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Cash and equivalents totaled \$536 million at December 31, 2016 and \$883 million December 31, 2015 and consisted of the following:

<i>Dollars in millions</i>	December 31,	
	2016	2015
Domestic cash	\$ 249	\$ 360
International cash	231	470
Joint venture cash	56	53
Total	<u>\$ 536</u>	<u>\$ 883</u>

Our cash balances are held in numerous accounts throughout the world to fund our global activities. Domestic cash relates to cash balances held by U.S. entities and is largely used to support project activities of those businesses as well as general corporate needs such as the payment of dividends to shareholders, repayment of debt and potential repurchases of our outstanding common stock.

Our international cash balances may be available for general corporate purposes but are subject to local restrictions, such as capital adequacy requirements and local obligations, including 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. During 2016, as a result of strategic business acquisitions and previously announced estimated contract losses, we reevaluated our permanent reinvestment assertion of certain undistributed foreign earnings. As a result, we provided cumulative income taxes of \$51 million on certain foreign earnings which provide us, if necessary, the ability to repatriate an additional \$300 million of international cash without recognizing additional tax expense. As of December 31, 2016, we have repatriated approximately \$93 million of this international cash. See Note 14 to our consolidated financial statements for further discussion regarding undistributed foreign earnings.

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

As of December 31, 2016, substantially all of our excess cash was held in commercial bank time deposits or interest bearing short-term investment accounts with the primary objectives of preserving capital and maintaining liquidity.

### Cash Flows

#### *Cash flows activities summary*

<i>Dollars in millions</i>	Years ended December 31,		
	2016	2015	2014
Cash flows provided by operating activities	\$ 61	\$ 47	\$ 170
Cash flows (used in) provided by investing activities	(981)	101	(44)
Cash flows provided by (used in) financing activities	584	(192)	(210)
Effect of exchange rate changes on cash	(11)	(43)	(52)
Decrease in cash and equivalents	<u>\$ (347)</u>	<u>\$ (87)</u>	<u>\$ (136)</u>

***Operating Activities.*** Cash flows from operating activities result primarily from earnings and are affected by changes in operating assets and liabilities which consist primarily of working capital balances for projects. Working capital levels vary from year to year and are primarily affected by the company's volume of work. These levels are also impacted by the mix, stage of completion and commercial terms of engineering and construction projects. Working capital requirements also vary by project depending on the type of client and location throughout the world. Most contracts require payments as the projects progress. Additionally, certain projects receive advance payments from clients. A normal trend for these projects is to have higher cash balances during the initial phases of execution which then decline to equal project earnings at the end of the construction phase. As a result, our cash position is reduced as customer advances are worked off, unless they are replaced by advances on other projects.



The primary components of our working capital accounts are accounts receivable, which includes retainage and trade receivables, costs and estimated earnings in excess of billings on uncompleted contracts ("CIE"), accounts payable and billings in excess of costs and estimated earnings on uncompleted contracts ("BIE"). These components are impacted by the size and changes in the mix of our cost reimbursable versus fixed price projects, and as a result, fluctuations in these components are not uncommon in our business.

Cash provided by operations totaled \$61 million in 2016, primarily resulting from favorable net changes of \$156 million in working capital balances for projects which were partially offset by a decrease in cash resulting from a net loss in 2016 as well as cash used in the items specified below:

- Accounts receivable is impacted by the timing and collections on billings to our customers. The decrease in accounts receivable in 2016 is primarily due to collections from customers on three large EPC projects within our E&C business segment as well as collections of retainage and trade receivables associated with the substantial completion of a power project within our Non-strategic business segment. We also increased collections from customers on various projects in our T&C business segment. These decreases in accounts receivable were partially offset by increased billings on various Wyle and KTS projects and the expansion of existing U.S. government and other contracts within our GS business segment in 2016.
- Our CIE was impacted by the timing of billings to our customers and is generally related to our cost reimbursable projects where we bill as we incur project costs. In 2016, CIE decreased in our T&C and E&C business segments and was partially offset by the expansion of existing U.S. government and other projects in our GS business.
- Accounts payable is impacted by the timing of receipts of invoices from our vendors and subcontractors and payments on these invoices. The increase in accounts payable in 2016 was primarily due to a U.S. government project and other projects from the Wyle and KTS acquired within our GS business segment as well as the timing of invoicing and payments within the normal course of business.
- BIE is associated with our fixed price projects, which we generally structure to be cash positive, and is impacted by the timing of achievement of billing of milestones and payments received from our customers in advance of incurring project costs. The increase in BIE is due primarily to increases associated with two EPC ammonia projects in the U.S. in our E&C business segment partially offset by decreases from various projects in our T&C business segment and a power project in our Non-strategic business unit.
- In addition, we received distributions of earnings from our unconsolidated affiliates of \$56 million and contributed \$41 million to our pension funds in 2016.

Cash provided by operations totaled \$47 million in 2015. Cash generated from our earnings and net changes in working capital balances for projects remained relatively flat in 2015. The cash generated by earnings was partially offset by the other items as specified below:

- Accounts receivable decreased primarily due to the timing of collections on customer billings related to projects within our E&C business segment including an EPC LNG project in Australia as well as several EPC power projects in the U.S. in our Non-strategic business segment.
- The decrease in CIE primarily reflected the timing of billings as we substantially completed execution of several major EPC projects within our E&C business segment. Additionally, CIE decreased on various projects in Canada prior to the deconsolidation of our Industrial Services Americas business in the third quarter of 2015.
- Accounts payable decreased in 2015 due to the timing of invoicing and payments within the normal course of business on an EPC LNG project in Australia and several EPC projects in the U.S. within our E&C business segment. Also contributing to the decrease were certain projects in Canada from our Industrial Services Americas business as well as various projects in the U.K. in our GS business segment and a power project in our Non-strategic business segment.
- In 2015, we received distributions of earnings from our unconsolidated affiliates of \$92 million. We used \$44 million for the net settlement of derivative contracts and contributed approximately \$48 million to our pension funds in 2015.

Cash provided by operations totaled \$170 million in 2014. We generated cash from the net changes in working capital balances for projects of approximately \$197 million in 2014. The cash generated by earnings was partially offset by the other items as specified below:

- Accounts receivable decreased primarily due to the timing of collections on customer billings related to projects within our E&C business segment including an LNG project in Africa that was nearing completion and various other projects in Canada and the U.S.
- The increase in CIE in 2014 primarily reflected the timing of billings as we substantially completed execution of major projects within our E&C business segment partially offset by increases on U.S government contracts in our GS business segment.
- BIE increased in 2014, reflecting the timing of our achievement of billing milestones and the receipt of payment in advance of incurring costs related to a power project within our Non-strategic Business segment as well as several projects in our E&C business segment.
- We received distributions of earnings from our unconsolidated affiliates of \$249 million. We used \$40 million for the net settlement of derivative contracts and contributed approximately \$48 million to our pension funds in 2014.

*Investing activities.* Cash used in investing activities totaled \$981 million in 2016 and was primarily due to the \$911 million used in the acquisitions of Wyle and HTSI within our GS business segment and the acquisition of the three technology companies in our T&C business segment. We also invested an additional \$56 million in the Brown & Root Industrial Services joint venture in North America within our E&C business segment for its acquisition of a turnaround and specialty welding company.

Cash provided by investing activities totaled \$101 million in 2015 and was primarily due to proceeds from the sale of assets and investments within our Non-strategic Business segment.

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

*Financing activities.* Cash provided by financing activities totaled \$584 million in 2016 primarily due to \$700 million in cash proceeds from borrowings under our Credit Agreement. These sources of cash were partially offset by payments on borrowings of \$50 million and dividend payments to shareholders of \$46 million.

Cash used in financing activities totaled \$192 million in 2015 and included \$40 million for our purchase of a noncontrolling interest in a joint venture, \$47 million for dividend payments to shareholders, \$62 million for the purchase of treasury stock and \$28 million for distributions to noncontrolling interests.

Cash used in financing activities totaled \$210 million in 2014 and included \$106 million for the purchase of treasury stock, \$47 million for dividend payments to shareholders and \$61 million for distributions to noncontrolling interests. The uses of cash were partially offset by \$10 million of investments from noncontrolling interests and \$4 million of proceeds from the exercise of stock options.

*Future sources of cash.* We believe that future sources of cash include cash flows from operations, cash derived from working capital management, cash borrowings under our Credit Agreement and other permanent financing activities, as well as potential litigation proceeds including potential settlement of the PEMEX litigation discussed in Note 16 to our consolidated financial statements.

*Future uses of cash.* We believe that future uses of cash include working capital requirements, funding of recognized project losses, capital expenditures, dividends, repayments of borrowings under our Credit Agreement, share repurchases and strategic investments including acquisitions. Our capital expenditures will be focused primarily on facilities and equipment to support our businesses. In addition, we will use cash to fund pension obligations, payments under operating leases and various other obligations, including potential litigation payments, as they arise.

#### ***Other factors potentially affecting liquidity***

Cash from operations can be significantly impacted by our primary working capital accounts as previously described. We expect unfavorable working capital impacts in 2017 related to project losses in our E&C business segment. These impacts on liquidity could be mitigated by proceeds from resolution of the EPC1 matter. See Note 16 to our consolidated financial statements under PEMEX and PEP Arbitration for further discussion.

## Credit Agreement

Information relating to our Credit Agreement is described in Note 13 to our consolidated financial statements in Part II, Item 8 of this Annual Report on Form 10-K and the information discussed therein is incorporated by reference into this Part II, Item 7.

## Nonrecourse Project Finance Debt

Information relating to our nonrecourse project debt is described in Note 13 to our consolidated financial statements in Part II, Item 8 of this Annual Report on Form 10-K and the information discussed therein is incorporated by reference into this Part II, Item 7.

## Off-Balance Sheet Arrangements

*Letters of credit, surety bonds and guarantees.* Information relating to our nonrecourse project debt is described in Note 13 to our consolidated financial statements in Part II, Item 8 of this Annual Report on Form 10-K and the information discussed therein is incorporated by reference into this Part II, Item 7.

*Commitments and other contractual obligations.* The following table summarizes our significant contractual obligations and other long-term liabilities as of December 31, 2016:

<i>Dollars in millions</i>	Payments Due							Total
	2017	2018	2019	2020	2021	Thereafter		
Operating leases (a)	\$ 97	\$ 85	\$ 75	\$ 66	\$ 61	\$ 324	\$ 708	
Purchase obligations (b)	8	6	5	3	3	1	26	
Pension funding obligation (c)	36	35	35	35	35	240	416	
Revolving credit agreement	—	—	—	650	—	—	650	
Interest (d)	15	15	15	11	—	—	56	
Nonrecourse project finance debt	8	9	10	10	5	1	43	
Total (e)	\$ 164	\$ 150	\$ 140	\$ 775	\$ 104	\$ 566	\$ 1,899	

- (a) Amounts presented are net of subleases.
- (b) In the ordinary course of business, we enter into commitments for the purchase or lease of software, materials, supplies and similar items. The purchase obligations can span several years depending on the duration of the projects. The purchase obligations disclosed above do not include purchase obligations that we enter into with vendors in the normal course of business that support existing contracting arrangements with our customers. We expect to recover such obligations from our customers.
- (c) Included in our pension obligations are payments related to our agreement with the trustees of our international plan. The agreement calls for minimum contributions of £28 million in 2016 through 2028. The foreign funding obligations were converted to U.S. dollars using the conversion rate as of December 31, 2016. KBR, Inc. has provided a guarantee for up to £95 million in support of Kellogg Brown & Root (U.K.) Limited's obligation to make payments to the plan in respect of its liability under the U.K. Pensions Act 1995.
- (d) Determined based on borrowings outstanding at the end of 2016 using the interest rate in effect at that time and, for our outstanding long-term debt, concluding with the expiration date of the Credit Agreement.
- (e) Not included in the total are uncertain tax positions recorded pursuant to Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 740 - Income Taxes, which totaled \$261 million as of December 31, 2016. The ultimate timing of settlement of these obligations cannot be determined with reasonable assurance and have been excluded from the table above. See Note 14 to our consolidated financial statements for further discussion on income taxes.

## **Transactions with Joint Ventures**

We perform many of our projects through incorporated and unincorporated joint ventures. In addition to participating as a joint venture partner, we often provide engineering, procurement, construction, operations or maintenance services to the joint venture as a subcontractor. Where we provide services to a joint venture that we control and therefore consolidate for financial reporting purposes, we eliminate intercompany revenues and expenses on such transactions. In situations where we account for our interest in the joint venture under the equity method of accounting, we do not eliminate any portion of our subcontractor 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. See Note 11 to our consolidated financial statements in Part II, Item 8 of this Annual Report on Form 10-K for more information. The information discussed therein is incorporated by reference into this Part II, Item 7.

## **Recent Accounting Pronouncements**

Information relating to recent accounting pronouncements is described in Note 22 to our consolidated financial statements in Part II, Item 8 of this Annual Report on Form 10-K and the information discussed therein is incorporated by reference into this Part II, Item 7.

## **U.S. Government Matters**

Information relating to U.S. government matters commitments and contingencies is described in Note 15 to our consolidated financial statements in Part II, Item 8 of this Annual Report on Form 10-K and the information discussed therein is incorporated by reference into this Part II, Item 7.

## **Legal Proceedings**

Information relating to various commitments and contingencies is described in Note 15 and 16 to our consolidated financial statements in Part II, Item 8 of this Annual Report on Form 10-K and the information discussed therein is incorporated by reference into this Part II, Item 7.

## **Critical Accounting Policies and Estimates**

The discussion and analysis of our financial condition and results of operations is based upon our consolidated financial statements which have been prepared in conformity with accounting principles generally accepted in the U.S. ("U.S. GAAP"). The preparation of our consolidated financial statements requires us to make estimates and judgments that affect the determination of financial positions, cash flows, results of operations and related disclosures. Our accounting policies are more fully described in Note 1 to our consolidated financial statements. Our critical accounting policies are described below to provide a better understanding of our estimates and assumptions about future events that affect the amounts reported in the consolidated financial statements and accompanying notes. Significant accounting estimates are important to the representation of our financial position and results of operations and involve our most difficult, subjective or complex judgments. We base our estimates on historical experience and on various other assumptions we believe to be reasonable according to the current facts and circumstances through the date of the issuance of our financial statements.

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

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

Some of our U.S. government contracts include award fees, which are earned based on the client's evaluation of our performance. When we have significant history with the client on which we earn award fees, we recognize award fees as work on the contracts is performed. That history and management's evaluation and monitoring of performance form the basis for our ability to estimate such fees over the life of the contract. Where we do not have significant history with the client, we recognize award fees when they are awarded by the client. Revisions to these estimates may result in increases or decreases to revenue and income, and are reflected in the financial statements in periods in which they are identified. Historically, revisions to these estimates have not had a material effect on our results of operations.

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

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

At the outset of each contract, we prepare a detailed analysis of our estimated cost to complete the project. Risks relating to service delivery, cost and usage of materials, labor cost and productivity, the impact of change orders, liability claims, contract disputes, achievement of contractual performance requirements and other factors require judgment in the estimation process. On certain projects, we provide guaranteed completion dates and/or achievement of other performance criteria. Failure to meet schedule or performance guarantees could result in unrealized incentives or liquidated damages. Additionally, increases in contract cost can result in non-recoverable cost which could exceed revenue realized from the projects. We generally provide limited warranties for work performed under engineering and construction contracts. The warranty periods typically extend for a limited duration following substantial completion of our work on the project. Historically, warranty claims have not resulted in material costs incurred, and any estimated costs for warranties are included in the individual project cost estimates for purposes of accounting long-term contracts.

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

Our estimate of total revenues includes estimates of probable liquidated damages and certain probable claims and unapproved change orders. When estimating the amount of total gross profit or loss on a contract, we include certain probable unapproved change orders or claims to our clients as adjustments to revenues and claims to vendors, subcontractors and others as adjustments to total estimated costs. Probable claims against our clients are recorded up to the extent of the lesser of the amounts management expects to recover or actual costs incurred and include no profit until such time as they are finalized and approved. As of December 31, 2016 and 2015, we had recorded \$28 million and \$46 million, respectively, of claim revenue for costs incurred to date and such costs are included in the contract cost estimates. See Note 6 to our consolidated financial statements for our discussion on unapproved change orders and claims.

At least quarterly, significant projects are reviewed by management. We have a long history of working with multiple types of projects and in preparing cost estimates. However, there are many factors that impact future costs, including but not limited to weather, inflation, labor and community disruptions, timely availability of materials, productivity and other factors as outlined in “Item 1A. Risk Factors” contained in Part I of this Annual Report on Form 10-K. These factors can affect the accuracy of our estimates and materially impact our future reported earnings.

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

*Estimated Losses on Uncompleted Contracts and Changes in Contract Estimates.* We record provisions for total estimated losses on uncompleted contracts in the period in which such losses are identified. The cumulative effects of revisions to contract revenues and estimated completion costs are recorded in the accounting period in which the amounts become evident and can be reasonably estimated. These revisions can include such items as the effects of change orders and claims, warranty claims, liquidated damages or other contractual penalties, adjustments for audit findings on U.S. government contracts and contract closeout settlements. Information relating to our changes in estimates is discussed in Note 2 to our consolidated financial statements in Part II, Item 8 of this Annual Report on Form 10-K and the information discussed therein is incorporated by reference into this Part II, Item 7.

*Purchased intangible assets.* When determining the fair values of assets acquired, liabilities assumed and non-controlling interests in the acquiree, management makes significant estimates and assumptions, especially with respect to intangible assets. Critical estimates in valuing intangible assets include, but are not limited to, expected future cash flows, which includes consideration of future growth rates and margins, attrition rates, future changes in technology and brand awareness, loyalty and position, and discount rates. Fair value estimates are based on the assumptions management believes a market participant would use in pricing the asset or liability. Amounts recorded in a business combination may change during the measurement period, which is a period not to exceed one year from the date of acquisition, as additional information about conditions existing at the acquisition date becomes available.

*Goodwill Impairment Testing.* Our October 1, 2016 annual impairment test for goodwill was a quantitative analysis using a two-step process that involves comparing the estimated fair value of each reporting unit to its carrying value, including goodwill. The fair values of reporting units were determined using a combination of two methods, one utilizing market revenue and earnings multiples (the market approach) and the other derived from discounted cash flow models with estimated cash flows based on internal forecasts of revenues and expenses over a specified period plus a terminal value (the income approach).

Under the market approach, we estimate fair value by applying earnings and revenue market multiples ranging from 3.78 to 11.39 times earnings and 0.27 to 2.02 times revenue. The income approach estimates fair value by discounting each reporting unit’s estimated future cash flows using a weighted-average cost of capital that reflects current market conditions and the risk profile of the reporting unit. To arrive at our future cash flows, we use estimates of economic and market assumptions, including growth rates in revenues, costs, estimates of future expected changes in operating margins, tax rates and cash expenditures. Future revenues are also adjusted to match changes in our business strategy. The risk-adjusted discount rates applied to our future cash flows under the income approach ranged from 10.4% to 12.8%. We believe these two approaches are appropriate valuation techniques and we generally weight the two resulting values equally as an estimate of a reporting unit's fair value for the purposes of our impairment testing. However, we may weigh one value more heavily than the other when conditions merit doing so. Other significant estimates and assumptions include terminal value growth rates, future estimates of capital expenditures and changes in future working capital requirements. The fair value derived from the weighting of these two methods provides appropriate valuations that, in the aggregate, reasonably reconcile to our market capitalization, taking into account observable control premiums.

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

At the annual testing date of October 1, 2016, our market capitalization exceeded the carrying value of our consolidated net assets by \$1 billion and the fair value of all our reporting units exceeded their respective carrying amounts as of that date.

The fair value for two reporting units in our E&C business segment with goodwill of \$57 million and \$65 million, exceeded their carrying values by 36% and 65%, respectively, based on projected growth rates and other market inputs that are more sensitive to the risk of future variances due to competitive market conditions and reporting unit project execution. If future variances for these assumptions are negative and significant, the fair value of these reporting units may not substantially exceed their carrying values in future periods.

*Deferred Taxes and Tax Contingencies.* As discussed in Note 14 to our consolidated financial statements, deferred tax assets and liabilities are recognized for the expected future tax consequences of events that have been recognized in our consolidated financial statements or tax returns. As of December 31, 2016, we had deferred tax assets of \$757 million which were partially offset by a valuation allowance of \$542 million and further reduced by deferred tax liabilities of \$245 million. The valuation allowance reduces certain deferred tax assets to amounts that are more-likely-than-not to be realized. The allowance for 2016 primarily relates to the deferred tax assets on certain net operating loss carryforwards for U.S. and non-U.S. subsidiaries. We evaluate the realizability of our deferred tax assets by assessing the valuation allowance and by adjusting the amount of such allowance, if necessary. The factors used to assess the likelihood of realization are the company's forecast of future taxable income and available tax planning strategies that could be implemented to realize the net deferred tax assets. Failure to achieve forecasted taxable income in the applicable taxing jurisdictions could affect the ultimate realization of deferred tax assets and could result in an increase in the company's effective tax rate on future earnings.

Income tax positions must meet a more-likely-than-not recognition threshold to be recognized. Income tax positions that previously failed to meet the more-likely-than-not threshold are recognized in the first subsequent financial reporting period in which that threshold is met. Previously recognized tax positions that no longer meet the more-likely-than-not threshold are derecognized in the first subsequent financial reporting period in which that threshold is no longer met. We recognize potential interest and penalties related to unrecognized tax benefits in income tax expense.

*Legal and Investigation Matters.* As discussed in Notes 15 and 16 to our consolidated financial statements, as of December 31, 2016 and 2015, we have accrued an estimate of the probable and estimable costs for the resolution of some of our legal and investigation matters. For other matters for which the liability is not probable and reasonably estimable, we have not accrued any amounts. Attorneys in our legal department monitor and manage all claims filed against us and review all pending investigations. Generally, the estimate of probable costs related to these matters is developed in consultation with internal and external legal counsel representing us. Our estimates are based upon an analysis of potential results, assuming a combination of litigation and settlement strategies. The precision of these estimates and the likelihood of future changes depend on a number of underlying variables and a range of possible outcomes. We attempt to resolve these matters through settlements, mediation and arbitration proceedings, when possible. If the actual settlement costs, final judgments or fines, differ from our estimates after appeals, our future financial results may be materially and adversely affected. We record adjustments to our initial estimates of these types of contingencies in the periods when the change in estimate is identified.

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

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

The discount rate utilized to calculate the projected benefit obligation at the measurement date for our U.S. pension plan increased to 3.73% at December 31, 2016 from 3.42% at December 31, 2015. The discount rate utilized to determine the projected benefit obligation at the measurement date for our U.K. pension plan, which constitutes 96% of all plans, decreased to 2.60% at December 31, 2016 from 3.75% at December 31, 2015. Our expected long-term rates of return on plan assets utilized at the measurement date increased to 5.00% from 4.81% for our U.S. pension plans and decreased to 6.10% from 6.25% for our U.K. pension plans, for the years ended December 31, 2016 and 2015, respectively.

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

<i>Dollars in millions</i>	Effect on			
	Pretax Pension Cost in 2017		Pension Benefit Obligation at December 31, 2016	
	U.S.	U.K.	U.S.	U.K.
25-basis-point decrease in discount rate	—	1	2	99
25-basis-point increase in discount rate	—	(1)	(2)	(93)
25-basis-point decrease in expected long-term rate of return	1	3	N/A	N/A
25-basis-point increase in expected long-term rate of return	—	(3)	N/A	N/A

Unrecognized actuarial gains and losses are generally recognized using the corridor method over a period of approximately 25 years, which represents a reasonable systematic method for amortizing gains and losses for the employee group. Our unrecognized actuarial gains and losses arise from several factors, including experience and assumption changes in the obligations and the difference between expected returns and actual returns on plan assets. The difference between actual and expected returns is deferred as an unrecognized actuarial gain or loss on our consolidated statement of comprehensive income (loss) and is recognized as a decrease or an increase in future pension expense. Our pretax unrecognized actuarial loss in accumulated other comprehensive loss at December 31, 2016 was \$1 billion, of which \$30 million is expected to be recognized as a component of our expected 2017 pension expense compared to \$31 million in 2016.

