KBR, INC.
Form 10-K
February 27, 2015

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

FORM 10-K

ý Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the fiscal year ended December 31, 2014
OR
¨ Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the transition period from to
Commission File Number: 1-33146

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

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

(713) 753-3011
(Registrant's telephone number including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock par value $0.001 per share	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ý No ¨

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ¨ No ý

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ý No ¨

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ý

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

Large accelerated filer ý	Accelerated filer ¨
Non-accelerated filer ¨ (Do not check if a smaller reporting company)	Smaller reporting company ¨

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

The aggregate market value of the voting stock held by non-affiliates on June 30, 2014 was approximately $3.5 billion, determined using the closing price of shares of the registrant's common stock on the New York Stock Exchange on that date of $23.85.

As of January 31, 2015, there were 144,821,140 shares of KBR, Inc. Common Stock, par value $0.001 per share, outstanding.

DOCUMENTS INCORPORATED BY REFERENCE
Portions of the registrant's Proxy Statement for its 2015 Annual Meeting of Stockholders are incorporated by reference into Part III of this report.

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Forward-Looking and Cautionary Statements

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

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

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

PART I

Item 1. Business

General

KBR, Inc. and its subsidiaries (collectively, "KBR") is an engineering, construction and services company supporting the global hydrocarbons and international government services market segments. We offer an extensive portfolio of proprietary technology and consulting services; engineering, construction, procurement and asset maintenance services; and base operational, logistics, life support and asset management services, through our Technology & Consulting, Engineering & Construction and Government Services business segments. Information regarding business segment disclosures is incorporated by reference in Note 2 to our consolidated financial statements and "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations."

KBR, Inc. was incorporated in Delaware on March 21, 2006 prior to an exchange offer transaction that separated us from our former parent, Halliburton Company, which was completed on April 5, 2007. We trace our history and culture to two businesses, The M.W. Kellogg Company ("Kellogg") and Brown & Root, Inc. ("Brown & Root"). Kellogg dates back to a pipe fabrication business that was founded in New York in 1901 and evolved into a technology and service provider for petroleum refining and petrochemicals processing. Brown & Root was founded in Houston, Texas in 1919 and built the world's first offshore platform in 1947. Brown & Root was acquired by Halliburton in 1962 and Kellogg was acquired by Halliburton in 1998 through its merger with Dresser Industries.

Our Business Segments

Business Reorganization

On December 11, 2014, we announced our reorganization into the following three business segments:

•Technology & Consulting
•Engineering & Construction
•Government Services

Our corporate expenses and other operations that do not individually meet the criteria for group presentation continue to be reported in our Other business segment. In addition, we combined certain operations in the markets we have decided to exit into a new, Non-strategic Business segment. We have revised our business segment reporting to reflect our current management approach and recast prior periods to conform to the current business segment presentation. Our business segments are described below.

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

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

Government Services ("GS"). Our GS business segment focuses on long-term service contracts with annuity streams particularly for the United Kingdom ("U.K."), Australian and United States ("U.S.") governments.
Non-strategic Business. On December 11, 2014, we also announced that we would exit businesses that are no longer a part of our future strategic focus. Our Non-strategic Business segment represents these operations or activities which we intend to either sell to third parties or exit upon completion of existing contracts and runoff activities.

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.

Our Business Strategy

Our business strategy is to provide our customers with differentiated and superior capital project delivery and services offerings across the entire engineering, construction and operations project lifecycle. We aim to create enhanced customer satisfaction leading to repeat business through a best-in-class delivery platform. Our projects are generally long-term in nature and an essential feature of our global strategy is to establish local operations in locations where services demand growth is expected. Our core skills are conceptual design, front-end engineering design ("FEED"), engineering, project management, procurement, construction, construction management, logistics, commissioning, operations and maintenance. When necessary, we complement organic growth by pursuing targeted acquisitions that focus on expanding our capabilities and market coverage or accelerating business growth strategies.

In addition, we provide superior technology offerings in focused markets through our broad portfolio of proprietary technology and niche consulting skills. These proven and innovative options provide customers with tailored solutions to their market challenges.

As a part of the strategic announcement on December 11, 2014, we performed a critical evaluation of our business portfolio and identified the businesses where we believe we have a competitive edge. We are moving into a project delivery and accountability focused structure that aligns with the needs of our customers, recognizes diverse business models and employs a more targeted approach that will enable us to realize revenue and cost synergies. Our strategic priorities will focus on differentiated offerings in two core markets: global hydrocarbons and international government services. Key features of our business segment strategies are discussed below.

The Technology & Consulting business segment offers a broad spectrum of services and solutions, including licensing, basic engineering and design ("BED"), proprietary equipment ("PEQ"), plant automation, catalysts and related consulting services to hydrocarbons, chemicals and fertilizer markets. Services provided by the oil and gas consulting portion of this business include field development and planning, technology selection and optimization of capital spending, offshore integrity management and structural analysis for production platforms in various locations. Services provided by the downstream consulting portion of this business include feasibility and revamp studies as well as planning activities related to the development and construction of refining, petrochemical, chemical and fertilizer complexes.

Our upstream technology solutions include the provision of technology related to semi-submersible hull design and monohull vessels capable of working in the ultra-deep and harsh environments, as well as Drillship and Floating Production, Storage and Offshore ("FPSO") vessels. Downstream technology offerings include technologies for conversion of heavy hydrocarbon streams to fuels in the refining markets as well as technologies for the conversion and production of high value olefins from a variety of feedstocks. Additionally, the technology portfolio includes market leading ammonia process technology solutions for the ammonia and fertilizer markets as well as clean coal gasification technology, a promising alternative to meet global energy demand.

The Engineering & Construction business segment, our project delivery business, offers a scope of services covering the entire spectrum of project development activities from the earliest conceptual engineering, through FEED and execution planning phases to full EPC delivery and asset services. E&C provides engineering and EPC services for the development, construction and commissioning of projects in the offshore, onshore and liquefied natural gas ("LNG") and gas-to-liquids ("GTL") markets. Offshore offerings focus on fixed and floating platforms and facilities, hulls, moorings, risers ("HMR") and subsea umbilicals, risers and flowlines ("SURF"). Our services in the onshore markets include projects in oil & gas, refining, petrochemicals, chemicals, ammonia, fertilizers, syngas and gasification units. Our service offerings in the LNG and GTL markets include liquefaction, regasification, floating

LNG ("FLNG") and floating storage and regasification units ("FSRU"). Our asset services include maintenance, modification, asset integrity and small capital expenditure ("CAPEX") projects. With these service offerings, we continue to leverage our proud history of delivering some of the most complex projects throughout the world and in some of the most remote and challenging locations.

The Government Services business segment focuses on providing a wide range of base and remote life support services, logistics, program management and capability risk management, resilience planning and execution services and training to government agencies from the U.K., Australia, the U.S. and other parts of the world. Our service offerings range from construction, refurbishment, operations and maintenance of housing and other facilities for military personnel to home base and overseas operations support, embassy and other life support programs, heavy equipment transportation and police facilities management integration around the world. Our objective is to capitalize on new opportunities resulting from the industry’s demands for increased efficiencies in response to tight government budgets and governments' requirements to deal with new threats.

