss of $1.3 billion in 2014. Restructuring charges, impairments of goodwill and other assets and tax valuation allowances totaling approximately $1.1 billion were included in the results of 2014.

Our E&C business segment, where we execute large EPC projects, generated revenues of $3.5 billion and gross profit of $224 million during 2015. This business segment continues to deliver solid operational performance and successful execution on two mega-LNG projects in Australia. The business segment continues to actively pursue opportunities for LNG, floating LNG ("FLNG"), oil & gas, ammonia and chemicals projects and expects growth in services contracts executed by our Brown & Root Industrial Services joint venture. We have completed work on the seven loss making Canadian pipe fabrication and module assembly projects. The majority of our Canadian pipe fabrication and module assembly business has now been contributed to a separate third party pipe fabrication business as part of our minority ownership in that entity.

Our Non-strategic Business segment completed two of three fixed-price EPC Power projects with the remaining project scheduled for completion in 2017. During the year this segment contributed positive earnings of $27 million versus a loss of $227 million in 2014.

Our GS business segment decreased its gross loss by $29 million to a $3 million loss in 2015 compared to a $32 million loss in 2014. This segment is experiencing increased activity from new awards and expansions on existing U.S. government contracts, however, it continues to be adversely impacted by legal fees associated with the LogCAP III and Restore Iraqi Oil ("RIO") legacy projects. This segment has secured a major contract to support the U.K. Ministry of Defence ("MoD") Military Flying Training Systems program in January 2016 and is well positioned for a second large-scale contract with the U.K. MoD.

Our T&C business segment provides licensed technologies and consulting services to the oil and gas value chain, from wellhead to crude refining and specialty chemicals production. Gross profits increased by $24 million to $77 million in 2015 driven by a profitable mix of projects and cost reductions.

Revenues

| | | | 2015 vs. 2014 | | | 2014 vs. 2013 | |
|---|---|---|---|---|---|---|---|
| Dollars in millions | 2015 | 2014 | $ | % | 2013 | $ | % |
| Revenues | $5,096 | $6,366 | $(1,270) | (20)% | $7,214 | $(848) | (12)% |

The decrease in consolidated revenues in 2015 compared to 2014 was primarily due to reduced activity within our E&C business segment from the substantial completion of one of the major LNG projects in Australia. The decrease in revenues was also attributable to the completion or substantial completion of several projects in the U.S., Middle East and Canada as well as the elimination of $126 million of revenues related to the deconsolidation of our Industrial Services Americas business in the third quarter of 2015. These decreases were partially offset by increased work or ramp up on chemicals and ammonia projects in the U.S. and a new oil and gas project in Europe. Our revenues were also impacted by activity within our Non-strategic Business segment, including the elimination of $141 million of revenues related to the Building Group, which we sold at the end of the second quarter of 2015, and the continued wind-down on two power projects that are nearing completion. In addition, the decline in both proprietary equipment sales and awards of new consulting contracts from upstream oil related projects within our T&C business segment contributed to the decrease.

The decrease in consolidated revenues in 2014 compared to 2013 was primarily driven by reduced activity within our E&C business segment resulting from the completion or near completion of EPC projects in our LNG/GTL markets, partially offset by new awards of refining, petrochemicals and chemicals projects. Lower overall volumes associated with our GS business segment's support and logistics activities in Iraq and Afghanistan for the U.S. and U.K. governments, respectively, also contributed to the decline. Additionally, the reduction in revenues was due to completion of several building projects within our Non-strategic Business segment.

Gross Profit (Loss)

| | | | 2015 vs. 2014 | | | 2014 vs. 2013 | |
|---|---|---|---|---|---|---|---|
| Dollars in millions | 2015 | 2014 | $ | % | 2013 | $ | % |
| Gross profit (loss) | $325 | $(65) | $390 | 600% | $417 | $(482) | (116)% |

The increase in consolidated gross profit in 2015 compared to 2014 was primarily due to losses and charges that were recognized during 2014 on projects within our E&C and Non-strategic Business segments that did not recur in 2015. Gross profit was also impacted by the recognition of favorable settlements in the third quarter of 2015 within our Non-strategic Business segment, ongoing execution on base operations and other contracts within our GS business segment and reduced overhead spending within our E&C business segment. This increase was partially offset by reduced activity on the major LNG project discussed above.

The decrease in consolidated gross profit in 2014 compared to 2013 was primarily attributable to an increase in estimated costs to complete projects within our Non-strategic Business segment and reduced volumes resulting from completion of our GS contracts discussed above. Within our E&C business segment, reduced volume as we reached peak activity in 2013 on certain EPC projects, higher estimated costs to complete certain projects and the positive impact of a fee negotiation in 2013, which did not recur in 2014, contributed to the reduction in gross profit. The impact of these decreases was partially offset by the reduction in losses within our E&C business segment on our Canadian pipe fabrication and module assembly projects in 2014 compared to 2013.

Equity in Earnings of Unconsolidated Affiliates

| | | | 2015 vs. 2014 | | | 2014 vs. 2013 | |
|---|---|---|---|---|---|---|---|
| Dollars in millions | 2015 | 2014 | $ | % | 2013 | $ | % |
| Equity in earnings of unconsolidated affiliates | $149 | $163 | $(14) | (9)% | $137 | $26 | 19% |

The decrease in equity in earnings of unconsolidated affiliates in 2015 compared to 2014 was primarily due to an insurance recovery and reduced costs on a joint venture project within our GS business segment in 2014 that did not recur in 2015 as well a reduction in volume due to the substantial completion of construction activities on this project during 2015. This decrease was offset by increased earnings on our offshore maintenance joint venture in Mexico in our E&C business segment.

The increase in equity in earnings of unconsolidated affiliates in 2014 compared to 2013 was primarily due to increased activity and progress on an LNG project joint venture within our E&C business segment and by an insurance recovery and reduced costs on a joint venture project in our GS business segment, offset by a reduction in volume as we neared completion of construction activities on this project.

General and Administrative Expenses

| | | | 2015 vs. 2014 | | | 2014 vs. 2013 | |
|---|---|---|---|---|---|---|---|
| Dollars in millions | 2015 | 2014 | $ | % | 2013 | $ | % |
| General and administrative expenses | $(155) | $(239) | $84 | 35% | $(248) | $9 | 4% |

The decrease in general and administrative expenses in 2015 compared to 2014 was primarily due to lower information technology support costs resulting from the cancellation of our enterprise resource planning ("ERP") implementation project in the fourth quarter of 2014, reduced overhead costs resulting from headcount reductions and other cost savings initiatives implemented at the end of 2014 and during 2015. General and administrative expenses in 2015 included $113 million related to corporate activities and $42 million related to the business segments.

The decrease in general and administrative expenses in 2014 compared to 2013 was primarily due to lower information technology support costs and reduced overhead costs resulting from headcount reductions and cost savings initiatives implemented at the end of 2013 and during 2014. Our general and administrative expenses for 2014 and 2013 included $35 million each related to our ERP project. Amortization on the completed phase of the project was $15 million and $7 million for 2014 and 2013, respectively. General and administrative expenses in 2014 included $174 million related to corporate and $65 million related to the business segments.

Impairment and Restructuring Charges

| | | | 2015 vs. 2014 | | | 2014 vs. 2013 | |
|---|---|---|---|---|---|---|---|
| Dollars in millions | 2015 | 2014 | $ | % | 2013 | $ | % |
| Impairment of goodwill | $— | $(446) | $446 | 100% | $— | $(446) | (100)% |
| Asset impairment and restructuring charges | $(70) | $(214) | $144 | 67% | $— | $(214) | (100)% |

Asset impairment charges in 2015 reflects $22 million of charges within our E&C and Other business segments on the remaining portion of one of our ERP assets, which we abandoned during the year. We also recognized $9 million of impairment on leasehold improvements as a result of early termination of lease arrangements during 2015 related to leases within our E&C and Other business segments.

Restructuring charges in 2015 reflects $12 million in charges as a result of early termination of lease arrangements primarily within our E&C and Non-strategic Business segments and severance of $27 million within our E&C and T&C business segments as the result of workforce reduction efforts primarily related to our announcement at the end of 2014.

In 2014, we recognized goodwill impairment of $446 million related to the remaining goodwill associated with our Roberts and Schaefer ("R&S") and BE&K, Inc. acquisitions as a result of our decision to exit related businesses and the continued business decline in certain markets.

Asset impairment charges in 2014 reflects the impairment of $135 million for a portion of our ERP project we did not expect would provide us any future benefits, the recognition of a $31 million impairment of R&S intangible assets and $5 million of impairment charges related to leasehold improvements on the terminated leases and other properties.

Restructuring charges in 2014 reflect $29 million of severance charges as a result of workforce reductions and lease termination charges of $14 million as a result of terminated leases in several locations.

See Notes 8 and 9 to our consolidated financial statements for further discussion on our goodwill and asset impairment and restructuring charges.

Gain on Disposition of Assets

| | | | 2015 vs. 2014 | | | 2014 vs. 2013 | |
|---|---|---|---|---|---|---|---|
| Dollars in millions | 2015 | 2014 | $ | % | 2013 | $ | % |
| Gain on disposition of assets | $61 | $7 | $54 | 771 % | $2 | $5 | 250 % |

The gain on disposition of assets in 2015 primarily reflects the gain recognized on the sale of our U.K. office location within our E&C business segment and our Infrastructure Americas business within our Non-strategic Business segment. This also includes the gain recognized in our E&C business segment for the deconsolidation and transfer of our Industrial Services business to the Brown & Root Industrial Services joint venture and the sale of our Building Group subsidiary within our Non-strategic Business segment in the second quarter. See Notes 2 and 10 to our consolidated financial statements for additional information.

Non-operating Income (Expenses)

| | | | 2015 vs. 2014 | | | 2014 vs. 2013 | |
|---|---|---|---|---|---|---|---|
| Dollars in millions | 2015 | 2014 | $ | % | 2013 | $ | % |
| Non-operating income (expenses) | $2 | $17 | $(15 ) | (88 )% | $(8 ) | $25 | 313 % |

Non-operating income includes interest income, interest expense, foreign exchange gains and losses and other non-operating income or expense items. The decrease in non-operating income in 2015 compared to 2014 was primarily due to the gain on a negotiated settlement with our former parent as well as the reversal of associated interest under a tax sharing agreement recognized in 2014 that did not recur in 2015. Also contributing to operating income were foreign exchange gains of $9 million in 2015 due to the strengthening of the U.S. dollar against the majority of our foreign currencies compared to losses in 2014.

The change to non-operating income in 2014 compared to non-operating expense in 2013 was primarily attributable to a $24 million gain related to a negotiated dispute settlement with our former parent in 2014.

Provision for Income Taxes

| | | | 2015 vs. 2014 | | | 2014 vs. 2013 | |
|---|---|---|---|---|---|---|---|
| Dollars in millions | 2015 | 2014 | $ | % | 2013 | $ | % |
| Income (loss) before provision for income taxes | $312 | $(777 ) | $1,089 | 140% | $300 | $(1,077 ) | n/m |
| Provision for income taxes | $(86 ) | $(421 ) | $335 | 80% | $(129 ) | $(292 ) | n/m |

n/m - not meaningful

The decrease in income tax expense in 2015 compared to 2014 was primarily due to the absence of the nondeductible goodwill impairment loss, the increase in our valuation allowance for deferred tax assets and the recognition of taxes on undistributed earnings which impacted 2014 income taxes.

The increase in income tax expense in 2014 compared to 2013 was primarily due to the recognition of income tax expense of $421 million in 2014 on our loss before provision for income taxes instead of recognizing a tax benefit primarily as a result of the nondeductible goodwill impairment loss, an increase in our valuation allowance for deferred tax assets and recognition of taxes on undistributed earnings.

A reconciliation of our effective tax rates for 2015, 2014 and 2013 to the U.S. statutory federal rate is presented in Note 13 to our consolidated financial statements.

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Net Income Attributable to Noncontrolling Interests

| | | | 2015 vs. 2014 | | | 2014 vs. 2013 | |
|---|---|---|---|---|---|---|---|
| Dollars in millions | 2015 | 2014 | $ | % | 2013 | $ | % |
| Net income attributable to noncontrolling interests | $(23) | $(64) | $(41) | (64)% | $(96) | $(32) | (33)% |

The decrease in net income attributable to noncontrolling interests in 2015 compared to 2014 was primarily due to reduced joint venture earnings resulting from the substantial completions of an LNG project joint venture in Australia in our E&C business segment.

The decrease in net income attributable to noncontrolling interests in 2014 compared to 2013 is primarily due to earnings from the renegotiation of fees and cost recoveries on a joint venture project which were recognized in our E&C business segment in 2013 but did not recur in 2014.

Results of Operations by Business Segment

We analyze the financial results for each of our five business segments. The business segments presented are consistent with our reportable segments discussed in Note 2 to our consolidated financial statements.

| | Years Ended December 31, | | | | | | |
|---|---|---|---|---|---|---|---|
| | | | 2015 vs. 2014 | | | 2014 vs. 2013 | |
| Dollars in millions | 2015 | 2014 | $ | % | 2013 | $ | % |
| Revenues | | | | | | | |
| Technology & Consulting | $324 | $353 | $(29) | (8)% | $330 | $23 | 7% |
| Engineering & Construction | 3,454 | 4,584 | (1,130) | (25)% | 4,956 | (372) | (8)% |
| Government Services | 663 | 638 | 25 | 4% | 931 | (293) | (31)% |
| Other | — | — | — | —% | — | — | —% |
| Subtotal | $4,441 | $5,575 | $(1,134) | (20)% | $6,217 | $(642) | (10)% |
| Non-strategic Business | 655 | 791 | (136) | (17)% | 997 | (206) | (21)% |
| Total | $5,096 | $6,366 | $(1,270) | (20)% | $7,214 | $(848) | (12)% |
| | | | | | | | |
| Gross profit (loss) | | | | | | | |
| Technology & Consulting | $77 | $53 | $24 | 45% | $69 | $(16) | (23)% |
| Engineering & Construction | 224 | 141 | 83 | 59% | 263 | (122) | (46)% |
| Government Services | (3) | (32) | 29 | 91% | 90 | (122) | (136)% |
| Other | — | — | — | —% | — | — | —% |
| Subtotal | $298 | $162 | $136 | 84% | $422 | $(260) | (62)% |
| Non-strategic Business | 27 | (227) | 254 | 112% | (5) | (222) | n/m |
| Total | $325 | $(65) | $390 | n/m | $417 | $(482) | (116)% |
| | | | | | | | |
| Equity in earnings of unconsolidated affiliates | | | | | | | |
| Technology & Consulting | $— | $— | $— | —% | $— | $— | —% |
| Engineering & Construction | 104 | 90 | 14 | 16% | 76 | 14 | 18% |
| Government Services | 45 | 73 | (28) | (38)% | 61 | 12 | 20% |
| Other | — | — | — | —% | — | — | —% |
| Subtotal | $149 | $163 | $(14) | (9)% | $137 | $26 | 19% |
| Non-strategic Business | — | — | — | —% | — | — | —% |
| Total | $149 | $163 | $(14) | (9)% | $137 | $26 | 19% |
| | | | | | | | |
| Total general and administrative expense | $(155) | $(239) | $84 | 35% | $(248) | $9 | 4% |
| | | | | | | | |
| Impairment of goodwill | $— | $(446) | $(446) | (100)% | $— | $446 | 100% |
| | | | | | | | |
| Asset impairment and restructuring charges | $(70) | $(214) | $(144) | (67)% | $— | $214 | 100% |
| | | | | | | | |
| Gain on disposition of assets | $61 | $7 | $54 | 771% | $2 | $5 | 250% |
| | | | | | | | |
| Total operating income (loss) | $310 | $(794) | $1,104 | 139% | $308 | $(1,102) | (358)% |

n/m - not meaningful

Technology & Consulting

T&C revenues decreased by $29 million, or 8%, to $324 million in 2015 compared to $353 million in 2014 due to a decrease in proprietary equipment sales and awards of new consulting contracts from upstream oil projects partially offset by higher technology revenues related to several petrochemicals, ammonia and refining projects.

T&C gross profit increased by $24 million, or 45%, to $77 million in 2015 compared to $53 million in 2014 due to higher profitability on the mix of projects executed, a larger number of license milestones achieved and significant overhead reductions during 2015.

T&C revenues increased by $23 million, or 7%, to $353 million in 2014 compared to $330 million in 2013 driven largely by an increase in proprietary equipment supply on several ammonia plants and an increase in the number of consulting projects. This improvement was partially offset by a reduction in volume attributable to delays in project awards and a decline in BED activities on several projects.

T&C gross profit decreased by $16 million, or 23%, to $53 million in 2014 compared to $69 million in 2013 due primarily to the project delays and decline in BED activities discussed above, offset by the impact to gross profit of the increased revenues from proprietary equipment supply and consulting projects.

Engineering & Construction

E&C revenues decreased by $1.1 billion, or 25%, to $3.5 billion in 2015 compared to $4.6 billion in 2014. This decrease resulted primarily from reduced activity on a major LNG project in Australia, the completion of Canadian pipe fabrication and module assembly projects which had peak activity in 2014, reduced activity in the construction market and the elimination of revenues resulting from the deconsolidation of our Industrial Services Americas business during the third quarter.

E&C gross profit increased by $83 million, or 59%, to $224 million in 2015 compared to $141 million in 2014. This increase was primarily due to Canadian pipe fabrication and module assembly projects, which had profit in 2015 resulting from negotiated settlements and closeout activities compared to recognition of losses in 2014, and reduced overheads in 2015. This increase was partially offset by reduced activity on a major LNG project in Australia.

E&C equity in earnings in unconsolidated affiliates increased by $14 million, or 16%, to $104 million in 2015 compared to $90 million in 2014. The increase was primarily attributable to our offshore maintenance joint venture in Mexico, which had increased earnings in 2015 due to the vessels being in dry dock during 2014 and a benefit of $15 million due to an adjustment in the second quarter of 2015 to correct transactions between the unconsolidated affiliates associated with that Mexican joint venture. The increase was partially offset by reduced earnings on an LNG project joint venture in Australia and reduced earnings on our ammonia plant joint venture in Egypt.

E&C revenues decreased by $372 million, or 8%, to $4.6 billion in 2014 compared to $5.0 billion in 2013. This decrease was primarily due to lower activity on LNG projects, as they neared completion in 2014, and reduced activity in the Construction market. These decreases were partially offset by increased activity on contracts for downstream projects in the U.S., on several Canadian pipe fabrication, module assembly and construction projects, on an upstream project in Azerbaijan and an increase in KBR services on an LNG project joint venture in Australia.

E&C gross profit decreased by $122 million, or 46%, to $141 million in 2014 compared to $263 million in 2013 due to higher activity and incentive fees on an LNG project in Australia in 2013 that did not recur in 2014 and a reduction in gross profit resulting from an increase in estimated costs to complete certain projects. These decreases were partially offset by reduced losses on our Canadian pipe fabrication and module assembly projects, start-up work on an ammonia plant in the U.S. and charges taken on LNG projects in 2013 that did not recur in 2014.

E&C equity in earnings in unconsolidated affiliates increased by $14 million, or 18%, to $90 million in 2014 compared to $76 million in 2013 due primarily to increased progress on an LNG project in Australia. This increase was partially offset by reduced earnings on the MMM joint venture in Mexico, as the vessels were out of contract for a significant portion of 2014.

Government Services

GS revenues increased by $25 million, or 4% to $663 million in 2015 compared to $638 million in 2014. This increase was driven primarily from the expansion of existing U.S. government contracts, partially offset by the effect of reduced troop numbers on services under U.K. MoD and NATO contracts in Afghanistan. Revenues were also positively impacted by favorable settlement of disputes with the U.S. government on some of our legacy projects.

GS gross loss decreased by $29 million, or 91% to a loss of $3 million in 2015 compared to a loss of $32 million in 2014. This improvement was driven by increased activity on U.S. government contracts discussed above, partially offset by the reduction in Afghanistan-related support activities. The positive impact of the favorable settlement of disputes with the U.S. government on some of our legacy projects includes the recognition of $18 million in legal fees related to these legacy contracts during 2015.

GS equity in earnings in unconsolidated affiliates decreased by $28 million, or 38% to $45 million in 2015 compared to $73 million in 2014. This decrease was driven primarily by an insurance recovery on a joint venture for a U.K. MoD project in 2014 that did not recur in 2015 as well as the impact of reaching substantial completion of construction activities on this project.

GS revenues decreased by $293 million, or 31% to $638 million in 2014 compared to $931 million in 2013. This decline was driven by a $246 million reduction in revenues from U.S. government contracts supporting military activities in Iraq in early 2014, and a $45 million reduction in revenues from U.K. MoD and NATO contracts supporting military operations in Afghanistan as a result of gradually reducing troop numbers. These decreases were partially offset by new awards of U.S. government construction and base support contracts in Europe and Africa as well as the award of a long term contract with the U.K. Metropolitan Police. Settlement of outstanding items and adjustments to reserves for questioned costs on our U.S. government legacy contracts, resulted in a $94 million reduction in revenues.

GS gross profit decreased by $122 million, or 136% to a gross loss of $32 million in 2014 compared to gross profit of $90 million in 2013. This decline was primarily driven by the completion of the U.S. government contracts in Iraq along with the reduced U.K. MoD and NATO support activities discussed above. Additionally, an increase in our estimate of costs to complete a roads program management contract in Qatar and a construction management contract with the U.S. government in Europe contributed to reduced gross profit. The settlements and reserves for questioned costs on the U.S. government legacy contracts discussed above also reduced gross profit by $66 million.

GS equity in earnings in unconsolidated affiliates increased by $12 million, or 20% to $73 million in 2014 compared to $61 million in 2013. This increase was primarily due to an insurance recovery on a joint venture for a U.K. MoD project, offset by a reduction in volume as we near completion of construction activities on this joint venture project.

Non-strategic Business

Non-strategic Business revenues decreased by $136 million, or 17%, to $655 million in 2015 compared to $791 million in 2014. This decrease was due to the sale of Building Group in the second quarter of 2015 and the near completion of several power and construction projects partially offset by increased activity on power and infrastructure projects that began in the second half of 2014.

Non-strategic Business gross profit increased by $254 million to a profit of $27 million in 2015 compared to a loss of $227 million in 2014. This increase was due to the non-recurrence of charges recognized during 2014 on a power project, improved performance and favorable settlements on power projects in the third quarter of 2015 as well as overhead savings resulting from the Building Group sale mentioned above and headcount reductions which began in late 2014.

Non-strategic Business revenues decreased by $206 million, or 21%, to $791 million in 2014 compared to $997 million in 2013. This was largely due to the completion or near completion of several building construction projects, partially offset by higher revenues from increased activity on two power projects.

Non-strategic Business gross loss increased by $222 million to $227 million in 2014 compared to $5 million in 2013. This increase in gross loss was primarily due to a $173 million impact from an increase in the estimate of costs to complete three power projects, resulting in losses or reduced margins on these projects, a settlement on a minerals project and increased legal reserves on an infrastructure project.

Changes in Estimates

Information relating to our changes in estimates is discussed in Note 2 to our consolidated financial statements and the information discussed therein is incorporated by reference into this Item 7.

Acquisitions, Dispositions and Other Transactions

Information relating to various acquisitions, dispositions and other transactions is described in Notes 2, 7 and 10 to our consolidated financial statements and the information discussed therein is incorporated by reference into this Item 7.

Backlog of Unfilled Orders

Backlog generally represents the dollar amount of revenues we expect to realize in the future as a result of performing work on contracts and our pro-rata share of work to be performed by unconsolidated joint ventures. We generally include total expected revenues in backlog when a contract is awarded under a legally binding commitment. In many instances, arrangements included in backlog are complex, nonrepetitive and may fluctuate depending on estimated revenues and contract duration. Where contract duration is indefinite and clients can terminate for convenience at any time without having to compensate us for periods beyond the date of termination, projects included in backlog are limited to the estimated amount of expected revenues within the following twelve months. Certain contracts provide maximum dollar limits, with actual authorization to perform work under the contract agreed upon on a periodic basis with the customer. In these arrangements, only the amounts authorized are included in backlog. For projects where we act solely in a project management capacity, we only include the value of our services of each project in backlog. Previously, for long term contracts associated with the U.K. government's privately financed initiatives or projects ("PFIs" also "service concession arrangements"), the amount included in backlog was limited to five years. Effective in the second quarter of 2015, we modified our backlog policy and now record the estimated value of all work forecast to be performed under the PFI contracts. The reason for the change is that under these PFI contracts, the client is obligated to pay us certain amounts spanning periods beyond five years even if the client terminates the contracts for convenience. This change only relates to backlog of unfilled orders and does not alter our longstanding policies for revenue recognition; therefore, it has no impact on our financial statements. The $5 billion included in the change in policy column below represents our estimate of revenues related to payment obligations for periods beyond five years.

We have included in the table below our proportionate share of unconsolidated joint ventures' estimated revenues. Since these projects are accounted for under the equity method, only our share of future earnings from these projects will be recorded in our results of operations. Our proportionate share of backlog for projects related to unconsolidated joint ventures totaled $8.5 billion including the PFI change discussed above, at December 31, 2015 and $4.3 billion at December 31, 2014. We consolidate joint ventures which are majority-owned and controlled or are variable interest entities ("VIEs") in which we are the primary beneficiary. Our backlog included in the table below for projects related to consolidated joint ventures with noncontrolling interests includes 100% of the backlog associated with those joint ventures and totaled $285 million at December 31, 2015 and $928 million at December 31, 2014.

The following table summarizes our backlog by business segment:

| Dollars in millions | December 31, 2014 | New Awards | Change in Policy (a) | Other (b) | Net Workoff (c) | December 31, 2015 |
|---|---|---|---|---|---|---|
| Technology & Consulting | $400 | $348 | $— | $6 | $(324) | $430 |
| Engineering & Construction | 7,788 | 1,789 | — | (871) | (3,558) | 5,148 |
| Government Services | 1,763 | 166 | 5,358 | (63) | (708) | 6,516 |
| Subtotal | 9,951 | 2,303 | 5,358 | (928) | (4,590) | 12,094 |
| Non-strategic Business | 908 | 49 | — | (63) | (655) | 239 |
| Total backlog | $10,859 | $2,352 | $5,358 | $(991) | $(5,245) | $12,333 |

(a) Change in policy was implemented in the second quarter of 2015.

(b) These amounts include adjustments for (i) changes in scope, (ii) effects of changes in foreign exchange rates, (iii) elimination of 50% of backlog associated with our Industrial Services Americas business, which we transferred to the Brown & Root Industrial Services joint venture in the third quarter of 2015 and (iv) elimination of our proportionate share of non-partner costs related to our unconsolidated joint ventures.

(c) These amounts include the workoff of our projects as well as our proportionate share of the workoff of our unconsolidated joint ventures' projects.

We estimate that as of December 31, 2015, 38% of our backlog will be executed within one year. As of December 31, 2015, 22% of our backlog was attributable to fixed-price contracts, 49% was attributable to service concession arrangements, and 29% of our backlog was attributable to cost-reimbursable contracts. For contracts that contain both fixed-price and cost-reimbursable components, we classify the components as either fixed-price or cost-reimbursable according to the composition of the contract; however, except for smaller contracts, we characterize the entire contract based on the predominant component.

Liquidity and Capital Resources

Cash and equivalents totaled $883 million at December 31, 2015 and $970 million December 31, 2014 and consisted of the following:

| | December 31, | |
|---|---|---|
| Dollars in millions | 2015 | 2014 |
| Domestic U.S. cash | $360 | $200 |
| International cash | 470 | 690 |
| Joint venture cash | 53 | 80 |
| Total | $883 | $970 |

Domestic cash relates to cash balances held by U.S. entities and is largely used to support obligations of those businesses as well as general corporate needs such as the payment of dividends to shareholders and potential repurchases of our outstanding common stock.

The international cash balances may be available for general corporate purposes but are subject to local restrictions such as capital adequacy requirements and local obligations such as maintaining sufficient cash balances to support our underfunded U.K. pension plan and other obligations incurred in the normal course of business by those foreign entities. Repatriated foreign cash may become subject to U.S. income taxes.

Joint venture cash balances reflect the amounts held by joint venture entities that we consolidate for financial reporting purposes. Such amounts are limited to joint venture activities and are not readily available for general corporate purposes but portions of such amounts may become available to us in the future should there be a distribution of dividends to the joint venture partners. We expect that the majority of the joint venture cash balances will be utilized for the corresponding joint venture projects.

Cash generated from operations is our primary source of operating liquidity. Our cash balances are held in numerous locations throughout the world. We believe that existing cash balances and internally generated cash flows are sufficient to support our day-to-day domestic and foreign business operations for at least the next 12 months.

Our international cash balances are primarily held in Australia and the Netherlands. As part of our cash repatriation strategy, we have provided cumulative income taxes on certain foreign earnings which allow for repatriation of approximately $140 million of international cash without recognizing additional tax expense. See Note 13 to our consolidated financial statements for further discussion on our foreign cash repatriation strategy.

Our operating cash flow can vary significantly from year to year and is affected by the mix, terms and percentage of completion of our engineering and construction projects. We sometimes receive cash through billings to our customers on our larger engineering and construction projects and those of our consolidated joint ventures in advance of incurring the related costs. In other projects our net investment in the project costs may be greater than available project cash and we may utilize other cash on hand or availability under our Credit Agreement to satisfy any periodic operating cash requirements.

Engineering and construction projects generally require us to provide credit support to our customers in the form of letters of credit, surety bonds or guarantees. Our ability to obtain new project awards in the future may be dependent on our ability to maintain or increase our letter of credit and surety bonding capacity, which may be further dependent on the timely release of existing letters of credit and surety bonds. As the need for credit support arises, letters of credit will be issued under our Credit Agreement or arranged with our banks on a bilateral, syndicated or other basis. We believe we have adequate letter of credit capacity under our existing Credit Agreement and bilateral lines, as well as adequate surety bond capacity under our existing lines to support our operations and current backlog for the next twelve months.

As of December 31, 2015, substantially all of our excess cash was held in commercial bank time deposits and money market funds with the primary objectives of preserving capital and maintaining liquidity.

Cash flows activities summary

| | December 31, | | |
|---|---|---|---|
| Dollars in millions | 2015 | 2014 | 2013 |
| Cash flows provided by operating activities | $47 | $170 | $297 |
| Cash flows provided by (used in) investing activities | 101 | (44) | (62) |
| Cash flows used in financing activities | (192) | (210) | (148) |
| Effect of exchange rate changes on cash | (43) | (52) | (34) |
| Increase (decrease) in cash and equivalents | $(87) | $(136) | $53 |

Operating activities. Cash provided by operations totaled $47 million in 2015 and was primarily attributable to distributions of earnings received from unconsolidated affiliates of $92 million and fluctuations in our working capital accounts. This increase was partially offset by contributions of approximately $48 million to our pension funds.

Cash provided by operations totaled $170 million in 2014 and was primarily attributable to distributions of earnings received from unconsolidated affiliates of $249 million and fluctuations in our working capital accounts. This increase was partially offset by contributions of approximately $48 million to our pension funds.

Cash provided by operations totaled $297 million in 2013 and resulted from our earnings, working capital and distributions of earnings received from unconsolidated affiliates of $180 million, partially offset by our payment of $108 million in outstanding performance bonds to PEMEX Exploration and Production ("PEP"), other uses driven by taxes and contributions of approximately $54 million to our pension funds. See Note 15 to our consolidated financial statements for further discussion of the performance bonds.

Investing activities. Cash provided by investing activities totaled $101 million in 2015, which was primarily due to $130 million in proceeds from sale of assets or investments. This increase was partially offset by a payment of $19 million to acquire an investment in a partnership.

Cash used in investing activities totaled $44 million and $62 million in 2014 and 2013, respectively, which was primarily due to purchases of property, plant and equipment associated with information technology projects which have now largely been cancelled.

Financing activities. Cash used in financing activities totaled $192 million in 2015 and included $62 million for the purchase of treasury stock, $40 million for our purchase of a noncontrolling interest in a joint venture, $47 million for dividend payments to common shareholders, $28 million for distributions to noncontrolling interests and $11 million for principal payments on short- and long-term borrowings consisting primarily of nonrecourse debt of our Fasttrax VIE.