The actuarial assumptions used in determining our pension benefits may differ materially from actual results due to changing market and economic conditions, higher or lower withdrawal rates and longer or shorter life spans of participants. While we believe that the assumptions used are appropriate, differences in actual experience, expectations, or changes in assumptions may materially affect our financial position or results of operations. Our actuarial estimates of pension benefit expense and expected pension returns of plan assets are discussed in Note 12 in the accompanying financial statements.

#### **Item 7A. Quantitative and Qualitative Discussion about Market Risk**

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

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

We are exposed to and use derivative instruments, such as foreign exchange forward contracts and options to hedge foreign currency risk related to non-functional currency assets and liabilities on our balance sheet. Each period, these balance sheet hedges are marked to market through earnings and the change in their fair value is largely offset by remeasurement of the underlying assets and liabilities. The fair value of these derivatives was not material to our consolidated balance sheet for the periods presented. For more information see Note 21 to our consolidated financial statements in Part II, Item 8 of this Annual Report on Form 10-K and the information discussed therein is incorporated by reference into this Part II, Item 7A.

Where possible, we limit exposure to foreign currency fluctuations on forecasted transactions through provisions in our contracts that require client payments in currencies corresponding to the currency in which costs are incurred. In addition to this natural hedge, we use foreign exchange forward contracts and options to hedge forecasted foreign currency sales and purchase transactions. These derivatives are generally designated as cash flow hedges and are carried at fair value. The effective portion of the gain or loss is initially reported as a component of accumulated other comprehensive income (loss), and upon occurrence of the forecasted transaction, is subsequently reclassified into the income or expense line item to which the hedged transaction relates. Changes in the fair value of (1) credit risk and forward points, (2) instruments deemed ineffective during the period, and (3) instruments that we do not designate as cash flow hedges, are recognized within our consolidated statements of operations. We do not hold or issue derivatives for trading purposes or make speculative investments in foreign currencies. The impact of our hedging activities associated with our operating exposures was not material to our consolidated financial statements for and during the years ended December 31, 2016, 2015 and 2014.



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

We are exposed to market risk for changes in interest rates for borrowings under our Credit Agreement, of which there were \$650 million at of December 31, 2016. Borrowings under our Credit Agreement bear interest at variable rates. Our weighted average interest rate for the year ended December 31, 2016 was 2.00%. We had no derivative financial instruments to manage interest rate risk related to outstanding borrowings. If interest rates were to increase by 50 basis points, pre-tax interest expense would increase by approximately \$3 million in the next twelve months.

## Item 8. Financial Statements and Supplementary Data

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## Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders  
KBR, Inc.:

We have audited the accompanying consolidated balance sheets of KBR, Inc. and subsidiaries as of December 31, 2016 and 2015, and the related consolidated statements of operations, comprehensive income (loss), shareholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2016. In connection with our audits of the consolidated financial statements, we also have audited financial statement schedule II. These consolidated financial statements and financial statement schedule, are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and financial statement schedule based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of KBR, Inc. and subsidiaries as of December 31, 2016 and 2015, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2016, in conformity with U.S. generally accepted accounting principles. Also in our opinion, the related financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), KBR, Inc.'s internal control over financial reporting as of December 31, 2016, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated February 24, 2017 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

Our report dated February 24, 2017, on the effectiveness of internal control over financial reporting as of December 31, 2016, contains an explanatory paragraph which states KBR, Inc. acquired Wyle Inc. and KBRwyle Technology Solutions, LLC (formerly Honeywell Technology Solutions Inc.) during 2016, and management excluded from its assessment of the effectiveness of KBR, Inc.'s internal control over financial reporting as of December 31, 2016, Wyle Inc. and KBRwyle Technology Solutions, LLC's internal control over financial reporting associated with total assets of \$1.2 billion, and total revenues of \$487 million included in the consolidated financial statements of KBR, Inc. and subsidiaries as of and for the year ended December 31, 2016. Our audit of internal control over financial reporting of KBR, Inc. also excluded an evaluation of the internal control over financial reporting of Wyle Inc. and KBRwyle Technology Solutions, LLC.

/s/ KPMG LLP

Houston, Texas  
February 24, 2017

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

	Years ended December 31,		
	2016	2015	2014
Revenues	\$ 4,268	\$ 5,096	\$ 6,366
Cost of revenues	(4,156)	(4,771)	(6,431)
<b>Gross profit (loss)</b>	<b>112</b>	<b>325</b>	<b>(65)</b>
Equity in earnings of unconsolidated affiliates	91	149	163
General and administrative expenses	(143)	(155)	(239)
Impairment of goodwill	—	—	(446)
Asset impairment and restructuring charges	(39)	(70)	(214)
Gain on disposition of assets	7	61	7
<b>Operating income (loss)</b>	<b>28</b>	<b>310</b>	<b>(794)</b>
Other non-operating income	5	2	17
<b>Income (loss) before income taxes and noncontrolling interests</b>	<b>33</b>	<b>312</b>	<b>(777)</b>
Provision for income taxes	(84)	(86)	(421)
<b>Net income (loss)</b>	<b>(51)</b>	<b>226</b>	<b>(1,198)</b>
Net income attributable to noncontrolling interests	(10)	(23)	(64)
<b>Net income (loss) attributable to KBR</b>	<b>\$ (61)</b>	<b>\$ 203</b>	<b>\$ (1,262)</b>
<b>Net income (loss) attributable to KBR per share:</b>			
Basic	\$ (0.43)	\$ 1.40	\$ (8.66)
Diluted	\$ (0.43)	\$ 1.40	\$ (8.66)
<b>Basic weighted average common shares outstanding</b>	<b>142</b>	<b>144</b>	<b>146</b>
<b>Diluted weighted average common shares outstanding</b>	<b>142</b>	<b>144</b>	<b>146</b>
<b>Cash dividends declared per share</b>	<b>\$ 0.32</b>	<b>\$ 0.32</b>	<b>\$ 0.32</b>

See accompanying notes to consolidated financial statements.

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

	Years ended December 31,		
	2016	2015	2014
<b>Net income (loss)</b>	\$ (51)	\$ 226	\$ (1,198)
<b>Other comprehensive income (loss), net of tax:</b>			
<u>Foreign currency translation adjustments:</u>			
Foreign currency translation adjustments, net of tax	7	(68)	(71)
Reclassification adjustment included in net income	—	4	1
<b>Foreign currency translation adjustments, net of tax of \$(3), \$(3) and \$4</b>	<b>7</b>	<b>(64)</b>	<b>(70)</b>
<u>Pension and post-retirement benefits, net of tax:</u>			
Actuarial gains (losses), net of tax	(249)	71	(96)
Reclassification adjustment included in net income	24	39	34
<b>Pension and post-retirement benefits, net of taxes of \$45, \$(22) and \$10</b>	<b>(225)</b>	<b>110</b>	<b>(62)</b>
<u>Changes in fair value of derivatives:</u>			
Changes in fair value of derivatives, net of tax	—	—	(2)
Reclassification adjustment included in net income	(1)	1	—
<b>Changes in fair value of derivatives, net of taxes of \$0, \$0 and \$0</b>	<b>(1)</b>	<b>1</b>	<b>(2)</b>
<b>Other comprehensive income (loss), net of tax</b>	<b>(219)</b>	<b>47</b>	<b>(134)</b>
Comprehensive income (loss)	(270)	273	(1,332)
Less: Comprehensive income attributable to noncontrolling interests	(10)	(25)	(66)
<b>Comprehensive income (loss) attributable to KBR</b>	<b>\$ (280)</b>	<b>\$ 248</b>	<b>\$ (1,398)</b>

See accompanying notes to consolidated financial statements.

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

	December 31,	
	2016	2015
<b>Assets</b>		
<b>Current assets:</b>		
Cash and equivalents	\$ 536	\$ 883
Accounts receivable, net of allowance for doubtful accounts of \$14 and \$17	592	628
Costs and estimated earnings in excess of billings on uncompleted contracts ("CIE")	416	224
Claims receivable	400	—
Other current assets	103	109
<b>Total current assets</b>	<b>2,047</b>	<b>1,844</b>
Claims and accounts receivable	131	526
Property, plant, and equipment, net of accumulated depreciation of \$324 and \$352 (including net PPE of \$36 and \$48 owned by a variable interest entity)	145	169
Goodwill	959	324
Intangible assets, net of accumulated amortization of \$100 and \$91	248	35
Equity in and advances to unconsolidated affiliates	369	281
Deferred income taxes	118	99
Other assets	127	134
<b>Total assets</b>	<b>\$ 4,144</b>	<b>\$ 3,412</b>
<b>Liabilities and Shareholders' Equity</b>		
<b>Current liabilities:</b>		
Accounts payable	\$ 535	\$ 438
Billings in excess of costs and estimated earnings on uncompleted contracts ("BIE")	552	509
Accrued salaries, wages and benefits	171	173
Nonrecourse project debt	9	10
Other current liabilities	292	263
<b>Total current liabilities</b>	<b>1,559</b>	<b>1,393</b>
Pension obligations	526	333
Employee compensation and benefits	113	105
Income tax payable	78	78
Deferred income taxes	149	94
Nonrecourse project debt	34	51
Revolving credit agreement	650	—
Deferred income from unconsolidated affiliates	90	100
Other liabilities	200	206
<b>Total liabilities</b>	<b>3,399</b>	<b>2,360</b>
<b>KBR shareholders' equity:</b>		
Preferred stock, \$0.001 par value, 50,000,000 shares authorized, 0 shares issued and outstanding	—	—
Common stock, \$0.001 par value, 300,000,000 shares authorized, 175,913,310 and 175,108,100 shares issued, and 142,803,782 and 142,058,356 shares outstanding	—	—
Paid-in capital in excess of par ("PIC")	2,088	2,070
Accumulated other comprehensive loss ("AOCL")	(1,050)	(831)
Retained earnings	488	595
Treasury stock, 33,109,528 shares and 33,049,744 shares, at cost	(769)	(769)
<b>Total KBR shareholders' equity</b>	<b>757</b>	<b>1,065</b>
Noncontrolling interests	(12)	(13)
<b>Total shareholders' equity</b>	<b>745</b>	<b>1,052</b>
<b>Total liabilities and shareholders' equity</b>	<b>\$ 4,144</b>	<b>\$ 3,412</b>

See accompanying notes to consolidated financial statements.

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

	December 31,		
	2016	2015	2014
<b>Balance at January 1,</b>	<b>\$ 1,052</b>	<b>\$ 935</b>	<b>\$ 2,439</b>
Acquisition of noncontrolling interest	—	(40)	—
Share-based compensation	18	18	22
Common stock issued upon exercise of stock options	—	1	4
Tax benefit decrease related to share-based plans	1	—	—
Dividends declared to shareholders	(46)	(47)	(47)
Repurchases of common stock	(4)	(62)	(106)
Issuance of employee stock purchase plan ("ESPP") shares	3	5	4
Investments by noncontrolling interests	—	—	10
Distributions to noncontrolling interests	(9)	(28)	(61)
Other noncontrolling interests activity	—	(3)	2
Comprehensive income (loss)	(270)	273	(1,332)
<b>Balance at December 31,</b>	<b>\$ 745</b>	<b>\$ 1,052</b>	<b>\$ 935</b>

See accompanying notes to consolidated financial statements.

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

	Years ended December 31,		
	2016	2015	2014
<b>Cash flows from operating activities:</b>			
Net income (loss)	\$ (51)	\$ 226	\$ (1,198)
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	45	39	72
Equity in earnings of unconsolidated affiliates	(91)	(149)	(163)
Deferred income tax expense	18	14	353
Gain on disposition of assets	(7)	(61)	(7)
Gain on negotiated settlement with former parent	—	—	(24)
Impairment of goodwill	—	—	446
Asset impairment	16	31	171
Other	3	21	11
Changes in operating assets and liabilities, net of acquired businesses:			
Accounts receivable, net of allowance for doubtful accounts	121	41	170
Costs and estimated earnings in excess of billings on uncompleted contracts	8	224	(107)
Accounts payable	(6)	(274)	(10)
Billings in excess of costs and estimated earnings on uncompleted contracts	33	(2)	144
Accrued salaries, wages and benefits	(50)	(8)	(29)
Reserve for loss on uncompleted contracts	(5)	(94)	57
(Advances to) payments from unconsolidated affiliates, net	(1)	10	13
Distributions of earnings from unconsolidated affiliates	56	92	249
Income taxes payable	(52)	26	14
Pension funding	(41)	(48)	(48)
Retainage payable	(2)	(2)	(16)
Subcontractor advances	8	(12)	(3)
Net settlement of derivative contracts	(9)	(44)	(40)
Other assets and liabilities	68	17	115
<b>Total cash flows provided by operating activities</b>	<b>61</b>	<b>47</b>	<b>170</b>
<b>Cash flows from investing activities:</b>			
Purchases of property, plant and equipment	(11)	(10)	(53)
Payments for investments in equity method joint ventures	(61)	(19)	—
Proceeds from sale of assets or investments	2	130	9
Acquisitions of businesses, net of cash acquired	(911)	—	—
<b>Total cash flows (used in) provided by investing activities</b>	<b>\$ (981)</b>	<b>\$ 101</b>	<b>\$ (44)</b>



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

	Years ended December 31,		
	2016	2015	2014
<b>Cash flows from financing activities:</b>			
Payments to reacquire common stock	(4)	(62)	(106)
Acquisition of noncontrolling interest	—	(40)	—
Investments from noncontrolling interests	—	—	10
Distributions to noncontrolling interests	(9)	(28)	(61)
Payments of dividends to shareholders	(46)	(47)	(47)
Net proceeds from issuance of common stock	—	1	4
Excess tax benefits from share-based compensation	1	—	—
Borrowings on revolving credit agreement	700	—	—
Payments on revolving credit agreement	(50)	—	—
Payments on short-term and long-term borrowings	(9)	(11)	(11)
Other	1	(5)	1
<b>Total cash flows provided by (used in) financing activities</b>	<b>584</b>	<b>(192)</b>	<b>(210)</b>
Effect of exchange rate changes on cash	(11)	(43)	(52)
Decrease in cash and equivalents	(347)	(87)	(136)
Cash and equivalents at beginning of period	883	970	1,106
<b>Cash and equivalents at end of period</b>	<b>\$ 536</b>	<b>\$ 883</b>	<b>\$ 970</b>
<b>Supplemental disclosure of cash flows information:</b>			
Cash paid for interest	\$ 12	\$ 10	\$ 11
Cash paid for income taxes (net of refunds)	\$ 49	\$ 66	\$ 37
<b>Noncash financing activities</b>			
Dividends declared	\$ 12	\$ 12	\$ 12

See accompanying notes to consolidated financial statements.

**KBR, Inc.**  
**Notes to Consolidated Financial Statements**

**Note 1. Description of Company and Significant Accounting Policies**

KBR, Inc., a Delaware corporation, was formed on March 21, 2006 and is headquartered in Houston, Texas. KBR, Inc. and its wholly owned and majority-owned subsidiaries (collectively referred to herein as "KBR", "the Company", "we", "us" or "our") is a global provider of differentiated, professional services and technologies across the asset and program life-cycle within the government services and hydrocarbons industries. Our capabilities include highly-specialized engineering services, mission and logistics support solutions, technology licensing, consulting, procurement, construction, construction management, program management, operations, maintenance and other support services to a diverse customer base, including domestic and foreign governments, international and national oil and gas companies, independent refiners, petrochemical producers, fertilizer producers and manufacturers.

***Principles of Consolidation***

Our consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States ("U.S. GAAP") and include the accounts of KBR and our wholly owned and majority-owned, controlled subsidiaries and variable interest entities ("VIEs") of which we are the primary beneficiary. We account for investments over which we have significant influence but not a controlling financial interest using the equity method of accounting. See Note 11 to our consolidated financial statements for further discussion on our equity investments and VIEs. The cost method is used when we do not have the ability to exert significant influence. All material intercompany balances and transactions of consolidated subsidiaries are eliminated.

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

We have evaluated all events and transactions occurring subsequent to the date of the financial statements through the filing date of this annual report on Form 10-K.

***Use of Estimates***

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

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

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

## ***Cash and Equivalents***

We consider highly liquid investments with an original maturity of three months or less to be cash equivalents. See Note 4 to our consolidated financial statements for our discussion on cash and equivalents.

## ***Revenue Recognition***

### ***Government Contracts***

Certain services provided to the United States ("U.S.") government are performed on cost-reimbursable contracts. Generally, these contracts may contain base fees (a fixed profit percentage applied to our estimates of costs to complete the work) and award fees (a variable profit percentage applied to definitized costs, which is subject to our customer's discretion and tied to the specific performance measures defined in the contract, such as adherence to schedule, health and safety, quality of work, responsiveness, cost performance and business management).

Revenues are recognized at the time services are performed, and such revenues include base fees, actual direct project costs incurred and an allocation of indirect costs. Indirect costs are applied using rates approved by our government customers. The general, administrative and overhead cost reimbursement rates are estimated periodically in accordance with government contract accounting regulations and may change based on actual costs incurred or based upon the volume of work performed. Award fees are recognized when such fees are probable and estimable. Estimates of the total fee to be earned are made based on contract provisions, prior experience with similar contracts or clients and management's evaluation of the performance on such contracts. Revenues are reduced for our estimate of costs that either are in dispute with our customer or have been identified as potentially unallowable pursuant to the terms of the contract or the federal acquisition regulations.

### ***Engineering and Construction Contracts***

*Contracts.* Revenues from contracts to provide construction, engineering, design or similar services are recognized using the percentage-of-completion method of accounting in accordance with Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 605 - Revenue Recognition. Depending on the type of job, progress is generally measured based upon costs incurred to date to total estimated costs at completion, man-hours expended to date to total man-hours estimated at completion or physical progress. Changes in total estimated contract costs and losses, if any, are provided for in the period they are determined. Certain claims and change orders that are in the process of negotiation with customers for additional work or changes in the scope of work are included in contract value when collection is deemed probable and the value can be reliably estimated.

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

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

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

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

When estimating the amount of total gross profit or loss on a contract, we include unapproved change orders or claims to our clients as adjustments to revenues. We include claims to vendors, subcontractors and others as adjustments to total estimated costs. If we have a reasonable legal basis and amounts are probable, claims against others are recorded up to the extent of the lesser of the amounts management expects to recover or to costs incurred and include no profit until such time as they are finalized and approved. See Note 6 to our consolidated financial statements for our discussion on unapproved change orders and claims.

### ***Services Contracts***

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

### ***Gross Profit***

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

### ***Contract Costs***

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

### ***General and Administrative Expenses***

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

### ***Accounts Receivable***

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

We establish an allowance for doubtful accounts based on the assessment of the clients' willingness and ability to pay. In addition to such allowances, there are often items in dispute or being negotiated that may require us to make an estimate as to the ultimate outcome. Past due receivable balances are written off when our internal collection efforts have been unsuccessful in collecting the amounts due. See Note 5 to our consolidated financial statements for our discussion on accounts receivable.

Retainage, included in accounts receivable, represents amounts withheld from billings by our clients pursuant to provisions in the contracts and may not be paid to us until the completion of specific tasks or the completion of the project and, in some instances, for even longer periods. Retainage may also be subject to restrictive conditions such as performance guarantees. Our retainage receivable excludes amounts withheld by the U.S. government on certain contracts. See Note 15 to our consolidated financial statements for our discussion on U.S. government receivables.

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

Billing practices are governed by the contract terms of each project based upon costs incurred, achievement of milestones or pre-agreed schedules. Billings do not necessarily correlate with revenue recognized using the percentage-of-completion method of accounting. Costs and estimated earnings in excess of billings on uncompleted contracts ("CIE") represent the excess of contract costs and profits recognized to date using the percentage-of-completion method over billings to date on certain contracts. Billings in excess of costs and estimated earnings on uncompleted contracts ("BIE") represents the excess of billings to date over the amount of contract costs and profits recognized to date using the percentage-of-completion method on certain contracts. For service-type contracts, revenues recognized in excess of amounts billed to the customer are recorded in CIE and amounts billed to the customer in excess of revenues recognized to date are recorded in BIE. With the exception of claims and change orders that we are in the process of negotiating with customers, unbilled receivables are usually billed during normal billing processes following achievement of the contractual requirements. We anticipate that substantially all incurred costs associated with unbilled receivables as of December 31, 2016 will be billed and collected in 2017. See Note 6 to our consolidated financial statements for our discussion on CIE and BIE.

### ***Property, Plant and Equipment***

Property, plant and equipment are reported at cost less accumulated depreciation except for those assets that have been written down to their fair values due to impairment. Expenditures for major additions and improvements are capitalized and minor replacements, maintenance and repairs are charged to expense as incurred. The cost of property, plant and equipment sold or otherwise disposed of and the related accumulated depreciation are removed from the accounts and any resulting gain or loss is included in operating income for the respective period. Depreciation is generally provided on the straight-line method over the estimated useful lives of the related assets. Leasehold improvements are amortized using the straight-line method over the shorter of the useful life of the improvement or the lease term. See Note 8 to our consolidated financial statements for our discussion on property, plant and equipment.

### ***Goodwill and Intangible Assets***

Goodwill is an asset representing the excess cost over the fair market value of net assets acquired in business combinations. In accordance with ASC 350 - Intangibles - Goodwill and Other, goodwill is not amortized but is tested annually for impairment or on an interim basis when indicators of potential impairment exist. Goodwill is tested for impairment at the reporting unit level. Our reporting units are our operating segments or components of operating segments where discrete financial information is available and segment management regularly reviews the operating results. For purposes of impairment testing, goodwill is allocated to the applicable reporting units based on the current reporting structure. If the fair value of a reporting unit exceeds its carrying value, the goodwill of the reporting unit is not considered impaired. If the carrying value of a reporting unit exceeds its fair value, a second step of the goodwill impairment test is performed to measure the amount of goodwill impairment. The second step compares the implied fair value of the reporting unit goodwill to the carrying value of the reporting unit goodwill. We determine the implied fair value of the goodwill in the same manner as determining the amount of goodwill to be recognized in a business combination. We completed our annual goodwill impairment test in the fourth quarter of 2016 and determined that none of the goodwill was impaired. See Note 9 to our consolidated financial statements for reported goodwill in each of our segments.

We had intangible assets with a carrying value of \$248 million and \$35 million as of December 31, 2016 and 2015, respectively. Intangible assets with indefinite lives are not amortized but are subject to annual impairment tests or on an interim basis when indicators of potential impairment exist. An intangible asset with an indefinite life is impaired if its carrying value exceeds its fair value. As of December 31, 2016, none of our intangible assets with indefinite lives were impaired. Intangible assets with finite lives are amortized on a straight-line basis over the useful life of those assets, ranging from 1 to 25 years. See Note 9 to our consolidated financial statements for further discussion of our intangible assets.

### ***Investments***

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

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

We evaluate our equity method investments for impairment at least annually or whenever events or changes in circumstances indicate, in management's judgment, that the carrying value of an investment may have experienced an other-than-temporary decline in value. When evidence of loss in value has occurred, management compares the estimated fair value of the investment to the carrying value of the investment to determine whether an impairment has occurred. If the estimated fair value is less than the carrying value and management considers the decline in value to be other than temporary, the excess of the carrying value over the estimated fair value is recognized in the financial statements as an impairment. See Note 11 to our consolidated financial statements for our discussion on equity method investments.

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

### ***Variable Interest Entities***

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

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

As required by ASC 810 - Consolidation, we perform a qualitative assessment to determine whether we are the primary beneficiary once an entity is identified as a VIE. Thereafter, we continue to re-evaluate whether we are the primary beneficiary of the VIE in accordance with ASC 810 - Consolidation. A qualitative assessment begins with an understanding of the nature of the risks in the entity as well as the nature of the entity's activities. These include the terms of the contracts entered into by the entity, ownership interests issued by the entity and how they were marketed and the parties involved in the design of the entity. We then identify all of the variable interests held by parties involved with the VIE including, among other things, equity investments, subordinated debt financing, letters of credit, financial and performance guarantees and contracted service providers. Once we identify the variable interests, we determine those activities which are most significant to the economic performance of the entity and which variable interest holder has the power to direct those activities. Though infrequent, some of our assessments reveal no primary beneficiary because the power to direct the most significant activities that impact the economic performance is held equally by two or more variable interest holders who are required to provide their consent prior to the execution of their decisions. Most of the VIEs with which we are involved have relatively few variable interests and are primarily related to our equity investment, significant service contracts and other subordinated financial support. See Note 11 to our consolidated financial statements for our discussion on variable interest entities.