The Non-strategic business segment focuses on the completion of three power projects and other run-off activities in the markets we are exiting, and the eventual sale of a product line.

Competition and Scope of Global Operations

We operate in highly competitive markets throughout the world and believe the following are the areas where we have a competitive advantage:

- market-leading health, safety and environmental standards and sustainable practices;
- customer relationships;
- successful prior execution of large projects in difficult locations;
- technical excellence and differentiation;
- high value in delivered projects and services measured by performance, quality, operability and cost;
- service delivery, including the ability to deliver personnel, processes, systems and technology on an "as needed, where needed and when needed" basis with the required local content and presence;
- consistent superior service quality;
- financial strength through liquidity, capital capacity and the ability to support warranties;
- breadth of proprietary technology, know-how and technical solutions; and
- robust risk awareness and management processes.

We conduct business in over 70 countries. Based on the location of projects executed, our operations in countries other than the U.S. accounted for 63% of our consolidated revenues during 2014, 66% of our consolidated revenues during 2013 and 73% of our consolidated revenues during 2012. See Note 2 to our consolidated financial statements for selected geographic information.

We have summarized our revenues by geographic location as a percentage of total revenues below:

	Years ended December 31,					
	2014		2013		2012	
Revenues:						
United States	37	%	34	%	27	%
Australia	22	%	25	%	23	%
Canada	12	%	10	%	6	%
Middle East	11	%	13	%	13	%
Europe	10	%	8	%	7	%
Africa	4	%	8	%	21	%
Other countries	4	%	2	%	3	%
Total	100	%	100	%	100	%

We market substantially all of our project and service offerings through our business segments. The markets we serve are highly competitive and for the most part require substantial resources and highly skilled and experienced technical personnel. A large number of companies are competing in the markets served by our business, including U.S.-based companies such as Bechtel Corporation, Fluor Corporation, Jacobs Engineering, AECOM, and international-based companies such as AMEC Foster Wheeler, Chicago Bridge and Iron, Chiyoda Corporation ("Chiyoda"), JGC Corporation ("JGC"), McDermott International, Petrofac, Saipem, Technip, Wood Group/PSN and Worley Parsons. Since the markets for our services are vast and extend across multiple geographic regions, we cannot make a definitive estimate of the total number of our competitors.

Our operations in some countries may be adversely affected by unsettled political conditions, acts of terrorism, civil unrest, force majeure, war or other armed conflict, expropriation or other governmental actions, inflation and foreign currency exchange controls and fluctuations. We strive to manage or mitigate these risks through a variety of means including contract provisions, contingency planning, insurance schemes, hedging and other risk management activities. See "Item 1A. Risk Factors," "Item 7A. Quantitative and Qualitative Discussion about Market Risk" and Note 20 to our consolidated financial statements for information regarding our exposures to foreign currency fluctuations, risk concentration and financial instruments used to manage our risks.

Acquisitions and Other Transactions

In November 2013, we closed on the sale of a portion of a subsidiary, Allstates Technical Services, for $10 million in cash. The sale resulted in a $3 million pre-tax gain and is recorded in "gain on disposition of assets" in our consolidated statements of operations.

In November 2012, a joint venture in which we hold a 50% interest sold the office building in which we lease office space for our corporate headquarters and business segment offices in Houston, Texas for $175 million. Since we continue to lease the office building from the new owner under essentially the same lease terms, the $44 million pre-tax gain on the sale was deferred and is being amortized using the straight-line method over the remaining term of the lease, which expires in 2030.

In November 2012, we closed on the sale of our former headquarters campus located at 4100 Clinton Drive in Houston, Texas for $42 million in cash. The sale resulted in a $27 million pre-tax gain on disposal of assets in "gain on disposition of assets" in our consolidated statements of operations.

Joint Ventures and Alliances

We enter into joint ventures and alliances with other industry participants in order to reduce exposure and diversify risk, increase the number of opportunities that can be pursued, capitalize on the strengths of each party and provide greater flexibility in delivering our services based on cost and geographical efficiency. Clients of our E&C business segment frequently require EPC contractors to work in teams given the size and complexity of global projects that may cost billions of dollars to complete. Our significant joint ventures and alliances are described below. All joint venture ownership percentages presented are stated as of December 31, 2014.

We are working with JGC and Chiyoda for the purpose of design, procurement, fabrication, construction, commissioning and testing of the Ichthys Onshore LNG export facility in Darwin, Australia. The project is being executed using two joint ventures and we own a 30% equity interest in each joint venture. The investments are accounted for using the equity method of accounting and reported in our E&C business segment.

KJVG is a joint venture consisting of JGC, Hatch Associates, Clough Projects Australia and KBR for the purpose of design, procurement, fabrication, construction, commissioning and testing of the Gorgon onshore LNG project located on Barrow Island off the northwest coast of Western Australia. We hold a 30% interest in the joint venture which is consolidated for financial accounting purposes and reported in our E&C business segment.

Aspire Defence Holdings Limited ("Aspire Defence") is a joint venture currently owned by KBR and two financial investors to upgrade and provide a range of services to the British Army’s garrisons at Aldershot and around the Salisbury Plain in the U.K. We own a 45% interest in Aspire Defence and we own a 50% interest in each of the two joint ventures that provide the construction and related support services to Aspire Defence. The investments are accounted for using the equity method of accounting and reported in our GS business segment.

Mantenimiento Marino de Mexico (“MMM”) is a joint venture formed under a Partners Agreement with Grupo R affiliated entities. The principal Grupo R entity is Corporative Grupo R, S.A. de C.V. and Discoverer ASA, Ltd., a Cayman Islands company. The Partners Agreement covers five joint venture entities executing Mexican contracts with Petróleos Mexicanos ("PEMEX"). MMM 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 maintenance, repair and restoration services of offshore oil and gas platforms and provisions of quartering in the territorial waters of Mexico. We own a 50% interest in MMM and in each of the four other joint ventures. We account for our investment in these entities using the equity method of accounting and report them in our E&C business segment.

Backlog of Unfulfilled Orders

Backlog is our estimate of the dollar amount of revenues we expect to realize in the future as a result of executing awarded contracts. For our projects related to unconsolidated joint ventures, we have included our percentage ownership of the joint venture's estimated revenues in backlog to provide an indication of future work to be performed. Our backlog was $10.9 billion and $14.1 billion at December 31, 2014 and 2013, respectively. We estimate that, as of December 31, 2014, 51% of our backlog will be recognized as revenues within one year. All backlog is attributable to firm orders at December 31, 2014 and 2013. For additional information regarding backlog see our discussion within "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations."

Contracts

Our contracts are broadly categorized as cost-reimbursable, fixed price or “hybrid” contracts containing both cost-reimbursable and fixed-price scopes. Our fixed price contracts often include cost escalation and other features that allow for increases in price should certain events occur or conditions change. Change orders on fixed-priced contracts are routinely approved as work scope changes resulting in adjustments to our fixed price.