Cash used in financing activities totaled $210 million in 2014 and included $106 million for the purchase of treasury stock, $47 million for dividend payments to common shareholders, $61 million for distributions to noncontrolling interests and $11 million for principal payments on short- and long-term borrowings consisting primarily of nonrecourse debt of our Fasttrax joint venture. The uses of cash were partially offset by $10 million of investments from noncontrolling interests and $4 million of proceeds from the exercise of stock options.

Cash used in financing activities totaled $148 million in 2013 and included $7 million for the purchase of treasury stock, $36 million for dividend payments to common shareholders, $109 million for distributions to noncontrolling interests and $14 million for principal payments on short- and long-term borrowings consisting primarily of nonrecourse debt of our Fasttrax VIE and computer software purchases financed in 2010. The uses of cash were partially offset by $9 million of investments from noncontrolling interests and $6 million of proceeds from the exercise of stock options.

Future sources of cash.  Future sources of cash include cash flows from operations, cash derived from working capital management, and cash borrowings under our Credit Agreement as well as potential litigation proceeds.

Future uses of cash.  Future uses of cash will primarily relate to working capital requirements, capital expenditures, dividends, share repurchases and strategic investments. Our capital expenditures will be focused primarily on facilities and equipment to support our businesses. In addition, we will use cash to fund pension obligations, payments under operating leases and various other obligations, including potential litigation payments, as they arise.

Other factors potentially affecting liquidity

Power project losses. Our reserve for estimated losses on uncompleted contracts included in "other current liabilities" on our consolidated balance sheets includes $47 million at December 31, 2015 related to a power project. These accrued losses will result in future cash expenditures in excess of customer receipts. Based on current contracts and work authorizations, we anticipate completion of this project in 2017.

Credit Agreement

On September 25, 2015, we entered into a new $1 billion, unsecured revolving credit agreement (the "Credit Agreement") with a syndicate of banks replacing the previous agreement which was scheduled to mature in December 2016. The Credit Agreement is guaranteed by certain of the Company's domestic subsidiaries, matures in September 2020 and is available for cash borrowings and the issuance of letters of credit related to general corporate needs. Subject to certain conditions, we may request (i) that the aggregate commitments under the Credit Agreement be increased by up to an additional $500 million, and (ii) that the maturity date of the Credit Agreement be extended by two additional one-year terms.

Amounts drawn under the Credit Agreement will bear interest at variable rates, per annum, based either on (i) the London interbank offered rate ("LIBOR") plus an applicable margin of 1.375% to 1.75%, or (ii) a base rate plus an applicable margin of 0.375% to 0.75%, with the base rate equal to the highest of (a) reference bank's publicly announced base rate, (b) the Federal Funds Rate plus 0.5%, or (c) LIBOR plus 1%. The amount of the applicable margin to be applied will be determined by the Company's ratio of consolidated debt to consolidated EBITDA for the prior four fiscal quarters, as defined in the Credit Agreement. The Credit Agreement provides for fees on letters of credit issued under the Credit Agreement at a rate equal to the applicable margin for LIBOR-based loans, except for performance letters of credit, which are priced at 50% of such applicable margin. KBR pays an annual issuance fee of

0.125% of the face amount of a letter of credit and pays a commitment fee of 0.225% to 0.25%, per annum, on any unused portion of the commitment under the Credit Agreement based on the Company's consolidated leverage ratio. As of December 31, 2015, there were $127 million in letters of credit and no cash borrowings outstanding.

The Credit Agreement contains customary covenants, as defined by the agreement, which include financial covenants requiring maintenance of a ratio of consolidated debt to consolidated EBITDA not greater than 3.5 to 1 and a minimum consolidated net worth of $1.2 billion plus 50% of consolidated net income for each quarter beginning September 30, 2015 and 100% of any increase in shareholders' equity attributable to the sale of equity interests, but excluding any adjustments in shareholders' equity attributable to changes in foreign currency translation adjustments. As of December 31, 2015, we were in compliance with our financial covenants.

The Credit Agreement contains a number of other covenants restricting, among other things, our ability to incur additional liens and indebtedness, enter into asset sales, repurchase our equity shares and make certain types of investments. Our subsidiaries are restricted from incurring indebtedness, except if such indebtedness relates to purchase money obligations, capitalized leases, refinancing or renewals secured by liens upon or in property acquired, constructed or improved in an aggregate principal amount not to exceed $200 million at any time outstanding. Additionally, our subsidiaries may incur unsecured indebtedness not to exceed $200 million in aggregate outstanding principal amount at any time. We are also permitted to repurchase our equity shares, provided that no such repurchases shall be made from proceeds borrowed under the Credit Agreement, and that the aggregate purchase price and dividends paid after September 25, 2015, does not exceed the Distribution Cap (equal to the sum of $750 million plus the lesser of (1) $400 million and (2) the amount received by us in connection with the arbitration and subsequent litigation of the PEP contracts as discussed in Note 15 to our consolidated financial statements). As of December 31, 2015, the remaining availability under the Distribution Cap was approximately $698 million.

Nonrecourse Project Finance Debt

Information relating to our nonrecourse project debt is described in Note 12 to our consolidated financial statements and the information discussed therein is incorporated by reference into this Item 7.

Off-Balance Sheet Arrangements

Letters of credit, surety bonds and guarantees.  In connection with certain projects, we are required to provide letters of credit, surety bonds or guarantees to our customers. Letters of credit are provided to certain customers and counterparties in the ordinary course of business as credit support for contractual performance guarantees, advanced payments received from customers and future funding commitments. We have approximately $2.2 billion in committed and uncommitted lines of credit to support the issuance of letters of credit and as of December 31, 2015, we have utilized $593 million of our present capacity under lines of credit. Surety bonds are also posted under the terms of certain contracts to guarantee our performance. The letters of credit outstanding included $127 million issued under our Credit Agreement and $466 million issued under uncommitted bank lines as of December 31, 2015. Of the letters of credit outstanding under our Credit Agreement, there are no letters of credit that have expiry dates beyond the maturity date of the Credit Agreement. Of the total letters of credit outstanding, $236 million relate to our joint venture operations where the letters of credit are posted using our capacity to support our pro-rata share of obligations under various contracts executed by joint ventures of which we are a member. As the need arises, future projects will be supported by letters of credit issued under our Credit Agreement or other lines of credit arranged on a bilateral, syndicated or other basis. We believe we have adequate letter of credit capacity under our Credit Agreement and bilateral lines of credit to support our operations for the next twelve months.

Commitments and other contractual obligations. The following table summarizes our significant contractual obligations and other long-term liabilities as of December 31, 2015:

| | Payments Due | | | | | | |
|---|---|---|---|---|---|---|---|
| Dollars in millions | 2016 | 2017 | 2018 | 2019 | 2020 | Thereafter | Total |
| Operating leases (a) | $98 | $83 | $72 | $61 | $56 | $350 | $720 |
| Purchase obligations (b) | 8 | 1 | 1 | 1 | 1 | 1 | 13 |
| Pension funding obligation (c) | 41 | 41 | 41 | 41 | 41 | 125 | 330 |
| Nonrecourse project finance debt | 10 | 10 | 10 | 11 | 12 | 8 | 61 |
| Total (d) | $157 | $135 | $124 | $114 | $110 | $484 | $1,124 |

(a) Amounts presented are net of subleases.

(b) In the ordinary course of business, we enter into commitments for the purchase or lease of software, materials, supplies and similar items. The purchase obligations can span several years depending on the duration of the projects. The purchase obligations disclosed above do not include purchase obligations that we enter into with vendors in the normal course of business that support existing contracting arrangements with our customers. We expect to recover such obligations from our customers.

(c) Included in our pension obligations are payments related to our agreement with the trustees of our international plan. The agreement calls for minimum contributions of £28 million in 2016 through 2023. The foreign funding obligations were converted to U.S. dollars using the conversion rate as of December 31, 2015. KBR, Inc. has provided a guarantee for up to £125 million in support of Kellogg Brown & Root (U.K.) Limited's obligation to make payments to the plan in respect of its liability under the U.K. Pensions Act 1995.

(d) Not included in the total are uncertain tax positions recorded pursuant to Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 740 - Income Taxes, which totaled $257 million as of December 31, 2015. The ultimate timing of settlement of these obligations cannot be determined with reasonable assurance and have been excluded from the table above. See Note 13 to our consolidated financial statements for further discussion on income taxes.

Transactions with Joint Ventures

We perform many of our projects through incorporated and unincorporated joint ventures. In addition to participating as a joint venture partner, we often provide engineering, procurement, construction, operations or maintenance services to the joint venture as a subcontractor. Where we provide services to a joint venture that we control and therefore consolidate for financial reporting purposes, we eliminate intercompany revenues and expenses on such transactions. In situations where we account for our interest in the joint venture under the equity method of accounting, we do not eliminate any portion of our revenues or expenses. We recognize the profit on our services provided to joint ventures that we consolidate and joint ventures that we record under the equity method of accounting primarily using the percentage-of-completion method.

Recent Accounting Pronouncements

Information relating to recent accounting pronouncements is described in Note 21 to our consolidated financial statements and the information discussed therein is incorporated by reference into this Item 7.

U.S. Government Matters

Information relating to U.S. government matters commitments and contingencies is described in Note 14 to our consolidated financial statements and the information discussed therein is incorporated by reference into this Item 7.

Legal Proceedings

Information relating to various commitments and contingencies is described in Note 15 to our consolidated financial statements and the information discussed therein is incorporated by reference into this Item 7.

Critical Accounting Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States ("U.S. GAAP") requires management to make estimates and judgments that affect the determination of financial positions, cash flows and results of operations. Our critical accounting policies are described below to provide a better understanding of our estimates and assumptions about future events that affect the amounts reported in the financial statements and accompanying notes. Significant accounting estimates are important to the representation of our financial position and results of operations and require our most difficult, subjective or complex judgments. We base our estimates on historical experience and on various other assumptions we believe to be reasonable according to the current facts and circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources.

We believe the following are the critical accounting policies used in the preparation of our consolidated financial statements in accordance with U.S. GAAP, as well as the significant estimates and assumptions affecting the application of these policies. Our accounting policies are more fully described in Note 1 to our consolidated financial statements.

Engineering and Construction Contracts. Revenues from the performance of contracts for which specifications are provided by the customer for the construction of facilities, the production of goods or the provision of related services is accounted for using the percentage-of-completion method. These contracts include services essential to the construction or production of tangible property, such as design, EPC and EPC management. We account for these contracts in accordance with ASC 605-35, Revenue Recognition, Construction-Type and Production-Type Contracts.

At the outset of each contract, we prepare a detailed analysis of our estimated cost to complete the project. Risks relating to service delivery, usage, productivity and other factors are considered in the estimation process. Our project personnel regularly evaluate the estimated costs, revenues and progress and adjust the estimates accordingly.

We measure the progress towards completion of the project to determine the amount of revenues and profit to be recognized in each reporting period. Profit is recorded based upon the product of estimated contract profit-at-completion times the current percentage-complete for the contract. Our progress estimates are based upon estimates of the total cost to complete the project, which considers, among other things, the current project schedule and anticipated completion date, as well as estimates of the extent of progress toward completion. While progress is generally based upon costs incurred in relation to total estimated costs at completion, we also use alternative methods including physical progress, labor hours incurred to total estimated labor hours at completion or others depending on the type of project.

Our estimate of total revenues includes estimates of probable liquidated damages and certain probable claims and unapproved change orders. When estimating the amount of total gross profit or loss on a contract, we include certain unapproved change orders or claims to our clients as adjustments to revenues and claims to vendors, subcontractors and others as adjustments to total estimated costs. Claims against others are recorded up to the extent of the lesser of the amounts management expects to recover or to costs incurred and include no profit until such time as they are finalized and approved. See Note 5 to our consolidated financial statements for our discussion on unapproved change orders and claims.

At least quarterly, significant projects are reviewed by management. We have a long history of working with multiple types of projects and in preparing cost estimates. However, there are many factors that impact future costs, including but not limited to weather, inflation, labor and community disruptions, timely availability of materials, productivity and other factors as outlined in "Item 1A. Risk Factors". These factors can affect the accuracy of our estimates and materially impact our future reported earnings.

For contracts containing multiple deliverables we analyze each activity within the contract to ensure that we adhere to the separation guidelines of ASC 605 - Revenue Recognition and ASC 605-25 - Multiple-Element Arrangements.

Estimated Losses on Uncompleted Contracts and Changes in Contract Estimates. We record provisions for total estimated losses on uncompleted contracts in the period in which such losses are identified. The cumulative effects of revisions to contract revenues and estimated completion costs are recorded in the accounting period in which the amounts become evident and can be reasonably estimated. These revisions can include such items as the effects of change orders and claims, warranty claims, liquidated damages or other contractual penalties, adjustments for audit findings on U.S. government contracts and contract closeout settlements. Information relating to our changes in estimates is discussed in Note 2 to our consolidated financial statements and the information discussed therein is incorporated by reference into this Item 7.

Accounting for Government Contracts. Some of the services provided to the U.S. government are performed on cost-reimbursable contracts. Generally, these contracts may contain base fees (a fixed profit percentage applied to our actual costs to complete the work).

Revenues are recognized at the time services are performed, and such revenues include base fees, estimated direct project costs incurred and an allocation of indirect costs. Indirect costs are applied using rates approved by our government customers. The general, administrative and overhead cost reimbursement rates are estimated periodically in accordance with government contract accounting regulations and may change based on actual costs incurred or based upon the volume of work performed. Revenues are reduced for our estimate of costs that either are in dispute with our customer or have been identified as potentially unallowable pursuant to the terms of the contract or the federal acquisition regulations.

Similar to many cost-reimbursable contracts, these government contracts are typically subject to audit and adjustment by our customer. Each contract is unique; therefore, the level of confidence in our estimates for audit adjustments varies depending on how much historical data we have with a particular contract. KBR excludes from billings to the U.S. government costs that are expressly unallowable, or mutually agreed to be unallowable, or not allocable to government contracts based on the applicable regulations. Revenues recorded for government contract work are reduced for our estimate of potentially unallowable costs related to issues that may be categorized as disputed or unallowable as a result of cost overruns or the audit process. Our estimates of potentially unallowable costs are based upon, among other things, our internal analysis of the facts and circumstances, terms of the contracts and the applicable provisions of the FAR, quality of supporting documentation for costs incurred and subcontract terms, as applicable. From time to time, we engage outside counsel to advise us in determining whether certain costs are allowable. We also review our analysis and findings with the administrative contracting officer ("ACO"), as appropriate. In some cases, we may not reach agreement with the DCAA or the ACO regarding potentially unallowable costs which may result in our filing of claims in various courts such as the Armed Services Board of Contract Appeals ("ASBCA") or the COFC. We only include amounts in revenues related to disputed and potentially unallowable costs when we determine it is probable that such costs will result in revenue. We generally do not recognize additional revenues for disputed or potentially unallowable costs for which revenues have been previously reduced until we reach agreement with the DCAA or the ACO that such costs are allowable.

Goodwill Impairment Testing. Our October 1, 2015 annual impairment test for goodwill was a quantitative analysis using a two-step process that involves comparing the estimated fair value of each reporting unit to its carrying value, including goodwill. The fair values of reporting units were determined using a combination of two methods, one utilizing market earnings multiples (the market approach) and the other derived from discounted cash flow models with estimated cash flows based on internal forecasts of revenues and expenses over a specified period plus a terminal value (the income approach).

Under the market approach, we estimate fair value by applying earnings and revenue market multiples ranging from 4.08 to 13.42 times earnings and 0.3 to 1.3 times revenue. The income approach estimates fair value by discounting each reporting unit’s estimated future cash flows using a weighted-average cost of capital that reflects current market conditions and the risk profile of the reporting unit. To arrive at our future cash flows, we use estimates of economic and market assumptions, including growth rates in revenues, costs, estimates of future expected changes in operating margins, tax rates and cash expenditures. Future revenues are also adjusted to match changes in our business strategy. The risk-adjusted discount rates applied to our future cash flows under the income approach ranged from 12% to 15.4%. We believe these two approaches are appropriate valuation techniques and we generally weight the two resulting values equally as an estimate of a reporting unit's fair value for the purposes of our impairment testing. However, we may weigh one value more heavily than the other when conditions merit doing so. Other significant estimates and assumptions include terminal value growth rates, future estimates of capital expenditures and changes in future working capital requirements. The fair value derived from the weighting of these two methods provides appropriate valuations that, in the aggregate, reasonably reconcile to our market capitalization, taking into account observable control premiums.

In addition to the earnings and revenue multiples and the discount rates disclosed above, certain other judgments and estimates are used in our goodwill impairment test. Given this, if market conditions change compared to those used in our market approach, or if actual future results of operations fall below the projections used in the income approach, our goodwill could become impaired in the future.

At the annual testing date of October 1, 2015, our market capitalization exceeded the carrying value of our consolidated net assets by $1.7 billion and the fair value of all our reporting units substantially exceeded their respective carrying amounts as of that date.

The fair value for two reporting units in our E&C business segment with goodwill of $42 million and $33 million, respectively, exceeded their carrying values by 38% and 26%, respectively, based on projected growth rates and other market inputs that are more sensitive to the risk of future variances due to competitive market conditions and reporting unit project execution. If future variances for these assumptions are negative and significant, the fair value of these reporting units may not substantially exceed their carrying values in future periods.

Deferred Taxes and Tax Contingencies.  See Note 1 to our consolidated financial statements for discussion on income taxes.

Legal and Investigation Matters. As discussed in Notes 14 and 15 to our consolidated financial statements, as of December 31, 2015 and 2014, we have accrued an estimate of the probable and estimable costs for the resolution of some of our legal and investigation matters. For other matters for which the liability is not probable and reasonably estimable, we have not accrued any amounts. Attorneys in our legal department monitor and manage all claims filed against us and review all pending investigations. Generally, the estimate of probable costs related to these matters is developed in consultation with internal and external legal counsel representing us. Our estimates are based upon an analysis of potential results, assuming a combination of litigation and settlement strategies. The precision of these estimates and the likelihood of future changes depend on a number of underlying variables and a range of possible outcomes. We attempt to resolve these matters through settlements, mediation and arbitration proceedings, when possible. If the actual settlement costs, final judgments or fines, differ from our estimates after appeals, our future financial results may be materially and adversely affected. We record adjustments to our initial estimates of these types of contingencies in the periods when the change in estimate is identified.

Pensions. Our pension benefit obligations and expenses are calculated using actuarial models and methods. Two of the more critical assumptions and estimates used in the actuarial calculations are the discount rate for determining the current value of benefit obligations and the expected rate of return on plan assets. Other assumptions and estimates used in determining benefit obligations and plan expenses include inflation rates and demographic factors such as retirement age, mortality and turnover. These assumptions and estimates are evaluated periodically and are updated accordingly to reflect our actual experience and expectations.

The discount rate used to determine the benefit obligations was computed using a yield curve approach that matches plan specific cash flows to a spot rate yield curve based on high quality corporate bonds. The expected long-term rate of return on assets was determined by a stochastic projection that takes into account asset allocation strategies, historical long-term performance of individual asset classes, an analysis of additional return (net of fees) generated by active management, risks using standard deviations and correlations of returns among the asset classes that comprise the plans' asset mix. Plan assets are comprised primarily of equity securities, fixed income funds and securities, hedge funds, real estate and other funds. As we have both domestic and international plans, these assumptions differ based on varying factors specific to each particular country or economic environment.
The discount rate utilized to calculate the projected benefit obligation at the measurement date for our U.S. pension plan increased to 3.42% at December 31, 2015 from 2.89% at December 31, 2014. The discount rate utilized to determine the projected benefit obligation at the measurement date for our U.K. pension plan, which constitutes all of our international plans and 96% of all plans, increased to 3.75% at December 31, 2015 from 3.65% at December 31, 2014. Our expected long-term rates of return on plan assets utilized at the measurement date decreased to 4.81% from 5.28% for our U.S. pension plans and decreased to 6.25% from 6.45% for our U.K. pension plans.

The following table illustrates the sensitivity to changes in certain assumptions, holding all other assumptions constant, for our pension plans:

| | Effect on | | | |
|---|---|---|---|---|
| | Pretax Pension Cost in 2016 | | Pension Benefit Obligation at December 31, 2015 | |
| Dollars in millions | U.S. | U.K. | U.S. | U.K. |
| 25-basis-point decrease in discount rate | — | 3 | 2 | 83 |
| 25-basis-point increase in discount rate | — | (3) | (2) | (78) |
| 25-basis-point decrease in expected long-term rate of return | 1 | 4 | N/A | N/A |
| 25-basis-point increase in expected long-term rate of return | — | (4) | N/A | N/A |

Unrecognized actuarial gains and losses are generally recognized using the corridor method over a period of approximately 15 years, which represents a reasonable systematic method for amortizing gains and losses for the employee group. Our unrecognized actuarial gains and losses arise from several factors, including experience and assumption changes in the obligations and the difference between expected returns and actual returns on plan assets. The difference between actual and expected returns is deferred as an unrecognized actuarial gain or loss on our consolidated statement of comprehensive income (loss) and is recognized as a decrease or an increase in future pension expense. Our pretax unrecognized actuarial loss in accumulated other comprehensive loss at December 31, 2015 was $769 million, of which $31 million is expected to be recognized as a component of our expected 2016 pension expense compared to $48 million in 2015.

The actuarial assumptions used in determining our pension benefits may differ materially from actual results due to changing market and economic conditions, higher or lower withdrawal rates and longer or shorter life spans of participants. While we believe that the assumptions used are appropriate, differences in actual experience, expectations, or changes in assumptions may materially affect our financial position or results of operations. Our actuarial estimates of pension benefit expense and expected pension returns of plan assets are discussed in Note 11 in the accompanying financial statements.

Item 7A. Quantitative and Qualitative Discussion about Market Risk

We invest excess cash and equivalents in short-term securities, primarily time deposits and money market funds, which carry a fixed rate of return. Additionally, a substantial portion of our cash balances are maintained in foreign countries.

We are exposed to market risk associated with changes in foreign currency exchange rates, which may adversely affect our results of operations and financial condition.

We are exposed to and use derivative instruments, such as foreign exchange forward contracts and options to hedge foreign currency risk related to non-functional currency assets and liabilities on our balance sheet. Each period, these balance sheet hedges are marked to market through earnings and the change in their fair value is largely offset by remeasurement of the underlying assets and liabilities. The fair value of these derivatives was not material to our consolidated balance sheet for the periods presented. For more information see Note 20 to our consolidated financial statements and the information discussed therein is incorporated by reference into this Item 7A.

Where possible, we limit exposure to foreign currency fluctuations on forecasted transactions through provisions in our contracts that require client payments in currencies corresponding to the currency in which costs are incurred. In addition to this natural hedge, we use foreign exchange forward contracts and options to hedge forecasted foreign currency sales and purchase transactions. These derivatives are generally designated as cash flow hedges and are carried at fair value. The effective portion of the gain or loss is initially reported as a component of accumulated other comprehensive income (loss), and upon occurrence of the forecasted transaction, is subsequently reclassified into the income or expense line item to which the hedged transaction relates. Changes in the fair value of (1) credit risk and forward points, (2) instruments deemed ineffective during the period, and (3) instruments that we do not designate as cash flow hedges, are recognized within our consolidated statements of operations. We do not hold or issue derivatives for trading purposes or make speculative investments in foreign currencies. The impact of our hedging activities associated with our operating exposures was not material to our consolidated financial statements for and during the years ended December 31, 2015, December 31, 2014, and December 31, 2013.

We are exposed to the effects of fluctuations in foreign exchange rates (primarily Australian Dollar, British Pound, Canadian Dollar, and Euro) on the translation of the financial statements of our foreign operations into our reporting currency. The impact of this translation to U.S. dollars is recognized as a cumulative translation adjustment in accumulated other comprehensive income (loss). We do not hedge our exposure to potential foreign currency translation adjustments.

Item 8. Financial Statements and Supplementary Data

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders
KBR, Inc.:

We have audited the accompanying consolidated balance sheets of KBR, Inc. and subsidiaries as of December 31, 2015 and 2014, and the related consolidated statements of operations, comprehensive income (loss), shareholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2015. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of KBR, Inc. and subsidiaries as of December 31, 2015 and 2014, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2015, in conformity with U.S. generally accepted accounting principles.

As discussed in Note 1 to the consolidated financial statements, KBR, Inc. has changed its method of accounting for deferred income taxes effective January 1, 2014 due to the adoption of FASB ASU 2015-17, Balance Sheet Classification of Deferred Taxes.
We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), KBR, Inc.'s internal control over financial reporting as of December 31, 2015, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated February 26, 2016 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

/s/ KPMG LLP

KPMG LLP
Houston, Texas
February 26, 2016

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

| | Years ended December 31, | | |
|---|---|---|---|
| | 2015 | 2014 | 2013 |
| Revenues | $5,096 | $6,366 | $7,214 |
| Cost of revenues | (4,771) | (6,431) | (6,797) |
| Gross profit (loss) | 325 | (65) | 417 |
| Equity in earnings of unconsolidated affiliates | 149 | 163 | 137 |
| General and administrative expenses | (155) | (239) | (248) |
| Impairment of goodwill | — | (446) | — |
| Asset impairment and restructuring charges | (70) | (214) | — |
| Gain on disposition of assets | 61 | 7 | 2 |
| Operating income (loss) | 310 | (794) | 308 |
| Other non-operating income (expenses) | 2 | 17 | (8) |
| Income (loss) before income taxes and noncontrolling interests | 312 | (777) | 300 |
| Provision for income taxes | (86) | (421) | (129) |
| Net income (loss) | 226 | (1,198) | 171 |
| Net income attributable to noncontrolling interests | (23) | (64) | (96) |
| Net income (loss) attributable to KBR | $203 | $(1,262) | $75 |
| Net income (loss) attributable to KBR per share: | | | |
| Basic | $1.40 | $(8.66) | $0.50 |
| Diluted | $1.40 | $(8.66) | $0.50 |
| Basic weighted average common shares outstanding | 144 | 146 | 148 |
| Diluted weighted average common shares outstanding | 144 | 146 | 149 |
| Cash dividends declared per share | $0.32 | $0.32 | $0.24 |

See accompanying notes to consolidated financial statements.

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

| | Years ended December 31, 2015 | 2014 | 2013 |
|---|---|---|---|
| Net income (loss) | $226 | $(1,198) | $171 |
| Other comprehensive income (loss), net of tax: | | | |
| Foreign currency translation adjustments: | | | |
| Foreign currency translation adjustments, net of tax | (68) | (71) | (35) |
| Reclassification adjustment included in net income | 4 | 1 | 1 |
| Foreign currency translation adjustments, net of tax of $(3), $4 and $27 | (64) | (70) | (34) |
| Pension and post-retirement benefits, net of tax: | | | |
| Actuarial gains (losses), net of tax | 71 | (96) | (115) |
| Reclassification adjustment included in net income | 39 | 34 | 28 |
| Pension and post-retirement benefits, net of taxes of $(22), $10 and $18 | 110 | (62) | (87) |
| Changes in fair value of derivatives: | | | |
| Changes in fair value of derivatives, net of tax | — | (2) | 1 |
| Reclassification adjustment included in net income | 1 | — | (1) |
| Changes in fair value of derivatives, net of taxes of $0, $0 and $0 | 1 | (2) | — |
| Other comprehensive income (loss), net of tax | 47 | (134) | (121) |
| Comprehensive income (loss) | 273 | (1,332) | 50 |
| Less: Comprehensive income attributable to noncontrolling interests | (25) | (66) | (105) |
| Comprehensive income (loss) attributable to KBR | $248 | $(1,398) | $(55) |

See accompanying notes to consolidated financial statements.

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

| | December 31, 2015 | 2014 |
|---|---|---|
| Assets | | |
| Current assets: | | |
| Cash and equivalents | $883 | $970 |
| Accounts receivable, net of allowance for doubtful accounts of $17 and $19 | 628 | 847 |
| Costs and estimated earnings in excess of billings on uncompleted contracts ("CIE") | 224 | 490 |
| Other current assets | 109 | 147 |
| Total current assets | 1,844 | 2,454 |
| Claims and accounts receivable | 526 | 570 |
| Property, plant, and equipment, net of accumulated depreciation of $352 and $385 (including net PPE of $48 and $57 owned by a variable interest entity) | 169 | 247 |
| Goodwill | 324 | 324 |
| Intangible assets, net of accumulated amortization of $91 and $96 | 35 | 41 |
| Equity in and advances to unconsolidated affiliates | 281 | 151 |
| Deferred income taxes | 99 | 143 |
| Other assets | 134 | 148 |
| Total assets | $3,412 | $4,078 |
| Liabilities and Shareholders' Equity | | |
| Current liabilities: | | |
| Accounts payable | $438 | $742 |
| Payable to former parent | 19 | 56 |
| Billings in excess of costs and estimated earnings on uncompleted contracts ("BIE") | 509 | 531 |
| Accrued salaries, wages and benefits | 173 | 197 |
| Nonrecourse project debt | 10 | 10 |
| Other current liabilities | 263 | 442 |
| Total current liabilities | 1,412 | 1,978 |
| Pension obligations | 333 | 502 |
| Employee compensation and benefits | 105 | 112 |
| Income tax payable | 78 | 69 |
| Deferred income taxes | 94 | 95 |
| Nonrecourse project debt | 51 | 63 |
| Deferred income from unconsolidated affiliates | 100 | 95 |
| Other liabilities | 187 | 229 |
| Total liabilities | 2,360 | 3,143 |
| KBR shareholders' equity: | | |
| Preferred stock, $0.001 par value, 50,000,000 shares authorized, 0 shares issued and outstanding | — | — |
| Common stock, $0.001 par value, 300,000,000 shares authorized, 175,108,100 and 174,448,399 shares issued, and 142,058,356 and 144,837,281 shares outstanding | — | — |
| Paid-in capital in excess of par ("PIC") | 2,070 | 2,091 |
| Accumulated other comprehensive loss ("AOCL") | (831) | (876) |
| Retained earnings | 595 | 439 |
| Treasury stock, 33,049,744 shares and 29,611,118 shares, at cost | (769) | (712) |
| Total KBR shareholders' equity | 1,065 | 942 |

| | | |
|---|---|---|
| Noncontrolling interests | (13) | (7) |
| Total shareholders' equity | 1,052 | 935 |
| Total liabilities and shareholders' equity | $3,412 | $4,078 |

See accompanying notes to consolidated financial statements.

KBR, Inc.
Consolidated Statements of Shareholders' Equity
(In millions)

| | December 31, 2015 | 2014 | 2013 |
|---|---|---|---|
| Balance at January 1, | $935 | $2,439 | $2,511 |
| Acquisition of noncontrolling interest | (40) | — | — |
| Share-based compensation | 18 | 22 | 16 |
| Common stock issued upon exercise of stock options | 1 | 4 | 6 |
| Dividends declared to shareholders | (47) | (47) | (36) |
| Adjustment pursuant to tax sharing agreement | — | — | (7) |
| Repurchases of common stock | (62) | (106) | (7) |
| Issuance of employee stock purchase plan ("ESPP") shares | 5 | 4 | 4 |
| Investments by noncontrolling interests | — | 10 | 9 |
| Distributions to noncontrolling interests | (28) | (61) | (109) |
| Other noncontrolling interests activity | (3) | 2 | 2 |
| Comprehensive income (loss) | 273 | (1,332) | 50 |
| Balance at December 31, | $1,052 | $935 | $2,439 |

See accompanying notes to consolidated financial statements.

