# KBR, INC.

# FORM 10-Q
(Quarterly Report)

## Filed 04/29/15 for the Period Ending 03/31/15

| | |
|---|---|
| Address | 601 JEFFERSON STREET<br>SUITE 3400<br>HOUSTON, TX 77002 |
| Telephone | (713) 753-3834 |
| CIK | 0001357615 |
| Symbol | KBR |
| SIC Code | 1600 - Heavy Construction Other Than Bldg Const - Contractors |
| Industry | Construction Services |
| Sector | Capital Goods |
| Fiscal Year | 12/31 |

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

# FORM 10-Q

☒ **Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
**For the quarterly period ended March 31, 2015**
**OR**

☐ **Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the transition period from to**

**Commission File Number: 1-33146**

**KBR, Inc.**
**( *Exact name of registrant as specified in its charter* )**

| | |
|---|---|
| **Delaware** | **20-4536774** |
| **( *State of incorporation* )** | **( *I.R.S. Employer Identification No.* )** |
| **601 Jefferson Street, Suite 3400, Houston, Texas** | **77002** |
| ***(Address of principal executive offices)*** | ***(Zip Code)*** |

**(713) 753-3011**
***(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 ☒ No ☐

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 (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

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 | ☒ | | Accelerated filer | ☐ |
| Non-accelerated filer | ☐ | (Do not check if a smaller reporting company) | Smaller reporting company | ☐ |

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

As of April 14, 2015 , there were 144,253,330 shares of KBR, Inc. Common Stock, par value $0.001 per share, outstanding.

TABLE OF CONTENTS

## Forward-Looking and Cautionary Statements

*This report contains certain statements that are, or may be deemed to be, "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. The Private Securities Litigation Reform Act of 1995 provides safe harbor provisions for forward-looking information. Some of the statements contained in this quarterly report are forward-looking statements. All statements other than statements of historical fact are, or may be deemed to be, forward-looking statements. The words "believe," "may," "estimate," "continue," "anticipate," "intend," "plan," "expect" and similar expressions are intended to identify forward-looking statements. Forward-looking statements include information concerning our possible or assumed future financial performance and results of operations.*

*We have based these statements on our assumptions and analyses in light of our experience and perception of historical trends, current conditions, expected future developments and other factors we believe are appropriate in the circumstances. Forward-looking statements by their nature involve substantial risks and uncertainties that could significantly affect expected results, and actual future results could differ materially from those described in such statements. While it is not possible to identify all factors, factors that could cause actual future results to differ materially include the risks and uncertainties disclosed in our 2014 Annual Report on Form 10-K contained in Part I under "Risk Factors."*

*Many of these factors are beyond our ability to control or predict. Any of these factors, or a combination of these factors, could materially and adversely affect our future financial condition or results of operations and the ultimate accuracy of the forward-looking statements. These forward-looking statements are not guarantees of our future performance, and our actual results and future developments may differ materially and adversely from those projected in the forward-looking statements. We caution against putting undue reliance on forward-looking statements or projecting any future results based on such statements or on present or prior earnings levels. In addition, each forward-looking statement speaks only as of the date of the particular statement, and we undertake no obligation to publicly update or revise any forward-looking statement.*

## PART I. FINANCIAL INFORMATION

### Item 1. Financial Information

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

| | Three Months Ended March 31, | |
|---|---|---|
| | 2015 | 2014 |
| Revenues | $ 1,436 | $ 1,633 |
| Cost of revenues | (1,366) | (1,594) |
| **Gross profit** | **70** | **39** |
| Equity in earnings of unconsolidated affiliates | 35 | 31 |
| General and administrative expenses | (39) | (60) |
| Asset impairment and restructuring charges | (2) | — |
| **Operating income** | **64** | **10** |
| Other non-operating income (expenses) | 6 | (9) |
| **Income before income taxes and noncontrolling interests** | **70** | **1** |
| Provision for income taxes | (19) | (21) |
| **Net income (loss)** | **51** | **(20)** |
| Net income attributable to noncontrolling interests | (7) | (23) |
| **Net income (loss) attributable to KBR** | **$ 44** | **$ (43)** |
| **Net income (loss) attributable to KBR per share:** | | |
| Basic | $ 0.30 | $ (0.29) |
| Diluted | $ 0.30 | $ (0.29) |
| **Basic weighted average common shares outstanding** | **145** | **146** |
| **Diluted weighted average common shares outstanding** | **145** | **146** |
| **Cash dividends declared per share** | **$ 0.08** | **$ 0.08** |

See accompanying notes to condensed consolidated financial statements.

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

| | Three Months Ended March 31, | |
|---|---|---|
| | 2015 | 2014 |
| **Net income (loss)** | $ 51 | $ (20) |
| **Other comprehensive income (loss), net of tax:** | | |
| Foreign currency translation adjustments: | | |
| Foreign currency translation adjustments, net of tax | (58) | 9 |
| Reclassification adjustment included in net income | — | — |
| **Foreign currency translation adjustments, net of taxes of $1 and $3** | **(58)** | **9** |
| Pension and post-retirement benefits, net of tax: | | |
| Actuarial losses, net of tax | — | 1 |
| Reclassification adjustment included in net income | 12 | 8 |
| **Pension and post-retirement benefits, net of taxes of $1 and $3** | **12** | **9** |
| Changes in fair value of derivatives: | | |
| Changes in fair value of derivatives, net of tax | — | (1) |
| Reclassification adjustment included in net income | — | — |
| **Changes in fair value of derivatives, net of taxes of $0 and $0** | **—** | **(1)** |
| **Other comprehensive income (loss), net of tax** | **(46)** | **17** |
| Comprehensive income (loss) | 5 | (3) |
| Less: Comprehensive income attributable to noncontrolling interests | (7) | (23) |
| **Comprehensive loss attributable to KBR** | **$ (2)** | **$ (26)** |

See accompanying notes to condensed consolidated financial statements.

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

| | March 31, 2015 | December 31, 2014 |
|---|---|---|
| | **(Unaudited)** | |
| **Assets** | | |
| **Current assets:** | | |
| Cash and equivalents | $ 758 | $ 970 |
| Accounts receivable, net of allowance for doubtful accounts of $22 and $19 | 823 | 847 |
| Costs and estimated earnings in excess of billings on uncompleted contracts ("CIE") | 425 | 490 |
| Deferred income taxes | 97 | 90 |
| Other current assets | 130 | 147 |
| **Total current assets** | **2,233** | **2,544** |
| Property, plant, and equipment, net of accumulated depreciation of $381 and $385 (including net PPE of $53 and $57 owned by a variable interest entity) | 230 | 247 |
| Goodwill | 324 | 324 |
| Intangible assets, net of accumulated amortization of $97 and $96 | 40 | 41 |
| Equity in and advances to unconsolidated affiliates | 144 | 151 |
| Deferred income taxes | 168 | 174 |
| Claims and accounts receivable | 592 | 570 |
| Other assets | 152 | 148 |
| **Total assets** | **$ 3,883** | **$ 4,199** |
| **Liabilities and Shareholders' Equity** | | |
| **Current liabilities:** | | |
| Accounts payable | $ 637 | $ 742 |
| Payable to former parent | 44 | 56 |
| Billings in excess of costs and estimated earnings on uncompleted contracts ("BIE") | 505 | 531 |
| Accrued salaries, wages and benefits | 192 | 197 |
| Nonrecourse project debt | 9 | 10 |
| Other current liabilities | 432 | 488 |
| **Total current liabilities** | **1,819** | **2,024** |
| Pension obligations | 466 | 502 |
| Employee compensation and benefits | 111 | 112 |
| Income tax payable | 67 | 69 |
| Deferred income taxes | 173 | 170 |
| Nonrecourse project debt | 60 | 63 |
| Deferred income from unconsolidated affiliates | 96 | 95 |
| Other liabilities | 219 | 229 |
| **Total liabilities** | **3,011** | **3,264** |
| **KBR shareholders' equity:** | | |
| Preferred stock, $0.001 par value, 50,000,000 shares authorized, 0 shares issued and outstanding | — | — |
| Common stock, $0.001 par value, 300,000,000 shares authorized, 174,800,319 and 174,448,399 shares issued, and 144,233,249 and 144,837,281 shares outstanding | — | — |
| Paid-in capital in excess of par ("PIC") | 2,056 | 2,091 |
| Accumulated other comprehensive loss ("AOCL") | (922) | (876) |
| Retained earnings | 471 | 439 |
| Treasury stock, 30,567,070 shares and 29,611,118 shares, at cost | (726) | (712) |
| **Total KBR shareholders' equity** | **879** | **942** |
| Noncontrolling interests ("NCI") | (7) | (7) |
| **Total shareholders' equity** | **872** | **935** |
| **Total liabilities and shareholders' equity** | **$ 3,883** | **$ 4,199** |

See accompanying notes to condensed consolidated financial statements.

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

| | Three Months Ended March 31, | |
|---|---|---|
| | **2015** | **2014** |
| **Cash flows from operating activities:** | | |
| Net income (loss) | $ 51 | $ (20) |
| Adjustments to reconcile net income to net cash provided by (used in) operating activities: | | |
| Depreciation and amortization | 11 | 18 |
| Equity in earnings of unconsolidated affiliates | (35) | (31) |
| Deferred income tax expense | — | 6 |
| Other | 1 | 12 |
| Changes in operating assets and liabilities: | | |
| Accounts receivable, net of allowance for doubtful accounts | 3 | 121 |
| Costs and estimated earnings in excess of billings on uncompleted contracts | 44 | (70) |
| Accounts payable | (102) | (20) |
| Billings in excess of costs and estimated earnings on uncompleted contracts | (8) | (15) |
| Accrued salaries, wages and benefits | — | (9) |
| Reserve for loss on uncompleted contracts | (37) | 18 |
| Receipts of advances from unconsolidated affiliates, net | 6 | 7 |
| Distributions of earnings from unconsolidated affiliates | 37 | 19 |
| Income taxes payable | (11) | (13) |
| Pension funding | (11) | (12) |
| Net settlement of derivative contracts | (36) | 1 |
| Other assets and liabilities | (21) | (29) |
| **Total cash flows used in operating activities** | **(108)** | **(17)** |
| **Cash flows from investing activities:** | | |
| Purchases of property, plant and equipment | (1) | (15) |
| **Total cash flows used in investing activities** | **$ (1)** | **$ (15)** |

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

| | Three Months Ended March 31, | |
|---|---|---|
| | **2015** | **2014** |
| **Cash flows from financing activities:** | | |
| Payments to reacquire common stock | $ (16) | $ (56) |
| Acquisition of noncontrolling interest | (40) | — |
| Distributions to noncontrolling interests | (7) | (19) |
| Payments of dividends to shareholders | (12) | (12) |
| Net proceeds from issuance of common stock | 1 | 4 |
| Excess tax benefits from share-based compensation | — | 1 |
| Payments on short-term and long-term borrowings | — | (2) |
| Other | (1) | — |
| **Total cash flows used in financing activities** | **(75)** | **(84)** |
| Effect of exchange rate changes on cash | (28) | 6 |
| Decrease in cash and equivalents | (212) | (110) |
| Cash and equivalents at beginning of period | 970 | 1,106 |
| **Cash and equivalents at end of period** | **$ 758** | **$ 996** |
| **Supplemental disclosure of cash flows information:** | | |
| Cash paid for interest | $ 3 | $ 3 |
| Cash paid for income taxes (net of refunds) | $ 28 | $ 29 |
| **Noncash financing activities** | | |
| Dividends declared | $ 12 | $ 12 |

See accompanying notes to condensed 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 condensed 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 8 to our condensed 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 condensed consolidated statements of operations, condensed consolidated balance sheets and the condensed 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 condensed 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 condensed 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 stock-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 condensed consolidated financial statements.

### *Service Concession Arrangements*

On January 24, 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("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. This ASU specifies 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. An operating entity should refer to other ASUs as applicable to account for various aspects of a service concession arrangement. The amendments also specify 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 did not have a material impact on our financial statements as of January 1, 2015.

### *Additional Balance Sheet Information*

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

| Dollars in millions | March 31, 2015 | December 31, 2014 |
|---|---|---|
| Reserve for estimated losses on uncompleted contracts (a) | $ 118 | $ 159 |
| Retainage payable | 88 | 88 |
| Income taxes payable | 43 | 61 |
| Deferred tax liabilities | 51 | 46 |
| Value-added tax payable | 33 | 31 |
| Insurance payable | 16 | 19 |
| Dividend payable | 12 | 12 |
| Other miscellaneous liabilities | 71 | 72 |
| Total other current liabilities | $ 432 | $ 488 |

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

## Note 2 . Business Segment Information

Following the completion of our strategic review, in December 2014, we reorganized our business into three segments in order to focus on core strengths in technology and consulting, engineering and construction, and government services. We also reorganized the businesses that we intend to exit into our Non-strategic Business segment because they no longer constitute a part of our future strategic focus. Each business segment reflects a reportable segment led by a separate business segment president who reports directly to our chief operating decision maker ("CODM"). Business segment performance is evaluated by our CODM using gross profit (loss), which is defined as business segment revenues less the cost of revenues, and includes overhead directly attributable to the business segment. We have revised our business segment reporting to reflect our current management approach and recast prior periods to conform to the current business segment presentation.

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 throughout 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 United Kingdom ("U.K."), Australian and United States ("U.S.") governments.

**Non-strategic Business.** Our Non-strategic Business segment represents the operations or activities that we intend to either sell to third parties or exit upon completion of existing contracts.

**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.

The following table presents revenues, gross profit, equity in earnings of unconsolidated affiliates and operating income (loss) by reporting segment.

***Operations by Reportable Segment***

| | Three Months Ended March 31, | |
|---|---|---|
| *Dollars in millions* | 2015 | 2014 |
| **Revenues:** | | |
| Technology & Consulting | $ 72 | $ 91 |
| Engineering & Construction | 977 | 1,137 |
| Government Services | 155 | 186 |
| Other | — | — |
| Subtotal | 1,204 | 1,414 |
| Non-strategic Business | 232 | 219 |
| Total Revenues | $ 1,436 | $ 1,633 |
| **Gross profit (loss):** | | |
| Technology & Consulting | $ 19 | $ 15 |
| Engineering & Construction | 55 | 29 |
| Government Services | (4) | 5 |
| Other | — | — |
| Subtotal | 70 | 49 |
| Non-strategic Business | — | (10) |
| Total Gross profit | $ 70 | $ 39 |
| **Equity in earnings of unconsolidated affiliates:** | | |
| Technology & Consulting | $ — | $ — |
| Engineering & Construction | 21 | 17 |
| Government Services | 14 | 14 |
| Other | — | — |
| Subtotal | 35 | 31 |
| Non-strategic Business | — | — |
| Total Equity in earnings of unconsolidated affiliates | $ 35 | $ 31 |
| **Segment operating income (loss):** | | |
| Technology & Consulting | $ 17 | $ 15 |
| Engineering & Construction | 66 | 33 |
| Government Services | 9 | 16 |
| Other | (28) | (44) |
| Subtotal | 64 | 20 |
| Non-strategic Business | — | (10) |
| Total Segment operating income | $ 64 | $ 10 |

***Changes in Estimates***

There are many factors that can affect the accuracy of our cost estimates and ultimately our future profitability, including, but not limited to, the availability and costs of resources, including labor, materials and equipment, productivity and weather, and for unit rate and construction service contracts, the availability and detail of customer supplied engineering drawings. 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.

Significant 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 condensed consolidated balance sheets, was as follows:

| | Three Months Ended March 31, | |
|---|---|---|
| *Dollars in millions* | **2015** | **2014** |
| Balance at January 1, | $ 159 | $ 109 |
| Changes in estimates on loss projects | 12 | 48 |
| Change due to progress on loss projects | (53) | (34) |
| Balance at March 31, | $ 118 | $ 123 |

Included in the reserve for estimated losses on uncompleted contracts is $37 million and $107 million at March 31, 2015 and 2014 , respectively, related to our Canadian pipe fabrication and module assembly projects. We have completed close-out activities on three of these projects, we are continuing to negotiate closure on two and the remaining two projects should be completed during 2015. Our estimates of revenues and costs at completion on these projects have been, and may continue to be, impacted by our performance, the performance of our subcontractors, the Canadian labor market, the nature, complexity and ultimate quantities of modules and types of individual components in the modules, our contractual arrangements and our ability to accumulate information and negotiate final contract settlements with our customers. Our estimated losses as of March 31, 2015 on these projects represent our best estimate based on current information. Actual results could differ from the estimates we have used to account for these projects as of March 31, 2015 .

Included in the reserve for estimated losses on uncompleted contracts is $65 million at March 31, 2015 related to two power projects in our Non-strategic Business segment, which we recognized as loss contracts at December 31, 2014 . Our estimates of revenues and costs at completion for these power projects have been, and may continue to be, impacted by our performance, the performance of our subcontractors, and the U.S. labor market. Our estimated profit and losses as of March 31, 2015 on these power projects represent our best estimate based on current information. Actual results could differ from the estimates we have used to account for these power projects as of March 31, 2015 .

## 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:

| | March 31, 2015 | | |
|---|---|---|---|
| *Dollars in millions* | International (a) | Domestic (b) | Total |
| Operating cash and equivalents | $ 180 | $ 173 | $ 353 |
| Time deposits | 319 | 8 | 327 |
| Cash and equivalents held in joint ventures | 71 | 7 | 78 |
| Total | $ 570 | $ 188 | $ 758 |

| | December 31, 2014 | | |
|---|---|---|---|
| *Dollars in millions* | International (a) | Domestic (b) | Total |
| Operating cash and equivalents | $ 209 | $ 121 | $ 330 |
| Time deposits | 481 | 79 | 560 |
| 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.

Our international cash balances are primarily held in Australia and the U.K. See Note 11 for further discussion of the tax aspects of our foreign cash repatriation strategy.

**Note 4 . Accounts Receivable**

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

| | March 31, 2015 | | |
|---|---|---|---|
| *Dollars in millions* | Retainage | Trade & Other | Total |
| Technology & Consulting | $ — | $ 59 | $ 59 |
| Engineering & Construction | 50 | 548 | 598 |
| Government Services | 4 | 69 | 73 |
| Other | — | 3 | 3 |
| Subtotal | 54 | 679 | 733 |
| Non-strategic Business | 40 | 50 | 90 |
| Total | $ 94 | $ 729 | $ 823 |

| | 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 |

In addition, noncurrent retainage receivable included in "other assets" on our condensed consolidated balance sheets was $19 million and $14 million as of March 31, 2015 and December 31, 2014 , respectively, primarily in our Non-strategic Business segment.

**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:

| Dollars in millions | March 31, 2015 | December 31, 2014 |
|---|---|---|
| Technology & Consulting | $ 34 | $ 38 |
| Engineering & Construction | 287 | 357 |
| Government Services | 74 | 73 |
| Subtotal | 395 | 468 |
| Non-strategic Business | 30 | 22 |
| Total | $ 425 | $ 490 |

Our BIE balances by business segment are as follows:

| Dollars in millions | March 31, 2015 | December 31, 2014 |
|---|---|---|
| Technology & Consulting | $ 64 | $ 56 |
| Engineering & Construction | 221 | 212 |
| Government Services | 99 | 93 |
| Subtotal | 384 | 361 |
| Non-strategic Business | 121 | 170 |
| Total | $ 505 | $ 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 |
|---|---|---|
| Amounts included in project estimates-at-completion at January 1, | $ 31 | $ 115 |
| Changes in estimates-at-completion | 11 | (20) |
| Approved | (3) | (30) |
| Amounts included in project estimates-at-completion at March 31, | $ 39 | $ 65 |
| | | |
| Amounts recorded in revenues on a percentage-of-completion basis at March 31, | $ 37 | $ 50 |

The table above excludes unapproved change orders and claims related to our unconsolidated affiliates. Our proportionate share of unapproved change orders and claims on a percentage-of-complete basis was $77 million as of March 31, 2015 and $79 million as of March 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 $7 million at March 31, 2015 and $12 million at December 31, 2014 , respectively, (including amounts related to our share of unconsolidated subsidiaries), 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; therefore, they have not been recognized.

***Advances***

We may receive customer advances in the normal course of business, most of which are applied to invoices usually within one to three months. In addition, we may hold advances from customers to assist us in financing project activities, including subcontractor costs. As of March 31, 2015 and December 31, 2014 , there were no finance-related advances.

**Note 6 . Claims and Accounts Receivable**

The components of our claims and accounts receivable account balance not expected to be collected within the next 12 months are as follows:

| *Dollars in millions* | March 31, 2015 | December 31, 2014 |
|---|---|---|
| Engineering & Construction | $ 425 | $ 425 |
| Government Services | 167 | 145 |
| Total | $ 592 | $ 570 |

Our E&C business segment's claims and accounts receivable includes $401 million related to our EPC 1 arbitration. See Note 13 to our condensed consolidated financial statements under PEMEX and PEP Arbitration for further discussion. The remaining balance is related to a construction project for which we are actively pursuing the recovery of these receivables.