Fixed-price contracts, which include our unit-rate contracts (essentially a fixed-price contract with the only variable being units of work performed) where we are paid fixed amounts based on the final number of 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 more 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. Although fixed-price contracts involve greater risk than cost-reimbursable contracts, they also are potentially more profitable since the owner/customer pays a premium to transfer project risks to us.

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

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

Significant Customers

We provide services to a diverse customer base, including:

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

A considerable percentage of revenues is generated from transactions with the Chevron Corporation ("Chevron") primarily within our E&C segment. No other customers represented 10% or more of consolidated revenues in any of the periods presented. The information in the following table has summarized data related to our revenues from Chevron.
Revenue and percent of consolidated revenues attributable to major customers by year:

	Years ended December 31,					
	2014		2013		2012	
	$	%	$	%	$	%

Dollars in millions, except percentage amounts									
Chevron revenue	1,069	17	%	1,859	26	%	2,302	30	%

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Raw Materials and Suppliers

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

Intellectual Property

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

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

Seasonality

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

Employees

As of December 31, 2014, we had approximately 25,000 employees, of which approximately 10% were subject to collective bargaining agreements. Based upon the geographic diversification of our employees, we believe any risk of loss from employee strikes or other collective actions would not be material to the conduct of our operations taken as a whole.

Health and Safety

We are subject to numerous health and safety laws and regulations. In the United States, these laws and regulations include the Federal Occupational Safety and Health Act and comparable state legislation, the Mine Safety and Health Administration laws, and safety requirements of the Departments of State, Defense, Energy and Transportation of the

U.S. government. We are also subject to similar requirements in other countries in which we have extensive operations, including the U.K. where we are subject to the various regulations enacted by the Health and Safety Act of 1974.

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

During the fourth quarter of 2014, we embarked on a global Zero Harm initiative in order to reinforce health, safety, security and environment as key components of the KBR culture and lifestyle. This initiative incorporates three dynamic components, Zero Harm, 24/7 and courage to care which empowers individuals to take responsibility for their health and safety, as well as that of their colleagues.

Environmental Regulation

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, and until further information is available, we are only able to estimate a possible range of remediation costs. 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, as of December 31, 2014, we have accrued approximately $1 million for the assessment and remediation costs associated with all environmental matters and we do not anticipate incurring additional costs. See Note 15 to our consolidated financial statements for more information on environmental matters.

We have been named as a potentially responsible party in various clean-up actions taken by federal and state agencies in the U.S. At this time, we are unable to determine whether we will ultimately be deemed responsible for any costs associated with these actions.

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.

Compliance

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

Website Access

Our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 are made available free of charge on our Internet website at www.kbr.com as soon as reasonably practicable after we have electronically filed the material with, or furnished it to, the U.S. Securities and Exchange Commission ("SEC"). The public may read and copy any materials we have filed with the SEC at the SEC's Public Reference Room at 100 F Street, NE, Washington, DC 20549. Information on the operation of the Public Reference Room may be obtained by calling the SEC at 1-800-SEC-0330. The SEC maintains an Internet website that contains our reports, proxy and information statements and our other SEC filings. The address of that website is www.sec.gov. We have posted on our website our Code of Business Conduct, which applies to all of our employees and Directors and serves as a code of ethics for our principal executive officer, principal financial officer, principal accounting officer and other persons performing similar functions. Any amendments to our Code of Business Conduct or any waivers from provisions of our Code of Business Conduct granted to the specified officers above are disclosed on our website within four business days after the date of any amendment or waiver pertaining to these officers. No such waivers were granted during 2014.

Item 1A. Risk Factors

Risks Related to Operations of our Business

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

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

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

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

We conduct our business under various types of contracts where costs must be estimated in advance of our performance. Approximately 40% of the value of our backlog is attributable to fixed-price contracts, which include our unit-rate contracts where we bear a significant portion of the risk of cost over-runs. These types of contracts are priced based in part on cost and scheduling estimates that are based on assumptions including prices and availability of labor, equipment and materials as well as productivity, performance and future economic conditions. If these estimates prove inaccurate, there are errors or ambiguities as to contract specifications or if circumstances change due to, among other things, unanticipated technical problems, difficulties in obtaining permits or approvals, changes in local laws or labor conditions, weather delays, changes in the costs of equipment and materials or our suppliers' or subcontractors' inability to perform, then cost overruns may occur. We may not be able to obtain compensation for additional work performed or expenses incurred. Additionally, we may be required to pay liquidated damages upon our failure to meet schedule or performance requirements of our contracts. Our failure to accurately estimate the resources and time required for fixed-price contracts or our failure to complete our contractual obligations within the time frame and costs committed could result in reduced profits or, in certain cases, a loss for that contract. If the contract is significant, or we encounter issues that impact multiple contracts, cost overruns could have a material adverse effect on our business, financial condition and results of operations.

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

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

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

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

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

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

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

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

International and political events may adversely affect our operations.

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

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

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

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

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

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

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

Some of our services are performed in high-risk locations, such as Iraq, Afghanistan, certain parts of Africa and the Middle East, where the country or surrounding area is suffering from political, social or economic issues, war or civil unrest. In those locations where we have employees or operations, we have and may continue to incur substantial costs to maintain the safety of our personnel. Despite these precautions, we have suffered the loss of employees and contractors that has resulted in claims and litigation. In the future, the safety of our personnel in these and other locations may continue to be at risk, exposing us to the potential loss of additional employees and contractors that could lead to future claims and litigation.

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

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

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

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

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

Historically, the markets for oil and natural gas have been volatile and are likely to continue to be volatile in the future.

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

Our business segment revenues are highly dependent on capital expenditures for LNG, refining and distribution facilities and other investments by large oil and gas companies. The demand for these facilities and the ability of our customers to borrow and obtain additional capital on attractive terms is also substantially dependent upon crude oil and natural gas prices. As seen in the recent decline in crude prices, prices of oil and natural gas are subject to large fluctuations in response to relatively minor changes in supply and demand, market uncertainty and a variety of other factors that are beyond our control. Demand for the services we provide could decrease in the event of a sustained reduction in demand for crude oil or natural gas, while perceptions of long-term decline in crude oil and natural gas prices by oil and gas companies (our customers) can similarly reduce or defer major expenditures given the long-term nature of many large-scale projects.

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

As of December 31, 2014, our backlog was approximately $10.9 billion. We cannot guarantee that the revenues projected in our backlog will be realized or that the projects will be profitable. Many of our contracts are subject to cancellation, termination or suspension at the discretion of the customer. From time to time, changes in project scope may occur with respect to contracts reflected in our backlog and could reduce the dollar amount of our backlog and the timing of the revenues and profits that we actually earn. Projects may remain in our backlog for an extended period of time because of the nature of the project and the timing of the particular services or equipment required by the project. Delays, suspensions, cancellations, payment defaults, scope changes and poor project execution could materially reduce or eliminate profits that we actually realize from projects in backlog. We cannot predict the impact that future economic conditions may have on our backlog, which could include a diminished ability to replace backlog once projects are completed or could result in the termination, modification or suspension of projects currently in our backlog. Such developments could have a material adverse effect on our financial condition, results of operations and cash flows.