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

| | Years ended December 31, 2015 | 2014 | 2013 |
|---|---|---|---|
| Cash flows from operating activities: | | | |
| Net income (loss) | $226 | $(1,198) | $171 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | |
| Depreciation and amortization | 39 | 72 | 68 |
| Equity in earnings of unconsolidated affiliates | (149) | (163) | (137) |
| Deferred income tax expense | 14 | 353 | 18 |
| Gain on disposition of assets | (61) | (7) | (2) |
| Gain on negotiated settlement with former parent | — | (24) | — |
| Impairment of goodwill | — | 446 | — |
| Asset impairment | 31 | 171 | — |
| Other | 21 | 11 | 21 |
| Changes in operating assets and liabilities: | | | |
| Accounts receivable, net of allowance for doubtful accounts | 41 | 170 | — |
| Costs and estimated earnings in excess of billings on uncompleted contracts | 224 | (107) | 140 |
| Accounts payable | (274) | (10) | 49 |
| Billings in excess of costs and estimated earnings on uncompleted contracts | (2) | 144 | (20) |
| Accrued salaries, wages and benefits | (8) | (29) | (14) |
| Reserve for loss on uncompleted contracts | (94) | 57 | 53 |
| Receipts of advances from unconsolidated affiliates, net | 10 | 13 | 14 |
| Distributions of earnings from unconsolidated affiliates | 92 | 249 | 180 |
| Payment on performance bonds for EPC 1 project in Mexico | — | — | (108) |
| Income taxes payable | 26 | 14 | (51) |
| Pension funding | (48) | (48) | (54) |
| Retainage payable | (2) | (16) | (35) |
| Subcontractor advances | (12) | (3) | 20 |
| Net settlement of derivative contracts | (44) | (40) | (22) |
| Other assets and liabilities | 17 | 115 | 6 |
| Total cash flows provided by operating activities | 47 | 170 | 297 |
| Cash flows from investing activities: | | | |
| Purchases of property, plant and equipment | (10) | (53) | (78) |
| Payment for investment in partnership | (19) | — | — |
| Proceeds from sale of assets and investments | 130 | 9 | 16 |
| Total cash flows provided by (used in) investing activities | $101 | $(44) | $(62) |

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

| | Years ended December 31, 2015 | 2014 | 2013 |
|---|---|---|---|
| Cash flows from financing activities: | | | |
| Payments to reacquire common stock | (62) | (106) | (7) |
| Acquisition of noncontrolling interest | (40) | — | — |
| Investments from noncontrolling interests | — | 10 | 9 |
| Distributions to noncontrolling interests | (28) | (61) | (109) |
| Payments of dividends to shareholders | (47) | (47) | (36) |
| Net proceeds from issuance of common stock | 1 | 4 | 6 |
| Payments on borrowings | (11) | (11) | (14) |
| Other | (5) | 1 | 3 |
| Total cash flows used in financing activities | (192) | (210) | (148) |
| Effect of exchange rate changes on cash | (43) | (52) | (34) |
| Increase (decrease) in cash and equivalents | (87) | (136) | 53 |
| Cash and equivalents at beginning of period | 970 | 1,106 | 1,053 |
| Cash and equivalents at end of period | $883 | $970 | $1,106 |
| Supplemental disclosure of cash flows information: | | | |
| Cash paid for interest | $10 | $11 | $12 |
| Cash paid for income taxes (net of refunds) | $66 | $37 | $127 |
| Noncash operating activities | | | |
| Other assets change for payments made on our behalf by former parent | $— | $— | $(219) |
| Other liabilities change for payments made on our behalf by former parent | $— | $— | $219 |
| Noncash financing activities | | | |
| Dividends declared | $12 | $12 | $12 |

See accompanying notes to consolidated financial statements.

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KBR, Inc.
Notes to Consolidated Financial Statements

Note 1. Description of Company and Significant Accounting Policies

KBR, Inc., a Delaware corporation, was formed on March 21, 2006 and is headquartered in Houston, Texas. KBR, Inc. and its wholly owned and majority-owned subsidiaries (collectively referred to herein as "KBR", "the Company", "we", "us" or "our") is an engineering, procurement, construction and services company supporting the global hydrocarbons and international government services market segments. Our capabilities include engineering, procurement, construction, construction management, technology licensing, operations, maintenance and other support services to a diverse customer base, including international and national oil and gas companies, independent refiners, petrochemical producers, fertilizer producers, manufacturers and domestic and foreign governments.

Principles of Consolidation

Our consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States ("U.S. GAAP") and include the accounts of KBR and our wholly owned and majority-owned, controlled subsidiaries and variable interest entities ("VIEs") of which we are the primary beneficiary. We account for investments over which we have significant influence but not a controlling financial interest using the equity method of accounting. See Note 10 to our consolidated financial statements for further discussion on our equity investments and VIEs. The cost method is used when we do not have the ability to exert significant influence. All material intercompany balances and transactions are eliminated in consolidation.

Certain prior year amounts have been reclassified to conform to the current year presentation on the consolidated statements of operations, consolidated balance sheets and the consolidated statements of cash flows.

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

Use of Estimates

The preparation of our consolidated financial statements in conformity with U.S. GAAP requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Areas requiring significant estimates and assumptions by our management include the following:

- project revenues, costs and profits on engineering and construction contracts and government services contracts, including recognition of estimated losses on uncompleted contracts
- provisions for uncollectible receivables and client claims and recoveries of costs from subcontractors, vendors and others
- provisions for income taxes and related valuation allowances and tax uncertainties
- recoverability of goodwill
- recoverability of other intangibles and long-lived assets and related estimated lives
- recoverability of equity method and cost method investments
- valuation of pension obligations and pension assets
- accruals for estimated liabilities, including litigation accruals
- consolidation of VIEs
- valuation of share-based compensation

In accordance with normal practice in the construction industry, we include in current assets and current liabilities amounts related to construction contracts realizable and payable over a period in excess of one year. If the underlying estimates and assumptions upon which the financial statements are based change in the future, actual amounts may differ from those included in the accompanying consolidated financial statements.

Adoption of New Accounting Standards

Balance Sheet Classification of Deferred Taxes. In November 2015, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2015-17, Income Taxes (Topic 740) - Balance Sheet Classification of Deferred Taxes. The amendments in the ASU, which apply to all entities that present a classified balance sheet, eliminate the current requirement to present deferred tax liabilities and assets as current and noncurrent. Instead, entities will be required to classify all deferred tax assets and liabilities as noncurrent. The amendments are effective for financial statements issued for annual periods beginning after December 15, 2016, and interim periods within those annual periods. Earlier application is permitted for entities as of the beginning of an interim or annual period. Effective December 31, 2015, we retrospectively adopted ASU 2015-17 and, as a result, reclassified current deferred tax assets of $90 million and current deferred tax liabilities of $46 million as non-current on our consolidated balance sheet for the year ended December 31, 2014.

Fair Value Measurements. In May 2015, the FASB issued ASU No. 2015-07, Fair Value Measurement (Topic 820) - Disclosures for Investments in Certain Entities that Calculate Net Asset Value per Share (or Its Equivalent). The amendments in this ASU remove the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using net asset value per share practical expedient. The amendments are effective for financial statements issued for annual periods beginning after December 15, 2015, and interim periods within those annual periods. Earlier application is permitted for entities as of the beginning of an interim or annual period. A reporting entity should apply the amendments retrospectively to all periods presented. On December 31, 2015, we adopted ASU 2015-07 as presented in our Fair Value Measurement tables in Note 11 to our consolidated financial statements.

Discontinued Operations. In April 2014, the FASB issued ASU No. 2014-08, Presentation of Financial Statements (Topic 205) and Property, Plant and Equipment (Topic 360). The amendments in this ASU added criteria providing that only those disposals of a component of an entity or a group of components of an entity that represent a strategic shift in operations should be presented as discontinued operations. The update allows an entity to present a disposal as discontinued operations even when it has continuing cash flows and significant continuing involvement with the disposed component. The update also requires expanded disclosures for discontinued operations and individually significant components of an entity that does not qualify for discontinued operations reporting. On January 1, 2015, we adopted ASU 2014-08. The adoption of this update did not impact our consolidated financial statements.

Service Concession Arrangements. In January 2014, the FASB issued ASU No. 2014-05, Service Concession Arrangements. A service concession arrangement is an arrangement between a public-sector entity and an operating entity under which the operating entity operates the grantor's infrastructure. The amendments in this ASU specify that an operating entity should not account for a service concession arrangement within the scope of this ASU as a lease in accordance with ASC 840 - Leases and that the infrastructure used in a service concession agreement should not be recognized as property, plant and equipment of the operating entity. The amendments in this ASU are effective using a modified retrospective approach for annual reporting periods beginning after December 15, 2014 and interim periods within those annual periods. The adoption of ASU 2014-05 on January 1, 2015 did not have a material impact on our consolidated financial statements.

Revenue Recognition

Engineering and Construction Contracts

Contracts. Our revenue is primarily derived from long-term contracts. Revenues from contracts to provide construction, engineering, design or similar services is reported on the percentage-of-completion method of accounting in accordance with FASB Accounting Standards Codification ("ASC") 605 - Revenue Recognition.

Depending on the type of job, progress is generally measured based upon man-hours expended to total man-hours estimated at completion, costs incurred to total estimated costs at completion, or physical progress. All known or anticipated losses on contracts are provided for in the period they become evident. Certain claims and change orders that are in the process of negotiation with customers for additional work or changes in the scope of work are included in contract value when collection is deemed probable and the value can be reliably estimated.

Our work is performed under three general types of contracts: fixed-price contracts, cost-reimbursable plus a fee or mark-up contracts and "hybrid" contracts containing both cost-reimbursable and fixed-price scopes. All contract types may be modified by cost escalation provisions or other risk sharing mechanisms and incentive and penalty provisions. During the term of a project, the contract or components of the contract may be renegotiated to include characteristics of a different contract type. When we negotiate any type of contract, we frequently are required to accomplish the scope of work and meet certain performance criteria within a specified time frame; otherwise, we could be assessed damages, which in some cases are agreed-upon liquidated damages. We include an estimate of liquidated damages in our estimates of total contract value when it is deemed probable that they will be assessed. Profit is recorded based upon the product of estimated contract profit-at-completion times the current percentage-complete for the contract.

Fixed-price contracts, which include unit-rate contracts (essentially a fixed-price contract with the only variable being units of work performed), are for a fixed sum to cover all costs and any profit element for a defined scope of work. Fixed-price contracts entail significant risk to us because they require us to predetermine the work to be performed, the project execution schedule and the costs associated with the work. As a result, we may benefit or be penalized for cost variations from our original estimates. However, these contract prices may be adjusted for changes in scope of work, new or changing laws and regulations and other negotiated events.

Cost-reimbursable contracts include contracts where the price is variable based upon our actual costs incurred for time and materials and for reimbursable labor hour contracts. Profit on cost-reimbursable contracts may be a fixed amount, a mark-up applied to costs incurred or a combination of the two. Cost-reimbursable contracts are generally less risky than fixed-price contracts because the owner/customer retains many of the project risks. Our cost-reimbursable contracts include the following:

- Cost-plus and Time and Material contracts - These are contracts under which we are reimbursed for allowable or otherwise defined costs incurred plus a fee or mark-up. The contracts may also include incentives for various performance criteria, including quality, timeliness, ingenuity, safety and cost-effectiveness. In addition, our costs are generally subject to review by our clients and regulatory audit agencies, and such reviews could result in costs being disputed as non-reimbursable under the terms of the contract.

- Target-price contracts - These are contracts under which we are reimbursed for costs plus a fee consisting of two parts: (1) a fixed amount, which does not vary with performance, but may be at risk when a target price is exceeded; and (2) an award amount based on the performance and cost-effectiveness of the project. As a result, we are generally able to recover cost overruns on these contracts from actual damages for late delivery or the failure to meet certain performance criteria. Target-price contracts also generally provide for sharing of costs in excess of or savings for costs less than the target. In some contracts, we may agree to share cost overruns in excess of our fee, which could result in a loss on the project.

Unapproved Change Orders and Claims.  Revenues and gross profit on contracts can be significantly affected by change orders and claims that may not be approved by the customer until the later stages of a contract or subsequent to the date a project is completed. If it is not probable that the costs will be recovered through a change in contract price, the costs attributable to change orders are treated as contract costs without incremental revenue. For certain contracts where it is probable that the costs will be recovered through a change order, total estimated contract revenue is increased by the lesser of the amounts management expects to recover or the costs expected to be incurred.

When estimating the amount of total gross profit or loss on a contract, we include unapproved change orders or claims to our clients as adjustments to revenues. We include claims to vendors, subcontractors and others as adjustments to total estimated costs. Claims against others are recorded up to the extent of the lesser of the amounts management expects to recover or to costs incurred and include no profit until such time as they are finalized and approved. See Note 5 to our consolidated financial statements for our discussion on unapproved change orders and claims.

Services Contracts

Revenues for our services contracts is recorded as the services are rendered and the amounts are deemed realized or realizable and earned. Revenue is recognized when persuasive evidence of a customer arrangement exists, delivery has occurred or services have been rendered, the price to the customer is fixed and determinable, and collection of revenue is reasonably assured. Revenue associated with incentive fees for these contracts is recognized when earned.

Government Contracts

Some of the services provided to the United States ("U.S.") government are performed on cost-reimbursable contracts. Generally, these contracts may contain base fees (a fixed profit percentage applied to our estimates of costs to complete the work).

Revenues are recognized at the time services are performed, and such revenues include base fees, actual direct project costs incurred and an allocation of indirect costs. Indirect costs are applied using rates approved by our government customers. The general, administrative and overhead cost reimbursement rates are estimated periodically in accordance with government contract accounting regulations and may change based on actual costs incurred or based upon the volume of work performed. Revenues are reduced for our estimate of costs that either are in dispute with our customer or have been identified as potentially unallowable pursuant to the terms of the contract or the federal acquisition regulations.

Gross Profit

Gross profit represents business segment revenues less the cost of revenues, which includes business segment overhead costs directly attributable to the business segment.

Cost Estimates

Contract costs include all direct material and labor costs and those indirect costs related to contract performance. Indirect costs, included in cost of revenues, include charges for such items as facilities, engineering, project management, quality control, bids and proposals and procurement.

General and Administrative Expenses

Our general and administrative expenses represent corporate overhead expenses that are not associated with the execution of the contracts. General and administrative expenses include charges for such items as executive management, corporate business development, information technology, finance and corporate accounting, human resources and various other corporate functions.

Cash and Equivalents

We consider highly liquid investments with an original maturity of three months or less to be cash equivalents. See Note 3 to our consolidated financial statements for our discussion on cash and equivalents.

Accounts Receivable

Accounts receivable are recorded at the invoiced amount based on contracted prices. Amounts collected on accounts receivable are included in net cash provided by operating activities in the consolidated statements of cash flows.

We establish an allowance for doubtful accounts based on the assessment of the clients' willingness and ability to pay. In addition to such allowances, there are often items in dispute or being negotiated that may require us to make an estimate as to the ultimate outcome. Past due receivable balances are written off when our internal collection efforts have been unsuccessful in collecting the amounts due. See Note 4 to our consolidated financial statements for our discussion on accounts receivable.

Retainage, included in accounts receivable, represents amounts withheld from billings by our clients pursuant to provisions in the contracts and may not be paid to us until the completion of specific tasks or the completion of the project and, in some instances, for even longer periods. Retainage may also be subject to restrictive conditions such as performance guarantees. Our retainage receivable excludes amounts withheld by the U.S. government on certain contracts. See Note 14 to our consolidated financial statements for our discussion on U.S. government receivables.

Costs and Estimated Earnings in Excess of Billings on Uncompleted Contracts, Including Claims, and Advanced Billings and Billings in Excess of Costs and Estimated Earnings on Uncompleted Contracts

Billing practices are governed by the contract terms of each project based upon costs incurred, achievement of milestones or pre-agreed schedules. Billings do not necessarily correlate with revenue recognized using the percentage-of-completion method of accounting. Costs and estimated earnings in excess of billings on uncompleted contracts ("CIE") represent the excess of contract costs and profits recognized to date using the percentage-of-completion method over billings to date on certain contracts. Billings in excess of costs and estimated earnings on uncompleted contracts ("BIE") represents the excess of billings to date over the amount of contract costs and profits recognized to date using the percentage-of-completion method on certain contracts. With the exception of claims and change orders that we are in the process of negotiating with customers, unbilled receivables are usually billed during normal billing processes following achievement of the contractual requirements. See Note 5 to our consolidated financial statements for our discussion on CIE and BIE.

Property, Plant and Equipment

Property, plant and equipment are reported at cost less accumulated depreciation except for those assets that have been written down to their fair values due to impairment. Expenditures for major additions and improvements are capitalized and minor replacements, maintenance and repairs are charged to expense as incurred. The cost of property, plant and equipment sold or otherwise disposed of and the related accumulated depreciation are removed from the accounts and any resulting gain or loss is included in operating income for the respective period. Depreciation is generally provided on the straight-line method over the estimated useful lives of the related assets. Leasehold improvements are amortized using the straight-line method over the shorter of the useful life of the improvement or the lease term. See Note 7 to our consolidated financial statements for our discussion on property, plant and equipment.

Goodwill

Goodwill is an asset representing the excess cost over the fair market value of net assets acquired in business combinations. In accordance with ASC 350 - Intangibles - Goodwill and Other, we test goodwill for impairment on an annual basis and more frequently when negative conditions or other triggering events arise. We test goodwill for impairment annually as of October 1 and conduct our goodwill impairment testing at the reporting unit level. For purposes of the goodwill impairment test, our reporting units are operating segments or components of operating segments where discrete financial information is available and segment management regularly reviews the operating results.

Our October 1, 2015 annual impairment test for goodwill was a quantitative analysis using the two-step process that involves comparing the estimated fair value of each reporting unit to its carrying value, including goodwill. If the fair value of a reporting unit exceeds its carrying value, the goodwill of the reporting unit is not considered impaired; therefore, the second step of the impairment test is unnecessary. If the carrying value of a reporting unit exceeds its fair value, we perform the second step of the goodwill impairment test to measure the amount of goodwill impairment loss to be recorded, as necessary. The second step compares the implied fair value of the reporting unit's goodwill to the carrying value, if any, of that goodwill. We determine the implied fair value of the goodwill in the same manner as determining the amount of goodwill to be recognized in a business combination.

In instances where we reorganize our reporting units, we perform an additional impairment test immediately before and after the change in reporting units, utilizing the same methodology as our October 1st test and record impairment if any.

The fair values of reporting units were determined using a combination of two methods, one utilizing market earnings multiples (the market approach) and the other derived from discounted cash flow models with estimated cash flows based on internal forecasts of revenues and expenses over a specified period plus a terminal value (the income approach). See Note 8 for our discussion on our annual impairment test.

Intangible Assets

Our intangible assets are related to various licenses, trade names, patents, technology and related processes. Except for an $11 million indefinite lived trade name, which we do not amortize, the costs of our intangible assets are generally amortized over their estimated useful lives up to 25 years. The method of amortization reflects the expected realization pattern of the economic benefits relevant to the intangible assets, or if we are unable to determine the expected realization pattern reliably, they are amortized using the straight-line method. We also have intangible assets related to trade names, client relationships and non-compete agreements which are associated with acquisitions we have completed and are generally amortized over a three- to ten-year period on a straight-line basis. We assess the recoverability of the unamortized balance of our intangible assets when indicators of impairment are present based on expected future profitability and undiscounted expected cash flows and their contribution to our overall operations. Should the review indicate that the carrying value is not fully recoverable, the excess of the carrying value over the fair value of the intangible assets would be recognized as an impairment loss. See Note 8 to our consolidated financial statements for our discussion on intangible assets.

Investments

We account for non-marketable investments using the equity method of accounting if the investment gives us the ability to exercise significant influence over, but not control of, an investee. Significant influence generally exists if we have an ownership interest representing between 20% and 50% of the voting stock of the investee. Under the equity method of accounting, investments are stated at initial cost and are adjusted for subsequent additional investments and our proportionate share of earnings or losses and distributions.

Equity in earnings of unconsolidated affiliates, in the consolidated statements of operations, reflects our proportionate share of the investee's net income, including any associated affiliate taxes. Our proportionate share of the investee’s other comprehensive income (loss), net of income taxes, is recorded in the consolidated statements of shareholders’ equity and consolidated statements of comprehensive income (loss). In general, the equity investment in our unconsolidated affiliates is equal to our current equity investment plus those entities' undistributed earnings.

We evaluate our equity method investments for impairment at least annually and whenever events or changes in circumstances indicate, in management's judgment, that the carrying value of an investment may have experienced an other-than-temporary decline in value. When evidence of loss in value has occurred, management compares the estimated fair value of the investment to the carrying value of the investment to determine whether an impairment has occurred. If the estimated fair value is less than the carrying value and management considers the decline in value to be other than temporary, the excess of the carrying value over the estimated fair value is recognized in the financial statements as an impairment. See Note 10 to our consolidated financial statements for our discussion on equity method investments.

Where we are unable to exercise significant influence over the investee, or when our investment balance is reduced to zero from our proportionate share of losses, the investments are accounted for under the cost method. Under the cost method, investments are carried at cost and adjusted only for other-than-temporary declines in fair value, distributions of earnings, or additional investments.

Variable Interest Entities

The majority of our joint ventures are VIEs. We account for VIEs in accordance with ASC 810 - Consolidation which requires the consolidation of VIEs in which a company has both the power to direct the activities of the VIE that most significantly impact the VIE's economic performance and the obligation to absorb losses or the right to receive the benefits from the VIE that could potentially be significant to the VIE. If a reporting enterprise meets these conditions then it has a controlling financial interest and is the primary beneficiary of the VIE. Our unconsolidated VIEs are accounted for under the equity method of accounting.

We assess all newly created entities and those with which we become involved to determine whether such entities are VIEs and, if so, whether or not we are their primary beneficiary. Most of the entities we assess are incorporated or unincorporated joint ventures formed by us and our partner(s) for the purpose of executing a project or program for a customer and are generally dissolved upon completion of the project or program. Many of our long-term energy-related construction projects in our E&C business segment are executed through such joint ventures. Typically, these joint ventures are funded by advances from the project owner, and accordingly, require little or no equity investment by the joint venture partners but may require subordinated financial support from the joint venture partners such as letters of credit, performance and financial guarantees or obligations to fund losses incurred by the joint venture. Other joint ventures, such as privately financed initiatives in our GS business segment, generally require the partners to invest equity and take an ownership position in an entity that manages and operates an asset after construction is complete.

As required by ASC 810 - Consolidation, we perform a qualitative assessment to determine whether we are the primary beneficiary once an entity is identified as a VIE. Thereafter, we continue to re-evaluate whether we are the primary beneficiary of the VIE in accordance with ASC 810 - Consolidation. A qualitative assessment begins with an understanding of the nature of the risks in the entity as well as the nature of the entity's activities. These include the terms of the contracts entered into by the entity, ownership interests issued by the entity and how they were marketed and the parties involved in the design of the entity. We then identify all of the variable interests held by parties involved with the VIE including, among other things, equity investments, subordinated debt financing, letters of credit, financial and performance guarantees and contracted service providers. Once we identify the variable interests, we determine those activities which are most significant to the economic performance of the entity and which variable interest holder has the power to direct those activities. Though infrequent, some of our assessments reveal no primary beneficiary because the power to direct the most significant activities that impact the economic performance is held equally by two or more variable interest holders who are required to provide their consent prior to the execution of their decisions. Most of the VIEs with which we are involved have relatively few variable interests and are primarily related to our equity investment, significant service contracts and other subordinated financial support. See Note 10 to our consolidated financial statements for our discussion on variable interest entities.

Deconsolidation of a Subsidiary

We account for a gain or loss on deconsolidation of a subsidiary or derecognition of a group of assets in accordance with the guidance in ASC 810-10-40-5. We measure the gain or loss as the difference between (a) the aggregate of all the following: (1) the fair value of any consideration received (2) the fair value of any retained noncontrolling investment in the former subsidiary or group of assets at the date the subsidiary is deconsolidated or the group of assets is derecognized and (3) the carrying amount of any noncontrolling interest in the former subsidiary (including any accumulated other comprehensive income attributable to the noncontrolling interest) at the date the subsidiary is deconsolidated and (b) the carrying amount of the former subsidiary’s assets and liabilities or the carrying amount of the group of assets.

Pensions

We account for our defined benefit pension plans in accordance with ASC 715 - Compensation - Retirement Benefits, which requires an employer to:

- recognize on its balance sheet the funded status (measured as the difference between the fair value of plan assets and the benefit obligation) of the pension plan;
- recognize, through comprehensive income, certain changes in the funded status of a defined benefit plan in the year in which the changes occur;
- measure plan assets and benefit obligations as of the end of the employer’s fiscal year; and
- disclose additional information.

Our pension benefit obligations and expenses are calculated using actuarial models and methods. Two of the more critical assumptions and estimates used in the actuarial calculations are the discount rate for determining the current value of benefit obligations and the expected rate of return on plan assets. Other assumptions and estimates used in determining benefit obligations and plan expenses include inflation rates and demographic factors such as retirement age, mortality and turnover. These assumptions and estimates are evaluated periodically and are updated accordingly to reflect our actual experience and expectations.

The discount rate used to determine the benefit obligations was computed using a yield curve approach that matches plan specific cash flows to a spot rate yield curve based on high quality corporate bonds. The expected long-term rate of return on assets was determined by a stochastic projection that takes into account asset allocation strategies, historical long-term performance of individual asset classes, an analysis of additional return (net of fees) generated by active management, risks using standard deviations and correlations of returns among the asset classes that comprise the plans' asset mix. Plan assets are comprised primarily of equity securities, fixed income funds and securities, hedge funds, real estate and other funds. As we have both domestic and international plans, these assumptions differ based on varying factors specific to each particular country or economic environment.

Unrecognized actuarial gains and losses are generally recognized using the corridor method over a period of approximately 15 years, which represents a reasonable systematic method for amortizing gains and losses for the employee group. Our unrecognized actuarial gains and losses arise from several factors, including experience and assumption changes in the obligations and the difference between expected returns and actual returns on plan assets. The difference between actual and expected returns is deferred as an unrecognized actuarial gain or loss on our consolidated statement of comprehensive income (loss) and is recognized as a decrease or an increase in future pension expense.

Income Taxes

We recognize the amount of taxes payable or refundable for the year and deferred tax assets and liabilities for the expected future tax consequences of events that have been recognized in the financial statements or tax returns. We provide a valuation allowance for deferred tax assets if it is more likely than not that these items will not be realized. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. See Note 13 to our consolidated financial statements for our discussion on income taxes.

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. A current tax asset or liability is recognized for the estimated taxes refundable or payable on tax returns. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

In assessing the realizability of deferred tax assets, we consider whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. A valuation allowance is provided for deferred tax assets if it is more-likely-than-not that these items will not be realized. We consider the scheduled reversal of deferred tax liabilities, projected future taxable income and available tax planning strategies in making this assessment. Additionally, we use forecasts of certain tax elements such as taxable income and foreign tax credit utilization in making this assessment of realization. Given the inherent uncertainty involved with the use of such estimates and assumptions, there can be significant variation between estimated and actual results.

We have operations in numerous countries other than the United States. Consequently, we are subject to the jurisdiction of a significant number of taxing authorities. The income earned in these various jurisdictions is taxed on differing bases, including income actually earned, income deemed earned and revenue-based tax withholding. The final determination of our tax liabilities involves the interpretation of local tax laws, tax treaties and related authorities in each jurisdiction. Changes in the operating environment, including changes in tax law and currency/repatriation controls, could impact the determination of our tax liabilities for a tax year.

We recognize the effect of income tax positions only if it is more-likely-than-not that those positions will be sustained. Recognized income tax positions are measured at the largest amount that is greater than 50% likely of being realized. Changes in recognition or measurement are reflected in the period in which the change in judgment occurs. The company records potential interest and penalties related to unrecognized tax benefits in income tax expense.

Tax filings of our subsidiaries, unconsolidated affiliates and related entities are routinely examined by tax authorities in the normal course of business. These examinations may result in assessments of additional taxes, which we work to resolve with the tax authorities and through the judicial process. Predicting the outcome of disputed assessments involves some uncertainty. Factors such as the availability of settlement procedures, willingness of tax authorities to negotiate and the operation and impartiality of judicial systems vary across the different tax jurisdictions and may significantly influence the ultimate outcome. We review the facts for each assessment, and then utilize assumptions and estimates to determine the most likely outcome and provide taxes, interest and penalties as needed based on this outcome. See Note 13 for our discussion on income taxes.

Derivative Instruments

We enter into derivative financial transactions to hedge existing or forecasted exposures to changing foreign currency exchange rates. We do not enter into derivative transactions for speculative or trading purposes. We recognize all derivatives at fair value on the balance sheet. Derivatives that are not accounted for as hedges under ASC 815 - Derivatives and Hedging, are adjusted to fair value and such changes are reflected in the results of operations. If the derivative is designated as a cash flow hedge under ASC 815, changes in the fair value of derivatives are recognized in other comprehensive income (loss) until the hedged item is recognized in earnings. The ineffective portion of a designated hedge's change in fair value is recognized in earnings. See Note 20 to our consolidated financial statements for our discussion on derivative instruments.

Recognized gains or losses on derivatives entered into to manage project related foreign exchange risk are included in gross profit. Foreign currency gains and losses for hedges of non-project related foreign exchange risk are reported within "Other non-operating income (expense)" on our consolidated statements of operations.

Concentration of Credit Risk

Financial instruments which potentially subject our company to concentrations of credit risk consist principally of cash and cash equivalents, and trade receivables. Our cash is primarily held with major banks and financial institutions throughout the world. We believe the risk of any potential loss on deposits held in these institutions is minimal.

Contracts with clients usually contain standard provisions allowing the client to curtail or terminate contracts for convenience. Upon such a termination, we are generally entitled to recover costs incurred, settlement expenses and profit on work completed prior to termination and demobilization cost.

We have revenues and receivables from transactions with an external customer that amounts to 10% or more of our revenues (which are generally not collateralized). A significant percentage of revenues is generated from transactions with Chevron Corporation ("Chevron") primarily from a major liquefied natural gas ("LNG") project in Australia within our E&C business segment, which is nearing completion. No other customers represented 10% or more of consolidated revenues in any of the periods presented.

The following tables present summarized data related to our transactions with Chevron.
Revenues from major customers:

| | Years ended December 31, | | |
|---|---|---|---|
| Dollars in millions | 2015 | 2014 | 2013 |
| Chevron revenues | $523 | $1,069 | $1,859 |

60

Percentages of revenues and accounts receivable from major customers:

| | Years ended December 31, | | |
|---|---|---|---|
| | 2015 | 2014 | 2013 |
| Chevron revenues percentage | 10 % | 17 % | 26 % |
| Chevron receivables percentage | 5 % | 9 % | 13 % |

Noncontrolling interest

Noncontrolling interests represent the equity investments of the minority owners in our joint ventures and other subsidiary entities that we consolidate in our financial statements.

Foreign currency

Our reporting currency is the U.S. dollar. The functional currency of our non-U.S. subsidiaries is typically the currency of the primary environment in which they operate. Where the functional currency for a non-U.S. subsidiary is not the U.S. dollar, translation of all of the assets and liabilities (including long term assets, such as goodwill) to U.S. dollars is based on exchange rates in effect at the balance sheet date. Translation of revenues and expenses to U.S. dollars is based on the average rate during the period and shareholders' equity accounts are translated at historical rates. Translation gains or losses, net of income tax effects, are reported in "accumulated other comprehensive loss" on our consolidated balance sheets.

Transaction gains and losses that arise from foreign currency exchange rate fluctuations on transactions denominated in a currency other than the functional currency are recognized in income each reporting period when these transactions are either settled or remeasured. Transaction gains and losses on intra-entity foreign currency transactions and balances including advances and demand notes payable, on which settlement is not planned or anticipated in the foreseeable future, are recorded in "accumulated other comprehensive loss" on our consolidated balance sheets.

Share-based compensation

We account for share-based payments, including grants of employee stock options, restricted stock-based awards and performance cash units, in accordance with ASC 718 - Compensation-Stock Compensation, which requires that all share-based payments (to the extent that they are compensatory) be recognized as an expense in our consolidated statements of operations based on their fair values on the award date and the estimated number of shares we ultimately expect to vest. We recognize share-based compensation expense on a straight-line basis over the service period of the award, which is no greater than 5 years. See Note 18 to our consolidated financial statements for our discussion on share-based compensation and incentive plans.

Commitments and Contingencies

We record liabilities for loss contingencies arising from claims, assessments, litigation, fines, and penalties and other sources when it is probable that a liability has been incurred and the amount of the assessment can be reasonably estimated. Legal costs incurred in connection with loss contingencies are expensed as incurred.

