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

FORM 10-K

☒ **Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

For the fiscal year ended December 31, 2020

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: 001-33146

KBR, Inc.

(Exact name of registrant as specified in its charter)

Delaware	**20-4536774**
(State of incorporation)	*(I.R.S. Employer Identification No.)*

601 Jefferson Street, Suite 3400 Houston Texas 77002
(Address of principal executive offices) (Zip Code)

(713) 753-2000
(Registrant's telephone number including area code)

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

Title of each class	Trading Symbol	Name of each exchange on which registered
Common Stock par value $0.001 per share	KBR	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 ☒ 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 ☒

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files). Yes ☒ No ☐

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

Large accelerated filer	☒	Accelerated filer	☐
Non-accelerated filer	☐	Smaller reporting company	☐
		Emerging growth company	☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to section 13(a) of the Exchange Act ☐

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report ☒

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

The aggregate market value of the voting stock held by non-affiliates on June 30, 2020 was approximately $3.2 billion, determined using the closing price of shares of the registrant's common stock on the New York Stock Exchange on that date of $22.55.

As of February 10, 2021, there were 140,843,764 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 2021 Annual Meeting of Stockholders are incorporated by reference into Part III of this report.

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Glossary of Terms

The following frequently used abbreviations or acronyms are used in this Annual Report on Form 10-K as defined below:

Acronym	Definition
Affinity	Affinity Flying Training Services Ltd.
Aspire Defence	Aspire Defence Limited
AOCL	Accumulated other comprehensive loss
ASBCA	Armed Services Board of Contract Appeals
ASC	Accounting Standards Codification
ASU	Accounting Standards Update
Carillion	Carillion plc
CAS	Cost Accounting Standards for U.S. government contracts
COFC	U.S. Court of Federal Claims
DCAA	Defense Contract Audit Agency
DCMA	Defense Contract Management Agency
DoD	Department of Defense
DOJ	U.S. Department of Justice
EAC	Estimate at completion
EBIC	Egypt Basic Industries Corporation
EBITDA	Earnings before interest, taxes, depreciation and amortization
EPC	Engineering, procurement and construction
ERGs	Employee Resource Groups
ES	Energy Solutions
ESPP	Employee Stock Purchase Plan
EVP	Employee Value Proposition
Exchange Act	Securities Exchange Act of 1934, as amended
FAR	Federal Acquisition Regulation
FASB	Financial Accounting Standards Board
FCA	False Claims Act
FCPA	United States Foreign Corrupt Practices Act
FKTC	First Kuwaiti Trading Company
G&A	General and administrative
GAAP	Generally Accepted Accounting Principles
GS	Government Solutions
HETs	Heavy equipment transporters
HR	Human Resources
ICC	International Chamber of Commerce
I&D	Inclusion & Diversity
IRS	Internal Revenue Service
JKC	JKC Australia LNG, an Australian joint venture executing the Ichthys LNG Project
LIBOR	London interbank offered rate
LNG	Liquefied natural gas
MD&A	Management's Discussion and Analysis of Financial Condition and Results of Operations
MFRs	Memorandums for Record
MoD	Ministry of Defence
NYSE	The New York Stock Exchange

Acronym	Definition
PFIs	Private financed initiatives and projects
PIC	Paid-in capital in excess of par
PLOC	Performance Letter of Credit facility
PPE	Property, Plant and Equipment
SAB	Staff Accounting Bulletin
SEC	U.S. Securities and Exchange Commission
Securities Act	Securities Act of 1933, as amended
SFO	U.K. Serious Fraud Office
SGT	Stinger Ghaffarian Technologies
SMA	Scientific Management Associates (Operations) Pty Ltd
Tax Act	Tax Cuts and Jobs Act
TS	Technology Solutions
U.K.	United Kingdom
U.S.	United States
UKMFTS	U.K. Military Flying Training System
VIEs	Variable interest entities

Forward-Looking and Cautionary Statements

This Annual Report on Form 10-K contains certain statements that are, or may be deemed to be, "forward-looking statements" within the meaning of Section 27A of the Securities Act and Section 21E of the Exchange Act. 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 on Form 10-K are forward-looking statements. All statements other than statements of historical fact are, or may be deemed to be, forward-looking statements. The words "believe," "may," "estimate," "continue," "anticipate," "intend," "plan," "expect" and similar expressions are intended to identify forward-looking statements. Forward-looking statements include information concerning our possible or assumed future financial performance and results of operations.

We have based these statements on our assumptions and analyses in light of our experience and perception of historical trends, current conditions, expected future developments and other factors we believe are appropriate in the circumstances. Forward-looking statements by their nature involve substantial risks and uncertainties that could significantly affect expected results, and actual future results could differ materially from those described in such statements. While it is not possible to identify all factors, factors that could cause actual future results to differ materially include the below, as well as the risks and uncertainties disclosed under "Item 1A. Risk Factors" contained in Part I of this Annual Report on Form 10-K:

- *there is the potential for a wide range of uncertainties related to the Biden Administration that could change funding related to our lines of business. Because we generate a substantial portion of our revenues from contracts with U.S. government agencies, our operating results could be adversely affected by spending caps or changes in budgetary priorities, as well as by delays in the government budget process, program starts or the award of contracts or task orders under contracts. Changes in spending authorizations and budgetary priorities may occur as a result of the shifts in spending priorities from defense-related and other programs as a result of competing demands for federal funds and the number and intensity of military conflicts and other factors;*

- *operational challenges relating to the COVID-19 pandemic and efforts to mitigate the spread of the virus, including logistical challenges, protecting the health and well-being of our employees, remote work arrangements, performance of contracts and supply chain disruptions;*

- *the COVID-19 pandemic has increased the severity and duration of world health events, including volatility in the capital markets, deteriorating financial conditions or bankruptcy, and related economic repercussions resulting from severe disruption in multiple industries, which may negatively impact our clients' ability to meet their payment obligations to us in a timely manner; and*

- *the level of capital spending and access to capital markets by industrial companies, including significant reductions and potential additional reductions in capital expenditures in response to commodity prices and dramatically reduced demand.*

Many of these factors are beyond our ability to control or predict. Any of these factors, as well as the risks and uncertainties disclosed under "Item 1A. Risk Factors" contained in Part I of this Annual Report on Form 10-K, and the risk factors and other cautionary statements contained in our other filings with the SEC, 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.

Summary Risk Factors

The following is a summary of some of the risks and uncertainties that could materially adversely affect our business, financial condition and results of operations. This summary should be read together with the more detailed description of each risk factor disclosed under "Item 1A. Risk Factors" contained in Part I of this Annual Report on Form 10-K.

Risks Related to Operations of our Business

- The widespread outbreak of a pandemic or epidemic, or the outbreak of an infectious disease, such as COVID-19, may materially adversely affect our business, results of operations and/or cash flows, including as a result of widespread reduced demand for oil and reduced commodity prices resulting from oversupply of oil or storage constraints.
- Demand for our services and technologies depends on demand and capital spending by customers in their target markets, many of which are cyclical in nature, have been reduced in light of declining commodity prices, and have been significantly impacted by COVID-19.
- Our results of operations depend on the award of new contracts and the timing of the performance of these contracts.
- 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.
- 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.
- 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.
- If we are unable to attract and retain senior management and key technical professionals with elite skills, our ability to pursue and compete for projects to grow our business may be adversely affected, our operating income may decrease, and our reputation may be negatively impacted.
- The nature of our legacy business exposes us to potential liability claims and contract disputes that may exceed or be excluded from existing insurance coverage.
- Dependence on third-party subcontractors and equipment manufacturers could adversely affect our profits.
- Some of our U.S. government work requires KBR and certain of its employees to qualify for and retain a government-issued security clearance. If we are unable to hire or retain employees with adequate security clearances, we may be unable to perform our obligations to customers.
- Our use of the cost-to-cost method of revenue recognition could result in a reduction or reversal of previously recorded revenues and profits.
- We conduct a portion of our operations through joint ventures and partnerships, exposing us to risks and uncertainties, many of which are outside of our control.
- The nature of our contracts, particularly those that are fixed-price, subjects us to risks associated with cost overruns, operating cost inflation and potential claims for liquidated damages.
- 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.
- The transition period resulting from the Referendum of the United Kingdom's Membership of the European Union could adversely affect our business and results of operations.
- We work in international locations where there are high security risks, which could result in harm to our employees and contractors or substantial costs.
- Demand for our services provided under government contracts are directly affected by spending by our customers.

- Our backlog of unfilled orders is subject to unexpected adjustments and cancellations and, therefore, may not be a reliable indicator of our future revenues or earnings.
- Our business strategy includes the consideration of business acquisitions, which may present certain risks and uncertainties.
- We ship a significant amount of cargo using seagoing vessels, exposing us to certain maritime risks.

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 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.
- Our Senior Credit Facility imposes restrictions that limit our operating flexibility and may result in additional expenses, and these facilities may not be available if financial covenants are violated or if an event of default occurs.
- Our indebtedness and the associated covenants could materially adversely affect our ability to obtain additional financing, including for acquisitions and capital expenditures, limit our flexibility to manage our business, prevent us from fulfilling our financial obligations and restrict our use of capital.
- We may be required to contribute additional cash to meet our significant underfunded benefit obligations associated with pension benefit plans we manage.
- We are subject to foreign currency exchange 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.
- If we need to sell or issue additional shares of common stock to refinance existing debt or to finance future acquisitions, our existing shareholder ownership could be diluted. In addition, the convertible note hedge and warrant transactions that we entered into in connection with the pricing of the Convertible Notes may affect the value of our common stock.
- Provisions in our charter documents, Delaware law and our Senior Credit Facility may inhibit a takeover or impact operational control that could adversely affect the value of our common stock.
- We make equity investments in privately financed projects in which we could sustain significant losses.

Risks Related to Regulations and Law

- We could be adversely impacted if we fail to comply with international export and domestic laws, which are rigorously enforced by the U.S. government.
- 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.
- Certain of our work sites are inherently dangerous and we are subject to various environmental and worker health and safety laws and regulations. If we fail to maintain safe work sites or to comply with these laws and regulations, we may suffer damage to our reputation and incur significant costs and penalties that could have a material adverse effect on our business, financial condition, results of operations and cash flows.
- There is a rapidly evolving awareness and focus from stakeholders such as, investors, customers, current and future employees, with respect to global climate change and related emphasis on environment, social, and governance practices, which could affect our business.

General Risk Factors

- Intense competition could reduce our market share and profits.
- International and political events may adversely affect our operations.
- 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.
- An impairment of all or part of our goodwill or our intangible assets could have a material adverse impact on our net earnings and net worth.
- Our effective tax rate and tax positions may vary.
- We may change our dividend policy in the future.

PART I

Item 1. Business

Company Overview

KBR, a Delaware corporation, delivers scientific, technology and engineering solutions to governments and companies around the world. Drawing from its rich 100-year history and culture of innovation and mission focus, KBR creates sustainable value by combining scientific, technical and engineering expertise with its full-life cycle capabilities to help our clients meet their most pressing challenges. We provide the following capabilities and offerings to a diverse customer base, including domestic and foreign governments, and domestic and international integrated energy and industrial companies:

- Scientific research such as quantum science and computing; health and human performance; materials science; life science research; and earth sciences;
- Defense systems engineering such as rapid prototyping; test and evaluation; aerospace acquisition support; systems and platform integration; and sustainment engineering;
- Operational support such as space domain awareness; C4ISR; human spaceflight and satellite operations; integrated supply chain and logistics; and military aviation support; and
- Information operations such as cybersecurity; data analytics; mission planning systems; and artificial intelligence and machine learning; and
- Technology such as, sustainability-focused licensing of proprietary process technology; advisory services focused on energy transition; and digitally-enabled asset optimization solutions.

Our Business

KBR delivers scientific, technology and engineering solutions to governments and commercial customers around the world. Our people leverage dynamic teams that combine deep mission understanding, market-leading technical expertise and an unwavering operational focus to deliver solutions to solve our clients' most complex issues. In 2020, KBR's operating model continued to shift toward agile, technology-driven, solutions-oriented delivery and has been simplified to increase strategic focus to move upmarket into differentiated areas that we believe will provide attractive returns and consistent growth with favorable cash conversion. The realignment comes in the midst of an organizational transition away from higher risk, volatile, increasingly commoditized markets.

Our key areas of strategic focus are as follows:

- **Government.** KBR delivers a wide range of professional services across defense intelligence, space and other government agencies, spanning program management and consulting, mission planning, operational and platform support, research and development, test and evaluation, training, and logistics and facilities management. These services are provided primarily to government agencies in the U.S., U.K., Australia and other selected countries under long-term programs with key technical, scientific or mission-specific differentiation. Key customers include U.S. Department of Defense ("DoD") agencies such as the Missile Defense Agency, National Geospatial-Intelligence Agency, National Reconnaissance Office, U.S. Army, U.S. Navy and U.S. Air Force; U.S. civilian agencies such as NASA, U.S. Geological Survey and National Oceanic and Atmospheric Administration; the U.K. Ministry of Defence ("MoD"), London Metropolitan Police, U.K. Army, other U.K. Crown Services; and the Royal Australian Air Force, Navy and Army. Areas of long-term strategic focus include defense modernization, space exploitation and health and human performance.

- **Commercial.** Consistent with our corporate focus towards sustainability, KBR continues to develop and prioritize investment in commercial process technologies that are disruptive, innovative, cutting-edge, and sustainability-focused. We market high-end advisory solutions centered around energy transition, license process technologies, provide basic engineering and design services, sell proprietary equipment and catalysts, and provide asset optimization and remote facility-operations monitoring. Key customers include national governments, industrial companies, and oil and gas companies. Areas of long-term strategic focus include sustainable technology solutions, energy transition and technology-led asset optimization.

Competitive Advantages

We operate in global markets with customers who demand innovation, technical and domain expertise and digitally-enabled, technology-led solutions. We seek to differentiate ourselves in areas in which we believe we have a competitive advantage, including:

- **People**
  - Distinctive, mission-focused and inclusive team ethos and culture, which we refer to as "One KBR".
  - Deep domain expertise resident across nationally recognized subject matter experts.
  - Highly-cleared employee base.

- **Sustainability**
  - Achieved carbon neutrality from 2019 and established a 2030 net-zero carbon ambition.
  - As an industry leader, we have and will continue to invest in the development of disruptive, innovative clean energy solutions that promote a cleaner, greener future and a sustainable world.
  - World leader in ammonia technology with a fully developed, proprietary, end-to-end green ammonia solution K-GreeN^{TM}.
  - Exclusive licensor of Cat-HTR^{TM}, an innovative, disruptive mixed plastics recycling technology that processes all types of plastic including many that are currently considered unrecyclable.
  - Safe and responsible operations are essential, and our Zero Harm culture prioritizes the safety and security of our people as well as the active management of our environmental impact.

- **Technical Excellence and Digital Solutions**
  - Innovative, sustainable, proprietary process technology, expertise and solutions.
  - Innovative digital solutions and advanced capabilities to improve operations, reliability and environmental sustainability, including machine learning and artificial intelligence.
  - Virtual and augmented reality visualizations to provide greater perspectives, insights and training in a controlled environment.

- **Customer Relationships**
  - Customer missions and objectives are placed at the center of our planning and delivery model.
  - Decades of enduring relationships with government and commercial client base.

- **Financial Strength**
  - Diverse portfolio of multi-year, mission critical programs creating stability and resilience.
  - Low capital intensity business model generating favorable operating cash flows.
  - Strong liquidity with ample capacity for growth.

Our Business Segments

Overall, we believe we have a balanced portfolio of global professional services, digital solutions, and industry-leading technologies delivered across a wide government, defense and industrial base. Our business has been organized into three core and two non-core business segments as follows:

Core business segments

- Government Solutions
- Technology Solutions
- Energy Solutions

Non-core business segments

- Non-strategic Business
- Other

Our business segments are described below.

Government Solutions ("GS"). Our GS business segment provides full life-cycle support solutions to defense, intelligence, space, aviation and other programs and missions for military and other government agencies in the U.S., U.K. and Australia. KBR services cover the full spectrum, from research and development, through systems engineering, test and evaluation, systems integration and program management, to operations support, readiness and logistics. With the acquisition of Centauri Holdings Platform, LLC ("Centauri") on October 1, 2020 (described in Note 4 to the consolidated financial statements), our GS business segment also provides software and engineering solutions to critical national security missions across space, cyber, intelligence, surveillance and reconnaissance, missile defense and intelligence domains to the U.S. government and related defense agencies.

Technology Solutions ("TS"). Our TS business segment combines KBR's sustainability-focused proprietary technologies, equipment and catalyst supply, digital solutions and associated knowledge-based services into a global business for refining, petrochemicals, inorganic and specialty chemicals as well as gasification, syngas, ammonia, nitric acid and fertilizers. Our TS business segment has led the way in the development of advanced digital and proprietary technologies, tools and solutions. From early planning through scope definition, advanced technologies and project life-cycle support, our TS business segment works closely with customers to provide an approach catered to their operational, financial and sustainability goals. Licensing and engineering/design services are typically provided during the front-end planning stage of both green- and brown-field capital projects, and proprietary equipment is delivered and installed as part of facility construction. Catalysts, or process consumables designed to drive process performance, efficiency and reliability, are delivered for start-up and are subsequently replenished, as needed.

Energy Solutions ("ES"). Our ES business segment provides full life-cycle support solutions across the upstream, midstream and downstream energy markets, including advisory services focused on energy transition and net-zero carbon objectives; technology-led industrial solutions focused on advanced remote operations capabilities to improve throughput, reliability and environmental sustainability; digitally-enabled professional services such as complex program management, engineering & design, and advanced project integration; and other construction services.

Non-strategic Business. Our Non-strategic business segment represents the operations or activities deemed no longer core to our business strategy and that we have exited or intend to exit upon completion of existing contracts. As of December 31, 2020, all Non-strategic Business projects are substantially complete. Current activities in this business segment primarily relate to final project close-out, negotiation and settlement of claims, joint venture liquidation and various other matters associated with these projects.

Other. Our Other segment includes corporate expenses and selling, general and administrative expenses not allocated to the business segments above.

In 2020, we initiated a strategic transition from the current three-core business segment model to a two-core business segment model comprised of Government Solutions and Technology Solutions. We expect to begin reporting under this model in fiscal year 2021. The new Technology Solutions segment is anchored by our innovative, proprietary process technologies. It will also include our highly synergistic advisory practice focused on energy transition and net-zero carbon ambitions as well as our technology-led industrial solutions focused on innovative digital operations and maintenance (“O&M”) solutions and advanced remote operations capabilities to improve throughput, reliability and environmental sustainability. We believe that infusing high-end, sustainability expertise, client relationships and innovative, technology-led O&M solutions into Technology Solutions will increase resilience, generate new opportunities, simplify our business model and position us to deliver our offerings across a broader industrial base.

Significant Customers

We provide services to a diverse customer base, including domestic and foreign governments and commercial companies.

We generate significant revenues within our GS business segment from key U.S. government customers including U.S. DoD and NASA, and from the U.K government. No other customers represented 10% or more of consolidated revenues in any of the periods presented. The following table summarizes our revenues from U.S. and U.K. government agencies.

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

Dollars in millions, except percentage amounts	Years ended December 31,					
	2020		2019		2018	
U.S. government (all agencies)	$ 3,079	53 %	$ 3,014	53 %	$ 2,610	53 %
U.K. government (all agencies)	$ 573	10 %	$ 659	12 %	$ 622	13 %

Information relating to our customer concentration is described in "Item 1A. Risk Factors" contained in Part I of this Annual Report on Form 10-K. Also, see further explanations in "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" contained in Part II of this Annual Report on Form 10-K.

Industry

Government Market Overview

The fiscal year 2021 U.S. defense budget funds a national security strategy that continues the restoration of military readiness, furthers a national security strategy to confront near peer and other threats around the world, enhances the DoD's cybersecurity strategy and cyber warfare capabilities, increases the priority of military space superiority, and directs innovation to meet long-range emerging threats. The budget includes a number of measures to strengthen emerging technologies including cyber-science and technologies, artificial intelligence, directed energy, hypersonics, and biotechnologies.

Internationally, our Government Solutions work is performed primarily for the U.K. Ministry of Defence and the Australian Department of Defence. A significant majority of our work in the U.K. is contracted through long-term privately financed initiatives (PFIs) that are expected to provide stable, predictable earnings and cash flow over the program life, with our largest PFI extending through 2041. The Australian government continues to increase defense spending, with particular focus on enhancing regional security, modernizing defense capabilities, strengthening cyber defenses and promoting broader economic stability.

With defense and civil budgets driven in part by political instability, military conflicts, aging platforms and infrastructure and the need for technology upgrades, we expect continued opportunities to provide solutions and technologies to mission critical work aligned with our customers' priorities.

Commercial Market Overview

Long-range commercial market fundamentals are supported by global population growth, global expansion of the middle class, and acceleration of demand for energy transition and renewable energy sources for which momentum continues, even amidst COVID-19. Clients continue to prioritize investment in solutions to increase end-product flexibility and energy efficiency and reduce their environmental footprint. As companies continue to commit to near-term carbon neutrality and longer-range net-zero carbon ambitions, we expect their spending to continue in areas such as decarbonization; carbon capture, sequestration and utilization; biofuels; and plastics circular economy. Further, governments and leading companies across the world are proactively evaluating clean energy alternatives, including hydrogen and green ammonia, which are areas that favor KBR's world-class technology portfolio and expertise.

We expect climate change and energy transition to be increasing areas of priority and investment for the Biden Administration and a more progressive Senate that holds a thin margin, as the U.S. looks to reboot its economy and invest in a cleaner future. President Biden has nominated two new cabinet-level positions focused on climate change and science. Further, through executive action, President Biden has initiated re-entry into the Paris climate accords and has begun the reversal of a number of the prior administration's environmental policies.

Recent Developments

Centauri Acquisition

On October 1, 2020, we acquired Centauri Holdings Platform, LLC ("Centauri"), a provider of high-end engineering and development solutions for critical, well-funded, national security missions associated with space, intelligence, cyber, and emerging technologies such as directed energy and missile defense. The acquisition will expand KBR's military space and intelligence business and builds upon the Company's existing cybersecurity and missile defense solutions. Furthermore, the addition of Centauri advances KBR's strategic transformation of becoming a leading provider of high-end, mission-critical technical services and solutions. Additional information relating to the Centauri acquisition is described in Part II of this Annual Report on Form 10-K in Note 4 to our consolidated financial statements.

Significant Joint Ventures and Alliances

We enter into joint ventures and alliances with other reputable industry participants to capitalize on the strengths of each party and provide greater flexibility in delivering our services based on cost and geographical efficiency, increase the number of opportunities that can be pursued and reduce exposure and diversify risk. Our significant joint ventures and alliances are described below. All joint venture ownership percentages presented are stated as of December 31, 2020.

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 that is accounted for within our GS business segment using the equity method of accounting. Prior to January 15, 2018, we held a 50% interest in the joint ventures that provide the construction and related support services to Aspire Defence, with the other 50% being owned by Carillion. On January 15, 2018, Carillion entered into compulsory liquidation and was excluded from future business and benefit from its interest in the joint ventures. As a result, KBR assumed operational management and control of these entities. KBR began consolidating the financial results of these entities in its financial statements effective January 15, 2018. On April 18, 2018, we completed the acquisition of Carillion's interests in the subcontracting entities.

In 2016, we established the Affinity joint venture with Elbit Systems Ltd. to procure, operate and maintain aircraft, and aircraft-related assets over an 18-year contract period, in support of the UKMFTS project. KBR owns a 50% interest in Affinity. In addition, KBR owns a 50% interest in the two joint ventures, Affinity Capital Works and Affinity Flying Services, which provide procurement, operations and management support services under subcontracts with Affinity. The investments are accounted for within our GS business segment using the equity method of accounting.

Brown & Root Industrial Services is a joint venture with Bernhard Capital Partners and offers maintenance services, turnarounds and small capital projects, primarily in North America. We own a 50% interest in this joint venture and account for this investment within our ES business segment using the equity method of accounting.

Backlog of Unfulfilled Orders

Backlog is our estimate of the U.S. dollar amount of future revenues we expect to realize as a result of performing work on contracts. For projects within our 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. The future revenues we expect to realize as a result of backlog was \$15.1 billion and \$14.6 billion as of December 31, 2020 and 2019, respectively, with approximately 16% and 18%, respectively, related to work being executed by joint ventures accounted for using the equity method of accounting. We estimate that, as of December 31, 2020, 28% of our backlog will be recognized as revenues or equity in earnings of unconsolidated affiliates within fiscal year 2021. For additional information regarding backlog, see our discussion within "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" contained in Part II of this Annual Report on Form 10-K.

Our GS business segment primarily performs work under cost-reimbursable contracts in the U.S. with the DoD and other U.S. governmental agencies that are generally subject to applicable statutes and regulations. If the U.S. government concludes costs charged to a contract are not reimbursable under the terms of the contract or applicable procurement regulations, these costs are disallowed or, if already reimbursed, we may be required to refund the reimbursed amounts to the customer. Such conditions may also include interest and other financial penalties. If performance issues arise under any of our government contracts, the customer retains the right to pursue remedies, which could include termination under any affected contract. Generally, our customers have the contractual right to terminate or reduce the amount of work under our contracts at any time. For more information, see "Item 1A. Risk Factors" contained in Part I of this Annual Report on Form 10-K.

Our GS business segment also participates in PFI contracts, such as the Aspire Defence and UKMFTS projects. PFIs are long-term contracts that outsource the responsibility for the construction, procurement, financing, operation and maintenance of government-owned assets to the private sector. These contracts may contain both fixed-price and cost-reimbursable elements. The PFI projects in which KBR participates are all located in the U.K. with contractual terms ranging from 15 to 35 years, and involve the provision of services to various types of assets ranging from acquisition and maintenance of major military equipment and housing to transportation infrastructure. Under most of these PFI contracts, the primary deliverables of the contracting entity are the initial construction or procurement of assets for the customer and the subsequent provision of operations and maintenance services related to the assets once they are transferred and ready for their intended use. The amount of renumeration from the customer to the contracting entity is negotiated on each contract and varies depending on the specific terms for each PFI.

Contracts

Our contracts broadly consist of fixed-price, cost-reimbursable or a combination of the two. Our fixed-price contracts may include cost escalation and other features that allow for increases in price should certain events occur or conditions change. Fixed-price contracts are typically subject to change orders if the scope of work changes or unforeseen conditions arise resulting in adjustments to the fixed price.

Fixed-price contracts include both lump-sum and unit-rate contracts. Under lump-sum contracts, we perform a defined scope of work for a specified fee to cover all costs and any profit element. Lump-sum contracts entail significant risk to us because they require us to predetermine the work to be performed, the project execution schedule and all the costs associated with the scope of work. Unit-rate contracts are essentially fixed-price contracts with the only variable being units of work to be performed. Although fixed-price contracts involve greater risk than cost-reimbursable contracts, they also are potentially more profitable because the owner/customer pays a premium to transfer project risks to us.

Cost-reimbursable contracts include cost-plus fixed fee, cost-plus fixed rate, and time and materials contracts. Under cost-reimbursable contracts, the price is generally variable based upon our actual costs incurred for materials, equipment, reimbursable labor hours and in some cases, overhead and general and administrative expenses. Profit on cost-reimbursable contracts may be in the form of a fixed fee or a mark-up applied to costs incurred, or a combination of the two. The fee may also be an incentive fee based on performance indicators, milestones or targets and can be based on customer discretion. Cost-reimbursable contracts may also provide for a guaranteed maximum price where the total fee plus the total cost cannot exceed an agreed upon guaranteed maximum price. Cost overruns or costs associated with project delays could be our responsibility under such contracts. Cost-reimbursable contracts are generally less risky than fixed-price contracts because the owner/customer retains many of the project risks.

Raw Materials and Suppliers

Equipment and materials essential to our business are obtained from a variety of global sources. 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 function seeks to leverage our size and buying power to ensure that we have access to key equipment and materials at low prices and ideal 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” contained in Part I of this Annual Report on Form 10-K for more information.

Intellectual Property

The use of intellectual property generally benefits our TS and ES business segments. We have developed, acquired 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, semi-submersibles and specialty chemicals. We also license a variety of technologies for the transformation of raw materials into commodity chemicals such as phenol used in the production of consumer end products. In addition, we are a licensor of ammonia process technologies used in the conversion of natural gas to ammonia with a fully developed, proprietary, end-to-end green ammonia solution K-GreeN™. We also offer technologies for crystallization and evaporation, concentration and purification of strong inorganic acids, as well as an innovative, disruptive mixed plastics recycling technology that processes all types of plastic including many that are considered by some to be unrecyclable. We believe our technology portfolio and experience in the commercial application of these technologies and our related know-how differentiates us, enables our sustainability strategy, and 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. For technologies we own, we protect our rights, know-how and trade secrets through patents and confidentiality agreements.

Seasonality

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

Environmental Regulation

Our business involves planning, design, program management, construction and construction management, and operations and maintenance at various project sites throughout the world, including oil field and related energy infrastructure construction services, in and around sensitive environmental areas, such as rivers, lakes and wetlands. Our operations may require us to manage, handle, remove, treat, transport and dispose of toxic or hazardous substances, which are subject to stringent and complex laws relating to the protection of the environment and prevention of pollution.

Significant fines, penalties and other sanctions may be imposed for non-compliance with environmental and worker health and safety laws and regulations, and some laws provide for joint and several strict liabilities for remediation of releases of hazardous substances, rendering a person liable for environmental damage, without regard to negligence or fault on the part of such person. These laws and regulations may expose us to liability arising out of the conduct of operations or conditions caused by others, or for our acts that were in compliance with all applicable laws at the time these acts were performed. For example, there are a number of governmental laws that strictly regulate the handling, removal, treatment, transportation and disposal of toxic and hazardous substances, such as the Comprehensive Environmental Response Compensation and Liability Act of 1980, and comparable national and state laws that impose strict, joint and several liabilities for the entire cost of cleanup, without regard to whether a company knew of or caused the release of hazardous substances. In addition, some environmental regulations can impose liability for the entire clean-up on owners, operators, transporters and other persons arranging for the treatment or disposal of such hazardous substances costs related to contaminated facilities or project sites. Other environmental laws applicable to our and customers' operations affecting us include, but are not limited to, the Resource Conservation and Recovery Act, the National Environmental Policy Act, the Clean Air Act, the Clean Water Act, the Occupational Safety and Health Act and the Toxic Substances Control Act as well as other comparable foreign and state laws. Liabilities related to environmental contamination or human exposure to hazardous substances, comparable foreign and state laws or a failure to comply with applicable regulations could result in substantial costs to us, including cleanup costs, fines, civil or criminal sanctions, third-party claims for property damage, personal injury or cessation of remediation activities.

Additional information relating to environmental regulations is described in "Item 1A. Risk Factors" contained in Part I of this Annual Report on Form 10-K and in Note 16 to our consolidated financial statements.

Compliance

We prioritize conducting our business with ethics and integrity. We are subject to numerous compliance-related laws and regulations, including the FCPA, the U.K. Bribery Act, other applicable anti-bribery legislation and laws and regulations regarding trade and exports. The services we provide to the U.S. federal government are subject to the FAR, the Truth in Negotiations Act, CAS, the Services Contract Act, DoD security regulations, and many other laws and regulations. These laws and regulations affect how we transact business with our clients and, in some instances, impose additional costs on our business operations. We are also governed by our own Code of Business Conduct (our "Code") and other compliance-related corporate policies and procedures that mandate compliance with these laws. Our Code is a guide for every employee in applying legal and ethical practices to our everyday work. In particular, our Code describes our standards of integrity and relevant principles and areas of law most likely to affect our business. We regularly train our employees regarding our Code and other specific areas including anti-bribery compliance and international trade compliance.

Human Capital Management

At KBR, we bring together the best and brightest to deliver technology and solutions that help our customers accomplish their most critical missions and objectives. In doing so, we strive to create a better, safer and more sustainable world. In 2020, we capitalized on momentum KBR had been building over the past several years and began to reimagine how we deliver. This transformational journey has culminated in the development of our new One KBR values, which capture who we are and guide everything we do. The values have at their core our focus on people — our customers, our stakeholders, our communities and our employees — and our commitment to delivering unrivaled solutions and expertise.

Our new One KBR Values are:

- We Value Our People
- We Deliver
- We Are People of Integrity
- We Empower
- We are a Team of Teams

Of these, the core value that embodies our approach to human capital management is *We Value Our People*:

Our people are the heart of everything we do. We are dedicated to creating diverse and inclusive work environments, in which every member of our team of teams feels safe, supported, respected, trusted and valued, and where each person is given opportunities to grow and reach their full potential.

Our employees' expertise, domain knowledge and leadership capability enable KBR to provide superior science, technology and engineering solutions and in 2020 we renewed our global people strategy to enable KBR to harness the power of all our people, by:

- Building our reputation as a great place to work;
- Creating the conditions in which people can flourish;
- Capitalizing on their tremendous capability; and
- Together, helping realize the potential of One KBR

Our 29,000 employees perform diverse, complex, mission critical roles, in 40 countries, and we continue to embed the best people practices to support their experience as an employee, underpinned by our ongoing commitment to Zero Harm.

Worker Health and Safety / Zero Harm

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

Our global Zero Harm culture rests on nine key principles, which we refer to as our "sustainability pillars." The central pillar is "Courage to Care," which we define as the willingness to intervene when one observes something that does not meet acceptable standards. We believe our Zero Harm culture has resulted in a work environment that promotes employee engagement and ownership. Although we have experienced significant improvement in our safety performance indicators, we cannot guarantee that our efforts will always be successful and from time to time we may experience incidents or unsafe work conditions or practices may arise. Our project sites often put our employees and others in proximity with mechanized equipment, moving vehicles, chemical and manufacturing processes, and highly regulated materials. Additionally, our employees and others at certain project sites may be exposed to severe weather events or high security risks. We actively seek to maintain a safe, healthy and environmentally sound workplace for all of our employees and those who work with us. Consequently, we may incur substantial costs to maintain the safety and security of our personnel in these locations.

COVID-19

During 2020, our Zero Harm culture was epitomized in our response to the COVID-19 pandemic, where our response prioritized taking action for the safety of our people, families and customers and to do our part to slow the spread of the virus. We activated a special executive task force in January 2020 to monitor and respond to developments in real time, implementing travel restrictions to protect our people and customers, alongside practical, accessible training and support, including resources available through our Employee Assistance Program. We quickly deployed local emergency response plans and continued to operate throughout the year to enable employees working remotely or on site to continue to deliver the same outstanding service and attention to our customers.

Reimagining How We Deliver

This pivot to remote work allowed our employees to maintain a high level of productivity and efficiency while transitioning to new ways of working, and gave us the chance to reimagine how we deliver as a more flexible, agile business, where our people, operating model and culture enable rapid change and value creation, and establish a source of competitive advantage. A global task force was established to reimagine our culture, work practices and workplaces, resulting in what we believe will be sustainable changes with clear benefits, including offering more flexible working arrangements to help establish KBR as a global employer of choice and support a more diverse workforce.

To support the transition to this new work environment, we ran a series of virtual training events focused on the skills required by employees and managers in this new world and held regular 'virtual coffees' with experts and leaders in KBR to help our people stay connected as part of an adaptable network and reinforce our Team of Teams ethos. Enhancement to our workplaces, upgrades to our flexible working policy and easy access to digital tools and resources have all contributed to our new ways of working.

Mental Health & Fitness

We recognize that mental health and wellbeing affect everyone, and during the pandemic this has proved even more critical. Building on our commitment to Zero Harm, we aim to create a workplace where employees can thrive, and to inspire and enable our employees to proactively improve their own mental fitness.

During 2020, we established a global Mental Health & Wellbeing Committee to help steer our strategy and to give our people the support and resources they need. We have raised awareness and encouraged conversations about mental health and fitness through ongoing communications, including webinars with KBR and external experts, supported by highly visible leadership. A broad range of training and support materials were made available to employees and managers, and we upgraded our Employee Assistance Program to provide free counselling, advice and resources for employees and their families in multiple languages.

Over the year, we developed further plans to help employees improve their mental fitness and resilience, including access to themed training and resources, provision of bespoke management training, global expansion of our Wellbeing Ambassadors program, and launch of a new mobile application providing employees with 24/7 access to a personalized mental health and wellbeing platform, which we expect to formally launch in 2021.

Hiring the Best and Brightest

In 2020, we hired over 8,000 new employees, the majority of whom were appointed utilizing innovative virtual selection processes during the COVID-19 pandemic through proactive promotion of our employer brand using social media, supplemented by targeted campaigns for specialist expertise, with a particular focus on sourcing diverse applicants to reflect the communities in which we operate.