In February 2015, the FASB issued Accounting Standards Update ("ASU") No. 2015-02, Consolidation (Topic 810) - Amendments to the Consolidation Analysis. This ASU amended the consolidation guidance for VIEs as well as general partners' investments in limited partnerships and modified the evaluation of whether limited partnerships and similar legal entities are VIEs or voting interest entities. The amendments were effective for annual periods beginning after December 15, 2015 and interim periods within those annual periods. On January 1, 2016, we adopted ASU 2015-02. The adoption of this update did not have a material impact on our consolidated financial statements.

### ***Acquisitions***

We account for business combinations using the acquisition method of accounting in accordance with ASC 805 - Business Combinations, which allocates the fair value of the purchase consideration to the tangible and intangible assets acquired and liabilities assumed based on their estimated fair values. The excess of the purchase consideration over the fair values of these identifiable assets and liabilities is recorded as goodwill. We conduct external and internal valuations of certain acquired assets and liabilities for inclusion in our balance sheet as of the date of acquisition. Initial purchase price allocations are subject to revisions within the measurement period, not to exceed one year from the date of acquisition. Acquisition-related expenses and transaction costs associated with business combinations are expensed as incurred.

### ***Deconsolidation of a Subsidiary***

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

### ***Pensions***

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

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

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

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

Unrecognized actuarial gains and losses are generally recognized using the corridor method over a period of approximately 25 years, which represents a reasonable systematic method for amortizing gains and losses for the employee group. Our unrecognized actuarial gains and losses arise from several factors, including experience and assumption changes in the obligations and the difference between expected returns and actual returns on plan assets. The difference between actual and expected returns is deferred as an unrecognized actuarial gain or loss on our consolidated statement of comprehensive income (loss) and is recognized as a decrease or an increase in future pension expense.

### *Income Taxes*

We recognize the amount of taxes payable or refundable for the year and deferred tax assets and liabilities for the expected future tax consequences of events that have been recognized in the financial statements or tax returns. We provide a valuation allowance for deferred tax assets if it is more likely than not that these items will not be realized. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. See Note 14 to our consolidated financial statements for our discussion on income taxes.

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

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

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

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

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



## ***Derivative Instruments***

We enter into derivative financial transactions to hedge existing or forecasted exposures to changing foreign currency exchange rates. We do not enter into derivative transactions for speculative or trading purposes. We recognize all derivatives at fair value on the balance sheet. Derivatives that are not accounted for as hedges under ASC 815 - Derivatives and Hedging, are adjusted to fair value and such changes are reflected in the results of operations. If the derivative is designated as a cash flow hedge under ASC 815, changes in the fair value of derivatives are recognized in other comprehensive income (loss) until the hedged item is recognized in earnings. The ineffective portion of a designated hedge's change in fair value is recognized in earnings. See Note 21 to our consolidated financial statements for our discussion on derivative instruments.

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

## ***Concentration of Credit Risk***

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

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

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

The following tables present summarized data related to our transactions with the U.S. government and Chevron.

### ***Revenues from major customers:***

<i>Dollars in millions</i>	Years ended December 31,		
	2016	2015	2014
U.S. government	\$ 1,090	\$ 378	\$ 321
Chevron	\$ 105	\$ 523	\$ 1,069

### ***Percentages of revenues and accounts receivable from major customers:***

	Years ended December 31,		
	2016	2015	2014
U.S. government revenues percentage	26%	7%	5%
U.S. government receivables percentage	27%	4%	6%
Chevron revenues percentage	2%	10%	17%
Chevron receivables percentage	1%	5%	9%

## ***Noncontrolling interest***

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

### ***Foreign currency***

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

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

### ***Share-based compensation***

We account for share-based payments, including grants of employee stock options, restricted stock-based awards and performance cash units, in accordance with ASC 718 - Compensation-Stock Compensation, which requires that all share-based payments (to the extent that they are compensatory) be recognized as an expense in our consolidated statements of operations based on their fair values on the award date and the estimated number of shares we ultimately expect to vest. We recognize share-based compensation expense on a straight-line basis over the service period of the award, which is no greater than 5 years. See Note 19 to our consolidated financial statements for our discussion on share-based compensation and incentive plans.

### ***Commitments and Contingencies***

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

### ***Additional Balance Sheet Information***

The components of "other current assets" on our consolidated balance sheets as of December 31, 2016 and 2015 are presented below:

<i>Dollars in millions</i>	December 31,	
	2016	2015
Inventory	\$ 5	\$ 5
Restricted cash	2	2
Prepaid expenses	56	58
Value-added tax receivable	17	9
Advances to subcontractors	1	9
Other miscellaneous assets	22	26
Total other current assets	<u>\$ 103</u>	<u>\$ 109</u>

The components of "other current liabilities" on our consolidated balance sheets as of December 31, 2016 and 2015 are presented below:

<i>Dollars in millions</i>	December 31,	
	2016	2015
Reserve for estimated losses on uncompleted contracts (a)	\$ 63	\$ 60
Retainage payable	47	49
Income taxes payable	55	56
Restructuring reserves	30	29
Taxes payable not based on income	14	7
Value-added tax payable	16	12
Insurance payable	14	12
Dividend payable	12	12
Other miscellaneous liabilities (b)	41	26
Total other current liabilities	<u>\$ 292</u>	<u>\$ 263</u>

- (a) See Note 2 to our consolidated financial statements for further discussion on significant reserves for estimated losses on uncompleted contracts.
- (b) Included in "other miscellaneous liabilities" is deferred rent of \$4 million and \$7 million as of December 31, 2016 and 2015, respectively.

### ***Other Liabilities***

Included in "other liabilities" on our consolidated balance sheets as of December 31, 2016 and 2015 is noncurrent deferred rent of \$103 million and \$114 million, respectively. Also included in "other liabilities" is a payable to our former parent of \$19 million in each of the periods presented. This amount will be paid to our former parent upon receipt of a tax refund from the U.S. Internal Revenue Service in an amount greater than or equal to \$19 million.

### **Note 2. Business Segment Information**

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

We are organized into three core business segments and two non-core business segments. Our three core business segments focus on our core strengths in technical services relating to government services, technology and consulting and engineering and construction. Our two non-core business segments are our Non-strategic Business segment, which includes businesses we intend to exit upon completion of existing contracts because they are no longer a part of our future strategic focus, and "Other", which includes our corporate expenses and general and administrative expenses not allocated to the other business segments. Each business segment reflects a reportable segment led by a separate business segment president who reports directly to our chief operating decision maker ("CODM"). Our business segments are described below.

**Government Services ("GS").** Our GS business segment provides full life-cycle support solutions to defense, space, aviation and other programs and missions for government agencies in the U.S., United Kingdom ("U.K.") and Australia. As program management integrator, KBR covers the full spectrum of defense, space, aviation and other government programs and missions from research and development; through systems engineering, test and evaluation, systems integration and program management; to operations support, maintenance and field logistics. Our recent acquisitions, as described in Note 3 to our consolidated financial statements, have been combined with our existing U.S. operations within this business segment and operate under the single "KBRwyle" brand.

**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, know-how and consulting services to the hydrocarbons value chain, from wellhead to crude refining and through refining and petrochemicals 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 customers' objectives through early planning and scope definition, advanced technologies, and project life-cycle support.

**Engineering & Construction ("E&C").** Our E&C business segment provides comprehensive project and program delivery capability globally. Our key capabilities leverage our operational and technical excellence as a global provider of engineering, procurement and construction ("EPC") for onshore oil and gas; LNG/gas to liquids ("GTL"); oil refining; petrochemicals; chemicals; fertilizers; offshore oil and gas (shallow-water, deep-water and subsea); floating solutions ( floating production units ("FPUs"), floating production, storage and offshore ("FPSO"), floating liquefied natural gas ("FLNG") & floating storage and regasification unit ("FSRU")); and maintenance services (via the "Brown & Root Industrial Services" brand).

**Non-strategic Business.** Our Non-strategic Business segment represents the operations or activities which we intend to exit upon completion of existing contracts. This segment also included businesses we exited upon sale to third parties during 2015.

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

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

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

## Operations by Reportable Segment

<i>Dollars in millions</i>	Years ended December 31,		
	2016	2015	2014
<b>Revenues:</b>			
Government Services	\$ 1,359	\$ 663	\$ 638
Technology & Consulting	347	324	353
Engineering & Construction	2,352	3,454	4,584
Other	—	—	—
Subtotal	4,058	4,441	5,575
Non-strategic Business	210	655	791
Total	\$ 4,268	\$ 5,096	\$ 6,366
<b>Gross profit (loss):</b>			
Government Services	\$ 137	\$ (3)	\$ (32)
Technology & Consulting	73	77	53
Engineering & Construction	7	224	141
Other	—	—	—
Subtotal	217	298	162
Non-strategic Business	(105)	27	(227)
Total	\$ 112	\$ 325	\$ (65)
<b>Equity in earnings of unconsolidated affiliates:</b>			
Government Services	\$ 39	\$ 45	\$ 73
Technology & Consulting	—	—	—
Engineering & Construction	52	104	90
Other	—	—	—
Subtotal	91	149	163
Non-strategic Business	—	—	—
Total	\$ 91	\$ 149	\$ 163
<b>Impairment of goodwill (Note 9):</b>			
Government Services	\$ —	\$ —	\$ —
Technology & Consulting	—	—	—
Engineering & Construction	—	—	(293)
Other	—	—	—
Subtotal	—	—	(293)
Non-strategic Business	—	—	(153)
Total	\$ —	\$ —	\$ (446)
<b>Asset impairment and restructuring charges (Note 10):</b>			
Government Services	\$ (1)	\$ —	\$ (5)
Technology & Consulting	(1)	(10)	(2)
Engineering & Construction	(30)	(34)	(24)
Other	(7)	(22)	(149)
Subtotal	(39)	(66)	(180)
Non-strategic Business	—	(4)	(34)
Total	\$ (39)	\$ (70)	\$ (214)
<b>Segment operating income (loss):</b>			
Government Services	\$ 152	\$ 37	\$ 25
Technology & Consulting	66	62	49
Engineering & Construction	4	295	(114)
Other	(93)	(140)	(312)
Subtotal	129	254	(352)
Non-strategic Business	(101)	56	(442)
Total	\$ 28	\$ 310	\$ (794)

<i>Dollars in millions</i>	Years ended December 31,		
	2016	2015	2014
<b>Capital expenditures:</b>			
Government Services	\$ 2	\$ —	\$ —
Technology & Consulting	—	—	—
Engineering & Construction	5	6	19
Other	4	4	34
Subtotal	11	10	53
Non-strategic Business	—	—	—
Total	\$ 11	\$ 10	\$ 53
<b>Depreciation and amortization:</b>			
Government Services	\$ 16	\$ 6	\$ 8
Technology & Consulting	3	2	2
Engineering & Construction	16	17	23
Other	10	14	33
Subtotal	45	39	66
Non-strategic Business	—	—	6
Total	\$ 45	\$ 39	\$ 72

### ***Prior Period Adjustments***

During the fourth quarter of 2016, we corrected a cumulative error related to contract cost estimates on an LNG project in Australia within our E&C business segment. The cumulative error occurred throughout the period beginning in 2009 and through the third quarter of 2016 and resulted in a \$13 million reduction to revenues and gross profit on our consolidated statements of operations and a decrease to "CIE" on our consolidated balance sheets during the fourth quarter of 2016. We evaluated the cumulative errors discussed above on both a quantitative and qualitative basis and determined that the cumulative impact of the errors did not affect the trend of net income, cash flows or liquidity and therefore did not have a material impact to previously issued financial statements. Additionally, we determined that the cumulative impact of the error did not have a material impact to our consolidated financial statements for the fiscal year ended December 31, 2016.

During the second quarter of 2015, we corrected a cumulative error related to transactions between unconsolidated affiliates associated with our Mexican offshore maintenance joint venture within our E&C business segment. The cumulative error occurred throughout the period beginning in 2007 and through the first quarter of 2015 and resulted in a \$15 million increase to "equity in earnings of unconsolidated affiliates" on our consolidated statements of operations and an increase to "equity in and advances to unconsolidated affiliates" on our consolidated balance sheets during the second quarter of 2015. We evaluated the cumulative errors discussed above on both a quantitative and qualitative basis and determined that the cumulative impact of the errors did not affect the trend of net income, cash flows or liquidity and therefore did not have a material impact to previously issued financial statements. Additionally, we determined that the cumulative impact of the error did not have a material impact to our consolidated financial statements for the fiscal year ended December 31, 2015.

### ***Changes in Project-related Estimates***

There are many factors that may affect the accuracy of our cost estimates and ultimately our future profitability. These include, but are not limited to, the availability and costs of resources (such as labor, materials and equipment), productivity and weather, and for unit rate and construction service contracts, the availability and detail of customer supplied engineering drawings. With a portfolio of more than one thousand contracts, we generally realize both lower and higher than expected margins on projects in any given period. 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.

Changes in project-related estimates by business segment, which significantly impacted operating income during the periods presented, are as follows:

### ***Government Services***

During the year ended December 31, 2016, revenues, gross profit, and segment operating income included a favorable change in estimate of \$33 million as a result of reaching a settlement with the U.S. government for reimbursement of previously expensed legal fees associated with the sodium dichromate litigation. See Note 15 to our consolidated financial statements for information related to the settlement with the U.S. government. Additionally, we recognized a \$15 million favorable change to gross profit related to the approval of a change order on a road construction project in the Middle East. The change order resulted in an extension of the contract terms and increased the total contract value.

During the year ended December 31, 2014, we recognized an unfavorable adjustment of \$30 million related the write-off of legal fees associated with the sodium dichromate litigation offset by additional gross profit of \$29 million related to the favorable settlement of outstanding items on LogCAP III.

### ***Engineering & Construction***

We recognized unfavorable changes in estimates of losses of \$114 million and \$27 million in 2016 and 2015 respectively, on an EPC ammonia project in the U.S. primarily due to unforeseen costs related to the mechanical failure of a vendor supplied compressor and pumps that occurred during commissioning as well as various mechanical issues encountered during start-up. These issues delayed completion of the project to October 2016, which resulted in increased costs and the recognition of contractual liquidated damages due to the client. Included in the reserve for estimated losses on uncompleted contracts, which is a component of "other current liabilities" on our consolidated financial statements, is \$3 million and \$4 million as of December 31, 2016 and 2015, respectively, related to this project. The project completed performance testing and in October 2016, care, custody and control of the plant were transferred to the customer. Our estimates of revenues and costs at completion have been, and may continue to be, impacted by remaining punch list items and warranty obligations. Our estimated loss at completion as of December 31, 2016 represents our best estimate based on current information. Actual results could differ from the estimates we have used to account for this project as of December 31, 2016.

During the year ended December 31, 2016, we recognized unfavorable changes in estimated losses of \$112 million on a downstream EPC project in the U.S. resulting from significant weather delays and forecast construction productivity rates less than previously expected. These issues have delayed completion until 2018, which resulted in additional estimated costs to complete. The EPC project is 58% complete as of December 31, 2016. This project is now a loss project and included in the reserve for estimated losses on uncompleted contracts is \$35 million as of December 31, 2016. Our estimated loss at completion represents our best estimate based on current information. Actual results could differ from the estimates we have used to account for this project as of December 31, 2016.

During the year ended December 31, 2016, 2015 and 2014, revenues, gross profit, and segment operating income include \$64 million, \$17 million and \$33 million, respectively, resulting from favorable changes in estimates to complete due to settlements on close out of a LNG project in Africa.

We recognized favorable (unfavorable) changes in our estimates of losses of \$21 million, and \$(72) million in 2015 and 2014, respectively, on seven Canadian pipe fabrication and module assembly projects. The favorable changes to our estimate of losses on these projects in 2015 were primarily due to negotiated settlements with clients. In 2014 we experienced significant cost increases to complete these projects which resulted in the unfavorable changes. All of these projects were completed in 2015.

We recognized unfavorable changes in estimates of losses of \$62 million in 2014 on an EPC project in North America, primarily due to higher construction costs as well as increased costs due to delays in the completion of the project. This project was completed in 2015.

### ***Non-strategic Business***

We recognized unfavorable changes in estimates of losses on a power project of \$117 million, \$33 million and \$90 million in 2016, 2015 and 2014, respectively, primarily due to increases in forecasted costs to complete the project driven by subcontractor cost increases from poor subcontractor productivity, resulting schedule delays and changes in the project execution strategy. Included in the reserve for estimated losses on uncompleted contracts is \$14 million and \$47 million as of December 31, 2016 and 2015, respectively, related to this project. The project has a contract value of \$572 million and was approximately 94% complete as of December 31, 2016. We expect to complete this power project in the first half of 2017. Our estimates of revenues and costs at completion have been, and may continue to be, impacted by our performance, the performance of our subcontractors, and the U.S. labor market. Our estimated loss at completion as of December 31, 2016 represents our best estimate based on current information. Actual results could differ from the estimates we have used to account for this project as of December 31, 2016.

During the year ended December 31, 2015, we recognized additional gross profit of \$57 million related to favorable settlements and cost savings associated with the completion of a power project in the U.S. During 2014, we recognized \$60 million of unfavorable changes in our estimate of costs to complete on a separate power project resulting in a loss on the project. This power project was completed in 2015.

***Balance Sheet Information by Reportable Segment***

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

<i>Dollars in millions</i>	December 31,	
	2016	2015
<b>Total assets:</b>		
Government Services	\$ 1,646	\$ 464
Technology & Consulting	219	198
Engineering & Construction	1,600	1,656
Other	666	1,060
Subtotal	4,131	3,378
Non-strategic Business	13	34
Total	<u>\$ 4,144</u>	<u>\$ 3,412</u>
<b>Goodwill (Note 9):</b>		
Government Services	\$ 674	\$ 60
Technology & Consulting	52	31
Engineering & Construction	233	233
Other	—	—
Subtotal	959	324
Non-strategic Business	—	—
Total	<u>\$ 959</u>	<u>\$ 324</u>
<b>Equity in and advances to related companies (Note 11):</b>		
Government Services	\$ 37	\$ 26
Technology & Consulting	—	—
Engineering & Construction	332	255
Other	—	—
Subtotal	369	281
Non-strategic Business	—	—
Total	<u>\$ 369</u>	<u>\$ 281</u>



### *Selected Geographic Information*

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

<i>Dollars in millions</i>	Years ended December 31,		
	2016	2015	2014
<b>Revenues:</b>			
United States	\$ 2,111	\$ 2,212	\$ 2,324
Middle East	849	786	707
Europe	498	495	624
Australia	376	836	1,380
Canada	145	185	752
Africa	111	164	251
Other Countries	178	418	328
<b>Total</b>	<b>\$ 4,268</b>	<b>\$ 5,096</b>	<b>\$ 6,366</b>

<i>Dollars in millions</i>	December 31,	
	2016	2015
<b>Property, plant &amp; equipment, net:</b>		
United States	\$ 70	\$ 73
United Kingdom	35	48
Other	40	48
<b>Total</b>	<b>\$ 145</b>	<b>\$ 169</b>

### **Note 3. Acquisitions and Dispositions**

#### *Honeywell Technology Solutions Inc. Acquisition*

On September 16, 2016, we acquired 100% of the outstanding common stock of Honeywell Technology Solutions Inc. ("HTSI") from Honeywell International Inc., which we converted into KBRwyle Technology Solutions, LLC ("KTS"). KTS provides an array of mission-critical services and customized solutions throughout the world, primarily to U.S. government agencies. This acquisition provides KBR with complete life-cycle service capabilities, including high-end technical engineering and mission support, cyber security and logistics and equipment maintenance within our GS business segment.

The aggregate consideration paid for the acquisition was \$300 million, less \$20 million of initial working capital adjustments for net cash consideration of \$280 million, all of which was funded by an advance on our Credit Agreement (as defined in Note 13 to our consolidated financial statements). The final settlement of the working capital adjustments is expected in the first half of 2017. Accordingly, adjustments to the initial purchase accounting for the acquired net assets will likely be completed during the first half of 2017, as we obtain additional information regarding the facts and circumstances that existed as of the acquisition date.

We recognized goodwill of \$131 million arising from the acquisition, which relates primarily to growth opportunities based on a broader service offering of the combined operations, including KTS's specialized technical services and KBR's logistical expertise as well as expected cost synergies. Approximately \$117 million of the goodwill is deductible for income tax purposes. This acquisition is reported within our GS business segment. We recognized acquisition-related costs of \$7 million, which are included in "General and administrative expenses" in our consolidated statement of operations for the year ended December 31, 2016.

The following table summarizes the consideration paid for this acquisition and the fair value of the assets acquired and liabilities assumed as of the acquisition date.

*Dollars in millions*

Fair value of total consideration transferred	\$ 280
Recognized amounts of identifiable assets acquired and liabilities assumed:	
Trade receivables, net	29
CIE	93
Prepays and other current assets	5
Total current assets	127
Property, plant and equipment, net	7
Intangible assets (a):	
Customer relationships	62
Backlog	7
Internally developed software	1
Deferred income taxes	8
Total assets	212
Accounts payable	23
BIE	5
Other current liabilities	35
Total current liabilities	63
Goodwill	\$ 131

(a) These intangible assets are amortized over their estimated useful lives up to 20 years.

KTS's results of operations have been included in our consolidated statements of operations for periods subsequent to the acquisition on September 16, 2016. The acquired KTS business contributed \$146 million of revenues and \$12 million of gross profit for the period from September 16, 2016 through December 31, 2016. In connection with the transaction, we entered into a transition services agreement ("TSA") with the seller for a period of up to six months which primarily relates to payroll processing, human resources, information technology, real estate and other support services provided by the seller.

#### ***Wyle Inc. ("Wyle") Acquisition***

On July 1, 2016, we acquired 100% of the equity interests of Wyle from its shareholders, including Court Square Capital Partners and certain officers of Wyle, pursuant to an agreement and plan of merger. Wyle delivers an array of custom solutions for customers in the U.S. Department of Defense, NASA and other federal agencies. Wyle's expertise includes systems and sustainment engineering, program and acquisition management, life science research, space medical operations, information technology and the testing and evaluation of aircraft, advanced systems and networks. The acquisition combines KBR's strengths in international, large-scale government logistics and support operations with Wyle's specialized technical services, largely focused in the contiguous U.S.

The aggregate consideration paid for the acquisition was \$600 million, including repayment of outstanding balances under Wyle's credit facility and other transaction expenses, plus \$23 million of purchase price adjustments, which resulted in net cash consideration of \$623 million. We funded the total cash paid with a \$400 million advance on our Credit Agreement and available cash on-hand. See Note 13 to our consolidated financial statements for information related to our Credit Agreement.

We recognized goodwill of \$483 million arising from the acquisition, which relates primarily to growth opportunities based on a broader service offering of the combined operations, including Wyle's differentiated technical capabilities and KBR's international program management and logistics expertise. Additionally, goodwill relates to the existence of Wyle's skilled employee base and other expected synergies of the combined operations. Approximately \$107 million of the goodwill is deductible for income tax purposes. Certain data necessary to complete the purchase price allocation is not yet available and primarily relates to final tax returns that provide the underlying tax basis of assets and liabilities. This acquisition is reported within our GS business segment. We recognized acquisition-related costs of \$3 million, which are included in "General and administrative expenses" in our consolidated statement of operations for the year ended December 31, 2016.

The following table summarizes the consideration paid for this acquisition and the fair value of the assets acquired and liabilities assumed as of the acquisition date.

*Dollars in millions*

Fair value of total consideration transferred	\$ 623
Recognized amounts of identifiable assets acquired and liabilities assumed:	
Cash	10
Trade receivables, net	47
CIE	98
Prepays and other current assets	4
Total current assets	159
Property, plant and equipment, net	10
Intangible assets (a):	
Customer relationships	82
Trademarks/trade names	48
Backlog	11
Total assets	310
Accounts payable	59
Other current liabilities	47
Total current liabilities	106
Deferred income taxes	52
Other liabilities	12
Total liabilities	170
Goodwill	<u>\$ 483</u>

- (a) These intangible assets are amortized over their estimated useful lives up to 20 years with the exception of Trademarks/trade names which have an indefinite life.

Wyle's results of operations have been included in our consolidated statements of operations for periods subsequent to the acquisition on July 1, 2016. The acquired Wyle businesses contributed \$341 million of revenues and \$26 million of gross profit for the period from July 1, 2016 through December 31, 2016.