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

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

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

We provide services to a diverse customer base, including IOCs, NOCs, independent refiners, petrochemical producers, fertilizer producers, chemical producers, manufacturers, domestic and foreign governments and regulated electric utilities. A considerable percentage of revenues is generated from transactions with Chevron primarily from our E&C business segment. Revenues from Chevron in 2014 represented 17% of our total consolidated revenues.

Dependence on craft labor, subcontractors and equipment manufacturers could adversely affect our profits.

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

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

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

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

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

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

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

We rely heavily on IT systems in order to achieve our business objectives. We also rely upon industry accepted security measures and technology to securely maintain confidential and proprietary information maintained on our IT systems. However, our portfolio of hardware and software products, solutions and services and our enterprise IT systems may be vulnerable to damage or disruption caused by circumstances beyond our control such as catastrophic events, power outages, natural disasters, computer system or network failures, computer viruses, cyber-attacks or other malicious software programs. The failure of our IT systems to perform as anticipated for any reason could disrupt our business and result in decreased performance, significant remediation costs, transaction errors, loss of data, processing inefficiencies, downtime, litigation and the loss of suppliers or customers. We have experienced security threats, none of which we considered to be significant to our business or results of operations, but significant disruption or failure could have a material adverse effect on our business operations, financial performance and financial condition.

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

As of December 31, 2014, we had $324 million of goodwill and $41 million of intangible assets recorded on our consolidated balance sheets. Goodwill represents the excess of cost over the fair market value of net assets acquired in business combinations. If our market capitalization drops significantly below the amount of net equity recorded on our balance sheets, it might indicate a decline in our fair value and would require us to further evaluate whether our goodwill has been impaired. We perform an annual and an interim analysis, if appropriate, of our goodwill to determine if it has become impaired. The analysis requires us to make assumptions in estimates of fair value of our reporting units. If actual results are significantly different from the estimates, we might be required to write down the impaired portion of goodwill. An impairment of all or a part of our goodwill and/or intangible assets could have a material adverse effect on our net earnings and net worth.

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

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

Risks Related to Government Operations of our Business

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

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

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

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

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

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

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

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

Given the demands of working for the U.S. government, we may have disagreements or experience performance issues. When performance issues arise under any of our U.S. government contracts, the U.S. government retains the right to pursue remedies, which could include termination under any affected contract. If any contract were so terminated, our ability to secure future contracts could be adversely affected, although we would receive payment for amounts owed for our allowable costs under cost-reimbursable contracts. Other remedies that could be sought by our government customers for any improper activities or performance issues include sanctions such as forfeiture of profits, suspension of payments, fines and suspensions or debarment from doing business with the government. Further, the negative publicity that could arise from disagreements with our customers or sanctions as a result thereof could have an adverse effect on our reputation in the industry, reduce our ability to compete for new contracts and may also have a material adverse effect on our business, financial condition, results of operations and cash flows.

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

A KBR subsidiary currently holds a U.S. government-issued facility security clearance and certain of its employees have qualified for and hold U.S. government-issued personal security clearances. These clearances are necessary in order to qualify for and ultimately perform certain of our U.S. government contracts. Should we no longer qualify for such clearances, our ability to pursue and perform U.S. government contracts would be negatively impacted.

Risks Related to Governmental Regulations and Law

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

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

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

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

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

Our operations are subject to a variety of environmental, health and safety laws and regulations governing the generation, management and use of regulated materials, the discharge of materials into the environment, the remediation of environmental contamination associated with the release of hazardous substances and human health and safety. Violations of these laws and regulations can cause significant delays and add significant cost to a project.

Various U.S. federal, state, local, and foreign environmental laws and regulations may impose liability for property damage and costs of investigation and cleanup of hazardous or toxic substances on property currently or previously owned by us or arising out of our waste management or environmental remediation activities. These laws may impose responsibility and liability without regard to knowledge or causation of the presence of contaminants. The liability under these laws is joint and several. The ongoing costs of complying with existing environmental laws and regulations could be substantial and have a material adverse impact on our financial condition, results of operations and cash flows.

When we perform our services, our personnel and equipment may be exposed to radioactive and hazardous materials and conditions. We may be subject to claims alleging personal injury, property damage or natural resource damages by employees, customers and third parties as a result of alleged exposure to or contamination by hazardous substances. In addition, we may be subject to fines, penalties or other liabilities arising under environmental safety laws. A claim, if not covered by insurance at all or only partially, could have a material adverse impact on our financial condition, results of operations and cash flows.

Changes in the environmental laws and regulations, remediation obligations, enforcement actions, stricter interpretations of existing requirements, future discovery of contamination or claims for damages to persons, property, natural resources or the environment could result in material costs and liabilities that we currently do not anticipate.

Risks Related to Financial Conditions and Markets

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

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

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

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

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

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

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

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

Our Credit Agreement provides a credit line of $1 billion and expires in December 2016. It contains a number of covenants restricting, among other things, our ability to incur liens and indebtedness, sell assets, repurchase our equity shares and make certain types of investments. We are also subject to certain financial covenants, including maintenance of a maximum ratio of consolidated debt to consolidated EBITDA and a minimum consolidated net worth.

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

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

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

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

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

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

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

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

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

We participate in privately financed projects that enable governments and other customers to finance large-scale projects, such as the acquisition and maintenance of major military equipment, capital projects and service purchases. These projects typically include the facilitation of nonrecourse financing, the design and construction of facilities and the provision of operation and maintenance services for an agreed-upon period after the facilities have been completed. We may incur contractually reimbursable costs and typically make investments prior to an entity achieving operational status or receiving project financing. If a project is unable to obtain financing, we could incur losses on our investments and any related contractual receivables. After completion of these projects, the return on our investments can be dependent on the operational success of the project and market factors which may not be under our control. As a result, we could sustain a loss on our equity investment in these projects.

Item 1B. Unresolved Staff Comments

None.

Item 2.Properties

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

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

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

Item 3.Legal Proceedings

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

Item 4.Mine Safety Disclosures

Not applicable.

PART II

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

Our common stock is traded on the New York Stock Exchange under the symbol "KBR." The following table sets forth, on a per share basis for the periods indicated, the high and low sales prices per share for our common stock as reported by the New York Stock Exchange and dividends declared. In the fourth quarter of 2014, we declared a dividend of $0.08 per share on October 2, 2014.

	Common Stock Price Range		Dividends
	High	Low	Declared Per Share
Fiscal Year 2014			
First quarter ended March 31, 2014	$34.77	$26.34	$0.08
Second quarter ended June 30, 2014	$28.29	$22.48	$0.08
Third quarter ended September 30, 2014	$24.44	$18.77	$0.08
Fourth quarter ended December 31, 2014	$20.48	$14.65	$0.08
Fiscal Year 2013			
First quarter ended March 31, 2013	$32.65	$28.24	$—
Second quarter ended June 30, 2013	$36.69	$27.60	$0.08
Third quarter ended September 30, 2013	$34.01	$29.42	$0.08
Fourth quarter ended December 31, 2013	$36.70	$29.32	$0.08

At January 31, 2015, there were 110 shareholders of record. In calculating the number of shareholders, we consider clearing agencies and security position listings as one shareholder for each agency or listing.