Additional Balance Sheet Information

The components of "other current assets" on our consolidated balance sheets as of December 31, 2015 and 2014 are presented below:

| | December 31, | |
|---|---|---|
| Dollars in millions | 2015 | 2014 |

| | | |
|---|---|---|
| Inventory | $5 | $8 |
| Restricted cash | 2 | 17 |
| Prepaid expenses | 58 | 58 |
| Value-added tax receivable | 9 | 27 |
| Assets held-for-sale | — | 10 |
| Advances to subcontractors | 9 | 3 |
| Other miscellaneous assets | 26 | 24 |
| Total other current assets | $109 | $147 |

The components of "other current liabilities" on our consolidated balance sheets as of December 31, 2015 and 2014 are presented below:

| | December 31, | |
|---|---|---|
| Dollars in millions | 2015 | 2014 |
| Reserve for estimated losses on uncompleted contracts (a) | $60 | $159 |
| Retainage payable | 49 | 88 |
| Income taxes payable | 56 | 61 |
| Taxes not based on income | 7 | 8 |
| Value-added tax payable | 12 | 31 |
| Insurance payable | 12 | 19 |
| Dividend payable | 12 | 12 |
| Other miscellaneous liabilities | 55 | 64 |
| Total other current liabilities | $263 | $442 |

(a) See Note 2 to our consolidated financial statements for further discussion on our reserve for estimated losses on uncompleted contracts.

Note 2. Business Segment Information

We provide a wide range of services and the management of our business is heavily focused on major projects within each of our reportable segments. At any given time, a relatively few number of projects and joint ventures represent a substantial part of our operations. Our reportable segments follow the same accounting policies as those described in Note 1 to our consolidated financial statements.

In 2014, we reorganized into three business segments to focus on core strengths in technology and consulting, engineering and construction, and government services. We also announced our intent to exit businesses that are no longer a part of our future strategic focus and organized those businesses into our Non-strategic Business segment. Each business segment reflects a reportable segment led by a separate business segment President who reports directly to our chief operating decision maker ("CODM"). Our business segments are described below.

Technology & Consulting ("T&C"). Our T&C business segment combines proprietary KBR technologies, knowledge-based services and our three specialist consulting brands, Granherne, Energo and GVA under a single customer-facing global business. This segment provides licensed technologies and consulting services to the oil and gas value chain, from wellhead to crude refining and through to specialty chemicals production. In addition to sharing many of the same customers, these brands share the approach of early and continuous customer involvement to deliver an optimal solution to meet the customer's objectives through early planning and scope definition, advanced technologies, and project lifecycle support.

Engineering & Construction ("E&C"). Our E&C business segment leverages our operational and technical excellence as a global provider of engineering, procurement, construction ("EPC"), commissioning and maintenance services for oil and gas, refining, petrochemicals, and chemicals customers. E&C is managed on a geographic basis in order to facilitate close proximity to our customers and our people, while utilizing a consistent global execution strategy.

Government Services ("GS"). Our GS business segment focuses on long-term service contracts with annuity streams particularly for the governments of the United Kingdom, Australia and United States.

Non-strategic Business. Our Non-strategic Business segment represents the operations or activities which we intend to exit upon completion of existing contracts. This segment also included businesses we exited upon sale to third parties.

Other. Our Other business segment includes our corporate expenses and general and administrative expenses not allocated to the business segments above, and any future activities that do not individually meet the criteria for segment presentation.

Reportable segment performance is evaluated by our CODM using reportable segment gross profit (loss) which is defined as business segment revenues less the cost of revenues and includes business segment overhead directly attributable to the segment.

The following table presents revenues, gross profit (loss), equity in earnings of unconsolidated affiliates, impairment of goodwill, asset impairment and restructuring charges, capital expenditures, and depreciation and amortization by reporting segment.

Operations by Reportable Segment

| | Years ended December 31, | | |
|---|---|---|---|
| Dollars in millions | 2015 | 2014 | 2013 |
| Revenues: | | | |
| Technology & Consulting | $324 | $353 | $330 |
| Engineering & Construction | 3,454 | 4,584 | 4,956 |
| Government Services | 663 | 638 | 931 |
| Other | — | — | — |
| Subtotal | 4,441 | 5,575 | 6,217 |
| Non-strategic Business | 655 | 791 | 997 |
| Total | $5,096 | $6,366 | $7,214 |
| Gross profit (loss): | | | |
| Technology & Consulting | $77 | $53 | $69 |
| Engineering & Construction | 224 | 141 | 263 |
| Government Services | (3) | (32) | 90 |
| Other | — | — | — |
| Subtotal | 298 | 162 | 422 |
| Non-strategic Business | 27 | (227) | (5) |
| Total | $325 | $(65) | $417 |
| Equity in earnings of unconsolidated affiliates: | | | |
| Technology & Consulting | $— | $— | $— |
| Engineering & Construction | 104 | 90 | 76 |
| Government Services | 45 | 73 | 61 |
| Other | — | — | — |
| Subtotal | 149 | 163 | 137 |
| Non-strategic Business | — | — | — |
| Total | $149 | $163 | $137 |
| Impairment of goodwill (Note 8): | | | |
| Technology & Consulting | $— | $— | $— |
| Engineering & Construction | — | (293) | — |
| Government Services | — | — | — |
| Other | — | — | — |
| Subtotal | — | (293) | — |
| Non-strategic Business | — | (153) | — |
| Total | $— | $(446) | $— |
| Asset impairment and restructuring charges (Note 9): | | | |
| Technology & Consulting | $(10) | $(2) | $— |
| Engineering & Construction | (34) | (24) | — |
| Government Services | — | (5) | — |
| Other | (22) | (149) | — |
| Subtotal | (66) | (180) | — |
| Non-strategic Business | (4) | (34) | — |
| Total | $(70) | $(214) | $— |
| Segment operating income (loss): | | | |
| Technology & Consulting | $62 | $49 | $70 |
| Engineering & Construction | 295 | (114) | 278 |
| Government Services | 37 | 25 | 145 |
| Other | (140) | (312) | (181) |
| Subtotal | 254 | (352) | 312 |

| | | | |
|---|---|---|---|
| Non-strategic Business | 56 | (442) | (4) |
| Total | $310 | $(794) | $308 |

| | Years ended December 31, | | |
|---|---|---|---|
| Dollars in millions | 2015 | 2014 | 2013 |
| Capital expenditures: | | | |
| Technology & Consulting | $— | $— | $— |
| Engineering & Construction | 6 | 19 | 10 |
| Government Services | — | — | 1 |
| Other | 4 | 34 | 67 |
| Subtotal | 10 | 53 | 78 |
| Non-strategic Business | — | — | — |
| Total | $10 | $53 | $78 |
| Depreciation and amortization: | | | |
| Technology & Consulting | $2 | $2 | $2 |
| Engineering & Construction | 17 | 23 | 23 |
| Government Services | 6 | 8 | 9 |
| Other | 14 | 33 | 27 |
| Subtotal | 39 | 66 | 61 |
| Non-strategic Business | — | 6 | 7 |
| Total | $39 | $72 | $68 |

Prior Period Adjustment

During the second quarter of 2015, we corrected a cumulative error related to transactions between unconsolidated affiliates associated with our Mexican offshore maintenance joint venture within our E&C business segment. The cumulative error occurred throughout the period beginning in 2007 and through the first quarter of 2015 and resulted in a $15 million favorable impact to "equity in earnings of unconsolidated affiliates" on our consolidated statements of operations during the second quarter of 2015. We evaluated the cumulative error on both a quantitative and qualitative basis under the guidance of ASC 250 - Accounting Changes and Error Corrections. We determined that the cumulative impact of the error did not affect the trend of net income, cash flows or liquidity and therefore did not have a material impact to previously issued financial statements. Additionally, we determined that the cumulative impact of the error did not have a material impact to our consolidated financial statements for the current annual period.

Changes in Estimates

There are many factors, including, but not limited to, the availability and costs of resources, including labor, materials and equipment, productivity and weather, that can affect the accuracy of our cost estimates and ultimately our future profitability. In the past, we have realized both lower and higher than expected margins and have incurred losses as a result of unforeseen changes in our project costs. We recognize revisions of revenues and costs in the period in which the revisions are known. This may result in the recognition of costs before the recognition of related revenue recovery, if any. However, historically, our estimates have been reasonably dependable regarding the recognition of revenues and profit on percentage-of-completion contracts.

Changes in estimates periodically result in the recognition of losses on a particular contract. We generally believe that the recognition of a contract as a loss contract is a significant change in estimate. Activity in our reserve for estimated losses on uncompleted contracts, which is a component of "other current liabilities" on our consolidated balance sheets, was as follows:

| Dollars in millions | Reserve for Estimated Losses | |
|---|---|---|
| Balance at December 31, 2013 | | |
| Beginning Balance | $56 | |
| Changes in estimates on loss projects | 106 | |
| Change due to progress on loss projects | (53 | ) |
| Ending Balance | $109 | |
| Balance at December 31, 2014 | | |
| Changes in estimates on loss projects | 177 | |
| Change due to progress on loss projects | (127 | ) |
| Ending Balance | $159 | |
| Balance at December 31, 2015 | | |
| Changes in estimates on loss projects | 14 | |
| Change due to progress on loss projects | (113 | ) |
| Ending Balance | $60 | |

Included in the reserve for estimated losses on uncompleted contracts is $47 million as of December 31, 2015 primarily related to a power project in our Non-strategic Business segment. At December 31, 2014, the losses on uncompleted contracts included $80 million for two power projects. During 2015 and 2014, we recognized net unfavorable changes in estimates of losses on our power projects of $16 million and $80 million, respectively. Our estimates of revenues and costs at completion for the remaining power project has been, and may continue to be, impacted by our performance, the performance of our subcontractors, and the U.S. labor market. Our estimated loss at completion as of December 31, 2015 on this power project represents our best estimate based on current information. Actual results could differ from the estimates we have used to account for this power project as of December 31, 2015.

We have completed the seven Canadian pipe fabrication and module assembly projects in our E&C business segment and accordingly, have no remaining loss reserves for these projects as of December 31, 2015. Our reserve for estimated losses on uncompleted contracts as of December 31, 2014 included $53 million associated these seven projects. We recognized net favorable (net unfavorable) changes in our estimates of losses on these projects of $21 million, $(72) million, and $(132) million in 2015, 2014, and 2013, respectively.

Acquisitions, Dispositions and Other Transactions

In December 2015, we finalized the sale of our Infrastructure Americas business to Stantec Consulting Services Inc. for net cash proceeds, including working capital adjustments, of $18 million. The sale of this business within our Non-strategic Business segment is consistent with our restructuring plans announced in December 2014. The disposition resulted in a pretax gain of $7 million and is subject to future adjustments resulting from the finalization of the closing balance sheet. In addition, we sold our office facility located in Greenford, U.K, within our E&C business segment, for net cash proceeds of $33 million and our office facility located in Birmingham, Alabama, within our Non-strategic Business segment, for net cash proceeds of $6 million. See Note 7 to our consolidated financial statements for more information. The gain on these transactions is included under "gain on disposition of assets" on our consolidated statements of operations.

In September 2015, we executed agreements to establish two strategic relationships within our E&C business segment. See Note 10 to our consolidated financial statements for information related to the establishment of these new strategic relationships.

In June 2015, we sold our Building Group subsidiary to a subsidiary of Pernix Group, Inc., for net cash proceeds, including working capital adjustments, of $23 million. The sale of the Building Group within our Non-strategic Business segment is consistent with our restructuring plans announced in December 2014. The disposition resulted in a pre-tax gain of $28 million and is included under "gain on disposition of assets" on our consolidated statements of operations.

Subsequent Event

Subsequent to December 31, 2015, we acquired three technology companies from Chematur Technologies AB, a subsidiary of Connell Chemical Industry Co., Ltd. This acquisition will be reported within our T&C business segment in 2016.

Balance Sheet Information by Reportable Segment

Within KBR, not all assets are associated with specific business segments. Those assets specific to business segments include receivables, inventories, certain identified property, plant and equipment, equity in and advances to related companies and goodwill. The remaining assets, such as cash and the remaining property, plant and equipment, are considered to be shared among the business segments and are therefore reported in "Other."

| | December 31, | |
|---|---|---|
| Dollars in millions | 2015 | 2014 |
| Total assets: | | |
| Technology & Consulting | $198 | $173 |
| Engineering & Construction | 1,656 | 2,008 |
| Government Services | 464 | 545 |
| Other | 1,060 | 1,182 |
| Subtotal | 3,378 | 3,908 |
| Non-strategic Business | 34 | 170 |
| Total | $3,412 | $4,078 |
| Goodwill (Note 8): | | |
| Technology & Consulting | $31 | $31 |
| Engineering & Construction | 233 | 233 |
| Government Services | 60 | 60 |
| Other | — | — |
| Subtotal | 324 | 324 |
| Non-strategic Business | — | — |
| Total | $324 | $324 |
| Equity in and advances to related companies (Note 10): | | |
| Technology & Consulting | $— | $— |
| Engineering & Construction | 255 | 119 |
| Government Services | 26 | 31 |
| Other | — | — |
| Subtotal | 281 | 150 |
| Non-strategic Business | — | 1 |
| Total | $281 | $151 |

Selected Geographic Information

Revenues by country are determined based on the location of services provided. Long-lived assets by country are determined based on the location of tangible assets.

| | Years ended December 31, | | |
|---|---|---|---|
| Dollars in millions | 2015 | 2014 | 2013 |
| Revenues: | | | |
| United States | $2,212 | $2,324 | $2,470 |
| Australia | 836 | 1,380 | 1,768 |
| Africa | 164 | 251 | 593 |
| Middle East | 786 | 707 | 913 |
| Europe | 495 | 624 | 575 |
| Canada | 185 | 752 | 687 |
| Latin America | 131 | 111 | 74 |
| Other | 287 | 217 | 134 |
| Total | $5,096 | $6,366 | $7,214 |

| | December 31, | |
|---|---|---|
| Dollars in millions | 2015 | 2014 |
| Property, plant & equipment, net: | | |
| United States | $73 | $115 |
| United Kingdom | 48 | 68 |
| Other | 48 | 64 |
| Total | $169 | $247 |

Note 3. Cash and Equivalents

We consider all highly liquid investments with an original maturity of three months or less to be cash equivalents. Cash and equivalents include cash balances held by our wholly owned subsidiaries as well as cash held by joint ventures that we consolidate. Joint venture cash balances are limited to joint venture activities and are not available for other projects, general cash needs or distribution to us without approval of the board of directors of the respective joint ventures. We expect to use joint venture cash for project costs and distributions of earnings related to joint venture operations. However, some of the earnings distributions may be paid to other KBR entities where the cash can be used for general corporate needs.

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

| | December 31, 2015 | | |
|---|---|---|---|
| Dollars in millions | International (a) | Domestic (b) | Total |
| Operating cash and equivalents | $177 | $253 | $430 |
| Short-term investments (c) | 293 | 107 | 400 |
| Cash and equivalents held in joint ventures | 49 | 4 | 53 |
| Total | $519 | $364 | $883 |

| | December 31, 2014 | | |
|---|---|---|---|
| Dollars in millions | International (a) | Domestic (b) | Total |
| Operating cash and equivalents | $209 | $111 | $320 |
| Short-term investments (c) | 481 | 89 | 570 |
| Cash and equivalents held in joint ventures | 71 | 9 | 80 |
| Total | $761 | $209 | $970 |

(a) Includes deposits held in non-U.S. operating accounts
(b) Includes U.S. dollar and foreign currency deposits held in operating accounts that constitute onshore cash for tax purposes but may reside either in the U.S. or in a foreign country
(c) Includes time deposits, money market funds, and other highly liquid short-term investments

See "Item 7. Management's Discussion and Analysis" Liquidity and Capital Resources discussion for information on our foreign cash repatriation strategy.

Note 4. Accounts Receivable

The components of our accounts receivable, net of allowance for doubtful accounts are as follows:

| | December 31, 2015 | | |
|---|---|---|---|
| Dollars in millions | Retainage | Trade & Other | Total |
| Technology & Consulting | $— | $70 | $70 |
| Engineering & Construction | 51 | 402 | 453 |
| Government Services | 2 | 75 | 77 |
| Other | — | 2 | 2 |
| Subtotal | 53 | 549 | 602 |
| Non-strategic Business | 9 | 17 | 26 |
| Total | $62 | $566 | $628 |

| | December 31, 2014 | | |
|---|---|---|---|
| Dollars in millions | Retainage | Trade & Other | Total |
| Technology & Consulting | $— | $51 | $51 |
| Engineering & Construction | 45 | 538 | 583 |
| Government Services | 5 | 84 | 89 |
| Other | — | 3 | 3 |
| Subtotal | 50 | 676 | 726 |
| Non-strategic Business | 48 | 73 | 121 |
| Total | $98 | $749 | $847 |

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Note 5. Costs and Estimated Earnings in Excess of Billings on Uncompleted Contracts and Billings in Excess of Costs and Estimated Earnings on Uncompleted Contracts

Our CIE balances by business segment are as follows:

| | December 31, | |
|---|---|---|
| Dollars in millions | 2015 | 2014 |
| Technology & Consulting | $42 | $38 |
| Engineering & Construction | 114 | 357 |
| Government Services | 68 | 73 |
| Subtotal | 224 | 468 |
| Non-strategic Business | — | 22 |
| Total | $224 | $490 |

Our BIE balances by business segment are as follows:

| | December 31, | |
|---|---|---|
| Dollars in millions | 2015 | 2014 |
| Technology & Consulting | $72 | $56 |
| Engineering & Construction | 307 | 212 |
| Government Services | 69 | 93 |
| Subtotal | 448 | 361 |
| Non-strategic Business | 61 | 170 |
| Total | $509 | $531 |

Unapproved change orders and claims

The amounts of unapproved change orders and claims included in determining the profit or loss on contracts are as follows:

| Dollars in millions | 2015 | 2014 |
|---|---|---|
| Beginning balance | $31 | $115 |
| Adjustments due to changes in estimates-at-completion | 71 | 87 |
| Adjustments due to approvals | (42) | (171) |
| Adjustment due to disposition of businesses | (14) | — |
| Amounts included in project estimates-at-completion at December 31, | $46 | $31 |
| Amounts recorded in revenues on a percentage-of-completion basis at December 31, | $41 | $24 |

In 2014, change orders were approved for an air quality project and EPC contract for gas fired electric power generation projects within our Non-strategic Business segment as well as a construction project within our E&C business segment.

The table above excludes unapproved change orders and claims related to our unconsolidated affiliates. Our proportionate share of unapproved change orders and claims included in estimated revenue at completion was $58 million as of December 31, 2015 and $78 million as of December 31, 2014 on a project in our E&C business segment.

Liquidated damages

Some of our engineering and construction contracts have schedule dates and performance obligations that if not met could subject us to penalties for liquidated damages. These generally relate to specified activities that must be completed by a set contractual date or by achievement of a specified level of output or throughput. Each contract defines the conditions under which a customer may make a claim for liquidated damages. However, in some instances, liquidated damages are not asserted by the customer, but the potential to do so is used in negotiating or settling claims and closing out the contract.

It is possible that liquidated damages related to several projects totaling $6 million at December 31, 2015 and $12 million at December 31, 2014 could be incurred if the projects are completed as currently forecasted. However, based upon our evaluation of our performance, we have concluded these liquidated damages are not probable and therefore, they have not been recognized.

Note 6. Claims and Accounts Receivable

The components of our claims and accounts receivable are as follows:

| | December 31, | |
|---|---|---|
| Dollars in millions | 2015 | 2014 |
| Engineering & Construction | $400 | $425 |
| Government Services | 126 | 145 |
| Total | $526 | $570 |

Our E&C business segment's claims and accounts receivable includes $400 million related to our EPC 1 arbitration. See Note 15 to our consolidated financial statements under PEMEX and PEP Arbitration for further discussion.

Our GS business segment's claims and accounts receivable reflects claims filed with the U.S. government related to payments not yet received for cost incurred under various U.S. government contracts. These claims relate to de-obligated funding on certain task orders that are subject to the Form 1s discussed in Note 14 of our consolidated financial statements. In addition, the claims relate to disputed costs or contracts where our costs have exceeded the U.S. government's funded value on the task order. We believe such disputed costs will be resolved in our favor at which time the U.S. government will be required to obligate funds from appropriations for the year in which resolution occurs.

Note 7. Property, Plant and Equipment

The components of our property, plant and equipment balance are as follows:

| Dollars in millions | Estimated Useful Lives in Years | December 31, 2015 | 2014 |
|---|---|---|---|
| Land | N/A | $7 | $13 |
| Buildings and property improvements | 5 - 44 | 140 | 198 |
| Equipment and other | 3 - 25 | 374 | 421 |
| Total | | 521 | 632 |
| Less accumulated depreciation | | (352) | (385) |
| Net property, plant and equipment | | $169 | $247 |

See Note 9 to our consolidated financial statements for discussion on asset impairment.

In the fourth quarter of 2015, we closed on the sale of our office facility located in Greenford, U.K. for approximately $33 million in net cash proceeds. The sale resulted in a pre-tax gain of $23 million on disposition of assets on our consolidated statements of operations. We also closed on the sale of our office facility located in Birmingham, Alabama for approximately $6 million in net cash proceeds.

Depreciation expense was $35 million, $61 million, and $54 million for the years ended December 31, 2015, 2014 and 2013, respectively.

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Note 8. Goodwill and Intangible Assets

Goodwill

The table below summarizes changes in the carrying amount of goodwill by business segment.

| Dollars in millions | Technology & Consulting | Engineering & Construction | Government Services | Other | Subtotal | Non-strategic Business | Total |
|---|---|---|---|---|---|---|---|
| Balance as of January 1, 2014: | | | | | | | |
| Gross goodwill | $31 | $ 528 | $60 | $— | $619 | $ 331 | $950 |
| Accumulated impairment losses | — | — | — | — | — | (178) | (178) |
| Net goodwill as of January 1, 2014 | $31 | $ 528 | $60 | $— | $619 | $ 153 | $772 |
| Impairment loss | $— | $ (293) | $— | $— | $(293) | $ (153) | $(446) |
| Net foreign exchange difference | $— | $ (2) | $— | $— | $(2) | $ — | $(2) |
| Balances as of December 31, 2014: | | | | | | | |
| Gross goodwill | $31 | $ 526 | $60 | $— | $617 | $ 331 | $948 |
| Accumulated impairment losses | — | (293) | — | — | (293) | (331) | (624) |
| Net goodwill as of December 31, 2014 | $31 | $ 233 | $60 | $— | $324 | $ — | $324 |
| Impairment loss | $— | $ — | $— | $— | $— | $ — | $— |
| Net foreign exchange difference | $— | $ — | $— | $— | $— | $ — | $— |
| Balance as of December 31, 2015: | | | | | | | |
| Gross goodwill | $31 | $ 526 | $60 | $— | $617 | $ 331 | $948 |
| Accumulated impairment losses | — | (293) | — | — | (293) | (331) | (624) |
| Net goodwill as of December 31, 2015 | $31 | $ 233 | $60 | $— | $324 | $ — | $324 |

Goodwill Impairment

We perform our annual goodwill impairment test as of October 1 of each year. The first step in performing a goodwill impairment test is to identify potential impairment by comparing the estimated fair value of the reporting unit to its carrying value. At the annual testing date of October 1, 2015, we had six reporting units with goodwill balances. The fair values of all our reporting units exceeded their carrying values which implied that goodwill was not impaired.

The fair values of the reporting units were determined using a combination of two methods, one utilizing market earnings multiples (the market approach) and the other derived from discounted cash flow models with estimated cash flows based on internal forecasts of revenues and expenses over a specified period plus a terminal value (the income approach). Under the market approach, we estimate fair value by applying earnings and revenue market multiples to a reporting unit's operating performance for the trailing twelve-month period. The income approach estimates fair value by discounting each reporting unit's estimated future cash flows using a weighted-average cost of capital that reflects current market conditions and the risk profile of the reporting unit. To arrive at our future cash flows, we use estimates of economic and market assumptions, including growth rates in revenues, costs, estimates of future expected changes in operating margins, tax rates and cash expenditures or inflows. Other significant estimates and assumptions include terminal value growth rates, future estimates of capital expenditures and changes in future working capital requirements.

In connection with our December 2014 reorganization, we decided we would no longer bid on certain types of work and also exited certain non-strategic businesses. This decision resulted in a significant reduction in our forecasts of future cash flows for three of our previous reporting units and triggered a goodwill impairment test. The result of the first step of our goodwill impairment test indicated the carrying values of the three reporting units exceeded their fair values, prompting us to perform the second step of the goodwill impairment test in order to measure the amount of the potential impairment loss, if any. As a result, we recorded a noncash goodwill impairment charge of $446 million in "impairment of goodwill" on our consolidated statements of operations for the year ended December 31, 2014.

The second step of the goodwill impairment test compares the implied fair value of the reporting unit's goodwill to the carrying value of that goodwill. Step two requires significant unobservable inputs (Level 3 fair value measurements) in the calculation. We determine the implied fair value of goodwill in the same manner as we use in determining the amount of goodwill to be recognized in a business combination. Applying this methodology, we assigned the fair value of the respective reporting unit estimated in step one to all the assets and liabilities of the respective reporting unit. The implied fair value of the reporting unit's goodwill is the excess of the fair value of the reporting unit over the amounts assigned to its assets and liabilities. The result of our step two test indicated that the carrying value of each of the three reporting unit's goodwill exceeded the implied fair value of their goodwill.

Intangible Assets

Intangible assets are comprised of customer relationships, trade names, licensing agreements and other. The cost and accumulated amortization of our intangible assets were as follows:

| | December 31, | |
|---|---|---|
| Dollars in millions | 2015 | 2014 |
| Intangibles not subject to amortization | $11 | $11 |
| Intangibles subject to amortization (a) | 115 | 126 |
| Total intangibles | 126 | 137 |
| Accumulated amortization of intangibles | (91) | (96) |
| Net intangibles | $35 | $41 |

(a) The reduction in intangibles subject to amortization is due to our business dispositions during 2015.

Intangibles that are not subject to amortization are reviewed annually for impairment or more often if events or circumstances change that would create a triggering event. Intangibles subject to amortization are amortized over their estimated useful lives of up to 25 years. Intangibles subject to amortization are impaired if the carrying value of the intangible is not recoverable and exceeds its fair value. In conjunction with our 2014 annual goodwill impairment analysis, we performed an undiscounted cash flow analysis which indicated impairment of certain trade names and customer relationship intangibles associated with our 2010 Roberts & Schaefer Company ("R&S") acquisition. See Note 9 to our consolidated financial statements for discussion on impairment of intangible assets.

Our intangibles amortization expense is presented below:

| | Years ended December 31, | | |
|---|---|---|---|
| Dollars in millions | 2015 | 2014 | 2013 |
| Intangibles amortization expense | $4 | $11 | $14 |

Our expected intangibles amortization expense for the next five years is presented below:

| Dollars in millions | Expected future intangibles amortization expense |
|---|---|
| 2016 | $3 |
| 2017 | $3 |
| 2018 | $3 |
| 2019 | $3 |
| 2020 | $1 |
| Beyond 2020 | $11 |

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Note 9. Asset Impairment and Restructuring

Information related to "asset impairment and restructuring charges" on our consolidated statements of operations is presented below:

| | Years ended December 31, | |
|---|---|---|
| Dollars in millions | 2015 | 2014 |
| Asset impairment: | | |
| Technology & Consulting | — | — |
| Engineering & Construction | 8 | 1 |
| Government Services | — | — |
| Other | 21 | 139 |
| Subtotal | 29 | 140 |
| Non-strategic Business | 2 | 31 |
| Total | 31 | 171 |
| Restructuring charges: | | |
| Technology & Consulting | 10 | 2 |
| Engineering & Construction | 26 | 23 |
| Government Services | — | 5 |
| Other | 1 | 10 |
| Subtotal | 37 | 40 |
| Non-strategic Business | 2 | 3 |
| Total | 39 | 43 |
| Asset impairment and restructuring charges: | | |
| Total | 70 | 214 |

Asset impairment charges include the following:

Enterprise resource planning project - In December 2014, we recorded an asset impairment charge of $135 million within our Other business segment related to our decision to abandon further implementation of our enterprise resource planning ("ERP") project which began in 2013. During 2015, we recorded an additional $5 million within our E&C business segment and $17 million within our Other business segment resulting from our decision to abandon the remaining portion of this ERP project.

Intangible assets - During 2014, we recorded noncash impairment charges of $31 million related to certain intangible assets within our Non-strategic Business segment. No intangibles were considered impaired during 2015. See Note 8 to our consolidated financial statements for additional information on intangibles.

Leasehold improvements - During 2014, we recorded a charge of $5 million within our Other and E&C business segments related to the impairment of leasehold improvements and other property associated with the terminated leases discussed below. During 2015, we recorded $9 million primarily within our E&C and Other business segments related to additional asset impairments.

Restructuring charges include the following:

Early Termination of leases - During 2014, we recognized a charge of $14 million on early termination of operating leases within our E&C, GS and Non-strategic Business segments. During 2015, we recorded an additional $12 million charge on early lease terminations within our E&C and Other business segments.

Severance - As presented below, we recognized severance charges of $27 million and $29 million during each of the twelve months ended December 31, 2015 and 2014, respectively, associated with workforce reductions.

Severance Accrual

In connection with our long-term strategic reorganization, we announced that we would reduce our workforce beginning December 2014. The employees affected by this reduction are eligible for separation benefits upon their termination and the dates have occurred or are expected to occur through 2016. The table below provides details of one-time charges associated with employee terminations based on the fair value of the termination benefits. These amounts are included in "other current liabilities" on our consolidated balance sheets.

| Dollars in millions | Severance Accrual |
|---|---|
| Balance at December 31, 2013 | $— |
| Charges | 29 |
| Payments | (8) |
| Balance at December 31, 2014 | $21 |
| Charges | 27 |
| Payments | (29) |
| Balance at December 31, 2015 | $19 |

Note 10. Equity Method Investments and Variable Interest Entities

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

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

| Dollars in millions | 2015 | 2014 |
|---|---|---|
| Beginning balance | $151 | $156 |
| Equity in earnings of unconsolidated affiliates | 149 | 163 |
| Distributions of earnings of unconsolidated affiliates (a) | (92) | (249) |
| Advances | (10) | (13) |
| Investments (b) | 80 | — |
| Foreign currency translation adjustments | (9) | (1) |
| Other | 1 | — |
| Balance before reclassification | 270 | 56 |
| Reclassification of excess distributions (a) | 16 | 102 |
| Recognition of excess distributions (a) | (5) | (7) |
| Ending balance | $281 | $151 |

(a) During 2014, we received cash dividends of $102 million in excess of the carrying value of one of our investments. We have no obligation to return any portion of the cash dividends received. We recorded the excess dividend amount as "deferred income from unconsolidated affiliates" on our consolidated balance sheets and will recognize these dividends as earnings are generated by the investment. We recognized $7 million of the excess dividends during 2014. During 2015, we received an additional $16 million of cash dividends in excess of the carrying value of our investment and recognized $5 million of excess dividends. We do not consider these dividends as a return of our investment.

(b) Investments include a $58 million investment in the Brown & Root Industrial Services joint venture and a $24 million investment in EPIC Piping LLC ("EPIC"), offset by prior quarter dispositions of a joint venture related to the Building Group. See below for further discussion related to joint venture formations and investments.

Equity Method Investments

New Investments

On September 30, 2015, we executed an agreement with Bernhard Capital Partners ("BCP"), a private equity firm, to establish the Brown & Root Industrial Services joint venture. In connection with the formation of the joint venture, we contributed our Industrial Services Americas business and received cash consideration of $48 million and a 50% interest in the joint venture.

As a result of the transaction, we no longer have a controlling interest in this Industrial Services business and have deconsolidated it effective September 30, 2015. The transaction resulted in a pre-tax gain of $7 million, which is included in "gain on disposition of assets" on our consolidated statements of operations. The fair value of our retained interest in the former business was determined using both a market approach and an income approach. Cash consideration was the primary input used for the market approach.

The Brown & Root Industrial Services joint venture will continue to offer services similar or related to those offered when the business was part of KBR. Our interest in this venture is accounted for using the equity method and we have determined that the Brown & Root Industrial Services joint venture is not a VIE. Our continuing involvement in the joint venture will be through our 50% voting interest and representation on the board of managers. Consistent with our other equity investments, transactions between us and the joint venture, if any, are deemed related party transactions. In connection with this transaction, we entered into an agreement effective October 1, 2015 to provide specified transition services to the new joint venture over a limited duration. See the Related Party discussion below for details on amounts related to this agreement.

On September 30, 2015, we acquired a minority interest in a partnership that owns a pipe fabrication business operating under the name EPIC Piping LLC ("EPIC") and a minority interest in its general partner. BCP holds a controlling interest in these entities. Consideration for these interests was $19 million in cash and contribution of the majority of our Canada pipe fabrication and module assembly business excluding the seven completed loss projects. We have determined that this arrangement is not a VIE and we will account for our ownership interest using the equity method. In addition, we entered into an alliance agreement with EPIC to provide certain pipe fabrication services to KBR.