The following supplemental pro forma consolidated results of operations assume that HTSI and Wyle had been acquired as of January 1, 2015. The supplemental pro forma financial information was prepared based on the historical financial information of HTSI and Wyle and has been adjusted to give effect to pro forma adjustments that are directly attributable to the transaction. The pro forma amounts reflect certain adjustments to amortization expense and interest expense associated with the portion of the purchase price funded by a \$700 million advance on our Credit Agreement, and also reflect adjustments to the 2016 results to exclude acquisition related costs as they are nonrecurring and are directly attributable to the transaction.

The supplemental pro forma financial information presented below does not include any anticipated cost savings or expected realization of other synergies associated with the transaction. Accordingly, this supplemental pro forma financial information is presented for informational purposes only and is not necessarily indicative of what the actual results of operations of the combined company would have been had the acquisition occurred on January 1, 2015, nor is it indicative of future results of operations.

<i>Dollars in millions, except per share data</i>	<b>Years ended December 31,</b>	
	<b>2016</b>	<b>2015</b>
	(Unaudited)	
Revenue	\$ 5,129	\$ 6,599
Net income (loss) attributable to KBR	(23)	248
Diluted earnings per share	\$ (0.16)	\$ 1.72

### ***Chematur Subsidiaries Acquisition***

On January 11, 2016, we acquired 100% of the outstanding common stock of three subsidiaries of Connell Chemical Industry LLC (through its subsidiary, Chematur Technologies AB): Plinke GmbH ("Plinke"), Weatherly Inc., ("Weatherly") and Chematur Ecoplanning Oy ("Ecoplanning"). Plinke specializes in proprietary technology and specialist equipment for the purification and concentration of inorganic acids used or produced in hydrocarbon processing facilities. Weatherly provides nitric acid and ammonium nitrate proprietary technologies and services to the fertilizer market. Ecoplanning offers proprietary evaporation and crystallization technologies and specialist equipment for weak acid and base solutions. As a result of this acquisition, we can expand our technology and consulting solutions into new markets while leveraging KBR's global sales and EPC capabilities.

The aggregate consideration paid for the acquisition was \$25 million, less \$2 million of acquired cash and other adjustments resulting in net cash consideration of \$23 million. The consideration paid included an escrow of \$5 million that secures the indemnification obligations of the seller and other contingent obligations related to the operation of the business.

We recognized goodwill of \$24 million arising from the acquisition, which relates primarily to future growth opportunities to extend the acquired technologies outside North America to new customers and in revamping units of the existing customer base globally. None of the goodwill is deductible for income tax purposes. The purchase price allocation is complete. This acquisition is reported within our T&C business segment. We recognized acquisition related costs of \$1 million, which are included in "General and administrative expenses" on our consolidated statement of operations for the year ended December 31, 2016.

The following table summarizes the consideration paid for this acquisition and the fair value of the assets acquired and liabilities assumed as of the acquisition date and subsequent working capital adjustments.

*Dollars in millions*

Fair value of total consideration transferred	\$ 25
Recognized amounts of identifiable assets acquired and liabilities assumed:	
Cash	2
Trade receivables, net	5
CIE	8
Prepays and other current assets	5
Total current assets	20
Intangible assets (a):	
Developed technology	10
Customer relationships	7
Trademarks/trade names	2
Other assets	1
Total assets	40
Accounts payable	2
BIE	15
Other current liabilities	7
Total current liabilities	24
Deferred income taxes	10
Other liabilities	5
Total liabilities	39
Goodwill	\$ 24

(a) These intangible assets are amortized over their estimated useful lives up to 20 years with the exception of Trademarks/trade names which have an indefinite life.

As a result of this acquisition, \$28 million of revenue and a gross profit of \$1 million were included in our consolidated statements of operations as of December 31, 2016.

### ***Dispositions***

In December 2015, we finalized the sale of our Infrastructure Americas business to Stantec Consulting Services Inc. for net cash proceeds, including working capital adjustments, of \$18 million. The sale of this business within our Non-strategic Business segment is consistent with our restructuring plans announced in December 2014. The disposition resulted in a pretax gain of \$7 million and is subject to finalization of certain indemnification claims. The gain on this transactions is included under "gain on disposition of assets" on our consolidated statements of operations.

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

#### Note 4. 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:

<i>Dollars in millions</i>	December 31, 2016		
	International (a)	Domestic (b)	Total
Operating cash and equivalents	\$ 163	\$ 242	\$ 405
Short-term investments (c)	68	7	75
Cash and equivalents held in joint ventures	50	6	56
Total	<u>\$ 281</u>	<u>\$ 255</u>	<u>\$ 536</u>

  

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

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

#### Note 5. Accounts Receivable

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

<i>Dollars in millions</i>	December 31, 2016		
	Retainage	Trade & Other	Total
Government Services	\$ 6	\$ 190	\$ 196
Technology & Consulting	—	52	52
Engineering & Construction	53	276	329
Other	—	3	3
Subtotal	<u>59</u>	<u>521</u>	<u>580</u>
Non-strategic Business	5	7	12
Total	<u>\$ 64</u>	<u>\$ 528</u>	<u>\$ 592</u>

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

**Note 6. 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:

<i>Dollars in millions</i>	December 31,	
	2016	2015
Government Services	\$ 271	\$ 68
Technology & Consulting	30	42
Engineering & Construction (a)	115	114
Subtotal	416	224
Non-strategic Business	—	—
Total	\$ 416	\$ 224

Our BIE balances by business segment are as follows:

<i>Dollars in millions</i>	December 31,	
	2016	2015
Government Services	\$ 76	\$ 69
Technology & Consulting	61	72
Engineering & Construction	388	307
Subtotal	525	448
Non-strategic Business	27	61
Total	\$ 552	\$ 509

***Unapproved change orders and claims***

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

<i>Dollars in millions</i>	2016	2015
Amounts included in project estimates-at-completion at January 1,	\$ 46	\$ 31
Additions	19	71
Approved change orders	(37)	(42)
Adjustment due to disposition of business	—	(14)
Amounts included in project estimates-at-completion at December 31,	\$ 28	\$ 46
Amounts recorded in revenues on a percentage-of-completion basis at December 31,	\$ 28	\$ 41

The table above excludes unapproved change orders and claims revenue related to our unconsolidated affiliates. Our proportionate share of unapproved change orders and claims as described below was \$257 million as of December 31, 2016 and \$58 million as of December 31, 2015 on the Ichthys LNG project in our E&C business segment.

*Ichthys LNG project.* We have a 30% ownership in an Australian joint venture (the “Ichthys JV”) which has contracted to perform the engineering, procurement, supply, construction and commissioning of onshore LNG facilities for a client in Darwin, Australia. The contract between the Ichthys JV and its client is a hybrid contract containing both cost-reimbursable and fixed-price (including unit-rate) scopes. See Note 11 to our consolidated financial statements for more discussion on this joint venture.

The Ichthys JV has entered into commercial contracts with multiple subcontractors to execute various scopes of work on the project. Certain of these subcontractors have made contract claims against the Ichthys JV for recovery of costs and an extension of time in order to progress the works under the scope of their respective contracts due to a variety of issues related to changes to the scope of work, delays and lower than planned subcontractor productivity. Some of these claims relate to cost-reimbursable work between the Ichthys JV and its client while other claims relate to fixed-price scopes of work, including unit-rate components.

We believe any amounts paid or payable to the subcontractors in settlement of their contract claims related to cost-reimbursable scopes of work is an adjustment to the contract price in the contract between the Ichthys JV and its client, however, the client has disputed this contract price adjustment. In order to facilitate the continuation of work under the contract while we work to resolve this dispute, the client has agreed to a contractual mechanism (“Deed of Settlement”) providing funding in the form of an interim contract price adjustment to the Ichthys JV for settlement of subcontractor claims related to cost-reimbursable scopes of work. The Ichthys JV has settled the subcontractor claims relating to cost-reimbursable work covered by the Deed of Settlement and will pursue resolution of unapproved change orders and claims which were not covered by the Deed of Settlement through direct negotiation with the client.

As of December 31, 2016, the total amount of contract price adjustments included in the estimates of revenues and costs at completion for the project is \$857 million, of which \$557 million is covered by the Deed of Settlement and \$300 million related to unapproved change orders and claims which the Ichthys JV continues to pursue with its client. Our proportionate share of the total amount of the contract price adjustments, included in the unapproved change orders and claims related to our unconsolidated affiliates discussed above, is \$257 million, of which \$167 million relates to the Deed of Settlement and \$90 million relates to the remaining change orders and claims. To date, we have submitted change orders and claims to the client that exceed the amounts included in our estimates of contract revenue at completion. There may be additional interim contract price adjustments in future periods, including additions to the Deed of Settlement. There were no such contract price adjustments in 2015 or 2014.

If the Ichthys JV does not resolve the differences with its client by December 31, 2020, it will be required to refund sums in excess of the final adjusted contract price with the client under the terms of the Deed of Settlement. We, along with our joint venture partners, are jointly and severally liable to the client for any amounts required to be refunded. The Ichthys JV may file for arbitration against the client to resolve any open reimbursable subcontractor claims prior to December 31, 2020.

It is anticipated that these commercial matters may not be resolved in the near term. If these matters are not resolved for the amounts recorded, or to the extent the Ichthys JV is not successful in recovering amounts contractually due under the Deed of Settlement, it could have an adverse effect on our results of operations, financial position and cash flows.

On January 25, 2017, the Ichthys JV received Notice of Termination from the UGL-CH2M Hill JV Consortium subcontractor (the “Consortium”). The subcontract is a fixed-price contract for the design, construction and commissioning of a combined cycle power plant on the Ichthys LNG project site. The power plant is approximately 89% complete. The Ichthys JV believes the Consortium breached its contract and will seek to enforce remedies contained within such subcontract. We are currently evaluating the estimated cost to complete the Consortium’s work, which is likely to exceed the subcontract value. As a result, the Ichthys JV will pursue recourse against the Consortium to recover the amounts needed to complete the subcontractor’s obligation, inclusive of calling bank guarantees (bonds) provided by the Consortium. We expect the Consortium to challenge the Ichthys JV’s recourse actions. If the Ichthys JV is unsuccessful in recovering such costs, we would be responsible for our pro rata portion of unrecovered costs which could have a material adverse impact on our consolidated statements of operations, financial position and cash flow.

### ***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. Any accrued liquidated damages are recognized as a reduction in revenues in our consolidated statements of operations.



It is possible that liquidated damages related to several projects totaling \$8 million at December 31, 2016 and \$6 million at December 31, 2015 could be incurred if the projects are completed as currently forecasted. However, based upon our evaluation of our performance, we have concluded these liquidated damages are not probable and therefore, they have not been recognized.

#### Note 7. Claims and Accounts Receivable

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

<i>Dollars in millions</i>	December 31,	
	2016	2015
Government Services	\$ 131	\$ 126
Engineering & Construction	—	400
<b>Total</b>	<b>\$ 131</b>	<b>\$ 526</b>

Our GS business segment's claims and accounts receivable reflect claims filed with the U.S. government related to payments not yet received for cost incurred under various U.S. government contracts. These claims relate to disputed costs or contracts where our costs have exceeded the U.S. government's funded value on the task order. Included in the amount above is \$83 million as of December 31, 2016 and 2015, related to Form 1s issued by the U.S. government questioning or objecting to costs billed to them. See Note 15 of our consolidated financial statements for further discussion. The amount above also includes \$48 million and \$43 million as of December 31, 2016 and 2015, respectively, related to contracts where our costs have exceeded the U.S. government's funded values on the underlying task orders or task orders where the U.S. government has not authorized us to bill. We believe such disputed costs will be resolved in our favor at which time the U.S. government will be required to obligate funds from appropriations for the year in which resolution occurs.

Our E&C business segment's claims and accounts receivable related to our EPC 1 arbitration is expected to be settled in 2017 and has been reclassified to "Claims receivable" on our consolidated balance sheets as of December 31, 2016. See Note 16 to our consolidated financial statements under PEMEX and PEP Arbitration for further discussion.

#### Note 8. Property, Plant and Equipment

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

<i>Dollars in millions</i>	Estimated Useful Lives in Years	December 31,	
		2016	2015
Land	N/A	\$ 7	\$ 7
Buildings and property improvements	5 - 44	124	140
Equipment and other	3 - 25	338	374
<b>Total</b>		<b>469</b>	<b>521</b>
Less accumulated depreciation		(324)	(352)
<b>Net property, plant and equipment</b>		<b>\$ 145</b>	<b>\$ 169</b>

See Note 10 to our consolidated financial statements for discussion on asset impairment.

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

Depreciation expense was \$31 million, \$35 million and \$61 million for the years ended December 31, 2016, 2015 and 2014, respectively.

## Note 9. Goodwill and Intangible Assets

### Goodwill

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

<i>Dollars in millions</i>	<b>Government Services</b>	<b>Technology &amp; Consulting</b>	<b>Engineering &amp; Construction</b>	<b>Other</b>	<b>Subtotal</b>	<b>Non- strategic Business</b>	<b>Total</b>
<b>Balance as of January 1, 2015:</b>							
Gross goodwill	\$ 60	\$ 31	\$ 526	\$ —	\$ 617	\$ 331	\$ 948
Accumulated impairment losses	—	—	(293)	—	(293)	(331)	(624)
Net goodwill as of January 1, 2015	\$ 60	\$ 31	\$ 233	\$ —	\$ 324	\$ —	\$ 324
Impairment loss	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Net foreign exchange difference	—	—	—	—	—	—	—
<b>Balances as of December 31, 2015:</b>							
Gross goodwill	\$ 60	\$ 31	\$ 526	\$ —	\$ 617	\$ 331	\$ 948
Accumulated impairment losses	—	—	(293)	—	(293)	(331)	(624)
Net goodwill as of December 31, 2015	\$ 60	\$ 31	\$ 233	\$ —	\$ 324	\$ —	\$ 324
Goodwill acquired during the period	\$ 614	\$ 24	\$ —	\$ —	\$ 638	\$ —	\$ 638
Impairment loss	—	—	—	—	—	—	—
Net foreign exchange difference	—	(3)	—	—	(3)	—	(3)
<b>Balance as of December 31, 2016:</b>							
Gross goodwill	\$ 674	\$ 52	\$ 526	\$ —	\$ 1,252	\$ 331	\$ 1,583
Accumulated impairment losses	—	—	(293)	—	(293)	(331)	(624)
Net goodwill as of December 31, 2016	\$ 674	\$ 52	\$ 233	\$ —	\$ 959	\$ —	\$ 959

## Intangible Assets

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

*Dollars in millions*

	December 31, 2016			
	Weighted Average Remaining Useful Lives	Intangible Assets, Gross	Accumulated Amortization	Intangible Assets, Net
Trademarks/trade names	Indefinite	\$ 60	\$ —	\$ 60
Customer relationships	14	199	(47)	152
Developed technologies	10	46	(33)	13
Other	1	43	(20)	23
<b>Total intangible assets</b>		<b>\$ 348</b>	<b>\$ (100)</b>	<b>\$ 248</b>

	December 31, 2015			
	Weighted Average Remaining Useful Lives	Intangible Assets, Gross	Accumulated Amortization	Intangible Assets, Net
Trademarks/trade names	Indefinite	\$ 11	\$ —	\$ 11
Customer relationships	3	48	(40)	8
Developed technologies	11	35	(33)	2
Other	9	32	(18)	14
<b>Total intangible assets</b>		<b>\$ 126</b>	<b>\$ (91)</b>	<b>\$ 35</b>

Intangibles that are not subject to amortization are reviewed annually for impairment or more often if events or circumstances change that would create a triggering event. Intangibles subject to amortization are impaired if the carrying value of the intangible is not recoverable and exceeds its fair value. See Note 3 to our consolidated financial statements for discussion on additions of intangible assets.

Our intangibles amortization expense is presented below:

<i>Dollars in millions</i>	Years ended December 31,		
	2016	2015	2014
Intangibles amortization expense	\$ 14	\$ 4	\$ 11

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

<i>Dollars in millions</i>	Expected future intangibles amortization expense
2017	\$ 22
2018	\$ 14
2019	\$ 13
2020	\$ 11
2021	\$ 9
Beyond 2021	\$ 119

## Note 10. Asset Impairment and Restructuring

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

<i>Dollars in millions</i>	Years ended December 31,		
	2016	2015	2014
<b>Asset impairment:</b>			
Government Services	\$ —	\$ —	\$ —
Technology & Consulting	—	—	—
Engineering & Construction	10	8	1
Other	7	21	139
Subtotal	17	29	140
Non-strategic Business	—	2	31
Total	\$ 17	\$ 31	\$ 171
<b>Restructuring charges:</b>			
Government Services	\$ 1	\$ —	\$ 5
Technology & Consulting	1	10	2
Engineering & Construction	20	26	23
Other	—	1	10
Subtotal	22	37	40
Non-strategic Business	—	2	3
Total	\$ 22	\$ 39	\$ 43
<b>Asset impairment and restructuring charges:</b>			
Total	\$ 39	\$ 70	\$ 214

Asset impairment charges include the following:

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

*Intangible assets* - No intangibles were considered impaired during 2015 and 2016. During 2014, we recorded noncash impairment charges of \$31 million related to certain intangible assets within our Non-strategic Business segment. See Note 9 to our consolidated financial statements for additional information on intangibles.

*Leasehold improvements* - During 2016 and 2015, we recorded \$17 million and \$9 million, respectively, primarily within our E&C and Other business segments related to asset impairments on abandoned office space. During 2014, we recorded a charge of \$5 million within our Other and E&C business segments related to the impairment of leasehold improvements and other property associated with the terminated leases discussed below.

Restructuring charges include the following:

*Early Termination of leases* - During 2016 and 2015, we recorded additional charges of \$4 million and \$12 million, respectively, on early lease terminations within our E&C and Other business segments. During 2014, we recognized a charge of \$14 million on early termination of operating leases within our E&C, GS and Non-strategic Business segments.

*Severance* - As presented below, we recognized severance charges of \$18 million, \$27 million and \$29 million during each of the twelve months ended December 31, 2016, 2015 and 2014, respectively, associated with workforce reductions.

## Severance Accrual

In connection with our long-term strategic reorganization, we announced that beginning in the fourth quarter of 2014 we would undertake a restructuring, which would include actions such as reducing the amount of real estate we utilized and significantly reducing our workforce. There were additional actions undertaken in 2015 and 2016, including staff reductions to support current business levels. The table below provides a rollforward of one-time charges associated with employee terminations based on the fair value of the termination benefits. These amounts are included in "other current liabilities" on our consolidated balance sheets.

<i>Dollars in millions</i>	<b>Severance Accrual</b>
Balance at December 31, 2014	\$ 21
Charges	27
Payments	(29)
Balance at December 31, 2015	\$ 19
Charges	18
Payments	(29)
Balance at December 31, 2016	\$ 8

## Note 11. Equity Method Investments and Variable Interest Entities

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

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

<i>Dollars in millions</i>	<b>2016</b>	<b>2015</b>
Balance at January 1,	\$ 281	\$ 151
Equity in earnings of unconsolidated affiliates	91	149
Distributions of earnings of unconsolidated affiliates (a)	(56)	(92)
Advances (receipts)	1	(10)
Investments (b)	61	80
Foreign currency translation adjustments	(8)	(9)
Other	(8)	1
Balance before reclassification	362	270
Reclassification of excess distributions (a)	12	16
Recognition of excess distributions (a)	(5)	(5)
Balance at December 31,	\$ 369	\$ 281

- (a) We received cash dividends in excess of the carrying value of one of our investments. We have no obligation to return any portion of the cash dividends received. We recorded the excess dividend amount as "deferred income from unconsolidated affiliates" on our consolidated balance sheets and recognize these dividends as earnings are generated by the investment.
- (b) In 2016, investments included a \$56 million investment in the Brown & Root Industrial Services joint venture and a \$5 million investment in EPIC Piping LLC ("EPIC") joint venture. In 2015, investments included a \$58 million investment in the Brown & Root Industrial Services joint venture, a \$24 million investment in EPIC, and the disposition of a joint venture included in the sale of the Building Group.

## ***Equity Method Investments***

### ***New Investments***

In February 2016, Affinity Flying Training Services Ltd. ("Affinity"), a joint venture between KBR and Elbit Systems, was awarded a service contract by a third party to procure, operate and maintain aircraft and aircraft-related assets over an 18-year contract period, in support of the U.K. Military Flying Training System ("UKMFTS") project. KBR owns a 50% interest in Affinity. In addition, KBR owns a 50% interest in the two joint ventures, Affinity Capital Works and Affinity Flying Services, which provide procurement, operations and management support services under subcontracts with Affinity. The remaining 50% interest in these entities is held by Elbit Systems. KBR has provided its proportionate share of certain limited financial and performance guarantees in support of the partners' contractual obligations. The three project-related entities are VIEs; however, KBR is not the primary beneficiary of any of these entities. We account for KBR's interests in each entity using the equity method of accounting within our GS business segment. The project is funded through KBR and Elbit Systems provided equity, subordinated debt and non-recourse third party commercial bank debt. During the first quarter of 2016, under the terms of the subordinated debt agreement between the partners and Affinity, we advanced our proportionate share, or \$14 million, to meet initial working capital needs of the venture. We expect repayment on the advance and the associated interest over the term of the project. The amount is included in the "equity in and advances to unconsolidated affiliates" balance on our consolidated balance sheets as of December 31, 2016 and in "(advances to) payments from unconsolidated affiliates, net" in our consolidated statement of cash flows for the twelve months ended December 31, 2016.

### ***Other***

On September 30, 2015, we executed an agreement with Bernhard Capital Partners ("BCP"), a private equity firm, to establish the Brown & Root Industrial Services joint venture in North America. In connection with the formation of the joint venture, we contributed our Industrial Services Americas business and received cash consideration of \$48 million and a 50% interest in the joint venture. As a result of the transaction, we no longer have a controlling interest in this Industrial Services business and have deconsolidated it effective September 30, 2015. The transaction resulted in a pre-tax gain of \$7 million, which is included in "gain on disposition of assets" on our consolidated statements of operations. The fair value of our retained interest in the former business was determined using both a market approach and an income approach. Cash consideration was the primary input used for the market approach.

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

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

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

*Summarized financial information*

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

**Balance Sheets**

<i>Dollars in millions</i>	December 31,	
	2016	2015
Current assets	\$ 2,655	\$ 2,331
Noncurrent assets	3,003	3,435
Total assets	<u>\$ 5,658</u>	<u>\$ 5,766</u>
Current liabilities	\$ 1,657	\$ 1,501
Noncurrent liabilities	3,148	3,742
Total liabilities	<u>\$ 4,805</u>	<u>\$ 5,243</u>

**Statements of Operations**

<i>Dollars in millions</i>	Years ended December 31,		
	2016	2015	2014
Revenues	\$ 5,877	\$ 5,245	\$ 6,439
Operating income	\$ 365	\$ 635	\$ 659
Net income	\$ 192	\$ 476	\$ 419

**Unconsolidated Variable Interest Entities**

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

<i>Dollars in millions</i>	December 31, 2016		
	Total Assets	Total Liabilities	Maximum Exposure to Loss
Affinity project	\$ 12	\$ 3	\$ 12
Aspire Defence project	\$ 14	\$ 107	\$ 14
Ichthys LNG project	\$ 124	\$ 33	\$ 124
U.K. Road projects	\$ 30	\$ 9	\$ 30
EBIC Ammonia plant (65% interest)	\$ 34	\$ 2	\$ 22

<i>Dollars in millions</i>	December 31, 2015		
	Total Assets	Total Liabilities	Maximum Exposure to Loss
Aspire Defence project	\$ 17	\$ 121	\$ 17
Ichthys LNG project	\$ 87	\$ 63	\$ 87
U.K. Road projects	\$ 34	\$ 11	\$ 34
EBIC Ammonia plant (65% interest)	\$ 36	\$ 2	\$ 22

*Aspire Defence project.* In April 2006, Aspire Defence, a joint venture between KBR and two financial investors, was awarded a privately financed project contract by the U.K. Ministry of Defence ("MoD") to upgrade and provide a range of services to the British Army's garrisons at Aldershot and around Salisbury Plain in the U.K. In addition to a package of ongoing services to be delivered over 35 years, the project includes a nine-year construction program to improve soldiers' single living, technical and administrative accommodations, along with leisure and recreational facilities. Aspire Defence manages the existing properties and is responsible for design, refurbishment, construction and integration of new and modernized facilities. We indirectly own a 45% interest in Aspire Defence, the project company that is the holder of the 35-year concession contract. In addition, we own a 50% interest in each of two joint ventures that provide the construction and the related support services to Aspire Defence. Our financial and performance guarantees are joint and several, subject to certain limitations, with our joint venture partners. The project is funded through equity and subordinated debt provided by the project sponsors and the issuance of publicly held senior bonds which are nonrecourse to us. The entities we hold an interest in are VIEs; however, we are not the primary beneficiary of these entities. We account for our interests in each of the entities using the equity method of accounting. As of December 31, 2016, included in our GS segment, our assets and liabilities associated with our investment in this project, within our consolidated balance sheets, were \$14 million and \$107 million, respectively. Our maximum exposure to loss of \$14 million indicated in the table above is limited to our equity interest and amounts payable to us for services provided to the entity as of December 31, 2016. Our maximum exposure to construction and operating joint venture losses is limited to our proportionate share of any amounts required to fund future losses incurred by those entities under their respective contracts with the project company.