Our onboarding process helps new hires quickly become effective and develop a strong sense of belonging, equipped with the right tools and support to enable them to perform. With virtual onboarding a new reality, we have enhanced our processes to include digital welcome packs which promote our employee-centric culture.

During 2020, we began to refresh our Employee Value Proposition ("EVP"), putting purpose at the heart of our employer brand. KBR offers fulfilling careers to the best and brightest people, and we empower our employees to work in ways that work for them. We are researching how our internal and external perceptions match up to that promise, which will inform how we articulate, promote and measure our employer brand in the future.

Inclusion & Diversity

We established a new Inclusion & Diversity ("I&D") Council early in 2020, representing a cross-section of employees from different markets, businesses and functions, to review, assess and champion initiatives which support our inclusion and diversity journey. We have set out a comprehensive I&D strategy with the goal of becoming a magnet for diverse talent, where we are known for a culture of belonging and equality, and adopted a program to inform our practices on hiring, developing, engaging and rewarding diverse talent. The I&D Council's first set of recommendations, which focused on hiring, training and education, are now being implemented through our global Human Resources ("HR") community and business leadership teams.

Women represented 23.4% of KBR's workforce as of December 31, 2020, a slight increase from 22.6% as of December 31, 2019, and we continue to consider gender diversity in our recruiting and hiring process. In 2020 we also conducted a systematic review of gender pay equity and monitored the gender balance among new hires and leavers, and were pleased to confirm we found no indication of bias in our reward structures or headcount trends.

Moving forward, we are accelerating our focus on diversity into other areas, with a particular emphasis on race and ethnicity, and the I&D Council will be researching and recommending continual improvements in this important area. The team will also be reviewing our internal targets and using data to track lead indicators and performance outcomes.

Employee Resource Groups

Over the year, we have continued to support and engage with our Employee Resource Groups ("ERGs"), which together form a valuable network across KBR to educate, advocate and connect people with common interests. The primary ERG focused on I&D is ASPIRE, which has been an established employee network and support group for more than five years and conducts events across the world, regularly attended by hundreds of participants. In 2020, a new Pride & Allies ERG was launched, and we also plan to provide ERG support for Working Parents and Caregivers. Looking forward, we are planning to bring all our I&D related ERGs together under a global umbrella which supports all diverse populations and champions inclusion across KBR.

For our early career professionals, we sponsor IMPACT, an ERG focused on talent development, which helps employees through networking, continuing education, and mutual support. In 2020, we launched the IMPACT Vision Series of webinars, focused on the science, technology and engineering behind KBR's strategy and solutions, with attendance typically over 800 for each event, and we plan to build on this momentum as we support the growth of IMPACT in 2021.

Talent Development & Succession

As part of our overall talent development strategy we continue to focus on succession planning for critical roles, including the Executive Leadership Team and Chief Executive Officer, and engage regularly with the Board on these topics. In addition to identifying potential successors, in 2020 we also introduced a robust talent review process, which calibrates performance and potential for our leadership team and ensures appropriate action plans are in place to prepare our next level of talent for the challenges and opportunities ahead. We have plans in place to cascade this talent calibration process to the next level during 2021, bringing greater visibility and breadth to succession planning for other key roles.

KBR provides targeted learning and development opportunities, such as our Global Leadership Development Program, through which nominees develop their strategic thinking and executive leadership skills. The current participants in this program have undertaken a range of challenging business projects during 2020, alongside skills development, coaching and networking events.

In addition to such tailored programs and processes, all KBR employees can participate in a wide range of learning and development activities. Our learning management system provides access to thousands of modules, podcasts, articles and videos, spanning technical, behavioral and regulatory training requirements.

Employee Engagement

We evaluate our success in making KBR a great place to work, in part, by whether our employees choose to stay with us, and in 2020 we were pleased to note a reduction in voluntary turnover. While we are confident that this reflects our ongoing efforts to increase employee engagement, we recognize that the reduction is also due to labor market dynamics, and in particular the uncertainty caused by COVID-19.

We closely monitor our employees' engagement and satisfaction, undertaking pulse surveys and routinely conducting exit interviews to learn from their experience. During 2020, we began crowdsourcing real-time feedback from employees using digital polling platforms as part of our virtual events, which helped generate honest, anonymous feedback and ideas on a wide range of topics related to their experience as employees as well as our business overall.

As we refresh our EVP, we plan to build on our local survey processes and establish a global employee survey, which will also encapsulate feedback on inclusion and diversity, mental health and wellbeing, and our One KBR Values. This will be a fundamental building block to help us hire great people that can do great things that matter to the world.

Website Access

Our Annual Reports 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 Exchange Act are made available free of charge on our website at www.kbr.com as soon as reasonably practicable after we have electronically filed the material with, or furnished it to, the SEC. The SEC maintains a website that contains reports, proxy and information statements and other information regarding issuers like us that file electronically with the SEC at www.sec.gov. We have posted our Code on our website, located at www.kbr.com. Our Code 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. We intend to satisfy the disclosure requirement under Item 5.05 of Form 8-K relating to amendments to or waivers from any provision of the Code applicable to such persons by posting such information on our website at www.kbr.com.

Item 1A. Risk Factors

Risks Related to Operations of our Business

The widespread outbreak of a pandemic or epidemic, or the outbreak of an infectious disease, such as COVID-19, may materially adversely affect our business, results of operations and/or cash flows, including as a result of widespread reduced demand for oil and reduced commodity prices resulting from oversupply of oil or storage constraints.

The spread of COVID-19 across the globe has negatively affected worldwide economic and commercial activity, disrupted global supply chains, and created significant volatility and disruption of financial and commodity markets. Further, while the supply of hydrocarbon commodities was reduced somewhat, demand fell even more sharply as a result of COVID-19 and prices saw a sharp drop in the first quarter 2020. Our business and operational plans may be adversely affected by the COVID-19 pandemic due to a number of factors outside of our control, including:

- the health or availability of our workforce, including contractors and subcontractors, and restrictions that we and our customers, contractors and subcontractors impose, including limiting worksite access and facility shutdowns, to ensure the safety of employees and others;
- the ability or willingness of our vendors and suppliers to provide the equipment, parts or raw materials for our operations or otherwise fulfill their contractual obligations, which in turn could impair our ability to perform under our contracts or to deliver products on a timely basis;
- recommendations of, or restrictions imposed by, government and health authorities, including travel bans, quarantines, and shelter-in-place orders to address the COVID-19 outbreak;
- potential contract delays, modifications or terminations;
- increased potential for the occurrence of operational hazards, including terrorism, cyber-attacks or domestic vandalism, as well as information system failures or communication network disruptions;
- reductions in the number and amounts of new government contract awards, delays in the timing of anticipated awards or potential cancellations of such prospects as a result of the fiscal, economic and budgetary challenges facing our customers, as well as material and equipment pricing;
- increased cost and reduced availability of capital for growth or capital expenditures;
- increased costs of operation in relation to the COVID-19 outbreak, which costs may not be fully recoverable or adequately covered by insurance; and
- long-term disruption of the U.S. and global economy and financial and commodity markets.

The spread of COVID-19 has caused us to significantly modify our business practices (including limiting employee and contractor presence at our work locations), and we may take further actions as may be required by government authorities or that we determine are in the best interests of our employees, contractors, customers, suppliers and communities. There is no certainty that such measures will be sufficient to mitigate the risks posed by the virus, and our ability to perform critical functions could be adversely impacted.

As the potential effects of COVID-19 are difficult to predict, the duration of any potential business disruption or the extent to which COVID-19 may negatively affect our operating results is uncertain. Any potential impact will depend on future developments and new information that may emerge regarding the spread, severity and duration of the COVID-19 pandemic and the actions taken by authorities to contain it or treat its impact, all of which are beyond our control. These potential effects, while uncertain, could adversely affect our business, financial condition, results of operations and/or cash flows, as well as our ability to pay dividends to our shareholders.

Demand for our services and technologies depends on demand and capital spending by customers in their target markets, many of which are cyclical in nature, have been reduced in light of declining commodity prices, and have been significantly impacted by COVID-19.

Demand for many of our services in our commodity-based markets depends on capital spending by oil and natural gas companies, including national and international oil companies, and by industrial companies, which is directly affected by trends in oil, natural gas and commodities prices. Market prices for oil, natural gas and commodities have been volatile in recent years reducing the revenues and earnings of our customers. Further, the hydrocarbon commodities supply and demand imbalances, combined with the continued outbreak of COVID-19, contributed to a sharp drop in prices for oil in the first quarter of 2020. Although the supply of hydrocarbon commodities was reduced somewhat, demand fell even more sharply as a result of COVID-19. The average spot price of West Texas Intermediate (Cushing) crude oil declined to below $0 during April 2020, and more recently closed at $48.35 on December 31, 2020.

These market conditions make it difficult for our customers to accurately forecast and plan future business trends and activities that in turn could have a significant impact on the activity levels of our businesses. As a result, several leading international and national oil companies reduced their capital expenditures in 2020. Demand for LNG and other facilities for which we provide services has decreased, and could continue to decrease, in light of the sustained reduction in the price and demand for crude oil or natural gas resulting from COVID-19. 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 have caused and may continue to cause our customers to reduce or defer major expenditures given the long-term nature of many large-scale projects. Even relatively minor changes in supply and demand have the potential to cause large fluctuations in the prices of oil, natural gas and commodities, as well as lead to significant 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:

- world health events, including the COVID-19 pandemic, which has reduced and may continue to reduce demand for oil and natural gas because of reduced economic activity;
- changes in the level of global demand for oil, natural gas, and industrial services due in part to governmental regulations, including travel bans and restrictions, quarantines, shelter in place orders, and shutdowns;
- worldwide or regional political, social or civil unrest, military action and economic conditions;
- governmental regulations or policies, including the policies of governments regarding the use of energy and the exploration for and production and development of their oil and natural gas reserves;
- a reduction in energy demand as a result of energy taxation or a change in consumer spending patterns;
- global economic growth or decline;
- the global level of oil and natural gas production;
- potential shut-ins of production by producers due to lack of downstream demand or storage capacity;
- 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.

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

Our revenues are directly or indirectly derived from contract awards. Reductions in the number and amounts of new awards, delays in the timing of anticipated awards or potential cancellations of such prospects as a result of economic conditions, material and equipment pricing and availability or other factors could adversely impact our long-term projected results. It is particularly difficult to predict whether or when we will receive large-scale international and domestic projects as these contracts usually involve a lengthy and complex bidding and selection process. This process can be affected by a number of factors including market conditions and governmental and environmental approvals. Because a 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 and similar contingencies and, as a result, we are subject to the risk that the customer will not be able to secure the necessary financing for a project to proceed.

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

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 also favors 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 maintain supplier relationships and delivery systems to react to emerging needs. In addition, U.S. government procurement practices sometimes emphasize price over qualitative factors, such as technical capability and past performance. As a result of these competitive pricing pressures, our profit margins on future U.S. government contracts may be reduced and may require us to make sustained efforts to reduce costs to remain competitive.

We face rigorous competition and pricing pressures for any additional contract awards from the U.S. government. Many of our existing contracts must be recompeted when their original period of performance ends. Recompetitions represent opportunities for competitors to take market share away from us or for our customers to obtain more favorable terms. We may be required to qualify or continue to qualify under the various multiple award task order contract criteria. Therefore, it may be more difficult for us to win future awards from the U.S. government and we may have other contractors sharing in U.S. government awards that we win. Once a contract is awarded, it may be subject to a lengthy protest process that could result in contract delays, or ultimately, the loss of the contract.

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.

A considerable percentage of our revenues, particularly in our GS business segment, is generated from transactions with certain significant customers. Revenues from the U.S. government represented 53% of our total consolidated revenues for the year ended December 31, 2020. The loss of one or more of our significant customers, or the cancellation or delay in their projects, could adversely affect our revenues and results of operations.

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

We utilize a variety of intellectual property rights in providing services to our customers. We view our portfolio of process and design technologies as one of our competitive strengths and we use it as part of our efforts to differentiate our service offerings. We may not be able to successfully preserve these intellectual property rights in the future, and these rights could be invalidated, circumvented, challenged or infringed upon. In addition, the laws of some foreign countries in which our services may be sold do not protect intellectual property rights to the same extent as the laws of the U.S. We also license technologies from third parties and there is a risk that our relationships with licensors may terminate, expire or be interrupted or harmed. 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.

If we are unable to attract and retain senior management and key technical professionals with elite skills, our ability to pursue and compete for projects to grow our business may be adversely affected, our operating income may decrease, and our reputation may be negatively impacted.

The reimagined KBR and its forward looking solutions strategy requires talent with dynamic and elite skills as KBR moves upmarket. Our rate of growth and the success of our business depend upon our ability to attract, develop, retain, and replace key qualified technical and management professionals, either through direct hire, subcontracts or acquisition of other firms, who possess the elite skills to successfully deliver the solutions strategy. The market for these professionals is competitive in the sectors in which we compete, and we rely heavily upon the expertise and leadership of our professionals to perform, execute and complete projects as required by our clients. If we are unable to attract and retain a sufficient number of elite skilled professionals, our ability to pursue projects may be adversely affected, our financial performance may decline, and our reputation may be damaged.

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

We engage in 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. If 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 that may result in additional direct and indirect costs. Often these claims can be the subject of lengthy negotiations, 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 fully or promptly recover on these types of claims could have a material adverse impact on our liquidity and financial results.

For example, we executed a project as a partner in the JKC joint venture with JGC and Chiyoda, on a joint and several basis, for the design, procurement, fabrication, construction, commissioning and testing of the Ichthys Onshore LNG export facility in Darwin, Australia. As further discussed in Notes 6 and 10 to our consolidated financial statements, the project experienced significant cost increases associated with a variety of issues related to changes to the scope of work, delays and lower than planned subcontractor productivity. These issues resulted in significant unapproved change orders and claims against the client as well as estimated recoveries of claims against suppliers and subcontractors that have been included in the project estimates-at-completion. We have funded our proportionate share of the working capital requirements of JKC to complete the project. JKC's current estimates for the unapproved change orders and claims against the client and estimated recoveries of claims against suppliers and subcontractors may prove inaccurate and potentially result in refunds to the client for amounts previously paid to the joint venture or the inability of the joint venture to recover additional costs from its suppliers and subcontractors. We have letters of credit outstanding in support of performance and warranty guarantees that may be called by the client under certain events. To the extent these letters of credit are called by the client, we would be required to use available cash to repay our lenders and could also be required to cash collateralize the remaining balance of outstanding letters of credit. Any of these events could result in material changes to the estimated revenue, costs and profits at completion on the project and adversely affect our financial condition, results of operations and cash flows.

Dependence on third-party subcontractors and equipment manufacturers could adversely affect our profits.

We rely on third-party subcontractors and equipment manufacturers in order to complete many of our projects. Certain subcontractors and suppliers, such as those used on our U.S. government contracts, are subject to the same rigorous government requirements that we are and if they are unable to comply with these requirements, there may be limited subcontractors and suppliers available in the market. In addition, if any subcontractor or a manufacturer is unable to deliver its services, equipment or materials according to the negotiated terms for any reason including, but not limited to, 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. Furthermore, 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.

Some of our U.S. government work requires KBR and certain of its employees to qualify for and retain a government-issued security clearance. If we are unable to hire or retain employees with adequate security clearances, we may be unable to perform our obligations to customers.

We currently hold U.S. government-issued facility security clearances and a large number of our employees have qualified for and hold U.S. government-issued personal security clearances necessary to qualify for and ultimately perform certain U.S. government contracts. Obtaining and maintaining security clearances for employees involves lengthy processes, and it is difficult to identify, recruit and retain employees who already hold security clearances. If our employees are unable to obtain or retain security clearances or if our employees who hold security clearances terminate employment with us and we are unable to find replacements with equivalent security clearances, we may be unable to perform our obligations to customers whose work requires cleared employees, or such customers could terminate their contracts or decide not to renew them upon their expiration. Our facility security clearances could be marked as "invalid" for several reasons including unapproved foreign ownership, control or influence, mishandling of classified materials, or failure to properly report required activities. An inability to obtain or retain our facility security clearances or engage employees with the required security clearances for a particular contract could disqualify us from bidding for and winning new contracts with security requirements as well as result in the termination of any existing contracts requiring such clearances.

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

A significant portion of our revenues and profits are measured and recognized over time using the cost-to-cost 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 effects of revisions to estimated revenues and costs are recorded when the amounts are known or can be reasonably estimated. In addition, we have recorded significant unapproved change orders and claims against clients as well as estimated recoveries of claims against suppliers and subcontractors that have been included in the estimated profit at completion for certain projects. Revisions to these estimates could occur in any period and their effects could be material. The uncertainties inherent in estimating the progress towards completion or the recoverability of claims of long-term contracts make it possible for actual revenues and costs to vary materially from our estimates, including reductions or reversals of previously recorded revenues and profits.

We conduct a portion of our 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 operations through 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 partners 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 failure to comply with applicable laws or regulations, nonperformance, default or bankruptcy of our joint venture partners. Also, we often 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 the customer, which could ultimately result in litigation. We could be liable for both our obligations and those of our partners, which may result in reduced profits, significant losses on the project, and a negative impact to our cash flows. 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 that are applicable to us. As a result, internal control issues may arise, which could have a material adverse effect on our financial condition and results of operations.

The nature of our contracts, particularly those that are fixed-price, subjects us to risks associated with cost overruns, 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. A portion of the value of our current backlog is attributable to fixed-price contracts where we bear a significant portion of the risk of cost overruns. These types of contracts are priced, in part, on cost and scheduling estimates that are based on assumptions including prices and availability of experienced labor, equipment and materials as well as productivity, performance and future economic conditions. If these estimates prove inaccurate, if there are errors or ambiguities as to contract specifications or if circumstances change due to, among other things, unanticipated technical problems, poor project execution, 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 a specified time frame or cost estimate 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.

See Note 6 to our consolidated financial statements and risk factor under "*The nature of our legacy business exposes us to potential liability claims and contract disputes that may exceed or be excluded from existing insurance coverage*" for further discussion regarding cost increases and related unapproved change orders and claims on the Ichthys LNG Project.

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 FAR, the Truth in Negotiations Act, 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 we are complying with the requirements under the 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 DCMA. Should the DCMA determine that we have not complied with the terms of our contract or 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. These suits may remain under seal (and hence, be unknown to us) for some time while the U.S. government decides whether to intervene on behalf of the qui tam plaintiff.

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. Other remedies that could be sought by our U.S. 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 U.S. 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.

The transition period resulting from the Referendum of the United Kingdom's Membership of the European Union could adversely affect our business and results of operations.

The U.K. formally exited the European Union ("Brexit") on January 31, 2020, followed by a transition period from February through December 2020, during which the U.K. continued to remain in the European Union as it negotiated separate trade deals with the European Union and other countries. The effects of Brexit will depend on any agreements the U.K. makes to retain access to European Union markets. On December 24, 2020, the U.K. announced that it had reached agreement on a draft EU-UK Trade and Cooperation Agreement ("TCA") covering trade in goods and in services, digital trade, intellectual property, public procurement aviation and road transport, energy, fisheries, social security coordination, law enforcement and judicial cooperation in criminal matters, thematic cooperation and participation in the European Union programs. The U.K. Parliament ratified the U.K.'s entry into, and implementation of, the TCA on December 30, 2020 pursuant to the EU (Future Relationship) Act 2020. Brexit could adversely affect U.K., European and worldwide economic and market conditions, could contribute to instability in some global financial and foreign exchange markets, including continued volatility in the value of the British pound sterling or could otherwise adversely affect trading agreements or similar cross-border cooperation arrangements (whether economic, tax, legal, regulatory or otherwise) beyond the date of Brexit. Volatility in currency exchange rates primarily impacts the translation of the financial results of the U.K. portion of our GS business segment. Brexit could also disrupt the free movement of goods, services and people between the U.K. and the European Union, and result in increased legal and regulatory complexities, as well as potential higher costs of conducting business in Europe. These developments, or the perception that any of them could occur, may adversely affect our relationships with our existing and future customers, suppliers, employees, and subcontractors, or otherwise have an adverse impact on our business, financial condition and results of operations.

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

Some of our services are performed in high-risk locations, including but not limited to, Iraq, Afghanistan and 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 may incur substantial costs to maintain the safety of our personnel. Despite these precautions, we have suffered the loss of employees and contractors in the past that resulted in claims and litigation. Furthermore, there is risk of mass casualty or environmentally damaging events that may involve our and third party personnel and property, which could lead to future claims and litigation, impact our reputation and investor confidence, and ultimately result in reduced share price.

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.S., U.K. and Australia governments, which is directly affected by changes in government spending and availability of adequate funding. Additionally, 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 significant government contractor, our financial performance is affected by the allocation and prioritization of government spending. Factors that could affect current and future government spending include:

- policy or spending changes implemented by the current administration, defense department or other government agencies;
- failure to pass budget appropriations, continuing funding resolutions or other budgetary decisions;
- 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
- the level of political instability due to war, conflict or natural disasters.

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

Our backlog of unfilled orders 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, 2020, the future revenues we expect to realize as a result of backlog was approximately $15.1 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 or the timing of the revenues and profits that we ultimately 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.

Our business strategy includes the consideration of business 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 effectively integrated within our operations, 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 or we may not achieve the expected 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.

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 and procure equipment and materials on a global basis. Depending on the type of contract, location, nature of the work and the sourcing of equipment and materials, 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 that 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.

Risks Related to Financial Conditions and Markets

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

We finance our business using cash provided by operations, but also depend on the availability of credit, including letters of credit and surety bonds. Our ability to obtain capital or financing on satisfactory terms will depend in part upon prevailing market conditions as well as our operating results. The lack of adequate credit or funding or the unavailability of funding on terms satisfactory to us, could have a material adverse effect on our business and financial performance.

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

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

Furthermore, our cash balances and short-term investments are maintained in accounts held at major banks and financial institutions located primarily in North America, the U.K. and Australia. Deposits are in amounts that exceed available insurance. Although none of the financial institutions in which we hold our cash and investments have gone into bankruptcy, been forced into receivership or have been seized by their governments, there is a risk that this may occur in the future. If this were to occur, we would be at risk of not being able to access our cash and investments, which may result in a temporary decrease in liquidity 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 Senior Credit Facility is generally at the provider's sole discretion. Due to events that affect the banking and insurance markets generally, letters of credit or surety bonds may be difficult to obtain or may only be available at significant cost. Moreover, many projects are often very large and complex, which often necessitates the use of a joint venture, often with a market competitor, to bid on and perform the contract. 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 or may encounter financial difficulties. If our joint ventures or partners fail to perform, we may be required to complete the project activities. In addition, future projects may require us to obtain letters of credit that extend beyond the term of our Senior Credit Facility. Any inability to bid for or win new contracts due to the failure of obtaining adequate letters of credit, surety bonding or other customary credit enhancements could have a material adverse effect on our business prospects and future revenues.

Our Senior Credit Facility imposes restrictions that limit our operating flexibility and may result in additional expenses, and such facility may not be available if financial covenants are violated or if an event of default occurs.

Our Senior Credit Facility includes a $1 billion revolving credit facility which matures in February 2025. 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 consolidated leverage ratio and a consolidated interest coverage ratio as defined in the Senior Credit Facility agreement.

A breach of any covenant or our inability to comply with the required financial ratios could result in a default under our Senior Credit Facility, 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 Senior Credit Facility when due, our lenders could proceed against the guarantees of our major domestic subsidiaries. If any future indebtedness under our Senior Credit Facility is accelerated, we can provide no assurance that our assets would be sufficient to repay such indebtedness in full.

LIBOR is expected to no longer be available after June 30, 2023 for the primary U.S. dollar LIBOR settings used by the Company. As a result, there have been significant efforts by market participants and government and regulatory bodies in the United States and abroad to identify suitable replacement rates and develop processes for migration to the use of the alternatives. Our Senior Credit Facility gives us the option to use LIBOR as a funding benchmark and our interest rate swaps are based on the one-month U.S. dollar LIBOR. Our Senior Credit Facility allows us and the administrative agent to replace LIBOR with an alternative benchmark rate, subject to the right of the majority of the lenders to object thereto, as set forth in the credit facility. The International Swaps and Derivatives Association has issued terms that can be applied to determine the alternative reference rates under swap transactions and the timing of the switch to such alternatives. Any discontinuation of LIBOR and use of an alternative benchmark rate under our credit facility or our interest rate swap transactions is expected to be accompanied by a spread adjustment. The implementation of such alternative reference rates and spread adjustments could cause our funding costs to increase, including if there arises a differential between the alternative reference rate and/or spread adjustment under our credit facility and the alternative reference rate and/or spread adjustment applicable to our interest rate hedges.

Our indebtedness and the associated covenants could materially adversely affect our ability to obtain additional financing, including for acquisitions and capital expenditures, limit our flexibility to manage our business, prevent us from fulfilling our financial obligations and restrict our use of capital.

We had approximately $1.6 billion of indebtedness outstanding as of December 31, 2020 which could have negative consequences to us, including, but not limited to:

- requiring us to dedicate cash flow from operations to the repayment of debt, interest and other related amounts, which reduces the funds we have available for other purposes, such as working capital, capital expenditures, acquisitions, payment of dividends and share repurchase programs;
- making it more difficult or expensive for us to obtain any necessary future financing for working capital, capital expenditures, debt service requirements, debt refinancing, acquisitions or other purposes;
- reducing our flexibility in planning for or reacting to changes in our industry and market conditions;
- causing us to be more vulnerable in the event of a downturn in our business;
- exposing us to increased interest rate risk given that a portion of our debt obligations are at variable interest rates; and
- increasing our risk of a covenant violation under our Senior Credit Facility.

We may be required to contribute additional cash to meet our significant underfunded benefit obligations associated with pension benefit plans we manage.

We have frozen defined benefit pension plans for employees primarily in the U.S., U.K., and Germany. At December 31, 2020, our defined benefit pension plans had an aggregate funding deficit (calculated as the excess of projected benefit obligations over the fair value of plan assets) of approximately $381 million, the majority of which is related to our defined benefit pension plan in the U.K. In the future, our pension deficits may increase or decrease depending on changes in the levels of interest rates, pension plan performance and other factors that may require us to make additional cash contributions to our pension plans and recognize further increases in our net pension cost to satisfy our funding requirements. If we are required or elect to make up all or a significant portion of the deficit for underfunded benefit plans, our financial position could be materially and adversely affected.

Our U.K. defined benefit pension plan has an aggregate funding deficit. Our U.K. pension plan has been frozen to new participants for a number of years, but can still have an aggregate funding deficit due to assumptions and factors noted below. For our frozen defined benefit pension plan in the U.K., the annual minimum funding requirements are based on a binding agreement with the plan trustees that is negotiated on a triennial basis. This agreement also includes other assurances and commitments regarding the business and assets that support the U.K. pension plan. It is possible that, following future valuations of our U.K. pension plan assets and liabilities or following future discussions with the trustees, the annual funding obligation will change. The future valuations under our U.K. pension plan can be affected by a number of assumptions and factors, including legislative changes, assumptions regarding interest rates, inflation, mortality and retirement rates, the investment strategy and performance of the plan assets, and (in certain circumstance) actions by the U.K. pensions regulator. Adverse changes in the equity markets, interest rates, or changes in actuarial assumptions and legislative or other regulatory actions could increase the risk that the funding requirements increase following the next triennial negotiation. A significant increase in our funding requirements for our U.K. pension plan could result in a material adverse effect on our cash flows and financial position.

We are subject to foreign currency exchange 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 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 portion of our consolidated revenues and consolidated operating expenses are in foreign currencies. As a result, we are subject to 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 shares of common stock to refinance existing debt or to finance future acquisitions, our existing shareholder ownership could be diluted. In addition, the convertible note hedge and warrant transactions that we entered into in connection with the pricing of the Convertible Notes may affect the value of our common stock.

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 acquisition and merging of complementary businesses. To successfully fund and complete such potential acquisitions, or to refinance our existing debt, we may issue additional equity securities that may result in dilution of our existing shareholder ownership's earnings per share.

In addition, in connection with the pricing of the Convertible Notes, we entered into convertible note hedge transactions with certain option counterparties. We also entered into warrant transactions with the option counterparties. The convertible note hedge transactions are generally expected to reduce potential dilution to our common stock upon any conversion of the Convertible Notes and/or offset any cash payments we are required to make in excess of the principal amount of converted Convertible Notes, as the case may be. However, the warrant transactions could separately have a dilutive effect to the extent that the market value per share of our common stock exceeds the strike price of the warrants at the time of exercise.

Provisions in our charter documents, Delaware law and our Senior Credit Facility may inhibit a takeover or impact operational control that 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 Senior Credit Facility contains a default provision that is triggered upon a change in control of at least 25%, which would impede a takeover and/or make a takeover more costly.

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 that may not be under our control. As a result, we could sustain a loss on our equity investment in these projects.

Risks Related to Regulations and Law

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

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

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

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

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

Certain work sites often expose our employees and others to chemical and manufacturing processes, large pieces of mechanized equipment, and moving vehicles. Additionally, our employees and others at certain project sites may be exposed to severe weather events or high security risks. Failure to implement effective safety procedures may result in injury, disability or loss of life to these parties. In addition, the projects may be delayed and we may be exposed to litigation or investigations.

Our operations are subject to a variety of environmental, worker health and safety laws and regulations governing the generation, management and use of regulated materials, the discharge of materials into the environment, the remediation of environmental contamination associated with the release of hazardous substances and human health and safety. Violations of these laws and regulations can cause significant delays and additional costs to a project. When we perform our services, our personnel and equipment may be exposed to radioactive and hazardous materials and conditions. We may be subject to claims alleging personal injury, property damage or natural resource damages by employees, customers and third parties as a result of alleged exposure to or contamination by hazardous substances. In addition, we may be subject to fines, penalties or other liabilities arising under environmental and employee 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. In addition, more stringent regulation of our customers' operations with respect to the protection of the environment could also adversely affect their operations and reduce demand for our services.

Various U.S. federal, state and local as well as 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 may be joint and several. The ongoing costs of complying with existing environmental laws and regulations could be substantial and have a material adverse impact on our financial condition, results of operations and cash flows. Changes in the environmental laws and regulations, remediation obligations, enforcement actions, stricter interpretations of existing requirements, future discovery of contamination or claims for damages to persons, property, natural resources or the environment could result in material costs and liabilities that we currently do not anticipate.

There is a rapidly evolving awareness and focus from stakeholders, such as investors, customers, current and future employees, with respect to global climate change and related emphasis on environment, social, and governance practices, which could affect our business.

Continued attention to issues concerning climate change or other environmental matters (e.g., the use of commodity plastics) may result in the imposition of additional environmental regulations that seek to restrict, or otherwise impose limitations or costs upon, the emission of greenhouse gases. International agreements and national, regional and state legislation and regulatory measures or other restrictions on emissions of greenhouse gases could affect our clients, including those who are involved in the exploration, production or refining of fossil fuels, emit greenhouse gases through the combustion of fossil fuels, or through mining, manufacture, utilization or production of materials or goods. Such legislation or restrictions could increase the costs of projects for us and our clients or, in some cases, prevent a project from going forward, thereby potentially reducing the need for our services that could in turn have a material adverse effect on our operations and financial condition. We cannot predict when or whether any of these various legislative and regulatory proposals may become law or what their effect will be on us and our customers.

Furthermore, investor and societal expectations with respect to environmental, social, and governance matters have been rapidly evolving and increasing. We risk damage to our reputation if we do not act responsibly in the following key areas: diversity and inclusion, environmental stewardship, support for local communities, and corporate governance and transparency. A failure to adequately meet stakeholders' expectations may result in loss of business, diluted market valuation, an inability to attract and retain customers and talented personnel, increased negative investor sentiment toward us and/or our customers, and the diversion of investment to other industries, which could have a negative impact on our stock price and our access to and costs of capital.

General Risk Factors

Intense competition could reduce our market share and profits.

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

International and political events may adversely affect our operations.

A 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, war or other armed conflict;
- currency fluctuations, devaluations and conversion restrictions;
- confiscatory taxation or other adverse tax policies;
- 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; or
- increased polarization of political parties, in the U.S. and abroad, which may lead to more volatility in government spending or other developments such as trade wars or changes in military priorities.

Due to the unsettled political conditions in 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 could disrupt our operations in such locations and elsewhere and increase our costs related to security worldwide.

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 utilize, develop, install and maintain a number of information technology systems both for us and for our customers. These activities may involve substantial risks to our ongoing business processes including, but not limited to, accurate and timely customer invoicing, employee payroll processing, vendor payment processing and financial reporting. If these implementation activities are not executed successfully or if we encounter significant delays in our implementation efforts, we could experience interruptions to our business processes. Under certain contracts with the U.S. government subject to the FAR and CAS, the adequacy of our business processes and related systems could be called into question. Such events could have a material adverse impact on our business, financial condition, results of operations and cash flows.

Various privacy and security laws require us to protect sensitive and confidential information from disclosure. In addition, we are bound by our client and other contracts, as well as our own business practices, to protect our and certain third party confidential and proprietary information from disclosure. We rely upon industry accepted security measures and technology to secure such confidential and proprietary information maintained on our IT systems. However, our portfolio of hardware and software products, solutions and services and information contained within our enterprise IT systems may be vulnerable to damage or disruption caused by circumstances beyond our control such as catastrophic events, cyberattacks, other malicious and non-malicious activities from authorized and unauthorized employees or third parties, power outages, natural disasters, computer system or network failures, or computer viruses. The failure of our IT systems to perform as anticipated for any reason could disrupt our business and result in decreased performance, significant remediation costs, transaction errors, loss of data (e.g., personally identifiable information), processing inefficiencies, downtime, litigation and the loss of suppliers or customers. Any significant disruptions or failures could damage our reputation or have a material adverse effect on our business operations, financial performance and financial condition.

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

As of December 31, 2020, we had $1.8 billion of goodwill and $683 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. We perform an annual analysis of our goodwill on October 1 to determine if it has become impaired. We perform an interim analysis to determine if our goodwill has become impaired if events occur or circumstances change that would more likely than not reduce our enterprise fair value below its book value. These events or circumstances could include a significant change in the business climate, including a significant sustained decline in a reporting unit's market value, legal factors, operating performance indicators, competition, sale or disposition of a significant portion of our business, potential government actions toward our facilities and various other factors. If the fair value of a reporting unit is less than its carrying value, we could be required to record an impairment charge. An impairment of all or a part of our goodwill or intangible assets could have a material adverse effect on our net earnings and net worth. For example, we recorded impairment charges for goodwill and intangible assets totaling $110 million for the year ended December 31, 2020, as a result of the economic and market volatility as well as management's decision to discontinue pursuing certain projects in our ES business segment. For a further discussion of goodwill and intangible assets, see "Item 7 - Management's Discussion and Analysis of Financial Condition and Results of Operations, " Note 7 and Note 9 to our consolidated financial statements in Part II, Item 8 of this Annual Report on Form 10-K.

Our effective tax rate and tax positions may vary.

We are subject to income taxes in the U.S. and numerous foreign jurisdictions. Significant judgment is required in determining our worldwide provision for income taxes and a change in tax laws, treaties or regulations, or their interpretation, in any country in which we operate could result in higher taxes on our earnings, which could have a material impact on our earnings and cash flows from operations. In the ordinary course of our business, there are many transactions and calculations where the ultimate tax determination is uncertain. We are audited by various U.S. and foreign tax authorities in the ordinary course of business, and our tax estimates and tax positions could be materially affected by many factors including the final outcome of tax audits and related litigation, the introduction of new tax accounting standards, legislation, regulations and related interpretations, our global mix of earnings, the realizability of deferred tax assets and changes in uncertain tax positions. A significant increase in tax rates could have a material adverse effect on our profitability and liquidity.

We may change our dividend policy in the future.