Our GS business segment's claims and accounts receivable reflects claims for costs incurred under various U.S. government contracts. See "Other Matters" in Note 12 to our condensed consolidated financial statements for further discussion on our U.S. government claims.

**Note 7 . Restructuring**

Included in "other current liabilities" on our condensed consolidated balance sheets at March 31, 2015 and December 31, 2014 is $14 million and $21 million , respectively, representing unpaid termination benefits related to our workforce reduction announced as a part of our strategic reorganization. We recognized an additional $1 million of such costs in the three months ended March 31, 2015 .

**Note 8 . Equity Method Investments and Variable Interest Entities**

We conduct some of our operations through joint ventures which operate through partnership, corporations, undivided interest 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* | March 31, 2015 | December 31, 2014 |
|---|---|---|
| Beginning balance | $ 151 | $ 156 |
| Equity in earnings of unconsolidated affiliates | 35 | 163 |
| Distribution of earnings of unconsolidated affiliates | (37) | (249) |
| Advances | (6) | (13) |
| Foreign currency translation adjustments | (6) | (1) |
| Other | 1 | — |
| Balance before reclassification | $ 138 | $ 56 |
| Reclassification of excess distribution | 9 | 102 |
| Recognition of excess distributions | (3) | (7) |
| Ending balance | $ 144 | $ 151 |

During 2014 , we received cash dividends of $102 million in excess of the carrying value of one of our investments. We had 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 condensed 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 the first quarter 2015 , we received an additional $9 million of cash dividends in excess of the carrying value of our investment and recognized $3 million of excess dividends.

***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 three months ended March 31, 2015 and 2014 , our revenues included $73 million and $68 million , respectively, related to services we provided to our joint ventures, primarily those in our E&C business segment.

Amounts included in our condensed consolidated balance sheets related to services we provided to our unconsolidated joint ventures as of March 31, 2015 and December 31, 2014 are as follows:

| *Dollars in millions* | March 31, 2015 | December 31, 2014 |
|---|---|---|
| Accounts receivable, net of allowance for doubtful accounts | $ 4 | $ 7 |
| Costs and estimated earnings in excess of billings on uncompleted contracts | $ 2 | $ 2 |
| Billings in excess of costs and estimated earnings on uncompleted contracts | $ 32 | $ 21 |

Our related party accounts payable for both periods were immaterial.

### *Unconsolidated Variable Interest Entities*

The following summarizes the total assets and total liabilities as reflected in our condensed consolidated balances 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.

| | March 31, 2015 | | |
|---|---|---|---|
| *Dollars in millions* | Total assets | Total liabilities | Maximum exposure to loss |
| Aspire Defence project | $ 16 | $ 121 | $ 16 |
| Ichthys Liquefied Natural Gas project | $ 49 | $ 42 | $ 49 |
| U.K. Road projects | $ 33 | $ 11 | $ 33 |
| EBIC Ammonia project | $ 40 | $ 2 | $ 25 |

| | December 31, 2014 | |
|---|---|---|
| *Dollars in millions* | Total assets | Total liabilities |
| Aspire Defence project | $ 17 | $ 118 |
| Ichthys Liquefied Natural Gas project | $ 49 | $ 35 |
| U.K. Road projects | $ 34 | $ 11 |
| EBIC Ammonia project | $ 42 | $ 2 |

On the Aspire Defence project, in addition to the maximum exposure to loss indicated in the table above, we have exposure to any losses incurred by the construction or operating joint ventures under their respective subcontract arrangements with the project company. Our exposure is, however, limited to our equity participation in these entities. The Ichthys liquefied natural gas ("LNG") project joint venture executes a project that has a lump sum component; in addition to the maximum exposure to loss indicated in the table above, 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. Our maximum exposure to loss on the EBIC Ammonia project reflects our 65% ownership of the development corporation which owns 25% of the company that consolidates the ammonia plant. We continue to monitor the $40 million investment in our EBIC Ammonia project joint venture indicated in the March 31, 2015 table above, as the profitability of its operations has been affected by the availability of natural gas feedstock in Egypt.

### *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:

| | March 31, 2015 | |
|---|---|---|
| *Dollars in millions* | Total assets | Total liabilities |
| Gorgon LNG project | $ 212 | $ 236 |
| Escravos Gas-to-Liquids project | $ 14 | $ 30 |
| Fasttrax Limited project | $ 82 | $ 79 |

| | 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 |

### *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 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.

## Note 9 . Pension Plans

The components of net periodic benefit cost related to pension benefits for the three months ended March 31, 2015 and 2014 were as follows:

| | Three Months Ended March 31, | | | |
|---|---|---|---|---|
| *Dollars in millions* | 2015 | | 2014 | |
| | United States | Int'l | United States | Int'l |
| **Components of net periodic benefit cost** | | | | |
| Service cost | $ — | $ — | $ — | $ 1 |
| Interest cost | 1 | 19 | 1 | 22 |
| Expected return on plan assets | (1) | (24) | (1) | (26) |
| Recognized actuarial loss | 1 | 11 | 1 | 10 |
| Net periodic benefit cost | $ 1 | $ 6 | $ 1 | $ 7 |

For the three months ended March 31, 2015 , we have contributed approximately $11 million of the $43 million we expect to contribute to our international plans in 2015 .

## Note 10 . Debt and Other Credit Facilities

### *Credit Agreement*

On December 2, 2011, we entered into a $1 billion , five-year unsecured revolving credit agreement (the "Credit Agreement") with a syndicate of international banks. The Credit Agreement is available for cash borrowings and the issuance of letters of credit related to general corporate needs. The Credit Agreement expires in December 2016 ; however, given that projects generally require letters of credit that extend beyond one year in length, we will likely need to enter into a new or amended credit agreement no later than 2015. Amounts drawn under the Credit Agreement will bear interest at variable rates, per annum, based either on (1) the London interbank offered rate ("LIBOR") plus an applicable margin of 1.50% to 1.75%, or (2) a base rate plus an applicable margin of 0.50% 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 issuance fee of 0.15% of the face amount of a letter of credit. KBR also pays a commitment fee of 0.25%, per annum, on any unused portion of the commitment under the Credit Agreement. As of March 31, 2015 , there were $165 million in letters of credit and no cash borrowings outstanding.

The Credit Agreement contains customary covenants 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, as defined in the Credit Agreement. In anticipation of our reorganization and the expected impairment and restructuring charges, in December 2014 we obtained an amendment to the Credit Agreement which reset the minimum consolidated net worth to $1.5 billion plus 50% of consolidated net income for each quarter beginning December 31, 2014 and 100% of any increase in shareholders' equity attributable to the sale of equity interests. In April 2015, we obtained an amendment to the Consolidated Net Worth (as defined in the Credit Agreement) to exclude the effects of changes in foreign currency translation adjustments from Shareholders' Equity, as defined in the Credit Agreement, for financial covenant purposes beginning January 1, 2015. As a result of this amendment, on March 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 outstanding at any time. 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 December 2, 2011, 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 13 to our condensed consolidated financial statements). At March 31, 2015 , the remaining availability under the Distribution Cap was approximately $441 million .

***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. Ministry of Defense ("MoD") to provide a Heavy Equipment Transporter Service to the British Army. See Note 8 to our condensed 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 condensed consolidated financial statements.

**Note 11 . Income Taxes**

The effective tax rate was approximately 27% for the three months ended March 31, 2015 . The effective tax rate for the three months ended March 31, 2014 is not meaningful due to the low income before income taxes, the recognition of a valuation allowance on the losses recognized on our Canadian pipe fabrication and module assembly projects and other discrete items.

Our estimated annual rate for 2015 is 25% , which is lower than the U.S. statutory rate of 35% due to lower tax rates on foreign earnings and noncontrolling interests of approximately 6% and 8% , respectively, offset by an increase in the estimated annual rate due to withholding tax obligations for which we do not expect to recognize an offsetting foreign tax credit in 2015 . Our estimated annual effective rate is subject to change based on changes in the actual jurisdictions where our 2015 earnings are generated.

The valuation allowance for deferred tax assets as of March 31, 2015 and December 31, 2014 was $539 million and $538 million , respectively. The change in the valuation allowance was $1 million and $22 million in the three months ended March 31, 2015 and 2014 . The valuation allowance is 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 probability that our deferred tax assets will be realized, 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 upon 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 is not more-likely-than-not that we would be able to realize the benefits of the deductible differences and accordingly recognized additional valuation allowances as of March 31, 2015 . We continue to monitor our forecast of taxable income and the evaluation of our deferred tax assets; however, sufficient taxable earning history is not yet available.

In December 2014, we implemented a foreign cash repatriation strategy that provides us, if necessary, the ability to repatriate an additional $370 million of international cash without recognizing additional tax expense. 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. We have not recognized a deferred tax liability of approximately $324 million for undistributed earnings of approximately $1 billion , which we continue 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.

The reserve for uncertain tax positions as of March 31, 2015 and December 31, 2014 was $227 million and $228 million, respectively. The net change in the uncertain tax position for the three months ended March 31, 2015 and 2014 was $1 million and $3 million , respectively.

**Note 12 . 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 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 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 contract as well as under 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 2018. As a result of our work under LogCAP III, there are multiple claims and disputes pending between us and the government, all of which need to be resolved to close the contracts. The closeout process includes resolving objections raised by the government through a billing dispute process referred to as Form 1s and Memorandums for Record ("MFRs") and resolving results from government audits. We continue to work with the 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 government has issued Form 1s questioning or objecting to costs we billed to them. We believe the amounts we have invoiced the customer are in compliance with our contract terms; however, we continue to evaluate our ability to recover these amounts from our customer as new information becomes known. A summary of our Form 1s received and amounts associated with our Form 1s is as follows:

| *Dollars in millions* | March 31, 2015 | December 31, 2014 |
|---|---|---|
| Form 1s issued by the government and outstanding (a) | $ 188 | $ 188 |
| Amounts withheld by government (included in the Form 1s amount above) (b) | 96 | 96 |
| Amounts withheld from subcontractors by us | 32 | 32 |
| Claims loss accruals (c) | 29 | 29 |

(a) Included in the amounts shown is $56 million related to our Private Security matter discussed below in which KBR was granted full recovery of the amounts claimed. See discussion below.

(b) Recorded in "claims and accounts receivable" on our condensed consolidated balance sheets. We believe these amounts are probable of collection.

(c) Recorded as a reduction to "claims and accounts receivable" and in "other liabilities" on our condensed consolidated balance sheets. At this time, we believe the likelihood we would incur a loss related to this matter in excess of the loss accruals we have recorded is remote.

Summarized below are some of the details associated with individual Form 1s as part of the total explained above.

***Private Security.*** Starting in February 2007, we received a series of Form 1s from the Defense Contract Audit Agency ("DCAA") informing us of the government's intent to deny reimbursement to us under the LogCAP III contract for amounts related to the use of private security contractors ("PSCs") by KBR and a subcontractor in connection with its work for KBR providing dining facility services in Iraq between 2003 and 2006. The government challenged $56 million in billings. The government had previously paid $11 million and has withheld payments of $45 million , which as of March 31, 2015 we have recorded as due from the government related to this matter in "claims and accounts receivable" on our condensed consolidated balance sheets.

On June 16, 2014, we received a decision from the ASBCA which agreed with KBR's position that the LogCAP III contract did not prohibit the use of PSCs to provide force protection to KBR or subcontractor personnel, that there was a need for force protection and that the costs were reasonable. The ASBCA also found that the Army breached its obligation to provide force protection. Accordingly, we believe that we are entitled to reimbursement by the Army for the amounts charged by our subcontractors, even if they incurred costs for PSCs. The Army has appealed. At this time, we believe the likelihood that we will incur a loss related to this matter is remote, and therefore we have not accrued any loss provisions related to this matter.

***Containers.*** In June 2005, the DCAA questioned billings on costs associated with providing containerized housing for soldiers and supporting civilian personnel in Iraq. The Defense Contract Management Agency ("DCMA") recommended that payment for the billings be withheld pending receipt of additional explanation or documentation to support the subcontract costs. The Form 1 was issued for $51 million in billings. Of this amount, the government had previously paid $25 million and has withheld payments of $26 million , which as of March 31, 2015 , we have recorded in "claims and accounts receivable" on our condensed consolidated balance sheets.

Included in "other liabilities" on our condensed consolidated balance sheets is $30 million of payments withheld from subcontractors related to pay-when-paid contractual terms. At this time, we believe that the likelihood we would incur a loss related to this matter in excess of the amounts we have withheld from subcontractors and the loss accruals we have recorded is remote.

There are three related actions stemming from the DCMA's action to disallow and withhold funds. First, in April 2008, we filed a counterclaim in arbitration against our LogCAP III subcontractor, First Kuwaiti Trading Company, to recover the amounts we paid to the subcontractor for containerized housing if we should lose the contract dispute with the government over the validity of the container claims. Those claims are still pending. Second, during the first quarter of 2011, we filed a complaint before the ASBCA to contest the Form 1s and to recover the amounts withheld from us by the government. At the request of the government, that complaint was dismissed without prejudice in January 2013 so that the government could pursue its False Claims Act ("FCA") suit described below. We are free to re-file the complaint in the future. Third, this matter is also the subject of a separate claim filed by the Department of Justice ("DOJ") for alleged violation of the FCA as discussed further below under the heading “Investigations, Qui Tams and Litigation.”

***CONCAP III*** . From February 2009 through September 2010, we received Form 1s from the DCAA disapproving billed costs related to work performed under our CONCAP III contract with the U.S. Navy to provide emergency construction services primarily to government facilities damaged by Hurricanes Katrina and Wilma. The Form 1 was issued for $25 million in billings. The government had previously paid $15 million and has withheld payments of $10 million , which as of March 31, 2015 we have recorded as due from the government related to this matter in "claims and accounts receivable" on our condensed consolidated balance sheets.

In February 2012, the Contracting Officer rendered a Contracting Officer Final Determination (“COFD”) disallowing $15 million of direct costs. We filed an appeal with the ASBCA in June 2012. Trial was held before the ASBCA in September 2014, and post hearing briefs were filed in November 2014. We expect it will take several months before a ruling is issued on this matter. We believe we undertook adequate and reasonable steps to ensure that proper bidding procedures were followed and the amounts billed to the government were reasonable and not in violation of the Federal Acquisition Regulations ("FAR") and that the ASBCA will rule in our favor. As of March 31, 2015 , we have accrued our estimate of probable loss related to an unfavorable settlement of this matter recorded in "other liabilities" on our condensed consolidated balance sheets. 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.

***Other.*** The government has issued Form 1s for other matters questioning $56 million of billed costs. For these matters, the government previously paid $41 million and has withheld payment of $15 million , which we have recorded in "claims and accounts receivable" on our condensed consolidated balance sheets. We have accrued our estimate of probable loss in "other liabilities" on our condensed consolidated balance sheets. 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.

We have other matters (not related to Form 1s) in dispute with the government either in the COFC or before the ASBCA. These claims represent $11 million in claimed costs primarily associated with the pass-through of subcontractor claims associated with a termination for convenience in Iraq. We have accrued $4 million as our estimate of probable loss in "other liabilities" on our condensed consolidated balance sheets. At this time, we believe that the likelihood we would incur a loss related to these matters in excess of the amounts we have accrued is remote.

***Audits***

In addition to reviews being performed by the U.S. government through the Form 1 process, the negotiation, administration and settlement of our contracts, consisting primarily of DoD contracts, are subject to audit by the DCAA, which serves in an advisory role to the DCMA. The DCMA is responsible for the administration of our contracts. The scope of these audits include, among other things, the validity of incurred costs, provisional approval of annual billing rates, approval of annual overhead rates, compliance with the FAR and Cost Accounting Standards (“CAS”), compliance with certain unique contract clauses and audits of certain aspects of our internal control systems. We attempt to resolve all issues identified in audit reports by working directly with the DCAA and the Administrative Contracting Officers ("ACOs").

As a result of these audits, there are risks that costs we have claimed as recoverable may be assessed by the government to be unallowable. We believe our claims are in compliance with our contract terms. In some cases, we may not reach agreement with the DCAA or the ACOs regarding potentially unallowable costs which may result in our filing of claims in various courts such as the ASBCA or the COFC. We have accrued our estimate of potentially unallowable costs using a combination of specific estimates and our settlement rate experience with the government. At March 31, 2015 , we have accrued $35 million as our estimate of probable loss as a reduction to "claims and accounts receivable" and in "other liabilities" on our condensed consolidated balance sheets. These accrued amounts are associated with years for which we have or do not have audit reports. We have received completed audit reports for both direct & indirect incurred costs for the years 2004 through 2010 and have not received completed audit reports for 2011 through 2013. Additionally, we have reached an agreement with the government on definitive incurred cost rates for the years 2003 through 2007 and 2009.

For those years in which we have received audit reports and negotiated final settlements for both direct and indirect claimed costs, we have experienced an aggregate disallowance rate of approximately 0.1% of claimed costs. For the period 2003 through 2011 we incurred claimed costs of $46 billion ; of this amount, we have reached negotiated settlement covering $35 billion and have conceded $40 million .

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 the collection of revenues. 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 and/or the ACOs that such costs are allowable.

In addition to audits of our incurred costs, the government also reviews our compliance with the CAS and the adequacy and compliance of our CAS disclosure statements. We are working with the government to resolve several outstanding alleged CAS non-compliance issues.

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

The following matters relate to ongoing litigation or federal investigations involving U.S. government contracts.

***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 have determined that we owe FKTC $30 million in connection with other subcontracts. We had an agreement with FKTC that no damages will be paid until our counterclaim is decided, but FKTC filed a motion with the arbitration panel to compel KBR to pay all amounts outstanding. We paid FKTC $15 million in the third quarter of 2014, $4 million in the fourth quarter of 2014 and will pay $3 million on pay-when-paid terms. On March 24, 2015, we received a demand letter from

FKTC seeking an additional $3 million ; however, a formal claim has not been filed in the arbitration. We have accrued amounts we believe are payable to FKTC in "accounts payable" and "other current liabilities" on our condensed consolidated balance sheets.

As indicated in the Containers discussion above, we believe any damages ultimately awarded to FKTC will be billable under the LogCAP III contract. 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. See the additional legal action with the ASBCA in the container litigation discussed above.

***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. This incident occurred at the Radwaniyah Palace Complex near Baghdad, Iraq. It is alleged in the suit that the electrocution incident was caused by improper electrical maintenance or other electrical work. KBR denies that its conduct was the cause of the event and denies legal responsibility. Plaintiffs are claiming unspecified damages for personal injury, death and loss of consortium by the parents. On July 13, 2012, the Court granted our motions to dismiss, concluding that the case is barred by the Political Question Doctrine and preempted by the Combatant Activities Exception to the Federal Tort Claims Act. The plaintiffs appealed to the Third Circuit Court of Appeals. In August 2013, the Third Circuit Court of Appeals issued an opinion reversing the trial court's dismissal and remanding for further discovery and legal rulings. KBR filed a petition for certiorari with the U.S. Supreme Court and on January 20, 2015, the Supreme Court denied certiorari. 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 March 31, 2015 , no amounts have been accrued.

***Burn Pit litigation.*** From November 2008 through March 2013, KBR was served with over 50 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 lawsuits primarily allege negligence, willful and wanton conduct, battery, intentional infliction of emotional harm, personal injury and failure to warn of dangerous and toxic exposures which has resulted in alleged illnesses for contractors and soldiers living and working in the bases where the pits were operated. 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. In February 2013, the Court dismissed the case against KBR, accepting all of KBR's defense claims including the Political Question Doctrine; the Combatant Activities Exception to the Federal Tort Claims Act; and Derivative Sovereign Immunity. The plaintiffs appealed to the Fourth Circuit Court of Appeals on March 27, 2013. On March 6, 2014, the Fourth Circuit Court vacated the order of dismissal and remanded this multi-district litigation for further action, including a ruling on state tort law and its impact upon the "Contractor on the Battlefield" defenses. KBR filed a petition for certiorari with the U.S. Supreme Court and on January 20, 2015, the Supreme Court denied certiorari. 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 March 31, 2015 , no amounts have been accrued.

***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, with one pending in the U.S. District Court for the Southern District of Texas and one pending in the U.S. District Court for the District of Oregon. A single plaintiff case was filed on November 30, 2012 in the District of Oregon Eugene Division. Collectively, the suits represent approximately 170 individual plaintiffs all of which are current and former national guardsmen or British soldiers who claim they were exposed to sodium dichromate while providing security services or escorting KBR employees who were working at the water treatment plant, claim that the defendants knew or should have known that the potentially toxic substance existed and posed a health hazard, and claim that the defendants negligently failed to protect the plaintiffs from exposure. The plaintiffs are claiming unspecified damages. The U.S. Army Corps of Engineers (“USACE”) was contractually obligated to provide a benign site free of war and environmental hazards before KBR's commencement of work on the site. KBR notified the USACE within two days after discovering the potential sodium dichromate issue and took effective measures to remediate the site. Services provided by KBR to the USACE were under the direction and control of the military and therefore, KBR believes it has adequate defenses to these claims. KBR also has asserted the Political Question Doctrine and other government contractor defenses. Additionally, studies by the U.S. government and others on the effects of exposure to the sodium dichromate contamination at the water treatment plant have found no long term harm to the soldiers.