*Ichthys LNG project.* In January 2012, we formed a joint venture to provide EPC services to construct the Ichthys Onshore LNG Export Facility in Darwin, Australia ("Ichthys LNG project"). The project is being executed through two joint ventures, which are VIEs, in which we own a 30% equity interest. We account for our investments using the equity method of accounting. At December 31, 2016, our assets and liabilities associated with our investment in this project recorded in our consolidated balance sheets under our E&C business segment were \$124 million and \$33 million, respectively. Our maximum exposure to loss of \$124 million indicated in the table above is limited to our equity interest and amounts payable to us for services provided to the entity as of December 31, 2016. We also have exposure to loss as a result of commercial agreements entered into by the Ichthys JV with its client and with its subcontractors. See Note 6 to our consolidated financial statements for further discussion on unapproved change orders and claims related to this project.

*U.K. Road projects.* We are involved in four privately financed projects, executed through joint ventures, to design, build, operate and maintain roadways for certain government agencies in the U.K. We have a 25% ownership interest in each of these joint ventures and account for them using the equity method of accounting. The joint ventures have obtained financing through third parties that is nonrecourse to the joint venture partners. These joint ventures are VIEs; however, we are not the primary beneficiary. At December 31, 2016, included in our GS business segment, our assets and liabilities associated with our investment in this project recorded in our consolidated balance sheets were \$30 million and \$9 million, respectively. Our maximum exposure to loss represents our equity investments in these ventures.

*EBIC Ammonia project.* We have an investment in a development corporation that has an indirect interest in the Egypt Basic Industries Corporation ("EBIC") ammonia plant project located in Egypt. We performed the EPC work for the project and completed our operations and maintenance services for the facility in the first half of 2012. We own 65% of this development corporation and consolidate it for financial reporting purposes. The development corporation owns a 25% ownership interest in a company that consolidates the ammonia plant which is considered a VIE. The development corporation accounts for its investment in the company using the equity method of accounting. The VIE is funded through debt and equity. Indebtedness of EBIC under its debt agreement is nonrecourse to us. We are not the primary beneficiary of the VIE. As of December 31, 2016, included in our E&C business segment, our assets and liabilities associated with our investment in this project, within our consolidated balance sheets, were \$34 million and \$2 million, respectively. Our maximum exposure to loss of \$22 million indicated in the table above is limited to our proportionate share of the equity investment and amounts payable to us for services provided to the entity as of December 31, 2016.



### Related Party Transactions

We often provide engineering, construction management and other subcontractor services to our joint ventures and our revenues include amounts related to these services. For the years ended December 31, 2016, 2015 and 2014, our revenues included \$235 million, \$291 million and \$351 million, respectively, related to services we provided to our joint ventures, primarily those in our E&C business segment. Under the terms of our TSA with Brown & Root Industrial Services joint venture, we collect cash from customers and make payments to vendors and employees on behalf of the joint venture. For the years ended December 31, 2016 and 2015, we incurred approximately \$16 million and \$3 million, respectively, of reimbursable costs under the TSA. Also in 2015, we entered into an alliance agreement with our EPIC joint venture to provide certain pipe fabrication services to KBR. For the years ended December 31, 2016 and 2015, EPIC performed \$25 million and \$8 million, respectively, of services to KBR under the agreement. Amounts included in our consolidated balance sheets related to services we provided to our unconsolidated joint ventures for the years ended December 31, 2016 and 2015 are as follows:

<i>Dollars in millions</i>	December 31,	
	2016	2015
Accounts receivable (a)	\$ 22	\$ 7
Costs and estimated earnings in excess of billings on uncompleted contracts (b)	\$ 1	\$ 5
Billings in excess of costs and estimated earnings on uncompleted contracts (b)	\$ 41	\$ 55
Accounts payable (c)	\$ —	\$ 9

(a) Includes a \$11 million net receivable from the Brown & Root Industrial Services joint venture at December 31, 2016.

(b) Reflects CIE and BIE primarily related to joint ventures within our E&C business segment as discussed above.

(c) Reflects a \$9 million net payable to the Brown & Root Industrial Services joint venture at December 31, 2015.

### 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:

<i>Dollars in millions</i>	December 31, 2016	
	Total Assets	Total Liabilities
Gorgon LNG project	\$ 28	\$ 60
Escravos Gas-to-Liquids project	\$ 11	\$ 22
Fasttrax Limited project	\$ 56	\$ 50

<i>Dollars in millions</i>	December 31, 2015	
	Total Assets	Total Liabilities
Gorgon LNG project	\$ 117	\$ 145
Escravos Gas-to-Liquids project	\$ 16	\$ 33
Fasttrax Limited project	\$ 74	\$ 70

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

*Escravos Gas-to-Liquids ("GTL") project.* During 2005, we formed a joint venture to engineer and construct a gas monetization facility in Escravos, Nigeria, which was completed in 2014. We own a 50% equity interest in the joint venture and determined that we are the primary beneficiary; accordingly, we have consolidated the joint venture for financial reporting purposes. There are no consolidated assets that collateralize the joint venture's obligations. However, at December 31, 2016 and 2015, the joint venture had approximately \$8 million and \$7 million of cash, respectively, which mainly relates to advanced billings in connection with the joint venture's obligations under the EPC contract that is expected to be fully closed out in 2017.

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

The purchase of the HETs by the joint venture was financed through two series of bonds secured by the assets of Fasttrax Limited and a bridge loan totaling approximately £84.9 million (approximately \$120 million at the exchange rate on the date of the transaction). The secured bonds are an obligation of Fasttrax Limited and are not a debt obligation of KBR as they are nonrecourse to the joint venture partners. Accordingly, in the event of a default on the notes, the lenders may only look to the assets of Fasttrax Limited for repayment. The bridge loan of approximately £12.2 million (approximately \$17 million at the exchange rate on the date of the transaction) was replaced when the joint venture partners funded their equity and subordinated debt contributions in 2005. Assets collateralizing Fasttrax's senior bonds include cash and equivalents of \$15 million and net property, plant and equipment of approximately \$36 million as of December 31, 2016. See Note 13 to our consolidated financial statements for further details regarding our nonrecourse project-finance debt of this VIE consolidated by KBR, including the total amount of debt outstanding at December 31, 2016.

### ***Acquisition of Noncontrolling Interest***

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

### **Note 12. Pension Plans**

We have elective defined contribution plans for our employees in the U.S. and retirement savings plans for our employees in the U.K., Canada and other locations. Our defined contribution plans provide retirement benefits in return for services rendered. These plans provide an individual account for each participant and have terms that specify how contributions to the participant's account are to be determined rather than the amount of retirement benefits the participant is to receive. Contributions to these plans are based on pretax income discretionary amounts determined on an annual basis. Our expense for the defined contribution plans totaled \$51 million in 2016, \$67 million in 2015 and \$72 million in 2014.

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

### *Benefit obligations and plan assets*

We used a December 31 measurement date for all plans in 2016 and 2015. Plan assets, expenses and obligations for retirement plans are presented in the following tables.

<i>Dollars in millions</i>	United States		Int'l	
	2016		2015	
<b>Change in projected benefit obligations:</b>				
Projected benefit obligations at beginning of period	\$ 75	\$ 1,849	\$ 87	\$ 2,138
Acquisitions	12	3	—	—
Service cost	—	1	—	2
Interest cost	3	63	2	76
Foreign currency exchange rate changes	—	(304)	(3)	(174)
Actuarial (gain) loss	—	448	—	(112)
Other	—	(1)	—	—
Benefits paid	(15)	(89)	(11)	(81)
<b>Projected benefit obligations at end of period</b>	<b>\$ 75</b>	<b>\$ 1,970</b>	<b>\$ 75</b>	<b>\$ 1,849</b>
<b>Change in plan assets:</b>				
Fair value of plan assets at beginning of period	\$ 59	\$ 1,532	\$ 66	\$ 1,652
Acquisitions	8	—	—	—
Actual return on plan assets	3	235	(1)	8
Employer contributions	1	40	5	43
Foreign currency exchange rate changes	—	(255)	—	(90)
Benefits paid	(15)	(89)	(11)	(81)
Other	—	—	—	—
<b>Fair value of plan assets at end of period</b>	<b>\$ 56</b>	<b>\$ 1,463</b>	<b>\$ 59</b>	<b>\$ 1,532</b>
<b>Funded status</b>	<b>\$ (19)</b>	<b>\$ (507)</b>	<b>\$ (16)</b>	<b>\$ (317)</b>

<i>Dollars in millions</i>	United States		Int'l	
	2016		2015	
<b>Amounts recognized on the consolidated balance sheets</b>				
Pension obligations	\$ 19	\$ 507	\$ 16	\$ 317

### *Net periodic cost*

<i>Dollars in millions</i>	United States		Int'l		United States		Int'l	
	2016		2015		2014			
<b>Components of net periodic benefit cost</b>								
Service cost	\$ —	\$ 1	\$ —	\$ 2	\$ —	\$ 2		
Interest cost	3	63	2	76	3	90		
Expected return on plan assets	(3)	(87)	(3)	(97)	(4)	(102)		
Settlements/curtailments	1	—	—	—	1	—		
Recognized actuarial loss	1	28	5	43	3	39		
<b>Net periodic benefit cost</b>	<b>\$ 2</b>	<b>\$ 5</b>	<b>\$ 4</b>	<b>\$ 24</b>	<b>\$ 3</b>	<b>\$ 29</b>		

The amounts in accumulated other comprehensive loss that have not yet been recognized as components of net periodic benefit cost at December 31, 2016 and 2015, net of tax were as follows:

<i>Dollars in millions</i>	United States		Int'l	
	2016		2015	
Unrecognized actuarial loss, net of tax of \$10 and \$244, and \$11 and \$198, respectively	\$ 24	\$ 761	\$ 25	\$ 535
Total in accumulated other comprehensive loss	\$ 24	\$ 761	\$ 25	\$ 535

Estimated amounts that will be amortized from accumulated other comprehensive income, net of tax, into net periodic benefit cost in 2017 are as follows:

<i>Dollars in millions</i>	United States	Int'l
Actuarial loss	\$ 1	\$ 24
Total	\$ 1	\$ 24

**Weighted-average assumptions used to determine net periodic benefit cost**

	United States		Int'l		United States		Int'l	
	2016		2015		2014			
Discount rate	3.42%	3.75%	2.89%	3.65%	3.38%	4.45%		
Expected return on plan assets	5.00%	6.10%	4.81%	6.25%	5.28%	6.45%		

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

	United States		Int'l	
	2016		2015	
Discount rate	3.73%	2.60%	3.42%	3.75%

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

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

The target asset allocation for our U.S. and International plans for 2017 is as follows:

Asset Allocation	2017 Targeted	
	United States	Int'l
Equity funds and securities	53%	20%
Fixed income funds and securities	46%	38%
Hedge funds	—%	21%
Real estate funds	1%	5%
Other	—%	16%
Total	100%	100%

The range of targeted asset allocations for our International plans for 2017 and 2016, by asset class, are as follows:

International Plans	2017 Targeted		2016 Targeted	
	Percentage Range		Percentage Range	
	Minimum	Maximum	Minimum	Maximum
Equity funds and securities	—%	60%	—%	60%
Fixed income funds and securities	—%	100%	—%	100%
Hedge funds	—%	35%	—%	35%
Real estate funds	—%	10%	—%	10%
Other	—%	20%	—%	20%

The range of targeted asset allocations for our U.S. plans for 2017 and 2016, by asset class, are as follows:

Domestic Plans	2017 Targeted		2016 Targeted	
	Percentage Range		Percentage Range	
	Minimum	Maximum	Minimum	Maximum
Cash and cash equivalents	—%	—%	19%	19%
Equity funds and securities	52%	55%	49%	49%
Fixed income funds and securities	44%	47%	32%	32%
Real estate funds	1%	1%	—%	—%

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

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

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

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

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

<i>Dollars in millions</i>	Fair Value Measurements at Reporting Date			
	Total	Level 1	Level 2	Level 3
<b>Asset Category at December 31, 2016</b>				
<u>United States plan assets</u>				
Investments measured at net asset value	\$ 56	\$ —	\$ —	\$ —
Total United States plan assets	\$ 56	\$ —	\$ —	\$ —
<u>International plan assets</u>				
Equities	\$ 76	\$ 60	\$ —	\$ 16
Fixed income	12	—	—	12
Real estate	4	—	—	4
Cash and cash equivalents	8	8	—	—
Other	50	—	—	50
Investments measured at net asset value	1,313	—	—	—
Total international plan assets	\$ 1,463	\$ 68	\$ —	\$ 82
Total plan assets at December 31, 2016	\$ 1,519	\$ 68	\$ —	\$ 82

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

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

***Level 3 fair value measurement rollforward***

<i>Dollars in millions</i>	<b>Total</b>	<b>Equities</b>	<b>Fixed Income</b>	<b>Real Estate</b>	<b>Other</b>
<b>International plan assets</b>					
Balance as of December 31, 2014	\$ 42	\$ 6	\$ 11	\$ 12	\$ 13
Return on assets held at end of year	2	1	—	(2)	3
Return on assets sold during the year	5	—	—	5	—
Purchases, sales and settlements	(1)	5	4	(8)	(2)
Foreign exchange impact	(3)	—	(1)	(1)	(1)
Balance as of December 31, 2015	\$ 45	\$ 12	\$ 14	\$ 6	\$ 13
Return on assets held at end of year	14	1	1	1	11
Return on assets sold during the year	—	—	—	—	—
Purchases, sales and settlements, net	32	5	(1)	(3)	31
Foreign exchange impact	(9)	(2)	(2)	—	(5)
Balance as of December 31, 2016	\$ 82	\$ 16	\$ 12	\$ 4	\$ 50

***Expected cash flows***

**Contributions.** Funding requirements for each plan are determined based on the local laws of the country where such plans reside. In certain countries the funding requirements are mandatory while in other countries they are discretionary. We expect to contribute \$36 million to our pension plans in 2017.

**Benefit payments.** The following table presents the expected benefit payments over the next 10 years.

<i>Dollars in millions</i>	<b>Pension Benefits</b>	
	<b>United States</b>	<b>Int'l</b>
2017	\$ 5	\$ 48
2018	\$ 5	\$ 50
2019	\$ 5	\$ 51
2020	\$ 5	\$ 52
2021	\$ 5	\$ 53
Years 2022 – 2026	\$ 25	\$ 287

***Multiemployer Pension Plans***

We participate in multiemployer plans in Canada. Generally, the plans provide defined benefits to substantially all employees covered by collective bargain agreements. Under the terms of these agreements, our obligations are discharged upon plan contributions and are not subject to any assessments for unfunded liabilities upon our termination or withdrawal.

Our aggregate contributions to these plans were \$1 million in 2016, \$8 million in 2015 and \$29 million in 2014. At December 31, 2016, none of the plans in which we participate is individually significant to our consolidated financial statements.

***Deferred Compensation Plans***

Our Elective Deferral Plan is a nonqualified deferred compensation program that provides benefits payable to officers, certain key employees or their designated beneficiaries and non-employee directors at specified future dates, upon retirement, or death. Except for \$7 million and \$8 million of mutual funds included in "other assets" on our consolidated balance sheets at December 31, 2016 and 2015, respectively, designated for a portion of our employee deferral plan, the plan is unfunded. The mutual funds are carried at fair value which includes readily determinable or published net asset values and may be liquidated in the near term without restrictions.

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

<i>Dollars in millions</i>	December 31,	
	2016	2015
Deferred compensation plans obligations	\$ 70	\$ 70

### Note 13. Debt and Other Credit Facilities

#### *Credit Agreement*

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

Amounts drawn under the Credit Agreement will bear interest at variable rates, per annum, based either on (i) the London interbank offered rate ("LIBOR") plus an applicable margin of 1.375% to 1.75%, or (ii) a base rate plus an applicable margin of 0.375% to 0.75%, with the base rate equal to the highest of (a) reference bank's publicly announced base rate, (b) the Federal Funds Rate plus 0.5%, or (c) LIBOR plus 1%. The amount of the applicable margin to be applied will be determined by the Company's ratio of consolidated debt to consolidated EBITDA for the prior four fiscal quarters, as defined in the Credit Agreement. The Credit Agreement provides for fees on letters of credit issued under the Credit Agreement at a rate equal to the applicable margin for LIBOR-based loans, except for performance letters of credit, which are priced at 50% of such applicable margin. KBR pays an annual issuance fee of 0.125% of the face amount of a letter of credit and pays a commitment fee of 0.225% to 0.25%, per annum, on any unused portion of the commitment under the Credit Agreement based on the Company's consolidated leverage ratio. As of December 31, 2016, there were \$85 million in letters of credit outstanding. As a result of the Wyle and HTSI acquisitions discussed in Note 3 to our consolidated financial statements, we funded \$700 million of acquisition consideration with borrowings under our Credit Agreement, of which \$650 million remains outstanding as of December 31, 2016. We intend to seek long-term financing to replace a portion of this debt in 2017.

The Credit Agreement contains customary covenants as defined by the agreement which include financial covenants requiring maintenance of a ratio of consolidated debt to a rolling four-quarter consolidated EBITDA not greater than 3.5 to 1 and a minimum consolidated net worth of \$1.2 billion plus 50% of consolidated net income for each quarter beginning September 30, 2015 and 100% of any increase in shareholders' equity attributable to the sale of equity interests, but excluding any adjustments in shareholders' equity attributable to changes in foreign currency translation adjustments. In December 2016, we obtained an amendment to the EBITDA financial covenant to eliminate the impact, for certain periods and subject to certain dollar limits, of previously recorded project losses attributed to an EPC ammonia project and a power project in the U.S. The amendment also amends the maximum ratio of consolidated debt to consolidated EBITDA to 3.25 to 1 effective for periods after December 31, 2017. As of December 31, 2016, we were in compliance with our financial covenants.

The Credit Agreement contains a number of other covenants restricting, among other things, our ability to incur additional liens and indebtedness, enter into asset sales, repurchase our equity shares and make certain types of investments. Our subsidiaries are restricted from incurring indebtedness, except if such indebtedness relates to purchase money obligations, capitalized leases, refinancing or renewals secured by liens upon or in property acquired, constructed or improved in an aggregate principal amount not to exceed \$200 million at any time outstanding. Additionally, our subsidiaries may incur unsecured indebtedness not to exceed \$200 million in aggregate outstanding principal amount at any time. We are also permitted to repurchase our equity shares, provided that no such repurchases shall be made from proceeds borrowed under the Credit Agreement, and that the aggregate purchase price and dividends paid after September 25, 2015, does not exceed the Distribution Cap (equal to the sum of \$750 million plus the lesser of (1) \$400 million and (2) the amount received by us in connection with the arbitration and subsequent litigation of the PEP contracts as discussed in Note 16 to our consolidated financial statements). As of December 31, 2016, the remaining availability under the Distribution Cap was approximately \$652 million.



### *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 billion in committed and uncommitted lines of credit to support the issuance of letters of credit and as of December 31, 2016, we have utilized \$450 million of our present capacity under lines of credit. Surety bonds are also posted under the terms of certain contracts to guarantee our performance. As of December 31, 2016, we have approximately \$900 million of remaining capacity in these committed and uncommitted lines of credit after taking into account the \$650 million of outstanding revolver borrowings. The letters of credit outstanding included \$85 million issued under our Credit Agreement and \$365 million issued under uncommitted bank lines as of December 31, 2016. Of the letters of credit outstanding under our Credit Agreement, no letters of credit have expiry dates beyond the maturity date of the Credit Agreement. Of the total letters of credit outstanding, \$168 million relate to our joint venture operations where the letters of credit are posted using our capacity to support our pro-rata share of obligations under various contracts executed by joint ventures of which we are a member. As the need arises, future projects will be supported by letters of credit issued under our Credit Agreement or other lines of credit arranged on a bilateral, syndicated or other basis. We believe we have adequate letter of credit capacity under our Credit Agreement and bilateral lines of credit to support our operations for the next twelve months.

### *Nonrecourse Project Debt*

Fastrax Limited, a joint venture in which we indirectly own a 50% equity interest with an unrelated partner, was awarded a concession contract in 2001 with the U.K. MoD to provide a Heavy Equipment Transporter Service to the British Army. See Note 11 to our consolidated financial statements for further discussion on the joint venture. Under the terms of the arrangement, Fastrax 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 Fastrax 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 Fastrax 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 Fastrax 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. For financial reporting purposes, only our partner's portion of the subordinated notes appears in the consolidated financial statements.

The following table summarizes the combined principal installments for both classes of bonds and subordinated notes, including inflation adjusted bond indexation over the next five years and beyond as of December 31, 2016:

<i>Dollars in millions</i>	<b>Payments Due</b>
2017	\$ 8
2018	\$ 9
2019	\$ 10
2020	\$ 10
2021	\$ 5
Beyond 2021	\$ 1

## Note 14. Income Taxes

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

<i>Dollars in millions</i>	Years ended December 31,		
	2016	2015	2014
United States	\$ (250)	\$ (35)	\$ (1,051)
Foreign:			
United Kingdom	55	105	130
Australia	38	32	180
Canada	(8)	87	(101)
Middle East	66	35	(12)
Africa	76	34	28
Other	56	54	49
Subtotal	283	347	274
Total	\$ 33	\$ 312	\$ (777)

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

<i>Dollars in millions</i>	Years ended December 31,		
	2016	2015	2014
Provision for income taxes	\$ (84)	\$ (86)	\$ (421)
Shareholders' equity, foreign currency translation adjustment	(3)	(3)	4
Shareholders' equity, pension and post-retirement benefits	45	(22)	10
Total income taxes	\$ (42)	\$ (111)	\$ (407)

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

<i>Dollars in millions</i>	Current	Deferred	Total
	Balance as of December 31, 2016		
Federal	\$ (5)	\$ 9	\$ 4
Foreign	(61)	(26)	(87)
State and other	—	(1)	(1)
Provision for income taxes	\$ (66)	\$ (18)	\$ (84)
Balance as of December 31, 2015			
Federal	\$ (17)	\$ 8	\$ (9)
Foreign	(55)	(22)	(77)
State and other	—	—	—
Provision for income taxes	\$ (72)	\$ (14)	\$ (86)
Balance as of December 31, 2014			
Federal	\$ 41	\$ (333)	\$ (292)
Foreign	(110)	(11)	(121)
State and other	1	(9)	(8)
Provision for income taxes	\$ (68)	\$ (353)	\$ (421)

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

<i>Dollars in millions</i>	Years ended December 31,		
	2016	2015	2014
United Kingdom	\$ (6)	\$ (15)	\$ (22)
Australia	—	16	(24)
Canada	1	3	6
Middle East	(24)	(8)	(5)
Africa	(22)	(10)	(24)
Other	(36)	(63)	(52)
Foreign provision for income taxes	<u>\$ (87)</u>	<u>\$ (77)</u>	<u>\$ (121)</u>

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

<i>Dollars in millions</i>	Years ended December 31,		
	2016	2015	2014
Expected deferred benefit	\$ 35	\$ 14	\$ 254
Tax reserves and allowances on current year activity	(1)	(20)	(210)
Tax reserves and allowances on beginning of year deferred balances	—	—	(320)
Unremitted foreign earnings	(51)	—	(77)
U.K. statutory rate change	(1)	(8)	—
Total deferred provision for income taxes	<u>\$ (18)</u>	<u>\$ (14)</u>	<u>\$ (353)</u>

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

	Years ended December 31,		
	2016	2015	2014
U.S. statutory federal rate, expected (benefit) provision	35%	35%	(35)%
Increase (reduction) in tax rate from:			
Rate differentials on foreign earnings	(28)	(10)	(5)
Noncontrolling interests and equity earnings	(28)	(8)	(4)
State and local income taxes, net of federal benefit	—	2	(2)
Other permanent differences, net	54	—	2
Contingent liability accrual	41	(1)	9
U.S. taxes on foreign unremitted earnings	174	1	11
Non-deductible goodwill impairment	—	—	20
Change in valuation allowance	3	6	58
U.K. statutory rate change	4	3	—
Effective tax rate on income from operations	<u>255%</u>	<u>28%</u>	<u>54 %</u>

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

<i>Dollars in millions</i>	Years ended December 31,	
	2016	2015
<b>Deferred tax assets:</b>		
Employee compensation and benefits	\$ 166	\$ 140
Foreign tax credit carryforwards	356	282
Accrued foreign tax credit carryforwards	93	97
Loss carryforwards	69	65
Insurance accruals	15	15
Allowance for bad debt	9	10
Accrued liabilities	49	45
Total gross deferred tax assets	757	654
Valuation allowances	(542)	(542)
Net deferred tax assets	215	112
<b>Deferred tax liabilities:</b>		
Construction contract accounting	(34)	(12)
Intangibles	(29)	(25)
Indefinite-lived intangibles	(39)	—
Depreciation and amortization	2	(2)
Unremitted foreign earnings	(63)	(39)
Other	(82)	(29)
Total gross deferred tax liabilities	(245)	(107)
Deferred income tax (liabilities) assets, net	\$ (30)	\$ 5

The valuation allowance for deferred tax assets was \$542 million at December 31, 2016 and 2015, respectively. The net change in the total valuation allowance remained unchanged in 2016 and was \$4 million in 2015. The valuation allowance at December 31, 2016 was primarily related to U.S. federal, foreign and state net operating loss carryforwards, foreign tax credit carryforwards and other deferred tax assets that, in the judgment of management, are not more-likely-than-not to be realized. In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent on the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities (including the impact of available carryback and carryforward periods), projected future taxable income and tax-planning strategies in making this assessment. Based upon the significant level of historical taxable U.S. losses, management believes that it was not more-likely-than-not that we would be able to realize the benefits of the deductible differences and accordingly recognized a valuation allowance for the year ended December 31, 2016 and 2015 for any deferred tax assets not more-likely-than-not to be realized.