We have maintained a regular cash dividend program since 2007. We anticipate continuing to pay quarterly dividends during 2021. However, any future payment of dividends, including the timing and amount of any such dividends, is at the discretion of our Board of Directors and may depend upon our earnings, liquidity, financial condition, alternate capital deployment opportunities or any other factors that our Board of Directors considers relevant. A change in our regular cash dividend program could have an adverse effect on the market price of our common stock.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

Our operations are conducted at both owned and leased properties in domestic and foreign locations. Our corporate headquarters are located at 601 Jefferson Street, Houston, Texas. While we have operations worldwide, the following table describes the locations of our more significant existing office facilities:

Location	Owned/Leased	Business Segment
North America:		
Houston, Texas	Leased	All
Fulton, Maryland	Leased	Government Solutions
Columbia, Maryland	Leased	Government Solutions
Greenbelt, Maryland	Leased	Government Solutions
Lexington Park, Maryland	Leased	Government Solutions
Chantilly, Virginia	Leased	Government Solutions
Vienna, Virginia	Leased	Government Solutions
Fairfax, Virginia	Leased	Government Solutions
Dayton/Beavercreek, Ohio	Leased	Government Solutions
Huntsville, Alabama	Leased	Government Solutions
Phoenix, Arizona	Leased	Government Solutions
Colorado Springs, Colorado	Leased	Government Solutions
Europe, Middle East and Africa:		
Leatherhead, United Kingdom	Owned	All
Wiltshire, United Kingdom	Leased / Owned	Government Solutions
Al Khobar, Saudi Arabia	Leased	Energy Solutions
Asia-Pacific:		
Chennai, India	Leased	All
Majura Park, Australia	Leased	Government Solutions
Parkside, Australia	Leased	Government Solutions
Delhi (Gurgaon), India	Leased	Technology Solutions
Beijing, China	Leased	Technology Solutions
Perth, Australia	Leased	Energy Solutions
Brisbane, Australia	Leased	Energy Solutions
Sydney, Australia	Leased	Energy Solutions
Melbourne, Australia	Leased	Energy Solutions

We also own or lease numerous small facilities that include sales, administrative and offices as well as warehouses and equipment yards located throughout the world. Our owned Leatherhead property is pledged to secure certain pension obligations in the U.K. 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” contained in Part I of this Annual Report on Form 10-K and in Notes 15 and 16 to our consolidated financial statements in Part II, Item 8 of this Annual Report on Form 10-K and the information discussed therein is incorporated by reference into this Part I, 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 listed on the NYSE and trades under the symbol "KBR." On February 20, 2020, our Board of Directors declared a regular quarterly cash dividend of $0.10 per common share. Future dividend declarations will be at the discretion of our Board of Directors.

At January 31, 2021, there were 69 shareholders of record. In calculating the number of shareholders, we consider clearing agencies and security position listings as one shareholder for each agency or listing.

Share Repurchases

On February 25, 2014, our Board of Directors authorized a $350 million share repurchase program. As of December 31, 2019, $160 million remained available under this authorization. On February 19, 2020, our Board of Directors authorized an increase of approximately $190 million to our share repurchase program, returning the authorization level to $350 million. As of December 31, 2020, $303 million remains available for repurchase under this authorization. The authorization does not obligate the Company to acquire any particular number of shares of common stock and may be commenced, suspended or discontinued without prior notice. The share repurchases are intended to be funded through the Company's current and future cash flows and the authorization does not have an expiration date.

The following is a summary of share repurchases of our common stock settled during the three months ended December 31, 2020, and the amount available to be repurchased under the authorized share repurchase program:

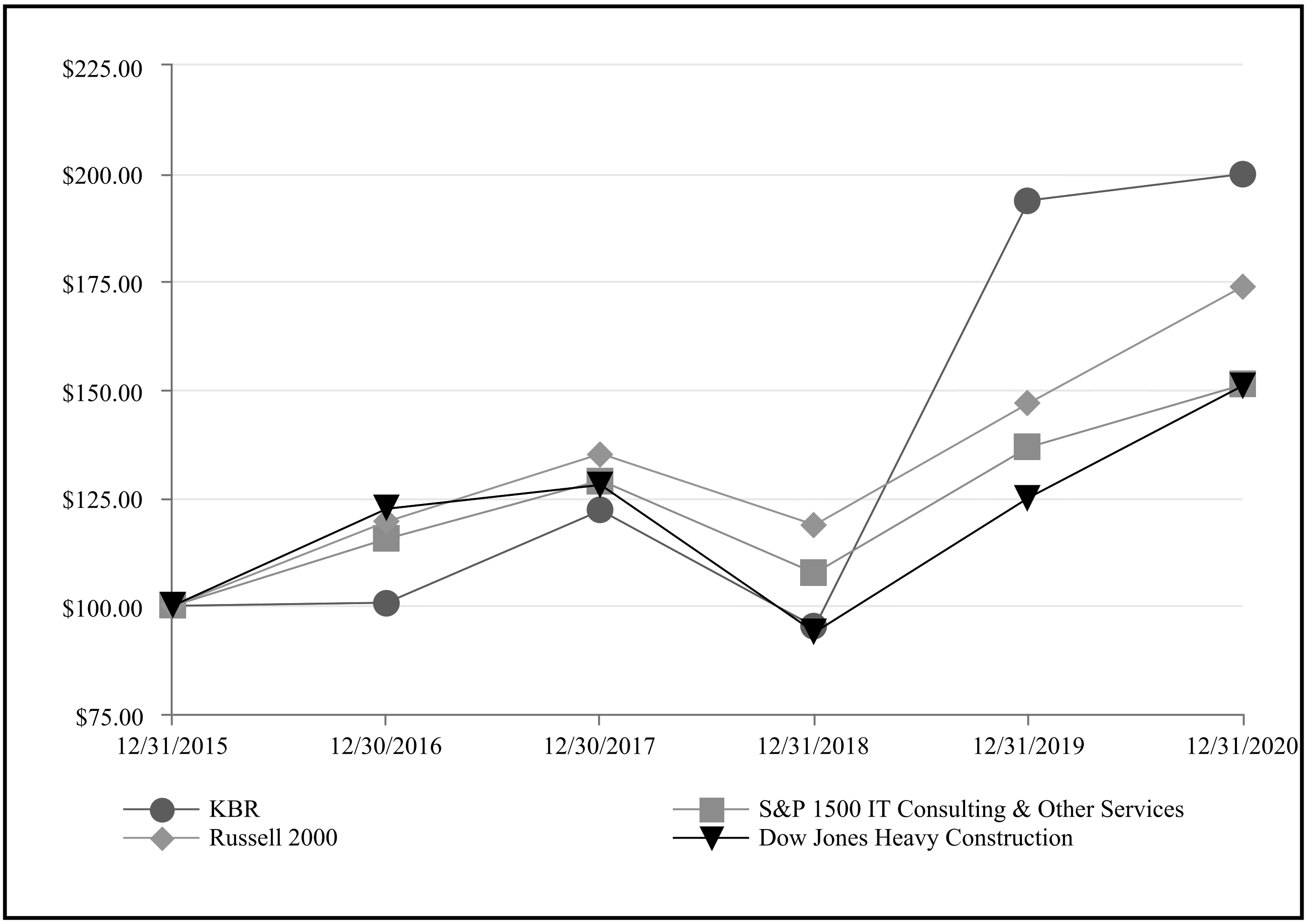
Purchase Period	Total Shares Repurchased [1]	Average Price Paid per Share	Shares Repurchased as Part of Publicly Announced Plan	Dollar Value of Maximum Number of Shares that May Yet Be Purchased Under the Plan
October 1 - 31, 2020	—	$ —	—	$ 350,000,000
November 1 - 30, 2020	1,678,683	$ 25.50	1,675,073	$ 307,278,857
December 1 - 31, 2020	148,376	$ 27.88	148,361	$ 303,142,110

(1) Included within the shares repurchased herein are 3,625 shares acquired from employees in connection with the settlement of income tax and related benefit withholding obligations arising from issuance of share-based equity awards under the KBR Stock and Incentive Plan at an average price of $25.30 per share.

Performance Graph

The following performance graph and related information shall not be deemed "soliciting material" or to be "filed" with the SEC, nor shall the information be incorporated by reference into any future filing under the Securities Act or the Exchange Act, except to the extent that the Company specifically incorporates it by reference into such filing.

The following performance graph compares the cumulative total shareholder return on shares of our common stock for the five-year period ended December 31, 2020, with the cumulative total return on the S&P 1500 IT Consulting & Other Services Index, the Russell 2000 Index, and the Dow Jones Heavy Construction Industry Index for the same period. The comparisons assume the investment of $100 on December 31, 2015 and reinvestment of all dividends. The shareholder return is not necessarily indicative of future performance.



	12/31/2015	12/30/2016	12/30/2017	12/31/2018	12/31/2019	12/31/2020
KBR	$ 100.00	$ 100.73	$ 122.07	$ 95.16	$ 193.77	$ 199.90
S&P 1500 IT Consulting & Other Services	$ 100.00	$ 115.50	$ 129.00	$ 107.57	$ 136.70	$ 151.13
Russell 2000	$ 100.00	$ 119.48	$ 135.18	$ 118.72	$ 146.89	$ 173.86
Dow Jones Heavy Construction	$ 100.00	$ 122.45	$ 127.97	$ 93.88	$ 125.03	$ 150.92

Item 6. Selected Financial Data

The following table presents selected financial data for the last five years and should be read in conjunction with "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" contained in Part II of this Annual Report on Form 10-K and the consolidated financial statements and the related notes to the consolidated financial statements included in Part II, Item 8 in this Annual Report on Form 10-K.

	Years Ended December 31,				
Dollars in millions, except per share amounts	**2020**	**2019**	**2018**	**2017**	**2016**
Statements of Operations Data:					
Revenues (a) (d)	$ 5,767	$ 5,639	$ 4,913	$ 4,171	$ 4,268
Gross profit (e)	666	653	584	439	198
Equity in earnings of unconsolidated affiliates	30	35	79	70	82
Asset impairments and restructuring charges	(214)	—	—	(6)	(39)
Operating income (b)	57	362	468	264	19
Net income (loss) (c)	(51)	209	310	440	(60)
Net income attributable to noncontrolling interests	(21)	(7)	(29)	(8)	(10)
Net income (loss) attributable to KBR (c)	(72)	202	281	432	(70)
Basic net income (loss) attributable to KBR per share	$ (0.51)	$ 1.42	$ 1.99	$ 3.05	$ (0.49)
Diluted net income (loss) attributable to KBR per share	$ (0.51)	$ 1.41	$ 1.99	$ 3.05	$ (0.49)
Cash dividends declared per share	$ 0.40	$ 0.32	$ 0.32	$ 0.32	$ 0.32
Balance Sheet Data (as of the end of period):					
Total assets (f)	$ 5,705	$ 5,360	$ 5,052	$ 3,652	$ 4,124
Long-term nonrecourse project-finance debt	2	7	17	28	34
Long-term debt	1,584	1,183	1,226	470	650
Total shareholders' equity (f)	$ 1,609	$ 1,853	$ 1,718	$ 1,197	$ 725
Other Financial Data (as of the end of period):					
Backlog	$ 15,115	$ 14,636	$ 13,497	$ 10,570	$ 10,938

(a) Includes revenues related to the consolidation of the Aspire Defence contracting entities in January 2018 and the acquisition of SGT in April 2018 totaling $1.0 billion and $875 million for the years ended 2019 and 2018, respectively. See Note 4 to our consolidated financial statements.

(b) Includes gain on consolidation of the Aspire subcontracting entities of $108 million for the year ended 2018. See Note 4 to our consolidated financial statements.

(c) Net income and Net income attributable to KBR in the fourth quarter of 2017 were favorably impacted by a release of a valuation allowance of $223 million and an $17 million favorable impact related to the Tax Act. See Note 13 to our consolidated financial statements.

(d) Effective January 1, 2018, we adopted ASC Topic 606. For all periods ending prior to January 1, 2018, revenues were recognized under the guidance of ASC Topic 605. See Note 1 to our consolidated financial statements.

(e) Effective January 1, 2019, we reclassified $128 million, $97 million, and $86 million from "Cost of revenues" to "Selling, general and administrative expenses" for the years ended 2018, 2017 and 2016, respectively, to report in the same manner as such costs are defined in our disclosure statements under CAS for U.S. government reporting. See Note 1 to our consolidated financial statements.

(f) The impact of adopting ASU No. 2016-02, Leases (Topic 842) resulted in an increase in total assets of $177 million and an increase in total shareholders' equity of $21 million at January 1, 2019. See Note 1 to our consolidated financial statements.

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

Introduction

The purpose of MD&A is to provide our stockholders and other interested parties with information necessary to gain an understanding of our financial condition and disclose changes in our financial condition since the most recent fiscal year-end and results of operations during the current fiscal period as compared to the corresponding period of the preceding fiscal year. The MD&A should be read in conjunction with Part I of this Annual Report on Form 10-K as well as the consolidated financial statements and related notes included in Part II Item 8 in this Annual Report on Form 10-K.

This MD&A does not address certain items in respect of the year ended December 31, 2018. A discussion and analysis of such period may be found in "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" of our Annual Report on Form 10-K for the fiscal year ended December 31, 2019, filed with the SEC on February 24, 2020.

Overview

KBR, a Delaware corporation, delivers scientific, technology and engineering solutions to governments and companies around the world. Drawing from its rich 100-year history and culture of innovation and mission focus, KBR creates sustainable value by combining scientific, technology and engineering expertise with its full life cycle capabilities to help our clients meet their most pressing challenges. Our capabilities and offerings include the following:

- Scientific research such as quantum science and computing; health and human performance; materials science; life science research; and earth sciences;
- Defense systems engineering such as rapid prototyping; test and evaluation; aerospace acquisition support; systems and platform integration; and sustainment engineering;
- Operational support such as space domain awareness; C4ISR; human spaceflight and satellite operations; integrated supply chain and logistics; and military aviation support; and
- Information operations such as cybersecurity; data analytics; mission planning systems; virtual/augmented reality and technical training; and artificial intelligence and machine learning; and
- Technology such as licensing of proprietary, sustainability-focused process technology; advisory services focused on energy transition; and digitally-enabled asset optimization solutions.

KBR's strategic growth vectors include:

- Defense modernization;
- Space superiority;
- Health and human performance; and
- Sustainable technology.

Our stated financial policies and deployment priorities are to fund organic growth, maintain responsible leverage, maintain an attractive dividend, make strategic acquisitions and repurchase shares. Our acquisition thesis is centered around moving upmarket, expanding capabilities and broadening customer sets in its strategic growth vectors.

On October 1, 2020, we acquired Centauri, a provider of high-end engineering and development solutions for critical, well-funded, national security missions associated with space, intelligence, cyber, and emerging technologies such as directed energy and missile defense. Additional information relating to the Centauri acquisition is described in Part II of this Annual Report on Form 10-K in Note 4 to our consolidated financial statements.

KBR delivers a wide range of professional services across defense, space and other government agencies spanning program management and consulting, mission planning, operational and platform support, research and development, test and evaluation, training, and logistics and facilities management. These services are provided primarily to government agencies in the U.S., U.K., Australia and other select countries under long-term programs with key technical, scientific or mission-specific differentiation. Key customers include U.S. DoD agencies such as the Missile Defense Agency, National Geospatial-Intelligence Agency, National Reconnaissance Office and other intelligence agencies, U.S. Army, U.S. Navy and U.S. Air Force; U.S. civilian agencies such as NASA, U.S. Geological Survey and National Oceanic and Atmospheric Administration; the U.K. Ministry of Defence, London Metropolitan Police, U.K. Army, other U.K. Crown Services; and the Royal Australian Air Force, Navy and Army.

KBR develops and prioritizes investment in process technologies that are disruptive, innovative, and sustainability- and safety-focused. These technologies and solutions enable clients to achieve a cleaner, greener, more energy efficient global future. We deliver high-end advisory solutions centered around energy transition; we license process technologies; we provide engineering and design services; we sell proprietary equipment and catalysts; and we provide asset optimization and remote facility monitoring solutions. Key customers include national governments, commercial and industrial companies, and oil and gas companies.

Business Environment and Trends

Government Outlook

The fiscal year 2021 U.S. defense budget funds a national security strategy that continues the restoration of military readiness, furthers a national security strategy to confront near peer and other threats around the world, enhances the DoD's cybersecurity strategy and cyber warfare capabilities, increases the priority of military space superiority, and directs innovation to meet long-range emerging threats. The budget includes a number of measures to strengthen emerging technologies including cyber-science and technologies, artificial intelligence, directed energy, hypersonics, and biotechnologies.

Internationally, our Government Solutions work is performed primarily for the U.K. Ministry of Defence and the Australian Department of Defence. A significant majority of our work in the U.K. is contracted through long-term privately financed initiatives (PFIs) that are expected to provide stable, predictable earnings and cash flow over the program life, with our largest PFI extending through 2041. The Australian government continues to increase defense spending, with particular focus on enhancing regional security, modernizing defense capabilities, strengthening cyber defenses and promoting broader economic stability.

With defense and civil budgets driven in part by political instability, military conflicts, aging platforms and infrastructure and the need for technology upgrades, we expect continued opportunities to provide solutions and technologies to mission critical work aligned with our customers' priorities.

Commercial Outlook

Long-range commercial market fundamentals are supported by global population growth, global expansion of the middle class, and acceleration of demand for energy transition and renewable energy sources for which momentum continues, even amidst COVID-19. Clients continue to prioritize investment in solutions to increase end-product flexibility and energy efficiency and reduce their environmental footprint. As companies continue to commit to near-term carbon neutrality and longer-range net-zero carbon ambitions, we expect their spending to continue in areas such as decarbonization; carbon capture, sequestration and utilization; biofuels; and plastics circular economy. Further, governments and leading companies across the world are proactively evaluating clean energy alternatives, including hydrogen and green ammonia, which are areas that favor KBR's world-class technology portfolio and expertise.

We expect climate change and energy transition to be increasing areas of priority and investment for the Biden Administration and a more progressive Senate that holds a thin margin, as the U.S. looks to reboot its economy and invest in a cleaner future. President Biden has nominated two new cabinet-level positions focused on climate change and science. Further, through executive action, President Biden has initiated re-entry into the Paris climate accords and has begun the reversal of a number of the prior administration's environmental policies.

Our Business

KBR's business is organized into three core and two non-core business segments as follows:

Core business segments
- Government Solutions
- Technology Solutions
- Energy Solutions

Non-core business segments
- Non-strategic Business
- Other

See additional information on our business segments, including detail with respect to changes to our reportable segments in Notes 1 and 2 to our consolidated financial statements and under "Item 1. Business" in this Annual Report on Form 10-K.

In 2020, we initiated a strategic transition from the current three-core business segment model to a two-core business segment model comprised of Government Solutions and Technology Solutions. We expect to begin reporting under this model in fiscal year 2021. The new Technology Solutions segment is anchored by our innovative, proprietary process technologies. It will also include our highly synergistic advisory practice focused on energy transition and net-zero carbon ambitions as well as the technology-led industrial solutions focused on innovative digital operations and maintenance ("O&M") solutions and advanced remote operations capabilities to improve throughput, reliability and environmental sustainability. Infusing high-end, sustainability expertise, client relationships and innovative, technology-led O&M solutions into Technology Solutions is expected to increase resilience, generate new opportunities, simplify the business model and better position us to deliver its offerings across a broader industrial base.

Effective for fiscal year 2021, we will change the names of our reportable segments and businesses as follows:

- **Government Solutions** includes the following four business units: *Defense & Intel*, formerly the Defense Systems Engineering and Centauri businesses; *Science & Space*, formerly called Space & Mission Solutions; *Readiness & Sustainment*, formerly called Logistics; and *International*.

- **Sustainable Technology Solutions**, formerly called Technology Solutions.

Overview of Financial Results

2020 was a year of significant achievement for KBR as we successfully advanced our long-term vision. We accelerated the Company’s growth into attractive markets with the Centauri acquisition and Technology portfolio realignment; focused on agile, technology-driven, sustainability-focused; knowledge-based delivery; and advanced our ESG and sustainability strategy by establishing 2030 net-zero carbon ambitions and achieving carbon neutrality in 2019. Our teams continued to execute and deliver operational performance, healthy profitability and strong cash flow. Importantly, we drove innovation and extended our footprint through new program wins and technology advances and development. Bookings to underpin the future were strong in our GS and TS businesses. Our U.S. Government Solutions business achieved a 95% recompete win rate that included a $400 million NASA recompete award to provide intelligent systems research and a $300 million U.S. Geological Survey recompete award to perform satellite systems engineering, software development, and scientific research and application development for remote sensing data. We also expanded our footprint through new projects and program wins, including a five-year contract for over $500 million for an undisclosed client to provide high-end technical services for rapid prototyping and fielding of advanced systems and an eight-year $974 million contract to provide the U.S. Air Force sustaining operations in Europe. We continued our track record of innovation, bringing new technologies to market and advising, consulting and delivering expertise in the vital area of energy transition, hydrogen future and plastics circular economy.

Results of Operations

The following tables set forth our results of operations for the periods presented, including by segment.

Revenues

Dollars in millions	2020	2019	2020 vs. 2019 $	2020 vs. 2019 %	2018	2019 vs. 2018 $	2019 vs. 2018 %
Revenues	$ 5,767	$ 5,639	$ 128	2 %	$ 4,913	$ 726	15 %

2020 vs. 2019

Revenue of $5.8 billion represented an increase of $128 million from the prior year, primarily due to the following: (1) new program wins and on-contract expansion, including approximately $104 million, or 12%, growth in Space & Mission Solutions; approximately $50 million growth in sustaining programs within Logistics; approximately $50 million, or 7%, growth in Defense & Intel; (2) Centauri, acquired on October 1, 2020, contributed approximately $125 million of revenue; and (3) ES business segment revenue volume increased approximately $187 million primarily attributable to completion of projects in backlog. Revenue increases were partially offset by approximately $150 million of revenue associated with disaster recovery services provided to the U.S. Air Force on the AFCAP IV project in 2019 that did not recur in 2020, reduced volume in the Company's Middle East overseas contingency operations of approximately $150 million, and reduced activity in the Company's international government business of approximately $25 million.

2019 vs. 2018

The increase in consolidated revenues in 2019 was primarily driven by strong organic growth within our GS business segment relative to the Logistics and Defense & Intel businesses as well as increased revenues from the acquisition of SGT in April 2018. New services and consulting awards in the Middle East from our ES business segment and higher proprietary equipment sales volume from our TS business segment also contributed significantly to revenue growth in 2019.

Gross Profit

Dollars in millions	2020	2019	2020 vs. 2019 $	2020 vs. 2019 %	2018	2019 vs. 2018 $	2019 vs. 2018 %
Gross profit	$ 666	$ 653	$ 13	2 %	$ 584	$ 69	12 %

2020 vs. 2019

The $13 million increase in gross profit is primarily driven by revenue growth described above as well as favorable changes in estimates on the Aspire Defence project. While revenue increased in our ES business segment, gross profit decreased primarily due to the volume of lower margin services as we complete projects in backlog and transition away from commoditized services.

2019 vs. 2018

The $69 million increase in gross profit in 2019 includes $80 million in increased gross profit from our GS business segment primarily driven by the volume growth in revenue, incremental profits resulting from the full year of operations from SGT, and favorable settlements on several legacy matters in our GS business segment including the private security legal matter. We also recognized incremental profits from construction services related to the Aspire Defence project in the U.K. associated with index-based price adjustments. TS business segment gross profit increased by $12 million over 2018 levels based on increased volumes of proprietary equipment sales. Additionally, we recognized increased earnings of $11 million primarily due to the close-out of a completed project in our Non-strategic business segment. These increases were partially offset by reductions in gross profit from our ES business segment of $34 million due to lower margins on several major EPC projects and the non-recurrence of several favorable items including the recognition of variable consideration associated with the successful completion of an LNG project in Australia in 2018.

Equity in Earnings of Unconsolidated Affiliates

Dollars in millions	2020	2019	2020 vs. 2019 $	2020 vs. 2019 %	2018	2019 vs. 2018 $	2019 vs. 2018 %
Equity in earnings of unconsolidated affiliates	$ 30	$ 35	$ (5)	(14)%	$ 79	$ (44)	(56)%

2020 vs. 2019

Equity earnings decreased was primarily noted in our ES business segment due to the successful completion of a North Sea project in 2019 in our ES business segment resulting in favorable benefits that did not recur in 2020 and reduced earnings from other joint ventures.

2019 vs. 2018

Equity earnings decreased was primarily noted in our ES business segment due to the substantial completion of a North Sea project in 2019 in our ES business segment that contributed significantly in 2018 and to a lesser extent in 2019. Further, in 2019, the Company recognized the impact of an unfavorable arbitration ruling associated with the Ichthys LNG project as well as an impairment of an equity method investment in Latin America. In 2018, we realized a benefit associated with the release of a tax matter on an Egyptian joint venture that did not recur in 2019. See Note 6 to our consolidated financial statements for more information on the Ichthys LNG project.

Selling, General and Administrative Expenses

Dollars in millions	2020	2019	2020 vs. 2019 $	2020 vs. 2019 %	2018	2019 vs. 2018 $	2019 vs. 2018 %
Selling, general and administrative expenses	$ (335)	$ (341)	$ (6)	(2)%	$ (294)	$ 47	16 %

2020 vs. 2019

Selling, general and administrative expenses were slightly lower in 2020 compared to 2019, primarily due to reductions in corporate costs associated with austerity measures and travel restrictions related to COVID-19. These reductions were partially offset by increases in our GS business segment, including increased amortization attributable to our acquisition of Centauri, increased bid and proposal cost and favorable variances in 2019 that did not recur in 2020.

2019 vs. 2018

The increase in 2019 of $42 million in selling, general and administrative expenses as compared to 2018 was primarily related to an increase in corporate costs including increased IT, rebranding and other general corporate expenses.

Acquisition and Integration Related Costs

Dollars in millions	2020	2019	2020 vs. 2019 $	2020 vs. 2019 %	2018	2019 vs. 2018 $	2019 vs. 2018 %
Acquisition and integration related costs	$ (9)	$ (2)	$ 7	n/m	$ (7)	$ (5)	n/m

Acquisition and integration related costs for 2020 are associated with our acquisition of Centauri on October 1, 2020. Acquisition and integration costs incurred in 2019 are comprised of integration costs related to our acquisition of SGT.

Goodwill Impairment, Restructuring Charges and Asset Impairments

	2020	2019	2020 vs. 2019 $	2020 vs. 2019 %	2018	2019 vs. 2018 $	2019 vs. 2018 %
Goodwill impairment	$ (99)	$ —	$ 99	n/m	$ —	$ —	n/m
Restructuring charges and asset impairments	(214)	—	214	n/m	—	—	n/m

See Note 7 "Restructuring charges and asset impairments" and Note 9 "Goodwill and intangible assets" to our consolidated for further discussion.

Gain (Loss) on Disposition of Assets

Dollars in millions	2020	2019	2020 vs. 2019 $	2020 vs. 2019 %	2018	2019 vs. 2018 $	2019 vs. 2018 %
Gain (loss) on disposition of assets	$ 18	$ 17	$ 1	6 %	$ (2)	$ 19	n/m

In 2020, we recognized a favorable change in estimated revenues and gross profit associated with variable consideration resulting from resolution of a contingency on a completed LNG project as well as the liquidation of legal entities as part of a broad, ongoing legal entity rationalization project. The gain on disposition of assets in 2019 primarily reflects the gain on sale of a contract vehicle and sale of an equity method investment in our GS business segment.

Gain on Consolidation of Aspire entities

Dollars in millions	2020	2019	2020 vs. 2019 $	2020 vs. 2019 %	2018	2019 vs. 2018 $	2019 vs. 2018 %
Gain on consolidation of Aspire entities	$ —	$ —	$ —	n/m	$ 108	$ (108)	n/m

The gain on consolidation of Aspire entities in 2018 was recognized upon the consolidation of the Aspire Defence subcontracting entities.

Interest Expense

Dollars in millions	2020	2019	2020 vs. 2019 $	2020 vs. 2019 %	2018	2019 vs. 2018 $	2019 vs. 2018 %
Interest expense	$ (83)	$ (99)	$ (16)	(16)%	$ (66)	$ 33	50 %

2020 vs. 2019

The decrease in interest expense was primarily due to lower outstanding borrowings under our Senior Credit Facility during the majority of 2020 as well as lower weighted-average interest rates as a result of the favorable refinancing of our Senior Credit Facility in February 2020 and falling interest rates. See Note 12 "Debt and Other Credit Facilities" to our consolidated financial statements for further discussion.

2019 vs. 2018

The increase in interest expense in 2019 was primarily due to increased fixed-rate borrowings as a result of the Convertible Notes in November 2018 partially offset by lower outstanding borrowings and weighted-average interest rates on our variable-rate debt.

Other Non-operating Income (Loss)

Dollars in millions	2020	2019	2020 vs. 2019 $	2020 vs. 2019 %	2018	2019 vs. 2018 $	2019 vs. 2018 %
Other non-operating income (loss)	$ 1	$ 5	$ (4)	80 %	$ (6)	$ 11	(183)%

2020 vs. 2019

Other non-operating income (loss) includes interest income, foreign exchange gains and losses and other non-operating income or expense items. The decrease in 2020 was primarily due to settlement during the year of transactions that drive non-cash foreign exchange volatility.

2019 vs. 2018

The increase in other non-operating income was primarily due to the impact of favorable foreign currency movements on intercompany balance positions denominated in U.S. dollars partially offset by unfavorable variances on certain U.S. dollar cash positions held internationally.

Provision for Income Taxes

Dollars in millions	2020	2019	2020 vs. 2019 $	2020 vs. 2019 %	2018	2019 vs. 2018 $	2019 vs. 2018 %
Income before provision for income taxes	$ (25)	$ 268	$ (293)	(109)%	$ 396	$ (128)	(32)%
(Provision) benefit for income taxes	$ (26)	$ (59)	$ (33)	(56)%	$ (86)	$ (27)	(31)%

2020 vs. 2019

The 2020 period provision for income taxes is lower than the 2019 period primarily due to a significant drop in taxable income largely driven by impairment and restructuring charges incurred in 2020.

2019 vs. 2018

The decrease in income tax expense in 2019 compared to 2018 was primarily driven by the non-recurrence of the $108 million gain recognized in 2018 resulting from our consolidation of the Aspire Defence project subcontracting joint ventures.

A reconciliation of our effective tax rates for 2020, 2019 and 2018 to the U.S. statutory federal rate and further information on the effects of the Tax Act is presented in Note 13 to our consolidated financial statements.

Net Income Attributable to Noncontrolling Interests

Dollars in millions	2020	2019	2020 vs. 2019 $	2020 vs. 2019 %	2018	2019 vs. 2018 $	2019 vs. 2018 %
Net income attributable to noncontrolling interests	$ (21)	$ (7)	14	200 %	$ (29)	$ (22)	(76)%

2020 vs. 2019

The increase in net income attributable to noncontrolling interests in 2020 was related to a favorable change in estimated variable consideration resulting from resolution of a contingency on a completed LNG project as well as the liquidation of legal entities as part of a broad, ongoing legal entity rationalization project offset by impairment loss related to the Middle East joint venture project in our ES business segment.

2019 vs. 2018

The decrease in net income attributable to noncontrolling interests in 2019 was primarily due to the non-recurrence of the recognition of variable consideration associated with the successful completion and performance testing of a major ES project in Australia in 2018, executed by a consolidated joint venture.

Results of Operations by Business Segment

We analyze the financial results for each of our three core business segments, as well as our non-core segments. The business segments presented are consistent with our reportable segments discussed in Note 2 to our consolidated financial statements.

	Years Ended December 31,						
			2020 vs. 2019			2019 vs. 2018	
Dollars in millions	2020	2019	$	%	2018	$	%
Revenues							
Government Solutions	$ 3,934	$ 3,925	$ 9	— %	$ 3,457	$ 468	14 %
Technology Solutions	303	374	(71)	(19)%	297	77	26 %
Energy Solutions	1,526	1,339	187	14 %	1,157	182	16 %
Subtotal	$ 5,763	$ 5,638	$ 125	2 %	$ 4,911	$ 727	15 %
Non-strategic Business	4	1	3	n/m	2	(1)	(50)%
Total revenues	$ 5,767	$ 5,639	$ 128	2 %	$ 4,913	$ 726	15 %
Gross profit (loss)							
Government Solutions	$ 483	$ 430	$ 53	12 %	$ 350	$ 80	23 %
Technology Solutions	105	118	(13)	(11)%	106	12	11 %
Energy Solutions	86	100	(14)	(14)%	134	(34)	(25)%
Subtotal	$ 674	$ 648	$ 26	4 %	$ 590	$ 58	10 %
Non-strategic Business	(8)	5	(13)	n/m	(6)	11	n/m
Total gross profit	$ 666	$ 653	$ 13	2 %	$ 584	$ 69	12 %
Equity in earnings of unconsolidated affiliates							
Government Solutions	$ 25	$ 29	$ (4)	(14)%	$ 32	$ (3)	(9)%
Energy Solutions	5	19	(14)	(74)%	50	(31)	(62)%
Subtotal	$ 30	$ 48	$ (18)	(38)%	$ 82	$ (34)	(41)%
Non-strategic Business	—	(13)	13	n/m	(3)	(10)	n/m
Total equity in earnings of unconsolidated affiliates	$ 30	$ 35	$ (5)	(14)%	$ 79	$ (44)	(56)%
Selling, general and administrative expenses	$ (335)	$ (341)	$ (6)	(2)%	$ (294)	$ 47	16 %
Acquisition and integration related costs	$ (9)	$ (2)	$ 7	n/m	$ (7)	$ (5)	n/m
Goodwill impairment	$ (99)	$ —	$ 99	n/m	$ —	$ —	n/m
Restructuring charges and asset impairment	$ (214)	$ —	$ 214	n/m	$ —	$ —	n/m
Gain on disposition of assets	$ 18	$ 17	$ 1	6 %	$ (2)	$ 19	n/m
Gain on consolidation of Aspire entities	$ —	$ —	$ —	n/m	$ 108	$ (108)	n/m
Total operating income	$ 57	$ 362	$ (305)	(84)%	$ 468	$ (106)	(23)%

n/m - not meaningful

Government Solutions

2020 vs. 2019

GS revenues remained relatively consistent at $3.9 billion, with a slight increase of $9 million for 2020 compared to 2019. The increase was primarily driven by growth in Space & Mission Solutions of approximately $104 million, growth in Defense & Intel of approximately $50 million, growth in sustaining programs within Logistics of approximately $50 million, growth in our Australian government business of approximately $60 million and the increased revenues of approximately $125 million from the acquisition of Centauri. These increases were partially offset by revenue of approximately $150 million associated with disaster recovery services provided to the U.S. Air Force on the AFCAP IV project in 2019 that did not recur in 2020, reduced volume in our Middle East overseas contingency operations of approximately $150 million and reduced activity in our international government business of approximately $85 million primarily related to the substantial completion and wind-down of our Aspire Capital Works program.

GS gross profit increased by $53 million, or 12%, to $483 million in 2020 compared to $430 million in 2019. This increase is principally driven by higher mix of higher margin projects as well as favorable changes in estimates on the Aspire Defence project as that project nears completion.

GS equity earnings of unconsolidated affiliates decreased by $4 million to $25 million in 2020 compared to $29 million in 2019, primarily attributable to changes in project estimates in a domestic joint venture.

2019 vs. 2018

GS revenues increased by $468 million, or 14%, to $3.9 billion in 2019, compared to $3.5 billion in 2018. This increase was primarily driven by strong growth within our GS business from new and existing U.S. government contracts including increased volumes for disaster recovery services provided to the U.S. Air Force on the AFCAP IV project, expanded services provided to the U.S. Army in Iraq and Europe on the LogCAP IV project, human performance and behavioral health services provided to the U.S. Special Operations Command and increased engineering services on various other U.S. government programs. GS revenues from the April 2018 acquisition of SGT increased by approximately $139 million in 2019 on a year-over-year basis. A new award from the U.K. MoD for services in the Middle East also contributed to the increase in revenues in 2019.

GS gross profit increased by $80 million, or 23%, to $430 million in 2019, compared to $350 million in 2018. The increase in 2019 was primarily due to the increased volumes on U.S. government contracts and the full year of operations from SGT. In addition, we received a favorable judgment to close out the private security legal matter and settled several other legacy matters on the LogCAP III contract during the year. We recognized incremental profits from construction services related to the Aspire Defence project in the U.K. as uncertainties associated with index-based price adjustments have begun to dissipate.

GS equity in earnings in unconsolidated affiliates decreased by $3 million, or 9%, to $29 million in 2019, compared to $32 million in 2018. The decrease is due to the consolidation of the Aspire Defence subcontracting entities in January 2018 as well as lower profitability from a joint venture project to provide support services on a U.S. government project.

Technology Solutions

2020 vs. 2019

TS revenues decreased by $71 million, or 19% to $303 million in 2020 compared to $374 million in 2019, primarily due to lower proprietary equipment sales and licensing revenue driven by market disruption and delays caused by COVID-19.

TS gross profit decreased by $13 million, or 11%, to $105 million in 2020, compared to $118 million in 2019, primarily due to lower revenue volume partially offset by favorable project close-outs and lower overall overhead spend.

2019 vs. 2018

TS revenues increased by $77 million, or 26%, to $374 million in 2019 compared to $297 million in 2018, primarily due to higher proprietary equipment sales.