Share Repurchases

On February 25, 2014, our Board of Directors authorized a new $350 million share repurchase program, which replaces and terminates the August 26, 2011 share repurchase program. The authorization does not specify an expiration date for the share repurchase program.

We also have a share maintenance program to repurchase shares based on vesting and other activity under our equity compensation plans. In a given fiscal year, we allocate repurchased shares first to our maintenance program and next to our Board-authorized repurchase program. In the months in which we have not repurchased but have had to cover vesting on our equity compensation plans we reduce previous repurchases under the Board-authorized repurchase program.

Under our Credit Agreement, we are permitted to repurchase our common stock provided that no such repurchases shall be made from the proceeds borrowed under the Credit Agreement and that the aggregate purchase price and dividends paid after December 2, 2013 does not exceed the Distribution Cap. At December 31, 2014, the remaining availability under the Distribution Cap was approximately $468 million. The declaration, payment or increase of any future dividends will be at the discretion of our Board of Directors and will depend upon, among other things, future earnings, general financial condition and liquidity, success in business activities, capital requirements and general business conditions. Since January 2007, we have repurchased $731 million of our outstanding common stock.

The following is a summary of share repurchases of our common stock settled during the three months ended December 31, 2014.

Purchase Period	Total Number of Shares Purchased [(1)]	Average Price Paid per Share [(3)]	Total Number of Shares Purchased as Part of Publicly Announced Plan [(2)]	Dollar Value of Maximum Number of Shares that May Yet Be Purchased Under the Plan
October 1 – 31, 2014	—	$—	—	$265,330,176
November 3 – 28, 2014	—	$20.78	(2,880)	$265,390,024
December 1 – 31, 2014	230,400	$15.59	228,208	$261,832,261
Total	230,400	$15.52	225,328	$261,832,261

(1) Does not include shares withheld for tax purpose or forfeitures under our equity plans. Shares are acquired from employees in connection with the settlement of income tax and related benefit-withholding obligations arising from the vesting of restricted stock units. For the three month period ended December 31, 2014, 507 shares were acquired to cover employee transactions at an average price of $18.23.

(2) Represents the number of shares applied to the share repurchase program authorized and announced on February 25, 2014 less shares allocated to our maintenance program. Repurchases applied to cover our share maintenance plan for the three month period ended December 31, 2014, were 5,072 shares at an average price of $18.54 per share.

(3) We did not repurchase shares in October and November of 2014. The average price paid per share of $20.78 reflects the average price paid on the previous repurchases in August 2014.

Performance Graph

The chart below compares the cumulative total shareholder return on shares of our common stock for the five-year period ended December 31, 2014, with the cumulative total return on the Dow Jones Heavy Construction Industry Index and the Russell 1000 Index for the same period. The comparison assumes the investment of $100 on December 31, 2009 and reinvestment of all dividends. The shareholder return is not necessarily indicative of future performance.

	12/31/2009	12/31/2010	12/31/2011	12/31/2012	12/31/2013	12/31/2014
KBR	$ 100.00	$ 161.70	$ 148.90	$ 160.95	$ 171.54	$ 91.18
Dow Jones Heavy Construction	100.00	127.89	105.04	126.90	165.86	122.89
Russell 1000	100.00	113.87	113.29	129.07	168.36	186.99

Item 6.Selected Financial Data

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

	Years Ended December 31,				
	2014	2013	2012	2011	2010
Dollars in millions, except per share amounts					
Statement of Operations Data:					
Revenues	$6,366	$7,214	$7,770	$9,103	$9,962
Gross profit (loss)	(65)	417	518	640	689
Equity in earnings of unconsolidated affiliates	163	137	151	158	137
Impairment of goodwill, asset impairments and restructuring charges (a)	(660)	—	(180)	—	(5)
Operating income (loss)	(794)	308	299	587	609
Income (loss) from continuing operations, net of tax (b)	(1,198)	171	202	540	395
Net income attributable to noncontrolling interests	(64)	(96)	(58)	(60)	(68)
Net income (loss) attributable to KBR	(1,262)	75	144	480	327
Basic net income (loss) attributable to KBR per share	$(8.66)	$0.50	$0.97	$3.18	$2.08
Diluted net income (loss) attributable to KBR per share	$(8.66)	$0.50	$0.97	$3.16	$2.07
Cash dividends declared per share (c)	$0.32	$0.24	$0.28	$0.20	$0.15
Balance Sheet Data (as of the end of period):					
Total assets	$4,199	$5,438	$5,767	$5,666	$5,417
Long-term nonrecourse project-finance debt	63	78	84	88	92
Total shareholders' equity	$935	$2,439	$2,511	$2,442	$2,204
Other Financial Data (as of the end of period):					
Backlog of unfulfilled orders	$10,859	$14,118	$14,931	$10,931	$12,041

(a) Included in 2014 is a goodwill impairment charge of $446 million related to three of our previous reporting units. Included in 2012 is a goodwill impairment charge of $178 million related to one of our previous reporting units. Included in 2014, 2012 and 2010 are impairment of long-lived asset charges of $171 million, $2 million and $5 million, respectively, primarily related to equipment, land and buildings. Also included in 2014 are restructuring charges of $43 million.

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

(c) In 2012, we declared five dividends totaling $0.28 per share. In each quarter during 2012, we declared a dividend of $0.05 per share. In the fourth quarter of 2012, we declared an additional dividend of $0.08 per share on December 18, 2012. Consequently, in 2013 we declared only three dividends totaling 0.24 per share.

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

Introduction

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

Executive Overview

Business Reorganization

Following the June 2014 appointment of Mr. Stuart Bradie as CEO, we announced plans to undertake a global strategic review of our business. The outcome of this review was a reorganization of our business into three new segments, T&C, E&C and GS to focus on core strengths in global hydrocarbons and international government services. Our corporate expenses and other operations that do not individually meet the criteria for group presentation continue to be reported in our Other business segment, while operations we intend to sell or exit upon completion of our existing contracts are presented separately in the Non-strategic Business segment. Each business segment excluding "Other" reflects a reportable segment led by a separate business segment president who reports directly to our chief operating decision maker ("CODM"). See "Item 1. Business" for a description of the new business segments. We have revised our business segment reporting to reflect our current management approach and recast prior periods to conform to the current business segment presentation.

Business Environment

Demand for our services depends primarily on the level of capital expenditure in our market sectors, which is driven generally by global and regional economic growth (primarily GDP growth) and more specifically by the demand for energy and derivative products and government services. While the recent decline in oil prices may have a near term adverse impact on our business, we see long-term growth in energy projects such as low cost production, shallow water, onshore production, subsea tiebacks and brownfields revamping. Low energy prices reflected in the current oil price provide opportunities in brownfield LNG and new petrochemicals, chemicals and fertilizer markets. We believe KBR has a balanced portfolio of upstream, midstream and downstream and recurring revenues in outsourced government services, which provides us with less exposure to the oil price declines than some of our peers.
We expect LNG demand to grow annually mainly in Asia and demand in Europe to rebound. We expect global capacity coming online in the next 15 years to translate to the letting of two LNG plants per year, which is consistent with the last five years. Growth regions include U.S. Gulf Coast and the Asia-Pacific region; Canada, due to new tax rules; and East Africa, due to successful appraisals.