The net deferred tax balance by major jurisdiction after valuation allowance as of December 31, 2016 was as follows:

<i>Dollars in millions</i>	Net Gross Deferred Asset (Liability)	Valuation Allowance	Deferred Asset (Liability), net
United States	\$ 459	\$ (506)	\$ (47)
United Kingdom	104	—	104
Australia	1	(1)	—
Canada	22	(16)	6
Mexico	(92)	—	(92)
Other	18	(19)	(1)
Total	\$ 512	\$ (542)	\$ (30)

At December 31, 2016, the amount of gross tax attributes available prior to the offset with related uncertain tax positions were as follows:

<i>Dollars in millions</i>	<u>December 31, 2016</u>	<u>Expiration</u>
Foreign tax credit carryforwards	\$ 485	2019-2026
Foreign net operating loss carryforwards	\$ 128	2017-2037
Foreign net operating loss carryforwards	\$ 32	Indefinite
State net operating loss carryforwards	\$ 598	Various

In determining our foreign cash repatriation strategy and in determining whether earnings would continue to be considered permanently invested, we considered our future U.S. and non-U.S. cash needs such as 1) our anticipated foreign working capital requirements, including funding of our U.K. pension plan, 2) the expected growth opportunities across all geographical markets and 3) our plans to invest in strategic growth opportunities that may include acquisitions around the world. The remaining international cash balances associated with past foreign earnings which we currently intend to permanently reinvest in our foreign entities are not available for domestic use. The company has not recognized an estimated deferred tax liability of approximately \$319 million for undistributed earnings of \$1.5 billion that it continues to consider to be permanently reinvested in the foreseeable future. These undistributed earnings could be subject to additional tax if remitted, or deemed remitted, as a dividend.

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

<i>Dollars in millions</i>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Balance at January 1,	\$ 257	\$ 228	\$ 68
Increases related to current year tax positions	2	18	13
Increases related to tax positions from acquisitions	14	—	—
Increases related to prior year tax positions	10	35	168
Decreases related to prior year tax positions	(4)	(3)	(13)
Settlements	(10)	(2)	(1)
Lapse of statute of limitations	(6)	(16)	(5)
Other, primarily due to exchange rate fluctuations affecting non-U.S. tax positions	(2)	(3)	(2)
Balance at December 31,	<u>\$ 261</u>	<u>\$ 257</u>	<u>\$ 228</u>

The total amount of unrecognized tax benefits that, if recognized, would affect our effective tax rate was approximately \$248 million as of December 31, 2016. The difference between this amount and the amounts reflected in the tabular reconciliation above relates primarily to deferred income tax benefits on uncertain tax positions related to income taxes. In the next twelve months, it is reasonably possible that our uncertain tax positions could change by approximately \$4 million due to the expirations of statutes of limitations.

We recognize accrued interest and penalties related to uncertain tax positions in income tax expense in our consolidated statements of operations. Our accrual for interest and penalties was \$14 million and \$13 million for each of the years ended December 31, 2016 and 2015, respectively. During the years ended December 31, 2016, 2015, we recognized net interest and penalties charges (benefits) of less than \$1 million related to uncertain tax positions. During the year ended December 31, 2014, we recognized net interest and penalties charges (benefits) of \$1 million related to uncertain tax positions.

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

KBR is subject to a tax sharing agreement primarily covering periods prior to the April 2007 separation from Halliburton. The tax sharing agreement provides, in part, that KBR will be responsible for any audit settlements directly attributable to its business activity for periods prior to its separation from our former parent. As of December 31, 2016 and 2015, we have recorded \$19 million in "other liabilities" on our consolidated balance sheets, respectively, for tax related items under the tax sharing agreement. The balance is not due until receipt by KBR of a future foreign tax credit refund claim filed with the IRS.

## **Note 15. U.S. Government Matters**

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

Between 2002 and 2011, we provided significant support to the U.S. Army and other U.S. government agencies in support of the war in Iraq under the LogCAP III contract. We continue to support the U.S. government around the world under the LogCAP IV and other contracts. We have been in the process of closeout of the LogCAP III contract since 2011, and we expect the closeout process to continue through at least 2018. As a result of our work under LogCAP III, there are claims and disputes pending between us and the U.S. government, which need to be resolved in order to close the contracts. The closeout process includes resolving objections raised by the U.S. government through a billing dispute process referred to as Form 1s and Memorandums for Record ("MFRs"). We continue to work with the U.S. government to resolve these issues and are engaged in efforts to reach mutually acceptable resolution of these outstanding matters. However, for certain of these matters, we have filed claims with the Armed Services Board of Contract Appeals ("ASBCA") or the U.S. Court of Federal Claims ("COFC"). We also have matters related to ongoing litigation or investigations involving U.S. government contracts. We anticipate billing additional labor, vendor resolution and litigation costs as we resolve the open matters. At this time, we cannot determine the timing or net amounts to be collected or paid to close out these contracts.

### ***Form 1s***

The U.S. government has issued Form 1s questioning or objecting to costs we billed to them primarily related to (1) our use of private security and our provision of containerized housing under the LogCAP III contract discussed above and (2) our provision of emergency construction services primarily to U.S. government facilities damaged by Hurricanes Katrina and Wilma, under our CONCAP III contract with the U.S. Navy. As a consequence of the issuance of the Form 1s, the U.S. government has withheld payment to us on outstanding invoices, pending resolution of these matters. In certain cases, we have also withheld payment to our subcontractors related to pay-when-paid contractual terms.

The U.S. government had issued Form 1s, questioning \$173 million of billed costs as of December 31, 2016 and 2015, respectively. They had previously paid us \$90 million as of each period related to our services on these contracts and the remaining balance of \$83 million for each period is included in "claims and accounts receivable" on our consolidated balance sheets. In addition, we have withheld \$26 million and \$32 million from our subcontractors at December 31, 2016 and 2015, respectively, related to these questioned costs.

While we continue to believe that the amounts we have invoiced the U.S. government are in compliance with our contract terms and that recovery is probable, we also continue to evaluate our ability to recover these amounts as new information becomes known. As is common in the industry, negotiating and resolving these matters is often an involved and lengthy process, which sometimes necessitates the filing of claims or other legal action as discussed above. Concurrent with our continued negotiations with the U.S. government, we await the rulings on the filed claims. We are unable to predict when the rulings will be issued or when the matters will be settled or resolved with the U.S. government.

### ***Audits***

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

As of December 31, 2016, the DCAA has completed audits and we have concluded negotiations of both direct and indirect incurred costs for the historical GS activities, including the LOGCAP III contract, through 2011. We have received DCAA audits reports for 2012 and 2013 with minimal amounts of questioned costs. The DCAA is scheduling reviews for the years subsequent to 2013. Based on the information received to date, we do not believe the completed or ongoing government audits on the historical GS activities will have a material adverse impact on our results of operations, financial position or cash flows.

As of December 31, 2016, the DCAA has completed audits of incurred direct and indirect costs through 2009 and 2011 and final rates are negotiated through 2009 and 2010 for Wyle and HTSI, respectively. The DCAA has questioned minimal cost for the on-going audits. Based on the information received to date, we do not believe that the completed or on-going audits on the Wyle and HTSI activities will have a material adverse impact on our results of operations, financial position or cash flows.

As a result of the Form 1s, open audits and claims discussed above, we have accrued a reserve for unallowable costs at December 31, 2016 and 2015 of \$64 million and \$50 million, respectively as a reduction to "claims and accounts receivable" and in "other liabilities" on our consolidated balance sheet.

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

The following matters relate to ongoing litigation or federal investigations involving U.S. government contracts. Many of these matters involve allegations of violations of the False Claims Act ("FCA"), which prohibits in general terms fraudulent billings to the government. Suits brought by private individuals are called "qui tams." We believe the costs of litigation and any damages that may be awarded in the FKTC, Electrocutation, and Burn Pit matters described below are billable under the LogCAP III contract or, as was the case for the Electrocutation litigation, covered by insurance, and that any such costs or damages awarded in the Sodium Dichromate matter will continue to be billable under the Restore Iraqi Oil ("RIO") contract and the related indemnity described below. All costs billed under LogCAP III or RIO are subject to audit by the DCAA for reasonableness.

***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. After complete hearings on all of FKTC's claims, an arbitration panel awarded \$17 million plus interest for claims involving damages on lost or unreturned vehicles. In addition, we determined that we owe FKTC \$32 million in connection with other subcontracts. We paid FKTC \$19 million and will pay \$4 million on pay-when-paid terms in the contract. We have accrued amounts we believe are payable to FKTC in "accounts payable" and "other current liabilities" on our consolidated balance sheets. The remaining \$26 million owed to FKTC under contract has not been billed to the government and we will not do so until the related claims and disputes between KBR and the government over the FKTC living container contract are resolved (see Department of Justice ("DOJ") False Claims Act complaint - FKTC Containers below). At this time, we believe the likelihood we would incur a loss related to this matter is remote.

***Electrocutation litigation.*** During 2008, a lawsuit was filed against KBR in the Allegheny County Common Pleas Court alleging that the Company was responsible for an electrical incident which resulted in the death of a soldier at the Radwaniyah Palace Complex near Baghdad, Iraq. Plaintiffs claimed unspecified damages for personal injury, death and loss of consortium by the parents. On January 5, 2017 we entered into a confidential settlement agreement with the plaintiffs. This settlement, including the recovery of legal fees, was covered by insurance and did not have a material impact to our financial statements. This matter is now resolved.

***Burn Pit litigation.*** From November 2008 through current, KBR has been served with in excess of 60 lawsuits in various states alleging exposure to toxic materials resulting from the operation of burn pits in Iraq or Afghanistan in connection with services provided by KBR under the LogCAP III contract. These suits have been consolidated and are pending in U.S. Federal District Court in Baltimore, Maryland, where a hearing on KBR's jurisdictional motions is scheduled for March 2017. The plaintiffs are claiming unspecified damages. KBR will continue to pursue all available jurisdictional and other dismissal options. At this time, we believe the likelihood that we would incur a loss related to this matter is remote. As of December 31, 2016, 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, which were consolidated into one case before in the U.S. District Court for the Southern District of Texas. The Texas case was then dismissed by the Court on the merits on multiple grounds including the conclusion that no one was injured and is now on appeal to the Fifth Circuit. The plaintiffs are claiming unspecified damages. At this time, we believe the likelihood that we would incur a loss related to this matter is remote. As of December 31, 2016, no amounts have been accrued.

*COFC/ASBCA Claims.* During the period of time since the first sodium dichromate litigation was filed, we incurred legal defense costs that we believed were reimbursable under the related U.S. government contract. These costs were billed and claims were filed to recover the associated costs incurred to date. After KBR filed claims for payment, the ASBCA issued an order in August 2015 that KBR is entitled to reimbursement of the sodium dichromate legal fees and any resulting judgments pursuant to the 85-804 indemnity agreement it had with the government. On June 23, 2016, KBR and U.S. Army Corps of Engineers entered into a settlement agreement regarding reimbursement of the \$33 million in legal fees and interest incurred through the time of the claim. As part of the settlement, all reasonable future defense costs and payment of awards will be reimbursed consistent with the Government's indemnity obligation. The majority of these historical costs have been reimbursed to us. This matter is now resolved.

*Qui tams.* We have several qui tam cases pending, one of which has been joined by the U.S. government (see DOJ FCA complaint - Iraq Subcontractor below). We believe the likelihood that we would incur a loss in the qui tams the U.S. government has not joined is remote and as of December 31, 2016, no amounts have been accrued. Costs incurred in defending the qui tams cannot be billed to the U.S. government until those matters are successfully resolved in our favor. If successfully resolved, we can bill 80% of the costs to the U.S. government under federal regulations. As of December 31, 2016, we have incurred and expended \$10 million in legal costs to date in defending ourselves in qui tams. There are two active cases as discussed below.

*Barko qui tam.* Relator Harry Barko, a KBR subcontracts administrator in Iraq for a year in 2004/2005, filed a qui tam lawsuit in June 2005 in the U.S. District Court for the District of Columbia, alleging violations of the FCA by KBR and KBR subcontractors Daoud & Partners and Eamar Combined for General Trading and Contracting. The DOJ investigated Barko's allegations and elected not to intervene. The claim was unsealed in March of 2009. The court is currently considering KBR's motion for summary judgment. At this time, we believe the likelihood that we would incur a loss related to this matter is remote. As of December 31, 2016, no amounts have been accrued.

*Howard qui tam.* In March 2011, Geoffrey Howard filed a complaint in the U.S. District Court for the Central District of Illinois alleging that KBR mischarged the government \$628 million for unnecessary materials and equipment. In October 2014 the Department of Justice declined to intervene and the case was partially unsealed. Discovery is ongoing in this case. At this time, we believe the likelihood that we would incur a loss related to this matter is remote. As of December 31, 2016, no amounts have been accrued.

*DOJ False Claims Act complaint - FKTC Containers.* In November 2012, the U.S. Department of Justice filed a complaint in the U.S. District Court for the Central District of Illinois against KBR, FKTC and others, related to our settlement of delay claims by our subcontractor, FKTC, in connection with FKTC's provision of living trailers for the bed down mission in Iraq in 2003-2004. The DOJ alleges that KBR submitted false claims to the U.S. government for reimbursement of costs for FKTC's services, which the U.S. government alleges were inflated, unverified, not subject to an adequate price analysis and had been contractually assumed by FKTC. Our contractual dispute with the Army over this settlement has been ongoing since 2005. In March 2014, KBR's motion to dismiss was denied and in September 2014, the District Court granted FKTC's motion to dismiss for lack of personal jurisdiction. The case is currently in discovery which we expect to be substantially completed in 2017. At this time, we believe the likelihood that we would incur a loss related to this matter is remote. As of December 31, 2016, no amounts have been accrued.

*KBR Contract Claim on FKTC containers.* KBR previously filed a claim before the ASBCA to recover the costs paid to FKTC to settle its delay and disruption claims. The DCMA had disallowed the majority of those costs. Those contract claims were stayed in 2013 at the request of the DOJ so that they could pursue the FCA case referenced above. On February 19, 2016, the ASBCA, at KBR's request, lifted the stay and has allowed KBR to proceed with its contract claim for the costs withheld. KBR has requested a trial date as early in 2017 as the ASBCA's schedule will permit.



**DOJ False Claims Act complaint - Iraq Subcontractor.** In January 2014, the U.S. Department of Justice filed a complaint in the U.S. District Court for the Central District of Illinois against KBR and two former KBR subcontractors, including FKTC, alleging that three former KBR employees were offered and accepted kickbacks from these subcontractors in exchange for favorable treatment in the award and performance of subcontracts to be awarded during the course of KBR's performance of the LogCAP III contract in Iraq. The complaint alleges that as a result of the kickbacks, we submitted invoices with inflated or unjustified subcontract prices, resulting in alleged violations of the FCA and the Anti-Kickback Act. The DOJ's investigation dates back to 2004. We self-reported most of the violations and tendered credits to the U.S. government as appropriate. On May 22, 2014, FKTC filed a motion to dismiss which the U.S. government opposed. Following the submission of our answer in April 2014, the U.S. government was granted a Motion to Strike certain affirmative defenses in March 2015. We do not believe this limits KBR's ability to fully defend all allegations in this matter. As of December 31, 2016, we have accrued our best estimate of probable loss related to an unfavorable settlement of this matter in "other liabilities" on our consolidated balance sheets. At this time, we believe the likelihood that we would incur a loss related to this matter in excess of the amounts we have accrued is remote. We expect discovery to extend into late 2017 and do not expect a trial before mid-2018.

## **Note 16. Other Commitments and Contingencies**

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

*In re KBR, Inc. Securities Litigation.* Lead plaintiffs, Arkansas Public Employees Retirement System and IBEW Local 58/NECA Funds, seek class action status on behalf of our shareholders, alleging violations of Sections 10(b) and 20(a) of the Securities Exchange Act of 1934 against the Company, our former chief executive officer, our current and former chief financial officers, and our former chief accounting officer, arising out of the restatement of our 2013 annual financial statements, and seek undisclosed damages. The case is currently pending in the U.S. District Court for the Southern District of Texas. KBR's Motion to Dismiss was denied in September 2015. We have reached a preliminary agreement to settle this case as of January 11, 2017, subject to final documentation and Court approval. We have accrued the proposed settlement amount in "other current liabilities" on our consolidated balance sheets, net of insurance proceeds which did not have a material impact to our financial statements.

*Butorin v. Blount et al.*, is a May 2014 shareholder derivative complaint pending in the U.S. District Court of Delaware and filed 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. KBR has filed a Motion to Dismiss, to which the derivative plaintiff has responded. At this time, we are not yet able to determine the likelihood of loss, if any, arising from this matter.

*Stella Dupree and Donald Taylor v. KBR, Inc.*, was filed by shareholders of the Company on May 12, 2015 in Delaware Chancery Court seeking the right to inspect and make copies of certain books and records of the Company under §220 of Delaware General Corporation Law relating primarily to the restatement of our 2013 annual financial statements. The remaining plaintiff voluntarily dismissed this case on February 26, 2016 following receipt of a limited set of documents from the Company. This matter is now resolved.

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. We have accrued our estimate of a potential settlement in "other current liabilities" on our consolidated balance sheets which did not have a material impact to our financial statements.

### ***PEMEX and PEP Arbitration***

In 2004, we filed for arbitration with the International Chamber of Commerce ("ICC") claiming recovery of damages against PEP, a subsidiary of PEMEX, the Mexican national oil company, related to a 1997 contract between PEP and our subsidiary, Commisa, and PEP subsequently counterclaimed. The project, known as EPC 1, required Commisa to build offshore platforms and treatment and reinjection facilities in Mexico and 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. In 2009, the ICC arbitration panel awarded us a total of approximately \$351 million including legal and administrative recovery fees as well as interest and PEP was awarded approximately \$6 million on counterclaims, plus interest on a portion of that sum. In August 2016, the U.S. Court of Appeal for the Second Circuit affirmed a 2013 District Court ruling confirming the ICC award and PEP filed a Motion for Rehearing in September 2016 which was denied. On January 31, 2017, PEP filed an application for certiorari to the United States Supreme Court. Commisa will file a response. PEP has posted \$465 million as security for the judgment, pending exhaustion of all appeals.

Commisa and PEP are in active discussions to settle this dispute for the payment to Commisa. The potential agreement will be subject to final approval by the parties' respective board of directors.

### ***Other Matters***

The U.S. DOJ and the SEC are conducting investigations of activities Unaoil, a Monaco based company, may have engaged in related to international projects involving several global companies, as well as KBR's interactions with Unaoil. KBR is cooperating with the DOJ and the SEC in their investigations, which includes the voluntary submission of information and compliance with document requests, including a formal request from the SEC by subpoena.

*Tisnado vs DuPont, et al*, In May 2016, KBR was served with a Fourth Amended Petition in Intervention and was brought into a lawsuit which was originally filed on November 14, 2014, in the 11th Judicial District Court of Harris County, Texas. This suit was brought by the family members of persons who died in an incident at the DuPont plant in LaPorte, Texas. KBR has filed an Answer to the Petition, denying the plaintiffs' claims and asserting affirmative defenses. This case is in its early stages of discovery. At this time, we are not yet able to determine the likelihood of loss, if any, arising from this matter.

### ***Environmental***

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

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

We had been named as a potentially responsible party in various clean-up actions taken by federal and state agencies in the U.S. All of these matters have been settled or resolved and as of December 31, 2016 we have not been named in any additional matters.

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

### ***Leases***

We are obligated under operating leases, principally for the use of land, offices, equipment, field facilities and warehouses. We recognize minimum rental expenses over the term of the lease. When a lease contains a fixed escalation of the minimum rent or rent holidays, we recognize the related rent expense on a straight-line basis over the lease term and record the difference between the recognized rental expense and the amounts payable under the lease as deferred lease credits. We have certain leases for office space where we receive allowances for leasehold improvements. We capitalize these leasehold improvements as property, plant and equipment and deferred lease credits. Leasehold improvements are amortized over the shorter of their economic useful lives or the lease term. Total rent expense was \$154 million, \$155 million and \$158 million in 2016, 2015 and 2014, respectively. The current portion of deferred rent of \$4 million and \$7 million at December 31, 2016 and 2015, respectively, is recorded in "other current liabilities" on our consolidated balance sheets and the noncurrent deferred rent of \$103 million and \$114 million at December 31, 2016 and 2015, respectively, is recorded in "other liabilities" on our consolidated balance sheets.

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

<i>Dollars in millions</i>	<b>Future rental payments (a)</b>
2017	\$ 97
2018	\$ 85
2019	\$ 75
2020	\$ 66
2021	\$ 61
Beyond 2021	\$ 324

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(a) Amounts presented are net of subleases.

### ***Insurance Programs***

Our employee-related health care benefits program is self-funded. Our workers' compensation, automobile and general liability insurance programs include a deductible applicable to each claim. Claims in excess of our deductible are paid by the insurer. The liabilities are based on claims filed and estimates of claims incurred but not reported. As of December 31, 2016, liabilities for anticipated claim payments and incurred but not reported claims for all insurance programs totaled approximately \$49 million, comprised of \$9 million included in "accrued salaries, wages and benefits," \$15 million included in "other current liabilities" and \$25 million included in "other liabilities" all on our consolidated balance sheets. As of December 31, 2015, liabilities for unpaid and incurred but not reported claims for all insurance programs totaled approximately \$52 million, comprised of \$14 million included in "accrued salaries, wages and benefits," \$12 million included in "other current liabilities" and \$26 million included in "other liabilities" all on our consolidated balance sheets.