TS gross profit increased by $12 million, or 11%, to $118 million in 2019 compared to $106 million in 2018, primarily driven by increased revenue volume that included a higher mix of proprietary equipment sales.

Energy Solutions

2020 vs. 2019

ES revenues increased by $187 million, or 14%, to $1.5 billion in 2020, compared to $1.3 billion in 2019. The increase was largely attributable to increased volume on existing projects in the U.S. and Mexico, partially offset by the completion or near completion of projects, volume pressures attributable to the COVID-19 market downturn and ensuing KBR portfolio shaping decisions to exit certain elements of the ES business.

ES gross profit decreased by $14 million, or 14%, to $86 million in 2020, compared to $100 million in 2019. This decrease was due to a higher mix of lower margin projects in 2020, lower demand due to the downturn in the energy market caused by COVID-19, and the non-recurrence of favorable close-outs in 2019.

ES equity in earnings of unconsolidated affiliates decreased by $14 million to $5 million in 2020, compared to $19 million in 2019. This decrease was primarily due to benefits associated with the favorable completion of a North Sea project in 2019 that did not recur in 2020 and lower earnings from a U.S. joint venture primarily attributable to COVID-19 market dynamics.

2019 vs. 2018

ES revenues increased by $182 million, or 16%, to $1.3 billion in 2019, compared to $1.2 billion in 2018. Revenues increased by approximately $173 million in our Services and Consulting business primarily due to the ramp up of recently awarded projects and expansion of services internationally, primarily in the Middle East. Revenue increases from new cost-reimbursable projects along the U.S. Gulf Coast in our EPC business were substantially offset by declines resulting from the completion of various EPC projects in the U.S. as well as the Ichthys LNG project in Australia.

ES gross profit decreased by $34 million, or 25% to $100 million in 2019, compared to $134 million in 2018. This decrease was primarily due to non-recurring 2018 events including the recognition of variable consideration associated with the successful completion of an LNG project in Australia and favorable close-outs on several ammonia projects in the U.S. Also contributing to the decline were lower profits from services provided to the Ichthys LNG project joint venture. These decreases were partially offset by earnings in 2019 resulting from the ramp up of new projects in the Middle East and the favorable settlement reached with a supplier on an ammonia project completed in the U.S.

ES equity in earnings in unconsolidated affiliates decreased by $31 million, or 62%, to $19 million in 2019, compared to $50 million in 2018. This decrease was primarily due to the substantial completion of a North Sea oil project, lower earnings due to an unfavorable arbitration ruling in early 2019 associated with a subcontractor on the Ichthys LNG project, and non-recurrence of a release of a tax liability on an Egyptian joint venture in 2018. See Note 6 to our consolidated financial statements for more information on the Ichthys LNG project.

Non-strategic Business

2020 vs. 2019

All Non-strategic Business projects are substantially complete. We continue to finalize project close-out activities and negotiate the settlement of claims and various other matters associated with these projects.

Non-strategic Business generated revenues of $4 million in 2020 compared to $1 million in 2019, primarily associated with close-out activities on completed projects.

Non-strategic Business incurred a gross loss of $8 million in 2020 primarily due to close-out activities, compared to $5 million gross profit for 2019.

Non-strategic Business earned no equity in earnings of unconsolidated affiliates for 2020 compared to a loss of $13 million for 2019 due to the recognition of an accrued loss associated with an equity investment in 2019.

2019 vs. 2018

Non-strategic Business generated revenues of $1 million in 2019 compared to $2 million in 2018. Revenues in the Non-strategic Business were primarily associated with close-out activities on completed projects as we exit the business.

Non-strategic Business earned $5 million of gross profit in 2019 primarily due to favorable benefits on the close-out of a completed project in the U.S, compared to a gross loss of $6 million in 2018 primarily due to the settlement of a legacy legal matter.

Non-strategic Business equity in earnings from unconsolidated affiliates decreased by $10 million to a loss $13 million in 2019 as compared to a loss of $3 million in 2018 primarily due to an impairment charge associated with an equity method investment in Latin America.

Acquisitions, Dispositions and Other Transactions

Information relating to various acquisitions, dispositions and other transactions is described in Notes 4, 7, 9 and 10 to our consolidated financial statements in Part II, Item 8 of this Annual Report on Form 10-K and the information discussed therein is incorporated by reference into this Part II, Item 7.

Backlog of Unfilled Orders

Backlog generally represents the total 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 agreement. In many instances, arrangements included in backlog are complex, nonrepetitive and may fluctuate over the contract period due to the release of contracted work in phases by the customer. Additionally, nearly all contracts allow customers to terminate the agreement at any time for convenience. 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 expected value of our services in backlog.

For U.S. government contracts, backlog includes our estimate of the remaining future revenue from existing contracts over the base contract performance period (including customer approved option periods) for which work scope and price have been agreed with the customer. Funded backlog represents the portion of backlog for which funding currently is appropriated, less the amount of revenue we have previously recognized. Unfunded backlog represents the total backlog less the funded backlog. Our backlog does not include any estimate of future potential delivery orders that might be awarded under our government-wide acquisition contracts, agency-specific indefinite delivery/indefinite quantity contracts or other multiple-award contract vehicles nor does it include option periods that have not been exercised by the customer.

For U.K. government PFIs, we estimate backlog based on the aggregate amount that our client would contractually be obligated to pay us over the life of the project. We update our estimates of the future work to be executed under these contracts on a quarterly basis and adjust backlog if necessary.

Refer to "Item 1A. Risk Factors" contained in Part 1 of this Annual Report on Form 10-K for a discussion of other factors that may cause backlog to ultimately convert into revenues at different amounts.

We have included in the table below our proportionate share of unconsolidated joint ventures' estimated backlog. Since these projects are accounted for under the equity method, only our share of future earnings from these projects will be recorded in our results of operations. Our proportionate share of backlog for projects related to unconsolidated joint ventures totaled $2.4 billion and $2.6 billion at December 31, 2020 and 2019, respectively. 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 $52 million and $78 million at both December 31, 2020 and 2019.

The following table summarizes our backlog by business segment for the years ended December 31, 2020 and December 31, 2019, respectively:

Dollars in millions	December 31, 2020	December 31, 2019
Government Solutions	$ 12,526	$ 10,960
Technology Solutions	704	579
Energy Solutions	1,885	3,097
Subtotal	15,115	14,636
Non-strategic Business	—	—
Total backlog	$ 15,115	$ 14,636

Backlog for the ES business segment decreased approximately $1.2 billion during the year ended December 31, 2020 primarily due to management's decision to discontinue pursuing certain projects. For further discussion, see Notes 1 and 7 to our consolidated financial statements.

We estimate that as of December 31, 2020, 28% of our backlog will be executed within one year. Of this amount, 87% will be recognized as revenue on our consolidated statement of operations and 13% will be recorded by our unconsolidated joint ventures. As of December 31, 2020, $107 million of our backlog relates to active contracts that are in a loss position.

As of December 31, 2020, 13% of our backlog was attributable to fixed-price contracts, 47% was attributable to PFIs and 40% was attributable to cost-reimbursable contracts. For contracts that contain both fixed-price and cost-reimbursable components, we classify the individual components as either fixed-price or cost-reimbursable according to the composition of the contract; however, for smaller contracts, we characterize the entire contract based on the predominant component. As of December 31, 2020, $9.3 billion of our GS backlog was currently funded by our customers.

As of December 31, 2020, we had approximately $3.9 billion of priced option periods for U.S. government contracts that are not included in the backlog amounts presented above.

The difference between backlog of $15.1 billion and the remaining performance obligation as defined by ASC 606 of $12.0 billion is primarily due to our proportionate share of backlog related to unconsolidated joint ventures which is not included in our remaining performance obligation. See Note 3 to our consolidated financial statements for discussion of the remaining performance obligations.

Liquidity and Capital Resources

Liquidity is provided by available cash and equivalents, cash generated from operations, our Senior Credit Facility and access to financial markets. Our operating cash flow can vary significantly from year to year and is affected by the mix, terms, timing and stage of completion of our projects. We often receive cash in the early phases of our larger fixed-price projects, technology projects, and those of our consolidated joint ventures in advance of incurring related costs. On reimbursable contracts, we may utilize cash on hand or availability under our Senior Credit Facility to satisfy any periodic operating cash requirements for working capital, as we incur costs and subsequently invoice our customers.

ES services projects generally require us to provide credit support for our performance obligations to our customers in the form of letters of credit, surety bonds or guarantees. Our ability to obtain new project awards in the future may be dependent on our ability to maintain or increase our letter of credit and surety bonding capacity, which may be further dependent on the timely release of existing letters of credit and surety bonds. As the need for credit support arises, letters of credit will be issued under our $1 billion Revolver under our Senior Credit Facility. Letters of credit may also be arranged with our banks on a bilateral, syndicated or other basis.

As discussed in Note 12 "Debt and Other Credit Facilities" of our consolidated financial statements, we amended our Senior Credit Facility on February 7, 2020, reducing the applicable margins and commitment fees associated with the various borrowings under the facility. Additionally, the amendment extended maturity dates with respect to the Revolver, PLOC and Term Loan A to February 2025 and Term Loan B to February 2027. On July 2, 2020, we amended our Senior Credit Facility to convert the $500 million capacity formerly available under our PLOC to our Revolver, thereby increasing our Revolver capacity from $500 million to $1 billion. The aggregate capacity of our Senior Credit Facility remained $1.795 billion and all other terms and conditions remain unchanged. On September 14, 2020, we further amended our Senior Credit Facility to modify the definition and calculation of Consolidated EBITDA (as defined therein) to provide for more flexibility in permitting pro forma cost reductions resulting from certain corporate transactions. We believe that existing cash balances, internally generated cash flows, availability under our Senior Credit Facility and other lines of credit are sufficient to support our business operations for the next 12 months. As of December 31, 2020, we were in compliance with all financial covenants related to our debt agreements.

Cash and equivalents totaled $436 million at December 31, 2020 and $712 million at December 31, 2019 and consisted of the following:

	December 31,	
Dollars in millions	**2020**	**2019**
Domestic U.S. cash	$ 54	$ 207
International cash	231	245
Joint venture and Aspire Defence project cash	151	260
Total	$ 436	$ 712

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

Our international cash balances may be available for general corporate purposes but are subject to local restrictions, such as capital adequacy requirements and maintaining sufficient cash balances to support our U.K. pension plan and other obligations incurred in the normal course of business by those foreign entities. Repatriations of our undistributed foreign earnings are generally free of U.S. tax but may incur withholding and/or state taxes. We consider our future U.S. and non-U.S. cash needs 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, which may include acquisitions around the world, including whether foreign earnings are permanently reinvested. For December 31, 2019, we changed our permanent reinvestment assertion on our undistributed earnings on a wholly owned subsidiary in Saudi Arabia. We determined that $70 million of undistributed earnings was available for future repatriation of cash for deployment in the U.S. and recorded the income tax expense expected with the future repatriation. During 2020, we repatriated the $70 million. If management were to completely remove the indefinite investment assertion on all foreign subsidiaries, the exposure to local withholding taxes would be less than $21 million.

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

As of December 31, 2020, substantially all of our excess cash was held in commercial bank time deposits or interest bearing short-term investment accounts with the primary objectives of preserving capital and maintaining liquidity.

Cash Flows

The following table summarizes our cash flows for the periods indicated:

	Years ended December 31,		
Dollars in millions	2020	2019	2018
Cash flows provided by operating activities	$ 367	$ 256	$ 165
Cash flows used in investing activities	(877)	(158)	(491)
Cash flows provided by (used in) financing activities	225	(133)	654
Effect of exchange rate changes on cash	9	8	(28)
(Decrease) increase in cash and equivalents	$ (276)	$ (27)	$ 300

Operating Activities. Cash flows from operating activities result primarily from earnings and are affected by changes in operating assets and liabilities which consist primarily of working capital balances for projects. Working capital levels vary from year to year and are primarily affected by the Company's volume of work. These levels are also impacted by the mix, stage of completion and commercial terms of projects. Working capital requirements also vary by project depending on the type of client and location throughout the world.

The primary components of our working capital accounts are accounts receivable, contract assets, accounts payable and contract liabilities. These components are impacted by the size and changes in the mix of our cost reimbursable versus fixed price projects, and as a result, fluctuations in these components are not uncommon in our business.

Cash provided by operations totaled $367 million in 2020 as compared to net loss in 2020 of $51 million. The difference is principally the result of non-cash restructuring charges, asset impairments, depreciation and amortization, growth in our business and transition associated with our recent acquisitions, in addition to net changes in working capital balances for projects impacting operating cash flows as discussed below:

- Accounts receivable favorable cash flow impact of $127 million primarily from factoring of receivables and increased collections on certain projects within our ES business segment and TS business segment.
- Contract assets favorable cash flow impact of $39 million was largely attributable to increased billings on U.S. government projects in our GS business segment and various projects in our ES business segment.
- Accounts payable unfavorable cash flow impact of $40 million was largely attributable to timing of payments on certain U.S. government contracts and several projects in our TS business segment.
- Contract liabilities unfavorable cash flow impact of $134 million was primarily due to progress against project advances on the Aspire Defence project and U.S. government projects in our GS business segment.
- Accrued salaries, wages and benefits favorable cash flow impact of $38 million was primarily due to the deferral of payroll tax amounts under the CARES Act.
- We received distributions of earnings from our unconsolidated affiliates of $38 million and contributed $46 million to our pension funds in 2020.

Cash provided by operations totaled $256 million in 2019 as compared to net income in 2020 of $209 million. The difference primarily results from net changes in working capital balances for projects as discussed below:

- The $16 million unfavorable cash flow impact related to accounts receivable was primarily related to increased billing volume due to the ramp up of recently awarded cost-reimbursable projects in the Middle East and several new EPC projects in the U.S. within our ES business segment offset by strong collections on several projects in our GS business segment.
- The $31 million unfavorable cash flow impact related to contract assets was largely attributable to higher activity on EPC projects in our ES business segment as well as increased volume in our TS business segment.

- The $23 million favorable cash flow impact related to increased accounts payable on several projects in the U.S. and Middle East in our ES business segment as well as various projects in our TS business segment, offset by decreased volume as a U.S. project winds down in our GS business segment.

- The $19 million favorable cash flow impact related to contract liabilities was primarily due to advances related to growth and ramp up of new EPC and services primarily in the U.S. in our ES business segment, offset by progress on several projects in our TS business segment.

- We received distributions of earnings from our unconsolidated affiliates of $69 million and contributed $45 million to our pension funds in 2019. In addition, we collected $57 million from the U.S. Army in the private security matter contractor settlement, of which $44 million which was previously recorded in "Claims receivable" on our consolidated balance sheets.

Investing activities. Cash used in investing activities totaled $877 million in 2020 and was primarily attributable to the acquisition of Centauri, net of cash acquired of $823 million, the acquisition of SMA, and funding our proportionate share of JKC's ongoing legal and commercial costs. See Note 4 for further discussion on the acquisitions and Note 6 for further discussion of the legal and commercial costs.

Cash used in investing activities totaled $158 million in 2019 and was primarily due to investment in JKC. See Note 6 to our consolidated financial statements for discussion of the Ichthys Project and our investment contributions to JKC.

Financing activities. Cash provided by financing activities totaled $225 million in 2020 and was primarily due to approximately $245 million of net proceeds from the offering of our 4.750% Senior Notes due 2028 and borrowings of $260 million on our Senior Credit Facility, offset by $410 million in net payments on borrowings which includes voluntary principal payments related to the refinancing of our Senior Credit Facility, $11 million repayment on our non-recourse debt associated with our Fasttrax joint venture, $11 million repayment on our finance lease obligations, $54 million of dividend payments to common shareholders, and $47 million for the repurchase of common stock under our share repurchase program. See Note 12 "Debt and Other Credit Facilities" for further discussion of our Senior Credit Facility and Note 19 "Share Repurchases" for further discussion on our share repurchase program.

Cash used in financing activities totaled $133 million in 2019 and was primarily due to $70 million in payments on borrowings under our Senior Credit Facility and $46 million for dividend payments to common shareholders.

Future sources of cash. We believe that future sources of cash include cash flows from operations (including accounts receivable monetization arrangements), cash derived from working capital management, and cash borrowings under the Senior Credit Facility.

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

Other factors potentially affecting liquidity

Ichthys LNG Project. In reference to Note 6 "Unapproved Change Orders, and Claims, Against Clients and Estimated Recoveries of Claims Against Suppliers and Subcontractors" to our consolidated financial statements, JKC has included in its project estimates-at-completion significant revenues associated with unapproved change orders and claims against the client as well as estimated recoveries of claims against suppliers and subcontractors. The client has reserved their contractual rights on certain amounts previously funded to JKC and may seek recoveries of those amounts, including calling the performance and warranty letters of credit. In January 2021, the client demanded that JKC repay the Funding Deed amount and notified JKC of its intention to commence legal actions against JKC including claims on the parent company guarantees. JKC is opposing the client's payment demand and believes that the client has not complied with the contract requirements to make these sums repayable. JKC believes the subcontractor settlement sums were properly incurred and represent reimbursable cost.

JKC incurred substantial costs to complete the power plant under the fixed-price portion of the Ichthys LNG contract. JKC believes these costs are recoverable from the Consortium who abandoned their contractual obligation to complete the power plant as the original subcontractor. We have initiated arbitrations and other legal proceedings to recover these costs which may take several years to resolve. As a result, we funded our proportionate share of JKC's capital requirements to complete the power plant as these legal proceedings progress.

We have made investment contributions to JKC of approximately $484 million through December 31, 2020 to fund our proportionate share of the project execution activities on an inception-to-date basis. We continue to fund our proportionate share of ongoing legal and commercial costs. JKC's obligations to the client are guaranteed on a joint and several basis by the joint venture partners. Negotiations and legal proceedings with the client and the subcontractors are ongoing, the goal of which is to minimize these expected outflows. If we experience unfavorable outcomes associated with the various legal and commercial disputes, our total investment contributions could increase which could have a material adverse effect on our financial position and cash flows.

As of December 31, 2020, we had $164 million in letters of credit outstanding in support of performance and warranty guarantees provided to the client.

U.K. pension obligation. We have recognized on our consolidated balance sheet a funding deficit of $381 million (measured as the difference between the fair value of plan assets and the projected benefit obligation as of December 31, 2020) for our frozen defined benefit pension plans. The total amounts of employer pension contributions paid for the year ended December 31, 2020 were $46 million and primarily related to our defined benefit plan in the U.K. The funding requirements for our U.K. pension plan are determined based on the U.K. Pensions Act 1995. Annual minimum funding requirements are based on a binding agreement with the trustees of the U.K. pension plan that is negotiated on a triennial basis which is slated to commence in 2021 and is required to be completed by April 2022. The current agreement calls for minimum annual contributions of £33 million ($45 million at current exchange rates) until the next minimum funding requirements are finalized. In the future, pension funding may increase or decrease depending on changes in the levels of interest rates, pension plan asset return performance and other factors. A significant increase in our funding requirements for the U.K. pension plan could result in a material adverse impact on our financial position.

Senior Credit Facility

Information relating to our Senior Credit Facility is described in Note 12 "Debt and Other Credit Facilities" to our consolidated financial statements in Part II, Item 8 of this Annual Report on Form 10-K and the information discussed therein is incorporated by reference into this Part II, Item 7.

Senior Notes

Information relating to our Senior Notes is described in Note 12 "Debt and Other Credit Facilities" to our consolidated financial statements in Part II, Item 8 of this Annual Report on Form 10-K and the information discussed therein is incorporated by reference into this Part II, Item 7.

Convertible Senior Notes

Information relating to our Convertible Senior Notes is described in Note 12 "Debt and Other Credit Facilities" to our consolidated financial statements in Part II, Item 8 of this Annual Report on Form 10-K and the information discussed therein is incorporated by reference into this Part II, Item 7.

Nonrecourse Project Finance Debt

Information relating to our nonrecourse project debt is described in Note 12 "Debt and Other Credit Facilities" to our consolidated financial statements in Part II, Item 8 of this Annual Report on Form 10-K and the information discussed therein is incorporated by reference into this Part II, Item 7.

Off-Balance Sheet Arrangements

Letters of credit, surety bonds and guarantees. In the ordinary course of business, we may enter into various arrangements providing financial or performance assurance to customers on behalf of certain consolidated and unconsolidated subsidiaries, joint ventures and other jointly executed contracts. Such off-balance sheet arrangements include letters of credit, surety bonds and corporate guarantees to support the creditworthiness or project execution commitments of these entities and typically have various expiration dates ranging from mechanical completion of the project being constructed to a period beyond completion in certain circumstances such as for warranties. We may also guarantee that a project, once completed, will achieve specified performance standards. If the project subsequently fails to meet guaranteed performance standards, we may incur additional costs, pay liquidated damages or be held responsible for the costs incurred by the client to achieve the required performance standards. The potential amount of future payments that we could be required to make under an outstanding performance arrangement is typically the remaining estimated cost of work to be performed by or on behalf of third parties. For cost reimbursable contracts, amounts that may become payable pursuant to guarantee provisions are normally recoverable from the client for work performed under the contract. For lump-sum or fixed-price contracts, the performance guarantee amount is the cost to complete the contracted work, less amounts remaining to be billed to the client under the contract. Remaining billable amounts could be greater or less than the cost to complete the project. If costs exceed the remaining amounts payable under the contract, we may have recourse to third parties, such as owners, subcontractors or vendors for claims.

In our joint venture arrangements, the liability of each partner is usually joint and several. This means that each joint venture partner may become liable for the entire risk of performance guarantees provided by each partner to the customer. Typically each joint venture partner indemnifies the other partners for any liabilities incurred in excess of the liabilities the other party is obligated to bear under the respective joint venture agreement. We are unable to estimate the maximum potential amount of future payments that we could be required to make under outstanding performance guarantees related to joint venture projects due to a number of factors, including but not limited to, the nature and extent of any contractual defaults by our joint venture partners, resource availability, potential performance delays caused by the defaults, the location of the projects, and the terms of the related contracts. See “Item 1A. Risk Factors” contained in Part I of this Annual Report on Form 10-K for information regarding our fixed-price contracts and operations through joint ventures and partnerships.

In certain limited circumstances, we enter into financial guarantees in the ordinary course of business, with financial institutions and other credit grantors, which generally obligate us to make payment in the event of a default by the borrower. These arrangements generally require the borrower to pledge collateral to support the fulfillment of the borrower’s obligation. We account for both financial and performance guarantees at fair value at issuance in accordance with ASC 460-10 Guarantees and, as of December 31, 2020, we had no material guarantees of the work or obligations of third parties recorded.

We have committed and uncommitted lines of credit available to be used for letters of credit. As of December 31, 2020, our total capacity under these committed and uncommitted lines of credit was approximately $1.4 billion of which $316 million had been utilized. Information relating to our letters of credit is described in Note 12 "Debt and Other Credit Facilities" to our consolidated financial statements in Part II, Item 8 of this Annual Report on Form 10-K and the information discussed therein is incorporated by reference into this Part II, Item 7. Other than as discussed in this report, we have not engaged in any material off-balance sheet financing arrangements through special purpose entities.

On October 1, 2020, the Company borrowed $260 million on the Senior Credit Facility to fund the acquisition of Centauri, as further discussed in Note 4 “Acquisitions” and Note 12 "Debt and Other Credit Facilities" to our consolidated financial statements in Part II, Item 8 of this Annual Report on Form 10-K.

Contractual obligations and commitments

Significant contractual obligations and commercial commitments as of December 31, 2020 are as follows:

	Payments Due						
Dollars in millions	2021	2022	2023	2024	2025	Thereafter	Total
Debt obligations	$ 12	$ 18	$ 370	$ 20	$ 501	$ 740	$ 1,661
Interest (a)	66	61	52	46	33	53	311
Nonrecourse project finance debt	5	1	1	—	—	—	7
Operating leases	56	48	42	32	27	86	291
Finance leases	12	8	3	2	—	—	25
Pension funding obligation (b)	48	45	45	45	45	148	376
Purchase obligations (c)	35	24	6	1	1	—	67
Total (d)	$ 234	$ 205	$ 519	$ 146	$ 607	$ 1,027	$ 2,738

(a) Determined based on long-term debt borrowings outstanding at the end of 2020 using the interest rates in effect for the individual borrowings as of December 31, 2020, including the effects of interest rate swaps. The payments due for interest reflect the cash interest that will be paid, which includes interest on outstanding borrowings and commitment fees. These amounts exclude the amortization of discounts or debt issuance costs.

(b) Included in our pension funding obligations are payments related to our agreement with the trustees of our U.K. pension plan. The agreement for this plan calls for minimum annual contributions of £33 million ($45 million at current exchange rates) from 2021 through the next valuation.

(c) In the ordinary course of business, we enter into commitments to purchase software and related maintenance, materials, supplies and similar items. The purchase obligations disclosed above do not include purchase obligations that we enter into with vendors in the normal course of business that support direct project costs on existing contracting arrangements with our customers. We expect to recover such obligations from our customers.

(d) We have excluded uncertain tax positions totaling $96 million as of December 31, 2020. The ultimate timing of settlement of these obligations cannot be determined with reasonable assurance. See Note 13 to our consolidated financial statements for further discussion on income taxes. Additionally, we have excluded our proportionate share of obligations totaling $157 million as of December 31, 2020 related to the Funding Deeds on the Ichthys LNG Project. See Note 6 to our consolidated financial statements for further discussion.

Transactions with Joint Ventures

In the normal course of business, we form incorporated and unincorporated joint ventures to execute projects. In addition to participating as a joint venture partner, we often provide engineering, procurement, construction, operations or maintenance services to the joint venture as a subcontractor. Where we provide services to a joint venture that we control and therefore consolidate for financial reporting purposes, we eliminate intercompany revenues and expenses on such transactions. In situations where we account for our interest in the joint venture under the equity method of accounting, we do not eliminate any portion of our subcontractor revenues or expenses, however, we recognize profit on our subcontractor scope of work only to the extent the joint venture's scope of work to the end customer is complete. We recognize profit over time on our services provided to joint ventures that we consolidate and joint ventures that we record under the equity method of accounting. See Note 10 to our consolidated financial statements in Part II, Item 8 of this Annual Report on Form 10-K for more information. The information discussed therein is incorporated by reference into this Part II, Item 7.

Recent Accounting Pronouncements

Information relating to recent accounting pronouncements is described in Note 23 to our consolidated financial statements in Part II, Item 8 of this Annual Report on Form 10-K and the information discussed therein is incorporated by reference into this Part II, Item 7.

U.S. Government Matters

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

Legal Proceedings

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

Critical Accounting Policies and Estimates

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

Contract Revenue. We adopted ASC Topic 606 *Revenue from Contracts with Customers* on January 1, 2018, for our consolidated entities and for each of the unconsolidated Aspire Defence contracting entities and on January 1, 2019 for our remaining unconsolidated affiliates including the subsequent ASUs that amended and clarified the related guidance. Our policy on revenue recognition is provided in Note 1 to our consolidated financial statements for the year ended December 31, 2020. We recognize revenue on substantially all of our contracts over time, as performance obligations are satisfied, due to the continuous transfer of control to the customer. Our contracts are generally accounted for as a single performance obligation and are not segmented between types of services provided. We recognize revenue on those contracts over time using the cost-to-cost method, based primarily on contract costs incurred to date compared to total estimated contract costs at completion. Contract costs include all direct materials, labor and subcontractors costs and indirect costs related to contract performance. We believe this method is the most accurate measure of contract performance because it directly measures the value of the goods and services transferred to the customer. For all other contracts where we have the right to consideration from the customer in an amount that corresponds directly with the value received by the customer based on our performance to date, we recognized revenue when services are performed and contractually billable.

The cost-to-cost method of revenue recognition requires us to prepare estimates of cost to complete for contracts in progress. Due to the nature of the work performed on many of our performance obligations, the estimates of total revenue and cost at completion is complex, subject to many variables and require significant judgment. In making such estimates, judgments are required to evaluate contingencies such as weather, potential variances in schedule and the cost of materials, labor cost and productivity, the impact of change orders, liability claims, contract disputes and achievement of contractual performance standards. As a significant change in one or more of these estimates could affect the profitability of our contracts, we routinely review and update our significant contract estimates through a disciplined project review process in which management reviews the progress and execution of our performance obligations and estimates at completion. We have a long history of working with multiple types of projects and in preparing cost estimates. However, there are many factors that impact future cost as outlined in “Item 1A. Risk Factors” contained in Part I of this Annual Report on Form 10-K. These factors can affect the accuracy of our estimates and materially impact our future reported earnings. Changes in total estimated contract costs and losses, if any, are recognized on a cumulative catch-up basis in the period in which the changes are identified at the contract level. Such changes in contract estimates can result in the recognition of revenue in a current period for performance obligations which were satisfied or partially satisfied in a prior period. Changes in contract estimates may also result in the reversal of previously recognized revenue if the current estimate differs from the previous estimate.

It is common for our contracts to contain variable consideration in the form of incentive fees, performance bonuses, award fees, liquidated damages or penalties that may increase or decrease the transaction price. Other contract provisions also give rise to variable consideration such as unapproved change orders and claims, and on certain contracts, index-based price adjustments. We estimate the amount of variable consideration at the most likely amount we expect to be entitled and is included in the transaction price when it is probable that a significant reversal of cumulative revenue recognized will not occur. Our estimates of variable consideration and determination of whether to include such amounts in the transaction price are based largely on our assessment of legal enforceability, anticipated performance, and any other information (historical, current or forecasted) that is reasonably available to us. Variable consideration associated with claims and unapproved change orders is included in the transaction price only to the extent of costs incurred. We recognize claims against suppliers and subcontractors as a reduction in recognized costs when enforceability is established by the contract and the amounts are reasonably estimable and probable of recovery. Reductions in costs are recognized to the extent of the lesser of the amounts management expects to recover or actual costs incurred. As of December 31, 2020 and 2019, we had recorded \$1.0 billion and \$978 million, respectively, of claim revenue and subcontractor recoveries for costs incurred to date and such costs are included in our estimates at completion. See Note 6 to our consolidated financial statements for our discussion on unapproved change orders and claims.

Purchase Price Allocation. We allocate the purchase price of an acquired business to the identifiable assets and liabilities of the acquiree based on estimated fair values. The excess of the purchase price over the amount allocated to the identifiable assets and liabilities, if any, is recorded as goodwill. Fair value estimates are based on the assumptions management believes a market participant would use in pricing the asset and are developed using widely accepted valuation techniques such as discounted cash flows. When determining the fair value of the assets and liabilities of an acquired business, we make judgments and estimates using all available information to us including, but not limited to, quoted market prices, carrying values, expected future cash flows, which includes consideration of future growth rates and margins, attrition rates, future changes in technology and brand awareness, loyalty and position and discount rates. We engage third-party appraisal firms when appropriate to assist in the fair value determination of intangible assets. The purchase price allocation recorded in a business combination may change during the measurement period, which is a period not to exceed one year from the date of acquisition, as additional information about conditions existing at the acquisition date becomes available.

Goodwill Impairment Testing. Goodwill is tested annually for possible impairment, and on an interim basis when indicators of possible impairment exist such as negative financial performance, significant changes in legal factors or business climate and industry trend, among other things. For purposes of impairment testing, goodwill is assigned to the applicable reporting units based on our current reporting structure. We test for goodwill impairment at the reporting unit level as of October 1 of each fiscal year using a two-step process that involves comparing the estimated fair value of each reporting unit to its carrying value, including goodwill. The fair values of reporting units were determined using a combination of two methods, one utilizing market revenue and earnings multiples (the market approach) and the other derived from discounted cash flow models with estimated cash flows based on internal forecasts of revenues and expenses over a specified period plus a terminal value (the income approach).

For the 2020 annual goodwill impairment test under the market approach, we estimated fair value by applying earnings and revenue market multiples ranging from 4.31 to 11.59 times earnings and 0.31 to 2.09 times revenue. Under the income approach, we estimated fair value by discounting each reporting unit's estimated future cash flows using a weighted-average cost of capital reflecting current market conditions and the risk profile of the reporting unit. To arrive at our future cash flows, we used estimates of economic and market assumptions, including growth rates in revenues, costs, tax rates and future expected changes in operating margins and cash expenditures that are consistent with changes in our business strategy. The risk-adjusted discount rates applied to our future cash flows under the income approach in 2020 ranged from 9.0% to 10.2%. We believe these two approaches are appropriate valuation techniques and we generally weight the two resulting values equally as an estimate of a reporting unit's fair value for the purposes of our impairment testing. However, we may weigh one value more heavily than the other when conditions merit doing so. Other significant estimates and assumptions include terminal value growth rates, future estimates of capital expenditures and changes in future working capital requirements. The fair value derived from the weighting of these two methods provides appropriate valuations that, in the aggregate, reasonably reconcile to our market capitalization, taking into account observable control premiums.

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

The fair value for a reporting unit in our ES business segment with goodwill of \$119 million, exceeded its carrying value by 29% based on projected growth rates and other market inputs that are more sensitive to the risk of future variances due to adverse market conditions and reporting unit project execution. The fair value of this reporting unit and the related underlying assumptions are sensitive to the risk of future variances due to competitive market conditions and reporting unit project execution. It is possible that changes in market conditions, revenue growth rates and profitability, and other assumptions used in estimating the fair value of this reporting unit could change, resulting in possible impairment of goodwill in the future. We determined that the fair value of our remaining reporting units substantially exceeded their respective carrying values.

Deferred Taxes, Valuation Allowances, and Tax Contingencies. As discussed in Note 13 to our consolidated financial statements, deferred tax assets and liabilities are recognized for the expected future tax consequences of events that have been recognized in our consolidated financial statements or tax returns. We record a valuation allowance to reduce certain deferred tax assets to amounts that are more-likely-than-not to be realized. We evaluate the realizability of our deferred tax assets by assessing the valuation allowance and by adjusting the amount of such allowance, if necessary. The factors used to assess the likelihood of realization include our forecast of the timing and character of future taxable income exclusive of reversing temporary differences and carryforwards, future reversals of existing taxable temporary differences and available tax planning strategies that could be implemented to realize the net deferred tax assets.

We consider both positive and negative evidence when evaluating the need for a valuation allowance on our deferred tax assets in accordance with ASC 740. Available evidence includes historical financial information supplemented by currently available information about future years. Generally, historical financial information is more objectively verifiable than projections of future income and is therefore given more weight in our assessment. We consider cumulative losses in the most recent twelve quarters to be significant negative evidence that is difficult to overcome in considering whether a valuation allowance is required. Conversely, we consider a cumulative income position over the most recent twelve quarters, to be significant positive evidence that a valuation allowance may not be required. Changes in the amount, timing and character of our forecasted taxable income could have a significant impact of our ability to utilize deferred tax assets and related valuation allowance.

Our ability to utilize the unreserved foreign tax credit carryforwards is based on our ability to generate income from foreign sources of approximately $762 million prior to their expiration whereas our ability to utilize other net deferred tax assets exclusive of those associated with indefinite-lived intangible assets is based on our ability to generate U.S. forecasted taxable income of approximately $605 million. Changes in our forecasted taxable income, in the appropriate character and source as well as jurisdiction, could affect the ultimate realization of deferred tax assets.

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

Legal, Investigation and Other Contingent Matters. We record liabilities for loss contingencies when it is probable that a liability has been incurred and the amount is reasonably estimable. We provide disclosure when there is a reasonable possibility that the ultimate loss will exceed our recorded liability by a material amount or if the loss is not reasonably estimable but is expected to be material to our financial statements. Generally, our estimates related to these matters are developed in consultation with internal and external legal counsel. Our estimates are based upon an analysis of potential results, assuming a combination of litigation and settlement strategies. The precision of these estimates and the likelihood of future changes depend on a number of underlying assumptions and a range of possible outcomes. When possible, we attempt to resolve these matters through settlements, mediation and arbitration proceedings. If the actual settlement costs, final judgments or fines differ from our estimates, our future financial results may be materially and adversely affected. We record adjustments to our initial estimates of these types of contingencies in the periods when the change in estimate is identified. All legal expenses associated with these matters are expensed as incurred. See Notes 15 and 16 to our consolidated financial statements for further discussion of our significant legal, investigation and other contingent matters.

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

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

The discount rate utilized to calculate the projected benefit obligation at the measurement date for our U.S. pension plan decreased to 2.00% at December 31, 2020 from 2.89% at December 31, 2019. The discount rate utilized to determine the projected benefit obligation at the measurement date for our U.K. pension plan, which constitutes 97% of all plans, decreased to 1.40% at December 31, 2020 from 2.05% at December 31, 2019. Our expected long-term rates of return on plan assets utilized at the measurement date decreased to 5.72% from 6.09% for our U.S. pension plans and decreased to 3.70% from 5.09% for our U.K. pension plans, for the years ended December 31, 2020 and 2019, respectively.