Other

Mantenimiento Marino de Mexico, S. de R.L. de C.V. ("MMM"). MMM is a joint venture formed under a Partners Agreement related to the contract with PEMEX. We determined that MMM is not a VIE. The MMM joint venture was set up under Mexican maritime law in order to hold navigation permits to operate in Mexican waters. The scope of the business is to render services for maintenance, repair and restoration of offshore oil and gas platforms and provisions of quartering in the territorial waters of Mexico. KBR holds a 50% interest in the MMM joint venture. Results from MMM are included in our E&C business segment.

Summarized financial information

Summarized financial information for all jointly owned operations including VIEs that are accounted for using the equity method of accounting is as follows:

Balance Sheets

| | December 31, | |
|---|---|---|
| Dollars in millions | 2015 | 2014 |
| Current assets | $2,331 | $3,098 |
| Noncurrent assets | 3,435 | 4,069 |
| Total assets | $5,766 | $7,167 |
| | | |
| Current liabilities | $1,501 | $2,969 |
| Noncurrent liabilities | 3,742 | 4,090 |
| Total liabilities | $5,243 | $7,059 |

Statements of Operations

| | Years ended December 31, | | |
|---|---|---|---|
| Dollars in millions | 2015 | 2014 | 2013 |
| Revenues | $3,717 | $6,439 | $4,800 |

| | | | |
|---|---|---|---|
| Operating income | $635 | $659 | $660 |
| Net income | $476 | $419 | $355 |

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Unconsolidated Variable Interest Entities

The following summarizes the total assets and total liabilities as reflected in our consolidated balance sheets as well as our maximum exposure to losses related to our unconsolidated VIEs in which we have a significant variable interest but are not the primary beneficiary. Generally, our maximum exposure to loss is limited to our equity investment in the joint venture and any amounts payable to us for services we provided to the joint venture, reduced for any unearned revenues on the projects.

| | December 31, 2015 | | |
|---|---|---|---|
| Dollars in millions | Total assets | Total liabilities | Maximum exposure to loss |
| Aspire Defence project | $17 | $ 121 | $17 |
| Ichthys LNG project | $87 | $ 63 | $87 |
| U.K. Road projects | $34 | $ 11 | $34 |
| EBIC Ammonia plant (65% interest) | $36 | $ 2 | $22 |

| | December 31, 2014 | | |
|---|---|---|---|
| Dollars in millions | Total assets | Total liabilities | Maximum exposure to loss |
| Aspire Defence project | $17 | $ 118 | $17 |
| Ichthys LNG project | $49 | $ 35 | $49 |
| U.K. Road projects | $34 | $ 11 | $34 |
| EBIC Ammonia plant (65% interest) | $42 | $ 2 | $26 |

Aspire Defence project. In April 2006, Aspire Defence, a joint venture between KBR and two financial investors, was awarded a privately financed project contract by the U.K. Ministry of Defence ("MoD") to upgrade and provide a range of services to the British Army’s garrisons at Aldershot and around Salisbury Plain in the U.K. In addition to a package of ongoing services to be delivered over 35 years, the project includes a nine-year construction program to improve soldiers’ single living, technical and administrative accommodations, along with leisure and recreational facilities. Aspire Defence manages the existing properties and is responsible for design, refurbishment, construction and integration of new and modernized facilities. We indirectly own a 45% interest in Aspire Defence, the project company that is the holder of the 35-year concession contract. In addition, we own a 50% interest in each of two joint ventures that provide the construction and the related support services to Aspire Defence. Our financial and performance guarantees are joint and several, subject to certain limitations, with our joint venture partners. The project is funded through equity and subordinated debt provided by the project sponsors and the issuance of publicly held senior bonds which are nonrecourse to us. The entities we hold an interest in are VIEs; however, we are not the primary beneficiary of these entities. We account for our interests in each of the entities using the equity method of accounting. As of December 31, 2015, included in our GS segment, our assets and liabilities associated with our investment in this project, within our consolidated balance sheets, were $17 million and $121 million, respectively. Our maximum exposure to loss of $17 million indicated in the table above is limited to our equity interest and amounts payable to us for services provided to the entity as of December 31, 2015. Our maximum exposure to construction and operating joint venture losses is limited to our proportionate share of any amounts required to fund future losses incurred by those entities under their respective contracts with the project company.

Ichthys LNG project. In January 2012, we became involved in an agreement to provide EPC services to construct the Ichthys Onshore LNG Export Facility in Darwin, Australia ("Ichthys LNG project"). The project is being executed using two joint ventures, which are VIEs, in which we own a 30% equity interest. We account for our investments using the equity method of accounting. At December 31, 2015, our assets and liabilities associated with our investment in this project recorded in our consolidated balance sheets under our E&C business segment, were $87 million and $63 million, respectively. Our maximum exposure to loss of $87 million indicated in the table above is limited to our equity interest and amounts payable to us for services provided to the entity as of December 31, 2015. In addition, the joint venture executes a project that has a lump sum component, and we have an exposure to losses if the project exceeds the lump sum component to the extent of our ownership percentage in the joint venture.

U.K. Road projects. We are involved in four privately financed projects, executed through joint ventures, to design, build, operate and maintain roadways for certain government agencies in the U.K. We have a 25% ownership interest in each of these joint ventures and account for them using the equity method of accounting. The joint ventures have obtained financing through third parties that is nonrecourse to the joint venture partners. These joint ventures are VIEs; however, we are not the primary beneficiary. At December 31, 2015, included in our GS business segment, our assets and liabilities associated with our investment in this project recorded in our consolidated balance sheets were $34 million and $11 million, respectively. Our maximum exposure to loss represents our equity investments in these ventures.

EBIC Ammonia project. We have an investment in a development corporation that has an indirect interest in the Egypt Basic Industries Corporation ("EBIC") ammonia plant project located in Egypt. We performed the EPC work for the project and completed our operations and maintenance services for the facility in the first half of 2012. We own 65% of this development corporation and consolidate it for financial reporting purposes. The development corporation owns a 25% ownership interest in a company that consolidates the ammonia plant which is considered a VIE. The development corporation accounts for its investment in the company using the equity method of accounting. The VIE is funded through debt and equity. Indebtedness of EBIC under its debt agreement is nonrecourse to us. We are not the primary beneficiary of the VIE. As of December 31, 2015, included in our E&C business segment, our assets and liabilities associated with our investment in this project, within our consolidated balance sheets, were $36 million and $2 million, respectively. Our maximum exposure to loss of $22 million indicated in the table above is limited to our proportionate share of the equity investment and amounts payable to us for services provided to the entity as of December 31, 2015.

Related Party Transactions

We often provide engineering, construction management and other services as a subcontractor to the joint ventures in which we participate. The amounts included in our revenues represent revenues from services we provide directly to the joint ventures. As of the years ended December 31, 2015, 2014, and 2013, our revenues included $291 million, $351 million and $253 million, respectively, related to services we provided to our joint ventures, primarily those in our E&C business segment. Under the terms of our transition services agreement ("TSA") we collected cash from customers and made payments to vendors and employees on behalf of the Brown & Root Industrial Services joint venture. As of December 31, 2015 we had $9 million payable to the joint venture included in "accounts payable" on our consolidated balance sheets. For the year ended December 31, 2015 we incurred approximately $3 million of reimbursable costs under the TSA.

Amounts included in our consolidated balance sheets related to services we provided to our unconsolidated joint ventures for the years ended December 31, 2015 and 2014 are as follows:

| | December 31, | |
|---|---|---|
| Dollars in millions | 2015 | 2014 |
| Accounts receivable, net of allowance for doubtful accounts | $7 | $7 |
| Costs and estimated earnings in excess of billings on uncompleted contracts | $5 | $2 |
| Billings in excess of costs and estimated earnings on uncompleted contracts | $55 | $21 |

Consolidated Variable Interest Entities

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

| Dollars in millions | December 31, 2015 | |
|---|---|---|
| | Total assets | Total liabilities |
| Gorgon LNG project | $117 | $145 |
| Escravos Gas-to-Liquids project | $16 | $33 |
| Fasttrax Limited project | $74 | $70 |

| | December 31, 2014 | |
|---|---|---|
| Dollars in millions | Total assets | Total liabilities |

| | | |
|---|---|---|
| Gorgon LNG project | $282 | $309 |
| Escravos Gas-to-Liquids project | $23 | $36 |
| Fasttrax Limited project | $83 | $81 |

Gorgon LNG project. We have a 30% ownership in an Australian joint venture which was awarded a contract in 2005 for FEED and in 2009 for EPC management services to construct an LNG plant. The joint venture is considered a VIE, and, because we are the primary beneficiary, we consolidate this joint venture for financial reporting purposes. We determined that we are the primary beneficiary of this project entity because we control the activities that most significantly impact economic performance of the entity.

Escravos Gas-to-Liquids ("GTL") project. During 2005, we formed a joint venture to engineer and construct a gas monetization facility in Escravos, Nigeria, which was completed in 2014. We own a 50% equity interest in the joint venture and determined that we are the primary beneficiary; accordingly, we have consolidated the joint venture for financial reporting purposes. There are no consolidated assets that collateralize the joint venture’s obligations. However, at December 31, 2015 and 2014, the joint venture had approximately $7 million and $8 million of cash, respectively, which mainly relate to advanced billings in connection with the joint venture’s obligations under the EPC contract that is expected to be fully closed out in 2016.

Fasttrax Limited project. In December 2001, the Fasttrax joint venture ("Fasttrax") was created to provide to the U.K. MoD a fleet of 91 new heavy equipment transporters ("HETs") capable of carrying a 72-ton Challenger II tank. Fasttrax owns, operates and maintains the HET fleet and provides heavy equipment transportation services to the British Army. The purchase of the assets was completed in 2004, and the operating and service contracts related to the assets extend through 2023. Fasttrax's entity structure includes a parent entity and its 100% owned subsidiary, Fasttrax Limited. KBR and its partner each own a 50% interest in the parent entity, which is considered a VIE. We determined that we are the primary beneficiary of this project entity because we control the activities that most significantly impact economic performance of the entity. Therefore, we consolidate this VIE.

The purchase of the HETs by the joint venture was financed through two series of bonds secured by the assets of Fasttrax Limited and a bridge loan totaling approximately £84.9 million (approximately $120 million at the exchange rate on the date of the transaction). The secured bonds are an obligation of Fasttrax Limited and are not a debt obligation of KBR as they are nonrecourse to the joint venture partners. Accordingly, in the event of a default on the notes, the lenders may only look to the assets of Fasttrax Limited for repayment. The bridge loan of approximately £12.2 million (approximately $17 million at the exchange rate on the date of the transaction) was replaced when the joint venture partners funded their equity and subordinated debt contributions in 2005. Assets collateralizing Fasttrax’s senior bonds include cash and equivalents of $20 million and net property, plant and equipment of approximately $48 million as of December 31, 2015. See Note 12 to our consolidated financial statements for further details regarding our nonrecourse project-finance debt of this VIE consolidated by KBR, including the total amount of debt outstanding at December 31, 2015.

Acquisition of Noncontrolling Interest

During the three months ended March 31, 2015, we entered into an agreement to acquire the noncontrolling interest in one of our consolidated joint ventures for $40 million. We also paid the partner previously accrued expenses of $8 million. The acquisition of these shares was recorded as an equity transaction, with a $40 million reduction in our paid-in capital in excess of par. In the fourth quarter 2015, 25% of total shares of this joint venture were issued to a new partner.

Note 11. Pension Plans

We have elective defined contribution plans for our employees in the U.S. and retirement savings plans for our employees in the U.K., Canada and other locations. Our defined contribution plans provide retirement benefits in return for services rendered. These plans provide an individual account for each participant and have terms that specify how contributions to the participant’s account are to be determined rather than the amount of retirement benefits the participant is to receive. Contributions to these plans are based on pretax income discretionary amounts determined on an annual basis. Our expense for the defined contribution plans totaled $67 million in 2015, $72 million in 2014 and $78 million in 2013.

In addition, we have two frozen defined benefit plans in the U.S. and one frozen plan in the U.K. and participate in multi-employer plans in Canada. Our defined benefit plans are funded pension plans, which define an amount of pension benefit to be provided, usually as a function of age, years of service or compensation.

Benefit obligations and plan assets

We used a December 31 measurement date for all plans in 2015 and 2014. Plan assets, expenses and obligations for retirement plans are presented in the following tables.

| Dollars in millions | United States 2015 | Int'l | United States 2014 | Int'l |
|---|---|---|---|---|
| Change in projected benefit obligations: | | | | |
| Projected benefit obligations at beginning of period | $87 | $2,138 | $79 | $2,048 |
| Service cost | — | 2 | — | 2 |
| Interest cost | 2 | 76 | 3 | 90 |
| Foreign currency exchange rate changes | (3) | (174) | — | (123) |
| Actuarial (gain) loss | — | (112) | 11 | 191 |
| Other | — | — | — | (4) |
| Benefits paid | (11) | (81) | (6) | (66) |
| Projected benefit obligations at end of period | $75 | $1,849 | $87 | $2,138 |
| Change in plan assets: | | | | |
| Fair value of plan assets at beginning of period | $66 | $1,652 | $70 | $1,580 |
| Actual return on plan assets | (1) | 8 | — | 194 |
| Employer contributions | 5 | 43 | 2 | 46 |
| Foreign currency exchange rate changes | — | (90) | — | (98) |
| Benefits paid | (11) | (81) | (6) | (66) |
| Other | — | — | — | (4) |
| Fair value of plan assets at end of period | $59 | $1,532 | $66 | $1,652 |
| Funded status | $(16) | $(317) | $(21) | $(486) |

| Dollars in millions | United States 2015 | Int'l | United States 2014 | Int'l |
|---|---|---|---|---|
| Amounts recognized on the consolidated balance sheets | | | | |
| Other current liabilities (a) | $— | $— | $(5) | $— |
| Pension obligations | (16) | (317) | (16) | (486) |
| Total | $(16) | $(317) | $(21) | $(486) |

(a) In 2015, we made a $5 million contribution to fund settlement of our terminated U.S. pension plan. In 2014, we reclassified the $5 million to "other current liabilities" on our consolidated balance sheets, in anticipation of this contribution.

Net periodic cost

| Dollars in millions | United States 2015 | Int'l | United States 2014 | Int'l | United States 2013 | Int'l |
|---|---|---|---|---|---|---|
| Components of net periodic benefit cost | | | | | | |
| Service cost | $— | $2 | $— | $2 | $— | $2 |
| Interest cost | 2 | 76 | 3 | 90 | 3 | 79 |
| Expected return on plan assets | (3) | (97) | (4) | (102) | (5) | (86) |
| Settlements/curtailments | — | — | 1 | — | 2 | — |
| Recognized actuarial loss | 5 | 43 | 3 | 39 | 2 | 33 |
| Net periodic benefit cost | $4 | $24 | $3 | $29 | $2 | $28 |

The amounts in accumulated other comprehensive loss that have not yet been recognized as components of net periodic benefit cost at December 31, 2015, net of tax were as follows:

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| Dollars in millions | United States 2015 | Int’l | United States 2014 | Int’l |
|---|---|---|---|---|
| Unrecognized actuarial loss, net of tax of $11 and $198, and $9 and $222, respectively | $25 | $535 | $31 | $639 |
| Total in accumulated other comprehensive loss | $25 | $535 | $31 | $639 |

Estimated amounts that will be amortized from accumulated other comprehensive income, net of tax, into net periodic benefit cost in 2016 are as follows:

| Dollars in millions | United States | International |
|---|---|---|
| Actuarial loss | $1 | $24 |
| Total | $1 | $24 |

Weighted-average assumptions used to determine net periodic benefit cost

| | United States 2015 | Int'l | United States 2014 | Int'l | United States 2013 | Int'l |
|---|---|---|---|---|---|---|
| Discount rate | 2.89 % | 3.65 % | 3.38 % | 4.45 % | 3.09 % | 4.50 % |
| Expected return on plan assets | 4.81 % | 6.25 % | 5.28 % | 6.45 % | 7.00 % | 6.15 % |

Weighted-average assumptions used to determine benefit obligations at measurement date

| | United States 2015 | Int'l | United States 2014 | Int'l |
|---|---|---|---|---|
| Discount rate | 3.42 % | 3.75 % | 2.89 % | 3.65 % |

Assumed long-term rates of return on plan assets and discount rates for estimating benefit obligations vary for the different plans according to the local economic conditions. The expected long-term rate of return on assets was determined by a stochastic projection that takes into account asset allocation strategies, historical long-term performance of individual asset classes, an analysis of additional return (net of fees) generated by active management, risks using standard deviations and correlations of returns among the asset classes that comprise the plans’ asset mix. The discount rate used to determine the benefit obligations was computed using a yield curve approach that matches plan specific cash flows to a spot rate yield curve based on high quality corporate bonds. Because all plans have been frozen, there is no rate of compensation increase.

Plan fiduciaries of our retirement plans set investment policies and strategies and oversee the investment direction, which includes selecting investment managers, commissioning asset-liability studies and setting long-term strategic targets. Long-term strategic investment objectives include preserving the funded status of the plan and balancing risk and return and have diversified asset types, fund strategies and fund managers. Targeted asset allocation ranges are guidelines, not limitations and occasionally plan fiduciaries will approve allocations above or below a target range.

The target asset allocation for our U.S. and International plans for 2016 is as follows:

| Asset Allocation | 2016 Targeted United States | Int'l |
|---|---|---|
| Cash and cash equivalents | 19 % | — % |
| Equity funds and securities | 49 % | 20 % |
| Fixed income funds and securities | 32 % | 37 % |
| Hedge funds | — % | 22 % |
| Real estate funds | — % | 5 % |
| Other | — % | 16 % |

| | | |
|---|---|---|
| Total | 100 % | 100 % |

The range of targeted asset allocations for our International plans for 2016 and 2015, by asset class, are as follows:

| International Plans | 2016 Targeted Percentage Range | | 2015 Targeted Percentage Range | |
|---|---|---|---|---|
| | Minimum | Maximum | Minimum | Maximum |
| Equity funds and securities | — % | 60 % | — % | 51 % |
| Fixed income funds and securities | — % | 100 % | — % | 100 % |
| Hedge funds | — % | 35 % | — % | 20 % |
| Real estate funds | — % | 10 % | — % | 10 % |
| Other | — % | 20 % | — % | 35 % |

The range of targeted asset allocations for our U.S. plans for 2016 and 2015, by asset class, are as follows:

| Domestic Plans | 2016 Targeted Percentage Range | | 2015 Targeted Percentage Range | |
|---|---|---|---|---|
| | Minimum | Maximum | Minimum | Maximum |
| Cash and cash equivalents | 19 % | 19 % | 22 % | 22 % |
| Equity funds, securities and other | 49 % | 49 % | 47 % | 47 % |
| Fixed income funds and securities | 32 % | 32 % | 31 % | 31 % |

ASC 820 - Fair Value Measurement addresses fair value measurements and disclosures, defines fair value, establishes a framework for using fair value to measure assets and liabilities and expands disclosures about fair value measurements. This standard applies whenever other standards require or permit assets or liabilities to be measured at fair value. ASC 820 establishes a three-tier value hierarchy, categorizing the inputs used to measure fair value. The inputs and methodology used for valuing securities are not an indication of the risk associated with investing in those securities. The following is a description of the primary valuation methodologies and classification used for assets measured at fair value.

Fair values of our Level 1 assets are based on observable inputs such as unadjusted quoted prices for identical assets in active markets. These consist of securities valued at the closing price reported on the active market on which the individual securities are traded.

Fair values of our Level 2 assets are based on inputs other than the quoted prices in active markets that are observable either directly or indirectly, such as quoted prices for similar assets; quoted prices that are in inactive markets; inputs other than quoted prices that are observable for the asset; and inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Fair values of our Level 3 assets are based on unobservable inputs in which there is little or no market data and require us to develop our own assumptions.

A summary of total investments for KBR's pension plan assets measured at fair value is presented below.

| Dollars in millions | Fair Value Measurements at Reporting Date Total | Level 1 | Level 2 | Level 3 |
|---|---|---|---|---|
| Asset Category at December 31, 2015 | | | | |
| United States plan assets | | | | |
| Investments measured at net asset value (a) | $59 | $— | $— | $— |
| Total United States plan assets | $59 | $— | $— | $— |
| International plan assets | | | | |
| Equities | 66 | 54 | — | 12 |
| Fixed income | 14 | — | — | 14 |
| Real estate | 6 | — | — | 6 |
| Cash and cash equivalents | 10 | 10 | — | — |
| Other | 13 | — | — | 13 |
| Investments measured at net asset value (a) | 1,423 | — | — | — |
| Total international plan assets | $1,532 | $64 | $— | $45 |
| Total plan assets at December 31, 2015 | $1,591 | $64 | $— | $45 |

| Dollars in millions | Fair Value Measurements at Reporting Date Total | Level 1 | Level 2 | Level 3 |
|---|---|---|---|---|
| Asset Category at December 31, 2014 | | | | |
| United States plan assets | | | | |
| Investments measured at net asset value (a) | $66 | $— | $— | $— |
| Total United States plan assets | $66 | $— | $— | $— |
| International plan assets | | | | |
| Equities | 61 | 53 | 2 | 6 |
| Fixed income | 11 | — | — | 11 |
| Real estate | 12 | — | — | 12 |
| Cash and cash equivalents | 9 | 9 | — | — |
| Other | 13 | — | — | 13 |
| Investments measured at net asset value (a) | 1,546 | — | — | — |
| Total international plan assets | $1,652 | $62 | $2 | $42 |
| Total plan assets at December 31, 2014 | $1,718 | $62 | $2 | $42 |

(a) In accordance with ASU 2015-07, these investments are measured at fair value using the net asset value per share (or its equivalent) practical expedient and have not been categorized in the fair value hierarchy. The fair value amounts presented in the tables are intended to allow reconciliation of the fair value hierarchy to the amounts on our consolidated balance sheets.

The fair value measurement of plan assets using significant unobservable inputs (Level 3) changed each year due to the following:
Level 3 fair value measurement rollforward

| Dollars in millions | Total | Equities | Fixed Income | Real Estate | Other |
|---|---|---|---|---|---|
| International plan assets | | | | | |
| Balance as of December 31, 2013 | $24 | $1 | $6 | $5 | $12 |
| Return on assets held at end of year | 5 | — | (1) | 4 | 2 |
| Return on assets sold during the year | — | — | — | — | — |
| Purchases, sales and settlements | 15 | 5 | 7 | 3 | — |
| Foreign exchange impact | (2) | — | (1) | — | (1) |
| Balance as of December 31, 2014 | $42 | $6 | $11 | $12 | $13 |
| Return on assets held at end of year | 2 | 1 | — | (2) | 3 |
| Return on assets sold during the year | 5 | — | — | 5 | — |
| Purchases, sales and settlements, net | (1) | 5 | 4 | (8) | (2) |
| Foreign exchange impact | (3) | — | (1) | (1) | (1) |
| Balance as of December 31, 2015 | $45 | $12 | $14 | $6 | $13 |

Expected cash flows
Contributions. Funding requirements for each plan are determined based on the local laws of the country where such plans reside. In certain countries the funding requirements are mandatory while in other countries they are discretionary. We expect to contribute $41 million to our international pension plan in 2016.
Benefit payments. The following table presents the expected benefit payments over the next 10 years.

| | Pension Benefits | |
|---|---|---|
| Dollars in millions | United States | Int’l |
| 2016 | $15 | $79 |
| 2017 | $4 | $81 |
| 2018 | $4 | $83 |
| 2019 | $4 | $85 |
| 2020 | $4 | $87 |
| Years 2021 – 2025 | $22 | $471 |

Multiemployer Pension Plans

We participate in multiemployer plans in Canada. Generally, the plans provide defined benefits to substantially all employees covered by collective bargain agreements. Under the terms of these agreements, our obligations are discharged upon plan contributions and are not subject to any assessments for unfunded liabilities upon our termination or withdrawal.
Our aggregate contributions to these plans were $8 million in 2015, $29 million in 2014 and $22 million in 2013. At December 31, 2015, none of the plans in which we participate is individually significant to our consolidated financial statements.

Deferred Compensation Plans
Our Elective Deferral Plan is a nonqualified deferred compensation program that provides benefits payable to officers, certain key employees or their designated beneficiaries and non-employee directors at specified future dates, upon retirement, or death. Except for $8 million of mutual funds included in "other assets" on our consolidated balance sheets at December 31, 2015 and 2014 designated for a portion of our employee deferral plan, the plan is unfunded. The mutual funds are carried at fair value which includes readily determinable or published net asset values and may be liquidated in the near term without restrictions.

The following table presents our obligations under our employee deferred compensation plan included in "employee compensation and benefits" in our consolidated balance sheets.

| | December 31, | |
|---|---|---|
| Dollars in millions | 2015 | 2014 |
| Deferred compensation plans obligations | $70 | $71 |

Note 12. Debt and Other Credit Facilities

Credit Agreement

On September 25, 2015, we entered into a new $1 billion, unsecured revolving credit agreement (the "Credit Agreement") with a syndicate of banks replacing the previous agreement which was scheduled to mature in December 2016. The Credit Agreement is guaranteed by certain of the Company's domestic subsidiaries, matures in September 2020 and is available for cash borrowings and the issuance of letters of credit related to general corporate needs. Subject to certain conditions, we may request (i) that the aggregate commitments under the Credit Agreement be increased by up to an additional $500 million, and (ii) that the maturity date of the Credit Agreement be extended by two additional one-year terms.

Amounts drawn under the Credit Agreement will bear interest at variable rates, per annum, based either on (i) the London interbank offered rate ("LIBOR") plus an applicable margin of 1.375% to 1.75%, or (ii) a base rate plus an applicable margin of 0.375% to 0.75%, with the base rate equal to the highest of (a) reference bank's publicly announced base rate, (b) the Federal Funds Rate plus 0.5%, or (c) LIBOR plus 1%. The amount of the applicable margin to be applied will be determined by the Company's ratio of consolidated debt to consolidated EBITDA for the prior four fiscal quarters, as defined in the Credit Agreement. The Credit Agreement provides for fees on letters of credit issued under the Credit Agreement at a rate equal to the applicable margin for LIBOR-based loans, except for performance letters of credit, which are priced at 50% of such applicable margin. KBR pays an annual issuance fee of 0.125% of the face amount of a letter of credit and pays a commitment fee of 0.225% to 0.25%, per annum, on any unused portion of the commitment under the Credit Agreement based on the Company's consolidated leverage ratio. As of December 31, 2015, there were $127 million in letters of credit and no cash borrowings outstanding.

The Credit Agreement contains customary covenants as defined by the agreement which include financial covenants requiring maintenance of a ratio of consolidated debt to consolidated EBITDA not greater than 3.5 to 1 and a minimum consolidated net worth of $1.2 billion plus 50% of consolidated net income for each quarter beginning September 30, 2015 and 100% of any increase in shareholders' equity attributable to the sale of equity interests, but excluding any adjustments in shareholders' equity attributable to changes in foreign currency translation adjustments. As of December 31, 2015, we were in compliance with our financial covenants.

The Credit Agreement contains a number of other covenants restricting, among other things, our ability to incur additional liens and indebtedness, enter into asset sales, repurchase our equity shares and make certain types of investments. Our subsidiaries are restricted from incurring indebtedness, except if such indebtedness relates to purchase money obligations, capitalized leases, refinancing or renewals secured by liens upon or in property acquired, constructed or improved in an aggregate principal amount not to exceed $200 million at any time outstanding. Additionally, our subsidiaries may incur unsecured indebtedness not to exceed $200 million in aggregate outstanding principal amount at any time. We are also permitted to repurchase our equity shares, provided that no such repurchases shall be made from proceeds borrowed under the Credit Agreement, and that the aggregate purchase price and dividends paid after September 25, 2015, does not exceed the Distribution Cap (equal to the sum of $750 million plus the lesser of (1) $400 million and (2) the amount received by us in connection with the arbitration and subsequent litigation of the PEP contracts as discussed in Note 15 to our consolidated financial statements). As of December 31, 2015, the remaining availability under the Distribution Cap was approximately $698 million.

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Letters of credit, surety bonds and guarantees

In connection with certain projects, we are required to provide letters of credit, surety bonds or guarantees to our customers. Letters of credit are provided to certain customers and counterparties in the ordinary course of business as credit support for contractual performance guarantees, advanced payments received from customers and future funding commitments. We have approximately $2.2 billion in committed and uncommitted lines of credit to support the issuance of letters of credit and as of December 31, 2015, we have utilized $593 million of our present capacity under lines of credit. Surety bonds are also posted under the terms of certain contracts to guarantee our performance. The letters of credit outstanding included $127 million issued under our Credit Agreement and $466 million issued under uncommitted bank lines as of December 31, 2015. Of the letters of credit outstanding under our Credit Agreement, no letters of credit have expiry dates beyond the maturity date of the Credit Agreement. Of the total letters of credit outstanding, $236 million relate to our joint venture operations where the letters of credit are posted using our capacity to support our pro-rata share of obligations under various contracts executed by joint ventures of which we are a member. As the need arises, future projects will be supported by letters of credit issued under our Credit Agreement or other lines of credit arranged on a bilateral, syndicated or other basis. We believe we have adequate letter of credit capacity under our Credit Agreement and bilateral lines of credit to support our operations for the next twelve months.

Nonrecourse Project Debt

Fasttrax Limited, a joint venture in which we indirectly own a 50% equity interest with an unrelated partner, was awarded a concession contract in 2001 with the U.K. MoD to provide a Heavy Equipment Transporter Service to the British Army. See Note 10 to our consolidated financial statements for further discussion on the joint venture. Under the terms of the arrangement, Fasttrax Limited operates and maintains 91 heavy equipment transporters HETs for a term of 22 years. The purchase of the HETs by the joint venture was financed through two series of bonds secured by the assets of Fasttrax Limited and a bridge loan totaling approximately £84.9 million (approximately $120 million at the exchange rate on the date of the transaction). The secured bonds are an obligation of Fasttrax Limited and are not a debt obligation of KBR as they are nonrecourse to the joint venture partners. Accordingly, in the event of a default on the notes, the lenders may only look to the assets of Fasttrax Limited for repayment. The bridge loan of approximately £12.2 million (approximately $17 million at the exchange rate on the date of the transaction) was replaced when the joint venture partners funded their equity and subordinated debt contributions in 2005.

The secured bonds were issued in two classes consisting of Class A 3.5% Index Linked Bonds in the amount of £56 million (approximately $79 million at the exchange rate on the date of the transaction) and Class B 5.9% Fixed Rate Bonds in the amount of £16.7 million (approximately $24 million at the exchange rate on the date of the transaction). Semi-annual payments on both classes of bonds commenced in March 2005 and will continue through maturity in 2021. The subordinated notes payable to each of the partners initially bear interest at 11.25% increasing to 16% over the term of the notes until maturity in 2025. Semi-annual payments on the subordinated notes commenced in March 2006. For financial reporting purposes, only our partner's portion of the subordinated notes appears in the consolidated financial statements.