*Texas Proceedings.* After an interlocutory appeal under 28 U.S.C. § 1292(b) to the U.S. Court of Appeals for the Fifth Circuit on KBR's motion to dismiss regarding its "Contractor on the Battlefield" defenses, on November 7, 2013 a three judge panel of the Court returned the case to the trial court, holding the interlocutory appeal was improperly granted. We sought review by the entire court on this opinion which was denied. On January 23, 2015, the District Court issued several orders dismissing all of the plaintiffs' claims except for intentional infliction of emotional distress. On February 2, 2015, KBR filed a motion for summary judgment on this claim which was denied for procedural reasons. The Plaintiffs' filed their choice of law motion for reconsideration of the judge's dismissal of their negligence claims on March 16, 2015 and we filed our choice of law motion on April 15, 2015. At this time, we believe the likelihood that we would incur a loss related to this matter is remote. As of March 31, 2015 , no amounts have been accrued.

*Oregon Proceedings.* On November 2, 2012 in the Oregon case, a jury in the U.S. District Court for the District of Oregon issued a verdict in favor of the plaintiffs on their claims, and awarded them approximately $10 million in actual damages and $75 million in punitive damages. We filed post-verdict motions asking the court to overrule the verdict or order a new trial. On April 26, 2013, the court ruled for plaintiffs on all issues except one, reducing the total damages to $81 million which consists of $6 million in actual damages and $75 million in punitive damages. Trials for the remaining plaintiffs in Oregon will not take place until the appellate process is concluded. The court issued a final judgment on May 10, 2013, which was consistent with the previous ruling. KBR appealed the ruling. Briefing is complete and oral arguments have not yet been scheduled by the court. Additionally, five amicus curiae briefs have been filed in support of our arguments. Our basis for appeal include the trial court's denial of the Political Question Doctrine, the Combat Activities Exception in the Federal Tort Claims Act, a lack of personal jurisdiction over KBR in Oregon and numerous other legal issues stemming from the court's rulings before and during the trial. We have already filed proceedings to enforce our rights to reimbursement and payment pursuant to the FAR under the RIO contract with the USACE as referenced below.

In the U.S. Court of Appeals for the Ninth Circuit, we have also filed a motion for summary reversal of the court's decision on personal jurisdiction due to a recent Supreme Court decision which supports our position that the Oregon court did not have jurisdiction in the case because KBR did not have contact with the state. The U.S. Court of Appeals for the Ninth Circuit has consolidated the motion with our pending appeal. Oral arguments for the appeal will take place on May 4, 2015.

At this time we believe the likelihood that we will ultimately incur a loss related to this matter is remote. As of March 31, 2015 , no amounts have been accrued.

*COFC/ASBCA Claims.* During the period of time since the first litigation was filed against us, we have incurred legal defense costs that we believe are reimbursable under the related government contract. We have billed for these costs and filed claims to recover the associated costs incurred to date. In late 2012 and early 2013, we filed suits against the U.S. government in the COFC for denying indemnity in the sodium dichromate cases, for reimbursement of legal fees pursuant to our contract with the government and for breach of contract by the government for failure to provide a benign site as required by our contract. The RIO contract required KBR personnel to begin work in Iraq as soon as the invasion began in March 2003. 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.

On March 7, 2014, the COFC issued a ruling on the government's motion dismissing KBR's claims on procedural grounds. The decision did not prohibit us from resubmitting the claims to the contracting officer and we promptly refiled those claims. On April 4, 2014, we submitted a supplemental certified claim to the RIO contracting officer for additional legal fees incurred in defending the sodium dichromate cases. On June 9, 2014, we filed an appeal to the ASBCA due to the contracting officer's failure to issue a final decision on claims totaling approximately $30 million . The USACE filed an answer, denying our claims. We filed a motion for judgment on the pleadings, asking the court to rule in KBR's favor on the 85-804 indemnity clause based on the admissions made by the USACE in its answer. The court has agreed to stay our other claims while we conduct limited discovery on the 85-804 indemnity. On December 23, 2014, we filed a Motion for Partial Summary Judgment asking the board to find that, based on discovery conducted to date, the sodium dichromate related incidents and litigation are within the definition of the "unusually hazardous risks" language in the 85-804 indemnity agreement.

***Qui tams.*** Of the active qui tams for which we are aware, the 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 government has not joined is remote and as of March 31, 2015 , no amounts have been accrued. Costs incurred in defending the qui tams cannot be billed to the government until those matters are successfully resolved in our favor. If successfully resolved, we can bill 80% of the costs to the government under the controlling provisions of the FAR. As of March 31, 2015 , we have incurred $11 million in legal costs to date in defending ourselves in qui tams.

*Barko qui tam.* Relator Harry Barko was a KBR subcontracts administrator in Iraq for a year in 2004/2005. He 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 claim was unsealed in March of 2009. Barko alleges that KBR fraudulently charged the government for the purchase of laundry facilities from Daoud, that KBR paid Daoud for the construction of a substandard man-camp, that Daoud double-billed KBR for labor, that KBR improperly awarded well-drilling subcontracts to Daoud, and that Daoud charged excessive prices for these services and did not satisfactorily complete them. Barko also alleges fraudulent charges arising out of Eamar’s well-drilling services.

The DOJ investigated Barko’s allegations and elected not to intervene. KBR filed its Answer to the First Amended Complaint and a Motion for Summary Judgment. We have had a series of continuing procedural disputes over the application of KBR's attorney-client privileges for KBR's investigative process. First, on February 3, 2014, Barko filed a Motion to Compel production of privileged investigative files, which KBR opposed. On March 6, 2014, in an unprecedented opinion, the District Court granted the motion and ordered KBR to produce the records, thereafter also denying KBR’s motions to stay the order and for interlocutory appeal. On March 12, 2014, KBR filed its Petition for Mandamus with the D.C. Circuit Court, seeking an order reversing the trial court’s order of production. On June 27, 2014, the Circuit Court granted KBR's Petition and vacated the trial court's order of production. On July 28, 2014, Barko appealed the ruling and on September 2, 2014 that appeal was denied. Barko filed a petition for certiorari with the U.S. Supreme Court on November 30, 2014, and that petition was denied on January 20, 2015.

Second, after remand from the first Mandamus proceeding, the District Court ordered briefing as to whether KBR waived its privilege, and after extensive briefing, on November 20, 2014, the District Court entered an order finding that KBR had impliedly waived privilege and requiring KBR to produce the same documents which had previously been the subject of the first proceeding. On December 17, 2014, the District Court issued additional orders, denying KBR's Motion for Reconsideration, request for stay and request for immediate appeal. In a separate ruling, the District Court found that some of the documents in question were not privileged at all. On December 19, 2014, KBR filed a second Petition for Mandamus and for entry of Emergency Stay Order in the D.C. Circuit Court. An Administrative Stay was granted and briefing on both the Mandamus and full stay request was ordered. The Court of Appeals has advised that it will hear our Mandamus petition and oral arguments have been set for May 11, 2015.

While we believe it is important to protect the privileges attached to KBR's corporate compliance process, we do not believe that the merits of the underlying claims ultimately will be impacted by a forced disclosure should that occur. We believe the likelihood that we will incur a loss related to this matter is remote, and therefore as of March 31, 2015 we have not accrued any loss provisions related to this matter.

***DOJ False Claims Act complaint - Containers.*** In November 2012, the DOJ filed a complaint in the U.S. District Court for the Central District of Illinois in Rock Island, IL, 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 government; that KBR concealed information about FKTC's costs from the 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 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. We believe these sums were properly billed under our contract with the Army and are not prohibited under the LogCAP III contract. We strongly contend that we followed the law and no fraud was committed. 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 and on May 23, 2014 the government filed a Motion to Strike certain affirmative defenses which was denied. On September 30, 2014, the District Court granted FKTC's motion to dismiss for lack of personal jurisdiction. A scheduling conference was held on December 5, 2014 and we expect discovery to close in October 2015. At this time, we believe the likelihood that we would incur a loss related to this matter is remote. As of March 31, 2015 , no amounts have been accrued.

***DOJ False Claims Act complaint - Iraq Subcontractor.*** In January 2014, the DOJ filed a complaint in the U.S. District Court for the Central District of Illinois in Rock Island, IL, against KBR and two former KBR subcontractors alleging that 3 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 government as appropriate. On May 22, 2014, FTKC filed a motion to dismiss which the government opposed. On April 22, 2014, we filed our answer and in May 2014 the 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 March 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 condensed 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.

### *Other Matters*

***Claims.*** We have filed claims with the government related to payments not yet received for costs incurred under various government contracts. Included in our condensed consolidated balance sheets are claims for costs incurred under various government contracts totaling $165 million at March 31, 2015 . These claims relate to disputed costs and/or contracts where our costs have exceeded the government's funded value on the task order. We have $152 million of claims primarily from de-obligated funding on certain task orders that were also subject to Form 1s relating to certain DCAA audit issues discussed above. We believe such disputed costs will be resolved in our favor at which time the government will be required to obligate funds from appropriations for the year in which resolution occurs. These claims are recorded in "claims and accounts receivable" on our condensed consolidated balance sheets. The remaining claims balance of $13 million is recorded in "CIE" on our condensed consolidated balance sheets. The amounts recorded in CIE represent costs for which incremental funding is pending in the normal course of business. The claims outstanding at March 31, 2015 are considered to be probable of collection and have been previously recognized as revenues.

## Note 13 . Other Commitments and Contingencies

### *Litigation and regulatory matters related to the Company's restatement of its 2013 annual financial statements*

After the Company announced it would be restating its 2013 annual financial statements, three complaints were filed in the United States District Court for the Southern District of Texas against the Company, our former chief executive officer, our current and former chief financial officers. Two of those complaints were voluntarily dismissed by the plaintiffs, and four parties moved to be appointed lead plaintiff. In September 2014, the court appointed Arkansas Public Employees Retirement System and Local 58/NECA Funds as lead plaintiffs and ordered any new cases arising from the same matters to be consolidated together as *In re KBR, Inc. Securities Litigation* , Master File No. 14-cv-01287. Lead plaintiffs filed an amended and consolidated complaint on October 20, 2014, adding our former chief accounting officer as a defendant. The amended complaint seeks class action status on behalf of our shareholders, alleges violations of Sections 10(b) and 20(a) of the Securities Exchange Act of 1934 arising out of the restatement of our 2013 annual financial statements and seeks undisclosed damages. The defendants intend to vigorously defend against these claims and 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. Oral argument on the motion to dismiss was held on March 5, 2015. At this early stage, we are not yet able to determine the likelihood of loss, if any, arising from this matter.

In addition, a shareholder derivative complaint, *Butorin v. Blount et al* , was filed on May 27, 2014 in the United States 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. In August 2014, we filed a motion to dismiss the matter based on the mandatory forum selection clause in the Company's bylaws, which requires, among other things, that all shareholder derivative suits be filed in Delaware. The plaintiff filed his opposition on October 6, 2014 to which we replied on October 21, 2014. On November 3, 2014, plaintiff filed an amended complaint adding a claim for violations of Section 14 of the Securities Exchange Act of 1934 alleging that the Company's 2014 proxy statement was false and misleading. We filed a motion to dismiss the amended compliant on November 17, 2014 for the same reasons as stated in the original motion to dismiss. Plaintiff filed its response on December 8, 2014 and we replied on December 15, 2014. On March 31, 2015, the District Court denied our motion to dismiss but on its own accord transferred the case to the United States District Court of Delaware. The court has approved a stipulation among the parties to stay the action pending resolution of the motion to dismiss the security litigation. At this early stage, we are not yet able to determine the likelihood of loss, if any, arising from this matter.

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, we 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 District Court entered an order stating it would confirm the award even though it had been annulled in Mexico (see Mexico proceedings discussion below). On September 25, 2013, the District Court entered the signed final judgment of $465 million , which includes the arbitration award and approximately $106 million for performance bonds discussed below, plus interest. The judgment also requires that each party pay value added tax on the amounts each has been ordered to pay. 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. Absent some request by the court for more briefing, the matter is ready for decision.

*Mexico Proceedings.* PEP's multiple attempts to nullify the award in Mexico were rejected by the Mexican courts. PEP then filed an “amparo” action alleging that its constitutional rights had been violated and this action was denied by the Mexican court in October 2010. PEP then appealed to the Mexican Collegiate Court. 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. We believe the Collegiate Court's decision is contrary to Mexican law governing contract arbitration. However, we do not expect the Collegiate Court's decision to affect our ability to ultimately collect the ICC arbitration award in the U.S. due to the posting of cash as security for the judgment pending appeal.

*Other Proceedings.* We have initiated collection proceedings to pursue our remedies in Luxembourg and under the North American Free Trade Agreement.

*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.

Consistent with our treatment of claims, we have recorded $401 million , net of advances, in "claims and accounts receivable" on the condensed consolidated balance sheets as we believe it is probable we will recover the amounts awarded to us, including interest and expenses and the amounts we paid on the bonds. PEP has cash posted in the U.S. and sufficient assets in Luxembourg, which we believe we will be able to attach as a result of the recognition of 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 March 31, 2015 , we continue to classify the amount due from PEP, including the amounts paid on the performance bonds as long term.

**Note 14 . 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, 2014 | $ 935 | $ 2,091 | $ 439 | $ (712) | $ (876) | $ (7) |
| Acquisition of noncontrolling interest | (40) | (40) | — | — | — | — |
| Share-based compensation | 5 | 5 | | — | — | — |
| Common stock issued upon exercise of stock options | 1 | 1 | — | — | — | — |
| Dividends declared to shareholders | (12) | — | (12) | — | — | — |
| Repurchases of common stock | (16) | — | — | (16) | — | — |
| Issuance of ESPP shares | 1 | (1) | — | 2 | — | — |
| Distributions to noncontrolling interests | (7) | — | — | — | — | (7) |
| Net income (loss) | 51 | — | 44 | — | — | 7 |
| Other comprehensive income (loss), net of tax | (46) | — | — | — | (46) | — |
| Balance at March 31, 2015 | $ 872 | $ 2,056 | $ 471 | $ (726) | $ (922) | $ (7) |

| *Dollars in millions* | Total | PIC | Retained Earnings | Treasury Stock | AOCL | NCI |
|---|---|---|---|---|---|---|
| Balance at December 31, 2013 | $ 2,439 | $ 2,065 | $ 1,748 | $ (610) | $ (740) | $ (24) |
| Share-based compensation | 5 | 5 | — | — | — | — |
| Common stock issued upon exercise of stock options | 4 | 4 | — | — | — | — |
| Tax benefit increase related to share based plans | 1 | 1 | — | — | — | — |
| Dividends declared to shareholders | (12) | — | (12) | — | — | — |
| Repurchases of common stock | (56) | — | — | (56) | — | — |
| Issuance of ESPP shares | 2 | — | — | 2 | — | — |
| Distributions to noncontrolling interests | (19) | — | — | — | — | (19) |
| Net income (loss) | (20) | — | (43) | — | — | 23 |
| Other comprehensive income (loss), net of tax | 17 | — | — | — | 17 | — |
| Balance at March 31, 2014 | $ 2,361 | $ 2,075 | $ 1,693 | $ (664) | $ (723) | $ (20) |

***Accumulated other comprehensive loss, net of tax***

| | March 31, | |
|---|---|---|
| *Dollars in millions* | 2015 | 2014 |
| Accumulated foreign currency translation adjustments, net of tax of $(3) and $3 | $ (261) | $ (122) |
| Pension and post-retirement benefits, net of tax of $(230) and $(218) | (658) | (599) |
| Fair value of derivatives, net of tax of $0 and $0 | (3) | (2) |
| Total accumulated other comprehensive loss | $ (922) | $ (723) |

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

| *Dollars in millions* | Accumulated foreign currency translation adjustments | Accumulated pension liability adjustments | Changes in fair value of derivatives | Total |
|---|---|---|---|---|
| Balance at December 31, 2014 | $ (203) | $ (670) | $ (3) | $ (876) |
| Other comprehensive income adjustments before reclassifications | (58) | — | — | (58) |
| Amounts reclassified from accumulated other comprehensive income | — | 12 | — | 12 |
| Balance at March 31, 2015 | $ (261) | $ (658) | $ (3) | $ (922) |

| *Dollars in millions* | Accumulated foreign currency translation adjustments | Accumulated pension liability adjustments | Changes in fair value of derivatives | Total |
|---|---|---|---|---|
| Balance at December 31, 2013 | $ (131) | $ (608) | $ (1) | $ (740) |
| Other comprehensive income adjustments before reclassifications | 9 | 1 | (1) | 9 |
| Amounts reclassified from accumulated other comprehensive income | — | 8 | — | 8 |
| Balance at March 31, 2014 | $ (122) | $ (599) | $ (2) | $ (723) |

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

| | Three Months Ended March 31, | | |
|---|---|---|---|
| *Dollars in millions* | 2015 | 2014 | Affected line item on the Condensed Consolidated Statements of Operations |
| **Accumulated pension liability adjustments** | | | |
| Amortization of actuarial loss (a) | $ (14) | $ (11) | See (a) below |
| Tax benefit | 2 | 3 | Provision for income taxes |
| Net pension and post-retirement benefits | $ (12) | $ (8) | Net of tax |

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

## Note 15 . Share Repurchases

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 current authorized share repurchase program operates alongside the existing share maintenance program which we may use to repurchase shares vesting as part of employee compensation programs. 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. The table below presents information on our share repurchases activity under the share repurchase authorizations:

| | Three Months Ended March 31, 2015 | | |
|---|---|---|---|
| | Number of Shares | Average Price per Share | Dollars in Millions |
| Repurchases under the $350 million authorized share repurchase program | 604,032 | $ 15.14 | $ 9 |
| Repurchases under the existing share maintenance program | 467,658 | $ 15.69 | $ 7 |
| Total | 1,071,690 | $ 15.38 | $ 16 |

| | Three Months Ended March 31, 2014 | | |
|---|---|---|---|
| | Number of Shares | Average Price per Share | Dollars in Millions |
| Repurchases under the $350 million authorized share repurchase program | 1,570,346 | $ 27.70 | $ 43 |
| Repurchases under the existing share maintenance program | 453,592 | $ 27.81 | $ 13 |
| Total | 2,023,938 | $ 27.72 | $ 56 |

## Note 16 . 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:

| | Three Months Ended March 31, | |
|---|---|---|
| *Shares in millions* | 2015 | 2014 |
| Basic weighted average common shares outstanding | 145 | 146 |
| Stock options and restricted shares | — | — |
| Diluted weighted average common shares outstanding | 145 | 146 |

For purposes of applying the two-class method in computing earnings (loss) per share, there were $0.3 million net earnings allocated to participating securities, or a negligible amount per share, for the three months ended March 31, 2015 , and none for the three months ended March 31, 2014 . The diluted earnings (loss) per share calculation did not include 3.5 million and 1.8 million antidilutive weighted average shares for the three months ended March 31, 2015 and March 31, 2014 , respectively.

## Note 17 . Financial Instruments and Risk Management

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

The following table presents, by currency, the gross notional value of our foreign currency exchange forwards and option contracts used to hedge exposures on our balance sheet that were outstanding as of March 31, 2015 :

| *USD Equivalent, Dollars in Millions* | **March 31, 2015** |
|---|---|
| United States Dollar | 958 |
| Australian Dollar | 375 |
| Pound Sterling | 86 |
| Canadian Dollar | 25 |
| Swedish Kroner | 11 |
| Saudi Riyal | 8 |
| Indian Rupee | 5 |
| Norwegian Kroner | 2 |
| Total balance sheet hedges | 1,470 |

Over 99% of the above balance sheet hedges had durations of 30 days or less. We also had approximately $19 million (notional value) of cash flow hedges of up to 33 months in duration.

We hedge certain forecasted future cash flows using derivatives instruments. In most cases, these derivatives are designated as cash flow hedges and are carried at fair value. The effective portion of the gain or loss is initially recognized as a component of accumulated other comprehensive income (loss), and upon occurrence of the forecasted transaction, is subsequently re-classed into the income or expense line item to which the hedged transaction relates. In each period the ineffective portion of the designated hedge and the changes in fair value of non-designated hedges are recognized in our condensed consolidated statements of operations.

We may also hedge portions of our balance sheet exposures associated with changes in fair value of monetary assets and liabilities denominated in currencies other than the functional currency of the consolidated subsidiary that is party to the transaction. Changes in fair value associated with these derivative instruments are recorded within our condensed consolidated statements of operations and largely offset the remeasurement of the underlying assets and liabilities being hedged.