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

	Effect on			
	Pretax Pension Cost in 2021		Pension Benefit Obligation at December 31, 2020	
Dollars in millions	U.S.	U.K.	U.S.	U.K.
25-basis-point decrease in discount rate	$ —	$ (1)	$ 2	$ 108
25-basis-point increase in discount rate	$ —	$ —	$ (2)	$ (102)
25-basis-point decrease in expected long-term rate of return	$ —	$ 4	N/A	N/A
25-basis-point increase in expected long-term rate of return	$ —	$ (4)	N/A	N/A

Unrecognized actuarial gains and losses are generally recognized using the corridor method over a period of approximately 25 years, which represents a reasonable systematic method for amortizing gains and losses for the employee group. Our unrecognized actuarial gains and losses arise from several factors, including experience and assumption changes in the obligations and the difference between expected returns and actual returns on plan assets. The difference between actual and expected returns is deferred as an unrecognized actuarial gain or loss on our consolidated statement of comprehensive income (loss) and is recognized as a decrease or an increase in future pension expense. Our pretax unrecognized net actuarial loss in accumulated other comprehensive loss at December 31, 2020 was $1.0 billion, of which $33 million is expected to be recognized as a component of our expected 2021 pension expense compared to $25 million in 2020.

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

Item 7A. Quantitative and Qualitative Disclosures about Market Risk

Financial Market Risks. Cash and equivalents are deposited with major banks globally. We invest excess cash and equivalents in short-term securities, primarily time deposits and money market funds, which carry a fixed rate of return. We have not incurred any credit risk losses related to deposits of our cash and equivalents.

Foreign Currency Risk. Because of the global nature of our business, we are exposed to market risk associated with changes in foreign currency exchange rates. We attempt to limit exposure to foreign currency fluctuations through contractual provisions requiring the client to pay us in currencies corresponding to the currency in which cost is incurred. In addition to this natural hedge, we may use derivative instruments such as foreign exchange forward contracts and options to hedge material exposures when forecasted foreign currency revenues and costs are not denominated in the same currency and when efficient markets exist. These derivatives are generally designated as cash flow hedges and are carried at fair value. We do not enter into derivative financial instruments for trading purposes or make speculative investments in foreign currencies. We recorded a net gain of $4 million for the years ended December 31, 2020 and 2019, and a net loss of $9 million for the year ended December 31, 2018 in "Other non-operating income (loss)" on our consolidated statements of operations. The net gain of $4 million during the year ended December 31, 2020 consisted primarily of favorable foreign currency movements on certain intercompany balance positions denominated in British Pounds resulting in foreign currency gains of approximately $7 million, net of $3 million related to changes in the fair value of balance sheet hedges.

We use derivative instruments to hedge foreign currency risk related to monetary assets and liabilities denominated in non-functional currencies on our consolidated balance sheets. Each period, these balance sheet hedges are marked to market through earnings and the change in their fair value is largely offset by remeasurement of the underlying assets and liabilities. The fair value of these derivatives was not material to our consolidated balance sheet for the periods presented. For more information see Note 22 to our consolidated financial statements in Part II, Item 8 of this Annual Report on Form 10-K and the information discussed therein is incorporated by reference into this Part II, Item 7A.

Interest Rate Risk. We are exposed to market risk for changes in interest rates for the Revolver and term loan borrowings under our Senior Credit Facility. We had $260 million borrowings outstanding under the Revolver to partially fund the acquisition of Centauri and $801 million outstanding under the term loan portions of our Senior Credit Facility as of December 31, 2020. Borrowings under the Senior Credit Facility bear interest at variable rates as described in Note 12 to our consolidated financial statements.

We manage interest rate exposure by entering into interest rate swap agreements pursuant to which we agree to exchange, at specified intervals, the difference between fixed and variable interest amounts calculated on an agreed-upon notional principal amount. In October 2018, we entered into interest rate swap agreements covering $500 million of notional value of our outstanding term loans. Under these swap agreements, we receive one month LIBOR and pay an average monthly fixed rate of 3.055% for the term of the swaps which expire in September 2022. In March 2020, we entered into additional swap agreements covering notional value of $400 million of our outstanding loans which are effective beginning October 2022. Under these swap agreements, we will receive a one-month LIBOR and pay an average monthly fixed rate of 0.965% for the term of the swaps that expire in January 2027. The swap agreements were designated as a cash flow hedge at inception in accordance with ASC Topic 815 *Accounting for Derivative and Hedging Transactions*. The total fair value of these derivative instruments was a liability of approximately $33 million as of December 31, 2020.

At December 31, 2020, we had fixed rate debt aggregating $1.1 billion and variable rate debt aggregating $561 million, after taking into account the effects of the interest rate swaps. Our weighted average interest rate for the year ended December 31, 2020 was 4.00%. If interest rates were to increase by 50 basis points, pre-tax interest expense would increase by approximately $3 million in the next twelve months net of the impact from our swap agreements, based on outstanding borrowings as of December 31, 2020.

Item 8. Financial Statements and Supplementary Data

Report of Independent Registered Public Accounting Firm

To the Shareholders and Board of Directors
KBR, Inc.:

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of KBR, Inc. and subsidiaries (the Company) as of December 31, 2020 and 2019, the related consolidated statements of operations, comprehensive income (loss), shareholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2020, and the related notes and financial statement schedule II (collectively, the consolidated financial statements). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2020 and 2019, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2020, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2020, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission, and our report dated February 25, 2021 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

Critical Audit Matters

The critical audit matters communicated below are matters arising from the current period audit of the consolidated financial statements that were communicated or required to be communicated to the audit committee and that: (1) relate to accounts or disclosures that are material to the consolidated financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matters below, providing separate opinions on the critical audit matters or on the accounts or disclosures to which they relate.

Variable consideration and estimated costs at completion

As discussed in Notes 1 and 6 to the consolidated financial statements, the Company recognizes a portion of its revenues over time using a cost based input measure of progress. The Company estimates variable consideration of these contracts and includes such amounts in the transaction price when it is probable that a significant reversal of cumulative revenue recognized will not occur. The Company measures progress toward completion using the cost-to-cost method, which measures progress as the ratio of (1) actual contract costs incurred to date to (2) the Company's estimated costs at completion (EAC). In estimating the transaction price, judgments are required to determine the amounts expected to be recovered from claims against customers. In estimating the measure of progress, judgments are required to determine the estimated amount of costs to complete contracts in progress, including costs for labor and subcontractor commitments, as well as probable recoveries from claims against suppliers and subcontractors.

We identified the evaluation of variable consideration and EACs for revenues recognized using a cost-based input measure of progress as a critical audit matter. Evaluating the estimated amounts expected to be recovered from claims against customers required auditor judgment because the amounts are in dispute and the ultimate resolution of claims is uncertain. Evaluating the EAC for contracts in progress involves auditor judgment given the variability and uncertainty associated with (1) estimating costs, including labor and subcontractor commitments, to be incurred over a long-term contract period and (2) amounts expected to be recovered from the resolution of disputes related to claims against suppliers and subcontractors.

The following are the primary procedures we performed to address this critical audit matter. We evaluated the design and tested the operating effectiveness of certain internal controls related to the Company's process for estimating variable consideration and estimated costs at completion. This included controls over revenues recognized using a cost-based input measure of progress that related to (1) costs to complete for contracts in progress, including costs for labor and subcontractor commitments, as well as probable recoveries from claims against suppliers and subcontractors and (2) amounts expected to be recovered from claims against certain customers. We evaluated the Company's ability to estimate these amounts by comparing the Company's previous estimates to actual results. We assessed the Company's determination of entitlement to and probability of recovery of certain claims against customers, suppliers, and subcontractors by inspecting correspondence obtained from the Company's external legal counsel. We involved professionals with specialized skills and knowledge who assisted in evaluating the Company's estimated probable recovery for certain claims against customers, suppliers, and subcontractors by comparing the Company's estimate against our independently developed range of probable recoveries. We evaluated the EAC for certain contracts by (1) obtaining and inspecting contractual documents with customers and subcontractors, (2) interviewing project personnel to gain an understanding of the status of project activities, and (3) obtaining and analyzing underlying documentation for a selection of costs in the EAC, including labor costs and subcontractor commitments.

Valuation of goodwill within a reporting unit in the Energy Solutions business segment

As discussed in Notes 1 and 9 to the consolidated financial statements, the Company's goodwill balance at December 31, 2020 was $1,761 million, which included goodwill related to certain reporting units within the Energy Solutions business segment. The Company performs goodwill impairment testing on an annual basis and whenever indicators of potential impairment exist. The estimated fair values of reporting units are determined based on internal forecasts of revenues and gross profit margins for each reporting unit over a specified period. During 2020, the Company performed goodwill impairment tests as a result of a reorganization, significant adverse economic and market conditions, and a decision to discontinue pursuing certain projects within the Energy Solutions business segment. As a result, impairment losses were recognized in the Energy Solutions business segment in the first and second quarter in the amount of $62 million and $37 million, respectively.

We identified the valuation of goodwill within a reporting unit in the Energy Solutions business segment as a critical audit matter. A high degree of auditor judgment was required to evaluate forecasted revenue and gross profit margins as the reporting unit fair values are sensitive to changes in these assumptions.

The following are the primary procedures we performed to address this critical audit matter. We evaluated the design and tested the operating effectiveness of certain internal controls related to the Company's goodwill impairment testing process. This included controls related to the development of forecasted revenue and gross profit margins. In addition, we compared the forecasted revenue growth and gross profit margins to historic results, considering forecasted business initiatives. We performed sensitivity analyses over forecasted revenue and gross profit margins to assess their impact on the Company's determination of the fair value of the reporting units. To assess the Company's ability to estimate reporting unit revenues and gross profit margins, we compared the Company's historical forecasts to actual results. We tested the reconciliation of the fair value of the Company's reporting units to the market capitalization of the Company.

Fair value of acquired customer relationships

As discussed in Note 4 to the consolidated financial statements, on October 1, 2020 the Company acquired Centauri Platform Holdings, LLC (Centauri) and accounted for the transaction as a business combination. As a result of the transaction, the Company recorded $198 million for customer relationships intangible assets. The estimated fair value of this identifiable intangible asset was determined using a discounted cash flow model.

We identified the evaluation of the fair value of acquired customer relationships as a critical audit matter. There was a high degree of subjectivity in evaluating the discounted future cash flows used to determine the fair value of the customer relationships. Specifically, there was a high degree of auditor judgment required to evaluate the forecasted revenue attributable to customer relationships and the weighted-average cost of capital (WACC).

The following are the primary procedures we performed to address this critical audit matter. We evaluated the design and tested the operating effectiveness of certain internal controls over the Company's acquisition date valuation process. This included controls related to the determination of the fair value of the customer relationships, the forecasted revenue attributable to customer relationships, and the WACC. We evaluated the forecasted revenue attributable to customer relationships by comparing it to the acquired entity's actual historical results. To assess the Company's ability to estimate the acquired entity's revenues, we compared the Company's historical revenue forecasts to actual results for previous acquisitions. We performed sensitivity analyses over forecasted revenue attributable to customer relationships to assess its impact on the Company's determination of the fair value of the customer relationships. In addition, we involved valuation professionals with specialized skills and knowledge who assisted in:

- evaluating the WACC by developing an independent range of WACCs using publicly available market data and comparing the result to the Company's WACC
- reconciling the WACC to the weighted average return on assets and the internal rate of return.

/s/ KPMG LLP

We have served as the Company's auditor since 2005.

Houston, Texas
February 25, 2021

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

	Years ended December 31,		
	2020	2019	2018
Revenues	$ 5,767	$ 5,639	$ 4,913
Cost of revenues	(5,101)	(4,986)	(4,329)
Gross profit	**666**	**653**	**584**
Equity in earnings of unconsolidated affiliates	30	35	79
Selling, general and administrative expenses	(335)	(341)	(294)
Acquisition and integration related costs	(9)	(2)	(7)
Goodwill impairment	(99)	—	—
Restructuring charges and asset impairments	(214)	—	—
Gain (loss) on disposition of assets and investments	18	17	(2)
Gain on consolidation of Aspire subcontracting entities	—	—	108
Operating income	**57**	**362**	**468**
Interest expense	(83)	(99)	(66)
Other non-operating income (loss)	1	5	(6)
(Loss) income before income taxes and noncontrolling interests	**(25)**	**268**	**396**
Provision for income taxes	(26)	(59)	(86)
Net (loss) income	**(51)**	**209**	**310**
Net income attributable to noncontrolling interests	(21)	(7)	(29)
Net (loss) income attributable to KBR	**$ (72)**	**$ 202**	**$ 281**
Net (loss) income attributable to KBR per share:			
Basic	$ (0.51)	$ 1.42	$ 1.99
Diluted	$ (0.51)	$ 1.41	$ 1.99
Basic weighted average common shares outstanding	**142**	**141**	**140**
Diluted weighted average common shares outstanding	**142**	**142**	**141**
Cash dividends declared per share	**$ 0.40**	**$ 0.32**	**$ 0.32**

See accompanying notes to consolidated financial statements.

KBR, Inc.

Consolidated Statements of Comprehensive Income (Loss)
(In millions)

	Years ended December 31,		
	2020	2019	2018
Net (loss) income	$ (51)	$ 209	$ 310
Other comprehensive income (loss):			
Foreign currency translation adjustments	23	(12)	(43)
Pension and post-retirement benefits	(136)	(73)	82
Changes in fair value of derivatives	(13)	(6)	(14)
Other comprehensive (loss) income	(126)	(91)	25
Income tax (expense) benefit:			
Foreign currency translation adjustments	1	1	(2)
Pension and post-retirement benefits	26	11	(14)
Changes in fair value of derivatives	3	2	3
Income tax (expense) benefit	30	14	(13)
Other comprehensive (loss) income, net of tax	(96)	(77)	12
Comprehensive (loss) income	(147)	132	322
Less: Comprehensive income attributable to noncontrolling interests	(21)	(7)	(29)
Comprehensive (loss) income attributable to KBR	**$ (168)**	**$ 125**	**$ 293**

See accompanying notes to consolidated financial statements.

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

	December 31, 2020		December 31, 2019	
Assets				
Current assets:				
Cash and equivalents	$	436	$	712
Accounts receivable, net of allowance for credit losses of $13 and $14		899		938
Contract assets		178		215
Other current assets		121		146
Total current assets		**1,634**		**2,011**
Claims and accounts receivable		30		59
Property, plant, and equipment, net of accumulated depreciation of $419 and $386 (including net PPE of $24 and $29 owned by a variable interest entity)		130		130
Operating lease right-of-use assets		154		175
Goodwill		1,761		1,265
Intangible assets, net of accumulated amortization of $228 and $184		683		495
Equity in and advances to unconsolidated affiliates		881		846
Deferred income taxes		297		236
Other assets		135		143
Total assets	**$**	**5,705**	**$**	**5,360**
Liabilities and Shareholders' Equity				
Current liabilities:				
Accounts payable	$	574	$	572
Contract liabilities		356		484
Accrued salaries, wages and benefits		283		209
Nonrecourse project debt		5		11
Operating lease liabilities		44		39
Other current liabilities		193		186
Total current liabilities		**1,455**		**1,501**
Pension obligations		381		277
Employee compensation and benefits		110		115
Income tax payable		96		92
Deferred income taxes		26		16
Nonrecourse project debt		2		7
Long term debt		1,584		1,183
Operating lease liabilities		186		192
Other liabilities		256		124
Total liabilities		**4,096**		**3,507**
KBR shareholders' equity:				
Preferred stock, $0.001 par value, 50,000,000 shares authorized, none issued		—		—
Common stock, $0.001 par value 300,000,000 shares authorized, 179,087,655 and 178,330,201 shares issued, and 140,766,052 and 141,819,148 shares outstanding, respectively		—		—
PIC		2,222		2,206
Retained earnings		1,305		1,437
Treasury stock, 38,321,603 shares and 36,511,053 shares, at cost, respectively		(864)		(817)
AOCL		(1,083)		(987)
Total KBR shareholders' equity		**1,580**		**1,839**
Noncontrolling interests		29		14
Total shareholders' equity		**1,609**		**1,853**
Total liabilities and shareholders' equity	**$**	**5,705**	**$**	**5,360**

See accompanying notes to consolidated financial statements.

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

Dollars in millions	Total	PIC	Retained Earnings	Treasury Stock	AOCL	NCI
Balance at December 31, 2017	$ 1,197	$ 2,091	$ 854	$ (818)	$ (922)	$ (8)
Cumulative adjustment for the adoption of ASC 606, net of tax (Note 1)	144	—	144	—	—	—
Adjusted balance at January 1, 2018	1,341	2,091	998	(818)	(922)	(8)
Acquisition of noncontrolling interest	69	69	—	—	—	—
Share-based compensation	10	10	—	—	—	—
Tax benefit decrease related to share-based plans	1	1	—	—	—	—
Common stock issued upon exercise of stock options	2	2	—	—	—	—
Dividends declared to shareholders ($0.32/share)	(44)	—	(44)	—	—	—
Repurchases of common stock	(3)	—	—	(3)	—	—
Issuance of ESPP shares	3	(1)	—	4	—	—
Issuance of convertible debt and call spread overlay	18	18	—	—	—	—
Distributions to noncontrolling interests	(3)	—	—	—	—	(3)
Other noncontrolling interests activity	2	—	—	—	—	2
Net income	310	—	281	—	—	29
Other comprehensive income, net of tax	12	—	—	—	12	—
Balance at December 31, 2018	$ 1,718	$ 2,190	$ 1,235	$ (817)	$ (910)	$ 20
Cumulative adjustment for the adoption of ASC 842, net of tax (Note 1)	21	—	21	—	—	—
Cumulative adjustment for the adoption of ASC 606 for our unconsolidated affiliates, net of tax (Note 1)	25	—	25	—	—	—
Adjusted balance at January 1, 2019	1,764	2,190	1,281	(817)	(910)	20
Share-based compensation	12	12	—	—	—	—
Common stock issued upon exercise of stock options	5	5	—	—	—	—
Dividends declared to shareholders ($0.32/share)	(46)	—	(46)	—	—	—
Repurchases of common stock	(4)	—	—	(4)	—	—
Issuance of ESPP shares	3	(1)	—	4	—	—
Investments by noncontrolling interests	1	—	—	—	—	1
Distributions to noncontrolling interests	(14)	—	—	—	—	(14)
Net income	209	—	202	—	—	7
Other comprehensive income, net of tax	(77)	—	—	—	(77)	—
Balance at December 31, 2019	$ 1,853	$ 2,206	$ 1,437	$ (817)	$ (987)	$ 14

Dollars in millions	Total	PIC	Retained Earnings	Treasury Stock	AOCL	NCI
Balance at December 31, 2019	$ 1,853	$ 2,206	$ 1,437	$ (817)	$ (987)	$ 14
Cumulative adjustment for the adoption of ASC 326, net of tax (Note 1)	(3)	—	(3)	—	—	—
Adjusted balance at January 1, 2020	1,850	2,206	1,434	(817)	(987)	14
Share-based compensation	12	12	—	—	—	—
Common stock issued upon exercise of stock options	4	4	—	—	—	—
Dividends declared to shareholders ($0.40/share)	(57)	—	(57)	—	—	—
Repurchases of common stock	(51)	—	—	(51)	—	—
Issuance of ESPP shares	4	—	—	4	—	—
Distributions to noncontrolling interests	(4)	—	—	—	—	(4)
Other	(2)	—	—	—	—	(2)
Net income	(51)	—	(72)	—	—	21
Other comprehensive income (loss), net of tax	(96)	—	—	—	(96)	—
Balance at December 31, 2020	$ 1,609	$ 2,222	$ 1,305	$ (864)	$ (1,083)	$ 29

See accompanying notes to consolidated financial statements.

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

	Years ended December 31,		
	2020	2019	2018
Cash flows from operating activities:			
Net (loss) income	$ (51)	$ 209	$ 310
Adjustments to reconcile net (loss) income to net cash provided by operating activities:			
Depreciation and amortization	115	104	63
Equity in earnings of unconsolidated affiliates	(30)	(35)	(79)
Deferred income tax (benefit) expense	(40)	(14)	26
(Gain) loss on disposition of assets	(18)	(17)	2
Goodwill impairment	99	—	—
Asset impairments	98	—	—
Gain on consolidation of Aspire subcontracting entities	—	—	(108)
Other	43	34	24
Changes in operating assets and liabilities, net of acquired businesses:			
Accounts receivable, net of allowance for credit losses	127	(16)	(203)
Contract assets	39	(31)	25
Claims receivable	29	39	3
Accounts payable	(40)	23	112
Contract liabilities	(134)	19	(60)
Accrued salaries, wages and benefits	38	(9)	11
Payments on operating lease liabilities	(61)	(56)	—
Payments from unconsolidated affiliates, net	15	10	12
Distributions of earnings from unconsolidated affiliates	38	69	75
Pension funding	(46)	(45)	(41)
Restructuring reserve	89	—	—
Other assets and liabilities	57	(28)	(7)
Total cash flows provided by operating activities	**367**	**256**	**165**
Cash flows from investing activities:			
Purchases of property, plant and equipment	(20)	(20)	(17)
Proceeds from sale of assets or investments	1	9	25
Investments in equity method joint ventures	(26)	(146)	(344)
Acquisitions of businesses, net of cash acquired	(832)	—	(354)
Adjustments to cash due to consolidation of Aspire entities	—	—	197
Other	—	(1)	2
Total cash flows used in investing activities	**$ (877)**	**$ (158)**	**$ (491)**

	Years ended December 31,		
	2020	2019	2018
Cash flows from financing activities:			
Borrowings on long term debt	359	—	1,075
Borrowings on revolving credit agreement	260	—	250
Payments on short-term and long-term borrowings	(281)	(70)	(100)
Payments on revolving credit agreement	—	—	(720)
Debt issuance costs	(5)	—	(57)
Proceeds from sale of warrants	—	—	22
Purchase of note hedges	—	—	(62)
Issuance of convertible notes	—	—	350
Payments of dividends to shareholders	(54)	(46)	(44)
Net proceeds from issuance of common stock	4	5	2
Payments to reacquire common stock	(51)	(4)	(3)
Excess tax benefits from share-based compensation	—	—	1
Acquisition of remaining ownership interest in joint ventures	—	—	(56)
Investments from noncontrolling interests	—	1	—
Distributions to noncontrolling interests	(4)	(14)	(3)
Other	(3)	(5)	(1)
Total cash flows provided by (used in) financing activities	**225**	**(133)**	**654**
Effect of exchange rate changes on cash	9	8	(28)
(Decrease) increase in cash and equivalents	(276)	(27)	300
Cash and equivalents at beginning of period	712	739	439
Cash and equivalents at end of period	**$ 436**	**$ 712**	**$ 739**
Supplemental disclosure of cash flows information:			
Cash paid for interest	$ 53	$ 80	$ 52
Cash paid for income taxes (net of refunds)	$ 49	$ 54	$ 21
Noncash investing activities			
Acquisition of technology licensing rights	$ —	$ —	$ 16
Noncash financing activities			
Dividends declared	$ 14	$ 11	$ 11

See accompanying notes to consolidated financial statements.

Note 1. Significant Accounting Policies

Principles of Consolidation

The accompanying consolidated financial statements have been prepared in accordance with U.S. GAAP and include the accounts of KBR, Inc. and the subsidiaries it controls, including VIEs where it is the primary beneficiary. We account for investments over which we have significant influence, but not a controlling financial interest, using the equity method of accounting. See Note 10 to our consolidated financial statements for further discussion of our equity investments and VIEs. All material intercompany balances and transactions are eliminated in consolidation.

Business Reorganization and Restructuring Activities

The impact of the decline in oil and gas prices, the COVID-19 pandemic and related economic and business and market disruptions over fiscal year 2020 continues to evolve and its future effects remain uncertain. The impact of these recent developments on our business will depend on many factors, many of which are beyond management's control and knowledge. During fiscal year 2020, our management initiated and approved restructuring plans in response to the dislocation of the global energy market resulting from the decline in oil prices and the COVID-19 pandemic. The restructuring plan included the reorganization of KBR's management structure primarily within our Energy Solutions business segment during the first and second quarters of 2020 and entailed approving strategic business restructuring activities and deciding to discontinue pursuing certain projects, principally lump-sum EPC and commoditized construction services. The restructuring plan is designed to refine our market focus, optimize costs, and improve operational efficiencies. As a result of these restructuring activities and adverse market conditions, we have performed interim impairment tests of our goodwill, intangible assets, significant investments and various other assets. See Note 7 "Restructuring Charges and Asset Impairments" and Note 9 "Goodwill and Goodwill Impairment" for further discussion of restructuring and impairment charges recognized during the year ended December 31, 2020.

These reorganization activities did not have an impact on our identified reportable segments. See Note 2 to our consolidated financial statements for further discussion of our segments.

Use of Estimates

The preparation of our consolidated financial statements in conformity with U.S. GAAP requires us to make estimates and assumptions that affect the reported amounts of certain assets and liabilities; the reported amounts of revenues and expenses for the periods covered and certain amounts disclosed in the notes to our consolidated financial statements. These estimates are based on information available through the date of the issuance of the financial statements and actual results could differ from those estimates. Areas requiring significant estimates and assumptions by our management include the following:

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

Cash and Equivalents

We consider highly liquid investments with an original maturity of three months or less to be cash equivalents.

Revenue Recognition

We adopted ASC Topic 606, *Revenue from Contracts with Customers* on January, 1, 2018 for our consolidated entities and for each of the remaining unconsolidated Aspire Defence contracting entities effective January 1, 2018. Effective January 1, 2019, we adopted ASC Topic 606 for our remaining unconsolidated affiliates. Our financial results for reporting periods beginning January 1, 2018 for our consolidated entities and for each of the remaining unconsolidated Aspire Defence contracting entities and January 1, 2019 for our remaining unconsolidated affiliates are presented under the new accounting standard, while financial results for prior periods will continue to be reported in accordance with our historical accounting policy.

Revenue is measured based on the amount of consideration specified in a contract with a customer. Revenue is recognized when and as our performance obligations under the terms of the contract are satisfied which generally occurs with the transfer of control of the goods or services to the customer.

Contract Combination

To determine the proper revenue recognition method for contracts, we evaluate whether two or more contracts should be combined and accounted for as one single contract and whether the combined or single contract should be accounted for as more than one performance obligation. This evaluation requires judgment and the decision to combine a group of contracts or separate a combined or single contract into multiple performance obligations could change the amount of revenue and profit recorded in a given period. Contracts are considered to have a single performance obligation if the promise to transfer the individual goods or services is not separately identifiable from other promises in the contracts primarily because we provide a significant service of integrating a complex set of tasks and components into a single project or capability. Contracts that cover multiple phases of the product lifecycle (development, construction and maintenance & support) are typically considered to have multiple performance obligations even when they are part of a single contract.

For a limited number of contracts with multiple performance obligations, we allocate the transaction price to each performance obligation using our best estimate of the relative standalone selling price of each distinct good or service in the contract. In cases where we do not provide the distinct good or service on a standalone basis, which is more prevalent than not, the primary method used to estimate standalone selling price is the expected cost plus a margin approach, under which we forecast our expected costs of satisfying a performance obligation and then add an appropriate margin for that distinct good or service.

Contract Types

The Company performs work under contracts that broadly consist of fixed-price, cost-reimbursable or a combination of the two. Fixed-price contracts include both lump-sum and unit-rate contracts. Cost-reimbursable contracts include cost-plus fixed fee, cost-plus fixed rate, and time and material contracts. Cost-reimbursable contracts with the U.S. government are generally subject to the Federal Acquisition Regulation (FAR) and are competitively priced based on estimated or actual costs of providing the contractual goods or services. The FAR provides guidance on types of costs that are allowable in establishing prices for goods and services provided to the U.S. government and its agencies. Pricing for non-U.S. government agencies and commercial customers is based on specific negotiations with each customer.

For contracts where we have the right to consideration from the customer in an amount that corresponds directly with the value received by the customer based on our performance to date, revenue is recognized when services are performed and contractually billable. Under the typical payment terms of our services contracts, amounts are billed as work progresses in accordance with agreed-upon contractual terms, either at periodic intervals (e.g., weekly, biweekly or monthly) or upon achievement of contractual milestones.

For contracts where performance obligations are satisfied due to the continuous transfer of control to the customer, revenue is recognized over time. Where the customer contracts with us to provide a significant service of integrating a complex set of tasks and components into a single project or capability, those contracts are accounted for as single performance obligations. We recognize revenue generally using the cost-to-cost method, based primarily on contract costs incurred to date compared to total estimated contract costs at completion. This method is deemed appropriate in measuring performance towards completion because it directly measures the value of the goods and services transferred to the customer.

Contract Costs

Contract costs include all direct materials, labor and subcontractor costs and an allocation of indirect costs related to contract performance. Customer-furnished materials are included in both contract revenue and cost of revenue when management concludes that the company is acting as a principal rather than as an agent. We recognize revenue, but not profit, on certain uninstalled materials that are not specifically produced or fabricated for a project, which revenue is recognized up to cost. Revenue for uninstalled materials is recognized when the cost is incurred and control is transferred to the customer, which revenue is recognized using the cost-to-cost method. Project mobilization costs are generally charged to the project as incurred when they are an integrated part of the performance obligation being transferred to the client. Pre-contract costs are expensed as incurred unless they are expected to be recovered from the client.

Contract costs incurred for U.S. government contracts, including indirect costs, are subject to audit and adjustment by the DCAA. If the U.S. government concludes costs charged to a contract are not reimbursable under the terms of the contract or applicable procurement regulations, these costs are disallowed or, if already reimbursed, we may be required to refund the reimbursed amounts to the customer. Such conditions may also include interest and other financial penalties.

We provide limited warranties to customers for work performed under our contracts that typically extend for a limited duration following substantial completion of our work on a project. Such warranties are not sold separately and do not provide customers with a service in addition to assurance of compliance with agreed-upon specifications. Accordingly, these types of warranties are not considered to be separate performance obligations. Historically, warranty claims have not been material.

Variable Consideration

It is common for our contracts to contain variable consideration in the form of award fees, incentive fees, performance bonuses, award fees, liquidated damages or penalties that may increase or decrease the transaction price. These variable amounts generally are awarded upon achievement of certain performance metrics, program milestones or targets and can be based on customer discretion. Other contract provisions also give rise to variable consideration such as unapproved change orders and claims, and on certain contracts, index-based price adjustments. We estimate the amount of variable consideration at the most likely amount to which we expect to be entitled. Variable consideration is included in the transaction price when it is probable that a significant reversal of cumulative revenue recognized will not occur or when the uncertainty associated with the variable consideration is resolved. Our estimates of variable consideration and determination of whether to include such amounts in the transaction price are based largely on our assessment of legal enforceability, anticipated performance, and any other information (historical, current or forecasted) that is reasonably available to us.

Variable consideration associated with claims and unapproved change orders is included in the transaction price only to the extent of costs incurred. We recognize claims against vendors, subcontractors and others as a reduction in recognized costs when enforceability is established by the contract and the amounts are reasonably estimable and probable of recovery. Reductions in costs are recognized to the extent of the lesser of the amounts management expects to recover or actual costs incurred.

Contract Estimates and Modifications

Due to the nature of the work required to be performed on many of our performance obligations, the estimation of total revenue and cost at completion is complex and subject to many variables and requires significant judgment. As a significant change in estimated total revenue and cost could affect the profitability of our contracts, we routinely review and update our contract-related estimates through a disciplined project review process in which management reviews the progress and execution of our performance obligations and the EAC. As part of this process, management reviews information including, but not limited to, outstanding contract matters, progress towards completion, program schedule and the associated changes in estimates of revenues and costs. Management must make assumptions and estimates regarding the availability and productivity of labor, the complexity of the work to be performed, the availability and cost of materials, the performance of subcontractors and the availability and timing of funding from the customer, along with other risks inherent in performing services under all contracts where we recognize revenue over time using the cost-to-cost method.

We typically recognize changes in contract estimates on a cumulative catch-up basis in the period in which the changes are identified. Such changes in contract estimates can result in the recognition of revenue in a current period for performance obligations which were satisfied or partially satisfied in prior period. Changes in contract estimates may also result in the reversal of previously recognized revenue if the current estimate differs from the previous estimate. If at any time the estimate of contract profitability indicates an anticipated loss on the contract, we recognize the total loss in the period it is identified.

Contracts are often modified to account for changes in contract specifications and requirements. Most of our contract modifications are for goods or services that are not distinct from existing contracts due to the significant integration provided in the context of the contract and are accounted for as if they were part of the original contract. The effect of a contract modification on the transaction price and our measure of progress for the performance obligation to which it relates, is recognized as an adjustment to revenue (either as an increase in or a reduction of revenue) on a cumulative catch-up basis. We account for contract modifications prospectively when the modification results in the promise to deliver additional goods or services that are distinct and the increase in price of the contract is for the same amount as the stand-alone selling price of the additional goods or services included in the modification.

Contract Assets and Liabilities

Billing practices are governed by the contract terms of each project based upon costs incurred, achievement of milestones or predetermined schedules. Billings do not necessarily correlate with revenue recognized over time using the percentage-of-completion method. Contract assets include unbilled amounts typically resulting from revenue under long-term contracts when the percentage-of-completion method of revenue recognition is utilized and revenue recognized exceeds the amount billed to the customer. Contract liabilities consist of advance payments and billings in excess of revenue recognized as well as deferred revenue.

Retainage, included in contract assets, represent the amounts withheld from billings by our clients pursuant to provisions in the contracts and may not be paid to us until the completion of specific tasks or the completion of the project and, in some instances, for even longer periods. Retainage may also be subject to restrictive conditions such as performance guarantees.

Our contract assets and liabilities are reported in a net position on a contract-by-contract basis at the end of each reporting period.

The payment terms of our contracts from time to time require the customer to make advance payments as well as interim payments as work progresses. The advance payment generally is not considered to contain a significant financing component as we expect to recognize those amounts in revenue within a year of receipt as work progresses on the related performance obligation.

Gross Profit

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

Selling, General and Administrative Expenses

Our selling, general and administrative expenses represent expenses that are not associated with the execution of the contracts. Selling, general and administrative expenses include charges for such items as executive management, corporate business development, information technology, finance and accounting, human resources and various other corporate functions. The Company classifies indirect costs incurred within or allocated to its U.S. government customers as overhead (included in "Cost of revenues") or selling, general and administrative expenses in the same in the same manner as such costs are defined in the Company's disclosure statements under CAS.

Accounts Receivable

Accounts receivable are recorded based on contracted prices when we obtain an unconditional right to payment under the terms of our contracts. We establish an allowance for credit losses based on the assessment of our clients' willingness and ability to pay. In addition to such allowances, there are often items in dispute or being negotiated that may require us to make an estimate as to the ultimate outcome. Past due receivable balances are written off when our internal collection efforts have been unsuccessful in collecting the amounts due. See Note 22 to our consolidated financial statements for our discussion on sales of receivables.

Property, Plant and Equipment

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

Acquisitions

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

Goodwill and Intangible Assets

Goodwill is an asset representing the excess cost over the fair market value of net assets acquired in business combinations. In accordance with ASC 350 - Intangibles - Goodwill and Other, goodwill is not amortized but is tested annually for impairment or on an interim basis when indicators of potential impairment exist. Goodwill is tested for impairment at the reporting unit level. Our reporting units are our operating segments or components of operating segments where discrete financial information is available and segment management regularly reviews the operating results. For purposes of impairment testing, goodwill is allocated to the applicable reporting units based on our reporting structure. If the fair value of a reporting unit exceeds its carrying value, the goodwill of the reporting unit is not considered impaired. If the carrying value of a reporting unit exceeds its fair value, a second step of the goodwill impairment test is performed to measure the amount of goodwill impairment. The second step compares the implied fair value of the reporting unit goodwill to the carrying value of the reporting unit goodwill. We determine the implied fair value of the goodwill in the same manner as determining the amount of goodwill to be recognized in a business combination. We completed our annual goodwill impairment test in the fourth quarter of 2020 and determined that none of the goodwill was impaired. See Note 9 to our consolidated financial statements for reported goodwill in each of our segments and goodwill impairment recognized.

We had intangible assets with net carrying values of $683 million and $495 million as of December 31, 2020 and 2019, respectively. Intangible assets with indefinite lives are not amortized but are subject to annual impairment tests or on an interim basis when indicators of potential impairment exist. An intangible asset with an indefinite life is impaired if its carrying value exceeds its fair value. During the year ended December 31, 2020, certain of our trade name intangible assets with an indefinite life were impaired. Refer to Note 7 to our consolidated financial statements for further discussion. Intangible assets with finite lives are amortized on a straight-line basis over the useful life of those assets, ranging from 1 year to 25 years. See Note 9 to our consolidated financial statements for further discussion of our intangible assets.