The following table summarizes the combined principal installments for both classes of bonds and subordinated notes, including inflation adjusted bond indexation over the next five years and beyond as of December 31, 2015:

| Dollars in millions | Payments Due |
|---|---|
| 2016 | $10 |
| 2017 | $10 |
| 2018 | $10 |
| 2019 | $11 |
| 2020 | $12 |

| | |
|---|---|
| Beyond 2020 | $8 |

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Note 13. Income Taxes

The United States and foreign components of income (loss) before income taxes and noncontrolling interests were as follows:

| | Years ended December 31, | | |
|---|---|---|---|
| Dollars in millions | 2015 | 2014 | 2013 |
| United States | $(35) | $(1,051) | $(141) |
| Foreign: | | | |
| United Kingdom | 105 | 130 | 162 |
| Australia | 32 | 180 | 280 |
| Canada | 87 | (101) | (117) |
| Other | 123 | 65 | 116 |
| Subtotal | 347 | 274 | 441 |
| Total | $312 | $(777) | $300 |

The total income taxes included in the statements of operations and in shareholders' equity were as follows:

| | Years ended December 31, | | |
|---|---|---|---|
| Dollars in millions | 2015 | 2014 | 2013 |
| Provision for income taxes | $(86) | $(421) | $(129) |
| Shareholders' equity, foreign currency translation adjustment | (3) | 4 | 27 |
| Shareholders' equity, pension and post-retirement benefits | (22) | 10 | 18 |
| Shareholders' equity, compensation expense and other | — | — | — |
| Total income taxes | $(111) | $(407) | $(84) |

The components of the provision for income taxes were as follows:

| Dollars in millions | Current | Deferred | Total |
|---|---|---|---|
| Balance as of December 31, 2015 | | | |
| Federal | $(17) | $8 | $(9) |
| Foreign | (55) | (22) | (77) |
| State and other | — | — | — |
| Provision for income taxes | $(72) | $(14) | $(86) |
| | | | |
| Balance as of December 31, 2014 | | | |
| Federal | $41 | $(333) | $(292) |
| Foreign | (110) | (11) | (121) |
| State and other | 1 | (9) | (8) |
| Provision for income taxes | $(68) | $(353) | $(421) |
| | | | |
| Balance as of December 31, 2013 | | | |
| Federal | $(6) | $17 | $11 |
| Foreign | (109) | (31) | (140) |
| State and other | 4 | (4) | — |
| Provision for income taxes | $(111) | $(18) | $(129) |

The components of our total foreign income tax provision were as follows:

| | Years ended December 31, | | |
|---|---|---|---|
| Dollars in millions | 2015 | 2014 | 2013 |
| United Kingdom | $(15) | $(22) | $(34) |
| Australia | 16 | (24) | (41) |
| Canada | 3 | 6 | (3) |
| Other | (81) | (81) | (62) |
| Foreign provision for income taxes | $(77) | $(121) | $(140) |

The components of our deferred income tax provision were as follows:

| | Years ended December 31, | | |
|---|---|---|---|
| Dollars in millions | 2015 | 2014 | 2013 |
| Expected deferred benefit | $14 | $254 | $48 |
| Tax reserves and allowances on current year activity | (20) | (210) | (39) |
| Tax reserves and allowances on beginning of year deferred balances | — | (320) | (9) |
| Unremitted foreign earnings | — | (77) | (5) |
| U.K. statutory rate change | (8) | — | (13) |
| Total deferred provision for income taxes | $(14) | $(353) | $(18) |

Our effective tax rates on income from operations differed from the statutory U.S. federal income tax rate of 35% as a result of the following:

| | Years ended December 31, | | |
|---|---|---|---|
| | 2015 | 2014 | 2013 |
| U.S. statutory federal rate, expected (benefit) provision | 35% | (35)% | 35% |
| Increase (reduction) in tax rate from: | | | |
| Rate differentials on foreign earnings | (10) | (5) | (12) |
| Noncontrolling interests and equity earnings | (8) | (4) | (5) |
| State and local income taxes, net of federal benefit | 2 | (2) | (1) |
| Other permanent differences, net | — | 2 | (2) |
| Contingent liability accrual | (1) | 9 | 7 |
| U.S. taxes on foreign unremitted earnings | 1 | 11 | 2 |
| Non-deductible goodwill impairment | — | 20 | — |
| Increase in valuation allowance | 6 | 58 | 15 |
| U.K. statutory rate change | 3 | — | 4 |
| Effective tax rate on income from operations | 28% | 54% | 43% |

The primary components of our deferred tax assets and liabilities were as follows:

| | Years ended December 31, | |
|---|---|---|
| Dollars in millions | 2015 | 2014 |
| Deferred tax assets: | | |
| Employee compensation and benefits | $140 | $175 |
| Foreign tax credit carryforwards | 282 | 233 |
| Accrued foreign tax credit carryforwards | 97 | 89 |
| Loss carryforwards | 65 | 133 |
| Insurance accruals | 15 | 22 |
| Allowance for bad debt | 10 | 10 |
| Accrued liabilities | 45 | 51 |
| Total gross deferred tax assets | 654 | 713 |
| Valuation allowances | (542) | (538) |
| Net deferred tax assets | 112 | 175 |
| Deferred tax liabilities: | | |
| Construction contract accounting | $(12) | $(15) |
| Intangibles | (25) | (35) |
| Depreciation and amortization | (2) | (2) |
| Unremitted foreign earnings | (39) | (98) |
| Other | (29) | 23 |
| Total gross deferred tax liabilities | (107) | (127) |
| Deferred income tax assets, net | $5 | $48 |

The valuation allowance for deferred tax assets was $542 million and $538 million at December 31, 2015 and 2014, respectively. The net change in the total valuation allowance was an increase of $4 million in 2015 and $455 million in 2014. The valuation allowance at December 31, 2015 was primarily related to U.S. federal, foreign and state net operating loss carryforwards, foreign tax credit carryforwards and other deferred tax assets that, in the judgment of management, are not more-likely-than-not to be realized. In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent on the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities (including the impact of available carryback and carryforward periods), projected future taxable income and tax-planning strategies in making this assessment. Based upon the significant level of historical taxable U.S. losses, management believes that it was not more-likely-than-not that the Company would be able to realize the benefits of the deductible differences and accordingly recognized a valuation allowance for the year ended December 31, 2015 and 2014 for any deferred tax assets not more-likely-than-not to be realized.

The net deferred tax balance by major jurisdiction after valuation allowance as of December 31, 2015 was as follows:

| Dollars in millions | Net Gross Deferred Asset (Liability) | Valuation Allowance | Deferred Asset (Liability), net |
|---|---|---|---|
| United States | $505 | $(503) | $2 |
| United Kingdom | 80 | — | 80 |
| Australia | 1 | (1) | — |
| Canada | 18 | (14) | 4 |
| Mexico | (91) | (2) | (93) |
| Other | 34 | (22) | 12 |
| Total | $547 | $(542) | $5 |

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At December 31, 2015, the amount of gross tax attributes available prior to the offset with related uncertain tax positions were as follows:

| Dollars in millions | December 31, 2015 | Expiration |
|---|---|---|
| Foreign tax credit carryforwards | $399 | 2019-2025 |
| Foreign net operating loss carryforwards | $122 | 2015-2035 |
| Foreign net operating loss carryforwards | $45 | Indefinite |
| State net operating loss carryforwards | $580 | Various |

In determining our foreign cash repatriation strategy and in determining whether earnings would continue to be considered permanently invested, we considered our future U.S. and non-U.S. cash needs such as 1) our anticipated foreign working capital requirements, including funding of our U.K. pension plan, 2) the expected growth opportunities across all geographical markets and 3) our plans to invest in strategic growth opportunities that may include acquisitions around the world. The remaining international cash balances associated with past foreign earnings which we currently intend to permanently reinvest in our foreign entities are not available for domestic use. The company has not recognized an estimated deferred tax liability of approximately $320 million for undistributed earnings of $1.1 billion that it continues to consider to be permanently reinvested in the foreseeable future. These undistributed earnings could be subject to additional tax if remitted, or deemed remitted, as a dividend.

A reconciliation of the beginning and ending amount of total unrecognized tax benefits is as follows:

| Dollars in millions | 2015 | 2014 | 2013 |
|---|---|---|---|
| Balance at January 1, | $228 | $68 | $95 |
| Increases related to current year tax positions | 18 | 13 | 3 |
| Increases related to prior year tax positions | 35 | 168 | 15 |
| Decreases related to prior year tax positions | (3) | (13) | (36) |
| Settlements | (2) | (1) | — |
| Lapse of statute of limitations | (16) | (5) | (2) |
| Other, primarily due to exchange rate fluctuations affecting non-U.S. tax positions | (3) | (2) | (7) |
| Balance at December 31, | $257 | $228 | $68 |

The total amount of unrecognized tax benefits that, if recognized, would affect our effective tax rate was approximately $243 million as of December 31, 2015. The difference between this amount and the amounts reflected in the tabular reconciliation above relates primarily to deferred income tax benefits on uncertain tax positions related to income taxes. In the next twelve months, it is reasonably possible that our uncertain tax positions could change by approximately $5 million due to the expirations of the statute of limitations.

We recognize accrued interest and penalties related to uncertain tax positions in income tax expense in our consolidated statements of operations. Our accrual for interest and penalties was $13 million for each of the years ended December 31, 2015 and 2014, respectively. During the years ended December 31, 2015, 2014 and 2013, we recognized net interest and penalties charges (benefits) of less than $1 million, $1 million and $(1) million, respectively related to uncertain tax positions.

KBR is the parent of a group of domestic companies that are members of a U.S. consolidated federal income tax return. We also file income tax returns in various states and foreign jurisdictions. With few exceptions, we are no longer subject to examination by tax authorities for U.S. federal or state and local income tax for years before 2007.

KBR is subject to a tax sharing agreement primarily covering periods prior to the April 2007 separation from Halliburton. The tax sharing agreement provides, in part, that KBR will be responsible for any audit settlements directly attributable to its business activity for periods prior to its separation from our former parent. As of

December 31, 2015 and 2014, we have recorded a $19 million and $56 million in "payable to our former parent" on our consolidated balance sheets, respectively, for tax related items under the tax sharing agreement. The remaining $19 million is not due until receipt by KBR of a future foreign tax credit refund claim filed with the IRS.

Note 14. U.S. Government Matters

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

Between 2002 and 2011, we provided significant support to the U.S. Army and other U.S. government agencies in support of the war in Iraq under the LogCAP III contract. We continue to support the U.S. government around the world under the LogCAP IV and other contracts. We have been in the process of closeout of the LogCAP III contract since 2011, and we expect the closeout process to continue through at least 2017. As a result of our work under LogCAP III, there are claims and disputes pending between us and the U.S. government, which need to be resolved in order to close the contracts. The closeout process includes resolving objections raised by the U.S. government through a billing dispute process referred to as Form 1s and Memorandums for Record ("MFRs") and resolving results from U.S. government audits. We continue to work with the U.S. government to resolve these issues and are engaged in efforts to reach mutually acceptable resolution of these outstanding matters. However, for certain of these matters, we have filed claims with the Armed Services Board of Contract Appeals ("ASBCA") or the U.S. Court of Federal Claims ("COFC"). We also have matters related to ongoing litigation or investigations involving U.S. government contracts. We anticipate billing additional labor, vendor resolution and litigation costs as we resolve the open matters. At this time, we cannot determine the timing or net amounts to be collected or paid to close out these contracts.

Form 1s

The U.S. government has issued Form 1s questioning or objecting to costs we billed to them. We believe the amounts we have invoiced the U.S. government are in compliance with our contract terms; however, we continue to evaluate our ability to recover these amounts as new information becomes known. A summary of the Form 1s received and associated amounts (consistent with discussion in our previous Form 10-K and 10-Q reports) for the annual periods ended December 31, 2015 and 2014, respectively is as follows:

| Dollars in millions | Form 1s issued and outstanding | Amounts withheld by U.S. government | Amounts withheld from subcontractors by us |
|---|---|---|---|
| Balance at December 31, 2013 | $274 | $137 | $50 |
| Additions | — | — | — |
| Settlements | (86) | (41) | (18) |
| Balance at December 31, 2014 | $188 | $96 | $32 |
| Additions | — | — | — |
| Settlements | (15) | (13) | — |
| Balance at December 31, 2015 | $173 | $83 | $32 |

Amounts withheld by the U.S. government are recorded in "claims and accounts receivable" on our consolidated balance sheets. See Note 6 to our consolidated financial statements for additional discussion on claims filed with the U.S. government related to payments not yet received for costs incurred under various U.S. government contracts in connection with the Form 1s discussed above as well as other disputed contracts. We believe these amounts are probable of collection.

Audits

In addition to reviews performed by the U.S. government through the Form 1 process, the negotiation, administration and settlement of our contracts, which primarily consist of DoD contracts, are subject to audit by the Defense Contract Audit Agency ("DCAA"). The DCAA serves in an advisory role to the Defense Contract Management Agency ("DCMA") and the DCMA is responsible for the administration of the majority of our contracts. The scope of these audits include, among other things, the validity of direct and indirect incurred costs, provisional approval of annual billing rates, approval of annual overhead rates, compliance with the Federal Acquisition Regulations ("FAR") and Cost Accounting Standards ("CAS"), compliance with certain unique contract clauses and audits of certain aspects of our internal control systems. The following is a summary of our audit status as of December 31, 2015.

Direct costs

- We have reached agreement on audit reports through 2009.
- We are in the process of completing negotiations on $9 million of questioned costs for 2010 through 2011.
- We have not received audit reports for 2012 through 2014 (open audits). The direct claimed cost for these years was $1.1 billion, which is significantly less than prior periods. Of this amount, the government has audited the $138 million that relates to the LogCAP III contract. While not complete, indications of questioned costs at the time of this filing are minimal. We expect to receive the final audit reports in the first quarter of 2016.

Indirect costs

- We have reached agreement on audit reports through 2010.
- We have received an audit report for 2011 and no costs were questioned.
- We have not received audit reports for 2012 through 2014 (open audits). The indirect costs invoiced for these years amounts to $109 million. None of these costs have been audited.

Historically, we have recovered 99.89% of the direct and indirect costs we have claimed for reimbursement from the U.S. government. As a result, for the open audit years we have accrued our estimate of disallowed costs based on our historical recovery rate as a reduction to "claims and accounts receivable" and in "other liabilities" on our consolidated balance sheets. Based on the information received to date, we do not believe the ongoing government audits will have a material adverse impact on our results of operations, financial position or cash flows.

As a result of the Form 1s, open audits and claims discussed above, we have accrued a reserve for unallowable costs at December 31, 2015 and 2014 of $50 million and $74 million, respectively as a reduction to “claims and accounts receivable” and in “other liabilities” on our consolidated balance sheet.

Investigations, Qui Tams and Litigation

The following matters relate to ongoing litigation or federal investigations involving U.S. government contracts. Many of these matters involve allegations of violations of the False Claims Act (“FCA”), which prohibits in general terms fraudulent billings to the government. Suits brought by private individuals are called “qui tams.”

First Kuwaiti Trading Company arbitration. In April 2008, First Kuwaiti Trading Company ("FKTC"), one of our LogCAP III subcontractors providing housing containers, filed for arbitration with the American Arbitration Association of all its claims under various LogCAP III subcontracts. FKTC sought damages in the amount of $134 million. After complete hearings on all of FKTC's claims, an arbitration panel awarded $17 million and interest to FKTC for claims involving damages on lost or unreturned vehicles. In addition, we determined that we owe FKTC $32 million in connection with other subcontracts. We paid FKTC $19 million and will pay $4 million on pay-when-paid terms in the contract. We have accrued amounts we believe are payable to FKTC in "accounts payable" and "other current liabilities" on our consolidated balance sheets.

The remaining $26 million owed to FKTC under contract has not been billed to the government and we will not do so until the related claims and disputes between KBR and the government over the FKTC living container contract are resolved (see DOJ False Claims Act complaint - FKTC Containers below).

We believe any cost or damages ultimately awarded to FKTC will be billable under the LogCAP III contract. As with all costs that are billed under LogCAP III, these costs would be subject to audit by the DCAA for reasonableness. At this time, we believe that the likelihood we would incur a loss related to this matter in excess of the amounts we have accrued is remote.

Electrocution litigation.  During 2008, a lawsuit was filed against KBR in Pittsburgh, PA, in the Allegheny County Common Pleas Court alleging that the Company was responsible for an electrical incident which resulted in the death of a soldier at the Radwaniyah Palace Complex near Baghdad, Iraq. Plaintiffs are claiming unspecified damages for personal injury, death and loss of consortium by the parents. After extensive motion practice and appeals, the case is back before the U.S. District Court for the Western District of Pennsylvania for further action. KBR will continue to pursue all available jurisdictional and other dismissal options. At this time, we believe the likelihood we would incur a loss related to this matter is remote. As of December 31, 2015, no amounts have been accrued.

We believe the costs of litigation and any damages which might be awarded are either covered by insurance or will be billable under the LogCAP III contract. As with all costs that are billed under LogCAP III, these costs would be subject to audit by the DCAA for reasonableness.

Burn Pit litigation. From November 2008 through current, KBR was served with in excess of 60 lawsuits in various states alleging exposure to toxic materials resulting from the operation of burn pits in Iraq or Afghanistan in connection with services provided by KBR under the LogCAP III contract. Each lawsuit has multiple named plaintiffs and seeks class certification. The plaintiffs are claiming unspecified damages. All of the pending cases were removed to Federal Court and have been consolidated for multi-district litigation treatment before the U.S. Federal District Court in Baltimore, Maryland. After extensive motion practice and appeals the cases are now back before the District Court in Baltimore, Maryland for further action in conformity with the Fourth Circuit's ruling on appeal. KBR will continue to pursue all available jurisdictional and other dismissal options. At this time, we believe the likelihood that we would incur a loss related to this matter is remote. As of December 31, 2015, no amounts have been accrued.

We believe any costs of litigation and any damages which might be awarded will be billable under the LogCAP III contract. As with all costs that are billed under LogCAP III, these costs would be subject to audit by the DCAA for reasonableness.

Sodium Dichromate litigation.  From December 2008 through September 2009, five cases were filed in various Federal District Courts against KBR by national guardsmen and other military personnel alleging exposure to sodium dichromate at the Qarmat Ali Water Treatment Plant in Iraq in 2003. The majority of the cases were re-filed and consolidated into two cases, before the U.S. District Court for the Southern District of Texas. The Texas cases have been dismissed by the Court on the merits on multiple grounds including the conclusion that no one was injured and are now on appeal to the Fifth Circuit. The plaintiffs are claiming unspecified damages.

We believe any costs of litigation and any damages which might be awarded will be billable under the Restore Iraqi Oil ("RIO") contract. As with all costs that are billed under RIO, these costs would be subject to audit by the DCAA for reasonableness. At this time, we believe that the likelihood we would incur a loss related to this matter is remote.

COFC/ASBCA Claims.  During the period of time since the first sodium dichromate litigation was filed against us, we have incurred legal defense costs that we believe are reimbursable under the related U.S. government contract. We have billed for these costs and filed claims to recover the associated costs incurred to date. Due to KBR's inability to procure adequate insurance coverage for this work, the Secretary of the Army approved the inclusion of an indemnification provision in the RIO Contract pursuant to Public Law 85-804.

After some procedural challenges, KBR’s claims for payment were filed before the ASBCA. On December 23, 2014, we filed a Motion for Partial Summary Judgment asking the ASBCA to find that the sodium dichromate related incidents and litigation are within the definition of the "unusually hazardous risks" language in the 85-804 indemnity agreement. On August 17, 2015, the ASBCA issued an order holding that KBR is entitled to reimbursement of the sodium dichromate legal fees and any resulting judgments pursuant to the 85-804 indemnity agreement. We subsequently filed a motion for summary judgment asking the ASBCA to find that the $30 million in legal fees incurred and expensed to date are reasonable and payable by the government to KBR pursuant to the indemnity agreement. The U.S. government is determining whether to appeal that ruling.

Qui tams. On the active qui tams of which we are aware, the U.S. government has joined one of them (see DOJ FCA complaint - Iraq Subcontractor below). We believe the likelihood that we would incur a loss in the qui tams the U.S. government has not joined is remote and as of December 31, 2015, no amounts have been accrued. Costs incurred in defending the qui tams cannot be billed to the U.S. government until those matters are successfully resolved in our favor. If successfully resolved, we can bill 80% of the costs to the U.S. government under the federal regulations. As of December 31, 2015, we have incurred and expensed $15 million in legal costs to date in defending ourselves in qui tams. Five of the remaining qui tam cases either have been dismissed, are on appeal from a dismissal or are at the dismissal stage. There are two active cases as discussed below.

Barko qui tam. Relator Harry Barko, a KBR subcontracts administrator in Iraq for a year in 2004/2005, filed a qui tam lawsuit in June 2005 in the U.S. District Court for the District of Columbia (D.C.), alleging violations of the FCA by KBR and KBR subcontractors Daoud & Partners and Eamar Combined for General Trading and Contracting. The DOJ investigated Barko's allegations and elected not to intervene. The claim was unsealed in March of 2009.

Early phases of this case focused on discovery issues and we successfully sought review and reversal of two trial court's opinion on KBR's attorney client and work product privileges. After the second reversal, KBR was notified that the case has been transferred to a new District Court Judge. We believe the likelihood that we will incur a loss related to this matter is remote, and therefore as of December 31, 2015 we have not accrued any loss provisions related to this matter.

Howard qui tam. On March 27, 2011 Geoffrey Howard filed a complaint in the Central District of Illinois, Rock Island Division alleging that KBR mischarged the government $628 million for unnecessary materials and equipment. On October 7, 2014 the Department of Justice declined to intervene and the case was partially unsealed. We believe the claims lack merit and we answered and filed a motion to dismiss which was denied on October 15, 2015. The case is starting discovery. We believe the likelihood that we will incur a loss related to this matter is remote, and therefore as of December 31, 2015 we have not accrued any loss provisions related to this matter.

DOJ False Claims Act complaint - FKTC Containers. In November 2012, the U.S. Department of Justice filed a complaint in the U.S. District Court for the Central District of Illinois in Rock Island, IL against KBR, FKTC and others, related to our settlement of delay claims by our subcontractor, FKTC, in connection with FKTC's provision of living trailers for the bed down mission in Iraq in 2003-2004. The DOJ alleges that KBR knew that FKTC had submitted inflated costs, that KBR did not verify the costs, that FKTC had contractually assumed the risk for the costs which KBR submitted to the U.S. government, that KBR concealed information about FKTC's costs from the U.S. government; that KBR claimed that an adequate price analysis had been done when in fact one had not been done and that KBR submitted false claims for reimbursement to the U.S. government in connection with FKTC's services during the bed down mission. Our contractual dispute with the Army over this settlement has been ongoing since 2005. On May 6, 2013, KBR filed a motion to dismiss and in March 2014 the motion to dismiss was denied. We filed our answer on May 2, 2014. On September 30, 2014, the District Court granted FKTC's motion to dismiss for lack of personal jurisdiction. We expect discovery to be substantially completed in 2016. At this time, we believe the likelihood that we would incur a loss related to this matter is remote. As of December 31, 2015, no amounts have been accrued.

DOJ False Claims Act complaint - Iraq Subcontractor. In January 2014, the U.S. Department of Justice filed a complaint in the U.S. District Court for the Central District of Illinois in Rock Island, IL, against KBR and two former KBR subcontractors alleging that three former KBR employees were offered and accepted kickbacks from these subcontractors in exchange for favorable treatment in the award and performance of subcontracts to be awarded during the course of KBR's performance of the LogCAP III contract in Iraq. The complaint alleges that as a result of the kickbacks, we submitted invoices with inflated or unjustified subcontract prices, resulting in alleged violations of the FCA and the Anti-Kickback Act. While the suit is relatively new, the DOJ's investigation dates back to 2004. We self-reported most of the violations and tendered credits to the U.S. government as appropriate. On May 22, 2014, FTKC filed a motion to dismiss which the U.S. government opposed. On April 22, 2014, we filed our answer and in May 2014 the U.S. government filed a Motion to Strike certain affirmative defenses and this motion was granted on March 30, 2015. We do not believe this limits KBR's ability to fully defend all allegations in this matter. As of December 31, 2015, we have accrued our best estimate of probable loss related to an unfavorable settlement of this matter recorded in "other liabilities" on our consolidated balance sheets. At this time, we believe the likelihood that we would incur a loss related to this matter in excess of the amounts we have accrued is remote. Discovery in the case will start this year and likely run well into 2016.

Note 15. Other Commitments and Contingencies

Litigation and regulatory matters related to the Company’s restatement of its 2013 annual financial statements
In re KBR, Inc. Securities Litigation. Lead plaintiffs, Arkansas Public Employees Retirement System and IBWE Local 58/NECA Funds, seek class action status on behalf of our shareholders, alleging violations of Sections 10(b) and 20(a) of the Securities Exchange Act of 1934 against the Company, our former chief executive officer, our current and former chief financial officers, and our former chief accounting officer, arising out of the restatement of our 2013 annual financial statements, and seek undisclosed damages. The case is currently pending in the U.S. District Court for the Southern District of Texas, Master File No. 14-cv-01287. We filed a motion to dismiss the consolidated complaint for failure to plead particularized facts supporting a strong inference of scienter on the part of the individual defendants and the motion was denied on September 3, 2015. We intend to continue to vigorously defend against these claims. Discovery in the case has begun and is expected to continue in 2016. At this early stage, we are not yet able to determine the likelihood of loss, if any, arising from this matter.

Butorin v. Blount et al, is a shareholder derivative complaint, filed on May 27, 2014 in the U.S. District Court for the Southern District of Texas on behalf of the Company naming certain current and former members of the Company's board of directors as defendants and the Company as a nominal defendant. The complaint alleges that the named directors breached their fiduciary duties by permitting the Company's internal controls to be inadequate. On March 31, 2015, the District Court transferred the case to the U.S. District Court of Delaware. The court has approved a stay of the action pending resolution of securities litigation and that stay has not been lifted. At this early stage, we are not yet able to determine the likelihood of loss, if any, arising from this matter.

Stella Dupree and Donald Taylor v. KBR, Inc., was filed by shareholders of the Company on May 12, 2015 in Delaware Chancery Court seeking the right to inspect and make copies of certain books and records of the Company under §220 of Delaware General Corporation Law relating primarily to the restatement of our 2013 annual financial statements. The Company provided a limited set of documents to the remaining plaintiff and is awaiting the plaintiff's voluntary dismissal of the case.

We have also received requests for information and a subpoena for documents from the Securities Exchange Commission ("SEC") regarding the restatement of our 2013 annual financial statements. We have been and intend to continue cooperating with the SEC.

PEMEX and PEP Arbitration

In 1997, Commisa, a subsidiary of KBR, Inc., entered into a contract with PEP, a subsidiary of PEMEX, the Mexican national oil company, to build offshore platforms and treatment and reinjection facilities in the Bay of Campeche, offshore Mexico. The project, known as EPC 1, encountered significant schedule delays and increased costs due to problems with design work, late delivery and defects in equipment, increases in scope and other changes.

PEP took possession of the facilities in March 2004 prior to the completion of our scope of work and without paying us for our work. We filed for arbitration with the International Chamber of Commerce ("ICC") in 2004 claiming recovery of damages of approximately $323 million. PEP subsequently filed counterclaims totaling $157 million. In December 2009, the ICC arbitration panel ruled in our favor, and we were awarded a total of approximately $351 million including legal and administrative recovery fees as well as interest. PEP was awarded approximately $6 million on counterclaims, plus interest on a portion of that sum. In connection with this award, we recognized a gain of $117 million net of tax in 2009.

U.S. Proceedings. Collection efforts have involved multiple actions. On August 27, 2013, the U.S. District Court for the Southern District of New York entered an order stating it would confirm the award even though it had been annulled in Mexico (see Mexico proceedings discussion below). The judgment included reimbursement for sums Commisa was forced to pay from our performance bonds that PEP had previously called (see Performance Bonds discussion below). PEP filed a notice of appeal to the U.S. Court of Appeals for the Second Circuit on October 16, 2013 and posted $465 million cash as security for the judgment pending appeal. Oral argument on the appeal was held on November 20, 2014. The U.S. government was invited to file a brief and did so, and the parties have filed responses to the U.S. government's brief. We continue to await the Court's ruling on the matter. There has been no indication as to when a decision will be reached and we are not aware of any factors preventing a decision from being reached. PEMEX and PEP could seek rehearing at the court of appeals and a review by the U.S. Supreme Court. At this time, we are unable to predict the timing of any ruling or resolution concerning this matter.

Mexico Proceedings. PEP's initial multiple attempts to nullify the award in Mexico were rejected by the Mexican courts. However, in September 2011, the Collegiate Court ruled that PEP, by administratively rescinding the contract in 2004, deprived the arbitration panel of jurisdiction and the award was null and void.

Other Proceedings. Commisa also initiated collection proceedings in Luxembourg and sought to collect under the North American Free Trade Agreement, the latter of which has been denied pending collection efforts in the U.S. and in Luxembourg.

Performance Bonds

We had provided approximately $80 million in performance bonds to PEP when the project was awarded. The bonds were written by a Mexican bond company and backed by a U.S. insurance company which is indemnified by KBR. As a result of the ICC arbitration award in December 2009, the panel determined that KBR had performed on the project and recovery on the bonds by PEP was precluded. Notwithstanding, PEP filed an action in Mexico in June 2010 against the Mexican bond company to collect the bonds. On June 17, 2013, after proceedings in multiple Mexican courts, we were required to pay $108 million to the Mexican bond company. The $108 million consists of the $80 million in outstanding bonds, plus $26 million in related interest and other expenses and $2 million in legal and banking fees. These sums were added to the judgment entered by the Federal Court in New York as discussed above.

Consistent with our treatment of probable claim recoveries, we have recorded $400 million of the ICC arbitration award, net of advances, in "claims and accounts receivable" on the consolidated balance sheets. PEP has posted $465 million in cash collateral in the U.S. under the control of the Federal District Court in New York. In addition we have taken action to attach assets in Luxembourg as additional protection to collect on the ICC arbitration award. Although it is possible we could resolve and collect the amounts due from PEP in the next 12 months, we believe the timing of the collection of the award is uncertain; therefore, consistent with our prior practice, as of December 31, 2015, we continue to classify the amount recorded for financial reporting purposes due from PEP as long term.

Environmental

We are subject to numerous environmental, legal and regulatory requirements related to our operations worldwide. In the U.S., these laws and regulations include, among others: the Comprehensive Environmental Response, Compensation and Liability Act; the Resources Conservation and Recovery Act; the Clean Air Act; the Clean Water Act; and the Toxic Substances Control Act. In addition to federal and state laws and regulations, other countries where we do business often have numerous environmental regulatory requirements by which we must abide in the normal course of our operations. These requirements apply to our business segments where we perform construction and industrial maintenance services or operate and maintain facilities.

We continue to monitor conditions at sites owned or previously owned. These locations were primarily utilized for manufacturing or fabrication work and are no longer in operation. The use of these facilities created various environmental issues including deposits of metals, volatile and semi-volatile compounds and hydrocarbons impacting surface and subsurface soils and groundwater. The range of remediation costs could change depending on our ongoing site analysis and the timing and techniques used to implement remediation activities. We do not expect that costs related to environmental matters will have a material adverse effect on our consolidated financial position or results of operations. Based on the information presently available to us the assessment and remediation costs associated with all environmental matters is immaterial and we do not anticipate incurring additional costs.

We have been named as a potentially responsible party in various clean-up actions taken by federal and state agencies in the U.S. All of these matters have been settled or resolved and as of December 31, 2015 we have not been named in any additional matters.

Existing or pending climate change legislation, regulations, international treaties or accords are not expected to have a short-term material direct effect on our business, the markets that we serve or on our results of operations or financial position. However, climate change legislation could have a direct effect on our customers or suppliers, which could impact our business. For example, our commodity-based markets depend on the level of activity of mineral and oil and gas companies and existing or future laws, regulations, treaties or international agreements related to climate change, including incentives to conserve energy or use alternative energy sources, which could impact our business if such laws, regulations, treaties or international agreements reduce the worldwide demand for minerals, oil and natural gas. We will continue to monitor developments in this area.

Leases

We are obligated under operating leases, principally for the use of land, offices, equipment, field facilities and warehouses. We recognize minimum rental expenses over the term of the lease. When a lease contains a fixed escalation of the minimum rent or rent holidays, we recognize the related rent expense on a straight-line basis over the lease term and record the difference between the recognized rental expense and the amounts payable under the lease as deferred lease credits. We have certain leases for office space where we receive allowances for leasehold improvements. We capitalize these leasehold improvements as property, plant and equipment and deferred lease credits. Leasehold improvements are amortized over the shorter of their economic useful lives or the lease term. Total rent expense was $155 million, $158 million and $159 million in 2015, 2014 and 2013, respectively. The current portion of deferred rent of $7 million at December 31, 2015 and 2014, respectively, is recorded in "other current liabilities" on our consolidated balance sheets and the noncurrent deferred rent of $114 million and $128 million at December 31, 2015 and 2014, respectively, is recorded in "other liabilities" on our consolidated balance sheets.

Future total rental payments on noncancelable operating leases are as follows:

| Dollars in millions | Future rental payments (a) |
|---|---|

| | |
|---|---|
| 2016 | $98 |
| 2017 | $83 |
| 2018 | $72 |
| 2019 | $61 |
| 2020 | $56 |
| Beyond 2020 | $350 |

(a) Amounts presented are net of subleases.