Overview of Financial Results

2014 was a transitional year for KBR with the arrival of a new CEO and the launch of a major strategic business review. This review was completed in December 2014 and we intend to focus future efforts on the global hydrocarbons and international government services markets. As a result of this decision, we decided to divest or exit the following businesses upon completion of existing projects:

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

The 2014 financial results include significant restructuring charges, impairments of goodwill and other assets, and tax valuation allowances from the strategic review that total approximately $1.1 billion. Our results for the year ended December 31, 2014 were also impacted by the following:

- Reduced revenues and gross profit due to lower activity or the completion of several mega LNG and GTL projects
- Reduced gross profit due to increases in estimates of costs to complete certain projects, including recognition of additional losses on our Canadian pipe fabrication and module assembly projects.

Our financial results continue to be driven by our E&C business segment, which is where we execute large EPC projects. This segment generated revenues of $4.6 billion and gross profit of $141 million during 2014. While we continue to successfully execute close-out activities on some of our major LNG/GTL projects, our E&C business segment remains focused on actively pursuing new prospects in the LNG/GTL markets and in the petrochemical markets. We do not expect the next major LNG EPC award until early 2016 and beyond. During 2014, our E&C business segment also experienced an increase in EPC activity on refining, petrochemical and chemicals projects driven in large part by the abundant supply and low natural gas prices in North America. Although we incurred losses during the first two quarters of 2014 on our Canadian pipe fabrication and module assembly projects, the losses were less than 2013 and five of the seven projects are now complete. During the fourth quarter we generated modest profit from claims recovery on several of these completed projects. One of the Canadian pipe fabrication and module assembly contracts that is in a loss position is a master services-type agreement that provides our client with the right, but not the obligation, to place new pipe fabrication and module assembly orders until 2017. During 2014, we did not execute any new orders under this agreement.

Our GS business continues to be impacted by declines in our government logistics and support business, the slow-down in government investments and by ongoing close-out costs associated with litigation and commercial disputes on legacy U.S. government contracts that supported the U.S. military in Iraq (LogCAP III and RIO projects).

Our results were also impacted by a decline in building projects and increased costs to complete our power projects, which resulted in the recognition of loss on two projects, all of which are reported within our Non-strategic Business segment.
Our backlog of unfilled orders declined in 2014 as we completed two mega EPC (i.e. LNG and GTL) projects and continue to execute two additional mega LNG projects.

Revenues

			2014 vs. 2013			2013 vs. 2012	
Dollars in millions	2014	2013	$	%	2012	$	%
Revenues	$6,366	$7,214	$(848)	(12)%	$7,770	$(556)	(7)%

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

Consolidated revenues decreased in 2013 compared to 2012. This decline was primarily driven by the reduced volume as we entered the early completion phases of the EPC projects previously noted, partially offset by activities on large new awards within our E&C business segment. The decrease was also attributable to reduced volumes driven by base closures and headcount reductions under the contract supporting the U.S. Military and the U.S. Department of State in Iraq. There was also a reduction of commercial support and other services for the U.K. MoD in Afghanistan and other locations. These declines were partially offset by activities on new projects within our Non-strategic Business segment.

Gross Profit (Loss)

Dollars in millions	2014	2013	2014 vs. 2013 $	2014 vs. 2013 %	2012	2013 vs. 2012 $	2013 vs. 2012 %
Gross profit (loss)	$(65)	$417	$(482)	(116)%	$518	$(101)	(19)%

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

Consolidated gross profit decreased in 2013 compared to 2012. This decline was driven by reduced activity on the EPC projects, cost savings realized in 2012, which did not recur in 2013, the impact of a foreign currency adjustment on an EPC project as well as increased estimated costs to complete certain Canadian pipe fabrication and module assembly projects all within our E&C business segment. This decrease was partially offset by activity on new awards within our Non-strategic Business segment.

Equity in Earnings of Unconsolidated Affiliates

Dollars in millions	2014	2013	2014 vs. 2013 $	2014 vs. 2013 %	2012	2013 vs. 2012 $	2013 vs. 2012 %
Equity in earnings of unconsolidated affiliates	$163	$137	$26	19%	$151	$(14)	(9)%

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

Equity in earnings of unconsolidated affiliates decreased in 2013 compared to 2012. This change was primarily due to extended dry docking and lower utilization of marine vessels in our MMM joint venture, interruptions in natural gas feedstock in our ammonia plant joint venture in Egypt, partially offset by increased activity and progress on an LNG project joint venture within our E&C business segment. The decline was also due to reduced construction activity on the GS joint venture discussed above.

General and Administrative Expenses

Dollars in millions	2014	2013	2014 vs. 2013 $	2014 vs. 2013 %	2012	2013 vs. 2012 $	2013 vs. 2012 %
General and administrative expenses	$(239)	$(248)	$(9)	(4)%	$(222)	$26	12%

General and administrative expenses decreased in 2014 compared to 2013. The decrease was primarily due to lower information technology support costs and reduced overhead costs resulting from headcount reductions and cost savings initiatives implemented at the end of 2013 and during 2014. Our general and administrative expenses for 2014 and 2013 included $35 million each related to our ERP project. Amortization on the completed phase of the project was $15 million and $7 million for 2014 and 2013, respectively. General and administrative expenses in 2014 included $174 million related to corporate and $66 million related to the business segments.

General and administrative expenses increased in 2013 compared to 2012. The increase was primarily due to higher ERP project expenses, consulting and legal expenses related to tax items, including arbitration with our former parent and changes in our risk and benefit programs. These increases were partially offset by lower incentive compensation costs in 2013. Our general and administrative expenses for 2013 and 2012 included $35 million and $20 million, respectively, related to our ERP project. Amortization on the completed phase of the project was $7 million and less than $1 million for 2013 and 2012, respectively. General and administrative expenses in 2013 included $179 million related to corporate and $72 million related to the business segments.

Impairment and Restructuring Charges

Dollars in millions	2014	2013	2014 vs. 2013 $	2014 vs. 2013 %	2012	2013 vs. 2012 $	2013 vs. 2012 %
Impairment of goodwill	$(446)	$—	$446	100%	$(178)	$(178)	(100)%
Asset impairment and restructuring charges	$(214)	$—	$214	100%	$(2)	$(2)	(100)%

As a result of our December 11, 2014 strategic reorganization announcement, including our decisions to exit certain businesses, and continued business decline in certain markets, we recognized an impairment charge of $446 million related to the remaining goodwill on our Roberts and Schaefer (R&S) acquisition and the goodwill on our BE&K acquisition. We also recognized a $31 million impairment of R&S intangible assets.

On December 11, 2014, we also announced that we were discontinuing the implementation of our ERP project. This resulted in a $135 million impairment charge for the portion of the ERP project we do not expect will provide us any future benefits.