Investments

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

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

We evaluate our equity method investments for impairment at least annually or whenever events or changes in circumstances indicate, in management's judgment, that the carrying value of an investment may have experienced an other-than-temporary decline in value. When evidence of loss in value has occurred, management compares the estimated fair value of the investment to the carrying value of the investment to determine whether an impairment has occurred. If the estimated fair value is less than the carrying value and management considers the decline in value to be other than temporary, the excess of the carrying value over the estimated fair value is recognized in the financial statements as an impairment. See Note 7 to our consolidated financial statements for our discussion on impairment of our equity method investments and Note 10 to our consolidated financial statements for our discussion on equity method investments.

In cases where we are unable to exercise significant influence over the investee, or when our investment balance is reduced to zero from our proportionate share of losses, the investments are accounted for under the cost method. Under the cost method, investments are carried at cost and adjusted only for other-than-temporary declines in fair value, distributions of earnings or additional investments. In cases where we have a constructive or legal obligation to fund deficits of the joint venture, we record such deficits as "Other current liabilities" on our consolidated balance sheets.

Joint Ventures and VIEs

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

We assess all newly created entities and those with which we become involved to determine whether such entities are VIEs and, if so, whether or not we are their primary beneficiary. Most of the entities we assess are incorporated or unincorporated joint ventures formed by us and our partner(s) for the purpose of executing a project or program for a customer and are generally dissolved upon completion of the project or program. Many of our long-term, commercial projects are executed through such joint ventures. Although the joint ventures in which we participate own and hold contracts with the customers, the services required by the contracts are typically performed by the joint venture partners, or by other subcontractors under subcontracts with the joint ventures. Typically, these joint ventures are funded by advances from the project owner, and accordingly, require little or no equity investment by the joint venture partners but may require subordinated financial support from the joint venture partners such as letters of credit, performance and financial guarantees or obligations to fund losses incurred by the joint venture. Other joint ventures, such as PFIs, generally require the partners to invest equity and take an ownership position in an entity that manages and operates an asset after construction is complete. The assets of joint ventures are restricted for use to the obligations of the particular joint venture and are not available for our general operations.

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

Occasionally, we may determine that we are the primary beneficiary as a result of a reconsideration event associated with an existing unconsolidated VIE. We account for the change in control under the acquisition method of accounting for business combinations in accordance with ASC 805. See Note 4 to our consolidated financial statements.

Deconsolidation of a Subsidiary

We account for a gain or loss on deconsolidation of a subsidiary or derecognition of a group of assets in accordance with ASC 810-10-40-5. We measure the gain or loss as the difference between (a) the aggregate of fair value of any consideration received, the fair value of any retained noncontrolling investment and the carrying amount of any noncontrolling interest in the former subsidiary at the date the subsidiary is deconsolidated and (b) the carrying amount of the former subsidiary's assets and liabilities or the carrying amount of the group of assets.

Pensions

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

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

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

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

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

Income Taxes

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

Income taxes are accounted for under the asset and liability method. We provide a valuation allowance for deferred tax assets if it is more likely than not that these items will not be realized. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. A current tax asset or liability is recognized for the estimated taxes refundable or payable on tax returns. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

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

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

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

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

Derivative Instruments

We enter into derivative financial transactions to hedge existing or forecasted risk to changing foreign currency exchange rates and interest rate risk on variable rate debt. We do not enter into derivative transactions for speculative or trading purposes. We recognize all derivatives at fair value on the balance sheet. Derivatives that are not designated as hedges in accordance with ASC 815 - Derivatives and Hedging, are adjusted to fair value and such changes are reflected in the results of operations. If the derivative is designated as a cash flow hedge, changes in the fair value of derivatives are recognized in other comprehensive income (loss) until the hedged item is recognized in earnings. The ineffective portion of a designated hedge's change in fair value is recognized in earnings. See Note 22 to our consolidated financial statements for our discussion on derivative instruments.

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

Concentration of Credit Risk

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

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

We have revenues and receivables from transactions with an external customer that amounts to 10% or more of our revenues (which are generally not collateralized). We generated significant revenues from transactions with the U.S. government and U.K. government within our GS business segment. No other customers represented 10% or more of consolidated revenues in any of the periods presented.

The following tables present summarized data related to our transactions with U.S. and U.K governmental agencies.

Revenues and percent of consolidated revenues from major customers:

	Years ended December 31,					
Dollars in millions	2020		2019		2018	
U.S. government	$ 3,079	53 %	$ 3,014	53 %	$ 2,610	53 %
U.K. government	$ 573	10 %	$ 659	12 %	$ 622	13 %

Accounts receivable and percent of consolidated accounts receivable from major customers:

	December 31,			
Dollars in millions	2020		2019	
U.S. government receivables percentage	$ 501	56 %	$ 484	52 %
U.K. government receivables percentage	$ 47	5 %	$ 44	5 %

Noncontrolling interest

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

Foreign currency

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

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

Share-based compensation

We account for share-based payments, including grants of employee stock options, restricted stock-based awards and performance cash units, in accordance with ASC 718 - Compensation-Stock Compensation, which requires that all share-based payments (to the extent that they are compensatory) be recognized as an expense in our consolidated statements of operations based on their fair values on the award date and the estimated number of shares of common stock we ultimately expect to vest. We recognize share-based compensation expense on a straight-line basis over the service period of the award, which is no greater than 5 years. See Note 20 to our consolidated financial statements for our discussion on share-based compensation and incentive plans.

Commitments and Contingencies

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

Additional Balance Sheet Information

Other Current Assets. The components of "Other current assets" on our consolidated balance sheets as of December 31, 2020 and 2019 are presented below:

	December 31,	
Dollars in millions	2020	2019
Prepaid expenses	$ 71	$ 65
Value-added tax receivable	22	37
Advances to subcontractors	10	20
Other miscellaneous assets	18	24
Total other current assets	$ 121	$ 146

Other Assets. Included in "Other assets" on our consolidated balance sheets as of December 31, 2020 and 2019 is noncurrent refundable income taxes of $97 million and $98 million, respectively, related to various tax refunds subject to ongoing audits with certain tax jurisdictions.

Other Current Liabilities. The components of "Other current liabilities" on our consolidated balance sheets as of December 31, 2020 and 2019 are presented below:

	December 31,	
Dollars in millions	2020	2019
Current maturities of long-term debt	$ 12	$ 27
Reserve for estimated losses on uncompleted contracts	16	10
Retainage payable	22	41
Income taxes payable	16	25
Restructuring reserve	32	—
Value-added tax payable	29	36
Dividend payable	14	11
Other miscellaneous liabilities	52	36
Total other current liabilities	$ 193	$ 186

Impact of Adoption of New Accounting Standards

Financial Instruments - Credit Losses

Effective January 1, 2020, we adopted ASU No. 2016-13, Financial Instruments - Credit Losses (Topic 326) - Measurement of Credit Losses on Financial Instruments, using the modified retrospective approach. This ASU replaces the incurred loss impairment model that recognizes losses when a probable threshold is met with a requirement to recognize lifetime expected credit losses immediately when a financial asset, including receivables, is recorded. The estimate of expected credit losses considers not only historical information, but also current and future economic conditions and events. As a result of the adoption, we recorded a cumulative effect adjustment to retained earnings of $3 million, net of tax of $1 million, on our opening consolidated balance sheet as of January 1, 2020. See Note 22 "Financial Instruments and Risk Management" for further discussion related to credit losses.

Lease Accounting

Effective January 1, 2019, we adopted ASU No. 2016-02, Leases (Topic 842) and related ASUs using the modified retrospective transition approach. The modified retrospective transition approach provides for an “effective date” method for recording leases that existed or were entered into on or after January 1, 2019, without restating prior-period information.

ASC Topic 842 provided several optional practical expedients for use in transition. We elected to use the package of practical expedients which allowed us to not reassess our previous conclusions about lease identification, lease classification and the accounting treatment for initial direct costs. We did not elect the practical expedient pertaining to the use of hindsight.

The most significant effects of the new standard on our consolidated financial statements are the recognition of new operating lease right-of-use ("ROU") assets and operating lease liabilities on our consolidated balance sheet for operating leases as well as significant new disclosures about our leasing activities as further discussed in Note 17. On January 1, 2019, we recorded “Operating lease liabilities” of approximately $253 million based on the present value of the remaining lease payments over the lease term. Additionally, we reclassified current and noncurrent deferred rent of $68 million associated with straight-line accounting and tenant incentives related to existing real estate leases against the initial "Operating lease right-of-use assets" as of January 1, 2019. The adoption of the new standard did not have a material impact on our results of operations or cash flows.

As a result of the adoption, we recorded a cumulative-effect adjustment to retained earnings of $21 million, net of deferred taxes of $7 million, representing the unamortized portion of a deferred gain previously recorded in conjunction with the 2012 sale and leaseback of the office building in Houston, Texas where our corporate headquarters is located. We concluded the transaction resulted in the transfer of control of the office building to the buyer-lessor at market terms and therefore would have qualified as a sale under ASC Topic 842 with gain recognition in the period in which the sale was recognized.

Revenue Recognition

Effective January 1, 2019, we adopted ASU No. 2017-13, Revenue from Contracts with Customers (Topic 606) for our remaining unconsolidated affiliates, using the modified retrospective approach, except for unconsolidated VIEs associated with the Aspire Defence project for which we adopted ASC Topic 606 on January 1, 2018. We recognized the cumulative effect of initially applying ASC Topic 606 for our unconsolidated affiliates as an adjustment to our assets and retained earnings in the balance sheet as of January 1, 2019, as follows:

Dollars in millions	Balance at December 31, 2018	Adjustments Due to ASC 606	Balance at January 1, 2019
Assets			
Equity in and advances to unconsolidated affiliates	$ 724	$ 29	$ 753
Shareholders' equity			
Retained Earnings	1,235	29	1,264

Other Standards

Effective January 1, 2020, we adopted ASU No. 2018-18, Clarifying the Interaction Between Topic 808 and Topic 606, which clarifies that certain transactions between participants in a collaborative arrangement should be accounted for under ASC 606 when the counterparty is a customer. The adoption of this standard did not have any impact on our financial position, results of operations or cash flows.

Effective January 1, 2020, we adopted ASU No. 2018-17, Targeted Improvements to Related Party Guidance for Variable Interest Entities. This ASU amends the guidance for determining whether a decision-making fee is a variable interest. The adoption of this standard did not have any impact on our financial position, results of operations or cash flows.

Effective January 1, 2020, we adopted ASU No. 2018-15, Customer’s Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract. This ASU permits customers in a hosting arrangement that is a service contract to capitalize certain implementation costs as if the arrangement was an internal-use software project. We have elected to avail this option. The adoption of this standard did not have a material impact on our financial position, results of operations or cash flows.

Effective January 1, 2020, we adopted ASU No. 2018-13, Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement. This ASU amends ASC 820 to add, remove and modify certain disclosure requirements for fair value measurements. For example, the Company will now be required to disclose the range and weighted average used to develop significant unobservable inputs for Level 3 fair value measurements. The adoption of this standard did not have a material impact on our consolidated financial statements or disclosures.

Effective January 1, 2020, we adopted ASU No. 2017-04, Intangibles - Goodwill and Other (Topic 350) - Simplifying the Test for Goodwill Impairment. This ASU eliminates Step 2 from the goodwill impairment test. In addition, income tax effects from any tax deductible goodwill on the carrying amount of the reporting unit should be considered when measuring the goodwill impairment loss, if applicable. The amendments also eliminate the requirements for any reporting unit with a zero or negative carrying amount to perform a qualitative assessment and, if it fails that qualitative test, to perform Step 2 of the goodwill impairment test. An entity still has the option to perform the qualitative assessment for a reporting unit to determine if the quantitative impairment test is necessary. As a result of the adoption of this standard, we used Step 1 to measure the goodwill impairment losses recognized during the first and second quarters of 2020 without proceeding to Step 2 of the goodwill impairment test as required under the previous standard. See Note 9 "Goodwill and Goodwill Impairment" for discussion of goodwill impairment recognized.

Note 2. Business Segment Information

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

We are organized into three core business segments, Government Solutions, Technology Solutions, and Energy Solutions, and two non-core business segments as described below:

Government Solutions. Our GS business segment provides full life-cycle support solutions to defense, intelligence, space, aviation and other programs and missions for military and other government agencies in the U.S., U.K. and Australia. KBR services cover the full spectrum, from research and development, through systems engineering, test and evaluation, systems integration and program management, to operations support, readiness and logistics. With the acquisition of Centauri Holdings Platform, LLC ("Centauri") on October 1, 2020 (described in Note 4 to the consolidated financial statements), our GS business segment also provides software and engineering solutions to critical national security missions across space, cyber, intelligence, surveillance and reconnaissance, missile defense and intelligence domains to the U.S. government and related defense agencies.

Technology Solutions. Our TS business segment combines KBR's sustainability-focused proprietary technologies, equipment and catalyst supply, digital solutions and associated knowledge-based services into a global business for refining, petrochemicals, inorganic and specialty chemicals as well as gasification, syngas, ammonia, nitric acid and fertilizers. Our TS business segment has led the way in the development of advanced digital and proprietary technologies, tools and solutions. From early planning through scope definition, advanced technologies and project life-cycle support, our TS business segment works closely with customers to provide an approach catered to their operational, financial and sustainability goals. Licensing and engineering/design services are typically provided during the front-end planning stage of both green- and brown-field capital projects, and proprietary equipment is delivered and installed as part of facility construction. Catalysts, or process consumables designed to drive process performance, efficiency and reliability, are delivered for start-up and are subsequently replenished, as needed.

Energy Solutions. Our ES business segment provides full life-cycle support solutions across the upstream, midstream and downstream energy markets, including advisory services focused on energy transition and net-zero carbon objectives; technology-led industrial solutions focused on advanced remote operations capabilities to improve throughput, reliability and environmental sustainability; digitally-enabled professional services such as complex program management, engineering & design, and advanced project integration; and other construction services.

Non-strategic Business. Non-strategic Business represents the operations or activities we determine are no longer core to our business strategy and that we have exited or intend to exit upon completion of existing contracts. All Non-strategic Business projects are substantially complete. Current activities in this business segment primarily relate to final project close-out, negotiation and settlement of claims, joint venture liquidation and various other matters associated with these projects.

Other. Our Other segment includes corporate expenses and selling, general and administrative expenses not allocated to the business segments above.

Effective for fiscal year 2021, we will change the names of our reportable segments and businesses as follows:

- **Government Solutions** includes the following four business units: *Defense & Intel*, formerly the Defense Systems Engineering and Centauri businesses; *Science & Space*, formerly called Space & Mission Solutions; *Readiness & Sustainment*, formerly called Logistics; and *International*.

- **Sustainable Technology Solutions**, formerly called Technology Solutions.

Operations by Reportable Segment

Dollars in millions	Years ended December 31, 2020	2019	2018
Revenues:			
Government Solutions	$ 3,934	$ 3,925	$ 3,457
Technology Solutions	303	374	297
Energy Solutions	1,526	1,339	1,157
Subtotal	5,763	5,638	4,911
Non-strategic Business	4	1	2
Total revenues	$ 5,767	$ 5,639	$ 4,913
Gross profit (loss):			
Government Solutions	$ 483	$ 430	$ 350
Technology Solutions	105	118	106
Energy Solutions	86	100	134
Subtotal	674	648	590
Non-strategic Business	(8)	5	(6)
Total gross profit	$ 666	$ 653	$ 584
Equity in earnings of unconsolidated affiliates:			
Government Solutions	$ 25	$ 29	$ 32
Energy Solutions	5	19	50
Subtotal	30	48	82
Non-strategic Business	—	(13)	(3)
Total equity in earnings of unconsolidated affiliates	$ 30	$ 35	$ 79
Selling, general and administrative expenses:			
Government Solutions	$ (158)	(134)	(109)
Technology Solutions	(23)	(28)	(24)
Energy Solutions	(65)	(63)	(64)
Other	(89)	(116)	(97)
Subtotal	(335)	(341)	(294)
Non-strategic Business	—	—	—
Total selling, general and administrative expenses	$ (335)	(341)	(294)
Acquisition and integration related costs	(9)	(2)	(7)
Goodwill impairment	(99)	—	—
Restructuring charges and asset impairments	(214)	—	—
Gain on disposition of assets	18	17	(2)
Gain on consolidation of Aspire subcontracting entities	—	—	108
Operating income	**$ 57**	**$ 362**	**$ 468**
Interest expense	(83)	(99)	(66)
Other non-operating income (loss)	1	5	(6)
(Loss) income before income taxes and noncontrolling interests	**$ (25)**	**$ 268**	**$ 396**

Dollars in millions	Years ended December 31, 2020	2019	2018
Capital expenditures:			
Government Solutions	$ 13	$ 7	$ 11
Technology Solutions	—	1	—
Energy Solutions	3	3	1
Other	4	9	5
Total	$ 20	$ 20	$ 17
Depreciation and amortization:			
Government Solutions	$ 58	$ 58	$ 42
Technology Solutions	5	6	3
Energy Solutions	24	21	10
Other	28	19	8
Total	$ 115	$ 104	$ 63

Balance Sheet Information by Reportable Segment

Assets specific to business segments include receivables, contract assets, other current assets, claims and accounts receivable, certain identified property, plant and equipment, equity in and advances to related companies and goodwill. The remaining assets, such as cash and the remaining property, plant and equipment, are considered to be shared among the business segments and are therefore reported in "Other."

Dollars in millions	December 31, 2020	2019
Total assets:		
Government Solutions	$ 3,329	$ 2,699
Technology Solutions	205	218
Energy Solutions	1,283	1,464
Other	882	972
Subtotal	5,699	5,353
Non-strategic Business	6	7
Total	$ 5,705	$ 5,360
Goodwill (Note 9):		
Government Solutions	$ 1,570	$ 978
Technology Solutions	52	50
Energy Solutions	139	237
Total	$ 1,761	$ 1,265
Equity in and advances to related companies (Note 10):		
Government Solutions	$ 144	$ 147
Energy Solutions	737	699
Total	$ 881	$ 846

Selected Geographic Information

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

Dollars in millions	Years ended December 31, 2020	2019	2018
Revenues:			
United States	$ 3,031	$ 2,705	$ 2,260
Middle East	857	1,027	884
Europe	961	1,058	989
Australia	324	288	329
Canada	46	39	21
Africa	152	197	133
Asia	203	214	190
Other countries	193	111	107
Total	$ 5,767	$ 5,639	$ 4,913

Dollars in millions	December 31, 2020	2019
Property, plant & equipment, net:		
United States	$ 57	$ 50
United Kingdom	40	44
Other	33	36
Total	$ 130	$ 130

Note 3. Revenue

We disaggregate our revenue from customers by type of service, geographic destination and contract type for each of our segments, as we believe it best depicts how the nature, amount, timing and uncertainty of our revenue and cash flows are affected by economic factors. See details in the tables below.

Revenue by Service/Product line and reportable segment was as follows:

	Year Ended December 31,		
Dollars in millions	2020	2019	2018
Government Solutions			
Space & Mission Solutions	$ 967	$ 863	$ 641
Defense & Intel	959	782	709
Logistics	1,153	1,400	1,256
International	855	880	851
Total Government Solutions	3,934	3,925	3,457
Technology Solutions	303	374	297
Energy Solutions	1,526	1,339	1,157
Non-strategic business	4	1	2
Total revenue	$ 5,767	$ 5,639	$ 4,913

Government Solutions revenue earned from key U.S. government customers includes U.S. DoD agencies and NASA, and is reported as Space & Mission Solutions, Defense & Intel, and Logistics. Government Solutions revenue earned from non-U.S. government customers primarily includes the U.K. MoD and the Australian Defence Force, and is reported as international.

Revenue by geographic destination was as follows:

	Year Ended December 31, 2020				
Dollars in millions	Government Solutions	Technology Solutions	Energy Solutions	Non-strategic Business	Total
United States	$ 2,280	$ 22	$ 725	$ 4	$ 3,031
Middle East	622	7	228	—	857
Europe	743	54	164	—	961
Australia	151	1	172	—	324
Canada	1	2	43	—	46
Africa	81	4	67	—	152
Asia	—	199	4	—	203
Other countries	56	14	123	—	193
Total revenue	$ 3,934	$ 303	$ 1,526	$ 4	$ 5,767

	Year Ended December 31, 2019				
Dollars in millions	Government Solutions	Technology Solutions	Energy Solutions	Non-strategic Business	Total
United States	$ 2,110	$ 38	$ 556	$ 1	$ 2,705
Middle East	795	15	217	—	1,027
Europe	796	71	191	—	1,058
Australia	93	1	194	—	288
Canada	1	1	37	—	39
Africa	76	31	90	—	197
Asia	—	211	3	—	214
Other countries	54	6	51	—	111
Total revenue	$ 3,925	$ 374	$ 1,339	$ 1	$ 5,639

	Year Ended December 31, 2018				
Dollars in millions	Government Solutions	Technology Solutions	Energy Solutions	Non-strategic Business	Total
United States	$ 1,767	$ 22	$ 469	$ 2	$ 2,260
Middle East	735	14	135	—	884
Europe	766	50	173	—	989
Australia	60	1	268	—	329
Canada	1	2	18	—	21
Africa	77	25	31	—	133
Asia	—	177	13	—	190
Other countries	51	6	50	—	107
Total revenue	$ 3,457	$ 297	$ 1,157	$ 2	$ 4,913

Many of our contracts contain both fixed price and cost reimbursable components. We define contract type based on the component that represents the majority of the contract. Revenue by contract type was as follows:

	Year Ended December 31, 2020				
Dollars in millions	Government Solutions	Technology Solutions	Energy Solutions	Non-strategic Business	Total
Fixed Price	$ 952	$ 293	$ 290	$ —	$ 1,535
Cost Reimbursable	2,982	10	1,236	4	4,232
Total revenue	$ 3,934	$ 303	$ 1,526	$ 4	$ 5,767

	Year Ended December 31, 2019				
Dollars in millions	Government Solutions	Technology Solutions	Energy Solutions	Non-strategic Business	Total
Fixed Price	$ 1,022	$ 367	$ 219	$ 1	$ 1,609
Cost Reimbursable	2,903	7	1,120	—	4,030
Total revenue	$ 3,925	$ 374	$ 1,339	$ 1	$ 5,639

Dollars in millions	Year Ended December 31, 2018 Government Solutions	Technology Solutions	Energy Solutions	Non-strategic Business	Total
Fixed Price	$ 971	$ 288	$ 183	$ 2	$ 1,444
Cost Reimbursable	2,486	9	974	—	3,469
Total revenue	$ 3,457	$ 297	$ 1,157	$ 2	$ 4,913

We have included $318 million, $241 million, and $173 million of revenue from U.S. government time-and-materials type contracts within the cost reimbursable contract type for the years ended December 31, 2020, 2019, and 2018, respectively.

Performance Obligations

We recognized revenue of $49 million, $15 million, and $69 million from performance obligations satisfied in previous periods for the years ended December 31, 2020, 2019, and 2018, respectively.

On December 31, 2020, we had $12.0 billion of transaction price allocated to remaining performance obligations. We expect to recognize approximately 32% of our remaining performance obligations as revenue within one year, 33% in years two through five, and 35% thereafter. Revenue associated with our remaining performance obligations to be recognized beyond one year includes performance obligations related to Aspire Defence and Fasttrax projects, which have contract terms extending through 2041 and 2023, respectively. Remaining performance obligations do not include variable consideration that was determined to be constrained as of December 31, 2020.

Contract Assets and Contract Liabilities

Contract assets were $178 million and $215 million and contract liabilities were $356 million and $484 million, at December 31, 2020 and 2019, respectively. The decrease in contract liabilities during the year ended December 31, 2020 was primarily related to progress against project advances on the Aspire Defence project and a project in the Middle East, and an unfavorable FKTC containers ruling that was upheld. See Note 15 “U.S. Government Matters” for additional information. We recognized revenue of $324 million for the year ended December 31, 2020, which was previously included in the contract liability balance at December 31, 2019.

Accounts Receivable

Dollars in millions	December 31, 2020	2019
Unbilled	$ 476	$ 308
Trade & other	423	630
Accounts receivable, net	$ 899	$ 938

Note 4. Acquisitions and Dispositions

Centauri Platform Holdings, LLC

On October 1, 2020, we acquired Centauri in accordance with an agreement and plan of merger, pursuant to which a wholly owned subsidiary of KBR merged with and into Centauri, with Centauri continuing as the surviving company and a wholly owned subsidiary of KBR. Centauri provides high-end engineering and development solutions for critical, well-funded, national security missions associated with space, intelligence, cyber, and emerging technologies such as directed energy and missile defense and is reported under the GS business segment. The acquisition expands KBR's military space and intelligence business and builds upon the Company's existing cybersecurity and missile defense solutions. Furthermore, the addition of Centauri advances KBR's strategic transformation of becoming a leading provider of high-end, mission-critical technical services and solutions.

The aggregate consideration paid was approximately $830 million in cash, subject to certain working capital, net debt and other post-closing adjustments, if applicable. The Company funded the acquisition through a combination of cash on-hand, borrowings under our Senior Credit Facility, net proceeds from the private offering of $250 million aggregate principal amount of our 4.750% Senior Notes due 2028 (the "Senior Notes"), and proceeds from the sale of receivables. See Note 12 "Debt and Other Credit Facilities" for further discussion of our Senior Credit Facility and Senior Notes, and Note 22 "Fair Value of Financial Instruments and Risk Management" for further discussion of our sale of receivables.

During the year ended December 31, 2020, the Company incurred $9 million in acquisition-related costs with the acquisition of Centauri, which are included in “Acquisition and integration related costs” on the consolidated statements of operations.

As of December 31, 2020, the estimated fair values of net assets acquired were preliminary, with possible updates primarily in our finalization of tax returns and settlement of net working capital adjustments with the seller. The following table summarizes the consideration paid for this acquisition and the fair value of assets and liabilities assumed as of the acquisition date as follows:

Dollars in millions		**Centauri**
Fair value of total consideration paid	$	830
Recognized amounts of identifiable assets acquired and liabilities assumed:		
Cash and equivalents		7
Accounts receivable		78
Contract assets		19
Other current assets		1
Total current assets		105
Property, plant, and equipment, net		18
Operating lease right-of-use assets		36
Intangible assets, net		226
Other assets		1
Total assets		386
Accounts payable		29
Contract liabilities		2
Accrued salaries, wages and benefits		39
Operating lease liabilities		6
Total current liabilities		76
Deferred income taxes		19
Operating lease liabilities		30
Other liabilities		7
Total liabilities		132
Net assets acquired		254
Goodwill	$	576

The goodwill recognized of $576 million arising from this acquisition primarily relates to future growth opportunities based on an expanded service offering from intellectual capital and a highly skilled assembled workforce and other expected synergies from the combined operations. For U.S. tax purposes, the transaction is treated as a stock deal. As a result, there is no step-up in tax basis and the goodwill recognized is not deductible for tax purposes.

The following table summarizes the fair value of intangible assets and the related weighted-average useful lives:

Dollars in millions	Fair Value	Weighted Average Amortization Period (in years)
Funded backlog	$ 28	1
Customer relationships	198	15
Total intangible assets	$ 226	13

The backlog intangible asset is comprised solely of funded backlog that represents revenue that is already fully awarded and funded as of the acquisition date. The customer relationships intangible assets consists of unfunded backlog as of the acquisition date and revenue arising from existing, recompete, and follow-on programs. The funded backlog and customer relationships intangible assets were valued using the income approach, specifically the multi-period excess earnings method in which the value is derived from an estimation of the after-tax cash flows specifically attributable to funded backlog and customer relationships. The analysis included assumptions for forecasted revenues and EBITDA margins, contributory asset charge rates, weighted average cost of capital, and a tax amortization benefit.

The following supplemental pro forma, combined financial information has been prepared from historical financial statements that have been adjusted to give effect to the acquisition of Centauri as though it had been acquired on January 1, 2019. Pro forma adjustments were primarily related to the amortization of intangibles, interest on borrowings related to the acquisition, significant nonrecurring transactions and acquisition related transaction costs. Accordingly, this supplemental pro forma financial information is presented for informational purposes only and is not necessarily indicative of what the actual results of operations of the combined company would have been had the acquisitions occurred on January 1, 2019, nor is it indicative of future results of operations.

	Year ended December 31,	
Dollars in millions	2020	2019
	(Unaudited)	
Revenue	$ 6,194	$ 6,137
Net income attributable to KBR	$ (53)	$ 172
Diluted earnings per share	$ (0.37)	$ 1.20

The acquired Centauri business contributed $125 million of revenues and $19 million of gross profit within our GS business segment during the year ended December 31, 2020.

Scientific Management Associates (Operations) Pty Ltd

On March 6, 2020, we acquired certain assets and assumed certain liabilities related to the government defense business of Scientific Management Associates (Operations) Pty Ltd ("SMA"). The acquired business of SMA provides technical training services to the Royal Australian Navy and is reported within our GS business segment. We accounted for this transaction using the acquisition method under ASC 805, Business Combinations. The agreed-upon purchase price for the acquisition was $13 million, less purchase price adjustments totaling $4 million resulting in net cash consideration paid of $9 million. We recognized goodwill of $12 million arising from the acquisition, which relates primarily to future growth opportunities to expand services provided to the Royal Australian Navy.

Stinger Ghaffarian Technologies

On April 25, 2018, we acquired 100% of the outstanding stock of SGT. SGT is a leading provider of high-value engineering, mission operations, scientific and IT software solutions in the government services market. We accounted for this transaction using the acquisition method under ASC 805, Business Combinations. The acquisition is reported within our GS business segment. Aggregate base consideration for the acquisition was $355 million, plus $10 million of working capital and other purchase price adjustments set forth in the purchase agreement. We recognized goodwill of $257 million arising from the acquisition.

Aspire Defence Subcontracting Joint Ventures

Effective January 15, 2018, as a result of our joint venture partner's compulsory liquidation, we assumed operational control of and began consolidating the Aspire Defence subcontracting entities in our consolidated financial statements. We accounted for these transactions under the acquisition method of accounting for business combinations and recognized a gain of approximately $108 million included in "Gain on consolidation of Aspire subcontracting entities" on our consolidated statements of operations as a result of remeasuring our equity interests in each of the subcontracting entities to fair value. We also recognized goodwill of approximately $42 million. We subsequently completed the purchase of our partner's interests in the subcontracting entities on April 18, 2018 for $50 million pursuant to a share and business purchase agreement and approval by Aspire Defence Limited, the Aspire Defence Limited project lenders and the MoD. We accounted for the change in ownership interests as an equity transaction. The difference between the noncontrolling interests of $119 million in the subcontracting entities at the date of acquisition and the cash consideration paid to our partner was recognized as a net increase to "PIC" of $69 million.

Note 5. Cash and Equivalents

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

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

	December 31, 2020		
Dollars in millions	**International (a)**	**Domestic (b)**	**Total**
Operating cash and equivalents	$ 228	$ 54	$ 282
Short-term investments (c)	3	—	3
Cash and equivalents held in consolidated joint ventures and Aspire Defence subcontracting entities	151	—	151
Total	$ 382	$ 54	$ 436

	December 31, 2019		
Dollars in millions	**International (a)**	**Domestic (b)**	**Total**
Operating cash and equivalents	$ 187	$ 114	$ 301
Short-term investments (c)	58	93	151
Cash and equivalents held in consolidated joint ventures and Aspire Defence subcontracting entities	259	1	260
Total	$ 504	$ 208	$ 712

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

Note 6. Unapproved Change Orders and Claims Against Clients and Estimated Recoveries of Claims Against Suppliers and Subcontractors

The amounts of unapproved change orders and claims against clients and estimated recoveries of claims against suppliers and subcontractors included in determining the profit or loss on contracts are as follows:

Dollars in millions	2020	2019
Amounts included in project estimates-at-completion at January 1,	$ 978	$ 973
(Decrease) increase in project estimates	(1)	21
Approved change orders	(6)	(7)
Foreign currency effect	77	(9)
Amounts included in project estimates-at-completion at December 31,	$ 1,048	$ 978
Amounts recognized over time based on progress at December 31,	$ 1,048	$ 974

As of December 31, 2020 and 2019, the predominant component of change orders, customer claims and estimated recoveries of claims against suppliers and subcontractors above relates to our 30% proportionate share of unapproved change orders and claims associated with the Ichthys LNG Project discussed below.

KBR intends to vigorously pursue approval and collection of amounts due under all unapproved change orders and claims, against the clients and recoveries from subcontractors. Further, there are additional claims that KBR believes it is entitled to recover from its client and from subcontractors which have been excluded from estimated revenues and profits at completion as appropriate under U.S. GAAP. These commercial matters may not be resolved in the near term. Our current estimates for the above unapproved change orders, client claims and estimated recoveries of claims against suppliers and subcontractors may prove inaccurate and any material change could have a material adverse effect on our results of operations, financial position and cash flows.

Ichthys LNG Project

Project Status

We have a 30% ownership interest in the JKC joint venture, which has contracted to perform the engineering, procurement, supply, construction and commissioning of onshore LNG facilities for a client in Darwin, Australia (the "Ichthys LNG Project"). The contract between JKC and its client is a hybrid contract containing both cost-reimbursable and fixed-price (including unit-rate) scopes. We, along with our joint venture partners, are jointly and severally liable to the client.

The construction and commissioning of the Ichthys LNG Project is complete and all performance tests have been successfully performed. The entire facility, including two LNG liquefaction trains, cryogenic tanks and the combined cycle power generation facility, has been handed over to the client and is producing LNG. JKC is in the process of completing administrative close-out activities and continues to progress the various legal and commercial disputes with the client, suppliers and other third parties as further described below.

Unapproved Change Orders and Claims Against Client

Under the cost-reimbursable scope of the contract, JKC has entered into commercial contracts with multiple suppliers and subcontractors to execute various scopes of work on the project. Certain of these suppliers and subcontractors have made contract claims against JKC for recovery of costs and extensions of time to progress the works under the scope of their respective contracts due to a variety of issues related to alleged changes to the scope of work, delays and lower than planned subcontractor productivity. In addition, JKC has incurred costs related to scope increases and other factors, and has made claims to its client for matters for which JKC believes it is entitled to reimbursement under the contract.

JKC believes any amounts paid or payable to the suppliers and subcontractors in settlement of their contract claims related to the cost-reimbursable scope are an adjustment to the contract price, and accordingly JKC has made claims for contract price adjustments under the cost-reimbursable scope of the contract between JKC and its client. However, the client disputed some of these contract price adjustments and subsequently withheld certain payments. In order to facilitate the continuation of work under the contract while JKC worked to resolve this dispute, the client agreed to a contractual mechanism ("Funding Deed") in 2016 providing funding in the form of an interim contract price adjustment to JKC and consented to settlement of subcontractor claims as of that date related to the cost-reimbursable scope. While the client reserved its contractual rights under this funding mechanism, settlement funds (representing the interim contract price adjustment) have been paid by the client. JKC in turn settled these subcontractor claims which have been funded through the Funding Deed by the client.

In October 2018, JKC received a favorable ruling in a separate arbitration related to the Funding Deed. The ruling determined a contract interpretation in JKC's favor, to the effect that delay and disruption costs payable to subcontractors under the cost-reimbursable scope of the EPC contract are for the client's account and are reimbursable to JKC. However, the client did not agree with the impact of the arbitration award and, accordingly, we initiated the Funding Deed proceeding referenced below to obtain further determination from the arbitration tribunal.

In September 2020, JKC sought a Summary Determination from the arbitration tribunal seeking (1) a stay of the repayment date of December 31, 2020 ("Sunset Date"); and (2) presented specific legal arguments to ultimately resolve the Funding Deed without the need for a full factual enquiry.

In a partial award in December 2020, the arbitration tribunal held that it could not decide the merits of the Funding Deed issue without hearing further evidence on factual issues. No determination was reached as to the actual position on entitlement and no decision has been rendered on reimbursable subcontractor settlement costs covered by the Funding Deed. In reaching this decision the arbitration tribunal also decided in its partial award that it did not have authority to stay JKC's repayment of the funds under the Funding Deed following the passage of the Sunset Date. As the issues raised in the Funding Deed arbitration remained unresolved as of December 31, 2020, JKC could be required to refund sums funded by the client under the terms of the Funding Deed. JKC continues to assert that the subcontractor settlement sums were properly incurred and represent reimbursable costs.