Insurance Programs

Our employee-related health care benefits program is self-funded. Our workers’ compensation, automobile and general liability insurance programs include a deductible applicable to each claim.  Claims in excess of our deductible are paid by the insurer. The liabilities are based on claims filed and estimates of claims incurred but not reported. As of December 31, 2015, liabilities for anticipated claim payments and incurred but not reported claims for all insurance programs totaled approximately $52 million, comprised of $14 million included in "accrued salaries, wages and benefits," $12 million included in "other current liabilities" and $26 million included in "other liabilities" all on our consolidated balance sheets. As of December 31, 2014, liabilities for unpaid and incurred but not reported claims for all insurance programs totaled approximately $66 million, comprised of $14 million included in "accrued salaries, wages and benefits," $19 million included in "other current liabilities" and $33 million included in "other liabilities" all on our consolidated balance sheets.

Note 16. Shareholders' Equity

The following tables summarize our activity in shareholders' equity:

| Dollars in millions | Total | PIC | Retained Earnings | Treasury Stock | AOCL | NCI |
|---|---|---|---|---|---|---|
| Balance at December 31, 2012 | $2,511 | $2,049 | $1,709 | $(606) | $(610) | $(31) |
| Share-based compensation | 16 | 16 | — | — | — | — |
| Common stock issued upon exercise of stock options | 6 | 6 | — | — | — | — |
| Dividends declared to shareholders | (36) | — | (36) | — | — | — |
| Adjustment pursuant to tax sharing agreement | (7) | (7) | — | — | — | — |
| Repurchases of common stock | (7) | — | — | (7) | — | — |
| Issuance of ESPP shares | 4 | 1 | — | 3 | — | — |
| Investments by noncontrolling interests | 9 | — | — | — | — | 9 |
| Distributions to noncontrolling interests | (109) | — | — | — | — | (109) |
| Other noncontrolling interests activity | 2 | — | — | — | — | 2 |
| Net income | 171 | — | 75 | — | — | 96 |
| Other comprehensive (loss), net of tax | (121) | — | — | — | (130) | 9 |
| Balance at December 31, 2013 | $2,439 | $2,065 | $1,748 | $(610) | $(740) | $(24) |
| Share-based compensation | 22 | 22 | — | — | — | — |
| Common stock issued upon exercise of stock options | 4 | 4 | — | — | — | — |
| Dividends declared to shareholders | (47) | — | (47) | — | — | — |
| Repurchases of common stock | (106) | — | — | (106) | — | — |
| Issuance of ESPP shares | 4 | — | — | 4 | — | — |
| Investments by noncontrolling interests | 10 | — | — | — | — | 10 |
| Distributions to noncontrolling interests | (61) | — | — | — | — | (61) |
| Other noncontrolling interests activity | 2 | — | — | — | — | 2 |
| Net income (loss) | (1,198) | — | (1,262) | — | — | 64 |
| Other comprehensive (loss), net of tax | (134) | — | — | — | (136) | 2 |
| Balance at December 31, 2014 | $935 | $2,091 | $439 | $(712) | $(876) | $(7) |
| Acquisition of noncontrolling interest | (40) | (40) | — | — | — | — |
| Share-based compensation | 18 | 18 | — | — | — | — |
| Common stock issued upon exercise of stock options | 1 | 1 | — | — | — | — |
| Dividends declared to shareholders | (47) | — | (47) | — | — | — |
| Repurchases of common stock | (62) | — | — | (62) | — | — |
| Issuance of ESPP shares | 5 | — | — | 5 | — | — |
| Distributions to noncontrolling interests | (28) | — | — | — | — | (28) |
| Other noncontrolling interests activity | (3) | — | | — | — | (3) |
| Net income | 226 | — | 203 | — | — | 23 |
| Other comprehensive income, net of tax | 47 | — | — | — | 45 | 2 |
| Balance at December 31, 2015 | $1,052 | $2,070 | $595 | $(769) | $(831) | $(13) |

Accumulated other comprehensive loss, net of tax

| Dollars in millions | December 31, 2015 | 2014 | 2013 |
|---|---|---|---|
| Accumulated foreign currency translation adjustments, net of tax of $1, $4 and $0 | $(269) | $(203) | $(131) |
| Pension and post-retirement benefits, net of tax of $209, $231 and $221 | (560) | (670) | (608) |
| Changes in fair value of derivatives, net of tax of $0, $0 and $0 | (2) | (3) | (1) |
| Total accumulated other comprehensive loss | $(831) | $(876) | $(740) |

Changes in accumulated other comprehensive loss, net of tax, by component

| Dollars in millions | Accumulated foreign currency translation adjustments | Pension and post-retirement benefits | Changes in fair value of derivatives | Total |
|---|---|---|---|---|
| Balance as of December 31, 2013 | $(131) | $ (608) | $(1) | $(740) |
| Other comprehensive income adjustments before reclassifications | (73) | (96) | (2) | (171) |
| Amounts reclassified from accumulated other comprehensive income | 1 | 34 | — | 35 |
| Balance at December 31, 2014 | $(203) | $ (670) | $(3) | $(876) |
| Other comprehensive income adjustments before reclassifications | (70) | 71 | — | 1 |
| Amounts reclassified from accumulated other comprehensive income | 4 | 39 | 1 | 44 |
| Balance at December 31, 2015 | $(269) | $ (560) | $(2) | $(831) |

Reclassifications out of accumulated other comprehensive loss, net of tax, by component

| Dollars in millions | December 31, 2015 | December 31, 2014 | Affected line item on the Consolidated Statements of Operations |
|---|---|---|---|
| Pension and post-retirement benefits | | | |
| Amortization of actuarial loss (a) | $(48) | $(42) | See (a) below |
| Tax benefit (expense) | 9 | 8 | Provision for income taxes |
| Net pension and post-retirement benefits | $(39) | $(34) | Net of tax |

(a) This item is included in the computation of net periodic pension cost. See Note 11 to our consolidated financial statements for further discussion.

Shares of common stock

| Shares in millions | Shares |
|---|---|
| Balance at December 31, 2013 | 173.9 |
| Common stock issued | 0.5 |
| Balance at December 31, 2014 | 174.4 |
| Common stock issued | 0.7 |
| Balance at December 31, 2015 | 175.1 |

Shares of treasury stock

| Shares and dollars in millions | Shares | Amount |
|---|---|---|
| Balance at December 31, 2013 | 25.7 | $610 |
| Treasury stock acquired, net of ESPP shares issued | 3.9 | 102 |
| Balance at December 31, 2014 | 29.6 | 712 |
| Treasury stock acquired, net of ESPP shares issued | 3.4 | 57 |
| Balance at December 31, 2015 | 33.0 | $769 |

Dividends

We declared dividends totaling $47 million in 2015 and 2014. As of December 31, 2015 and 2014, we had accrued dividends payable of $12 million included in "other current liabilities" on our consolidated balance sheets.

Note 17. Share Repurchases

Authorized Share Repurchase Program

On February 25, 2014, our Board of Directors authorized a plan to repurchase up to $350 million of our outstanding common shares, which replaced and terminated the August 26, 2011 share repurchase program. The authorization does not obligate the Company to acquire any particular number of common shares and may be commenced, suspended or discontinued without prior notice. The share repurchases are intended to be funded through the Company’s current and future cash and the authorization does not have an expiration date.

Share Maintenance Programs

Stock options and restricted stock awards granted under the KBR Stock and Incentive Plan may be satisfied using shares of our authorized but unissued common stock or our treasury share account.

The Employee Stock Purchase Plan ("ESPP") allows eligible employees to withhold up to 10% of their earnings, subject to some limitations, to purchase shares of KBR common stock. These shares are issued from our treasury share account.

Withheld to Cover Program

In addition to the plans above, we also have in place a "withheld to cover" program, which allows us to withhold ordinary shares from employees in connection with the settlement of income tax and related benefit withholding obligations arising from the issuance of share-based equity awards under the KBR Stock and Incentive Plan.

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

| | Year Ending December 31, 2015 | | |
|---|---|---|---|
| | Number of Shares | Average Price per Share | Dollars in Millions |
| Repurchases under the $350 million authorized share repurchase program | 2,992,687 | $17.43 | $52 |
| Repurchases under the existing share maintenance program | 466,974 | 15.43 | 7 |
| Withheld to cover shares | 182,964 | 16.98 | 3 |
| Total | 3,642,625 | $17.15 | $62 |

Year Ending December 31, 2014

| | Number of Shares | Average Price per Share | Dollars in Millions |
|---|---|---|---|
| Repurchases under the $350 million authorized share repurchase program | 3,374,479 | $26.13 | $88 |
| Repurchases under the existing share maintenance program | 593,042 | 26.07 | 16 |
| Withheld to cover shares | 73,557 | 27.69 | 2 |
| Total | 4,041,078 | $26.15 | $106 |

Note 18. Share-based Compensation and Incentive Plans

Stock Plans

In 2015, 2014 and 2013 share-based compensation awards were granted to employees under KBR share-based compensation plans.

KBR Stock and Incentive Plan (Amended May 2012)

In November 2006, KBR established the KBR Stock and Incentive Plan ("KBR Stock Plan"), which provides for the grant of any or all of the following types of share-based compensation listed below:

- 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;
- cash performance awards; and
- stock value equivalent awards.

In May 2012, the KBR Stock Plan was amended to add 2 million shares of our common stock available for issuance under the KBR Stock Plan. Additionally, this amendment increased the sublimit under the Stock Plan in the form of restricted stock awards, restricted stock unit awards or pursuant to performance awards by 2 million. Under the terms of the KBR Stock Plan, 12 million shares of common stock have been reserved for issuance to employees and non-employee directors. The plan specifies that no more than 5.5 million shares can be awarded as restricted stock or restricted stock units or pursuant to cash performance awards. At December 31, 2015, approximately 2.3 million shares were available for future grants under the KBR Stock Plan, of which approximately 0.7 million shares remained available for restricted stock awards or restricted stock unit awards.

KBR Stock Options

Under the KBR Stock Plan, stock options are 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 term and vesting periods are established at the discretion of the Compensation Committee at the time of each grant. We amortize the fair value of the stock options over the vesting period on a straight-line basis. Options are granted from shares authorized by our Board of Directors.

Total number of stock options granted and the assumptions used to determine the fair value of granted options were as follows:

| | Years ended December 31, | |
|---|---|---|
| KBR stock options assumptions summary | 2015 | 2014 |
| Granted stock options (shares in millions) | 1.1 | 0.6 |
| Weighted average expected term (in years) | 5.5 | 5.5 |
| Weighted average grant-date fair value per share | $4.91 | $9.57 |

| | Years ended December 31, | | | |
|---|---|---|---|---|
| KBR stock options range assumptions summary | 2015 | | 2014 | |
| | Range | | Range | |
| | Start | End | Start | End |

| | | | | |
|---|---|---|---|---|
| Expected volatility range | 33.92 % | 39.65 % | 36.48 % | 40.49 % |
| Expected dividend yield range | 1.15 % | 2.13 % | 1.08 % | 1.52 % |
| Risk-free interest rate range | 1.46 % | 2.12 % | 1.67 % | 2.21 % |

For KBR stock options granted in 2015, 2014 and 2013, the fair value of options at the date of grant was estimated using the Black-Scholes-Merton option pricing model. The expected volatility of KBR options granted in each year is based upon a blended rate that uses the historical and implied volatility of common stock for KBR and selected peers. Effective in 2014, the expected term of KBR options granted was based on KBR's historical experience. The expected term of KBR options granted in 2013 was based on the average of the life of the option and the vesting period of the option. The estimated dividend yield is based upon KBR’s annualized dividend rate divided by the market price of KBR’s stock on the option grant date. The risk-free interest rate is based upon the yield of U.S. government issued treasury bills or notes on the option grant date.

The following table presents stock options granted, exercised, forfeited and expired under KBR share-based compensation plans for the year ended December 31, 2015.

| KBR stock options activity summary | Number of Shares | Weighted Average Exercise Price per Share | Weighted Average Remaining Contractual Term (years) | Aggregate Intrinsic Value (in millions) |
|---|---|---|---|---|
| Outstanding at December 31, 2014 | 3,160,091 | $ 26.96 | 6.54 | $ 2.40 |
| Granted | 1,067,308 | 16.52 | | |
| Exercised | (62,503 ) | 12.32 | | |
| Forfeited | (231,949 ) | 23.65 | | |
| Expired | (450,290 ) | 30.19 | | |
| Outstanding at December 31, 2015 | 3,482,657 | $ 23.83 | 6.55 | $ 2.92 |
| Exercisable at December 31, 2015 | 2,059,060 | $ 26.18 | 5.02 | $ 2.00 |

The total intrinsic values of options exercised for the years ended December 31, 2015, 2014 and 2013 were $0.3 million, $3 million and $7 million, respectively. As of December 31, 2015, there was $5 million of unrecognized compensation cost, net of estimated forfeitures, related to non-vested KBR stock options, expected to be recognized over a weighted average period of approximately 1.75 years. Stock option compensation expense was $5 million in 2015, $6 million in 2014 and $9 million in 2013.  Total income tax benefit recognized in net income for share-based compensation arrangements was $2 million in 2015 and 2014 and $3 million in 2013.

KBR Restricted stock

Restricted shares issued under the KBR Stock Plan are restricted as to sale or disposition. These restrictions lapse periodically over a period of time not exceeding 10 years. Restrictions may also lapse for early retirement and other conditions in accordance with our established policies. Upon termination of employment, shares on which restrictions have not lapsed must be returned to us, 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 on a straight-line basis. For awards with performance conditions, an evaluation is made each quarter as to the likelihood of meeting the performance criteria. Share-based compensation is then adjusted to reflect the number of shares expected to vest and the cumulative vesting period met to date.

The following table presents the restricted stock awards and restricted stock units granted, vested and forfeited during 2015 under the KBR Stock Plan.

| Restricted stock activity summary | Number of Shares | Weighted Average Grant-Date Fair Value per Share |
|---|---|---|
| Nonvested shares at December 31, 2014 | 1,128,877 | $28.99 |
| Granted | 855,499 | 16.66 |
| Vested | (529,440) | 25.97 |
| Forfeited | (80,970) | 19.05 |
| Nonvested shares at December 31, 2015 | 1,373,966 | $23.05 |

The weighted average grant-date fair value per share of restricted KBR shares granted to employees during 2015, 2014 and 2013 was $16.66, $28.46 and $30.64, respectively. Restricted stock compensation expense was $13 million for 2015, $16 million for 2014 and $7 million for 2013. Total income tax benefit recognized in net income for share-based compensation arrangements during 2015, 2014 and 2013 was $5 million, $6 million, and $3 million, respectively. As of December 31, 2015, there was $18 million of unrecognized compensation cost, net of estimated forfeitures, related to KBR's non-vested restricted stock and restricted stock units, which is expected to be recognized over a weighted average period of 1.82 years. The total fair value of shares vested was $9 million in 2015, $6 million in 2014 and $8 million in 2013 based on the weighted-average fair value on the vesting date. The total fair value of shares vested was $14 million in 2015, $11 million in 2014 and $7 million in 2013 based on the weighted-average fair value on the date of grant.

Share-based compensation expense

The grant-date fair value of employee share options is estimated using option-pricing models. If an award is modified after the grant date, incremental compensation cost is recognized immediately as of the modification. Share-based compensation expense consists of $9 million recorded to cost of services, while the remaining $9 million is recorded to general and administrative expenses on our consolidated statements of operations. The benefits of tax deductions in excess of the compensation cost recognized for the options (excess tax benefits) are classified as additional paid-in-capital, and cash retained as a result of these excess tax benefits is presented in the statements of cash flows as financing cash inflows.

| Share-based compensation summary table | Years ended December 31, | | |
|---|---|---|---|
| Dollars in millions | 2015 | 2014 | 2013 |
| Share-based compensation | $18 | $22 | $16 |
| Income tax benefit recognized in net income for share-based compensation | $7 | $8 | $6 |
| Incremental compensation cost | $2 | $2 | $1 |

Incremental compensation cost resulted from modifications of previously granted share-based awards which allowed certain employees to retain their awards after leaving the company. Excess tax benefits realized from the exercise of share-based compensation awards are recognized as paid-in capital in excess of par.

KBR Cash Performance Based Award Units ("Cash Performance Awards")

Under the KBR Stock Plan, for Cash Performance Awards granted in the year 2015, performance is based 50% on average Total Shareholder Return ("TSR"), as compared to the average TSR of KBR's peers, and 50% on KBR's Job Income Sold ("JIS"). For Cash Performance Awards granted in 2014 and 2013, performance is based 100% on average TSR as compared to the average TSR of KBR's peers. In accordance with the provisions of ASC 718 - Compensation-Stock Compensation, the TSR portion for the performance award units are classified as liability awards and remeasured at the end of each reporting period at fair value until settlement. The fair value approach uses the

Monte Carlo valuation method which analyzes the companies comprising KBR’s peer group, considering volatility, interest rate, stock beta and TSR through the grant date. The JIS calculation is based on the Company's JIS earned at a target level averaged over a three year period. The JIS portion of the Cash Performance Award is also classified as a liability award and remeasured at the end of each reporting period based on our estimate of the amount to be paid at the end of the vesting period. The cash performance award units may only be paid in cash.

Under the KBR Stock Plan, in 2015, we granted 22 million performance based award units ("Cash Performance Awards") with a three-year performance period from January 1, 2015 to December 31, 2017. In 2014, we granted 27 million Cash Performance Awards with a three-year performance period from January 1, 2014 to December 31, 2016. In 2013, we granted 30 million Cash Performance Awards with a three-year performance period from January 1, 2013 to December 31, 2015. Cash Performance Awards forfeited, net of previous plan payout, totaled 15 million, 17 million, and 10 million at December 31, 2015, 2014 and 2013, respectively. At December 31, 2015, the outstanding balance for Cash Performance Awards is 70.8 million units. Cash Performance Awards are not considered earned until required performance conditions are met. Additionally, approval by the Compensation Committee of the Board of Directors is required before earned Cash Performance Awards are paid.

Cost for the Cash Performance Awards is accrued over the requisite service period. For the years ended December 31, 2015, 2014 and 2013, we recognized $3 million, $0 million and $8 million, respectively, in expense for the Cash Performance Awards. The expense associated with these Cash Performance Awards is included in cost of services and general and administrative expense in our consolidated statements of operations. The liability for awards included in "employee compensation and benefits" on our consolidated balance sheets was $5 million at December 31, 2015, of which none will become due within one year and $1 million at December 31, 2014.

KBR Employee Stock Purchase Plan (“ESPP”)

Under the ESPP, eligible employees may withhold up to 10% of their earnings, subject to some limitations, to purchase shares of KBR’s common stock. Unless KBR’s Board of Directors determine otherwise, each six-month offering period commences at the beginning of February and August of each year. Employees who participate in the ESPP will receive a 5% discount on the stock price at the end of each period. During 2015 and 2014, our employees purchased approximately 204,000 and 159,000 shares, respectively, through the ESPP. These shares were issued from our treasury share account.

Note 19. Income (Loss) per Share

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

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

| | Years ended December 31, | | |
|---|---|---|---|
| Shares in millions | 2015 | 2014 | 2013 |
| Basic weighted average common shares outstanding | 144 | 146 | 148 |
| Stock options and restricted shares | — | — | 1 |
| Diluted weighted average common shares outstanding | 144 | 146 | 149 |

For purposes of applying the two-class method in computing earnings (loss) per share, net earnings allocated to participating securities was approximately $1.7 million, or $0.01 per share, for the fiscal year 2015, none for fiscal year 2014 and $0.3 million, or a negligible amount per share, for fiscal year 2013. The diluted earnings (loss) per share calculation did not include 3.4 million, 3.0 million and 1.8 million antidilutive weighted average shares for the years ended December 31, 2015, 2014 and 2013, respectively.

Note 20. Financial Instruments and Risk Management

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

As of December 31, 2015, the gross notional value of our foreign currency exchange forwards and option contracts used to hedge balance sheet exposures was $104 million, all of which had durations of 22 days or less. We also had approximately $22 million (notional value) of foreign currency hedges which had durations of 24 months or less.

The fair value of our balance sheet and cash flow hedges included in "other current assets" and "other current liabilities" on our consolidated balance sheets was immaterial at December 31, 2015 and 2014, respectively. These fair values are considered Level 2 under ASC 820 - Fair Value Measurement as they are based on quoted prices directly observable in active markets.

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

| | Years ended December 31, | |
|---|---|---|
| Gains (Losses) Dollars in Millions | 2015 | 2014 |
| Balance Sheet Hedges - Fair Value | (40 ) | (47 ) |
| Balance Sheet Position - Remeasurement | 50 | 47 |
| Net | 10 | — |

Interest rate risk. Certain of our unconsolidated subsidiaries and joint ventures are exposed to interest rate risk through their variable rate borrowings. This variable rate exposure is managed with interest rate swaps. The unrealized net losses on the interest rate swaps held by our unconsolidated subsidiaries and joint ventures was immaterial as of December 31, 2015, 2014 and 2013, respectively.

Note 21. Recent Accounting Pronouncements

On February 18, 2015, the FASB issued ASU No. 2015-02, Consolidation (Topic 810) - Amendments to the Consolidation Analysis. The amendments eliminate the deferral of certain consolidation standards for entities considered to be investment companies and makes changes to both the variable interest model and the voting model. These changes will require re-evaluation of certain entities for consolidation and will require us to revise our documentation regarding the consolidation or deconsolidation of such entities. This ASU is effective for annual periods beginning after December 15, 2016 and interim periods within those annual periods. The adoption of ASU 2015-02 is not expected to have a material impact on our financial statements or on known trends, demands, uncertainties and events in our business.

On May 28, 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers. This ASU supersedes the revenue recognition requirements in ASC 605 - Revenue Recognition and most industry-specific guidance throughout the Codification. The standard requires that an entity recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. This ASU is effective on January 1, 2018 and should be applied retrospectively to each prior reporting period presented or retrospectively with the cumulative effect of initially applying the ASU recognized at the date of initial application. We intend to apply the modified retrospective method of adoption with the cumulative effect of adoption recognized at the date of initial application. We are in the process of assessing the impact of the adoption of ASU 2014-09 on our financial statements. We have not yet determined the effect of the standard on our ongoing financial reporting or the future impact of adoption on known trends, demands, uncertainties and events in our business.

Note 22. Quarterly Data (Unaudited)

Summarized quarterly financial data for the years ended December 31, 2015 and 2014 is presented in the following table. In the following table, the sum of basic and diluted "Net income (loss) attributable to KBR per share" for the four quarters may differ from the annual amounts due to the required method of computing weighted average number of shares in the respective periods. Additionally, due to the effect of rounding, the sum of the individual quarterly earnings per share amounts may not equal the calculated year earnings per share amount.

| (Dollars in millions, except per share amounts) | First | Second | Third | Fourth | Year |
|---|---|---|---|---|---|
| 2015 | | | | | |
| Total revenues | $1,436 | $1,381 | $1,199 | $1,080 | $5,096 |
| Gross profit | 70 | 74 | 87 | 94 | 325 |
| Equity in earnings of unconsolidated affiliates | 35 | 53 | 35 | 26 | 149 |
| Operating income | 64 | 96 | 75 | 75 | 310 |
| Net income | 51 | 68 | 59 | 48 | 226 |
| Net income attributable to noncontrolling interests | (7) | (6) | (4) | (6) | (23) |
| Net income attributable to KBR | 44 | 62 | 55 | 42 | 203 |
| Net income attributable to KBR per share: | | | | | |
| Net income attributable to KBR per share—Basic | $0.30 | $0.43 | $0.38 | $0.29 | $1.40 |
| Net income attributable to KBR per share—Diluted | $0.30 | $0.43 | $0.38 | $0.29 | $1.40 |

| (Dollars in millions, except per share amounts) | First | Second | Third | Fourth | Year |
|---|---|---|---|---|---|
| 2014 | | | | | |
| Total revenues | $1,633 | $1,659 | $1,657 | $1,417 | $6,366 |
| Gross profit (loss) (a) | 39 | 28 | 30 | (162) | (65) |
| Equity in earnings of unconsolidated affiliates | 31 | 49 | 38 | 45 | 163 |
| Operating income (loss) (b) | 10 | 25 | 10 | (839) | (794) |
| Net income (loss) (c) | (20) | 8 | 45 | (1,231) | (1,198) |
| Net income attributable to noncontrolling interests | (23) | (16) | (15) | (10) | (64) |
| Net income (loss) attributable to KBR | (43) | (8) | 30 | (1,241) | (1,262) |
| Net income (loss) attributable to KBR per share: | | | | | |
| Net income (loss) attributable to KBR per share—Basic | $(0.29) | $(0.06) | $0.21 | $(8.57) | $(8.66) |
| Net income (loss) attributable to KBR per share—Diluted | $(0.29) | $(0.06) | $0.21 | $(8.57) | $(8.66) |

(a) The losses in gross profit in the fourth quarter of 2014 reflect changes in cost estimates increasing the loss provision by $80 million on two power projects in our Non-strategic Business segment and changes in estimates of $53 million in our E&C business segment. See Note 2 to our consolidated financial statements.

(b) Included in the operating loss of the fourth quarter of 2014 is a goodwill impairment charge of $446 million as well as asset impairment and restructuring charges of $214 million. See Notes 8 and 9 for our discussion on these charges.

(c) Net loss for the fourth quarter of 2014 includes $391 million of provision for income taxes primarily from an increase in our valuation allowance on deferred tax assets.

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Item 9.Changes In and Disagreements with Accountants on Accounting and Financial Disclosures

Not applicable.

Item 9A. Controls and Procedures

Management's Evaluation of Disclosure Controls and Procedures

In accordance with Rules 13a-15(b) under the Securities and Exchange Act of 1934, as amended (the "Exchange Act"), we carried out an evaluation, under the supervision and with the participation of management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e)) as of the end of the period covered by this report. Our disclosure controls and procedures are designed to ensure that information required to be disclosed in reports filed or submitted under the Exchange Act is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure and is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of December 31, 2015 at the reasonable assurance level.
Management does not expect that our disclosure controls and procedures will prevent all errors and all fraud. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system's objectives will be met. There are inherent limitations in all control systems, including the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the intentional acts of one or more persons. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. The design of any system of controls is based in part upon certain assumptions about the likelihood of future events, and while our disclosure controls and procedures are designed to be effective under circumstances where they should reasonably be expected to operate effectively, there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, have been detected.
Management's Annual Report on Internal Control Over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rule 13a-15(f) and Rule 15d-15(f) under the Exchange Act). Our internal control over financial reporting is a process designed by management, under the supervision of our Chief Executive Officer and Chief Financial Officer, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management, including our Chief Executive Officer and Chief Financial Officer, carried out an evaluation of the effectiveness of our internal control over financial reporting as of December 31, 2015. In conducting this evaluation, our management used the criteria for effective internal control over financial reporting described in Internal Control-Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on that evaluation, management has determined our internal control over financial reporting was effective as of December 31, 2015.

The effectiveness of our internal control over financial reporting as of December 31, 2015 has been audited by KPMG LLP, an independent registered public accounting firm, as stated in their report, which is included in this Annual Report on Form 10-K.

Changes in Internal Control Over Financial Reporting

There were no changes in our internal controls over financial reporting during the three months ended December 31, 2015 that have materially affected, or are reasonably likely to affect, our internal control over financial reporting.

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders
KBR, Inc.:

We have audited KBR, Inc.’s internal control over financial reporting as of December 31, 2015, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). KBR, Inc.’s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management’s Annual Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on KBR, Inc.'s internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company’s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company’s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company’s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, KBR, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2015, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of KBR, Inc. and subsidiaries as of December 31, 2015 and 2014, and the related consolidated statements of operations, comprehensive income (loss), shareholders’ equity, and cash flows for each of the years in the three-year period ended December 31, 2015, and our report dated February 26, 2016 expressed an unqualified opinion on those consolidated financial statements.

/s/ KPMG LLP

KPMG LLP
Houston, Texas
February 26, 2016

Item 9B. Other Information

Not applicable.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

The information required by this Item is incorporated herein by reference to the KBR, Inc. Company Proxy Statement for our 2016 Annual Meeting of Stockholders.

Item 11. Executive Compensation

The information required by this Item is incorporated herein by reference to the KBR, Inc. Company Proxy Statement for our 2016 Annual Meeting of Stockholders.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The information required by this Item is incorporated herein by reference to the KBR, Inc. Company Proxy Statement for our 2016 Annual Meeting of Stockholders.

Item 13. Certain Relationships and Related Transactions, and Director Independence

The information required by this Item is incorporated herein by reference to the KBR, Inc. Company Proxy Statement for our 2016 Annual Meeting of Stockholders.

Item 14. Principal Accounting Fees and Services

The information required by this Item is incorporated herein by reference to the KBR, Inc. Company Proxy Statement for our 2016 Annual Meeting of Stockholders.