## Note 17. Shareholders' Equity

The following tables summarize our activity in shareholders' equity:

<i>Dollars in millions</i>	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	22	22	—	—	—	—
Common stock issued upon exercise of stock options	4	4	—	—	—	—
Dividends declared to shareholders	(47)	—	(47)	—	—	—
Repurchases of common stock	(106)	—	—	(106)	—	—
Issuance of ESPP shares	4	—	—	4	—	—
Investments by noncontrolling interests	10	—	—	—	—	10
Distributions to noncontrolling interests	(61)	—	—	—	—	(61)
Other noncontrolling interests activity	2	—	—	—	—	2
Net income (loss)	(1,198)	—	(1,262)	—	—	64
Other comprehensive income (loss), net of tax	(134)	—	—	—	(136)	2
Balance at December 31, 2014	\$ 935	\$ 2,091	\$ 439	\$ (712)	\$ (876)	\$ (7)
Acquisition of noncontrolling interest	(40)	(40)	—	—	—	—
Share-based compensation	18	18	—	—	—	—
Common stock issued upon exercise of stock options	1	1	—	—	—	—
Dividends declared to shareholders	(47)	—	(47)	—	—	—
Repurchases of common stock	(62)	—	—	(62)	—	—
Issuance of ESPP shares	5	—	—	5	—	—
Distributions to noncontrolling interests	(28)	—	—	—	—	(28)
Other noncontrolling interests activity	(3)	—	—	—	—	(3)
Net income	226	—	203	—	—	23
Other comprehensive income, net of tax	47	—	—	—	45	2
Balance at December 31, 2015	\$ 1,052	\$ 2,070	\$ 595	\$ (769)	\$ (831)	\$ (13)
Share-based compensation	18	18	—	—	—	—
Tax benefit decrease related to share-based plans	1	1	—	—	—	—
Dividends declared to shareholders	(46)	—	(46)	—	—	—
Repurchases of common stock	(4)	—	—	(4)	—	—
Issuance of ESPP shares	3	(1)	—	4	—	—
Distributions to noncontrolling interests	(9)	—	—	—	—	(9)
Net income (loss)	(51)	—	(61)	—	—	10
Other comprehensive income (loss), net of tax	(219)	—	—	—	(219)	—
Balance at December 31, 2016	\$ 745	\$ 2,088	\$ 488	\$ (769)	\$ (1,050)	\$ (12)

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

<i>Dollars in millions</i>	December 31,		
	2016	2015	2014
Accumulated foreign currency translation adjustments, net of tax of \$(2), \$1 and \$4	\$ (262)	\$ (269)	\$ (203)
Pension and post-retirement benefits, net of tax of \$254, \$209 and \$231	(785)	(560)	(670)
Changes in fair value of derivatives, net of tax of \$0, \$0 and \$0	(3)	(2)	(3)
Total accumulated other comprehensive loss	\$ (1,050)	\$ (831)	\$ (876)

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

<i>Dollars in millions</i>	Accumulated foreign currency translation adjustments	Pension and post-retirement benefits	Changes in fair value of derivatives	Total
Balance as of December 31, 2014	\$ (203)	\$ (670)	\$ (3)	\$ (876)
Other comprehensive income adjustments before reclassifications	(70)	71	—	1
Amounts reclassified from accumulated other comprehensive income	4	39	1	44
Balance at December 31, 2015	\$ (269)	\$ (560)	\$ (2)	\$ (831)
Other comprehensive income adjustments before reclassifications	7	(249)	—	(242)
Amounts reclassified from accumulated other comprehensive income	—	24	(1)	23
Balance at December 31, 2016	\$ (262)	\$ (785)	\$ (3)	\$ (1,050)

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

<i>Dollars in millions</i>	December 31, 2016	December 31, 2015	Affected line item on the Consolidated Statements of Operations
<b>Pension and post-retirement benefits</b>			
Amortization of actuarial loss (a)	\$ (29)	\$ (48)	See (a) below
Tax benefit (expense)	5	9	Provision for income taxes
Net pension and post-retirement benefits	\$ (24)	\$ (39)	Net of tax

(a) This item is included in the computation of net periodic pension cost. See Note 12 to our consolidated financial statements for further discussion.

**Shares of common stock**

<i>Shares in millions</i>	Shares
Balance at December 31, 2014	174.4
Common stock issued	0.7
Balance at December 31, 2015	175.1
Common stock issued	0.8
Balance at December 31, 2016	175.9

**Shares of treasury stock**

<i>Shares and dollars in millions</i>	Shares	Amount
Balance at December 31, 2014	29.6	\$ 712
Treasury stock acquired, net of ESPP shares issued	3.4	57
Balance at December 31, 2015	33.0	769
Treasury stock acquired, net of ESPP shares issued	0.1	—
Balance at December 31, 2016	33.1	\$ 769

**Dividends**

We declared dividends totaling \$46 million and \$47 million in 2016 and 2015, respectively. As of December 31, 2016 and 2015, we had accrued dividends payable of \$12 million included in "other current liabilities" on our consolidated balance sheets.

## Note 18. Share Repurchases

### *Authorized Share Repurchase Program*

On February 25, 2014, our Board of Directors authorized a plan to repurchase up to \$350 million of our outstanding common shares, which replaced and terminated the August 26, 2011 share repurchase program. As of December 31, 2016, \$208 million remain available for repurchase under this authorization. The authorization does not obligate the Company to acquire any particular number of common shares and may be commenced, suspended or discontinued without prior notice. The share repurchases are intended to be funded through the Company's current and future cash and the authorization does not have an expiration date.

### *Share Maintenance Programs*

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

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

### *Withheld to Cover Program*

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

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

	Year ending December 31, 2016		
	Number of Shares	Average Price per Share	Dollars in Millions
Repurchases under the \$350 million authorized share repurchase program	—	n/a	\$ —
Repurchases under the existing share maintenance program	—	n/a	—
Withheld to cover shares	249,891	14.93	4
Total	249,891	\$ 14.93	\$ 4

  

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

## Note 19. Share-based Compensation and Incentive Plans

### *Stock Plans*

In 2016, 2015 and 2014 share-based compensation awards were granted to employees under KBR share-based compensation plans.

### *KBR Stock and Incentive Plan (Amended May 2016)*

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

- stock options, including incentive stock options and nonqualified stock options;
- stock appreciation rights, in tandem with stock options or freestanding;
- restricted stock;
- restricted stock units;
- cash performance awards; and
- stock value equivalent awards.

In May 2012, the KBR Stock Plan was amended to add 2 million shares of our common stock available for issuance under the KBR Stock Plan and increase certain sublimits.

In May 2016, the KBR Stock Plan was further amended to add 4.4 million shares of our common stock available for issuance under the KBR Stock Plan. Additionally, this amendment increased the sublimit under the Stock Plan in the form of restricted stock awards, restricted stock unit awards, stock value equivalent awards, or pursuant to performance awards denominated in common stock by 4.4 million. Under the terms of the KBR Stock Plan, 16.4 million shares of common stock have been reserved for issuance to employees and non-employee directors. The plan specifies that no more than 9.9 million shares can be awarded as restricted stock, restricted stock units, stock value equivalents, or pursuant to performance awards denominated in common stock.

At December 31, 2016, approximately 6.8 million shares were available for future grants under the KBR Stock Plan, of which approximately 4.5 million shares remained available for restricted stock awards or restricted stock unit awards.

### *KBR Stock Options*

Under the KBR Stock Plan, stock options are granted with an exercise price not less than the fair market value of the common stock on the date of the grant and a term no greater than 10 years. The term and vesting periods are established at the discretion of the Compensation Committee at the time of each grant. We amortize the fair value of the stock options over the vesting period on a straight-line basis. Options are granted from shares authorized by our Board of Directors.

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

	<b>Year ending December 31, 2015</b>
<b><i>KBR stock options assumptions summary (a)</i></b>	
Granted stock options (shares in millions)	1.1
Weighted average expected term (in years)	5.5
Weighted average grant-date fair value per share	\$ 4.91

(a) No stock options granted in 2016

<u><i>KBR stock options range assumptions summary (a)</i></u>	Year ending December 31, 2015	
	Range	
	Start	End
Expected volatility range	33.92%	39.65%
Expected dividend yield range	1.15%	2.13%
Risk-free interest rate range	1.46%	2.12%

(a) No stock options granted in 2016

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

The following table presents stock options granted, exercised, forfeited and expired under KBR share-based compensation plans for the year ended December 31, 2016.

<u><i>KBR stock options activity summary</i></u>	Number of Shares	Weighted Average Exercise Price per Share	Weighted Average Remaining Contractual Term (years)	Aggregate Intrinsic Value (in millions)
Outstanding at December 31, 2015	3,482,657	\$ 23.83	6.55	\$ 2.92
Granted	—	—		
Exercised	(28,579)	12.25		
Forfeited	(177,452)	16.68		
Expired	(541,020)	23.96		
Outstanding at December 31, 2016	2,735,606	\$ 23.81	5.89	\$ 2.40
Exercisable at December 31, 2016	2,091,530	\$ 25.44	5.23	\$ 1.90

The total intrinsic values of options exercised for the years ended December 31, 2016, 2015 and 2014 were \$0.1 million, \$0.3 million and \$3 million, respectively. As of December 31, 2016, there was \$2 million of unrecognized compensation cost, net of estimated forfeitures, related to non-vested KBR stock options, expected to be recognized over a weighted average period of approximately 1.07 years. Stock option compensation expense was \$3 million in 2016, \$5 million in 2015 and \$6 million in 2014. Total income tax benefit recognized in net income for share-based compensation arrangements was \$1 million in 2016 and and \$2 million in 2015 and 2014.



### ***KBR Restricted stock***

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

The following table presents the restricted stock awards and restricted stock units granted, vested and forfeited during 2016 under the KBR Stock Plan.

<b><i>Restricted stock activity summary</i></b>	<b>Number of Shares</b>	<b>Weighted Average Grant-Date Fair Value per Share</b>
Nonvested shares at December 31, 2015	1,373,966	\$ 23.05
Granted	860,580	13.94
Vested	(772,964)	24.30
Forfeited	(227,064)	18.50
Nonvested shares at December 31, 2016	1,234,518	\$ 16.75

The weighted average grant-date fair value per share of restricted KBR shares granted to employees during 2016, 2015 and 2014 was \$13.94, \$16.66 and \$28.46, respectively. Restricted stock compensation expense was \$15 million for 2016, \$13 million for 2015 and \$16 million for 2014. Total income tax benefit recognized in net income for share-based compensation arrangements during 2016, 2015 and 2014 was \$5 million, \$5 million, and \$6 million, respectively. As of December 31, 2016, there was \$11 million of unrecognized compensation cost, net of estimated forfeitures, related to KBR's non-vested restricted stock and restricted stock units, which is expected to be recognized over a weighted average period of 1.70 years. The total fair value of shares vested was \$11 million in 2016, \$9 million in 2015 and \$6 million in 2014 based on the weighted-average fair value on the vesting date. The total fair value of shares vested was \$19 million in 2016, \$14 million in 2015 and \$11 million in 2014 based on the weighted-average fair value on the date of grant.

### ***Share-based compensation expense***

The grant-date fair value of employee share options is estimated using option-pricing models. If an award is modified after the grant date, incremental compensation cost is recognized immediately as of the modification. Share-based compensation expense consists of \$7 million recorded to cost of revenues, \$10 million to general and administrative expenses, and \$1 million to restructuring charges on our consolidated statements of operations. The benefits of tax deductions in excess of the compensation cost recognized for the options (excess tax benefits) are classified as additional paid-in-capital, and cash retained as a result of these excess tax benefits is presented in the statements of cash flows as financing cash inflows.

### ***Share-based compensation summary table***

<b><i>Dollars in millions</i></b>	<b>Years ended December 31,</b>		
	<b>2016</b>	<b>2015</b>	<b>2014</b>
Share-based compensation	\$ 18	\$ 18	\$ 22
Income tax benefit recognized in net income for share-based compensation	\$ 6	\$ 7	\$ 8
Incremental compensation cost	\$ 8	\$ 2	\$ 2

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

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

Under the KBR Stock Plan, for Cash Performance Awards granted in 2016 and 2015, performance is based 50% on average Total Shareholder Return ("TSR"), as compared to the average TSR of KBR's peers, and 50% on KBR's Job Income Sold ("JIS"). For Cash Performance Awards granted in 2014, performance is based 100% on average TSR as compared to the average TSR of KBR's peers. In accordance with the provisions of ASC 718 - Compensation-Stock Compensation, the TSR portion for the performance award units are classified as liability awards and remeasured at the end of each reporting period at fair value until settlement. The fair value approach uses the Monte Carlo valuation method which analyzes the companies comprising KBR's peer group, considering volatility, interest rate, stock beta and TSR through the grant date. The JIS calculation is based on the Company's JIS earned at a target level averaged over a three year period. The JIS portion of the Cash Performance Award is also classified as a liability award and remeasured at the end of each reporting period based on our estimate of the amount to be paid at the end of the vesting period. The cash performance award units may only be paid in cash.

Under the KBR Stock Plan, in 2016, we granted 22 million performance based award units ("Cash Performance Awards") with a three-year performance period from January 1, 2016 to December 31, 2018. In 2015, we granted 22 million Cash Performance Awards with a three-year performance period from January 1, 2015 to December 31, 2017. In 2014, we granted 27 million Cash Performance Awards with a three-year performance period from January 1, 2014 to December 31, 2016. Cash Performance Awards forfeited, net of previous plan payout, totaled 9 million, 15 million, and 17 million at December 31, 2016, 2015 and 2014, respectively. At December 31, 2016, the outstanding balance for Cash Performance Awards is 56 million units. Cash Performance Awards are not considered earned until required performance conditions are met. Additionally, approval by the Compensation Committee of the Board of Directors is required before earned Cash Performance Awards are paid.

Cost for the Cash Performance Awards is accrued over the requisite service period. For the years ended December 31, 2016, 2015 and 2014, we recognized \$5 million, \$3 million and none, respectively, in expense for Cash Performance Awards. The expense associated with these Cash Performance Awards is included in cost of services and general and administrative expense in our consolidated statements of operations. The liability for awards included in "employee compensation and benefits" on our consolidated balance sheets was \$9 million at December 31, 2016, of which none will become due within one year, and \$5 million at December 31, 2015.

### ***KBR Employee Stock Purchase Plan ("ESPP")***

Under the ESPP, eligible employees may withhold up to 10% of their earnings, subject to some limitations, to purchase shares of KBR's common stock. Unless KBR's Board of Directors determines otherwise, each six-month offering period commences at the beginning of February and August of each year. Employees who participate in the ESPP will receive a 5% discount on the stock price at the end of each period. During 2016 and 2015, our employees purchased approximately 190,000 and 204,000 shares, respectively, through the ESPP. These shares were issued from our treasury share account.

### **Note 20. 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:

<i>Shares in millions</i>	<b>Years ended December 31,</b>		
	<b>2016</b>	<b>2015</b>	<b>2014</b>
Basic weighted average common shares outstanding	142	144	146
Stock options and restricted shares	—	—	—
Diluted weighted average common shares outstanding	142	144	146

For purposes of applying the two-class method in computing earnings (loss) per share, net earnings allocated to participating securities was none for the fiscal year 2016, \$1.7 million, or \$0.01 per share, for fiscal year 2015 and none for fiscal year 2014. The diluted earnings (loss) per share calculation did not include 3.0 million, 3.4 million and 3.0 million antidilutive weighted average shares for the years ended December 31, 2016, 2015 and 2014, respectively.

## Note 21. Financial Instruments and Risk Management

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

As of December 31, 2016, the gross notional value of our foreign currency exchange forwards and option contracts used to hedge balance sheet exposures was \$81 million, all of which had durations of 12 days or less. We also had approximately \$14 million (gross notional value) of cash flow hedges which had durations of 31 months or less.

The fair value of our balance sheet and cash flow hedges included in "other current assets" and "other current liabilities" on our consolidated balance sheets was immaterial at December 31, 2016 and 2015, respectively. These fair values are considered Level 2 under ASC 820 - Fair Value Measurement as they are based on quoted prices directly observable in active markets.

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

<i>Gains (losses) dollars in millions</i>	Years ended December 31,	
	2016	2015
Balance Sheet Hedges - Fair Value	\$ (7)	\$ (40)
Balance Sheet Position - Remeasurement	27	50
Net	\$ 20	\$ 10

**Interest rate risk.** Certain of our unconsolidated subsidiaries and joint ventures are exposed to interest rate risk through their variable rate borrowings. This variable rate exposure is managed with interest rate swaps. The unrealized net losses on the interest rate swaps held by our unconsolidated subsidiaries and joint ventures was immaterial as of December 31, 2016, 2015 and 2014, respectively.

## Note 22. Recent Accounting Pronouncements

In August 2016, the FASB issued ASU No. 2016-15, Statement of Cash Flows (Topic 230) - Classification of Certain Cash Receipts and Cash Payments. This ASU addresses eight specific cash flow topics with the objective of reducing diversity in practice in how certain cash receipts and cash payments are presented and classified in the statement of cash flows. This ASU is effective for annual periods beginning after December 15, 2017 and interim periods within those annual periods. Early adoption is permitted, including adoption in an interim period. We do not expect adoption of this ASU to be material to our ongoing financial reporting or on known trends, demands, uncertainties and events in our business.

In June 2016, the FASB issued ASU No. 2016-13, Financial Instruments - Credit Losses (Topic 326) - Measurement of Credit Losses on Financial Instruments. This ASU requires the measurement of all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable supportable forecast and is effective for annual periods beginning after December 15, 2019 and interim periods within those annual periods. Early adoption is permitted for annual periods after December 15, 2018, including interim periods within those annual periods. We are currently in the process of assessing the impact of this ASU on our financial statements. We have not yet determined the effect of the standard on our ongoing financial reporting or the future impact of adoption on known trends, demands, uncertainties and events in our business.

In March 2016, the FASB issued ASU No. 2016-09, Compensation - Stock Compensation (Topic 718) - Improvements to Employee Share-Based Payment Accounting. The new standard is intended to simplify several aspects of the accounting for share-based payment transactions including (a) the income tax consequences, (b) classification of awards as either equity or liabilities, and (c) classification on the statement of cash flows. This ASU is effective for annual periods beginning after December 15, 2016 and interim periods within those annual periods and early adoption is permitted. The application of the amendments requires various transition methods depending on the specific item. We do not expect adoption of this ASU to be material to our ongoing financial reporting or on known trends, demands, uncertainties and events in our business.

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842), which requires lessees to recognize in the balance sheet a liability to make lease payments (the lease liability) and a right-of-use asset representing its right to use the underlying asset for the lease term for all leases with terms longer than 12 months. Leases with a term of 12 months or less will be accounted for similar to existing guidance for operating leases. Recognition, measurement and presentation of expenses will depend on classification as a finance or operating lease. This ASU is effective for annual periods beginning after December 15, 2018 and interim periods within those annual periods. Early adoption is permitted. We are currently in the process of assessing the impact of this ASU on our financial statements. We have not yet determined the effect of the standard on our ongoing financial reporting or the future impact of adoption on known trends, demands, uncertainties and events in our business.

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers, as amended (Topic 606), which will change the way we recognize revenue and significantly expand the disclosure requirements for revenue arrangements. In July 2015, the FASB approved a one-year deferral of the effective date of the standard to 2018 for public companies, with an option that would permit companies to adopt the standard in 2017. Further amendments and technical corrections were made to the standard during 2016.

The core principle of the new standard is that a company should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. The two permitted transition methods under the new standard are the full retrospective method, in which case the standard would be applied to each prior reporting period presented and the cumulative effect of applying the standard would be recognized at the earliest period shown, or the modified retrospective method, in which case the cumulative effect of applying the standard would be recognized at the date of initial application.

We are continuing to evaluate the impact the new standard on our contract portfolio. Our approach includes a detailed review of contracts representative at each of our business segments and comparing historical accounting policies and practices to the new standard. Because the standard will impact our business processes, systems and controls, we are also developing a comprehensive change management plan to guide the implementation. We will adopt the requirements of the new standard effective January 1, 2018 and intend to apply the modified retrospective method of adoption with the cumulative effect of adoption recognized at the date of initial application.

**Note 23. Quarterly Data (Unaudited)**

Summarized quarterly financial data for the years ended December 31, 2016 and 2015 is presented in the following table. In the following table, the sum of basic and diluted “Net income (loss) attributable to KBR per share” for the four quarters may differ from the annual amounts due to the required method of computing weighted average number of shares in the respective periods. Additionally, due to the effect of rounding, the sum of the individual quarterly earnings per share amounts may not equal the calculated year earnings per share amount.

<i>(Dollars in millions, except per share amounts)</i>	<b>First</b>	<b>Second</b>	<b>Third</b>	<b>Fourth</b>	<b>Year</b>
<b>2016</b>					
Total revenues	\$ 996	\$ 1,009	\$ 1,073	\$ 1,190	\$ 4,268
Gross profit (loss) (a)	68	74	(36)	6	112
Equity in earnings of unconsolidated affiliates	29	33	19	10	91
Operating income (loss) (a)	65	63	(67)	(33)	28
Net income (loss)	45	47	(57)	(86)	(51)
Net income attributable to noncontrolling interests	(3)	—	(6)	(1)	(10)
Net income (loss) attributable to KBR	42	47	(63)	(87)	(61)
<b>Net income (loss) attributable to KBR per share:</b>					
Net income (loss) attributable to KBR per share—Basic	\$ 0.30	\$ 0.32	\$ (0.44)	\$ (0.61)	\$ (0.43)
Net income (loss) attributable to KBR per share—Diluted	\$ 0.30	\$ 0.32	\$ (0.44)	\$ (0.61)	\$ (0.43)

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

- (a) Gross profit and operating income in the fourth quarter of 2016 was unfavorably impacted by changes in estimated costs to complete a downstream EPC project in the U.S. of \$94 million and the correction of an immaterial error of \$13 million within our E&C business segment. See Note 2 to our consolidated financial statements. The acquisitions of Wyle and HTSI contributed \$24 million to gross profit in the fourth quarter of 2016.

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

Not applicable.

### **Item 9A. Controls and Procedures**

#### ***Management's Evaluation of Disclosure Controls and Procedures***

In accordance with Rules 13a-15(b) under the Securities and Exchange Act of 1934, as amended (the "Exchange Act"), we carried out an evaluation, under the supervision and with the participation of management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e)) as of the end of the period covered by this report. Our disclosure controls and procedures are designed to ensure that information required to be disclosed in reports filed or submitted under the Exchange Act is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure and is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of December 31, 2016 at the reasonable assurance level.

Management does not expect that our disclosure controls and procedures will prevent all errors and all fraud. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system's objectives will be met. There are inherent limitations in all control systems, including the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the intentional acts of one or more persons. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. The design of any system of controls is based in part upon certain assumptions about the likelihood of future events, and while our disclosure controls and procedures are designed to be effective under circumstances where they should reasonably be expected to operate effectively, there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, have been detected.

#### ***Management's Annual Report on Internal Control Over Financial Reporting***

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

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

Management, including our Chief Executive Officer and Chief Financial Officer, carried out an evaluation of the effectiveness of our internal control over financial reporting as of December 31, 2016. In conducting this evaluation, our management used the criteria for effective internal control over financial reporting described in Internal Control-Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on that evaluation, management has determined our internal control over financial reporting was effective as of December 31, 2016.

As discussed in Note 3 to our consolidated financial statements, we acquired Wyle Inc. and KBRWyle Technology Solutions, LLC (formerly Honeywell Technology Solutions Inc.) during 2016. As permitted by guidelines established by the Securities and Exchange Commission for newly acquired business, we excluded the acquisitions from the scope of our annual report on internal controls over financial reporting for the year ended December 31, 2016. These acquisitions contributed approximately \$1.2 billion to our consolidated total assets as of December 31, 2016, and \$487 million and \$38 million to our consolidated revenues and gross profit, respectively, for the year ended December 31, 2016. We are in the process of integrating these businesses into our overall internal controls over financial reporting process and plan to include them in our scope for the year ended December 31, 2017.

The effectiveness of our internal control over financial reporting as of December 31, 2016 has been audited by KPMG LLP, an independent registered public accounting firm, as stated in their report, which is included in this Annual Report on Form 10-K.

***Changes in Internal Control Over Financial Reporting***

There were no changes in our internal controls over financial reporting during the three months ended December 31, 2016 that have materially affected, or are reasonably likely to affect, our internal control over financial reporting.

## Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders  
KBR, Inc.:

We have audited KBR, Inc.'s internal control over financial reporting as of December 31, 2016, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). KBR, Inc.'s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying *Management's Annual Report on Internal Control over Financial Reporting*. Our responsibility is to express an opinion on KBR, Inc.'s internal control over financial reporting based on our audit.