In January 2021, the client demanded that JKC repay the Funding Deed amount and notified its intention to commence legal actions against JKC including claims on the parent company guarantees. The client also submitted an application to the arbitration tribunal asserting various legal theories and requesting immediate repayment of the Funding Deed. JKC opposed the application on the grounds that in seeking such relief, the client was asserting new claims that are not part of the current arbitration. The arbitration tribunal agreed with JKC that these were new claims and declined to order immediate repayment. However, the arbitration tribunal directed the parties to incorporate the new claims into the existing consolidated arbitration process. There are no hearing dates set for these matters.

Our proportionate share of the total amount of the contract price adjustments under the Funding Deed included in the unapproved change orders and claims related to JKC discussed above is \$157 million and \$158 million as of December 31, 2020 and 2019, respectively. These amounts are subject to currency fluctuation risk and possible applicable taxes.

In September and October 2017, additional settlements pertaining to suppliers and subcontractors under the cost-reimbursable scope of the contract were presented to the client. The client consented to these settlements and paid for them but reserved its contractual rights. In reliance, JKC in turn settled these claims with the associated suppliers and subcontractors. The formal contract price adjustments for these settlements remained pending at December 31, 2020. However, unlike amounts funded under the Funding Deed, there is no requirement to refund these amounts to the client by a certain date.

There has been deterioration of paint and insulation on certain exterior areas of the plant. The client previously requested and funded paint remediation for a portion of the facilities. JKC's profit estimate at completion includes a portion of revenues and costs for these remediation activities. Revenue for the client-funded amounts are included in the table above. In the first quarter of 2019, the client demanded repayment of the amounts previously funded to JKC. JKC is disputing the client's demand. The client has also requested a proposal to remediate any remaining non-conforming paint and insulation, but JKC and its client have not resolved the nature and extent of the non-conformances, the method and degree of remediation that was and is required, or who is responsible. We believe the remaining remediation costs will be material given the plant is now operating and there will be several operating constraints on any such works.

In addition, JKC has started proceedings against the paint manufacturer and initiated claims against the subcontractors. JKC has also made demands on insurance policies in respect of these matters. JKC believes that project insurance should significantly limit any exposure it has on painting and insulation damages. Proceedings and claims against the paint manufacturer, certain subcontractors and insurance policies are ongoing. As the principal insured, it is incumbent upon the client to pursue the insurance claims with diligence. JKC is urging the client to meet its contractual obligations.

Combined Cycle Power Plant

Pursuant to JKC's fixed-price scope of its contract with its client, JKC awarded a fixed-price EPC contract to a subcontractor for the design, construction and commissioning of the Combined Cycle Power Plant (the "Power Plant"). The subcontractor was a consortium consisting of General Electric and GE Electrical International Inc. and a joint venture between UGL Infrastructure Pty Limited and CH2M Hill (collectively, the "Consortium"). On January 25, 2017, JKC received a Notice of Termination from the Consortium, and the Consortium ceased work on the Power Plant and abandoned the construction site. JKC believes the Consortium materially breached its subcontract and repudiated its obligation to complete the Power Plant, plus undertook actions making it more difficult and more costly for the works to be completed by others after the Consortium abandoned the site. Subsequently, the Consortium filed a request for arbitration with the ICC asserting that JKC repudiated the contract. The Consortium also sought an order that the Consortium validly terminated the subcontract. JKC has responded to this request, denying JKC committed any breach of its subcontract with the Consortium and restated its claim that the Consortium breached and repudiated its subcontract with JKC and is liable to JKC for all costs to complete the Power Plant.

In March 2017, JKC prevailed in a legal action against the Consortium requiring the return of materials, drawings and tools following their unauthorized removal from the site by the Consortium. After taking over the work, JKC discovered incomplete and defective engineering designs, defective workmanship on the site, missing, underreported and defective materials and the improper termination of key vendors/suppliers. JKC's investigations also indicate that progress of the work claimed by the Consortium was over-reported. JKC has evaluated the cost to complete the Consortium's work, which significantly exceeds the awarded fixed-price subcontract value. JKC's cost to complete the Power Plant includes re-design efforts, additional materials and significant re-work. These costs represent estimated recoveries of claims against the Consortium and have been included in JKC's estimate to complete the Consortium's remaining obligations.

JKC is pursuing recourse against the Consortium to recover all of the costs to complete the Power Plant, plus the additional interest, and/or general damages by all means inclusive of calling bank guarantees provided by the Consortium partners. In April 2018, JKC prevailed in a legal action to call bank guarantees (bonds) and received funds totaling $52 million. Each of the Consortium partners has joint and several liability with respect to all obligations under the subcontract. JKC intends to pursue recovery of all additional amounts due from the Consortium via various legal remedies available to JKC.

Costs incurred to complete the Power Plant that have been determined to be probable of recovery from the Consortium under U.S. GAAP have been included as a reduction of cost in our estimate of profit at completion. The estimated recoveries exclude interest, liquidated damages and other related costs which JKC intends to pursue recovery from the Consortium. Amounts expected to be recovered from the Consortium are included in the table above at the beginning of this Note 6.

As of December 31, 2020, JKC's claims against the Consortium were approximately $1.8 billion (net of bonds and remaining lump sum contract value) for recovery of JKC's costs. Hearings on the power plant arbitration are scheduled for April 2021 and August 2021 (the "Arbitration"). The previous hearing dates were vacated due to the COVID-19 outbreak. The current dates may continue to be impacted by the COVID-19 pandemic.

JKC asked the Australian courts to require the parent company guarantors of the Consortium to issue payment to JKC in advance of the completion of the arbitration proceedings. The court concluded that the parent companies are responsible for Consortium’s liability resulting from the arbitration outcome, but they are not required to pay in advance of the arbitration. JKC continues to pursue the resolution of this matter and will seek collection from the Consortium and their parent guarantors who are all jointly and severally liable for any damages owed to JKC.

To the extent JKC is unsuccessful in prevailing in the Arbitration or the Consortium members are unable to satisfy their financial obligations in the event of a decision favorable to JKC, we would be responsible for our pro-rata portion of unrecovered costs from the Consortium. This could have a material adverse impact on the profit at completion of the overall contract and thus on our consolidated statements of operations and financial position.

Other Matters

JKC is entitled to an amount of profit and overhead (“TRC Fee”) which is a fixed percentage of the target reimbursable costs ("TRC") under the reimbursable component of the contract which was to be agreed by JKC and its client. At the time of the contract, JKC and its client agreed to postpone the fixing of the TRC until after a specific milestone in the project had been achieved. Although the milestone was achieved, JKC and its client have been unable to reach agreement on the TRC. This matter was taken to arbitration in 2017. A decision was issued in December 2017 concluding that the TRC should be determined based on project estimate information available at April 2014. JKC has included an estimate for the TRC Fee in its determination of profit at completion at December 31, 2020, based on the contract provisions and the decision from the December 2017 arbitration. JKC has submitted the revised estimate of the TRC Fee to the client. The parties have not agreed to the revised estimate, and JKC has started an additional arbitration on this dispute.

In late 2019, the International Chamber of Commerce consolidated the Funding Deed arbitration, TRC arbitration and certain other claims asserted by JKC along with claims asserted by its client. Pursuant to a recent procedural order, the client is expected to file a detailed statement of its claim in May 2021. The arbitration panel has been constituted but a hearing date has not been scheduled.

Ichthys Project Funding

As a result of the ongoing disputes with the client and pursuit of recoveries against the Consortium through the Arbitration, we have funded our proportionate share of the working capital requirements of JKC to complete the project. We made investment contributions to JKC of approximately $484 million on an inception-to-date basis to fund project execution activities.

If we experience unfavorable outcomes associated with the various legal and commercial disputes, our total investment contributions could increase which could have a material adverse effect on our financial position and cash flows. Further, if either of our joint venture partners in JKC do not fulfill their responsibilities under the JKC joint venture agreement or subcontract, we could be exposed to additional funding requirements as a result of the nature of the JKC joint venture agreement.

As of December 31, 2020, we had $164 million in letters of credit outstanding in support of performance and warranty guarantees provided to the client.

All of the Ichthys LNG project commercial matters are complex and involve multiple interests, including the client, joint venture partners, suppliers and other third parties. Ultimate resolution may not occur in the near term and could be impacted by the COVID-19 pandemic. Our current estimates for resolving these matters may prove inaccurate and, if so, any material change could have a material adverse effect on our results of operations, financial position and cash flows.

See Note 10 "Equity Method Investments and Variable Interest Entities" to our consolidated financial statements for further discussion regarding our equity method investment in JKC.

Note 7. Restructuring Charges and Asset Impairments

During 2020, our management initiated and approved a broad restructuring plan in response to the dislocation of the global energy market resulting from the decline in oil prices and the COVID-19 pandemic. As part of the plan, management approved strategic business restructuring activities and decided to discontinue pursuing certain projects, principally lump-sum EPC and commoditized construction services. The restructuring plan is designed to refine our market focus, optimize costs, and improve operational efficiencies.

Total restructuring charges and asset impairments of approximately $214 million were recognized in “Restructuring charges and asset impairments” in our consolidated statements of operations, with restructuring charges comprised in part of severance and lease abandonment costs. Provided in the table below are the details of the restructuring charges and asset impairments as of December 31, 2020.

Dollars in millions	Severance	Lease Abandonment	Other	Total Restructuring Charges	Asset Impairments	Total Restructuring Charges & Asset Impairments
Government Solutions	$ 2	$ —	$ —	$ 2	$ —	$ 2
Energy Solutions	29	4	19	52	47	99
Other	1	54	1	56	49	105
Subtotal	32	58	20	110	96	206
Non-strategic Business	—	—	6	6	2	8
Total	$ 32	$ 58	$ 26	$ 116	$ 98	$ 214

Restructuring Charges

The restructuring activities relate to rationalization of real estate and overhead primarily in our ES and Other segments. Other segments are mainly attributable to corporate and other overhead expenses. Severance charges represent paid benefits that are owed in accordance with Company policy. Real estate lease abandonments were primarily associated with office facilities located in the U.S. and U.K and represent accrued estimated non-lease components and other operating expense associated with the fully abandoned office space. In estimating the fair value of the lease-related restructuring charges, we utilized a discounted cash flow model with Level 3 inputs, in which past history was used to estimate future operating costs, office space utilization, and inflation over the remaining non-cancellable term of the agreement.

Other charges were primarily associated with certain long-term engineering software agreements of approximately $19 million. The software-related restructuring charge represents the fair value of the future costs to be incurred under these agreements without economic benefit to our operations. Our estimate of the fair value of the software restructuring charge was based on a discounted cash flow model with Level 3 inputs including discount rates based on our incremental borrowing rate, management assumptions regarding the committed costs for the excess software capacity and the remaining non-cancellable term of the agreements. The remaining other restructuring charges were primarily associated with future losses expected to be incurred on a joint venture project in Latin America in our Non-strategic business segment.

The restructuring liability at December 31, 2020 was $91 million, of which $32 million is included in "Other current liabilities" and $59 million is included in "Other liabilities." A reconciliation of the beginning and ending restructuring liability balances is provided in the following table.

Dollars in millions	Severance	Lease Abandonment	Other	Total
Balance as of January 1, 2020	$ —	$ —	$ —	$ —
Restructuring charges accrued during the period	32	58	26	116
Lease restructuring charges related to operating lease liabilities	—	(4)	—	(4)
Cash payments / settlements during the period	(16)	(2)	(3)	(21)
Currency translation and other adjustments	(1)	—	1	—
Balance at December 31, 2020	$ 15	$ 52	$ 24	$ 91

Certain judgments and estimates are made regarding the amount and timing of restructuring charges. The estimated liability could change subsequent to its recognition, requiring adjustments to the expense and liability recorded. On a quarterly basis, the Company conducts an evaluation of the related liabilities and expenses and revises its assumptions and estimates as appropriate as new or updated information becomes available. Additional restructuring activities could be identified and approved as part of the plan. We expect the restructuring activities will be substantially completed in 2021. Software and lease related restructuring obligations will extinguish in 2023 and 2030, respectively.

Asset Impairments

As a result of the significant adverse economic and market conditions associated with the dislocation of the global energy market and COVID-19 pandemic and the resulting restructuring plans initiated, we performed interim impairment tests of our long-lived assets including goodwill, intangible assets and equity investments as well as leased right-of-use and related assets. See Note 9 "Goodwill, Goodwill Impairment, and Intangible Assets" for further discussion of goodwill impairment recognized in the first and second quarters of 2020.

*Leased office facilities and related asset*s. Management's restructuring plan included the rationalization of certain leased real estate primarily in the U.S. and U.K. As a result, we began evaluating excess office space apart from office space we will continue to utilize. We made decisions to market certain excess office space for sublease and the remaining excess office space was abandoned along with any related leasehold improvements, furniture and fixtures. The abandoned leased facilities and related assets will not provide any substantial future economic benefit and were impaired accordingly. We recognized lease right-of-use asset impairments of approximately $47 million and impairments of leasehold improvements, furniture and fixtures of approximately $14 million as a result of decisions to abandon excess office space. In determining these impairments, we utilized a discounted cash flow model with Level 3 inputs including discount rates based on our incremental borrowing rate, management assumptions based on sublease recoveries that were significantly below our cash outflows due to the prevailing sublease market rates, long lease-up periods due to the abundance of available office space due to work from home trends, and operating costs that consisted of utilities, maintenance and pass through property taxes.

Trade name intangibles. We recognized an impairment loss on indefinite-lived intangible assets of approximately $11 million associated with certain trade names acquired through previous business combinations. In connection with the energy market decline, management assessed the fair value of trade names utilized by certain operations within the ES business segment, concluded that they were substantially impaired and decided to cease use of those trade names. The trade names will provide no benefit to future periods and the carrying values of these intangibles were impaired and written off accordingly.

Equity method investments. We evaluated significant investments and recognized total impairment charges of approximately $24 million for the year ended December 31, 2020, of which $13 million related to equity method investment comprised of 15% interest in a Middle East joined venture project in our ES business segment that was impaired and that impairment was other than temporary. The fair value of this investment was determined using a blended income-based and market-based approach utilizing Level 2 fair value inputs including significant management assumptions such as projected commodity prices, operating margins, cash flows and weighted average cost of capital. See Note 22 “Fair Value of Financial Instruments and Risk Management” for definition of three levels of inputs used in measuring fair value. We recognized additional impairments totaling approximately $6 million related to several equity method investments associated with management's decision to discontinue pursuing certain projects within our ES business segment. In our Non-strategic business segment, we recognized an impairment of $2 million on the joint venture in Latin America related to the write-off of a shareholder loan to the joint venture.

The restructuring charges and impairment assessments based on fair value determinations described above incorporate inherent uncertainties, some of which are difficult to predict in volatile economic environments and could result in impairment charges in future periods if actual results materially differ from the estimated assumptions utilized in our forecasts.

Note 8. Property, Plant and Equipment

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

		December 31,	
Dollars in millions	Estimated Useful Lives in Years	2020	2019
Land	N/A	$ 5	$ 5
Buildings and property improvements	1-35	129	124
Equipment and other	1-25	415	387
Total		549	516
Less accumulated depreciation		(419)	(386)
Net property, plant and equipment		$ 130	$ 130

Depreciation expense was $36 million, $33 million, and $31 million for the years ended December 31, 2020, 2019, and 2018, respectively.

Note 9. Goodwill and Intangible Assets

Goodwill

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

Dollars in millions	Government Solutions	Technology Solutions	Energy Solutions	Total
Balance as of January 1, 2019	$ 977	$ 51	$ 237	$ 1,265
Foreign currency translation	1	(1)	—	—
Balance as of December 31, 2019	$ 978	$ 50	$ 237	$ 1,265
Goodwill acquired during the period (Note 4)	$ 589	$ —	$ —	$ 589
Impairment loss	—	—	(99)	(99)
Foreign currency translation	3	2	1	6
Balance as of December 31, 2020	$ 1,570	$ 52	$ 139	$ 1,761

Goodwill Impairment

In connection with our business reorganization and restructuring activities during the first quarter of 2020, we changed our internal management reporting structure, which resulted in changes to the underlying reporting units within our ES business segment. Additionally, given the significant adverse economic and market conditions associated with the dislocation of the global energy market and COVID-19 pandemic as well as the significant decline in the price of our common shares during the first quarter of 2020, we performed an interim impairment test of goodwill resulting in goodwill impairment of $62 million for the three months ended March 31, 2020. The goodwill impairment was associated with a reporting unit in our ES business segment.

As a result of the ongoing economic and market volatility as well as management's decision to discontinue pursuing certain projects within our ES business segment during the second quarter of 2020, we performed an interim impairment test of goodwill resulting in goodwill impairment of $37 million for the three months ended June 30, 2020. The goodwill impairment was associated with a reporting unit within our ES business segment. One reporting unit within our ES business segment had a negative carrying amount of net assets as of June 30, 2020 and goodwill of approximately $19 million.

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

Intangible Assets

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

Dollars in millions	December 31, 2020			
	Weighted Average Remaining Useful Lives	Intangible Assets, Gross	Accumulated Amortization	Intangible Assets, Net
Trademarks/trade names	Indefinite	$ 50	$ —	$ 50
Customer relationships	15	470	(100)	370
Developed technologies	19	75	(37)	38
Contract backlog	18	291	(76)	215
Other	13	25	(15)	10
Total intangible assets		$ 911	$ (228)	$ 683

	December 31, 2019			
	Weighted Average Remaining Useful Lives	Intangible Assets, Gross	Accumulated Amortization	Intangible Assets, Net
Trademarks/trade names	Indefinite	$ 61	$ —	$ 61
Customer relationships	16	271	(83)	188
Developed technologies	22	68	(36)	32
Contract backlog	19	255	(52)	203
Other	14	24	(13)	11
Total intangible assets		$ 679	$ (184)	$ 495

Intangibles that are not subject to amortization are reviewed annually for impairment or more often if events or circumstances change that would create a triggering event. In connection with the energy market decline, we impaired certain of our trade name indefinite-lived intangibles acquired through previous business combinations. See Note 7 "Restructuring Charges and Asset Impairments" for further discussion. Intangibles subject to amortization are impaired if the carrying value of the intangible is not recoverable and exceeds its fair value.

Our intangibles amortization expense is presented below:

	Years ended December 31,		
Dollars in millions	2020	2019	2018
Intangibles amortization expense	$ 42	$ 33	$ 32

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

Dollars in millions	Expected future intangibles amortization expense
2021	$ 63
2022	$ 37
2023	$ 37
2024	$ 37
2025	$ 37
Beyond 2025	$ 422

Note 10. Equity Method Investments and Variable Interest Entities

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

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

Dollars in millions	2020	2019
Beginning balance at January 1,	$ 846	$ 724
Cumulative effect of change in accounting policy (a)	—	25
Adjusted balance at January 1,	846	749
Equity in earnings of unconsolidated affiliates	30	35
Distributions of earnings of unconsolidated affiliates	(38)	(69)
Advances to (payments from) unconsolidated affiliates, net	(15)	(10)
Investments (b)	26	146
Impairment of equity method investments (c)	(19)	—
Foreign currency translation adjustments	50	(7)
Other	1	2
Balance at December 31,	$ 881	$ 846

(a) At January 1, 2019, we recognized a cumulative effect adjustment of $25 million as a result of the adoption of ASC 606 by our unconsolidated project joint ventures. See Note 1 "Significant Accounting Policies" for further discussion.

(b) Investments include $24 million and $141 million in funding contributions to JKC for the years ended December 31, 2020 and 2019, respectively.

(c) During the year ended December 31, 2020, we recognized an impairment of $13 million associated with our investment in a joint venture project located in the Middle East and a $6 million impairment related to other equity method investments. See Note 7 "Restructuring Charges and Asset Impairments" for further discussion.

Equity Method Investments

Brown & Root Industrial Services Joint Venture. On September 30, 2015, we executed an agreement with Bernhard Capital Partners ("BCP"), a private equity firm, to establish the Brown & Root Industrial Services joint venture in North America. In connection with the formation of the joint venture, we contributed our Industrial Services Americas business and received cash consideration of $48 million and a 50% interest in the joint venture. As a result of the transaction, we no longer had a controlling interest in this Industrial Services business and deconsolidated it effective September 30, 2015. The Brown & Root Industrial Services joint venture offers engineering, construction and reliability-driven maintenance services for the refinery, petrochemical, chemical, specialty chemicals and fertilizer markets. Our interest in this venture is accounted for using the equity method and we have determined that the Brown & Root Industrial Services joint venture is not a VIE. Results from this joint venture are included in our ES business segment.

Summarized financial information

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

Balance Sheet

	December 31,	
Dollars in millions	2020	2019
Current assets	$ 3,216	$ 3,072
Noncurrent assets	3,227	3,219
Total assets	$ 6,443	$ 6,291
Current liabilities	$ 1,018	$ 949
Noncurrent liabilities	2,831	2,922
Total liabilities	$ 3,849	$ 3,871

Statements of Operations

	Years ended December 31,		
Dollars in millions	2020	2019	2018
Revenues	$ 2,032	$ 2,592	$ 3,190
Operating income	$ 54	$ 92	$ 197
Net income	$ 28	$ 48	$ 173

Unconsolidated Variable Interest Entities

For the VIEs in which we participate, our maximum exposure to loss consists of our equity investment in the VIE and any amounts owed to us for services we may have provided to the VIE, reduced by any unearned revenues on the project. Our maximum exposure to loss may also include our obligation to fund our proportionate share of any future losses incurred. Where our performance and financial obligations are joint and several to the client with our joint venture partners, we may be further exposed to losses above our ownership interest in the joint venture.

The following summarizes the total assets and total liabilities as reflected in our consolidated balance sheets related to our significant unconsolidated VIEs in which we have a significant variable interest but are not the primary beneficiary.

	December 31, 2020	
Dollars in millions	Total Assets	Total Liabilities
Affinity joint venture (U.K. MFTS project)	$ 11	$ 9
Aspire Defence Limited	$ 68	$ 5
JKC joint venture (Ichthys LNG project)	$ 606	$ 44
U.K. Road project joint ventures	$ 59	$ —
Middle East Petroleum Corporation (EBIC Ammonia project)	$ 31	$ 1

	December 31, 2019	
Dollars in millions	Total Assets	Total Liabilities
Affinity joint venture (U.K. MFTS project)	$ 14	$ 10
Aspire Defence Limited	$ 67	$ 5
JKC joint venture (Ichthys LNG project)	$ 546	$ 29
U.K. Road project joint ventures	$ 40	$ 21
Middle East Petroleum Corporation (EBIC Ammonia project)	$ 47	$ 1

Affinity. In February 2016, Affinity, a joint venture between KBR and Elbit Systems, was awarded a service contract by a third party to procure, operate and maintain aircraft and aircraft-related assets over an 18-year contract period, in support of the UKMFTS project. The contract has been determined to contain a leasing arrangement and various other services between the joint venture and the customer. KBR owns a 50% interest in Affinity. In addition, KBR owns a 50% interest in the two joint ventures, Affinity Capital Works and Affinity Flying Services, which provide procurement, operations and management support services under subcontracts with Affinity. The remaining 50% interest in these entities is held by Elbit Systems. KBR has provided its proportionate share of certain limited financial and performance guarantees in support of the partners' contractual obligations. The three project-related entities are VIEs; however, KBR is not the primary beneficiary of any of these entities. We account for KBR's interests in each entity using the equity method of accounting within our GS business segment. The project is funded through KBR and Elbit Systems provided equity, subordinated debt and non-recourse third party commercial bank debt. Our maximum exposure to loss includes our equity investments in the project entities as of December 31, 2020.

Aspire Defence project. In April 2006, Aspire Defence Limited, a joint venture between KBR and two other project sponsors, was awarded a privately financed project contract by the U.K. MoD to upgrade and provide a range of services to the British Army's garrisons at Aldershot and around Salisbury Plain in the U.K. In addition to a package of ongoing services to be delivered over 35 years, the project included a nine-year construction program to improve soldiers' single living, technical and administrative accommodations, along with leisure and recreational facilities. The initial construction program was completed in 2014. In late 2016, Aspire Defence Limited was awarded a significant contract variation, expanding services to be provided under the existing contract including new construction, program management services and facilities maintenance across the garrisons. Aspire Defence Limited manages the existing properties and is responsible for design, refurbishment, construction and integration of new and modernized facilities. We indirectly own a 45% interest in Aspire Defence Limited, the contracting company that is the holder of the 35-year concession contract. The project is funded through equity and subordinated debt provided by the project sponsors and the issuance of publicly-held senior bonds which are nonrecourse to KBR and the other project sponsors. The contracting company is a VIE; however, we are not the primary beneficiary of this entity as of December 31, 2018. We account for our interest in Aspire Defence Limited using the equity method of accounting. As of December 31, 2020, included in our GS segment, our assets and liabilities associated with our investment in this project, within our consolidated balance sheets, were $68 million and $5 million, respectively. Our maximum exposure to loss includes our equity investments in the project entities and amounts payable to us for services provided to these entities as of December 31, 2020.

Prior to January 15, 2018, we also owned a 50% interest in the joint ventures that provide the construction and the related support services under subcontract arrangements with Aspire Defence Limited. On January 15, 2018, Carillion plc, our U.K. partner in these joint ventures, entered into compulsory liquidation. As a result, KBR began consolidating the subcontracting entities in its financial statements effective January 15, 2018. See Note 4 to our consolidated financial statements for further discussion.

Ichthys LNG project. In January 2012, we formed a joint venture to provide EPC services to construct the Ichthys Onshore LNG Export Facility in Darwin, Australia ("Ichthys LNG project"). The project is being executed through two entities (collectively, "JKC"), which are VIEs, in which we own a 30% equity interest. We account for our investments using the equity method of accounting. At December 31, 2020, our assets and liabilities associated with our investment in JKC recorded in our consolidated balance sheets under our ES business segment were $606 million and $44 million, respectively. These assets include expected cost recoveries from unapproved change orders and claims against the client as well as estimated recoveries of claims against suppliers and subcontractors arising from issues related to changes to the work scope, delays and lower than planned subcontractor activity. See Note 6 to our consolidated financial statements for further discussion on the significant contingencies as well as unapproved change orders and claims related to this project.

U.K. Road projects. We are involved in four privately financed projects, executed through joint ventures, to design, build, operate and maintain roadways for certain government agencies in the U.K. We have a 25% ownership interest in each of these joint ventures and account for them using the equity method of accounting. The joint ventures have obtained financing through third parties that is nonrecourse to the joint venture partners. These joint ventures are VIEs; however, we are not the primary beneficiary. At December 31, 2020, included in our GS business segment, our assets and liabilities associated with our investment in this project recorded in our consolidated balance sheets were $59 million and none, respectively. Our maximum exposure to loss includes our equity investments in these ventures.

EBIC Ammonia project. We have an investment in a development corporation that has an indirect interest in the Egypt Basic Industries Corporation ("EBIC") ammonia plant project located in Egypt. We performed the EPC work for the project and completed our operations and maintenance services for the facility in the first half of 2012. We own 65% of this development corporation and consolidate it for financial reporting purposes. The development corporation owns a 25% ownership interest in a company that consolidates the ammonia plant which is considered a VIE. The development corporation accounts for its investment in the company using the equity method of accounting. The VIE is funded through debt and equity. Indebtedness of EBIC under its debt agreement is nonrecourse to us. We are not the primary beneficiary of the VIE. As of December 31, 2020, included in our ES business segment, our assets and liabilities associated with our investment in this project, within our consolidated balance sheets, were $31 million and $1 million, respectively. Our maximum exposure to loss includes our proportionate share of the equity investment and amounts payable to us for services provided to the entity as of December 31, 2020. See Note 7 "Restructuring Charges and Asset Impairments" for further discussion on impairment charge recognized during the year ended December 31, 2020.

Related Party Transactions

We often provide engineering, construction management and other subcontractor services to our joint ventures and our revenues include amounts related to these services. For the years ended December 31, 2020, 2019 and 2018, our revenues included $511 million, $684 million and $721 million, respectively, related to services we provided to our joint ventures, primarily the Aspire Defence Limited joint venture within our GS business segment.

Amounts included in our consolidated balance sheets related to services we provided to our unconsolidated joint ventures for the years ended December 31, 2020 and 2019 are as follows:

	December 31,	
Dollars in millions	2020	2019
Accounts receivable, net of allowance for doubtful accounts	$ 83	$ 74
Contract assets (a)	$ 2	$ 2
Contract liabilities (a)	$ 53	$ 33

(a) Reflects contract assets and contract liabilities primarily related to joint ventures within our ES business segment.

Consolidated Variable Interest Entities

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

	December 31, 2020	
Dollars in millions	Total Assets	Total Liabilities
KJV-G joint venture (Gorgon LNG project)	$ —	$ —
Fasttrax Limited (Fasttrax project)	$ 45	$ 18
Aspire Defence subcontracting entities (Aspire Defence project)	$ 448	$ 205

	December 31, 2019	
Dollars in millions	Total Assets	Total Liabilities
KJV-G joint venture (Gorgon LNG project)	$ —	$ 17
Fasttrax Limited (Fasttrax project)	$ 45	$ 24
Aspire Defence subcontracting entities (Aspire Defence project)	$ 530	$ 283

Gorgon LNG project. We have a 30% ownership in an Australian joint venture which was awarded a contract in 2005 for front end engineering design and in 2009 for EPC management services to construct an LNG plant. The joint venture is considered a VIE, and, because we are the primary beneficiary, we consolidate this joint venture for financial reporting purposes. We determined that we are the primary beneficiary of this project entity because we control the activities that most significantly impact economic performance of the entity. The Gorgon LNG project execution activities were completed and only commercial closeout activities remained as of December 31, 2019.

Fasttrax Limited project. In December 2001, the Fasttrax joint venture ("Fasttrax") was created to provide to the U.K. MoD a fleet of 91 new HETs capable of carrying a 72-ton Challenger II tank. Fasttrax owns, operates and maintains the HET fleet and provides heavy equipment transportation services to the British Army. The purchase of the assets was completed in

2004, and the operating and service contracts related to the assets extend through 2023. Fasttrax's entity structure includes a parent entity and its 100% owned subsidiary, Fasttrax Limited. KBR and its partner each own a 50% interest in the parent entity, which is considered a VIE. We determined that we are the primary beneficiary of this project entity because we control the activities that most significantly impact economic performance of the entity. Therefore, we consolidate this VIE.

The purchase of the HETs by the joint venture was financed through two series of bonds secured by the assets of Fasttrax Limited and a bridge loan. Assets collateralizing Fasttrax's senior bonds include cash and equivalents of $23 million and net property, plant and equipment of approximately $18 million as of December 31, 2020. See Note 12 to our consolidated financial statements for further details regarding our nonrecourse project-finance debt of this VIE consolidated by KBR, including the total amount of debt outstanding at December 31, 2020.

Aspire Defence project (subcontracting entities). As discussed above, we assumed operational management of the Aspire Defence subcontracting entities in January 2018. These subcontracting entities exclusively provide the construction and the related support services under subcontract arrangements with Aspire Defence Limited. These entities are considered VIEs, and, because we are the primary beneficiary, they are consolidated for financial reporting purposes.

Acquisition of Noncontrolling Interest

In April 2018, we entered into an agreement to acquire the noncontrolling interests in the Aspire Defence subcontracting entities from our partner.

Note 11. Retirement Benefits

Defined Contribution Retirement Plans

We have elective defined contribution plans for our employees in the U.S. and retirement savings plans for our employees in the U.K., Canada and other locations. Our defined contribution plans provide retirement benefits in return for services rendered. These plans provide an individual account for each participant and have terms that specify how contributions to the participant's account are to be determined rather than the amount of retirement benefits the participant is to receive. Contributions to these plans are based on pretax income discretionary amounts determined on an annual basis. Our expense for the defined contribution plans totaled $83 million in 2020, $63 million in 2019 and $56 million in 2018.

Defined Benefit Pension Plans

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

We used a December 31 measurement date for all plans in 2020 and 2019. Plan assets, expenses and obligations for our defined benefit pension plans are presented in the following tables.

Dollars in millions	United States 2020	Int'l 2020	United States 2019	Int'l 2019
Change in projected benefit obligations:				
Projected benefit obligations at beginning of period	$ 76	$ 1,988	$ 71	$ 1,751
Service cost	—	2	—	2
Interest cost	2	39	3	50
Foreign currency exchange rate changes	—	75	—	46
Actuarial (gain) loss	6	287	7	214
Other	—	(1)	—	(1)
Benefits paid	(4)	(64)	(5)	(74)
Projected benefit obligations at end of period	$ 80	$ 2,326	$ 76	$ 1,988
Change in plan assets:				
Fair value of plan assets at beginning of period	$ 60	$ 1,727	$ 54	$ 1,518
Actual return on plan assets	7	189	10	200
Employer contributions	2	44	2	43
Foreign currency exchange rate changes	—	66	—	41
Benefits paid	(4)	(64)	(5)	(74)
Other	(1)	(1)	(1)	(1)
Fair value of plan assets at end of period	$ 64	$ 1,961	$ 60	$ 1,727
Funded status	$ (16)	$ (365)	$ (16)	$ (261)

The Accumulated Benefit Obligation ("ABO") is the present value of benefits earned to date. The ABO for our United States pension plans was $80 million and $76 million as of December 31, 2020 and 2019, respectively. The ABO for our international pension plans was $2.3 billion and $2.0 billion as of December 31, 2020 and 2019, respectively.

Dollars in millions	United States 2020	Int'l 2020	United States 2019	Int'l 2019
Amounts recognized on the consolidated balance sheets				
Pension obligations	$ (16)	$ (365)	$ (16)	$ (261)

Net periodic pension cost for our defined benefit plans included the following components:

Dollars in millions	United States 2020	Int'l 2020	United States 2019	Int'l 2019	United States 2018	Int'l 2018
Components of net periodic benefit cost						
Service cost	$ —	$ 2	$ —	$ 2	$ —	$ 2
Interest cost	2	39	3	50	2	50
Expected return on plan assets	(3)	(59)	(3)	(77)	(3)	(80)
Prior service cost amortization	—	1	—	1	—	—
Recognized actuarial loss	2	22	2	16	2	26
Net periodic benefit cost	$ 1	$ 5	$ 2	$ (8)	$ 1	$ (2)

The amounts in accumulated other comprehensive loss that have not yet been recognized as components of net periodic benefit cost at December 31, 2020 and 2019, net of tax were as follows:

Dollars in millions	United States 2020	Int'l 2020	United States 2019	Int'l 2019
Unrecognized actuarial loss, net of tax of $10 and $240, $9 and $215, respectively	$ 24	$ 740	$ 22	$ 632
Total in accumulated other comprehensive loss	$ 24	$ 740	$ 22	$ 632

Estimated amounts that will be amortized from accumulated other comprehensive income, net of tax, into net periodic benefit cost in 2021 are as follows:

Dollars in millions	United States	Int'l
Actuarial loss	$ 2	$ 25
Total	$ 2	$ 25

Weighted-average assumptions used to determine net periodic benefit cost

	United States 2020	Int'l 2020	United States 2019	Int'l 2019	United States 2018	Int'l 2018
Discount rate	2.89 %	2.05 %	3.98 %	2.90 %	3.33 %	2.50 %
Expected return on plan assets	5.72 %	3.70 %	6.09 %	5.09 %	6.01 %	5.20 %

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

	United States 2020	Int'l 2020	United States 2019	Int'l 2019
Discount rate	2.00 %	1.40 %	2.89 %	2.05 %

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

The target asset allocation for our U.S. and International plans for 2021 is as follows:

Asset Allocation	2021 Targeted United States	2021 Targeted Int'l
Equity funds and securities	51 %	23 %
Fixed income funds and securities	39 %	55 %
Hedge funds	— %	5 %
Real estate funds	1 %	4 %
Other	9 %	13 %
Total	100 %	100 %

The range of targeted asset allocations for our International plans for 2021 and 2020, by asset class, are as follows:

International Plans	2021 Targeted Percentage Range		2020 Targeted Percentage Range	
	Minimum	Maximum	Minimum	Maximum
Equity funds and securities	1 %	50 %	1 %	50 %
Fixed income funds and securities	35 %	100 %	35 %	100 %
Hedge funds	— %	7 %	— %	22 %
Real estate funds	— %	10 %	— %	20 %
Other	— %	34 %	— %	42 %

The range of targeted asset allocations for our U.S. plans for 2021 and 2020, by asset class, are as follows:

Domestic Plans	2021 Targeted Percentage Range		2020 Targeted Percentage Range	
	Minimum	Maximum	Minimum	Maximum
Equity funds and securities	41 %	62 %	41 %	68 %
Fixed income funds and securities	31 %	47 %	31 %	47 %
Real estate funds	1 %	1 %	1 %	1 %
Other	7 %	10 %	7 %	10 %

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

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

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

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

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

	Fair Value Measurements at Reporting Date			
Dollars in millions	Total	Level 1	Level 2	Level 3
Asset Category at December 31, 2020				
United States plan assets				
Investments measured at net asset value (a)	$ 62	$ —	$ —	$ —
Cash and equivalents	2	2	—	—
Total United States plan assets	$ 64	$ 2	$ —	$ —
International plan assets				
Equities	$ 108	$ —	$ —	$ 108
Fixed income	1	—	—	1
Real estate	2	—	—	2
Cash and cash equivalents	4	4	—	—
Other	40	—	—	40
Investments measured at net asset value (a)	1,806	—	—	—
Total international plan assets	$ 1,961	$ 4	$ —	$ 151
Total plan assets at December 31, 2020	$ 2,025	$ 6	$ —	$ 151

	Fair Value Measurements at Reporting Date			
Dollars in millions	Total	Level 1	Level 2	Level 3
Asset Category at December 31, 2019				
United States plan assets				
Investments measured at net asset value (a)	$ 59	$ —	$ —	$ —
Cash and equivalents	$ 1	$ 1	$ —	$ —
Total United States plan assets	$ 60	$ 1	$ —	$ —
International plan assets				
Equities	$ 103	$ —	$ —	$ 103
Fixed income	1	—	—	1
Real estate	2	—	—	2
Cash and cash equivalents	2	2	—	—
Other	87	44	—	43
Investments measured at net asset value (a)	1,532	—	—	—
Total international plan assets	$ 1,727	$ 46	$ —	$ 149
Total plan assets at December 31, 2019	$ 1,787	$ 47	$ —	$ 149

(a) Certain investments that are measured at fair value using the net asset value per share (or its equivalent) practical expedient have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the consolidated balance sheet.