PART IV

Item 15. Exhibits and Financial Statement Schedules.

| | |
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| (a) | The following documents are filed as part of this report or incorporated by reference: |
| 1. | The consolidated financial statements of the Company listed on page 46 of this annual report. |
| 2. | The exhibits of the Company listed below under Item 15(b); all exhibits are incorporated herein by reference to a prior filing as indicated, unless designated by a * or **. |
| (b) | Exhibits: |

| Exhibit Number | Description |
|---|---|
| 3.1 | KBR Amended and Restated Certificate of Incorporation (incorporated by reference to Exhibit 3.1 to KBR's current report on Form 8-K filed June 7, 2012; File No. 1-33146) |
| 3.2 | Amended and Restated Bylaws of KBR, Inc. (incorporated by reference to Exhibit 3.2 to KBR's annual report on Form 10-K for the year ended December 31, 2013 filed on February 27, 2014; File No. 1-33146) |
| 4.1 | Form of specimen KBR common stock certificate (incorporated by reference to Exhibit 4.1 to KBR's registration statement on Form S-1; Registration No. 333-133302) |
| 10.1 | Master Separation Agreement between Halliburton Company and KBR, Inc. dated as of November 20, 2006 (incorporated by reference to Exhibit 10.1 to KBR's current report on Form 8-K dated November 20, 2006; File No. 1-33146) |
| 10.2 | Tax Sharing Agreement, dated as of January 1, 2006, by and between Halliburton Company, KBR Holdings, LLC and KBR, Inc., as amended effective February 26, 2007 (incorporated by reference to Exhibit 10.2 to KBR's Annual Report on Form 10-K for the year ended December 31, 2006; File No. 1-33146) |
| 10.3 | Employee Matters Agreement dated as of November 20, 2006, by and between Halliburton Company and KBR, Inc. (incorporated by reference to Exhibit 10.6 to KBR's current report on Form 8-K dated November 20, 2006; File No. 1-33146) |
| 10.4 | Intellectual Property Matters Agreement dated as of November 20, 2006, by and between Halliburton Company and KBR, Inc. (incorporated by reference to Exhibit 10.7 to KBR's current report on Form 8-K dated November 20, 2006; File No. 1-33146) |
| 10.5 | Form of Indemnification Agreement between KBR, Inc. and its directors and executive officers (incorporated by reference to Exhibit 10.7 to KBR's annual report on Form 10-K for the year ended December 31, 2013 filed on February 27, 2014; File No. 1-33146) |
| 10.6 | Five Year Revolving Credit Agreement dated as of December 2, 2011 among KBR, Inc., the Banks party thereto, The Royal Bank of Scotland PLC, as Syndication Agent, ING Bank, N.V. and The Bank of Nova Scotia, as Co-Documentation Agents, Citigroup Global Markets Inc., RBS Securities Inc. ING Bank, N.V., and The Bank of Nova Scotia as Joint Lead Arrangers and Bookrunners, and Citibank, N.A., as Administrative Agent. (incorporated by reference to Exhibit 10.1 to KBR's current report on Form 8-K dated December 7, 2011; File No. 1-33146 |
| 10.7 | Waiver dated May 9, 2014 (incorporated by reference to Exhibit 10.1 to KBR's current report on Form 8-K dated May 9, 2014; File No. 1-33146) |
| 10.8 | First Amendment to Credit Agreement dated as of December 11, 2014 to the Five Year Revolving Credit Agreement dated as of December 2, 2011 among KBR, Inc., the several banks and other institutions parties to the Credit Agreement, Citibank, NA., as administrative agent, The Royal Bank of Scotland PLC, as syndication agent, and ING Bank, N.V. and The Bank of Nova Scotia as |

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| | co-documentation agents (incorporated by reference to Exhibit 10.1 to KBR’s current report on Form 8-K dated December 11, 2014; File No. 1-33146) |
| 10.9 | Second Amendment to Credit Agreement dated as April 27, 2015 to the Five Year Revolving Credit Agreement dated as of December 2, 2011 (the "Credit Agreement") among KBR, Inc., the several banks and other institutions parties to the Credit Agreement, Citibank, NA., as administrative agent, The Royal Bank of Scotland PLC, as syndication agent, and ING Bank, N.V. and The Bank of Nova Scotia as co-documentation agents (incorporated by reference to Exhibit 10.1 to KBR’s Form 10-Q for the quarter ended March 31, 2015; File No. 1-33146) |
| 10.10 | Amended and Restated Revolving Credit Agreement dated as of September 25, 2015 among KBR, Inc., the Banks party thereto, Citibank, N.A., as Administrative Agent, Bank of America, N.A., ING Bank, N.V., Dublin Branch, BNP Paribas, and The Bank of Nova Scotia as Syndication Agents, Citibank, N.A., BNP Paribas, ING Bank, N.V., Dublin Branch, The Bank of Nova Scotia, Bank of America, N.A., and Compass Bank as initial Issuing Banks, and Citigroup Global Markets Inc., BNP Paribas Securities Corp., Merrill Lynch, Pierce, Fenner & Smith Inc., ING Bank, N.V., Dublin Branch, and The Bank of Nova Scotia as Joint Lead Arrangers and Bookrunners (incorporated by reference to Exhibit 10.1 to KBR’s current report on Form 8-K dated September 25, 2015; File No. 1-33146) |
| 10.11+ | KBR, Inc. 2006 Stock and Incentive Plan (As Amended and Restated March 7, 2012) (incorporated by reference to KBR's definitive Proxy Statement dated April 5, 2012; File No. 1-33146) |
| 10.12+ | KBR, Inc. Senior Executive Performance Pay Plan (incorporated by reference to Exhibit 10.10 to KBR’s annual report on Form 10-K for the year ended December 31, 2013 filed on February 27, 2014; File No. 1-33146) |

| Exhibit Number | Description |
|---|---|
| 10.13+ | KBR, Inc. Management Performance Pay Plan (incorporated by reference to Exhibit 10.11 to KBR's annual report on Form 10-K for the year ended December 31, 2013 filed on February 27, 2014; File No. 1-33146) |
| 10.14+ | KBR, Inc. Transitional Stock Adjustment Plan (incorporated by reference to Exhibit 10.23 to KBR's Form 10-K for the fiscal year ended December 31, 2006; File No. 1-33146) |
| 10.15+ | KBR Dresser Deferred Compensation Plan (incorporated by reference to Exhibit 4.5 to KBR's Registration Statement on Form S-8 filed on April 13, 2007) |
| 10.16+ | KBR Supplemental Executive Retirement Plan (incorporated by reference to Exhibit 10.3 to KBR's current report on Form 8-K dated April 9, 2007; File No. 1-33146) |
| 10.17+ | KBR Benefit Restoration Plan (incorporated by reference to Exhibit 10.4 to KBR's current report on Form 8-K dated April 9, 2007; File No. 1-33146) |
| 10.18+ | KBR Elective Deferral Plan (incorporated by reference to Exhibit 10.5 to KBR's current report on Form 8-K dated April 9, 2007; File No. 1-33146) |
| 10.19+ | KBR Non-Employee Directors Elective Deferral Plan (incorporated by reference to exhibit 10.1 to KBR's current report on Form 8-K dated December 11, 2013; File No. 1-33146) |
| 10.20+ | Form of Stock Option Agreement pursuant to KBR, Inc. 2006 Stock and Incentive Plan (incorporated by reference to Exhibit 10.3 to KBR's Form 10-Q for the quarter ended June 30, 2007; File No. 1-33146) |
| 10.21+ | Form of KBR Restricted Stock Agreement pursuant to KBR, Inc. 2006 Stock and Incentive Plan (incorporated by reference to Exhibit 10.4 to KBR's Form 10-Q for the quarter ended June 30, 2007; File No. 1-33146) |
| 10.22+ | Form of KBR, Inc. Transitional Stock Adjustment Plan Stock Option Award (incorporated by reference to Exhibit 10.5 to KBR's Form 10-Q for the quarter ended June 30, 2007; File No. 1-33146) |
| 10.23+ | Form of revised KBR Performance Award Agreement pursuant to KBR, Inc. 2006 Stock and Incentive Plan (incorporated by reference to Exhibit 10.25 to KBR's Form 10-K for the year ended December 31, 2010; File No. 1-33146) |
| 10.24+ | Form of revised KBR Performance Award Agreement pursuant to KBR, Inc. 2006 Stock and Incentive Plan (incorporated by reference to Exhibit 10.25 to KBR's annual report on Form 10-K for the year ended December 31, 2012; File No. 1-33146) |
| 10.25+ | Form of revised Nonstatutory Stock Option Agreement for US and Non-US Employees pursuant to KBR, Inc. 2006 Stock and Incentive Plan (incorporated by reference to Exhibit 10.1 to KBR's quarterly report on Form 10-Q for the period ended March 31, 2013; File No. 1-33146) |
| 10.26+ | |

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| | Form of revised Restricted Stock Unit Agreement (U.S. Employee) pursuant to KBR, Inc. 2006 Stock and Incentive Plan (incorporated by reference to Exhibit 10.2 to KBR's quarterly report on Form 10-Q for the period ended March 31, 2013; File No. 1-33146) |
| 10.27+ | Form of revised Restricted Stock Unit Agreement (International Employee) pursuant to KBR, Inc. 2006 Stock and Incentive Plan (incorporated by reference to Exhibit 10.5 to KBR's quarterly report on Form 10-Q for the period ended March 31, 2013; File No. 1-33146) |
| 10.28+ | Form of revised Restricted Stock Unit Agreement (Director) pursuant to KBR, Inc. 2006 Stock and Incentive Plan (incorporated by reference to Exhibit 10.3 to KBR's quarterly report on Form 10-Q for the period ended March 31, 2013; File No. 1-33146) |
| 10.29+ | Form of revised Performance Award Agreement pursuant to KBR, Inc. 2006 Stock and Incentive Plan (incorporated by reference to Exhibit 10.4 to KBR's quarterly report on Form 10-Q for the period ended March 31, 2013; File No. 1-33146) |
| 10.30+ | Form of Restricted Stock Unit Agreement (Three-Year Cliff Vesting) pursuant to KBR, Inc. 2006 Stock and Incentive Plan (incorporated by reference to Exhibit 10.29 to KBR's annual report on Form 10-K for the year ended December 31, 2013 filed on February 27, 2014; File No. 1-33146) |
| 10.31+ | Form of revised KBR Performance Award Agreement pursuant to KBR, Inc. 2006 Stock and Incentive Plan (incorporated by reference to Exhibit 10.1 to KBR's quarterly report on Form 10-Q for the period ended March 31, 2014; File No. 1-33146) |

| Exhibit Number | Description |
|---|---|
| 10.32+ | Form of revised Nonstatutory Stock Option Agreement pursuant to KBR, Inc. 2006 Stock and Incentive Plan (incorporated by reference to Exhibit 10.2 to KBR’s quarterly report on Form 10-Q for the period ended March 31, 2014; File No. 1-33146) |
| 10.33+ | Form of revised Restricted Stock Unit Agreement (U.S. Employee) pursuant to KBR, Inc. 2006 Stock and Incentive Plan (incorporated by reference to Exhibit 10.3 to KBR’s quarterly report on Form 10-Q for the period ended March 31, 2014; File No. 1-33146) |
| 10.34+ | Form of revised Restricted Stock Unit Agreement (U.S. Employee - 3 Year Vesting) pursuant to KBR, Inc. 2006 Stock and Incentive Plan (incorporated by reference to Exhibit 10.1 to KBR’s quarterly report on Form 10-Q for the period ended September 31, 2014; File No. 1-33146) |
| 10.35+ | Form of revised Restricted Stock Unit Agreement (International Employee - 3 Year Vesting) pursuant to KBR, Inc. 2006 Stock and Incentive Plan (incorporated by reference to Exhibit 10.2 to KBR’s quarterly report on Form 10-Q for the period ended September 31, 2014; File No. 1-33146) |
| 10.36+ | Form of Restricted Stock Unit Agreement (U.S. Employee - 3 Year Vesting; Involuntary Termination Trigger) pursuant to KBR, Inc. 2006 Stock and Incentive Plan (incorporated by reference to Exhibit 10.3 to KBR’s quarterly report on Form 10-Q for the period ended September 31, 2014; File No. 1-33146) |
| 10.37+ | Form of Restricted Stock Unit Agreement (U.S. Employee - 5 Year Vesting; TSR Requirement) pursuant to KBR, Inc. 2006 Stock and Incentive Plan (incorporated by reference to Exhibit 10.4 to KBR’s quarterly report on Form 10-Q for the period ended September 31, 2014; File No. 1-33146) |
| 10.38+ | Form of Restricted Stock Unit Agreement (U.S. Employee - 3 Year Vesting; TSR Requirement) pursuant to KBR, Inc. 2006 Stock and Incentive Plan (incorporated by reference to Exhibit 10.39 to KBR’s Form 10-K/A for the fiscal year ended December 31, 2015; File No. 1-33146) |
| 10.39+ | Form of KBR Performance Award Agreement pursuant to KBR, Inc. 2006 Stock and Incentive Plan (incorporated by reference to Exhibit 10.40 to KBR’s Form 10-K for the fiscal year ended December 31, 2015; File No. 1-33146) |
| 10.40+ | Form of revised Performance Award Agreement pursuant to KBR, Inc. 2006 Stock and Incentive Plan (incorporated by reference to Exhibit 10.2 to KBR’s Form 10-Q for the quarter ended March 31, 2015; File No. 1-33146) |
| 10.41+ | Form of Severance and Change in Control Agreement (incorporated by reference to Exhibit 10.1 to KBR’s Form 10-Q for the quarter ended September 30, 2008; File No. 1-33146) |
| 10.42+ | Severance and Change of Control Agreement effective as of December 31, 2008, by and between KBR Technical Services, Inc., a Delaware corporation, KBR, Inc., and William P. Utt (incorporated by reference to Exhibit 10.33 to KBR's annual report on Form 10-K for the year ended December 31, 2011; File No. 1-33146) |
| 10.43+ | Severance and Change of Control Agreement effective as of August 26, 2008, by and between KBR Technical Services, Inc., a Delaware corporation, KBR, Inc., and Andrew D. Farley (incorporated by |

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| | reference to Exhibit 10.34 to KBR’s annual report on Form 10-K for the year ended December 31, 2011; File No. 1-33146) |
| 10.44+ | Amendment to the 2008 Severance and Change in Control Agreements effective as of December 31, 2008 (incorporated by reference to Exhibit 10.36 to KBR’s annual report on Form 10-K for the year ended December 31, 2011; File No. 1-33146) |
| 10.45+ | Severance and Change of Control Agreement effective as of July 9, 2012, by and between KBR Technical Services, Inc., a Delaware corporation, KBR, Inc., and Ivor Harrington (incorporated by reference to Exhibit 10.1 to KBR's current report on Form 8-K dated July 9, 2012; File No. 1-33146) |
| 10.46+ | Severance and Change in Control Agreement effective as of June 2, 2014, between KBR Technical Services, Inc., a Delaware corporation, KBR, Inc. and Stuart J. Bradie (incorporated by reference to Exhibit 10.1 to KBR’s current report on Form 8-K dated April 9, 2014; File No. 1-33146) |
| 10.47+ | Severance and Change of Control Agreement effective as of December 11, 2011, by and between KBR Technical Services, Inc., a Delaware corporation, KBR, Inc., and Roy Oelking (incorporated by reference to Exhibit 10.38 to KBR’s annual report on Form 10-K for the year ended December 31, 2012; File No. 1-33146) |
| 10.48+ | Severance and Change of Control Agreement effective as of April 8, 2013, by and between KBR Technical Services, Inc., a Delaware corporation, KBR, Inc., and Andrew Summers (incorporated by reference to Exhibit 10.1 to KBR’s current report on Form 8-K dated March 6, 2013; File No. 1-33146) |

| Exhibit Number | Description |
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| 10.49+ | Severance and Change of Control Agreement effective as of December 14, 2011, by and between KBR Technical Services, Inc., a Delaware corporation, KBR, Inc., and Mitch Dauzat (incorporated by reference to Exhibit 10.1 to KBR’s quarterly report on Form 10-Q for the period ended September 30, 2013; File No. 1-33146) |
| 10.50+ | Severance and Change of Control Agreement effective as of October 28, 2013, by and between KBR Technical Services, Inc., a Delaware corporation, KBR, Inc., and Brian Ferraioli (incorporated by reference to Exhibit 10.1 to KBR’s current report on Form 8-K dated October 28, 2013; File No. 1-33146) |
| 10.51+ | Form of Amendment to Severance and Change in Control Agreement (incorporated by reference to Exhibit 10.2 to KBR’s quarterly report on Form 10-Q for the period ended September 30, 2015; File No. 1-33146) |
| *21.1 | List of subsidiaries |
| *23.1 | Consent of KPMG LLP—Houston, Texas |
| *31.1 | Certification of the Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| *31.2 | Certification of the Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| **32.1 | Certification Furnished Pursuant to 18 U.S.C. Section 1350 as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| **32.2 | Certification Furnished Pursuant to 18 U.S.C. Section 1350 as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| ***101 | The following materials from the Company’s Annual Report on Form 10-K for the period ended December 31, 2015, formatted in XBRL (Extensible Business Reporting Language): (i) Consolidated Statements of Operations, (ii) Consolidated Statements of Comprehensive Income (Loss), (iii) Consolidated Balance Sheets, (iv) Consolidated Statements of Shareholders' Equity, (v) Consolidated Statements of Cash Flows, and (vi) Notes to Consolidated Financial Statements |

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| + | Management contracts or compensatory plans or arrangements |
| * | Filed with this Form 10-K |
| ** | Furnished with this Form 10-K |
| *** | Interactive data files |

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Dated: February 26, 2016

KBR, INC.
(Registrant)

By: /s/ Stuart Bradie
Stuart Bradie
President and Chief Executive Officer

Dated: February 26, 2016

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated:

| Signature | Title |
|---|---|
| /s/ Stuart Bradie<br>Stuart Bradie | Principal Executive Officer,<br>President, Chief Executive Officer and Director |
| /s/ Brian K. Ferraioli<br>Brian K. Ferraioli | Principal Financial Officer,<br>Executive Vice President and Chief Financial Officer |
| /s/ Nelson E. Rowe<br>Nelson E. Rowe | Principal Accounting Officer,<br>Vice President and Chief Accounting Officer |
| /s/ Mark E. Baldwin<br>Mark E. Baldwin | Director |
| /s/ James R. Blackwell<br>James R. Blackwell | Director |
| /s/ Loren K. Carroll<br>Loren K. Carroll | Director |
| /s/ Jeffrey E. Curtiss<br>Jeffrey E. Curtiss | Director |
| /s/ Lester L. Lyles<br>Lester L. Lyles | Director |
| /s/ Jack B. Moore<br>Jack B. Moore | Director |
| /s/ Ann D. Pickard<br>Ann D. Pickard | Director |

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|---|---|
| /s/ Umberto della Sala<br>Umberto della Sala | Director |
| /s/ Richard J. Slater<br>Richard J. Slater | Director |

EXHIBIT INDEX

| Exhibit Number | Description |
|---|---|
| 3.1 | KBR Amended and Restated Certificate of Incorporation (incorporated by reference to Exhibit 3.1 to KBR's current report on Form 8-K filed June 7, 2012; File No. 1-33146) |
| 3.2 | Amended and Restated Bylaws of KBR, Inc. (incorporated by reference to Exhibit 3.2 to KBR's annual report on Form 10-K for the year ended December 31, 2013 filed on February 27, 2014; File No. 1-33146) |
| 4.1 | Form of specimen KBR common stock certificate (incorporated by reference to Exhibit 4.1 to KBR's registration statement on Form S-1; Registration No. 333-133302) |
| 10.1 | Master Separation Agreement between Halliburton Company and KBR, Inc. dated as of November 20, 2006 (incorporated by reference to Exhibit 10.1 to KBR's current report on Form 8-K dated November 20, 2006; File No. 1-33146) |
| 10.2 | Tax Sharing Agreement, dated as of January 1, 2006, by and between Halliburton Company, KBR Holdings, LLC and KBR, Inc., as amended effective February 26, 2007 (incorporated by reference to Exhibit 10.2 to KBR's Annual Report on Form 10-K for the year ended December 31, 2006; File No. 1-33146) |
| 10.3 | Employee Matters Agreement dated as of November 20, 2006, by and between Halliburton Company and KBR, Inc. (incorporated by reference to Exhibit 10.6 to KBR's current report on Form 8-K dated November 20, 2006; File No. 1-33146) |
| 10.4 | Intellectual Property Matters Agreement dated as of November 20, 2006, by and between Halliburton Company and KBR, Inc. (incorporated by reference to Exhibit 10.7 to KBR's current report on Form 8-K dated November 20, 2006; File No. 1-33146) |
| 10.5 | Form of Indemnification Agreement between KBR, Inc. and its directors and executive officers (incorporated by reference to Exhibit 10.7 to KBR's annual report on Form 10-K for the year ended December 31, 2013 filed on February 27, 2014; File No. 1-33146) |
| 10.6 | Five Year Revolving Credit Agreement dated as of December 2, 2011 among KBR, Inc., the Banks party thereto, The Royal Bank of Scotland PLC, as Syndication Agent, ING Bank, N.V. and The Bank of Nova Scotia, as Co-Documentation Agents, Citigroup Global Markets Inc., RBS Securities Inc. ING Bank, N.V., and The Bank of Nova Scotia as Joint Lead Arrangers and Bookrunners, and Citibank, N.A., as Administrative Agent. (incorporated by reference to Exhibit 10.1 to KBR's current report on Form 8-K dated December 7, 2011; File No. 1-33146 |
| 10.7 | Waiver dated May 9, 2014 (incorporated by reference to Exhibit 10.1 to KBR's current report on Form 8-K dated May 9, 2014; File No. 1-33146) |
| 10.8 | First Amendment to Credit Agreement dated as of December 11, 2014 to the Five Year Revolving Credit Agreement dated as of December 2, 2011 among KBR, Inc., the several banks and other institutions parties to the Credit Agreement, Citibank, NA., as administrative agent, The Royal Bank of |

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|---|---|
| | Scotland PLC, as syndication agent, and ING Bank, N.V. and The Bank of Nova Scotia as co-documentation agents (incorporated by reference to Exhibit 10.1 to KBR’s current report on Form 8-K dated December 11, 2014; File No. 1-33146) |
| 10.9 | Second Amendment to Credit Agreement dated as April 27, 2015 to the Five Year Revolving Credit Agreement dated as of December 2, 2011 (the "Credit Agreement") among KBR, Inc., the several banks and other institutions parties to the Credit Agreement, Citibank, NA., as administrative agent, The Royal Bank of Scotland PLC, as syndication agent, and ING Bank, N.V. and The Bank of Nova Scotia as co-documentation agents (incorporated by reference to Exhibit 10.1 to KBR’s Form 10-Q for the quarter ended March 31, 2015; File No. 1-33146) |
| 10.10 | Amended and Restated Revolving Credit Agreement dated as of September 25, 2015 among KBR, Inc., the Banks party thereto, Citibank, N.A., as Administrative Agent, Bank of America, N.A., ING Bank, N.V., Dublin Branch, BNP Paribas, and The Bank of Nova Scotia as Syndication Agents, Citibank, N.A., BNP Paribas, ING Bank, N.V., Dublin Branch, The Bank of Nova Scotia, Bank of America, N.A., and Compass Bank as initial Issuing Banks, and Citigroup Global Markets Inc., BNP Paribas Securities Corp., Merrill Lynch, Pierce, Fenner & Smith Inc., ING Bank, N.V., Dublin Branch, and The Bank of Nova Scotia as Joint Lead Arrangers and Bookrunners (incorporated by reference to Exhibit 10.1 to KBR’s current report on Form 8-K dated September 25, 2015; File No. 1-33146) |
| 10.11+ | KBR, Inc. 2006 Stock and Incentive Plan (As Amended and Restated March 7, 2012) (incorporated by reference to KBR's definitive Proxy Statement dated April 5, 2012; File No. 1-33146) |

| Exhibit Number | Description |
|---|---|
| 10.12+ | KBR, Inc. Senior Executive Performance Pay Plan (incorporated by reference to Exhibit 10.10 to KBR's annual report on Form 10-K for the year ended December 31, 2013 filed on February 27, 2014; File No. 1-33146) |
| 10.13+ | KBR, Inc. Management Performance Pay Plan (incorporated by reference to Exhibit 10.11 to KBR's annual report on Form 10-K for the year ended December 31, 2013 filed on February 27, 2014; File No. 1-33146) |
| 10.14+ | KBR, Inc. Transitional Stock Adjustment Plan (incorporated by reference to Exhibit 10.23 to KBR's Form 10-K for the fiscal year ended December 31, 2006; File No. 1-33146) |
| 10.15+ | KBR Dresser Deferred Compensation Plan (incorporated by reference to Exhibit 4.5 to KBR's Registration Statement on Form S-8 filed on April 13, 2007) |
| 10.16+ | KBR Supplemental Executive Retirement Plan (incorporated by reference to Exhibit 10.3 to KBR's current report on Form 8-K dated April 9, 2007; File No. 1-33146) |
| 10.17+ | KBR Benefit Restoration Plan (incorporated by reference to Exhibit 10.4 to KBR's current report on Form 8-K dated April 9, 2007; File No. 1-33146) |
| 10.18+ | KBR Elective Deferral Plan (incorporated by reference to Exhibit 10.5 to KBR's current report on Form 8-K dated April 9, 2007; File No. 1-33146) |
| 10.19+ | KBR Non-Employee Directors Elective Deferral Plan (incorporated by reference to exhibit 10.1 to KBR's current report on Form 8-K dated December 11, 2013; File No. 1-33146) |
| 10.20+ | Form of Stock Option Agreement pursuant to KBR, Inc. 2006 Stock and Incentive Plan (incorporated by reference to Exhibit 10.3 to KBR's Form 10-Q for the quarter ended June 30, 2007; File No. 1-33146) |
| 10.21+ | Form of KBR Restricted Stock Agreement pursuant to KBR, Inc. 2006 Stock and Incentive Plan (incorporated by reference to Exhibit 10.4 to KBR's Form 10-Q for the quarter ended June 30, 2007; File No. 1-33146) |
| 10.22+ | Form of KBR, Inc. Transitional Stock Adjustment Plan Stock Option Award (incorporated by reference to Exhibit 10.5 to KBR's Form 10-Q for the quarter ended June 30, 2007; File No. 1-33146) |
| 10.23+ | Form of revised KBR Performance Award Agreement pursuant to KBR, Inc. 2006 Stock and Incentive Plan (incorporated by reference to Exhibit 10.25 to KBR's Form 10-K for the year ended December 31, 2010; File No. 1-33146) |
| 10.24+ | Form of revised KBR Performance Award Agreement pursuant to KBR, Inc. 2006 Stock and Incentive Plan (incorporated by reference to Exhibit 10.25 to KBR's annual report on Form 10-K for the year ended December 31, 2012; File No. 1-33146) |
| 10.25+ | Form of revised Nonstatutory Stock Option Agreement for US and Non-US Employees pursuant to KBR, Inc. 2006 Stock and Incentive Plan (incorporated by reference to Exhibit 10.1 to KBR's quarterly |

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| | report on Form 10-Q for the period ended March 31, 2013; File No. 1-33146) |
| 10.26+ | Form of revised Restricted Stock Unit Agreement (U.S. Employee) pursuant to KBR, Inc. 2006 Stock and Incentive Plan (incorporated by reference to Exhibit 10.2 to KBR’s quarterly report on Form 10-Q for the period ended March 31, 2013; File No. 1-33146) |
| 10.27+ | Form of revised Restricted Stock Unit Agreement (International Employee) pursuant to KBR, Inc. 2006 Stock and Incentive Plan (incorporated by reference to Exhibit 10.5 to KBR’s quarterly report on Form 10-Q for the period ended March 31, 2013; File No. 1-33146) |
| 10.28+ | Form of revised Restricted Stock Unit Agreement (Director) pursuant to KBR, Inc. 2006 Stock and Incentive Plan (incorporated by reference to Exhibit 10.3 to KBR’s quarterly report on Form 10-Q for the period ended March 31, 2013; File No. 1-33146) |
| 10.29+ | Form of revised Performance Award Agreement pursuant to KBR, Inc. 2006 Stock and Incentive Plan (incorporated by reference to Exhibit 10.4 to KBR’s quarterly report on Form 10-Q for the period ended March 31, 2013; File No. 1-33146) |
| 10.30+ | Form of Restricted Stock Unit Agreement (Three-Year Cliff Vesting) pursuant to KBR, Inc. 2006 Stock and Incentive Plan (incorporated by reference to Exhibit 10.29 to KBR’s annual report on Form 10-K for the year ended December 31, 2013 filed on February 27, 2014; File No. 1-33146) |

| Exhibit Number | Description |
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| 10.31+ | Form of revised KBR Performance Award Agreement pursuant to KBR, Inc. 2006 Stock and Incentive Plan (incorporated by reference to Exhibit 10.1 to KBR’s quarterly report on Form 10-Q for the period ended March 31, 2014; File No. 1-33146) |
| 10.32+ | Form of revised Nonstatutory Stock Option Agreement pursuant to KBR, Inc. 2006 Stock and Incentive Plan (incorporated by reference to Exhibit 10.2 to KBR’s quarterly report on Form 10-Q for the period ended March 31, 2014; File No. 1-33146) |
| 10.33+ | Form of revised Restricted Stock Unit Agreement (U.S. Employee) pursuant to KBR, Inc. 2006 Stock and Incentive Plan (incorporated by reference to Exhibit 10.3 to KBR’s quarterly report on Form 10-Q for the period ended March 31, 2014; File No. 1-33146) |
| 10.34+ | Form of revised Restricted Stock Unit Agreement (U.S. Employee - 3 Year Vesting) pursuant to KBR, Inc. 2006 Stock and Incentive Plan (incorporated by reference to Exhibit 10.1 to KBR’s quarterly report on Form 10-Q for the period ended September 31, 2014; File No. 1-33146) |
| 10.35+ | Form of revised Restricted Stock Unit Agreement (International Employee - 3 Year Vesting) pursuant to KBR, Inc. 2006 Stock and Incentive Plan (incorporated by reference to Exhibit 10.2 to KBR’s quarterly report on Form 10-Q for the period ended September 31, 2014; File No. 1-33146) |
| 10.36+ | Form of Restricted Stock Unit Agreement (U.S. Employee - 3 Year Vesting; Involuntary Termination Trigger) pursuant to KBR, Inc. 2006 Stock and Incentive Plan (incorporated by reference to Exhibit 10.3 to KBR’s quarterly report on Form 10-Q for the period ended September 31, 2014; File No. 1-33146) |
| 10.37+ | Form of Restricted Stock Unit Agreement (U.S. Employee - 5 Year Vesting; TSR Requirement) pursuant to KBR, Inc. 2006 Stock and Incentive Plan (incorporated by reference to Exhibit 10.4 to KBR’s quarterly report on Form 10-Q for the period ended September 31, 2014; File No. 1-33146) |
| 10.38+ | Form of Restricted Stock Unit Agreement (U.S. Employee - 3 Year Vesting; TSR Requirement) pursuant to KBR, Inc. 2006 Stock and Incentive Plan (incorporated by reference to Exhibit 10.39 to KBR’s Form 10-K/A for the fiscal year ended December 31, 2015; File No. 1-33146) |
| 10.39+ | Form of KBR Performance Award Agreement pursuant to KBR, Inc. 2006 Stock and Incentive Plan (incorporated by reference to Exhibit 10.40 to KBR’s Form 10-K for the fiscal year ended December 31, 2015; File No. 1-33146) |
| 10.40+ | Form of revised Performance Award Agreement pursuant to KBR, Inc. 2006 Stock and Incentive Plan (incorporated by reference to Exhibit 10.2 to KBR’s Form 10-Q for the quarter ended March 31, 2015; File No. 1-33146) |
| 10.41+ | Form of Severance and Change in Control Agreement (incorporated by reference to Exhibit 10.1 to KBR’s Form 10-Q for the quarter ended September 30, 2008; File No. 1-33146) |
| 10.42+ | Severance and Change of Control Agreement effective as of December 31, 2008, by and between KBR Technical Services, Inc., a Delaware corporation, KBR, Inc., and William P. Utt (incorporated by reference to Exhibit 10.33 to KBR's annual report on Form 10-K for the year ended December 31, |

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| | 2011; File No. 1-33146) |
| 10.43+ | Severance and Change of Control Agreement effective as of August 26, 2008, by and between KBR Technical Services, Inc., a Delaware corporation, KBR, Inc., and Andrew D. Farley (incorporated by reference to Exhibit 10.34 to KBR’s annual report on Form 10-K for the year ended December 31, 2011; File No. 1-33146) |
| 10.44+ | Amendment to the 2008 Severance and Change in Control Agreements effective as of December 31, 2008 (incorporated by reference to Exhibit 10.36 to KBR’s annual report on Form 10-K for the year ended December 31, 2011; File No. 1-33146) |
| 10.45+ | Severance and Change of Control Agreement effective as of July 9, 2012, by and between KBR Technical Services, Inc., a Delaware corporation, KBR, Inc., and Ivor Harrington (incorporated by reference to Exhibit 10.1 to KBR's current report on Form 8-K dated July 9, 2012; File No. 1-33146) |
| 10.46+ | Severance and Change in Control Agreement effective as of June 2, 2014, between KBR Technical Services, Inc., a Delaware corporation, KBR, Inc. and Stuart J. Bradie (incorporated by reference to Exhibit 10.1 to KBR’s current report on Form 8-K dated April 9, 2014; File No. 1-33146) |
| 10.47+ | Severance and Change of Control Agreement effective as of December 11, 2011, by and between KBR Technical Services, Inc., a Delaware corporation, KBR, Inc., and Roy Oelking (incorporated by reference to Exhibit 10.38 to KBR’s annual report on Form 10-K for the year ended December 31, 2012; File No. 1-33146) |

| Exhibit Number | Description |
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| 10.48+ | Severance and Change of Control Agreement effective as of April 8, 2013, by and between KBR Technical Services, Inc., a Delaware corporation, KBR, Inc., and Andrew Summers (incorporated by reference to Exhibit 10.1 to KBR’s current report on Form 8-K dated March 6, 2013; File No. 1-33146) |
| 10.49+ | Severance and Change of Control Agreement effective as of December 14, 2011, by and between KBR Technical Services, Inc., a Delaware corporation, KBR, Inc., and Mitch Dauzat (incorporated by reference to Exhibit 10.1 to KBR’s quarterly report on Form 10-Q for the period ended September 30, 2013; File No. 1-33146) |
| 10.50+ | Severance and Change of Control Agreement effective as of October 28, 2013, by and between KBR Technical Services, Inc., a Delaware corporation, KBR, Inc., and Brian Ferraioli (incorporated by reference to Exhibit 10.1 to KBR’s current report on Form 8-K dated October 28, 2013; File No. 1-33146) |
| 10.51+ | Form of Amendment to Severance and Change in Control Agreement (incorporated by reference to Exhibit 10.2 to KBR’s quarterly report on Form 10-Q for the period ended September 30, 2015; File No. 1-33146) |
| *21.1 | List of subsidiaries |
| *23.1 | Consent of KPMG LLP—Houston, Texas |
| *31.1 | Certification of the Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| *31.2 | Certification of the Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| **32.1 | Certification Furnished Pursuant to 18 U.S.C. Section 1350 as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| **32.2 | Certification Furnished Pursuant to 18 U.S.C. Section 1350 as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| ***101 | The following materials from the Company’s Annual Report on Form 10-K for the period ended December 31, 2015, formatted in XBRL (Extensible Business Reporting Language): (i) Consolidated Statements of Operations, (ii) Consolidated Statements of Comprehensive Income (Loss), (iii) Consolidated Balance Sheets, (iv) Consolidated Statements of Shareholders' Equity, (v) Consolidated Statements of Cash Flows, and (vi) Notes to Consolidated Financial Statements |

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| + | Management contracts or compensatory plans or arrangements |
| * | Filed with this Form 10-K |
| ** | Furnished with this Form 10-K |
| *** | Interactive data files |

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