The following table presents the fair value of derivative instruments included within our condensed consolidated balance sheets as of March 31, 2015 and December 31, 2014 :

| | **Asset Derivatives** | | | **Liability Derivatives** | | |
|---|---|---|---|---|---|---|
| *Dollars in millions* | **Balance Sheet Location** | **March 31, 2015** | **December 31, 2014** | **Balance Sheet Location** | **March 31, 2015** | **December 31, 2014** |
| Balance sheet hedges | Other current assets | $ 4 | $ 3 | Other current liabilities | $ 12 | $ 7 |
| Cash flow hedges | Other current assets | — | — | Other current liabilities | 1 | — |
| Total | | $ 4 | $ 3 | | $ 13 | $ 7 |

These fair values of our derivatives are considered Level 2 under ASC 820 - Fair Value Measurement as they are based on quoted prices directly observable in active markets.

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

| *Gains (losses) dollars in millions* | **March 31, 2015** | **December 31, 2014** |
|---|---|---|
| Balance sheet hedges - fair value | $ (41) | $ (47) |
| Balance sheet position - remeasurement | 48 | 47 |
| Net | $ 7 | $ — |

**Note 18 . Recent Accounting Pronouncements**

On February 18, 2015, the FASB issued ASU No. 2015-02, Consolidation (Topic 810) - Amendments to the Consolidation Analysis. The amendment eliminates 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 VIEs. This ASU is effective for annual periods beginning after December 15, 2016 and interim periods within those annual periods. We are in the process of assessing the impact of the adoption of ASU 2015-02 on our financial statements.

On August 27, 2014, the FASB issued ASU No. 2014-15, Presentation of Financial Statements - Going Concern. This ASU provides guidance on management's responsibility to evaluate whether there is substantial doubt about a company's ability to continue as a going concern and about related footnote disclosures. For each reporting period, management will be required to evaluate whether there are conditions or events that raise substantial doubt about a company's ability to continue as a going concern within one year from the date the financial statements are issued. Substantial doubt exists when relevant conditions and events indicate that it is probable that the entity will be unable to meet its obligations as they become due within the time frame specified earlier. This ASU is effective for annual reporting periods beginning after December 15, 2016 and interim periods within those annual periods. The adoption of ASU 2014-15 is not expected to have a material impact on our financial statements.

On May 28, 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers. This ASU supersedes the revenue recognition requirements in Accounting Standards Codification 605 - Revenue Recognition and most industry-specific guidance throughout the Codification. The standard requires that an entity recognizes 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, 2017 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 are in the process of assessing the impact of the adoption of ASU 2014-09 on our financial statements. We have not yet selected a transition method nor have we determined the effect of the standard on our ongoing financial reporting.

## Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations

## Introduction

The purpose of management’s discussion and analysis (“MD&A”) is to disclose material changes in our financial condition since the most recent fiscal year-end and results of operations during the current fiscal period as compared to the corresponding period of the preceding fiscal year. The MD&A should be read in conjunction with the condensed consolidated financial statements and accompanying notes and our 2014 Annual Report on Form 10-K.

## Executive Overview

### *Business Reorganization*

Following the completion of our strategic review, in December 2014, we reorganized our business into three segments, Technology & Consulting ("T&C"), Engineering & Construction ("E&C") and Government Services ("GS"), in order to focus on 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 continue to be reported in our Other business segment, while operations we intend to sell or exit upon completion of our existing contracts are presented separately in the Non-strategic Business segment. Each business segment excluding “Other” reflects a reportable segment led by a separate business segment president who reports directly to our chief operating decision maker ("CODM"). We have revised our business segment reporting to reflect our current management approach and recast prior periods to conform to the current business segment presentation. See additional information on our business segments in Note 2 to our condensed consolidated financial statements.

### *Business Environment*

Demand for our services depends primarily on the level of capital expenditure in our market sectors, which is driven generally by global and regional economic growth (primarily GDP growth) and more specifically by the demand for energy and derivative products and government services. While the recent decline in oil prices may have a near term adverse impact on our business, we continue to see long-term growth in energy projects such as low cost production, shallow water, onshore production, subsea tiebacks and brownfields revamping. Low energy prices reflected in the current oil price provide opportunities in brownfield liquefied natural gas ("LNG") and new petrochemicals, chemicals and fertilizer markets. We believe KBR has a balanced portfolio of upstream, midstream and downstream and recurring revenues in outsourced government services, which provides us with less exposure to the oil price declines than some of our peers.

We expect LNG demand to grow annually mainly in Asia and demand in Europe to rebound. We expect global capacity coming online in the next 15 years to translate to the letting of two LNG plants per year, which is consistent with the last five years. Growth regions include the United States ("U.S.") Gulf Coast and the Asia-Pacific region; Canada, due to new tax rules; and East Africa, due to successful appraisals.

### *Overview of Financial Results*

Our earnings for the quarter ended March 31, 2015 improved from the first quarter of 2014 and continue to be driven by our E&C business segment which is where we execute large engineering, procurement, construction ("EPC") projects. This segment generated revenues of $1 billion and gross profit of $55 million during the first quarter of 2015 . We continue to successfully execute two mega-LNG projects in Australia and are in process to close-out activities on major LNG and gas-to-liquids ("GTL") projects. Our E&C business segment remains focused on actively pursuing new prospects in the LNG/GTL markets and in the petrochemical markets. We do not expect the next major LNG EPC award until early 2016 and beyond. Our E&C business segment also experienced an increase in EPC activity on refining, petrochemical and chemicals projects driven in large part by availability and low natural gas prices in North America. We expect to complete the work on two of the seven remaining Canadian pipe fabrication and module assembly projects that are in a loss position by the end of 2015. One of these projects is a master services-type agreement that provides our client with the right, but not the obligation, to place new pipe fabrication and module assembly orders until 2017. We have not received any new orders under this agreement since 2013.

Our GS business continues to perform well and is driven by operations for the United Kingdom ("U.K.") Ministry of Defence ("MoD") which is primarily focused on construction and maintenance of military facilities under multi-year contracts. Our business in support of the U.S. military continues to be adversely impacted by costs from the close out of contracts under the LogCap III and RIO projects. During the first quarter of 2015 , we incurred approximately $5 million in legacy legal costs associated with these contracts.

As part of the reorganization noted above, we intend to divest or exit the following businesses upon completion of existing projects:

- Fixed priced EPC power projects
- Fixed priced U.S. infrastructure and mining business
- Building Group
- Fixed price construction-only projects

During the first quarter of 2015 , we continued to work on three major EPC power projects that are in loss positions but had no significant changes in our estimates at completion. The first of these projects is expected to be completed this summer, the second in early 2016, and the third in 2017. During the quarter, we closed our main U.S. mining office and are in discussions with potential buyers for our Building Group subsidiary and U.S. infrastructure business. In parallel, we also continued our efforts to reduce annual operating costs by $200 million by the end of 2016.

Our backlog of unfilled orders declined from 2014 as we continue to work off two mega EPC LNG projects.

The information below is an analysis of our consolidated results for the three months ended March 31, 2015 . See Results of Operations by Business Segment below for additional information describing the performance of each of our reportable segments.

***Revenues***

| | Three Months Ended March 31, | | | |
|---|---|---|---|---|
| | | | 2015 vs. 2014 | |
| *Dollars in millions* | 2015 | 2014 | $ | % |
| Revenues | $ 1,436 | $ 1,633 | $ (197) | (12)% |

Consolidated revenues decreased in the first quarter of 2015 compared to 2014 . This decrease was primarily driven by reduced volumes 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 for the U.K. government in Afghanistan also contributed to the decline. Additionally, the reduction in revenues was due to a decline in both proprietary equipment sales and awards of new consulting contracts in our T&C segment. The decrease in revenues was partially offset by activity on a power project, which ramped up in the second half of 2014 .

***Gross Profit***

| | Three Months Ended March 31, | | | |
|---|---|---|---|---|
| | | | 2015 vs. 2014 | |
| *Dollars in millions* | 2015 | 2014 | $ | % |
| Gross profit | $ 70 | $ 39 | $ 31 | 79% |

Consolidated gross profit increased in the first quarter of 2015 compared to 2014 . This increase was primarily attributable to the reduction or non-recurrence of losses and other charges taken in the first quarter of 2014 related to our Canadian pipe fabrication and module assembly projects of $41 million and several construction and infrastructure projects within our E&C segment. This increase was partially offset by the impact of reduced volume on EPC activities related to the LNG/GTL projects discussed above and the net favorable settlement of certain claims on an LNG project in the first quarter of 2014, which did not recur in 2015. The increase in gross profit was also due to lower overhead costs resulting from reduced headcount and other cost saving initiatives following the restructuring at the end of 2014 and during 2015 and charges in the first quarter of 2014 on certain projects within our Non-strategic Business segment, which did not recur in 2015.

***Equity in Earnings of Unconsolidated Affiliates***

| | Three Months Ended March 31, | | | |
|---|---|---|---|---|
| | | | 2015 vs. 2014 | |
| *Dollars in millions* | 2015 | 2014 | $ | % |
| Equity in earnings of unconsolidated affiliates | $ 35 | $ 31 | $ 4 | 13% |

Equity in earnings of unconsolidated affiliates increased in the first quarter of 2015 compared to 2014 . This change was primarily due to improved utilization of marine vessels in our Mantenimiento Marino de Mexico (“MMM”) joint venture compared to the first quarter of 2014, when the vessels were out of service for dry docking and increased progress on an LNG project joint venture, both within our E&C business segment. This increase was partially offset by the impact of interruptions in the supply of natural gas feedstock to our E&C business segment joint venture in Egypt.

***General and Administrative Expenses***

| | Three Months Ended March 31, | | | |
|---|---|---|---|---|
| | | | 2015 vs. 2014 | |
| *Dollars in millions* | 2015 | 2014 | $ | % |
| General and administrative expenses | $ (39) | $ (60) | $ (21) | (35)% |

General and administrative expenses decreased in the first quarter of 2015 compared to 2014 . The decrease 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 during 2014 and 2015. General and administrative expenses in the first quarter of 2015 and 2014 included $28 million and $44 million , respectively, related to corporate and $11 million and $16 million , respectively, related to the business segments.

***Non-operating Income (Expenses)***

| | Three Months Ended March 31, | | | |
|---|---|---|---|---|
| | | | 2015 vs. 2014 | |
| *Dollars in millions* | 2015 | 2014 | $ | % |
| Non-operating income (expenses) | $ 6 | $ (9) | $ 15 | 167% |

Non-operating income (expenses) includes interest income, interest expense and foreign exchange gains and losses. The increase to non-operating income in the first quarter of 2015 compared to non-operating expenses in 2014 was primarily attributable to foreign exchange gains of $8 million due to the strengthening of the U.S. dollar against the majority of our foreign currencies in the first quarter of 2015 .

***Provision for Income Taxes***

| | Three Months Ended March 31, | | | |
|---|---|---|---|---|
| | | | 2015 vs. 2014 | |
| *Dollars in millions* | 2015 | 2014 | $ | % |
| Income before provision for income taxes | $ 70 | $ 1 | $ 69 | n/m |
| Provision for income taxes | $ (19) | $ (21) | $ (2) | (10)% |

n/m - not meaningful

Our provision for income taxes for the quarter ended March 31, 2015 reflects a 27% tax rate. The provision for income taxes for the quarter ended March 31, 2014 reflects lower taxable income but was offset by an increase in our valuation allowance associated with losses recognized on our Canadian pipe fabrication and assembly projects. See an explanation of our effective tax rates for the quarter ended March 31, 2015 in Note 11 to our condensed consolidated financial statements.

***Net Income Attributable to Noncontrolling Interests***

| | Three Months Ended March 31, | | | |
|---|---|---|---|---|
| | | | 2015 vs. 2014 | |
| *Dollars in millions* | 2015 | 2014 | $ | % |
| Net income attributable to noncontrolling interests | $ (7) | $ (23) | $ (16) | (70)% |

Net income attributable to noncontrolling interests decreased in the first quarter of 2015 compared to 2014 . This decrease is primarily due to additional fees recognized on approved man hours on one LNG project in Australia in our E&C business segment in 2014 that did not recur in 2015 .

**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 condensed consolidated financial statements.

| | Three Months Ended March 31, | |
|---|---|---|
| *Dollars in millions* | 2015 | 2014 |
| **Revenues** | | |
| Technology & Consulting | $ 72 | $ 91 |
| Engineering & Construction | 977 | 1,137 |
| Government Services | 155 | 186 |
| Other | — | — |
| **Subtotal** | $ 1,204 | $ 1,414 |
| Non-strategic Business | 232 | 219 |
| **Total** | $ 1,436 | $ 1,633 |
| | | |
| **Gross profit** | | |
| Technology & Consulting | $ 19 | $ 15 |
| Engineering & Construction | 55 | 29 |
| Government Services | (4) | 5 |
| Other | — | — |
| **Subtotal** | $ 70 | $ 49 |
| Non-strategic Business | — | (10) |
| **Total** | $ 70 | $ 39 |
| | | |
| **Equity in earnings of unconsolidated affiliates** | | |
| Technology & Consulting | $ — | $ — |
| Engineering & Construction | 21 | 17 |
| Government Services | 14 | 14 |
| Other | — | — |
| **Subtotal** | $ 35 | $ 31 |
| Non-strategic Business | — | — |
| **Total** | $ 35 | $ 31 |
| | | |
| **Total general and administrative expense** | $ (39) | $ (60) |
| | | |
| **Asset impairment and restructuring charges** | $ (2) | $ — |
| | | |
| **Total operating income** | $ 64 | $ 10 |

***Technology & Consulting***

T&C revenues decreased by $19 million , or 21% , to $72 million in the first quarter of 2015 compared to $91 million in the same period of the prior year due to a decrease in proprietary equipment sales on several ammonia plants and consulting projects offset partially by increased revenues from other refining and chemicals projects.

T&C gross profit increased by $4 million , or 27% , to $19 million in 2015 compared to $15 million in the same period of the prior year due primarily to higher profitability on the mix of projects executed and significant overhead reductions during the first quarter of 2015 .

***Engineering & Construction***

E&C revenue decreased by $160 million , or 14% , to $1.0 billion in the first quarter of 2015 compared to $1.1 billion in the first quarter of 2014 . This decrease was primarily due to lower activity on EPC projects in our LNG/GTL markets, as they neared completion in 2014, and reduced construction projects in the U.S. market. These decreases were partially offset by increased revenue on several U.S. and Canadian projects and a ramp-up on front-end engineering design ("FEED") activities for a floating LNG ("FLNG") project in Africa.

E&C gross profit increased by $26 million , or 90% , to $55 million in the first quarter of 2015 compared to $29 million in the first quarter of 2014 due to a reduction in the amount of losses on our Canadian pipe fabrication and module assembly projects compared to the first quarter of 2014, charges taken in the first quarter of 2014 on several construction projects that did not recur in the first quarter of 2015, as well as cost reductions in divisional overheads achieved during the first quarter of 2015. These increases were partially offset by the decline in work on an LNG project in Australia and a $33 million gain on an LNG project in Africa that did not recur in the first quarter of 2015.

E&C equity in earnings in unconsolidated affiliates increased by $4 million , or 24% , to $21 million in 2015 compared to $17 million in 2014 primarily due to increased progress on an LNG project in Australia and increased earnings on the MMM joint venture in Mexico due to the vessels coming back in service after being out of contract during the first quarter of 2014. This increase was partially offset by reduced earnings from our ammonia plant joint venture in Africa due to the limited availability of natural gas feedstock.

***Government Services***

GS revenues decreased by $31 million , or 17% , to $155 million in 2015 compared to $186 million in the same period in the prior year. This decline was driven primarily by a $26 million reduction in support services due to the continuing scale-back in military operations and reduction in troop numbers on U.K. MoD and NATO contracts in Afghanistan.

GS gross profit decreased by $9 million , or 180% , to a loss of $4 million in 2015 compared to gross profit of $5 million in the same period in the prior year. This decline was driven primarily by the reduction in U.K. MoD support activities discussed above as well as by other small projects nearing completion. This reduction in gross profit was partially offset by cost reductions in divisional overheads achieved during the first quarter of 2015.

GS equity in earnings in unconsolidated affiliates was unchanged in 2015 compared to $14 million in the prior year and reflects continued strong performance of our joint venture annuity-type contracts in the U.K.

***Non-strategic Business***

Non-strategic Business revenue increased by $13 million , or 6% , to $232 million in the first quarter of 2015 compared to $219 million in the first quarter of 2014 . This was largely due to increased activity on a power project, which ramped-up in the second half of 2014. This increase was offset by the near completion of several power and construction projects.

Non-strategic Business gross profit increased by $10 million to a profit of less than $1 million in the first quarter of 2015 compared to a loss of $10 million in the first quarter of 2014 . This increase is due to the non-recurrence of charges in the first quarter of 2015 on a power project that were recognized in the first quarter of 2014 as well as overhead savings as a result of reductions in headcount beginning at the end of 2014 .

### *Changes in Estimates*

Information relating to our changes in estimates is discussed in Note 2 to our condensed consolidated financial statements.

### 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 in nature and may fluctuate depending on estimated revenues and contract duration. Where contract duration is indefinite, 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. For certain long-term service contracts with a defined contract term, such as those associated with privately financed projects, the amount included in backlog is limited to five years. If backlog for the periods beyond 5 years were to be considered, backlog would increase by approximately $4 billion .

We have included in the table below our proportionate share of unconsolidated joint ventures' estimated revenues. However, because these projects are accounted for under the equity method, only our share of future earnings from these projects will be recorded in our results of operations. Our backlog for projects related to unconsolidated joint ventures totaled $4.1 billion at March 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 $865 million at March 31, 2015 and $928 million at December 31, 2014 . All backlog is attributable to firm orders as of March 31, 2015 and December 31, 2014 . Backlog attributable to unfunded government orders was $40 million at March 31, 2015 and $36 million at December 31, 2014 . The following table summarizes our backlog by business segment.

| Dollars in millions | December 31, 2014 | New Awards | Changes in scope on existing contracts (a) | Net Workoff (b) | March 31, 2015 |
|---|---|---|---|---|---|
| Technology & Consulting | $ 400 | $ 57 | $ 18 | $ (81) | $ 394 |
| Engineering & Construction | 7,788 | 554 | 186 | (1,000) | 7,528 |
| Government Services | 1,763 | 54 | 13 | (169) | 1,661 |
| Subtotal | 9,951 | 665 | 217 | (1,250) | 9,583 |
| Non-strategic Business | 908 | 17 | — | (221) | 704 |
| Total backlog | $ 10,859 | $ 682 | $ 217 | $ (1,471) | $ 10,287 |

(a) In addition to changes in scope, these amounts reflect the elimination of our proportionate share of non-partner costs related to our unconsolidated joint ventures.

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

We estimate that as of March 31, 2015 , 50% of our backlog will be executed within one year. As of March 31, 2015 , 37% of our backlog was attributable to fixed-price contracts and 63% 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 $758 million at March 31, 2015 and $970 million at December 31, 2014 and consisted of the following:

| *Dollars in millions* | March 31, 2015 | December 31, 2014 |
|---|---|---|
| Domestic U.S. cash | $ 181 | $ 200 |
| International cash | 499 | 690 |
| Joint venture cash | 78 | 80 |
| Total | $ 758 | $ 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. In December 2014, we implemented a foreign cash repatriation strategy for which we have provided cumulative income taxes on certain foreign earnings. See Note 11 to our condensed consolidated financial statements for additional information.

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 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 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 12 months.

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

*Cash flows activities summary*

| *Dollars in millions* | Three Months Ended March 31, 2015 | 2014 |
|---|---|---|
| Cash flows used in operating activities | $ (108) | $ (17) |
| Cash flows used in investing activities | (1) | (15) |
| Cash flows used in financing activities | (75) | (84) |
| Effect of exchange rate changes on cash | (28) | 6 |
| Decrease in cash and equivalents | $ (212) | $ (110) |

*Operating activities* . Cash used in operations totaled $108 million in the first three months in 2015 and resulted from changes in our working capital accounts, partially offset by distributions of earnings received from our unconsolidated affiliates of $37 million . In addition, we used $36 million for net settlement of derivative contracts and contributed approximately $11 million to our pension funds.

Cash used in operations totaled $17 million in the first three months in 2014 was primarily attributable to fluctuations in our working capital accounts as well as contributions of approximately $12 million to our pension funds. The uses of cash were partially offset by distributions of earnings received from our unconsolidated affiliates of $19 million .

*Investing activities* . Cash used in investing activities totaled $1 million in the first three months in 2015 and was primarily due to purchases of property, plant and equipment.

Cash used in investing activities totaled $15 million in the first three months in 2014 and was primarily due to purchases of property, plant and equipment associated with information technology projects which have now largely been stopped.

*Financing activities* . Cash used in financing activities totaled $75 million in the first three months in 2015 and included $40 million for our purchase of the noncontrolling interest in a joint venture, $16 million for the purchase of treasury stock, $12 million for dividend payments to common shareholders and $7 million for distributions to noncontrolling interests. The uses of cash were partially offset by $1 million of proceeds from the exercise of stock options.