As part of our reorganization of our business and associated restructuring, we have started the process of reducing headcount and and recognized a severance charge of $29 million. Additionally, we terminated leases in several locations, resulting in lease termination charges of $14 million. We also recognized a $5 million impairment charge related to leasehold improvements on the terminated leases and other property.

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

In the third quarter of 2012 in connection with our interim impairment review, we recognized a noncash goodwill impairment charge of $178 million related to one of our previous reporting units (see Note 8 to our consolidated financial statements for further discussion).

Non-operating Income (Expenses)

Dollars in millions	2014	2013	2014 vs. 2013 $	2014 vs. 2013 %	2012	2013 vs. 2012 $	2013 vs. 2012 %
Non-operating income (expenses)	$17	$(8)	$25	313%	$(11)	$(3)	(27)%

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

Non-operating expenses decreased in 2013 compared to 2012. This decrease was primarily attributable to a reduction in interest expense due to higher interest income on our treasury-managed time deposits.

Provision for Income Taxes

Dollars in millions	2014	2013	2014 vs. 2013 $	2014 vs. 2013 %	2012	2013 vs. 2012 $	2013 vs. 2012 %
Income (loss) before provision for income taxes	$(777)	$300	$(1,077)	n/m	$288	$12	4%
Provision for income taxes	$(421)	$(129)	$292	n/m	$(86)	$43	50%

n/m - not meaningful

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

Provision for income taxes increased in 2013 compared to 2012 . Income tax expense in 2013 increased primarily as a result of an increase of $47 million in valuation allowance for the year ended December 31, 2013 as a result of losses recognized in our Canada pipe fabrication and module assembly business and certain state net operating losses.

A reconciliation of our effective tax rates for 2014, 2013 and 2012 to the U.S. statutory federal rate is presented in Note 13 to our consolidated financial statements.

Net Income Attributable to Noncontrolling Interests

			2014 vs. 2013			2013 vs. 2012	
Dollars in millions	2014	2013	$	%	2012	$	%
Net income attributable to noncontrolling interests	$(64)	$(96)	$(32)	(33)%	$(58)	$38	66%

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

Net income attributable to noncontrolling interests increased in 2013 compared to 2012. This increase is primarily due to the renegotiation of fees and cost recoveries on a joint venture project that were recognized in our E&C business segment.

Results of Operations by Business Segment

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

	Years Ended December 31,						
			2014 vs. 2013			2013 vs. 2012	
Dollars in millions	2014	2013	$	%	2012	$	%
Revenues							
Technology & Consulting	$353	$330	$23	7%	$296	$34	11%
Engineering & Construction	4,584	4,956	(372)	(8)%	5,616	(660)	(12)%
Government Services	638	931	(293)	(31)%	1,105	(174)	(16)%
Other	—	—	—	—%	—	—	—%
Subtotal	$5,575	$6,217	$(642)	(10)%	$7,017	$(800)	(11)%
Non-strategic Business	791	997	(206)	(21)%	753	244	32%
Total	$6,366	$7,214	$(848)	(12)%	$7,770	$(556)	(7)%
Gross profit							
Technology & Consulting	$53	$69	$(16)	(23)%	$80	$(11)	(14)%
Engineering & Construction	141	263	(122)	(46)%	450	(187)	(42)%
Government Services	(32)	90	(122)	(136)%	83	7	8%
Other	—	—	—	—%	—	—	—%
Subtotal	$162	$422	$(260)	(62)%	$613	$(191)	(31)%
Non-strategic Business	(227)	(5)	(222)	n/m	(95)	90	95%
Total	$(65)	$417	$(482)	(116)%	$518	$(101)	(19)%
Equity in earnings of unconsolidated affiliates							
Technology & Consulting	$—	$—	$—	—%	$—	$—	—%
Engineering & Construction	90	76	14	18%	79	(3)	(4)%
Government Services	73	61	12	20%	67	(6)	(9)%
Other	—	—	—	—%	—	—	—%
Subtotal	$163	$137	$26	19%	$146	$(9)	(6)%
Non-strategic Business	—	—	—	—%	5	(5)	(100)%
Total	$163	$137	$26	19%	$151	$(14)	(9)%
Total general and administrative expense	$(239)	$(248)	$(9)	(4)%	$(222)	$26	12%
Impairment of goodwill	$(446)	$—	$446	—%	$(178)	$(178)	(100)%
Asset impairment and restructuring charges	$(214)	$—	$214	—%	$(2)	$(2)	(100)%
Gain on disposition of assets	$7	$2	$5	250%	$32	$(30)	n/m
Total operating income	$(794)	$308	$(1,102)	(358)%	$299	$9	3%

n/m - not meaningful

Technology & Consulting

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

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

T&C revenues increased by $34 million, or 11%, to $330 million in 2013 compared to $296 million in 2012 primarily due to an increase in the delivery of PEQ and license and basic engineering design ("LBED") on several ammonia projects offset by slight decreases in consulting activities resulting from low volume of new awards in our Australia market.

T&C gross profit decreased by $11 million, or 14%, to $69 million in 2013 compared to $80 million in 2012 due to a decline in licensing activities and increased proposal costs in 2013.

Engineering & Construction

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

E&C gross profit decreased by $122 million, or 46%, to $141 million in 2014 compared to $263 million in 2013 due to higher activity and incentive fees on an LNG project in Australia in 2013 that did not recur in 2014 and a reduction in gross profit resulting from an increase in estimated costs to complete certain projects. These decreases were partially offset by reduced losses of $60 million on our Canadian pipe fabrication and module assembly projects, start-up work on an ammonia plant in North America and $45 million in charges taken on LNG projects in 2013 that did not recur in 2014.

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

E&C revenue decreased by $660 million, or 12%, to $5.0 billion in 2013 compared to $5.6 billion in 2012 as a result of reduced volume on a GTL project in Nigeria and an LNG project in Algeria as these projects were completed or neared completion. This decrease was partially offset by revenue recorded in the third quarter of 2013 resulting from a change order on an LNG project in Australia, increased activity on EPC contracts for chemicals projects in North America and scope growth on a base oil project in North America.

E&C gross profit decreased by $187 million, or 42%, to $263 million in 2013 compared to $450 million in 2012 as a result of reduced activity on an LNG project in Algeria as it neared completion in 2013, $97 million in losses on Canadian pipe fabrication and module assembly projects and increased overheads. These decreases were partially offset by increased activity on an LNG project in Australia and losses on several U.S. construction projects in 2012 that did not reoccur in 2013.

E&C equity in earnings in unconsolidated affiliates decreased by $3 million, or 4%, to $76 million in 2013 compared to $79 million in 2012 due to extended dry dock and out of contract periods for vessels in our MMM joint venture. This decline is also due to reduced earnings on our ammonia plant joint venture in Egypt, arising from lower ammonia production brought about by curtailments in the supply of natural gas feedstock and is partially offset by earnings from increased activities and overall project growth on an LNG project joint venture in Australia.