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

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

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

In our opinion, KBR, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2016, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

KBR, Inc. acquired Wyle Inc. and KBRwyle Technology Solutions, LLC (formerly Honeywell Technology Solutions Inc.) during 2016, and management excluded from its assessment of the effectiveness of KBR, Inc.'s internal control over financial reporting as of December 31, 2016, Wyle, Inc. and KBRwyle Technology Solutions LLC's internal control over financial reporting associated with total assets of \$1.2 billion and total revenues of \$487 million included in the consolidated financial statements of KBR, Inc. and subsidiaries, as of and for the year ended December 31, 2016. Our audit of internal control over financial reporting of KBR, Inc. also excluded an evaluation of the internal control over financial reporting of Wyle Inc. and KBRwyle Technology Solutions, LLC.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of KBR, Inc. and subsidiaries as of December 31, 2016 and 2015, and the related consolidated statements of operations, comprehensive income (loss), shareholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2016 and our report dated February 24, 2017, expressed an unqualified opinion on those consolidated financial statements.

/s/ KPMG LLP

Houston, Texas  
February 24, 2017



**Item 9B. Other Information**

Not applicable.

**PART III**

**Item 10. Directors, Executive Officers and Corporate Governance**

The information required by this Item is incorporated herein by reference to the KBR, Inc. Company Proxy Statement for our 2017 Annual Meeting of Stockholders.

**Item 11. Executive Compensation**

The information required by this Item is incorporated herein by reference to the KBR, Inc. Company Proxy Statement for our 2017 Annual Meeting of Stockholders.

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

The information required by this Item is incorporated herein by reference to the KBR, Inc. Company Proxy Statement for our 2017 Annual Meeting of Stockholders.

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

The information required by this Item is incorporated herein by reference to the KBR, Inc. Company Proxy Statement for our 2017 Annual Meeting of Stockholders.

**Item 14. Principal Accounting Fees and Services**

The information required by this Item is incorporated herein by reference to the KBR, Inc. Company Proxy Statement for our 2017 Annual Meeting of Stockholders.

**PART IV**

**Item 15. Exhibits and Financial Statement Schedules.**

- (a) The following documents are filed as part of this report or incorporated by reference:
  - 1. The consolidated financial statements of the Company listed on page 51 of this annual report.
  - 2. The exhibits of the Company listed below under Item 15(b); all exhibits are incorporated herein by reference to a prior filing as indicated, unless designated by a \* or \*\*.
- (b) Exhibits:

Exhibit Number	Description
2.1	Agreement and Plan of Merger by and among Wyle Inc., KBR Holdings, LLC, Road Runner Merger Sub, Inc., and CSC Shareholder Services LLC dated as of May 18, 2016 (incorporated by reference to Exhibit 2.1 to KBR's current report on Form 8-K filed May 23, 2016; File No. 1-33146)
2.2	Purchase and Sale Agreement by and among Honeywell International Inc., Honeywell Technology Solutions Inc., and KBR Holdings, LLC dated as of August 12, 2016 (incorporated by reference to Exhibit 2.1 to KBR's current report on Form 8-K filed August 12, 2016; File No. 1-33146)
3.1	KBR Amended and Restated Certificate of Incorporation (incorporated by reference to Exhibit 3.1 to KBR's current report on Form 8-K filed June 7, 2012; File No. 1-33146)
3.2	Amended and Restated Bylaws of KBR, Inc. (incorporated by reference to Exhibit 3.2 to KBR's annual report on Form 10-K for the year ended December 31, 2013 filed on February 27, 2014; File No. 1-33146)
4.1	Form of specimen KBR common stock certificate (incorporated by reference to Exhibit 4.1 to KBR's registration statement on Form S-1; Registration No. 333-133302)
10.1	Master Separation Agreement between Halliburton Company and KBR, Inc. dated as of November 20, 2006 (incorporated by reference to Exhibit 10.1 to KBR's current report on Form 8-K dated November 20, 2006; File No. 1-33146)
10.2	Tax Sharing Agreement, dated as of January 1, 2006, by and between Halliburton Company, KBR Holdings, LLC and KBR, Inc., as amended effective February 26, 2007 (incorporated by reference to Exhibit 10.2 to KBR's Annual Report on Form 10-K for the year ended December 31, 2006; File No. 1-33146)
10.3	Employee Matters Agreement dated as of November 20, 2006, by and between Halliburton Company and KBR, Inc. (incorporated by reference to Exhibit 10.6 to KBR's current report on Form 8-K dated November 20, 2006; File No. 1-33146)
10.4	Intellectual Property Matters Agreement dated as of November 20, 2006, by and between Halliburton Company and KBR, Inc. (incorporated by reference to Exhibit 10.7 to KBR's current report on Form 8-K dated November 20, 2006; File No. 1-33146)
10.5	Form of Indemnification Agreement between KBR, Inc. and its directors and executive officers (incorporated by reference to Exhibit 10.7 to KBR's annual report on Form 10-K for the year ended December 31, 2013 filed on February 27, 2014; File No. 1-33146)
10.6	Amended and Restated Revolving Credit Agreement dated as of September 25, 2015 among KBR, Inc., the Banks party thereto, Citibank, N.A., as Administrative Agent, Bank of America, N.A., ING Bank, N.V., Dublin Branch, BNP Paribas, and The Bank of Nova Scotia as Syndication Agents, Citibank, N.A., BNP Paribas, ING Bank, N.V., Dublin Branch, The Bank of Nova Scotia, Bank of America, N.A., and Compass Bank as initial Issuing Banks, and Citigroup Global Markets Inc., BNP Paribas Securities Corp., Merrill Lynch, Pierce, Fenner & Smith Inc., ING Bank, N.V., Dublin Branch, and The Bank of Nova Scotia as Joint Lead Arrangers and Bookrunners (incorporated by reference to Exhibit 10.1 to KBR's current report on Form 8-K dated September 25, 2015; File No. 1-33146)
10.7	First Amendment to Amended and Restated Credit Agreement dated as of December 21, 2016 to the Amended and Restated Revolving Credit Agreement dated as of September 25, 2015 (the "Credit Agreement") among KBR, Inc., the several banks and other institutions parties to the Credit Agreement, Citibank, NA., as administrative agent, and Bank of America, N.A., ING Bank, N.V., Dublin Branch, BNP Paribas, and The Bank of Nova Scotia as Syndication Agents (incorporated by reference to Exhibit 10.1 to KBR's current report on Form 8-K dated December 21, 2016; File No. 1-33146)
10.8	Guaranty Agreement dated as of May 18, 2016 by and between KBR, Inc. in favor of Wyle Inc. (incorporated by reference to Exhibit 10.1 to KBR's current report on Form 8-K filed May 23, 2016; File No. 1-33146)
10.9	Guaranty Agreement dated as of August 12, 2016 by and between KBR, Inc. in favor of Honeywell International Inc. (incorporated by reference to Exhibit 10.1 to KBR's current report on Form 8-K filed August 12, 2016; File No. 1-33146)
10.10+	KBR, Inc. 2006 Stock and Incentive Plan (As Amended and Restated March 7, 2012) (incorporated by reference to KBR's definitive Proxy Statement dated April 5, 2012; File No. 1-33146)
10.11+	KBR, Inc. 2006 Stock and Incentive Plan, as amended and restated effective May 16, 2016 (incorporated by reference to Exhibit 10.1 to KBR's current report on Form 8-K filed May 18, 2016; File No. 1-33146)

<b>Exhibit Number</b>	<b>Description</b>
10.12+	KBR, Inc. Senior Executive Performance Pay Plan (incorporated by reference to Exhibit 10.10 to KBR's annual report on Form 10-K for the year ended December 31, 2013 filed on February 27, 2014; File No. 1-33146)
10.13+	KBR, Inc. Management Performance Pay Plan (incorporated by reference to Exhibit 10.11 to KBR's annual report on Form 10-K for the year ended December 31, 2013 filed on February 27, 2014; File No. 1-33146)
10.14+	KBR, Inc. Transitional Stock Adjustment Plan (incorporated by reference to Exhibit 10.23 to KBR's Form 10-K for the fiscal year ended December 31, 2006; File No. 1-33146)
10.15+	KBR Dresser Deferred Compensation Plan (incorporated by reference to Exhibit 4.5 to KBR's Registration Statement on Form S-8 filed on April 13, 2007)
10.16+	KBR Supplemental Executive Retirement Plan (incorporated by reference to Exhibit 10.3 to KBR's current report on Form 8-K dated April 9, 2007; File No. 1-33146)
10.17+	KBR Benefit Restoration Plan (incorporated by reference to Exhibit 10.4 to KBR's current report on Form 8-K dated April 9, 2007; File No. 1-33146)
10.18+	KBR Elective Deferral Plan (incorporated by reference to Exhibit 10.5 to KBR's current report on Form 8-K dated April 9, 2007; File No. 1-33146)
10.19+	KBR Non-Employee Directors Elective Deferral Plan (incorporated by reference to Exhibit 10.1 to KBR's current report on Form 8-K dated December 11, 2013; File No. 1-33146)
10.20+	Form of Stock Option Agreement pursuant to KBR, Inc. 2006 Stock and Incentive Plan (incorporated by reference to Exhibit 10.3 to KBR's quarterly report on Form 10-Q for the period ended June 30, 2007; File No. 1-33146)
10.21+	Form of KBR Restricted Stock Agreement pursuant to KBR, Inc. 2006 Stock and Incentive Plan (incorporated by reference to Exhibit 10.4 to KBR's quarterly report on Form 10-Q for the period ended June 30, 2007; File No. 1-33146)
10.22+	Form of KBR, Inc. Transitional Stock Adjustment Plan Stock Option Award (incorporated by reference to Exhibit 10.5 to KBR's quarterly report on Form 10-Q for the period ended June 30, 2007; File No. 1-33146)
10.23+	Form of revised KBR Performance Award Agreement pursuant to KBR, Inc. 2006 Stock and Incentive Plan (incorporated by reference to Exhibit 10.25 to KBR's annual report on Form 10-K for the year ended December 31, 2010; File No. 1-33146)
10.24+	Form of revised KBR Performance Award Agreement pursuant to KBR, Inc. 2006 Stock and Incentive Plan (incorporated by reference to Exhibit 10.25 to KBR's annual report on Form 10-K for the year ended December 31, 2012; File No. 1-33146)
10.25+	Form of revised Nonstatutory Stock Option Agreement for US and Non-US Employees pursuant to KBR, Inc. 2006 Stock and Incentive Plan (incorporated by reference to Exhibit 10.1 to KBR's quarterly report on Form 10-Q for the period ended March 31, 2013; File No. 1-33146)
10.26+	Form of revised Restricted Stock Unit Agreement (U.S. Employee) pursuant to KBR, Inc. 2006 Stock and Incentive Plan (incorporated by reference to Exhibit 10.2 to KBR's quarterly report on Form 10-Q for the period ended March 31, 2013; File No. 1-33146)
10.27+	Form of revised Restricted Stock Unit Agreement (International Employee) pursuant to KBR, Inc. 2006 Stock and Incentive Plan (incorporated by reference to Exhibit 10.5 to KBR's quarterly report on Form 10-Q for the period ended March 31, 2013; File No. 1-33146)
10.28+	Form of revised Restricted Stock Unit Agreement (Director) pursuant to KBR, Inc. 2006 Stock and Incentive Plan (incorporated by reference to Exhibit 10.3 to KBR's quarterly report on Form 10-Q for the period ended March 31, 2013; File No. 1-33146)
10.29+	Form of revised Performance Award Agreement pursuant to KBR, Inc. 2006 Stock and Incentive Plan (incorporated by reference to Exhibit 10.4 to KBR's quarterly report on Form 10-Q for the period ended March 31, 2013; File No. 1-33146)
10.30+	Form of Restricted Stock Unit Agreement (Three-Year Cliff Vesting) pursuant to KBR, Inc. 2006 Stock and Incentive Plan (incorporated by reference to Exhibit 10.29 to KBR's annual report on Form 10-K for the year ended December 31, 2013 filed on February 27, 2014; File No. 1-33146)

<b>Exhibit Number</b>	<b>Description</b>
10.31+	Form of revised KBR Performance Award Agreement pursuant to KBR, Inc. 2006 Stock and Incentive Plan (incorporated by reference to Exhibit 10.1 to KBR's quarterly report on Form 10-Q for the period ended March 31, 2014; File No. 1-33146)
10.32+	Form of revised Nonstatutory Stock Option Agreement pursuant to KBR, Inc. 2006 Stock and Incentive Plan (incorporated by reference to Exhibit 10.2 to KBR's quarterly report on Form 10-Q for the period ended March 31, 2014; File No. 1-33146)
10.33+	Form of revised Restricted Stock Unit Agreement (U.S. Employee) pursuant to KBR, Inc. 2006 Stock and Incentive Plan (incorporated by reference to Exhibit 10.3 to KBR's quarterly report on Form 10-Q for the period ended March 31, 2014; File No. 1-33146)
10.34+	Form of revised Restricted Stock Unit Agreement (U.S. Employee - 3 Year Vesting) pursuant to KBR, Inc. 2006 Stock and Incentive Plan (incorporated by reference to Exhibit 10.1 to KBR's quarterly report on Form 10-Q for the period ended September 31, 2014; File No. 1-33146)
10.35+	Form of revised Restricted Stock Unit Agreement (International Employee - 3 Year Vesting) pursuant to KBR, Inc. 2006 Stock and Incentive Plan (incorporated by reference to Exhibit 10.2 to KBR's quarterly report on Form 10-Q for the period ended September 31, 2014; File No. 1-33146)
10.36+	Form of Restricted Stock Unit Agreement (U.S. Employee - 3 Year Vesting; Involuntary Termination Trigger) pursuant to KBR, Inc. 2006 Stock and Incentive Plan (incorporated by reference to Exhibit 10.3 to KBR's quarterly report on Form 10-Q for the period ended September 31, 2014; File No. 1-33146)
10.37+	Form of Restricted Stock Unit Agreement (U.S. Employee - 5 Year Vesting; TSR Requirement) pursuant to KBR, Inc. 2006 Stock and Incentive Plan (incorporated by reference to Exhibit 10.4 to KBR's quarterly report on Form 10-Q for the period ended September 31, 2014; File No. 1-33146)
10.38+	Form of Restricted Stock Unit Agreement (U.S. Employee - 3 Year Vesting; TSR Requirement) pursuant to KBR, Inc. 2006 Stock and Incentive Plan (incorporated by reference to Exhibit 10.39 to KBR's annual report on Form 10-K/A for the fiscal year ended December 31, 2015; File No. 1-33146)
10.39+	Form of KBR Performance Award Agreement pursuant to KBR, Inc. 2006 Stock and Incentive Plan (incorporated by reference to Exhibit 10.40 to KBR's Form annual report on 10-K for the year ended December 31, 2015; File No. 1-33146)
10.40+	Form of revised Performance Award Agreement pursuant to KBR, Inc. 2006 Stock and Incentive Plan (incorporated by reference to Exhibit 10.2 to KBR's quarterly report on Form 10-Q for the period ended March 31, 2015; File No. 1-33146)
10.41+	Form of revised Restricted Stock Unit Agreement (US Employee) pursuant to KBR, Inc. 2006 Stock and Incentive Plan (incorporated by reference to Exhibit 10.1 to KBR's quarterly report on Form 10-Q for the period ended March 31, 2016; File No. 1-33146)
10.42+	Form of revised Restricted Stock Unit Agreement (International Employee) pursuant to KBR, Inc. 2006 Stock and Incentive Plan (incorporated by reference to Exhibit 10.2 to KBR's quarterly report on Form 10-Q for the period ended March 31, 2016; File No. 1-33146)
10.43+	Form of revised Performance Stock Unit Agreement (US Employee) pursuant to KBR, Inc. 2006 Stock and Incentive Plan (incorporated by reference to Exhibit 10.3 to KBR's quarterly report on Form 10-Q for the period ended March 31, 2016; File No. 1-33146)
10.44+	Form of revised Performance Stock Unit Agreement (International Employee) pursuant to KBR, Inc. 2006 Stock and Incentive Plan (incorporated by reference to Exhibit 10.4 to KBR's quarterly report on Form 10-Q for the period ended March 31, 2016; File No. 1-33146)
10.45+	Form of revised Performance Award Agreement (US/International Employee) pursuant to KBR, Inc. 2006 Stock and Incentive Plan (incorporated by reference to Exhibit 10.5 to KBR's quarterly report on Form 10-Q for the period ended March 31, 2016; File No. 1-33146)
10.46+	Form of Severance and Change in Control Agreement (incorporated by reference to Exhibit 10.1 to KBR's quarterly report on Form 10-Q for the period ended September 30, 2008; File No. 1-33146)
10.47+	Amendment to the 2008 Severance and Change in Control Agreements effective as of December 31, 2008 (incorporated by reference to Exhibit 10.36 to KBR's annual report on Form 10-K for the year ended December 31, 2011; File No. 1-33146)

Exhibit Number	Description
10.48+	Severance and Change of Control Agreement effective as of July 9, 2012, by and between KBR Technical Services, Inc., a Delaware corporation, KBR, Inc., and Ivor Harrington (incorporated by reference to Exhibit 10.1 to KBR's current report on Form 8-K dated July 9, 2012; File No. 1-33146)
10.49+	Severance and Change in Control Agreement effective as of June 2, 2014, between KBR Technical Services, Inc., a Delaware corporation, KBR, Inc. and Stuart J. Bradie (incorporated by reference to Exhibit 10.1 to KBR's current report on Form 8-K dated April 9, 2014; File No. 1-33146)
10.50+	Severance and Change of Control Agreement effective as of December 11, 2011, by and between KBR Technical Services, Inc., a Delaware corporation, KBR, Inc., and Roy Oelking (incorporated by reference to Exhibit 10.38 to KBR's annual report on Form 10-K for the year ended December 31, 2012; File No. 1-33146)
10.51+	Severance and Change of Control Agreement effective as of December 14, 2011, by and between KBR Technical Services, Inc., a Delaware corporation, KBR, Inc., and Mitch Dauzat (incorporated by reference to Exhibit 10.1 to KBR's quarterly report on Form 10-Q for the period ended September 30, 2013; File No. 1-33146)
10.52+	Severance and Change of Control Agreement effective as of October 28, 2013, by and between KBR Technical Services, Inc., a Delaware corporation, KBR, Inc., and Brian Ferraioli (incorporated by reference to Exhibit 10.1 to KBR's current report on Form 8-K dated October 28, 2013; File No. 1-33146)
10.53+	Form of Amendment to Severance and Change in Control Agreement (incorporated by reference to Exhibit 10.2 to KBR's quarterly report on Form 10-Q for the period ended September 30, 2015; File No. 1-33146)
10.54+	Severance and Change of Control Agreement effective as of February 23, 2017, by and between KBR Technical Services, Inc., a Delaware corporation, KBR, Inc., and Mark Sopp (incorporated by reference to Exhibit 10.1 to KBR's current report on Form 8-K dated December 12, 2016; File No. 1-33146)
*21.1	List of subsidiaries
*23.1	Consent of KPMG LLP—Houston, Texas
*31.1	Certification of the Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
*31.2	Certification of the Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
**32.1	Certification Furnished Pursuant to 18 U.S.C. Section 1350 as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
**32.2	Certification Furnished Pursuant to 18 U.S.C. Section 1350 as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
***101	The following materials from the Company's Annual Report on Form 10-K for the period ended December 31, 2016, formatted in XBRL (Extensible Business Reporting Language): (i) Consolidated Statements of Operations, (ii) Consolidated Statements of Comprehensive Income (Loss), (iii) Consolidated Balance Sheets, (iv) Consolidated Statements of Shareholders' Equity, (v) Consolidated Statements of Cash Flows, and (vi) Notes to Consolidated Financial Statements

+ Management contracts or compensatory plans or arrangements

\* Filed with this Form 10-K

\*\* Furnished with this Form 10-K

\*\*\* Interactive data files

**KBR, Inc.**  
**Schedule II—Valuation and Qualifying Accounts**

The table below presents valuation and qualifying accounts for continuing operations.

(Dollars in Millions)

<u>Descriptions</u>	<u>Balance at Beginning Period</u>	<u>Additions</u>		<u>Deductions</u>	<u>Balance at End of Period</u>
		<u>Charged to Costs and Expenses</u>	<u>Charged to Other Accounts</u>		
Year ended December 31, 2016:					
Deducted from accounts and notes receivable:					
Allowance for doubtful accounts	\$ 17	\$ (2)	\$ —	\$ (1)(a)	\$ 14
Reserve for losses on uncompleted contracts	\$ 60	\$ 331	\$ —	\$ (328)	\$ 63
Reserve for potentially disallowable costs incurred under government contracts	\$ 50	\$ 10	\$ 6(b)	\$ (2)	\$ 64
Year ended December 31, 2015:					
Deducted from accounts and notes receivable:					
Allowance for doubtful accounts	\$ 19	\$ 2	\$ —	\$ (4)(a)	\$ 17
Reserve for losses on uncompleted contracts	\$ 159	\$ 69	\$ —	\$ (168)	\$ 60
Reserve for potentially disallowable costs incurred under government contracts	\$ 74	\$ —	\$ 3(b)	\$ (27)	\$ 50
Year ended December 31, 2014:					
Deducted from accounts and notes receivable:					
Allowance for doubtful accounts	\$ 18	\$ 11	\$ —	\$ (10)(a)	\$ 19
Reserve for losses on uncompleted contracts	\$ 109	\$ 278	\$ —	\$ (228)	\$ 159
Reserve for potentially disallowable costs incurred under government contracts	\$ 91	\$ —	\$ —(b)	\$ (17)	\$ 74

(a) Receivable write-offs, net of recoveries, and reclassifications.

(b) Reserves have been recorded as reductions of revenues, net of reserves no longer required.

See accompanying report of independent registered public accounting firm.



## **Board of Directors**

### **Mark E. Baldwin**

Former Executive Vice President  
And Chief Financial Officer  
*Dresser-Rand Group, Inc.*

### **James R. Blackwell**

Former Executive Vice President,  
Technology and Services  
*Chevron Corporation*

### **Stuart J. B. Bradie**

President and Chief Executive Officer  
*KBR, Inc.*

### **Loren K. Carroll**

Independent Consultant & Advisor

### **Jeffrey E. Curtiss**

Private Investor

### **General Lester L. Lyles, USAF (Ret.)**

Independent Consultant

### **Jack B. Moore**

Former Chairman of the Board and  
Chief Executive Officer  
*Cameron International Corporation*

### **Ann D. Pickard**

Former Executive Vice President, Arctic  
*Royal Dutch Shell plc*

### **Umberto della Sala**

Former Chief Executive Officer  
*Foster Wheeler AG*

### **Richard J. Slater**

Chairman  
*ORBIS LLC*

## **Corporate Officers**

### **Stuart J. B. Bradie**

President and Chief Executive Officer  
Group President, Engineering & Construction

### **Mark W. Sopp**

Executive Vice President and Chief Financial Officer

### **Eileen G. Akerson**

Executive Vice President, General Counsel and  
Corporate Secretary

### **K. Graham Hill**

Executive Vice President,  
Global Business Development & Strategy

### **Ian J. Mackey**

Executive Vice President,  
Chief Corporate Officer

### **Greg Conlon**

President, Asia Pacific

### **John T. Derbyshire**

President, Technology & Consulting

### **J. Jay Ibrahim**

President, Europe, Middle East & Africa

### **Farhan Mujib**

President, Engineering & Construction Americas

### **Roger Wiederkehr**

President, KBRwyle

*April 3, 2017*

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## **Shareholder Information**

Shares Listed  
New York Stock Exchange  
Symbol: KBR

## **Transfer Agent and Registrar**

American Stock Transfer & Trust Company  
6201 15th Avenue  
Brooklyn, New York 11219  
(800) 937-5449  
info@amstock.com

## **To Contact Investor Relations**

Shareholders may call the Company at 1-866-380-7721 or 713-753-5082 or contact us via email at [investors@kbr.com](mailto:investors@kbr.com).

The CEO and CFO certifications required by Section 302 of the Sarbanes-Oxley Act of 2002 have been filed as exhibits to KBR's Form 10-K. Our Annual CEO Certification for fiscal year 2016 was submitted to the NYSE timely and without qualification.