Cash used in financing activities totaled $84 million in the first three months in 2014 and included $56 million for the purchase of treasury stock, $12 million for dividend payments to common shareholders, $19 million for distributions to noncontrolling interests and $2 million for principal payments on short- and long-term borrowings consisting primarily of nonrecourse debt of our Fasttrax variable interest entity. The uses of cash were partially offset by $5 million of proceeds from the exercise of stock options.

*Future sources of cash.* Future sources of cash include cash flows from operations, including cash advances from our clients, cash derived from working capital management, sales of non-strategic businesses 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, including payments to our former parent as a result of a settlement, capital expenditures, dividends, share repurchases and strategic investments. 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. Our capital expenditures will be focused primarily on real estate, facilities and equipment.

***Other factors potentially affecting liquidity***

*Canada project losses.* Our reserve for estimated losses on uncompleted contracts included in "other current liabilities" on our condensed consolidated balance sheets consists of $37 million related to our Canadian pipe fabrication and module assembly projects at March 31, 2015 . 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 these projects in 2015.

*Power project losses.* Our reserve for estimated losses on uncompleted contracts included in "other current liabilities" on our condensed consolidated balance sheets consists of $65 million related to two power projects at March 31, 2015 . 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 these projects in 2017.

### *Credit Agreement*

On December 2, 2011, we entered into a $1 billion , five-year unsecured revolving credit agreement (the “Credit Agreement”) with a syndicate of international banks. The Credit Agreement is available for cash borrowings and the issuance of letters of credit related to general corporate needs. The Credit Agreement expires in December 2016; however, given that projects generally require letters of credit that extend beyond one year in length, we will likely need to enter into a new or amended credit agreement no later than 2015. Amounts drawn under the Credit Agreement will bear interest at variable rates, per annum, based either on (1) the London interbank offered rate (“LIBOR”) plus an applicable margin of 1.50% to 1.75%, or (2) a base rate plus an applicable margin of 0.50% 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 our 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. We pay an issuance fee of 0.15% of the face amount of a letter of credit. We also pay a commitment fee of 0.25% per annum on any unused portion of the commitment under the Credit Agreement. As of March 31, 2015 , there were $165 million in letters of credit and no cash borrowings outstanding.

The Credit Agreement contains customary covenants 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, as defined in the Credit Agreement. In anticipation of our reorganization and the expected impairment and restructuring charges, in December 2014 we obtained an amendment to the Credit Agreement which reset the minimum consolidated net worth to $1.5 billion plus 50% of consolidated net income for each quarter beginning December 31, 2014 and 100% of any increase in shareholders’ equity attributable to the sale of equity interests. In April 2015, we obtained an amendment to the Consolidated Net Worth (as defined in the Credit Agreement) to exclude the effects of changes in foreign currency translation adjustments from Shareholders’ Equity, as defined in the Credit Agreement, for financial covenant purposes beginning January 1, 2015. As a result of this amendment, on March 31, 2015 , we were in compliance with our financial covenants. At March 31, 2015 , the consolidated net worth and consolidated debt to consolidated EBITDA covenants were both in compliance by approximately $15 million to $40 million .

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 outstanding at any time. 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 December 2, 2011, 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 13 to our condensed consolidated financial statements). At March 31, 2015 , the remaining availability under the Distribution Cap was approximately $441 million .

### *Nonrecourse Project Finance Debt*

Information relating to our nonrecourse project debt is described in Note 10 to our condensed consolidated financial statements.

### *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 $2.1 billion in committed and uncommitted lines of credit to support the issuance of letters of credit and as of March 31, 2015 , we have utilized $605 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 $165 million issued under our Credit Agreement and $440 million issued under uncommitted bank lines as of March 31, 2015 . Of the letters of credit outstanding under our Credit Agreement, approximately $5 million letters of credit have expiry dates beyond the maturity date of the Credit Agreement. Of the total letters of credit outstanding, $242 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 12 months.

**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.

**Legal Proceedings**

Information relating to various commitments and contingencies is described in Notes 12 and 13 to our condensed consolidated financial statements.

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

We invest excess cash and equivalents in short-term securities, primarily time deposits, which carry a fixed rate of return for a given duration of time. 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. See Note 17 to our condensed consolidated financial statements for more information.

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 condensed consolidated statements of operations. We do not hold or issue derivatives for trading purposes or make speculative investments in foreign currencies.

We are exposed to the effects of fluctuations in foreign exchange rates (primarily Australian Dollar, British Pound and Canadian Dollar, denominated) 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 foreign currency translation adjustment in accumulated other comprehensive income (loss). We do not hedge our exposure to potential foreign currency translation adjustments.

**Item 4. Controls and Procedures**

In accordance with the Securities Exchange Act of 1934 Rules 13a-15 and 15d-15, 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 of the end of the period covered by this report. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of March 31, 2015 to provide reasonable assurance that information required to be disclosed in our reports filed or submitted under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the Securities and Exchange Commission’s rules and forms. Our disclosure controls and procedures include controls and procedures designed to ensure that information required to be disclosed in reports filed or submitted under the Exchange Act is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

During the three months ended March 31, 2015 , there have been no changes in our internal controls over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

## PART II. OTHER INFORMATION

### Item 1. Legal Proceedings

Information relating to various commitments and contingencies is described in Notes 12 and 13 to our condensed consolidated financial statements in Part I, Item 1 of this quarterly report, and the information discussed therein is incorporated herein.

### Item 1A. Risk Factors

We have updated certain risk factors affecting our business since those presented in our Annual Report on Form 10-K, Part I, Item 1A, for the fiscal year ended December 31, 2014. Except for the risk factors updated, there have been no material changes in our assessment of our risk factors from those set forth in our Annual Report on Form 10-K, which is incorporated herein by reference, for the year ended December 31, 2014. Our updated risk factors are included below.

### Risks Related to Operations of our Business

***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.***

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 revenues is generated from transactions with Chevron, primarily from our E&C business segment. Revenues from Chevron represented 13% of our total consolidated revenues for the three months ended March 31, 2015 .

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

(a) None.

(b) None.

(c) On February 25, 2014, our Board of Directors authorized a new $350 million share repurchase program, which replaces and terminates the August 26, 2011 share repurchase program. The authorization does not specify an expiration date for the share repurchase program. The following is a summary of share repurchases of our common stock settled during the three months ended March 31, 2015 . We also have a share maintenance program to repurchase shares based on vesting and other activity under our equity compensation plans. In a given fiscal year, we allocate repurchased shares first to our maintenance program and next to our Board-authorized repurchase program. In the months in which we have not repurchased but have had to cover vesting on our equity compensation plans we reduce previous repurchases under the Board-authorized repurchase program.

| Purchase Period | Total Number of Shares Purchased (1) | | Average Price Paid per Share (3) | Total Number of Shares Purchased as Part of Publicly Announced Plan (2) | | Dollar Value of Maximum Number of Shares that May Yet Be Purchased Under the Plan |
|---|---|---|---|---|---|---|
| January 2 – 30, 2015 | — | $ | 15.59 | (215,604) | $ | 265,193,528 |
| February 2 – 27, 2015 | — | $ | 15.59 | (22,281) | $ | 265,540,888 |
| March 2 – 31, 2015 | 963,414 | $ | 15.27 | 841,917 | $ | 252,684,816 |
| Total | 963,414 | $ | 15.14 | 604,032 | $ | 252,684,816 |

(1) Does not include shares withheld for tax purpose or forfeitures under our equity plans. Shares are acquired from employees in connection with the settlement of income tax and related benefit-withholding obligations arising from the vesting of restricted stock units. For the three months ended March 31, 2015 , 108,276 shares were acquired to cover employee transactions at an average price of $16.37 per share.

(2) Represents the number of shares applied to the share repurchase program authorized and announced on February 25, 2014 less shares allocated to our maintenance program. Repurchases applied to cover our share maintenance plan for the three months ended March 31, 2015 , were 359,382 shares at an average price of $15.48 per share.

(3) We did not repurchase shares in January and February of 2015. The average price paid per share of $15.59 reflects the average price paid on the previous repurchases in December 2014.

**Item 3. Defaults Upon Senior Securities**

None.

**Item 4. Mine Safety Disclosures**

Not applicable.

**Item 5. Other Information**

On April 27, 2015, we entered into a Second Amendment (the “Amendment”) to our Five Year Revolving Credit Agreement dated as of December 2, 2011 (the “Credit Agreement”), among us, 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.

The Amendment amends the Consolidated Net Worth (as defined in the Credit Agreement) covenant to exclude the effects of changes in foreign currency translation adjustments from Shareholders’ Equity (as defined in the Credit Agreement) for periods after January 1, 2015.

The description of the Amendment does not purport to be complete and is qualified in its entirety by reference to the Amendment, a copy of which is attached to this Form 10-Q as Exhibit 10.1 and is incorporated herein by reference.

## Item 6. 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) |
| *10.1 | 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 |
| *10.2+ | Form of revised Performance Award Agreement pursuant to KBR, Inc. 2006 Stock and Incentive Plan |
| *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 Quarterly Report on Form 10-Q for the period ended March 31, 2015, formatted in XBRL (Extensible Business Reporting Language): (i) Condensed Consolidated Statements of Income (Unaudited), (ii) Condensed Consolidated Statements of Comprehensive Income (Unaudited), (iii) Condensed Consolidated Balance Sheets (Unaudited), (iv) Condensed Consolidated Statements of Cash Flows (Unaudited), and (v) Notes to Condensed Consolidated Financial Statements (Unaudited) |

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+ Management contracts or compensatory plans or arrangements

* Filed with this Form 10-Q

** Furnished with this Form 10-Q

*** Interactive data files

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:

**KBR, INC.**

| | |
|---|---|
| /s/ Brian K. Ferraioli | /s/ Nelson E. Rowe |
| **Brian K. Ferraioli** | **Nelson E. Rowe** |
| **Executive Vice President and Chief Financial Officer** | **Vice President and Chief Accounting Officer** |

Dated: April 29, 2015

## EXHIBIT INDEX

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+ Management contracts or compensatory plans or arrangements

* Filed with this Form 10-Q

** Furnished with this Form 10-Q

*** Interactive data files

# SECOND AMENDMENT TO CREDIT AGREEMENT

SECOND AMENDMENT TO CREDIT AGREEMENT (this "Amendment"), dated as of the Amendment Effective Date (as herein defined), to the Five Year Revolving Credit Agreement dated as of December 2, 2011 (the "Credit Agreement"), among KBR, Inc. (the "Borrower"), the several banks and other institutions from time to time parties thereto (the "Lenders"), Citibank, N.A., as administrative agent (in such capacity, the "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, as amended by the First Amendment to the Credit Agreement dated as of December 11, 2014.

W I T N E S S E T H:

WHEREAS, pursuant to the Credit Agreement, the Lenders have agreed to make, and have made, certain loans and other extensions of credit to the Borrower;

WHEREAS, the Borrower has requested certain amendments to the Credit Agreement as set forth herein; and

WHEREAS, the Lenders are willing to agree to such amendments on the terms set forth herein;

NOW THEREFORE, in consideration of the premises and mutual covenants contained herein, the undersigned hereby agree as follows:

I. Defined Terms . Capitalized terms used but not otherwise defined herein shall have the meanings assigned to them in the Credit Agreement.

II. Amendments to the Credit Agreement . Effective as of the Amendment Effective Date (as hereinafter defined)):

(a) ***Section 5.03(b)*** of the Credit Agreement is amended by adding the following sentence to the end thereof:

"For purposes of calculating compliance with this ***Section 5.03(b)*** , Shareholders' Equity shall exclude cumulative changes from and after January 1, 2015 in the cumulative foreign currency translation adjustments."

(b) ***Section 5.01(d)(i)*** of the Credit Agreement is amended by adding the following clause to the end thereof:

"and (C) together with the certificates delivered pursuant to this ***Section 5.01(d)(i)*** , calculations showing the exclusion from Shareholders' Equity made pursuant to the last sentence of ***Section 5.03(b)*** ".

III. Limited Waiver . The Lenders hereby waive any Default or Event of Default arising from or relating to any failure to comply with ***Section 5.03(b)*** of the Credit Agreement during the period March 31, 2015 through the Amendment Effective Date, if such Default or Event of Default would have been avoided if the exclusion referenced in Section II(a) of this Amendment had been in effect.

IV. Effectiveness of Amendment . This Amendment shall become effective as of April 27, 2015 (the " Amendment Effective Date ") upon receipt by the Administrative Agent of (a) counterparts to this Amendment executed by the Borrower and the Subsidiary Guarantors, the Administrative Agent, and the Required Banks and (b) the Amendment Fee as set forth in Section V below.

V. Amendment Fee . The Borrower shall pay to Administrative Agent in immediately available funds, on or before the Amendment Effective Date, for the account of each Lender that delivers its signature page to this Amendment by the date requested by the Borrower for the delivery of signatures hereto, an amendment fee (the " Amendment Fee ") in an amount equal to each such Lender's Commitment *times* four (4) basis points. The Amendment Fee shall be payable in full upon the Amendment Effective Date and shall be nonrefundable.

VI. Representations and Warranties . The Borrower hereby represents and warrants as of the Amendment Effective Date that after giving effect to this Amendment, (a) each of the representations and warranties in the Credit Agreement shall be true and correct in all material respects as if made on and as of the Amendment Effective Date (except to the extent that (i) such representations and warranties relate to a specific earlier date, in which case such representations and warranties shall be true and correct in all material respects as of such earlier date and (ii) any such representations or warranties are qualified by a materiality standard, in which case such representation and warranties shall be true in all respects) and (b) no Default or Event of Default has occurred and is continuing.

VII. Expenses. The Borrower shall pay all reasonable and invoiced fees, charges and disbursements of counsel to the Administrative Agent related to this Amendment.

VIII. Continuing Effect of the Credit Agreement. This Amendment is limited solely to the matters set forth herein and shall not constitute an amendment or waiver of any other provision of the Credit Agreement not expressly referred to herein or be construed as a waiver or consent to any further or future action on the part of any Loan Party that would require the consent of the Lenders or the Administrative Agent. Except as expressly waived hereby, the provisions of the Credit Agreement are and shall remain in full force and effect and are hereby ratified and confirmed. This Amendment is a Loan Document.

IX. Governing Law. This Amendment shall be governed by and construed in accordance with the laws of the State of New York.

X. Counterparts. This Amendment may be executed by one or more of the parties hereto on any number of separate counterparts, and all of said counterparts taken together shall be deemed to constitute one and the same instrument. This Amendment may be delivered by facsimile or other electronic transmission of the relevant signature pages hereof.

[signature pages follow]

WITNESS WHEREOF, the undersigned have caused this Amendment to be executed and delivered by their respective duly authorized officers as of the date first above written.

**BORROWER**

KBR, INC.

By: /s/ J. Philip McCormick, Jr.
Name: J. Philip McCormick, Jr.
Title: Vice President, Finance and Treasurer

Consent by Guarantors

Each of the undersigned Subsidiary Guarantors hereby acknowledges receipt of a copy of the foregoing Amendment, consents to the Amendment and reaffirms the terms and conditions of the Guarantee executed by it and acknowledges and agrees that such Guarantee remains in full force and effect and is hereby reaffirmed, ratified and confirmed.

[signatures are on the following page]

**SUBSIDIARY GUARANTORS**

KBR HOLDINGS, LLC

KELLOGG BROWN & ROOT LLC

KELLOGG BROWN & ROOT SERVICES, INC.

KBR USA LLC

KBR GROUP HOLDINGS, LLC

By: /s/ J. Philip McCormick, Jr.
Name: J. Philip McCormick, Jr.
Title: Vice President, Finance and Treasurer

CITIBANK, N.A., as Administrative Agent

By: /s/ Maureen P. Maroney
Name: Maureen P. Maroney
Title: Vice President

CITIBANK, N.A., as a Bank and as an Issuing Bank

By: /s/ Maureen P. Maroney
Name: Maureen P. Maroney
Title: Vice President

THE ROYAL BANK OF SCOTLAND PLC,
as an Issuing Bank and a Bank

By: /s/ Tyler J. McCarthy
Name: Tyler J. McCarthy
Title: Director

THE BANK OF NOVA SCOTIA,
as an Issuing Bank and a Bank

By: /s/ J. Frazell
Name: J. Frazell
Title: Director

ING BANK N.V.,

as an Issuing Bank and a Bank

By: /s/ R.P. Boon
Name: R.P. Boon
Title: Director

By: /s/ M.P. Kalthof
Name: M.P. Kalthof
Title: Director

BANK OF AMERICA, N.A.,
as an Issuing Bank and a Bank

By: /s/ J. Stephen Mernick
Name: J. Stephen Mernick
Title: Managing Director

LLOYDS BANK PLC,
as a Bank

By: /s/ Joel Slomko
Name: Joel Slomko
Title: Assistant Vice President – S088

By: /s/ Daven Popat
Name: Daven Popat
Title: Senior Vice President – P003

REGIONS BANK,
as a Bank

By: /s/ Joey Powell
Name: Joey Powell
Title: Senior Vice President

SUMITOMO MITSUI BANKING CORPORATION, as a Bank

By: /s/ James D. Weinstein
Name: James D. Weinstein
Title: Managing Director

AUSTRALIA AND NEW ZEALAND BANKING GROUP LIMITED, as a Bank

By: /s/ Robert Grillo
Name: Robert Grillo
Title: Director

BARCLAYS BANK PLC,
as a Bank

By: /s/ J. Davey
Name: J. Davey
Title: Director

BRANCH BANKING AND TRUST COMPANY,
as a Bank

By: /s/ Candace C. Moore
Name: Candace C. Moore
Title: Vice President

COMPASS BANK,
as an Issuing Bank and a Bank

By: /s/ Aaron Loyd
Name: Aaron Loyd
Title: Vice President

COMMERZBANK AG, NEW YORK AND GRAND CAYMAN BRANCHES
as a Bank

By: /s/ Kiuli Chan
Name: Kiuli Chan
Title: Director

By: /s/ Diane Pockaj
Name: Diane Pockaj
Title: Managing Director

NATIONAL BANK OF KUWAIT, SAK,
as a Bank

By: /s/ Wendy Wanninger
Name: Wendy Wanninger
Title: Executive Manager

By: /s/ Michael McHugh
Name: Michael McHugh
Title: Executive Manager

STANDARD CHARTERED BANK,
as a Bank

By: /s/ Connie Au
Name: Connie Au
Title: Associate Director

By: /s/ Hsing H. Huang
Name: Hsing H. Huang
Title: Associate Director

U.S. BANK NATIONAL ASSOCIATION,
as a Bank

By: /s/ Jonathan F. Lindvall
Name: Jonathan F. Lindvall
Title: Vice President

WELLS FARGO BANK, N.A.,
as a Bank

By: /s/ Caroline Vérot Moore

Name: Caroline Vérot Moore
Title: Senior Vice President

NBAD AMERICAS, formerly known as ABU DHABI INTERNATIONAL BANK,
as a Bank

By: /s/ David J. Young
Name: David J. Young
Title: Director, Client Representative

By: /s/ William F. Ghazar
Name: William F. Ghazar
Title: Executive Director, Head of Client Relationships

COMERICA BANK,
as a Bank

By: /s/ Vishakha S. Deora
Name: Viskakha S. Deora
Title: Vice President

FIFTH THIRD BANK,
as a Bank

By: /s/ Matthew Lewis
Name: Matthew Lewis
Title: Vice President

RYAD BANK, HOUSTON AGENCY,
as a Bank

By: /s/ Paul N. Travis
Name: Paul N. Travis
Title: Vice President & Head of Corporate Finance

By: /s/ Tim Hartnett

Name: Tim Hartnett
Title: Vice President & Administrative Officer

STATE STREET BANK AND TRUST COMPANY,
as a Bank

By: /s/ Deirdre M Holland
Name: Deirdre M Holland
Title: Managing Director

MUFG UNION BANK, N.A., f/k/a UNION BANK, N.A.
as a Bank

By: /s/ Lauren Horn
Name: Lauren Horn
Title: Director

# PERFORMANCE AWARD AGREEMENT

Grant Date:____________

*Re: Performance Unit Grant*

I am pleased to inform you that KBR, Inc. (the "Company") has granted you Performance Units under the Company's 2006 Stock and Incentive Plan, as amended and restated (the "Plan") as follows:

1. **Grant of Performance Units** .

The number of Performance Units granted to you as a Performance Award under the Plan is _______. Each Performance Unit shall have a target value of $1.00. The actual value, if any, of a Performance Unit at the end of the Performance Period will be determined based on the level of achievement during the Performance Period of the performance objectives set forth in Exhibit A hereto, which is made a part hereof for all purposes.

2.

(a) **Vesting** . Except as otherwise provided in subparagraphs (b) and (d) below, you will vest in the Performance Units earned (if any) for the Performance Period only if you are an employee of the Company or a Subsidiary on the date such earned Performance Units are paid, as provided in Paragraph 3 below.