Government Services

GS revenues decreased by $293 million, or 31% to $638 million in 2014 compared to $931 million in 2013. This decline was driven primarily by a $246 million reduction in revenues following the March 31, 2014 completion of activities supporting the U.S. military and U.S. Department of State for the war in Iraq and a $45 million decrease from reduction in troop numbers on U.K. MoD and NATO contracts in Afghanistan. Settlement of outstanding items on LogCAP III and adjustments to reserves for questioned costs on the RIO contract (GS Legacy Contracts), resulted in a $94 million reduction in revenues. These decreases were partially offset by new awards of U.S. government construction and base support contracts in Europe and Africa as well as the award of a long term contract with the U.K. Metropolitan Police.

GS gross profit decreased by $122 million, or 136% to a loss of $32 million in 2014 compared to gross profit of $90 million in 2013. This decline was primarily driven by the completion of the U.S. military and U.S. Department of State support contract as well as the U.K. MoD support activities discussed above. The settlement and reserves for questioned costs on the GS Legacy Contracts discussed above also reduced gross profit by $66 million. Additionally, the reduction in gross profit was attributable to an increase in our estimate of costs to complete the roads project in Qatar and a construction management contract with the U.S. government in Europe.

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

GS revenue decreased by $174 million, or 16% to $931 million in 2013 compared to $1.1 billion in 2012. The decrease was driven by base closures and headcount reductions under the contract supporting the U.S. Military and the U.S. Department of State in Iraq as well as reduced activity on contracts for the U.K. MoD including completion of a portion of a support services contract in Afghanistan. As the U.S. government continued its withdrawal from Iraq, the volume of support services also continued to decline. There was also reduced activity related to commercial support services in Africa, reduced activity on a major contract for the U.K. MoD, and completion of a portion of U.K. MoD contracts in Afghanistan. Our offerings in the Asia-Pacific region were affected by the continuing slow market conditions and also from reduced government and private sector investments.

GS gross profit increased by $7 million, or 8% to $90 million in 2013 compared to $83 million in 2012. This increase was due to project charges of $28 million related to the unfavorable U.S. government ruling associated with dining facility services in Iraq in 2012 that did not recur. Gross profit in 2013 includes the reversal of $25 million of reserves due to the progress of audits, offset by declines due to reduced activity in the Middle East under the contract supporting the U.S. Military and the U.S. Department of State in Iraq.

GS equity in earnings in unconsolidated affiliates decreased by $6 million, or 9% to $61 million in 2013 compared to $67 million in 2012. This decrease was due to the existing U.K. MoD construction project slowly nearing completion.

Non-strategic Business

Non-strategic Business revenue decreased by $206 million, or 21%, to $791 million in 2014 compared to $1 billion in 2013. This was largely due to the completion or near completion of several building construction projects. The decline was partially offset by higher revenues from increased activity on two power projects.

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

Non-strategic Business revenue increased by $244 million, or 32%, to $1 billion in 2013 compared to $753 million in 2012. This was primarily due to increased activity on several building and power projects. These increases were partially offset by minerals projects completed in 2013.

Non-strategic Business gross loss decreased by $90 million, or 95%, $5 million in 2013 compared to $95 million in 2012. This decrease was primarily due to losses incurred on minerals projects in 2012 that did not recur in 2013. In addition, several new projects were added in the building, minerals and power sectors during 2013.

Changes in Estimates

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

Acquisitions and Other Transactions

Information relating to various acquisitions and other transactions is described in "Item 1. Business" and the information discussed therein is incorporated by reference into this Item 7.

Backlog of Unfilled Orders

Backlog generally represents the dollar amount of revenues we expect to realize in the future as a result of performing work on contracts and our pro-rata share of work to be performed by unconsolidated joint ventures. We generally include total expected revenues in backlog when a contract is awarded under a legally binding commitment. In many instances, arrangements included in backlog are complex, nonrepetitive in nature and may fluctuate depending on estimated revenues and contract duration. Where contract duration is indefinite, projects included in backlog are limited to the estimated amount of expected revenues within the following twelve months. Certain contracts provide maximum dollar limits, with actual authorization to perform work under the contract agreed upon on a periodic basis with the customer. In these arrangements, only the amounts authorized are included in backlog. For projects where we act solely in a project management capacity, we only include the value of our services of each project in backlog. For certain long-term service contracts with a defined contract term, such as those associated with privately financed projects, the amount included in backlog is limited to five years.

We have included in the table below our proportionate share of unconsolidated joint ventures' estimated revenues. However, because these projects are accounted for under the equity method, only our share of future earnings from these projects will be recorded in our results of operations. Our backlog for projects related to unconsolidated joint ventures totaled $4.3 billion at December 31, 2014 and $5.5 billion at December 31, 2013. We consolidate joint ventures which are majority-owned and controlled or are variable interest entities in which we are the primary beneficiary. Our backlog included in the table below for projects related to consolidated joint ventures with noncontrolling interests includes 100% of the backlog associated with those joint ventures and totaled $928 million at December 31, 2014 and $1.5 billion at December 31, 2013. All backlog is attributable to firm orders as of December 31, 2014 and 2013. Backlog attributable to unfunded government orders was $36 million at December 31, 2014 and $166 million at December 31, 2013. The following table summarizes our backlog by business segment.

Dollars in millions	December 31, 2013	New Awards	Changes in scope on existing contracts (a)	Net Workoff (b)	December 31, 2014
Technology & Consulting	$458	$182	$130	$(370)	$400
Engineering & Construction	10,712	1,571	239	(4,734)	7,788
Government Services	2,175	216	83	(711)	1,763
Subtotal	13,345	1,969	452	(5,815)	9,951
Non-strategic Business	773	803	46	(714)	908
Total backlog	$14,118	$2,772	$498	$(6,529)	$10,859

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

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

We estimate that as of December 31, 2014, 51% of our backlog will be executed within one year. As of December 31, 2014, 40% of our backlog was attributable to fixed-price contracts and 60% of our backlog was attributable to cost-reimbursable contracts. For contracts that contain both fixed-price and cost-reimbursable components, we classify the components as either fixed-price or cost-reimbursable according to the composition of the contract; however, except for smaller contracts, we characterize the entire contract based on the predominant component.

Liquidity and Capital Resources

Cash and equivalents totaled $970 million at December 31, 2014 and $1.1 billion December 31, 2013 and consisted of the following:

Dollars in millions	December 31, 2014	2013
Domestic U.S. cash	$200	$355
International cash	690	675
Joint venture cash	80	76
Total	$970	$1,106

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

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

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

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

In December 2014, we implemented a foreign cash repatriation strategy for which we have provided cumulative income taxes of $98 million on certain foreign earnings which provide us, if necessary, the ability to repatriate approximately an additional $370 million of international cash without recognizing additional tax expense. In determining our foreign cash repatriation strategy and in determining whether earnings would continue to be considered permanently invested, we considered our future U.S. and non-U.S. cash needs such as 1) our anticipated foreign working capital requirements, including funding of our U.K. pension plan; 2) the expected growth opportunities across all geographical markets; and 3) our plans to invest in strategic growth opportunities that may include acquisitions around the world. The remaining international cash balances associated with past foreign earnings which we currently intend to permanently reinvest in our foreign entities are not available for domestic use. The company has not recognized an estimated deferred tax liability of approximately $320 million for undistributed earnings 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.

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