(b) **Death, Disability, Retirement or Early Retirement** . Unless otherwise provided in an agreement pursuant to Paragraph 13, if you cease to be an employee of the Company or a Subsidiary as a result of (i) your death, (ii) your permanent disability (disability being defined as being physically or mentally incapable of performing either your usual duties as an employee or any other duties as an employee that the Company reasonably makes available and such condition is likely to remain continuously and permanently, as determined by the Company or employing Subsidiary), (iii) normal retirement on or after reaching age 65, or (iv) your early retirement prior to reaching age 65 with the approval of both (A) the Company or employing Subsidiary and (B) the Committee or its delegate (with such approval to be granted or withheld in the sole discretion of the Company, employing Subsidiary, Committee and/or delegate of the Committee, as applicable), then, in any such case, a prorata portion of your Performance Units that become "earned", if any, as provided in Exhibit A, will become vested. The "prorata portion" that becomes vested shall be a fraction, the numerator of which is the number of days in the Performance Period in which you were an employee of the Company or a Subsidiary and the denominator of which is the total number of days in the Performance Period. If your termination for the above reasons is after the end of the Performance Period but before payment of the Performance Units earned, if any, for such Performance Period, you will be fully vested in any such earned Performance Units.

Notwithstanding the foregoing, if the Company determines that there has been a legal judgment and/or legal development in your jurisdiction that likely would result in the favorable retirement treatment that applies to the Performance Awards under the Plan being deemed unlawful and/or discriminatory, the provision above regarding termination of employment related to normal retirement on or after age 65 shall not be applicable to you. Instead, the prorata portion of your Performance Units that become “earned”, if any, as provided in Exhibit A will become vested in accordance with the preceding subparagraph if your employment is terminated for any reason with at least 25 years of service at the Company or employing Subsidiary (or such lesser number of years of service under special circumstances as may be determined in the Committee’s (or its delegate’s) sole discretion) subject, however, to this being considered nondiscriminatory by legal counsel and to the Committee’s (or its delegate’s) sole discretion to approve such vesting.

(c) **Other Terminations** . If you terminate from the Company and its Subsidiaries for any reason other than as provided in subparagraph (b) above or subparagraph (d) below, all unvested Performance Units held by you shall be forfeited without payment immediately upon such termination.

(d) **Corporate Change** . Notwithstanding any other provision hereof, unless otherwise provided in an agreement pursuant to Paragraph 13, your Performance Units shall become fully vested at the maximum earned percentage provided in Exhibit A upon your Involuntary Termination or termination for Good Reason within two years following a Corporate Change (as provided in the Plan) (a “Double Trigger Event”) during the Performance Period. If a Double Trigger Event occurs after the end of the Performance Period and prior to payment of the earned Performance Units, you will be 100% vested in your earned Performance Units upon the Double Trigger Event and payment will be made in accordance with the results achieved for the Performance Period ended as provided in Exhibit A.

For purposes of this Agreement, employment with the Company includes employment with a Subsidiary.

3. **Payment of Vested Performance Units** . As soon as administratively practicable after the end of the Performance Period, but no later than the March 15th following the end of the Performance Period, or with respect to a Double Trigger Event occurring prior to the end of the Performance Period, the date of the Double Trigger Event (but no later than the March 15 th following the calendar year in which occurs the date of the Double Trigger Event), you shall be entitled to receive from the Company a payment in cash equal to the product of the Payout Percentage (as defined in Exhibit A) and the sum of the target values of your vested Performance Units. Except as provided in Exhibit A with respect to a Double Trigger Event, if the performance thresholds set forth in Exhibit A are not met, no payment shall be made with respect to the Performance Units, whether or not vested. Notwithstanding the foregoing, in no event may the amount paid to you by the Company in any year with respect to Performance Units earned hereunder exceed the applicable limit under Article V of the Plan.

4. **Recovery of Payment of Vested Performance Units** . If you are a senior executive of the Company (defined as an employee of the Company or any employing Subsidiary of the Company who is either the Chief Executive Officer of the Company (the "CEO") or a direct report to the CEO) and, within the three-year period beginning on the date that you receive a payment pursuant to Paragraph 3, the extent to which the performance measurements were achieved during any calendar year of the Performance Period changes because of any revision of the Company's financial results for the same calendar year, and the value of the Performance Units earned at the end of the Performance Period is determined to have resulted in an overpayment based on such calendar year's revised financial results, the Committee may, in its sole and absolute discretion, seek recovery of the amount of the Performance Award determined to be an overpayment or hold the overpayment as debit against future Performance Awards for up to a three-year period following the end of the Performance Period. In addition, the Company may seek recovery of any benefits provided to you under this Agreement if such recovery is required by any clawback policy adopted by the Company, which may be amended from time to time, including, but not limited to, any clawback policy adopted to satisfy the minimum clawback requirements adopted under the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 and the regulations thereunder or any other applicable law or securities exchange listing standard. The Company reserves the right, without your consent, to adopt any such clawback policy, including, but not limited to, such clawback policies applicable to this Performance Award with retroactive effect.

5. **Limitations Upon Transfer** . All rights under this Agreement shall belong to you and may not be transferred, assigned, pledged, or hypothecated in any way (whether by operation of law or otherwise), other than by will or the laws of descent and distribution or pursuant to a "qualified domestic relations order" (as defined by the Code), and shall not be subject to execution, attachment, or similar process. Upon any attempt to transfer, assign, pledge, hypothecate, or otherwise dispose of such rights contrary to the provisions in this Agreement or the Plan, or upon the levy of any attachment or similar process upon such rights, such rights shall immediately become null and void.

6. **Withholding of Tax** . You acknowledge that, regardless of any action taken by the Company or, if different, your employer (the "Employer"), the ultimate liability for all income tax, social insurance, payroll tax, fringe benefits tax, payment on account or other tax-related items related to your participation in the Plan and legally applicable to you ("Tax-Related Items"), is and remains your responsibility and may exceed the amount actually withheld by the Company or the Employer. You further acknowledge that the Company and/or the Employer (1) do not make representations or undertakings regarding the treatment of any Tax-Related Items in connection with any aspect of the Performance Units including, but not limited to, the grant, vesting or payout of the Performance Units; and (2) do not commit to the structure of the terms of the Performance Units or any aspect of the Performance Units to reduce or eliminate your liability for Tax-Related Items or achieve any particular tax result. Further, if you are subject to Tax-Related Items in more than one jurisdiction between the date of grant and the date of any relevant taxable event, as applicable, you acknowledge that the Company and/or Employer (or former employer, as applicable) may be required to withhold or account for Tax-Related Items in more than one jurisdiction.

Prior to any relevant taxable or tax withholding event, as applicable, you agree to make adequate arrangements satisfactory to the Company and/or the Employer to satisfy all Tax-Related Items. In this regard, you authorize the Company and/or your Employer or their respective agents, at their discretion, to satisfy the obligations with regard to all Tax-Related Items by one or a combination of the following: (a) withholding from your wages or other cash compensation paid to you by the Company and/or your Employer, or (b) withholding from the payout of the Performance Units.

Depending on the withholding method, the Company may withhold or account for Tax-Related Items by considering applicable minimum statutory withholding amounts or other applicable withholding rates, including maximum applicable rates, in which case you will receive a refund of any over-withheld amount in cash and will have no entitlement to the Performance Units. You agree to pay the Company or the Employer, including through withholding from your wages or other cash compensation paid to you by the Company or the Employer any amount of Tax-Related Items that the Company or the Employer may be required to withhold or account for as a result of your participation in the Plan that cannot be satisfied by the means previously described. The Company may refuse to deliver the cash settlement or any other form of pay-out for the Performance Units, if you fail to comply with your obligations in connection with the Tax-Related Items.

Notwithstanding the preceding provisions of this Paragraph 6, your liability with respect to Tax-Related Items shall be subject to any international tax assignment agreement then in effect between you and the Company, the Employer or any of their respective affiliates or any tax policies or procedures applicable to your home country, and in the event of any conflict between the terms of this Paragraph 6 and the terms of such international tax assignment agreement or such tax policies or procedures, the terms of such international tax assignment agreement or such tax policies or procedures, as applicable, shall control.

7. **Nature of Grant** . In accepting the Performance Units, you acknowledge, understand and agree that: (a) the Plan is established voluntarily by the Company, it is discretionary in nature and it may be modified, amended, suspended or terminated by the Company at any time, to the extent permitted by the Plan; (b) the grant of the Performance Units is voluntary and occasional and does not create any contractual or other right to receive future grants of Performance Units, or benefits in lieu of Performance Units, even if Performance Units have been granted in the past; (c) all decisions with respect to future Performance Units or other grants, if any, will be at the sole discretion of the Company; (d) the grant of Performance Units and your participation in the Plan shall not create a right to employment or be interpreted as forming an employment or service contract with the Company, your Employer, or any Subsidiary and shall not interfere with the ability of the Company, your Employer or any Subsidiary, as applicable, to terminate your employment or service relationship (if any); (e) you are voluntarily participating in the Plan; (f) the Performance Units are not intended to replace any pension rights or compensation; (g) the Performance Units and the income and value of same, are not part of normal or expected compensation for purposes of calculating any severance, resignation, termination, redundancy, dismissal, end-of-service payments, bonuses, long-service awards, pension or retirement benefits or similar payments; (h) the future value of the Performance Units is unknown, indeterminable and cannot be predicted with certainty; (i) no claim or entitlement to compensation or damages

shall arise from the forfeiture of the Performance Units resulting from you ceasing to provide employment or other services to the Company or your Employer (for any reason whatsoever whether or not later found to be invalid or in breach of employment laws in the jurisdiction where you are employed or the terms of your employment agreement, if any) and in consideration of the grant of the Performance Units to which you are otherwise not entitled, you irrevocably agree never to institute any claim against the Company, or your Employer or any Subsidiary; (j) in the event of involuntary termination of your active employment or other services (for any reason whatsoever, whether or not later found to be invalid or in breach of employment laws in the jurisdiction where you are employed or the terms of your employment agreement, if any), unless otherwise provided in this Agreement or determined by the Company, your right to vest in the Performance Units under the Plan, if any, will terminate effective as of the date that you are no longer actively providing services and will not be extended by any notice period ( *e.g.* , active services would not include any contractual notice period or any period of "garden leave" or similar period mandated under employment laws in the jurisdiction where you are employed or the terms of your employment agreement, if any), except as expressly provided herein, and that the Company shall have the exclusive discretion to determine when you are no longer actively providing services for purposes of the Performance Units (including whether you may still be considered to be providing services while on an approved leave of absence); (k) unless otherwise provided in the Plan or by the Company in its discretion, the Performance Units and the benefits evidenced by this Agreement do not create any entitlement to have the Performance Units or any such benefits transferred to, or assumed by, another company nor to be exchanged, cashed out or substituted for, in connection with any corporate transaction affecting the shares of the Company; (l) if you are requested to make repayment under Paragraph 4, you will make repayment immediately; and (m) the following provisions apply only if you are providing services outside the United States: (i) the Performance Units are not part of normal or expected compensation or salary for any purpose; and (ii) you acknowledge and agree that neither the Company, the Employer nor any Subsidiary shall be liable for any foreign exchange rate fluctuation between your local currency and the United States Dollar that may affect the value of the Performance Units or the subsequent payout of the Performance Units.

8. **No Advice Regarding Grant** . The Company is not providing any tax, legal or financial advice, nor is the Company making any recommendations regarding your participation in the Plan. You are hereby advised to consult with your own personal tax, legal and financial advisors regarding your participation in the Plan before taking any action related to the Plan.

9. **Data Privacy** . ***You hereby explicitly and unambiguously consent to the collection, use and transfer, in electronic or other form, of your personal data as described in this document by and among, as applicable, the Employer, and the Company and its Subsidiaries, for the exclusive purpose of implementing, administering and managing your participation in the Plan. You understand that the Company and your Employer hold certain personal information about you, including, but not limited to, your name, home address and telephone number, date of birth, social insurance number or other identification number, salary, nationality, job title, details of all Performance Units outstanding in your favor, for the exclusive purpose of implementing, administering and managing the Plan ("Data"). You understand that Data may be transferred to Morgan Stanley Smith Barney LLC or such other service provider as may be selected by the***

***Company in the future, which is assisting the Company with the implementation, administration and management of the Plan. You understand that the recipients may be located in the United States or elsewhere, and that the recipient's country (e.g., the United States) may have different data privacy laws and protections from your country. You understand that if you reside outside the United States, you may request a list with the names and addresses of any potential recipients of the Data by contacting your local human resources representative. You authorize the Company, Morgan Stanley Smith Barney LLC and any other possible recipients which may assist the Company (presently or in the future) to receive, possess, use, retain and transfer the Data, in electronic or other form, for the purposes of implementing, administering and managing your participation in the Plan. You understand that Data will be held only as long as is necessary to implement, administer and manage your participation in the Plan. You understand that if you reside outside the United States, you may, at any time, view Data, request additional information about the storage and processing of Data, require any necessary amendments to Data or refuse or withdraw the consents herein, in any case without cost, by contacting in writing your local human resources representative. Further, you understand that you are providing the consents herein on a purely voluntary basis. If you do not consent, or if you later seek to revoke your consent, your employment status or service and career with the Employer will not be adversely affected; the only consequence of refusing or withdrawing your consent is that the Company would not be able to grant to you Performance Units or other equity awards or administer or maintain such awards. Therefore, you understand that refusing or withdrawing your consent may affect your ability to participate in the Plan. For more information on the consequences of your refusal to consent or withdrawal of consent, you understand that you may contact your local human resources representative.***

10. **Binding Effect** . This Agreement shall be binding upon and inure to the benefit of any successor or successors of the Company or upon any person lawfully claiming under you.

11. **Modification** . Except to the extent permitted by the Plan, any modification of this Agreement will be effective only if it is in writing and signed by each party whose rights hereunder are affected thereby.

12. **Plan Controls** . This grant is subject to the terms of the Plan, which are hereby incorporated by reference. In the event of a conflict between the terms of this Agreement and the Plan, the Plan shall be the controlling document. Capitalized terms used herein or in Exhibit A and not otherwise defined herein or in Exhibit A shall have the meaning ascribed to them in the Plan.

13. **Other Agreements** . Notwithstanding anything in this Agreement to the contrary, the terms of this Agreement shall be subject to and governed by, and shall not modify, the terms and conditions of any employment, severance, and/or change-in-control agreement between the Company (or a Subsidiary) and you.

14. **Electronic Delivery and Acceptance** . The Company may, in its sole discretion, decide to deliver any document related to current or future participation in the Plan by electronic means. You hereby consent to receive such documents by electronic delivery and agree to

participate in the Plan through an on-line or electronic system established and maintained by the Company or a third party designated by the Company.

15. **Severability** . If one or more of the provisions of this Agreement shall be held invalid, illegal or unenforceable in any respect, the validity, legality and enforceability of the remaining provisions shall not in any way be affected or impaired thereby and the invalid, illegal or unenforceable provisions shall be deemed null and void; however, to the extent permissible by law, any provisions which could be deemed null and void shall first be construed, interpreted or revised retroactively to permit this Agreement to be construed so as to foster the intent of this Agreement and the Plan.

16. **Language** . If you have received this Agreement or any other document related to the Plan translated into a language other than English and if the translated version is different from the English version, the English version will control.

17. **Governing Law and Venue** . This Agreement shall be governed by, and construed in accordance with, the laws of the State of Texas, U.S.A., except to the extent that it implicates matters that are the subject of the General Corporation Law of the State of Delaware, which matters shall be governed by the latter law notwithstanding any conflicts of laws principles that may be applied or invoked directing the application of the laws of another jurisdiction. The parties hereby submit to and consent to the sole and exclusive jurisdiction of Houston, Harris County, Texas, as exclusive venue for any action, lawsuit or other proceedings brought to enforce this Agreement, relating to it or arising from it, or dispute resolution proceeding arising hereunder for any claim or dispute, notwithstanding any conflicts of laws principles that may direct the jurisdiction of any other court, venue, or forum, including the jurisdiction of the employee’s home country.

18. **Compliance with Law** . Notwithstanding any other provision of the Plan or this Agreement, unless there is an available exemption from any registration, qualification or other legal requirement applicable to the Performance Units, the Company shall not be required to deliver any payment from the payout of the Performance Units prior to the completion of any registration or qualification of the shares under any local, state, federal or foreign securities or exchange control law or under rulings or regulations of the U.S. Securities and Exchange Commission (“SEC”) or of any other governmental regulatory body, or prior to obtaining any approval or other clearance from any local, state, federal or foreign governmental agency, which registration, qualification or approval, the Company shall, in its absolute discretion, deem necessary or advisable. You understand that the Company is under no obligation to register or qualify the shares with the SEC or any state or foreign securities commission or to seek approval or clearance from any governmental authority for payout of the Performance Units. Further, you agree that the Company shall have unilateral authority to amend the Plan and the Agreement without your consent to the extent necessary to comply with securities or other laws applicable to issuance of shares.

19. **Exhibit B** . Notwithstanding any provisions in this document, the Performance Units shall be subject to any special terms and conditions set forth in Exhibit B to this Agreement for your country. Moreover, if you relocate to one of the countries included in Exhibit B, the special terms and conditions for such country will apply to you, to the extent the Company

determines that the application of such terms and conditions is necessary or advisable for legal or administrative reasons. Exhibit B constitutes part of this Agreement.

20. **Imposition of Other Requirements** . The Company reserves the right to impose other requirements on your participation in the Plan, or on the Performance Units, to the extent the Company determines it is necessary or advisable for legal or administrative reasons and to require you to sign any additional agreements or undertakings that may be necessary to accomplish the foregoing.

21. **Waiver** . You acknowledge that a waiver by the company of breach of any provision of this Agreement shall not operate or be construed as a waiver of any other provision of this Agreement, or of any subsequent breach by you or any other participant.

[Signatures on the following page.]

By signing below, you agree that the grant of these Performance Units is under and governed by the terms and conditions of the Plan, including the terms and conditions set forth in this Agreement, including Exhibit A and, to the extent applicable, Exhibit B. **This grant shall be void and of no effect unless you execute this Agreement prior to the payment of your vested performance units.**

KBR, INC.

By: __

Name: Stuart J. B. Bradie
Title: President and CEO

EMPLOYEE:

__

Date: __

# EXHIBIT A

## To Performance Award Agreement

## Performance Goals

Except as otherwise provided in the Agreement, the provisions of this Exhibit A shall determine the extent, if any, that the Performance Units become "earned" and payable.

## I. Performance Period

The Performance Period shall be the period beginning January 1, 2015, and ending December 31, 2017.

## II. Total Shareholder Return ("TSR")

The payment of a Performance Unit will be determined, in part, based on the comparison of (i) the average of the TSRs (as defined below) of the Company's common stock measured at the end of each calendar quarter during the Performance Period, with each quarter's TSR indexed back to the beginning of the calendar year in which such calendar quarter occurs, to (ii) the average of the TSRs of each of the common stocks of the members of the Peer Group measured at the end of each calendar quarter during the Performance Period, with each quarter's TSR indexed back to the beginning of the calendar year in which such calendar quarter occurs.

"TSR" or "Total Shareholder Return" shall mean, with respect to a calendar quarter, the change in the price of a share of common stock from the beginning of the calendar year in in which such calendar quarter occurs (as measured by the closing price of a share of such stock on the last trading day preceding the beginning of such calendar year) until the end of the applicable calendar quarter to be measured during the Performance Period (as measured by the closing price of a share of such stock on the last trading day of the calendar quarter), adjusted to reflect the reinvestment of dividends (if any) through the purchase of common stock at the closing price on the corresponding dividend payment date, which shall be the ex-dividend date, and rounded to the first decimal place. Dividends per share paid other than in the form of cash shall have a value equal to the amount of such dividends reported by the issuer to its shareholders for purposes of Federal income taxation.

### A. Average TSR

The average TSR for a company for the Performance Period shall be the sum of the TSRs of the company measured at the end of each calendar quarter during the Performance Period, divided by 12. The average TSR for a company during the Performance Period shall be calculated based on the following formula:

**2015 TSR Formula - Sustained Performance**

$$\text{Average indexed performance} = \frac{\sum_{q=1}^{q=12} (x_q / x)}{12}$$

where:

$x$ = share price at beginning of calendar year in which the applicable calendar quarter occurs (measured by closing price on the last trading day preceding the beginning of such calendar year)

$x_q$ = closing share price at the end of each quarter (adjusted for dividends paid, where the dividend payment date is the ex-dividend date)

$q$ = quarter number (1 through 12)

Example 1:

| Date | Share price * ($x$) | Index ($x_q$ / $x$) |
|---|---|---|
| 1/1/2015 | $20.00 | |
| 3/31/2015 | $22.00 | 110.0 |
| 6/30/2015 | $24.00 | 120.0 |
| 9/30/2015 | $21.00 | 105.0 |
| 12/31/2015 | $20.00 | 100.0 |
| 3/31/2016 | $18.00 | 90.0 |
| 6/30/2016 | $22.00 | 110.0 |
| 9/30/2016 | $25.00 | 125.0 |
| 12/31/2016 | $28.00 | 140.0 |
| 3/31/2017 | $31.00 | 110.7 |
| 6/30/2017 | $33.00 | 117.9 |
| 9/30/2017 | $30.00 | 107.1 |
| 12/31/2017 | $28.00 | 100.0 |

$$\sum_{q=1}^{q=12} (x_q / x) = 1{,}335.7$$

$$\frac{\sum_{q=1}^{q=12} (x_q / x)}{12} = 111.3$$

* Share price adjusted for dividends paid in the period, where the dividend payment date is the ex-dividend date.

**B. Peer Group and TSR Payout**

Once the average TSR for the Company during the Performance Period is calculated, the average TSR for each company in the Peer Group shall be calculated.

The Peer Group shall consist of the following companies (including KBR, Inc.):

AECOM Technology Corporation Jacobs Engineering Group Inc.
Chicago Bridge & Iron Company N.V. McDermott International, Inc.
Chiyoda Corporation Quanta Services, Inc.
EMCOR Group, Inc. Technip
Fluor Corporation

No company shall be added to, or removed from, the Peer Group during the Performance Period, except that a company shall be removed from the Peer Group if during such period (i) such company ceases to maintain publicly available statements of operations prepared in accordance with GAAP, (ii) such company is not the surviving entity in any merger, consolidation, or other reorganization (or survives only as a subsidiary of an entity other than a previously wholly owned entity of such company), or (iii) such company sells, leases, or exchanges all or substantially all of its assets to any other person or entity (other than a previously wholly owned entity of such company).

If one or more Peer Group companies are removed from the Peer Group, then the percentiles and TSR payouts will adjust for the change in “n” of the formula provided below; provided, however, that the adjustment must require at least a 90.0 percentile to receive the maximum TSR payout and at least a 20.0 percentile to receive the threshold TSR payout. After the average TSR is determined for the Company and each company in the Peer Group, the Company’s average TSR rank among the average TSRs for the Peer Group for the Performance Period and the Company’s applicable TSR payout percentage shall be determined by the following formula:

**TSR Peer Group Percentile and TSR Payout Table**

| | | Threshold | Target | Maximum |
|---|---|---|---|---|
| **Percentile** | **<20%** | **20%** | **50%** | **≥90%** |
| **TSR Payout** | **0%** | **25%** | **100%** | **200%** |

**LTI TSR Calculation Method**

| | Ranking | Percentile * | TSR Payout ** |
|---|---|---|---|
| | 1 | 100.0% | 200.0% |
| | 2 | 88.9% | 197.3% |
| | 3 | 77.8% | 169.5% |
| | 4 | 66.7% | 141.8% |
| | 5 | 55.6% | 114.0% |
| | 6 | 44.4% | 86.0% |
| | 7 | 33.3% | 58.3% |
| | 8 | 22.2% | 30.5% |
| | 9 | 11.1% | 0.0% |
| | 10 | 0.0% | 0.0% |

* Rounded to 1 decimal place.
** For a Percentile ranking between Threshold and Target or Target and Maximum, the TSR Payout percentage earned shall be determined by linear interpolation between maximum and threshold based on the Percentile ranking achieved. Rounded to 1 decimal place.

**Percentile for TSR purposes**

$$\text{Percentile} = \left( \frac{n - r}{n - 1} \right) * 100\%$$

where:

n = number of Peer Group companies (including KBR)

r = KBR ranking in the list of companies (including KBR)

**Example 1**

KBR ranked 8th out of 10 companies

$$\frac{(10 - 8)}{(10 - 1)} * 100\% = 22.2\%$$

**Example 2**

KBR ranked 4th out of 10 companies

$$\frac{(10 - 4)}{(10 - 1)} * 100\% = 66.7\%$$

**Example 3**

KBR ranked 7th out of 9 companies

$$\frac{(9 - 7)}{(9 - 1)} * 100\% = 25.0\%$$

**Example 4**

KBR ranked 3rd out of 8 companies

$$\frac{(8 - 3)}{(8 - 1)} * 100\% = 71.4\%$$

Notwithstanding any of the foregoing or Part IV. of this Exhibit A, if you are a senior executive of the Company (as defined in Paragraph 4 of the Agreement) on the Grant Date and the Company's average TSR (as determined pursuant to Part II.A. of this Exhibit A) at the end of the Performance

Period is negative (i.e., an index below 100), then no payment hereunder with respect to the TSR performance measure will exceed the Target (100%) payout under the TSR Peer Group Percentile and TSR Payout Table above; provided, however, that this sentence shall not apply if, pursuant to the first sentence of Paragraph 2(d) of the Agreement, your Performance Units become fully vested at the maximum earned percentage provided in Exhibit A (200%) upon a Double Trigger Event occurring during the Performance Period.

**III. Cumulative Net Income and Job Income Sold ("JIS")**

The payment of a Performance Unit will be determined, in part, based on the Cumulative Net Income Percentage. The "Cumulative Net Income Percentage" shall be determined as follows:

(i) if Cumulative Net Income exceeds $0, then the Cumulative Net Income Percentage shall equal 200%; provided, however, that, notwithstanding the foregoing, pursuant to an exercise of negative discretion, the Committee has determined that, if Cumulative Net Income exceeds $0, then in no event shall the Cumulative Net Income Percentage exceed the Average JIS Payout Ratio (subject to the last sentence of Part IV. of this Exhibit A);

(ii) if Cumulative Net Income does not exceed $0 and if the Average JIS Payout Ratio (determined by excluding all Excluded Projects from the determination of JIS and Target JIS) exceeds 0%, then the Cumulative Net Income Percentage shall equal the Average JIS Payout Ratio (determined by excluding all Excluded Projects from the determination of JIS and Target JIS and subject to the last sentence of Part IV. of this Exhibit A); and

(iii) if neither clause (i) nor (ii) above applies, then the Cumulative Net Income Percentage shall equal 0% (subject to the last sentence of Part IV. of this Exhibit A).

For purposes of Part III. of this Exhibit A, the following terms shall have the following meanings:

"Achieved JIS" means, with respect to a calendar year during the Performance Period, a percentage (rounded to one decimal place) determined by multiplying 100% by the quotient obtained by dividing (i) the JIS for such calendar year by (ii) the Target JIS for such calendar year.

"Average JIS Payout Ratio" means the quotient obtained by dividing (i) the sum of the JIS Payout Ratios for each of the three calendar years in the Performance Period by (ii) three.

"Cumulative Net Income" means the Company's aggregate net income as reflected in its Form 10-Ks for the three years included in the Performance Period, adjusted to exclude: restructuring charges; and one-time, non-operating related events, including, but not limited to, goodwill or intangible impairments, losses on the sale of assets, asset impairments, related to lawsuits, or related to the bankruptcy of a client that owes the Company money for services performed.

"Excluded Project" means a project determined by the Committee to have an individual value of $500 million or more of gross revenue.

"JIS" means, with respect to a calendar year, the Company's and its consolidated subsidiaries job income from (i) new projects awarded during such calendar year and (ii) earnings growth, contract amendments (increases or decreases), or scope adjustments (increases or decreases) during such calendar year to projects existing on the first day of such calendar year. For clarity, JIS will exclude foreign exchange fluctuations (increases or decreases) and loss adjustments, if any, on existing contracts. For each calendar year, JIS shall be determined without regard to any Excluded Project; provided, however, that at the end of the Performance Period, except as otherwise provided in clause (ii) of the first paragraph of Part III. of this Exhibit A, the Committee may, in its sole and absolute discretion (which discretion may be (x) exercised differently with respect to the holder of this Performance Award and any other holder or holders of a similar type Award and (y) applied for purposes of determining the JIS and Target JIS applicable to an applicable calendar year within the Performance Period without being applied for purposes of determining the Target JIS for any other calendar year within the Performance Period), determine that JIS for such calendar year will be determined by including the Excluded Projects. In addition, for each calendar year, JIS shall be determined without regard to any business unit and/or business line that is discontinued prior to the end of the calendar year.

"JIS Payout Ratio" means, with respect to a calendar year during the Performance Period, the amount determined in accordance with the following table:

| | | **Threshold** | **Target** | **Maximum** |
|---|---|---|---|---|
| Achieved JIS for the calendar year | < Threshold Percentage for the calendar year | Threshold Percentage for the calendar year | Target Percentage for the calendar year | ≥Maximum Percentage for the calendar year |
| JIS Payout Ratio for the calendar year* | 0% | 25% | 100% | 200% |

* If Achieved JIS for the calendar year is between the Threshold Percentage and the Target Percentage under the first row of the table above, then the JIS Payout Ratio for such calendar year shall be determined by linear interpolation between Threshold (25%) and Target (100%) based on the Achieved JIS result. If Achieved JIS for the calendar year is between the Target Percentage and the Maximum Percentage under the first row of the table above, then the JIS Payout Ratio for such calendar year shall be determined by linear interpolation between Target (100%) and Maximum (200%) based on the Achieved JIS result. Each JIS Payout Ratio determined by linear interpolation shall be rounded to one decimal place.

"Maximum Percentage" means, with respect to a calendar year during the Performance Period, a percentage established by the Committee as the Maximum Percentage for such calendar year, which percentage shall be greater than the Target Percentage established by the Committee for such calendar year; provided, however, that for purposes of clause (ii) of the first paragraph of Part III. of this Exhibit A, the "Maximum Percentage" for each calendar year during the Performance Period shall be ___%.

"Target JIS" means, with respect to a calendar year during the Performance Period (such calendar year being a "Performance Year"), ______________________________________________. Notwithstanding the foregoing, if a business unit or business line is discontinued during a Performance Year, then the applicable Target JIS shall be redetermined to exclude job income for the applicable Reference Year that is attributable to such business unit or business line. Further, if, subject to the provisions of clause (ii) of the first paragraph of Part III. of this Exhibit A, the Committee determines in its discretion to determine JIS for a Performance Year by including Excluded Projects, then the related Target JIS for such Performance Year shall be redetermined by including Excluded Projects in the determination of the JIS for the Reference Year.

"Target Percentage" means, with respect to a calendar year during the Performance Period, a percentage established by the Committee as the Target Percentage for such calendar year, which percentage shall be greater than the Threshold Percentage and less than the Maximum Percentage established by the Committee for such calendar year; provided, however, that for purposes of clause (ii) of the first paragraph of Part III. of this Exhibit A, the "Target Percentage" for each calendar year during the Performance Period shall be ___%.

"Threshold Percentage" means, with respect to a calendar year during the Performance Period, a percentage established by the Committee as the Threshold Percentage for such calendar year, which percentage shall be less than the Target Percentage established by the Committee for such calendar year; provided, however, that for purposes of clause (ii) of the first paragraph of Part III. of this Exhibit A, the "Threshold Percentage" for each calendar year during the Performance Period shall be ___%.

## IV. Determination of the "Earned" Value of Performance Units

| **Performance Percentage** | **Column A** | **Column B** | | | |
|---|---|---|---|---|---|
| | **Weighting** | **<Threshold 0%** | **Threshold 25%** | **Target 100%** | **Maximum 200%** |
| Company's Average TSR Rank with Peer Group Members' Average TSR | 50% | <20% | 20% | 50% | 90% |

For a result (the "Performance Percentage") between Threshold and Target or Target and Maximum in Column B, the Performance Percentage earned shall be determined by linear interpolation between maximum and threshold based on the result achieved for the performance measure.

The “target” value of a Performance Unit is $1.00; its maximum value is $2.00 per unit if the maximum performance objective for the performance measure in Column B in the table above and the maximum Cumulative Net Income Percentage are achieved, and the Performance Unit value will be zero if the threshold performance objective for the performance measure in Column B in the table above is not achieved and the Cumulative Net Income Percentage is 0%. The value of an “earned” Performance Unit shall be determined by multiplying its “target” value of $1.00 by the Payout Percentage for the Performance Period. The “Payout Percentage” for the Performance Period shall be equal to the sum of (i) the product of 50% and the Cumulative Net Income Percentage and (ii) the product obtained by multiplying Column A by the Column B Performance Percentage result for the TSR performance measure.

Notwithstanding the foregoing, unless otherwise provided in an agreement pursuant to Paragraph 13 of the Agreement, for purposes of determining the Payout Percentage for payment upon a Double Trigger Event occurring prior to the end of the Performance Period, (i) the Column B result for the TSR performance measure shall be deemed to have been met at the maximum level (200%) and (ii) the Cumulative Net Income Percentage shall be deemed to have been met at the maximum level (200%).

## V. Adjustments to Performance Measurements for Significant Events

If, after the beginning of the Performance Period, there is a change in accounting standards required by the Financial Accounting Standards Board, the performance results shall be adjusted by the Company’s independent accountants as appropriate to disregard such change. In addition, the results of the Company or a peer group company shall be adjusted to reflect any stock splits or other events described in Article XIII of the Plan, but only if such adjustment would not cause the performance goal to no longer satisfy the requirements of Section 162(m) of the Code.

## VI. Committee Certification

As soon as reasonably practical following the end of the Performance Period, but in no event later than the March 15th following the end of the Performance Period, the Committee shall review and determine the performance results for the Performance Period and certify those results in writing. No Performance Units earned and vested shall be payable prior to the Committee’s certification; provided, however, Committee certification shall not apply in the event of a Double Trigger Event, unless otherwise provided in an agreement pursuant to paragraph 13 of the Agreement.

# EXHIBIT B

# KBR, INC.

## Terms and Conditions of Performance Unit Grant

## SPECIAL PROVISIONS OF PERFORMANCE UNITS IN CERTAIN COUNTRIES

This Exhibit B includes special country-specific terms that apply to residents in countries listed below. This Exhibit B is part of the Agreement. Unless otherwise provided below, capitalized terms used but not defined herein shall have the same meanings assigned to them in the Plan and the Agreement.

This Exhibit B also includes information regarding exchange controls and certain other issues of which you should be aware with respect to your participation in the Plan. The information is based on the securities, exchange control and other laws in effect in the respective countries as of February 2014. Such laws are often complex, change frequently, certain individual exchange control reporting requirements may apply upon vesting of the Performance Units and results may be different based on the particular facts and circumstances. As a result, the Company strongly recommends that you do not rely on the information noted herein as the only source of information relating to the consequences of your participation in the Plan because the information may be out of date at the time your Performance Units vest or your Performance Units are settled under the Plan.

In addition, the information is general in nature and may not apply to your particular situation, and the Company is not in a position to assure you of any particular result. Accordingly, you are advised to seek appropriate professional advice as to how the relevant laws in your country may apply to your situation.

If you are a citizen or resident of a country other than the country in which you are working or if you transfer employment after the Performance Units are granted to you, the information contained in this Exhibit B for the country you work in at the time of grant may not be applicable to you and the Company, in its discretion, determines to what extent the terms and conditions contained herein shall be applicable to you. If you transfer residency and/or employment to another country or are considered a resident of another country listed in this Exhibit B after the Performance Units are granted to you, the terms and/or information contained for that new country (rather than the original grant country) may be applicable to you.

**ALGERIA**
**KBR, INC. 2006 STOCK AND INCENTIVE PLAN**

**Exchange Control Information .**

You acknowledge that, even though you receive only a cash payment upon vesting of the Performance Units, you still may be subject to certain exchange control requirements under local laws. You are required to repatriate any cash payment you receive upon settlement of the Performance Units to Algeria. You are advised to consult with your personal legal consultant to ensure compliance with any exchange control obligations arising from your participation in the Plan.

**ANGOLA**
**KBR, INC. 2006 STOCK AND INCENTIVE PLAN**

**Exchange Control Information .**

You acknowledge that, even though you receive only a cash payment upon vesting of the Performance Units, you still may be subject to certain exchange control requirements under local laws. Y ou must repatriate any cash payment you receive upon settlement of the Performance Units to Angola. You are advised to consult with your personal legal consultant to ensure compliance with any exchange control obligations arising from your participation in the Plan.

**AUSTRALIA**
**KBR, INC. 2006 STOCK AND INCENTIVE PLAN**

**Exchange Control Information .**

Exchange control reporting is required for cash transactions exceeding AUD10,000 and for international fund transfers. The Australian bank assisting with the transaction will file the report for you. If there is no Australian bank involved in the transfer, you will have to file the report.

**AZERBAIJAN**
**KBR, INC. 2006 STOCK AND INCENTIVE PLAN**

There are no country-specific provisions.

# BRAZIL
# KBR, INC. 2006 STOCK AND INCENTIVE PLAN

**Compliance with Laws.**

By accepting the Performance Units, you agree that you will comply with Brazilian law when you receive the cash payment upon vesting of the Performance Units. You also agree to report any and all taxes associated with the cash payment upon vesting of the Performance Units.

**Exchange Control Information .**

You must prepare and submit a declaration of assets and rights held outside Brazil to the Central Bank on an annual basis if you hold assets or rights valued at more than US$100,000.

# CANADA
# KBR, INC. 2006 STOCK AND INCENTIVE PLAN

**Foreign Account/Asset Tax Reporting Information .**

You may be required to report your foreign property on Form T1135 (Foreign Income Verification Statement) if the total cost of your foreign property exceeds C$100,000 at any time in the year.

*The following provisions shall apply if you are a resident of Quebec:*

**Data Privacy .**

This provision supplements Paragraph 9 of the Agreement:

You hereby authorize the Company and representatives of any Subsidiary or affiliate to discuss with and obtain all relevant information from all personnel, professional or not, involved in the administration and operation of the Plan. You further authorize the Company and any Subsidiary or affiliate and the administrators of the Plan to disclose and discuss the Plan with their advisors. You further authorize the Company and any Subsidiary or affiliate to record such information and to keep such information in your file.

**Termination of Employment.**

The following provision supplements Paragraph 2 of the Agreement:

In the event of your termination of employment for any reason (whether or not in breach of local labor laws), unless otherwise provided in this Agreement or the Plan, your right to vest in the Performance Units, if any, will terminate effective as of the date that is the earlier of (1) the date upon which your employment with the Company or any of its Subsidiaries is terminate; (2) the date you are no longer actively employed by or providing services to the Company or any of its Subsidiaries; or (3) the date you receive written notice of termination of employment from the Employer, regardless of any notice period or period of pay in lieu of such notice required under applicable laws (including, but not limited to statutory law, regulatory law and/or common law); the Company shall have the exclusive discretion to determine when you are no longer actively employed for purposes of the Performance Units (including whether you may be considered to be providing services while on a leave of absence).

**Language Consent .**

The parties acknowledge that it is their express wish that the Agreement, including this Exhibit, as well as all documents, notices and legal proceedings entered into, given or instituted pursuant hereto or relating directly or indirectly hereto, be drawn up in English.

*Consentement relatif à la langue utilisée. Les parties reconnaissent avoir expressément souhaité que la convention («Agreement») ainsi que cette Annexe, ainsi que tous les documents, avis et procédures judiciares, éxécutés, donnés ou intentés en vertu de, ou liés directement ou indirectement à la présente convention, soient rédigés en langue anglaise.*

**CHINA**
**KBR, INC. 2006 STOCK AND INCENTIVE PLAN**

**Cash Awards Granted for Retention Purposes Only.**

The following provision supplements Paragraph 7(g) of the Agreement:

Notwithstanding anything contrary in the Agreement, you understand and agree that the Performance Units are granted by the Company to you for retention purposes only and do not constitute variable income or part of your normal compensation or salary.

**No Entitlement to Cash Amounts Prior to Payment** . The following provision supplements Paragraphs 1, 3 and 7(g) of the Agreement:

You understand that the Performance Units are granted to you by the Company and do not constitute variable income or compensation received from the Employer in connection with your employment. You understand and agree you have no right to the cash payment upon vesting/settlement of the Performance Units until said payments are actually paid to you. In the event you terminate employment prior to the payment date and are not otherwise entitled to a prorata portion under Paragraph 2(b) or 2(d) of the Agreement, you understand and agree that all rights to the Performance Units and the payments thereunder shall be lost as of your termination date, notwithstanding your rendering of services or other contributions over the Performance Period or thereafter. The Committee shall have the exclusive authority to determine when you are terminated for purposes of the Performance Unit.

**INDIA**
**KBR, INC. 2006 STOCK AND INCENTIVE PLAN**

__Exchange Control Information__ **.**

You must repatriate the proceeds from the settlement of your Performance Units and convert the proceeds into local currency within a reasonable timeframe ( *i.e.* , 90 days of receipt. You will receive a foreign inward remittance certificate (“FIRC”) from the bank where you deposit the foreign currency. You should maintain the FIRC received from the bank as evidence of the repatriation of the funds in the event that the Reserve Bank of India or the Employer requests proof of repatriation **. It is your responsibility to comply with applicable exchange control laws in India.**

__Foreign Account/Asset Tax Reporting Information__ **.**

You are required to declare in your annual tax return (a) any foreign assets held by you or (b) any foreign bank accounts for which you have signing authority.

**INDONESIA**
**KBR, INC. 2006 STOCK AND INCENTIVE PLAN**

**Exchange Control Information .**

If you remit funds into Indonesia, the Indonesian Bank through which the transaction is made will submit a report on the transaction to the Bank of Indonesia for statistical reporting purposes. For transactions of US$10,000 or more, a description of the transaction must be included in the report. Although the bank through which the transaction is made is required to make the report, you must complete a “Transfer Report Form.” The Transfer Report Form will be provided to you by the bank through which the transaction is to be made.

**IRAQ**
**KBR, INC. 2006 STOCK AND INCENTIVE PLAN**

There are no country-specific provisions.

# ITALY
# KBR, INC. 2006 STOCK AND INCENTIVE PLAN

**Data Privacy Notice .**

This section replaces Paragraph 9 of the Agreement:

You understand that the Employer, the Company and any Subsidiary may hold certain personal information about you, including, but not limited to, your name, home address and telephone number, date of birth, social insurance (to the extent permitted under Italian law) or other identification number, salary, nationality, job title, any directorships held in the Company or any Subsidiary, details of all Performance Units granted, awarded, canceled, vested, unvested or outstanding in your favor, for the exclusive purpose of implementing, managing and administering the Plan ("Data").

You also understand that providing the Company with Data is necessary for the performance of the Plan and that your refusal to provide such Data would make it impossible for the Company to perform its contractual obligations and may affect your ability to participate in the Plan. The Controller of personal data processing is KBR Inc., with registered offices at 601 Jefferson Street, Suite 3400, Houston, Texas 77002, U.S.A, and, pursuant to Legislative Decree no. 196/2003, its representative in Italy is Kellogg Brown & Root Projects Limited, with registered offices at Deloitte & Touche, Via Tortona 25, Milan, Italy.

You understand that Data will not be publicized, but it may be transferred to banks, other financial institutions, or brokers involved in the management and administration of the Plan. You understand that Data may also be transferred to the Company's stock plan service provider, Morgan Stanley Smith Barney, or such other administrator that may be engaged by the Company in the future. You further understand that the Company and/or any Subsidiary will transfer Data among themselves as necessary for the purpose of implementing, administering and managing your participation in the Plan, and that the Company and/or any Subsidiary may each further transfer Data to third parties assisting the Company in the implementation, administration, and management of the Plan. Such recipients may receive, possess, use, retain, and transfer Data in electronic or other form, for the purposes of implementing, administering, and managing your participation in the Plan. You understand that these recipients may be located in or outside the European Economic Area, such as in the United States or elsewhere. Should the Company exercise its discretion in suspending all necessary legal obligations connected with the management and administration of the Plan, it will delete Data as soon as it has completed all the necessary legal obligations connected with the management and administration of the Plan.

You understand that Data-processing related to the purposes specified above shall take place under automated or non-automated conditions, anonymously when possible, that comply with the purposes for which Data is collected and with confidentiality and security provisions, as set forth by applicable laws and regulations, with specific reference to Legislative Decree no. 196/2003.

The processing activity, including communication, the transfer of Data abroad, including outside of the European Economic Area, as herein specified and pursuant to applicable laws and regulations, does not require your consent thereto as the processing is necessary to performance of contractual obligations related to implementation, administration, and management of the Plan. You understand that, pursuant to Section 7 of the Legislative Decree no. 196/2003, you have the right to, including but not limited to, access, delete, update, correct, or terminate, for legitimate reason, the Data processing. Furthermore, you are aware that Data will not be used for direct marketing purposes. In addition, Data provided can be reviewed and questions or complaints can be addressed by contacting your local human resources representative.

**Plan Document Acknowledgment** .

In accepting the Performance Units, you acknowledge that you have received a copy of the Plan and the Agreement and have reviewed the Plan and the Agreement, including this Exhibit B, in their entirety and fully understand and accept all provisions of the Plan and the Agreement, including this Exhibit B. You further acknowledges that you have read and specifically and expressly approve the following Paragraphs of the Agreement: Paragraph 2; Paragraph 3: Payment of Vested Performance Units; Paragraph 5: Limitations Upon Transfer; Paragraph 6: Withholding of Tax; Paragraph 7: Nature of Grant; Paragraph 14: Electronic Delivery and Acceptance; Paragraph 17: Governing Law and Venue; Paragraph 19: Exhibit B and the Data Privacy Notice in this Exhibit B.

**Foreign Account/Asset Tax Reporting Information** .

Starting from tax returns filed in 2014 for fiscal year 2013, if you are an Italian resident who, at any time during the fiscal year, hold foreign financial assets (including cash) which may generate income taxable in Italy, you are required to report these assets on your annual tax return for the year during which the assets are held, or on a special form if no tax return is due. These reporting obligations also apply if you are the beneficial owner of foreign financial assets under Italian money laundering provisions.

**Foreign Financial Assets Tax Information** .

As from 2011, Italian residents may be subject to tax on the value of financial assets held outside of Italy. The taxable amount will be the fair market value of the financial assets on December 31 of each year.

**JAPAN**
**KBR, INC. 2006 STOCK AND INCENTIVE PLAN**

**Foreign Account/Asset Tax Reporting Information .**

If you are a resident of Japan or a foreign national who has established permanent residency in Japan, you will be required to report details of any assets (including cash payment upon vesting of Performance Units) held outside Japan as of December 31st of each year, to the extent such assets have a total net fair market value exceeding ¥50,000,000. Such report will be due by March 15th of the following year. The penalty for fraudulent reporting is imprisonment up to one year or a fine up to ¥500,000. You should consult with your personal tax advisor as to whether the reporting obligation applies to you.

**KAZAKHSTAN**
**KBR, INC. 2006 STOCK AND INCENTIVE PLAN**

**Exchange Control Information .**

You are responsible for complying with applicable exchange control regulations in Kazakhstan. As the exchange control regulations in Kazakhstan may change without notice, you should consult a legal advisor to ensure compliance with the regulations.

**KOREA**
**KBR, INC. 2006 STOCK AND INCENTIVE PLAN**

**<u>Foreign Account/Asset Tax Reporting Information</u> .**

You will be required to declare all foreign accounts ( *i.e* ., non-Korean bank accounts, brokerage accounts, etc.) to the Korean tax authorities and file a report if the monthly balance of such accounts exceeds a certain limit (currently KRW 1 billion or an equivalent amount in foreign currency).

**MEXICO**
**KBR, INC. 2006 STOCK AND INCENTIVE PLAN**

**<u>Acknowledgement of the Agreement</u> .**

In accepting the award of Performance Units, you acknowledge that you have received a copy of the Plan, have reviewed the Plan and the Agreement in their entirety and fully understand and accept all provisions of the Plan and the Agreement. You further acknowledge that you have read and specifically and expressly approve the terms and conditions of Paragraph 7 of the Agreement, in which the following is clearly described and established:

(1) Your participation in the Plan does not constitute an acquired right.

(2) The Plan and your participation in the Plan are offered by the Company on a wholly discretionary basis.

(3) Your participation in the Plan is voluntary.

**<u>Labor Law Acknowledgement and Policy Statement</u> .**

In accepting the award of Performance Units, you expressly recognize that KBR, Inc., with registered offices at 601 Jefferson Street, Suite 3400, Houston, Texas 77002, U.S.A., is solely responsible for the administration of the Plan and that your participation in the Plan and receipt of Performance Units does not constitute an employment relationship between you and KBR, Inc. since you are participating in the Plan on a wholly commercial basis and your sole employer is KBR in Mexico (“KBR-Mexico”), not KBR, Inc. in the U.S. Based on the foregoing, you expressly recognize that the Plan and the benefits that you may derive from participation in the Plan do not establish any rights between you and your Employer, KBR-Mexico, and do not form part of the employment conditions and/or benefits provided by KBR-Mexico and any modification of the Plan or its termination shall not constitute a change or impairment of the terms and conditions of your employment.

You further understand that your participation in the Plan is as a result of a unilateral and discretionary decision of KBR, Inc.; therefore, KBR, Inc. reserves the absolute right to amend and/or discontinue your participation at any time without any liability to you.

Finally, you hereby declare that you do not reserve to yourself any action or right to bring any claim against KBR, Inc. for any compensation or damages regarding any provision of the Plan or the benefits derived under the Plan, and you therefore grant a full and broad release to KBR, Inc., its Subsidiary, affiliates, branches, representation offices, its shareholders, officers, agents or legal representatives with respect to any claim that may arise.

***<u>Reconocimiento del Convenio</u> .***

*Aceptando este Premio (Award), el Participante reconoce que ha recibido una copia del Plan, que lo ha revisado como así también el Convenio en el Participante totalidad, y comprende y está de acuerdo con todas las disposiciones tanto del Plan como del Convenio. Asimismo, su reconoce que ha leído y específicamente y expresamente manifiesta la conformidad del Participante con los términos y condiciones establecidos en la cláusula 7 le dicho Convenio, en el cual se establece claramente que:*

*(1) La participación del Participante en el Plan de ninguna manera constituye un derecho adquirido.*

*(2) Que el Plan y la participación del Participante en el mismo es una oferta por parte de KBR, Inc. de forma completamente discrecional.*

*(3) Que la participación del Participante en el Plan es voluntaria.*

***Reconocimiento de Ausencia de Relación Laboral y Declaración de la Política*** **.**

*Aceptando este Premio, el Participante reconoce que KBR, Inc. y sus oficinas registradas en 601 Jefferson Street, Suite 3400, Houston, Texas 77002, U.S.A., es el único responsable de la administración del Plan y que la participación del Participante en el mismo y la adquisicion de Acciones no constituye de ninguna manera una relación laboral entre el Participante y KBR, Inc., toda vez que la participación del Participante en el Plan deriva únicamente de una relación comercial con KBR, Inc., reconociendo expresamente que el único empleador del Participante lo es KBR en Mexico (“KBR-Mexico”), no es KBR, Inc. en los Estados Unidos. Derivado de lo anterior, el Participante expresamente reconoce que el Plan y los beneficios que pudieran derivar del mismo no establecen ningún derecho entre el Participante y su empleador, KBR-México, y no forman parte de las condiciones laborales y/o prestaciones otorgadas por KBR-México, y expresamente el Participante reconoce que cualquier modificación al Plan o la terminación del mismo de manera alguna podrá ser interpretada como una modificación de los condiciones de trabajo del Participante.*

*Asimismo, el Participante entiende que su participación en el Plan es resultado de la decisión unilateral y discrecional de KBR, Inc., por lo tanto, KBR, Inc. se reserva el derecho absoluto para modificar y/o terminar la participación del Participante en cualquier momento, sin ninguna responsabilidad para el Participante.*

*Finalmente, el Participante manifiesta que no se reserva ninguna acción o derecho que origine una demanda en contra de KBR, Inc., por cualquier compensación o daño en relación con cualquier disposición del Plan o de los beneficios derivados del mismo, y en consecuencia el Participante otorga un amplio y total finiquito a KBR, Inc., sus Entidades Relacionadas, afiliadas, sucursales, oficinas de representación, sus accionistas, directores, agentes y representantes legales con respecto a cualquier demanda que pudiera surgir.*

# NIGERIA
# KBR, INC. 2006 STOCK AND INCENTIVE PLAN

There are no country specific provisions.

# PHILIPPINES
# KBR, INC. 2006 STOCK AND INCENTIVE PLAN

There are no country-specific provisions.

**QATAR**
**KBR, INC. 2006 STOCK AND INCENTIVE PLAN**

There are no country specific provisions.

# RUSSIA
# KBR, INC. 2006 STOCK AND INCENTIVE PLAN

**U.S. Transaction .**

You understand that the Performance Units shall be valid and the Agreement shall be concluded and become effective only when the Agreement is sent and/or received by the Company in the United States.

**Exchange Control Information .**

You must repatriate the cash payment from the settlement of the Performance Units within a reasonably short time of receipt. The cash payment must be initially credited to you through a foreign currency account opened in your name at an authorized bank in Russia. After the funds are initially received in Russia, they may be further remitted to foreign banks in accordance with Russian exchange control laws.

**Data Privacy .**

The following provisions supplement Paragraph 9: Data Privacy Notice and Consent provision in the Agreement and to the extent inconsistent, the below language for Russia supersedes Paragraph 9: Data Privacy:

You understand and agree that the Company may require you to complete and return a Consent to Processing of Personal Data form (the “Consent”) to the Company. If a Consent is required by the Company but you fail to provide such Consent to the Company, you understand and agree that the Company will not be able to administer or maintain the Performance Units or any other awards. Therefore, you understand that refusing to complete any required Consent or withdrawing your consent may affect your ability to participate in the Plan. For more information on any required Consent or withdrawal of consent, you understand you may contact the U.S. human resources representative /U.S. stock administration.

**SAUDI ARABIA**
**KBR, INC. 2006 STOCK AND INCENTIVE PLAN**

**Securities Law Information** .

This document may not be distributed in the Kingdom of Saudi Arabia except to such persons as are permitted under the Offers of Securities Regulations issued by the Capital Market Authority.

The Capital Market Authority does not make any representation as to the accuracy or completeness of the Agreement, and expressly disclaims any liability whatsoever for any loss arising from, or incurred in reliance upon, any part of the Agreement. You are hereby advised to conduct your own due diligence on the accuracy of the information relating to the Performance Units. If you do not understand the contents of the Agreement, you should consult your own advisor or an authorized financial adviser.

**SINGAPORE**
**KBR, INC. 2006 STOCK AND INCENTIVE PLAN**

**Director Notification Information .**

If you are a director of a Singapore Subsidiary, you may need to notify the Singapore Subsidiary in writing within two business days of your receiving an interest ( *e.g.* , Performance Units) in the Company or any Subsidiary or within two business days of you becoming a director if such an interest exists at the time. This notification requirement also applies to an associate director of the Singapore Subsidiary and to a shadow director of the Singapore Subsidiary ( *i.e.* , an individual who is not on the board of directors of the Singapore Subsidiary but who has sufficient control so that the board of directors of the Singapore Subsidiary acts in accordance with the “directions and instructions” of the individual).

**SOUTH AFRICA**
**KBR, INC. 2006 STOCK AND INCENTIVE PLAN**

**Tax Withholding Notification .**

By your acceptance of the Performance Units and the Agreement, you agree to notify your Employer of the amount you receive upon settlement of the Performance Units. Once the notification is made, your Employer will obtain a directive from the South African Revenue Service as to the correct amount of tax to be withheld. If you fail to advise your Employer of any cash settlement you receive, you may be liable for a fine. You will be responsible for paying any difference between the actual tax liability and the amount withheld.

**Exchange Control Information .**

You are solely responsible for complying with applicable South African exchange control regulations. Because the exchange control regulations change frequently and without notice, you should consult your legal advisor prior to the settlement of the Performance Units to ensure compliance with current regulations. As noted, it is your responsibility to comply with South African exchange control laws, and neither the Company nor your Employer will be liable for any fines or penalties resulting from failure to comply with applicable laws.

## SWEDEN
## KBR, INC. 2006 STOCK AND INCENTIVE PLAN

There are no country specific provisions.

**THAILAND**
**KBR, INC. 2006 STOCK AND INCENTIVE PLAN**

**Exchange Control Information.**

If proceeds from the cash payment upon vesting of the Performance Units are equal to or greater than US$50,000 or more in a single transaction, you must repatriate the proceeds to Thailand immediately upon receipt and convert the funds to Thai Baht or deposit the proceeds in a foreign currency deposit account maintained by a bank in Thailand within 360 days of repatriation. In addition, you must report the inward remittance to the Bank of Thailand on a foreign exchange transaction form. If you fail to comply with these obligations, you may be subject to penalties assessed by the Bank of Thailand. Because exchange control regulations change frequently and without notice, you should consult your personal advisor. You are responsible for ensuring compliance with all exchange control laws in Thailand and neither the Company nor any of its Subsidiaries will be liable for any fines or penalties resulting from your failure to comply with applicable laws.

**TURKEY**
**KBR, INC. 2006 STOCK AND INCENTIVE PLAN**

There are no country-specific provisions.

**UNITED ARAB EMIRATES**
**KBR, INC. 2006 STOCK AND INCENTIVE PLAN**

**Securities Law Information .**

The Plan is only being offered to qualified Employees and is in the nature of providing equity incentives to employees of the Company's affiliate in the United Arab Emirates ("UAE"). Any documents related to the Plan, including the Plan, Plan prospectus and other grant documents ("Plan Documents"), are intended for distribution only to such Employees and must not be delivered to, or relied on by, any other person. Prospective participants should conduct their own due diligence on the securities. If you do not understand the contents of the Plan Documents, you should consult an authorized financial adviser.

The Emirates Securities and Commodities Authority has no responsibility for reviewing or verifying any Plan Documents nor taken steps to verify the information set out in them, and thus, are not responsible for such documents.

**UNITED KINGDOM**
**KBR, INC. 2006 STOCK AND INCENTIVE PLAN**

**Withholding of Taxes .**

This section supplements Paragraph 6 of the Agreement:

Notwithstanding Paragraph 6 of the Agreement, you agree that if you do not pay or the Employer or the Company does not withhold from you the full amount of Tax-Related Items that you owe due to the vesting/settlement of the Performance Units, or the release or assignment of the Performance Units for consideration, or the receipt of any other benefit in connection with the Performance Units (the "Taxable Event") within 90 days after the Taxable Event, or such other period specified in Section 222(1)(c) of the U.K. Income Tax (Earnings and Pensions) Act 2003, then the amount of income tax that should have been withheld shall constitute a loan owed by you to the Employer, effective 90 days after the Taxable Event. You agree that the loan will bear interest at Her Majesty's Revenue & Customs ("HMRC") official rate and will be immediately due and repayable by you, and the Company and/or the Employer may recover it at any time thereafter by withholding the funds from salary, bonus or any other funds due to you by the Employer, or from the cash payment from the settlement of the Performance Units or by demanding cash or a cheque from you. You also authorize the Company to delay the issuance of any cash settlement to you unless and until the loan is repaid in full.

Notwithstanding the foregoing, if you are an officer or executive director (as within the meaning of Section 13(k) of the U.S. Securities and Exchange Act of 1934, as amended), the terms of the immediately foregoing provision will not apply. In the event that you are an officer or executive director and the amount necessary to satisfy the Tax-Related Items is not collected from or paid by you within 90 days of the Taxable Event, any uncollected amounts of income tax may constitute a benefit to you on which additional income tax and national insurance contributions may be payable. You understand that you will be responsible for reporting any income tax due on this additional benefit directly to HMRC under the self-assessment regime and for reimbursing the Company or the Employer (as appropriate) for the value of any national insurance contributions due on this additional benefit. You acknowledge that the Company or the Employer may recover any such additional income tax and national insurance contributions at any time thereafter by any of the means referred to in Paragraph 6 of the Agreement.

**EXHIBIT 31.1**

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER PURSUANT TO RULE 13A-14(A) AND RULE 15D-14(A) OF THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED**

I, Stuart Bradie, certify that:

1. I have reviewed this annual report on Form 10-K of KBR, Inc. (the “registrant”);

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant’s other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and

5. The registrant’s other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Date: April 29, 2015

**Stuart Bradie**
**Chief Executive Officer**

**EXHIBIT 31.2**

**CERTIFICATION OF CHIEF FINANCIAL OFFICER PURSUANT TO RULE 13A-14(A) AND RULE 15D-14(A) OF THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED**

I, Brian K. Ferraioli, certify that:

1. I have reviewed this annual report on Form 10-K of KBR, Inc. (the “registrant”);

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant’s other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and

5. The registrant’s other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Date: April 29, 2015

**Brian K. Ferraioli**
**Chief Financial Officer**

**EXHIBIT 32.1**

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER**
**UNDER SECTION 906 OF THE SARBANES OXLEY ACT OF 2002, 18 U.S.C 2002**

The undersigned, the Chief Executive Officer of KBR, Inc. (the “Company”), hereby certifies that to his knowledge, on the date hereof:

a) the Form 10-K of the Company for the period ended December 31, 2014, filed on the date hereof with the Securities and Exchange Commission (the “Report”) fully complies with the requirements of Section l3(a) or 15(d) of the Securities Exchange Act of 1934 as amended; and

b) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

**Stuart Bradie**
**Chief Executive Officer**

Date: April 29, 2015

**EXHIBIT 32.2**

**CERTIFICATION OF CHIEF FINANCIAL OFFICER**
**UNDER SECTION 906 OF THE SARBANES OXLEY ACT OF 2002, 18 U.S.C 2002**

The undersigned, the Chief Financial Officer of KBR, Inc. (the “Company”), hereby certifies that to his knowledge, on the date hereof:

a) the Form 10-K of the Company for the period ended December 31, 2014, filed on the date hereof with the Securities and Exchange Commission (the “Report”) fully complies with the requirements of Section l3(a) or 15(d) of the Securities Exchange Act of 1934 as amended; and

b) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

**Brian K. Ferraioli**
**Chief Financial Officer**

Date: April 29, 2015