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

Dollars in millions	Total	Equities	Fixed Income	Real Estate	Other
International plan assets					
Balance as of December 31, 2018	$ 126	$ 84	$ 2	$ 1	$ 39
Return on assets held at end of year	8	10	—	—	(2)
Return on assets sold during the year	1	—	—	1	—
Purchases, sales and settlements	11	7	(1)	—	5
Foreign exchange impact	3	2	—	—	1
Balance as of December 31, 2019	$ 149	$ 103	$ 1	$ 2	$ 43
Return on assets held at end of year	2	1	—	—	1
Return on assets sold during the year	2	—	—	—	2
Purchases, sales and settlements, net	(6)	—	—	—	(6)
Foreign exchange impact	4	4	—	—	—
Balance as of December 31, 2020	$ 151	$ 108	$ 1	$ 2	$ 40

Contributions. Funding requirements for each plan are determined based on the local laws of the country where such plans reside. In certain countries the funding requirements are mandatory while in other countries they are discretionary. We expect to contribute $48 million to our pension plans in 2021.

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

	Pension Benefits	
Dollars in millions	United States	Int'l
2021	$ 5	$ 60
2022	$ 5	$ 61
2023	$ 5	$ 62
2024	$ 5	$ 64
2025	$ 5	$ 65
Years 2026 - 2030	$ 24	$ 348

Multiemployer Pension Plans

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

Our aggregate contributions to these plans were immaterial in 2020 and 2019, and 2018. At December 31, 2020, none of the plans in which we participate is individually significant to our consolidated financial statements.

Deferred Compensation Plans

Our Elective Deferral Plan is a nonqualified deferred compensation program that provides benefits payable to officers, certain key employees or their designated beneficiaries and non-employee directors at specified future dates, upon retirement, or death. The elective deferral plan is unfunded except for $11 million and $10 million of mutual funds designated for a portion of our employee deferral plan included in "Other assets" on our consolidated balance sheets at December 31, 2020 and 2019, respectively. The mutual funds are measured at fair value using Level 1 inputs under ASC 820 and may be liquidated in the near term without restrictions. Our obligations under our employee deferred compensation plan were $64 million and $65 million as of December 31, 2020 and 2019, respectively, and are included in "Employee compensation and benefits" in our consolidated balance sheets.

Note 12. Debt and Other Credit Facilities

Our outstanding debt consisted of the following at the dates indicated:

Dollars in millions	December 31, 2020	December 31, 2019
Term Loan A	285	176
Term Loan B	516	756
Convertible Senior Notes	350	350
Senior Notes	250	—
Senior Credit Facility	260	—
Unamortized debt issuance costs - Term Loan A	(4)	(4)
Unamortized debt issuance costs and discount - Term Loan B	(16)	(15)
Unamortized debt issuance costs and discount - Convertible Notes	(40)	(53)
Unamortized debt issuance costs and discount - Senior Notes	(5)	—
Total long-term debt	1,596	1,210
Less: current portion	12	27
Total long-term debt, net of current portion	$ 1,584	$ 1,183

Senior Credit Facility

On February 7, 2020, we amended our Senior Credit Facility to, among other things, reduce the applicable margins and commitment fees associated with the various borrowings under the facility. Simultaneous with the amendment, we used proceeds from the new facility and cash on hand to refinance our outstanding borrowings resulting in an amended senior secured credit facility ("Senior Credit Facility") that consisted of a $500 million revolving credit facility ("Revolver"), a $500 million PLOC, a $275 million Loan A, ("Term Loan A") of which a portion is denominated in Australian dollars, and a $520 million Term Loan B ("Term Loan B"). In addition, the amendment extended the maturity dates with respect to the Revolver, PLOC and the Term Loan A to February 2025 and Term Loan B to February 2027, and amended certain other provisions including the financial covenants.

On July 2, 2020, we amended our Senior Credit Facility to convert the $500 million capacity formerly available under our PLOC to our Revolver, increasing our Revolver capacity from $500 million to $1 billion. On September 14, 2020, we further amended our Senior Credit Facility to modify the definition and calculation of Consolidated EBITDA (as defined therein) to permit pro forma cost reductions resulting from certain corporate transactions. The aggregate capacity under our Senior Credit Facility remained $1.795 billion and all other terms and conditions remain unchanged.

The interest rates with respect to the Revolver and Term Loan A are based on, at the Company's option, adjusted LIBOR plus an additional margin or base rate plus additional margin. The interest rate with respect to the Term Loan B is LIBOR plus 2.75%. Additionally, there is a commitment fee with respect to the Revolver.

The details of the applicable margins and commitment fees under the amended Senior Credit Facility are based on the Company's consolidated leverage ratio as follows:

	Revolver and Term Loan A		
Consolidated Leverage Ratio	LIBOR Margin	Base Rate Margin	Commitment Fee
Greater than or equal to 3.25 to 1.00	2.25 %	1.25 %	0.35 %
Less than 3.25 to 1.00 but greater than or equal to 2.25 to 1.00	2.00 %	1.00 %	0.30 %
Less than 2.25 to 1.00 but greater than or equal to 1.25 to 1.00	1.75 %	0.75 %	0.25 %
Less than 1.25 to 1.00	1.50 %	0.50 %	0.20 %

The Term Loan A provides for quarterly principal payments of 0.625% of the aggregate principal amount commencing with the fiscal quarter ending June 30, 2020, increasing to 1.25% starting with the quarter ending June 30, 2022. The Term Loan B provides for quarterly principal payments of 0.25% of the initial aggregate principal amounts commencing with the fiscal quarter ending June 30, 2020.

The Senior Credit Facility contains financial covenants of a maximum consolidated leverage ratio and a consolidated interest coverage ratio (as such terms are defined in the Senior Credit Facility). Our consolidated leverage ratio as of the last day of any fiscal quarter may not exceed 4.25 to 1 through 2021, reducing to 4.00 to 1 in 2022 and 3.75 to 1 in 2023. Our consolidated interest coverage ratio as of the last day of any fiscal quarter, which covenant commenced with the fiscal quarter ending June 30, 2020 and thereafter, may not be less than 3.00 to 1. As of December 31, 2020, we were in compliance with our financial covenants related to our debt agreements.

Convertible Senior Notes

Convertible Senior Notes. On November 15, 2018, we issued and sold $350 million of 2.50% Convertible Senior Notes due 2023 (the "Convertible Notes") pursuant to an indenture between us and Citibank, N.A., as trustee. The Convertible Notes are senior unsecured obligations and bear interest at 2.50% per year, and interest is payable on May 1 and November 1 of each year. The Convertible Notes mature on November 1, 2023 and may not be redeemed by us prior to maturity.

The Convertible Notes are convertible into cash, shares of our common stock or a combination of cash and shares of our common stock, at our election. It is our current intent and policy to settle the principal balance of the Convertible Notes in cash and any excess value upon conversion in shares of our common stock. The initial conversion price of the Convertible Notes is approximately $25.51 (subject to adjustment in certain circumstances), based on the initial conversion rate of 39.1961 Common Shares per $1,000 principal amount of Convertible Notes. Prior to May 1, 2023, the Convertible Notes will be convertible only upon the occurrence of certain events and during certain periods, and thereafter, until the close of business on the second scheduled trading day immediately preceding the maturity date. During 2020, we declared a quarterly cash dividend of $0.10 per Common Share, which exceeded our per share dividend threshold and adjusted the conversion rate to 39.3360 at a strike price of $25.42 as of December 31, 2020. The impact of dilution on our earnings per share from Convertible Notes is measured using the "treasury stock method". As of December 31, 2020, the "if-converted" value of the Convertible Notes exceeded the $350 million principal amount by approximately $76 million.

Accounting standards require that convertible debt which may be settled in cash upon conversion (including partial cash settlement) be accounted for with a liability component based on the fair value of similar nonconvertible debt and an equity component based on the excess of the initial proceeds from the convertible debt over the liability component. The difference between the principal amount of the notes and the carrying amount represents a debt discount, which is amortized as additional non-cash interest expense over the term of the Convertible Notes. The equity component represents proceeds related to the conversion option and is recorded as additional paid-in capital. The equity component is determined at issuance and is not remeasured as long as it continues to meet the conditions for equity classification. The net carrying value of the equity component related to the Convertible Notes was $57 million as of December 31, 2020 and 2019.

The amount of interest cost recognized relating to the contractual interest coupon was $9 million for the years ended December 31, 2020 and 2019, and $1 million for the year ended December 31, 2018. The amortization of the discount and debt issuance costs was $13 million, $12 million, and $1 million for the years ended December 31, 2020, 2019 and 2018, respectively. The effective interest rate on the liability component was 6.50% for the years ended December 31, 2020 and 2019.

Convertible Notes Call Spread Overlay. Concurrent with the issuance of the Convertible Notes, we entered into privately negotiated convertible note hedge transactions (the "Note Hedge Transactions") and warrant transactions (the "Warrant Transactions") with the option counterparties. These transactions represent a Call Spread Overlay, whereby the cost of the Note Hedge Transactions we purchased to cover the cash outlay upon conversion of the Convertible Notes was reduced by the sales price of the Warrant Transactions. Each of these transactions is described below.

The Note Hedge Transactions cost an aggregate $62 million and are expected generally to reduce the potential dilution of common stock and/or offset the cash payments we are required to make in excess of the principal amount upon conversion of the Convertible Notes in the event that the market price of our common stock is greater than the strike price of the Note Hedge Transactions, which was initially $25.51 (subject to adjustment), corresponding approximately to the initial conversion price of the Convertible Notes. The Note Hedge Transactions were accounted for by recording the cost as a reduction to "Additional paid-in capital" based on the Note Hedge meeting certain scope exceptions provided under ASC Topic 815.

We received proceeds of $22 million for the Warrant Transactions, in which we sold net-share-settled warrants to the option counterparties in an amount equal to the number of shares of our common stock initially underlying the Convertible Notes, subject to customary anti-dilution adjustments. The original strike price of the warrants is $40.02 per share (subject to adjustment), which is 29% above the last reported sale price of our common stock on the New York Stock Exchange on December 31, 2020. The Warrant Transactions could have a dilutive effect to our stockholders to the extent the market price per share of our common stock, as measured under the terms of the Warrant Transactions, exceeds the applicable strike price of the warrants. The Warrant Transactions have been accounted for by recording the proceeds received as "Additional paid-in capital".

The Note Hedge Transactions and the Warrant Transactions are separate transactions, in each case entered into by us with the option counterparties, and are not part of the terms of the Convertible Notes and will not affect any holder's rights under the Convertible Notes.

Senior Notes

On September 30, 2020, we issued and sold $250 million aggregate principal amount of 4.750% Senior Notes due 2028 pursuant to an indenture among us, the guarantors party thereto and Citibank, N.A., as trustee. The Senior Notes are senior unsecured obligations and are fully and unconditionally guaranteed by each of our existing and future domestic subsidiaries that guarantee our obligations under the Senior Credit Facility and certain other indebtedness. The net proceeds from the offering was approximately $245 million, after deducting fees and offering expenses and were used to finance a portion of the purchase price for the acquisition of Centauri and pay related fees and expenses. Interest is payable semi-annually in arrears on March 30 and September 30 of each year, beginning on March 30, 2021, and the principal is due on September 30, 2028.

At any time prior to September 30, 2023, we may redeem all or part of the Senior Notes at a redemption price equal to 100% of the principal amount of the Senior Notes redeemed, plus accrued and unpaid interest, if any, to (but not including) the redemption date, plus a specified “make-whole premium.” On or after September 30, 2023 we may redeem all or part of the Senior Notes at our option, at the redemption prices set forth in the Senior Notes, plus accrued and unpaid interest, if any, to (but not including) the redemption date. At any time prior to September 30, 2023, we may redeem up to 35% of the original aggregate principal amount of the Senior Notes with the net cash proceeds of certain equity offerings at a redemption price equal to 104.750% of the principal amount of the Senior Notes, together with accrued and unpaid interest, if any, to (but not including) the redemption date. If we undergo a change of control, we may be required to make an offer to holders of the Senior Notes to repurchase all of the Senior Notes at a purchase price equal to 101% of the principal amount thereof, plus accrued and unpaid interest.

Letters of credit, surety bonds and guarantees

In connection with certain projects, we are required to provide letters of credit, surety bonds or guarantees to our customers in the ordinary course of business as credit support for contractual performance guarantees, advanced payments received from customers and future funding commitments. As of December 31, 2020, we had $1 billion in a committed line of credit under our Senior Credit Facility and $415 million of uncommitted lines of credit to support the issuance of letters of credit. As of December 31, 2020, with respect to our Senior Credit Facility, we had $260 million outstanding borrowings to fund the acquisition of Centauri and $103 million of outstanding letters of credit. With respect to our $415 million of uncommitted lines of credit, we utilized $213 million for letters of credit as of December 31, 2020. The total remaining capacity of these committed and uncommitted lines of credit was approximately $839 million. Of the letters of credit outstanding under our Senior Credit Facility, none have expiry dates beyond the maturity date of the Senior Credit Facility. Of the letters of credit outstanding, $167 million relate to our joint venture operations where the letters of credit are posted using our capacity to support our pro-rata share of obligations under various contracts executed by joint ventures of which we are a member.

We may also guarantee that a project, once completed, will achieve specified performance standards. If the project subsequently fails to meet guaranteed performance standards, we may incur additional costs, pay liquidated damages or be held responsible for the costs incurred by the client to achieve the required performance standards. The potential amount of future payments that we could be required to make under an outstanding performance arrangement is typically the remaining estimated cost of work to be performed by or on behalf of third parties. Amounts that may be required to be paid in excess of the estimated costs to complete contracts in progress are not estimable. For cost reimbursable contract, amounts that may become payable pursuant to guarantee provisions are normally recoverable from the client for work performed under the contract. For lump-sum or fixed-price contracts, the performance guarantee amount is the cost to complete the contracted work, less amounts remaining to be billed to the client under the contract. Remaining billable amounts could be greater or less than the cost to complete the project. If costs exceed the remaining amounts payable under the contract, we may have recourse to third parties, such as owners, subcontractors or vendors for claims.

In our joint venture arrangements, the liability of each partner is usually joint and several. This means that each joint venture partner may become liable for the entire risk of performance guarantees provided by each partner to the customer. Typically, each joint venture partner indemnifies the other partners for any liabilities incurred in excess of the liabilities the other party is obligated to bear under the respective joint venture agreement. We are unable to estimate the maximum potential amount of future payments that we could be required to make under outstanding performance guarantees related to joint venture projects due to a number of factors, including but not limited to, the nature and extent of any contractual defaults by our joint venture partners, resource availability, potential performance delays caused by the defaults, the location of the projects, and the terms of the related contracts.

Nonrecourse Project Debt

Fasttrax Limited, a consolidated joint venture in which we indirectly own a 50% equity interest with an unrelated partner, was awarded a concession contract in 2001 with the U.K. MoD to provide a Heavy Equipment Transporter Service to the British Army. Fasttrax Limited operates and maintains 91 heavy equipment transporters HETs for a term of 22 years. The purchase of the HETs by the joint venture was financed through two series of bonds secured by the assets of Fasttrax Limited and subordinated debt from the joint venture partners. The secured bonds are an obligation of Fasttrax Limited and are not a debt obligation of KBR as they are nonrecourse to the joint venture partners. Accordingly, in the event of a default on the notes, the lenders may only look to the assets of Fasttrax Limited for repayment.

The secured bonds were issued in two classes consisting of Class A 3.5% Index Linked Bonds in the amount of £56 million and Class B 5.9% Fixed Rate Bonds in the amount of £20.7 million. Semi-annual payments on both classes of bonds will continue through maturity in 2021. The subordinated notes payable to each of the partners initially bear interest at 11.25% increasing to 16.00% over the term of the notes until maturity in 2025. For financial reporting purposes, only our partner's portion of the subordinated notes appears in the consolidated financial statements.

The following table summarizes the combined principal installments for both classes of bonds and subordinated notes, including inflation adjusted bond indexation over the next five years and beyond as of December 31, 2020:

Dollars in millions	Payments Due
2021	$ 5
2022	$ 1
2023	$ 1
2024	$ —
2025	$ —
Beyond 2025	$ —

Note 13. Income Taxes

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

Dollars in millions	Years ended December 31, 2020	2019	2018
United States	$ (208)	$ 2	$ 44
Foreign:			
United Kingdom	76	105	203
Australia	37	15	7
Canada	(2)	3	(2)
Middle East	69	87	61
Africa	4	5	13
Other	(1)	51	70
Subtotal	183	266	352
Total	$ (25)	$ 268	$ 396

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

Dollars in millions	Years ended December 31, 2020	2019	2018
(Provision) benefit for income taxes	$ (26)	$ (59)	$ (86)
Shareholders' equity, foreign currency translation adjustment	1	1	(2)
Shareholders' equity, pension and post-retirement benefits	26	11	(14)
Shareholders' equity, changes in fair value of derivatives	3	2	3
Total income taxes	$ 4	$ (45)	$ (99)

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

Dollars in millions	Current	Deferred	Total
Year ended December 31, 2020			
Federal	$ —	$ 29	$ 29
Foreign	(62)	11	(51)
State and other	(4)	—	(4)
(Provision) benefit for income taxes	$ (66)	$ 40	$ (26)
Year ended December 31, 2019			
Federal	$ (4)	$ 15	$ 11
Foreign	(67)	1	(66)
State and other	(2)	(2)	(4)
(Provision) benefit for income taxes	$ (73)	$ 14	$ (59)
Year ended December 31, 2018			
Federal	$ (1)	$ (6)	$ (7)
Foreign	(56)	(20)	(76)
State and other	(2)	(1)	(3)
Provision for income taxes	$ (59)	$ (27)	$ (86)

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

Dollars in millions	Years ended December 31, 2020	2019	2018
United Kingdom	$ (14)	$ (19)	$ (32)
Australia	(6)	(6)	(8)
Canada	(1)	(1)	(6)
Middle East	(18)	(20)	(16)
Africa	—	(1)	(1)
Other	(12)	(19)	(13)
Foreign provision for income taxes	$ (51)	$ (66)	$ (76)

Our effective tax rates on income from operations differed from the statutory U.S. federal income tax rate of 21% as a result of the following:

	Years ended December 31, 2020	2019	2018
U.S. statutory federal rate, expected (benefit) provision	21 %	21 %	21 %
Increase (reduction) in tax rate from:			
Tax impact from foreign operations	2	7	—
Noncontrolling interests and equity earnings	(3)	—	(1)
State and local income taxes, net of federal benefit	—	2	1
Other permanent differences, net	4	3	—
Contingent liability accrual	2	1	3
U.S. taxes on foreign unremitted earnings	(1)	3	—
Change in valuation allowance	—	(10)	(2)
Research and development credits, net of provision	—	(5)	—
Non-deductible goodwill and restructuring charges	(130)	—	—
Effective tax rate on income from operations	(105)%	22 %	22 %

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

	Years ended December 31,	
Dollars in millions	2020	2019
Deferred tax assets:		
Employee compensation and benefits	$ 149	$ 103
Foreign tax credit carryforwards	243	257
Loss carryforwards	105	96
Insurance accruals	8	7
Allowance for bad debt	4	2
Accrued liabilities	66	63
Construction contract accounting	7	—
Other	48	4
Total gross deferred tax assets	630	532
Valuation allowances	(220)	(200)
Net deferred tax assets	410	332
Deferred tax liabilities:		
Construction contract accounting	—	(6)
Intangible amortization	(80)	(56)
Indefinite-lived intangible amortization	(60)	(49)
Fixed asset depreciation	3	2
Accrued foreign tax credit carryforwards	(2)	(3)
Total gross deferred tax liabilities	(139)	(112)
Deferred income tax (liabilities) assets, net	$ 271	$ 220

The valuation allowance for deferred tax assets was $220 million and $200 million at December 31, 2020 and 2019, respectively. The net change in the total valuation allowance was an increase of $20 million in 2020 and a decrease of $7 million in 2019. In 2019, KBR saw the benefit of a decrease in our valuation allowance associated with the ability to utilize foreign tax credits partially offset by an increase in the valuation allowance associated with our state net operating losses. The movement in the 2020 balance was mainly driven by a build up in our state net operating losses. The valuation allowance balance at December 31, 2020 was primarily related to foreign tax credit carryforwards and foreign and state net operating loss carryforwards that, in the judgment of management, are not more likely than not to be realized. In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent on the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities (including the impact of available carryback and carryforward periods), projected future taxable income and tax-planning strategies in making this assessment.

Income (loss) related to the U.S. branches totaled $68 million, $90 million and $96 million for the fiscal years 2020, 2019, and 2018, respectively, and is included in the foreign component of income in the notes to the financial statements in our Form 10-K. We weighted this positive evidence heavily in our analysis to overcome the previously existing negative evidence of our twelve quarter cumulative loss position.

We concluded that future taxable income and the reversal of deferred tax liabilities, excluding those associated with indefinite-lived intangible assets, were the only sources of taxable income available in determining the amount of valuation allowance to be recorded against our deferred tax assets. The deferred tax liabilities we relied on are projected to reverse in the same jurisdiction and are of the same character as the temporary differences that gave rise to the deferred tax assets. The deferred tax liabilities are projected to reverse in the same periods as the deferred tax assets and are projected to reverse beginning in fiscal year 2021 through fiscal year 2029. We estimated future taxable income by jurisdiction exclusive of reversing temporary differences and carryforwards and applied our foreign tax credit carryforwards based on the sourcing and character of those estimates and considered any limitations.

During the year ended December 31, 2018, we further refined our provisional estimates related to the Deemed Repatriation Transition Tax, as well as the impact of additional guidance related to the Tax Act and our estimates of future taxable income. As a result, we further reduced our valuation allowance for U.S. deferred tax assets by $17 million primarily related to foreign tax credit carryforwards.

Our ability to utilize the unreserved foreign tax credit carryforwards is based on our ability to generate income from foreign sources of at least $762 million prior to their expiration whereas our ability to utilize other net deferred tax assets exclusive of those associated with indefinite-lived intangible assets is based on our ability to generate U.S. forecasted taxable income of at least $605 million. While our current projections of taxable income exceed these amounts, changes in our forecasted taxable income in the applicable taxing jurisdictions within the carryforward periods could affect the ultimate realization of deferred tax assets and our valuation allowance.

The net deferred tax balance by major jurisdiction after valuation allowance as of December 31, 2020 was as follows:

Dollars in millions	Net Gross Deferred Asset (Liability)	Valuation Allowance	Deferred Asset (Liability), net
United States	$ 404	$ (177)	$ 227
United Kingdom	14	—	14
Australia	22	—	22
Canada	22	(21)	1
Other	29	(22)	7
Total	$ 491	$ (220)	$ 271

At December 31, 2020, the amount of gross tax attributes available prior to the offset with related uncertain tax positions were as follows:

Dollars in millions	December 31, 2020	Expiration
Foreign tax credit carryforwards	$ 243	2021-2029
Foreign net operating loss carryforwards	$ 144	2021-2040
Foreign net operating loss carryforwards	$ 37	Indefinite
State net operating loss carryforwards	$ 1,242	Various

As a result of the enactment of the U.S. Tax Act, substantially all of our previously untaxed accumulated and current E&P of certain of our foreign subsidiaries were subject to U.S. tax. Repatriations of these foreign earnings will not be subject to additional U.S. tax but may incur withholding and/or state taxes. Although we have provided for taxes on our previously untaxed accumulated and current E&P of certain of our foreign subsidiaries pursuant to the Tax Act, we consider 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. As of December 31, 2020, the cumulative amount of permanently reinvested foreign earnings is $1.9 billion. With the enactment of the Tax Act, these previously unremitted earnings have now been subject to U.S. tax. However, these undistributed earnings could be subject to additional taxes (withholding and/or state taxes) if remitted, or deemed remitted, as a dividend.

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

Dollars in millions	2020	2019	2018
Balance at January 1,	$ 97	$ 90	$ 184
Increases related to current year tax positions	1	2	1
Increases related to prior year tax positions	6	7	18
Decreases related to prior year tax positions	(7)	—	(45)
Settlements	—	—	(62)
Lapse of statute of limitations	(3)	(1)	(2)
Other, primarily due to exchange rate fluctuations affecting non-U.S. tax positions	2	(1)	(4)
Balance at December 31,	$ 96	$ 97	$ 90

The total amount of unrecognized tax benefits that, if recognized, would affect our effective tax rate was approximately $82 million as of December 31, 2020. The difference between this amount and the amounts reflected in the tabular reconciliation above relates primarily to deferred income tax benefits on uncertain tax positions. In the next twelve months, it is reasonably possible that our uncertain tax positions could change by approximately $9 million due to settlements with tax authorities and the expirations of statutes of limitations.

We recognize accrued interest and penalties related to uncertain tax positions in income tax expense in our consolidated statements of operations. Our accrual for interest and penalties was $29 million and $23 million as of December 31, 2020 and 2019, respectively. During the years ended December 31, 2020 and 2019, we recognized net interest and penalty charges of $4 million, and $3 million, respectively, while for the year ended December 31, 2018, we recognized a net interest and penalty benefit of $1 million related to uncertain tax positions.

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

KBR is subject to a tax sharing agreement primarily covering periods prior to the April 2007 separation from Halliburton. The tax sharing agreement provides, in part, that KBR will be responsible for any audit settlements directly attributable to our business activity for periods prior to our separation from our former parent. As of December 31, 2020 and 2019, we have recorded $5 million in "Other liabilities" on our consolidated balance sheets for tax related items under the tax sharing agreement. The balance is not due until receipt by KBR of a future foreign tax credit refund claim filed with the IRS.

Note 14. Claims and Accounts Receivable

Our claims and accounts receivable balance not expected to be collected within the next 12 months was $30 million and $59 million as of December 31, 2020 and 2019, respectively. Claims and accounts receivable primarily reflect claims filed with the U.S. government related to payments not yet received for costs incurred under various U.S. government cost reimbursable contracts within our GS business segment. These claims relate to disputed costs or contracts where our costs have exceeded the U.S. government's funded value on the task order. Included in these amounts is $1 million and $28 million as of December 31, 2020 and 2019, respectively. The remaining assets and liabilities associated with the previously issued Form 1s issued by the U.S. government questioning or objecting costs billed to them are immaterial to our consolidated balance sheet as of December 31, 2020 as a result of an unfavorable FKTC containers claim ruling. See Note 15 "U.S. Government Matters" for additional information. The amount also includes $29 million and $31 million as of December 31, 2020 and 2019, respectively, related to contracts where our reimbursable costs have exceeded the U.S. government's funded values on the underlying task orders or task orders where the U.S. government has not authorized us to bill. We believe the remaining disputed costs will be resolved in our favor, at which time the U.S. government will be required to obligate funds from appropriations for the year in which resolutions occur.

Note 15. U.S. Government Matters

We provide services to various U.S. governmental agencies, including the U.S. DoD, NASA, and the Department of State. We may have disagreements or experience performance issues on our U.S. government contracts. When performance issues arise under any of these contracts, the U.S. government retains the right to pursue various remedies, including challenges to expenditures, suspension of payments, fines and suspensions or debarment from future business with the U.S. government. The negotiation, administration and settlement of our contracts are subject to audit by the DCAA. The DCAA serves in an advisory role to the DCMA, which is responsible for the administration of the majority of our contracts. The scope of these audits include, among other things, the validity of direct and indirect incurred costs, provisional approval of annual billing rates, approval of annual overhead rates, compliance with the FAR and CAS, compliance with certain unique contract clauses and audits of certain aspects of our internal control systems. Based on the information received to date, we do not believe the completed or any ongoing government audits will have a material adverse impact on our results of operations, financial position or cash flows.

Legacy U.S. Government Matters

Between 2002 and 2011, we provided significant support to the U.S. Army and other U.S. government agencies in support of the war in Iraq under the LogCAP III contract. We have been in the process of closing out the LogCAP III contract since 2011, and we expect the contract closeout process to continue for at least another year. As a result of our work under LogCAP III, there are claims and disputes pending between us and the U.S. government which need to be resolved in order to close the contract. The contract closeout process includes resolving objections raised by the U.S. government through a billing dispute process referred to as Form 1s and MFRs. We continue to work with the U.S. government to resolve these issues and are engaged in efforts to reach mutually acceptable resolution of these outstanding matters. However, for certain of these matters, we have filed claims with the ASBCA or the COFC. We also have matters related to ongoing litigation or investigations involving U.S. government contracts. We anticipate billing additional labor, vendor resolution and litigation costs as we resolve the open matters in the future.

The Company established a reserve for unallowable costs associated with open government matters related to the heritage KBR U.S. Government Services business in the amounts of $33 million and $39 million as of December 31, 2020 and 2019, respectively. The balance as of December 31, 2020, is recorded in “Other liabilities.” The balance as of December 31, 2019, is recorded in "Contract liabilities" and "Other liabilities" in the amounts of $27 million and $12 million, respectively.

Investigations, Qui Tams and Litigation

The following matters relate to ongoing litigation or federal investigations involving U.S. government contracts. Many of these matters involve allegations of violations of the FCA, which prohibits in general terms fraudulent billings to the U.S. government. Suits brought by private individuals are called "qui tams." We believe the costs of litigation and any damages that may be awarded in the FKTC matters described below are billable under the LogCAP III. All costs billed under LogCAP III are subject to audit by the DCAA for reasonableness.

First Kuwaiti Trading Company arbitration. In April 2008, FKTC, one of our LogCAP III subcontractors providing housing containers, filed arbitration with the American Arbitration Association for all its claims under various LogCAP III subcontracts. After complete hearings on all claims, the arbitration panel awarded FKTC $17 million plus interest for claims involving damages on lost or unreturned vehicles. In addition, we determined that we owe FKTC $32 million in connection with other subcontracts provided we are reimbursed for these same costs by the U.S. government. We lost our claims against the government as referenced below and have exercised our offset or clawback rights as against FKTC in the arbitration. FKTC does not agree with our right of offset and a final hearing will be needed to resolve this issue and our other counterclaims against FKTC. No dates have been set for the final hearing on these matters. Management accrued an amount that it feels is adequate to cover either liability as determined by the panel or a negotiated settlement with FKTC on this matter.

Howard qui tam. In March 2011, Geoffrey Howard and Zella Hemphill filed a complaint in the U.S. District Court for the Central District of Illinois alleging that KBR mischarged the government $628 million for unnecessary materials and equipment. In October 2014, the DOJ declined to intervene and the case was partially unsealed. Depositions of some DCMA and KBR personnel have taken place and more were expected to occur in early 2020 but have been postponed due to COVID-19. KBR and the relators filed various motions including a motion to dismiss by KBR. Although KBR's motion to dismiss was not granted it remains an option on appeal. The deadline for all fact discovery and depositions has been extended due to COVID-19 travel restrictions and related delays and discovery continues. We believe the allegations of fraud by the relators are without merit and, as of December 31, 2020, no amounts have been accrued.

DOJ False Claims Act complaint - Iraq Subcontractor. In January 2014, the DOJ filed a complaint in the U.S. District Court for the Central District of Illinois against KBR and two former KBR subcontractors, including FKTC, alleging that three former KBR employees were offered and accepted kickbacks from these subcontractors in exchange for favorable treatment in the award and performance of subcontracts to be awarded during the course of KBR's performance of the LogCAP III contract in Iraq. The complaint alleges that as a result of the kickbacks, KBR submitted invoices with inflated or unjustified subcontract prices, resulting in alleged violations of the FCA and the Anti-Kickback Act. The DOJ's investigation dates back to 2004. We self-reported most of the violations and tendered credits to the U.S. government as appropriate. On May 22, 2014, FKTC filed a motion to dismiss, which the U.S. government opposed. Following the submission of our answer in April 2014, the U.S. government was granted a Motion to Strike certain affirmative defenses in March 2015. We do not believe this limits KBR's ability to fully defend all allegations in this matter.

Discovery for this complaint is now complete. On March 30, 2020, the Court granted KBR’s motion to transfer the case to the Southern District of Texas and the court recently ruled on various discovery motions allowing one additional deposition to take place. KBR and the U.S government have filed various dispositive motions which are currently pending. As of December 31, 2020, we have accrued our best estimate of probable loss related to an unfavorable settlement of this matter in "Other liabilities" on our consolidated balance sheets.

Other matters

KBR Contract Claim on FKTC containers. KBR previously filed a claim before the ASBCA to recover the costs paid to FKTC to settle its requests for equitable adjustment. The DCMA had disallowed the majority of those costs. Those contract claims were stayed in 2013 at the request of the DOJ so that they could pursue the FCA case referenced above. Those claims were reinstated in 2016. We tried our contract appeal in September 2017. In November 2018, we received an unfavorable ruling from the ASBCA disallowing all of our costs paid to FKTC. KBR's motion for reconsideration by a senior panel of judges at the ASBCA was denied. KBR filed its brief on appeal in September 2019. Oral arguments occurred in May 2020 and a decision was issued on September 1, 2020. Although the court agreed with KBR that the wrong legal standard was applied by the trial court, the appellate court made its own fact findings on damages based on an incomplete record and denied KBR any recovery. KBR filed a motion for rehearing which was denied and therefore the dispute with the U.S. government has concluded. As of December 31, 2020, we believe our recorded accruals are adequate in the event we are unable to favorably resolve our claims and disputes against the government.

Note 16. Other Commitments and Contingencies

Unaoil Investigation. We previously disclosed that the DOJ, SEC, and the SFO had been conducting investigations of Unaoil, a Monaco based company, in relation to international projects involving several global companies, including KBR. The DOJ and SEC have informed us that their investigations with regard to KBR are now closed. The SFO has informed us that its KBR investigation is no longer focused on allegations of corruption involving Unaoil although some lines of inquiry remain under investigation. To the extent necessary, KBR will continue to cooperate with the authorities in their investigations.

Chadian Employee Class Action. In May 2018, former employees of our former Chadian subsidiary, Subsahara Services, Inc. ("SSI"), filed a class action suit claiming unpaid damages arising from the ESSO Chad Development Project for Exxon Mobil Corporation ("Exxon") dating back to the early 2000s. Exxon is also named as a defendant in the case. The SSI employees previously filed two class action cases in or around 2005 and 2006 for alleged unpaid overtime and bonuses. The Chadian Labour Court ruled in favor of the SSI employees for unpaid overtime resulting in a settlement of approximately $25 million which was reimbursed by Exxon under its contract with SSI. The second case for alleged unpaid bonuses was ultimately dismissed by the Supreme Court of Chad.

The current case claims $122 million in unpaid bonuses characterized as damages rather than employee bonuses to avoid the previous Supreme Court dismissal and a 5-year statute of limitations on wage-related claims. SSI’s initial defense was filed and a hearing was held in December 2018. A merits hearing was held in February 2019. In March 2019, the Labour Court issued a decision awarding the plaintiffs approximately $34 million including a $2 million provisional award. Exxon and SSI have appealed the award and requested suspension of the provisional award which was approved on April 2, 2019. Exxon and SSI filed a submission to the Court of Appeal on June 21, 2019 and filed briefs at a hearing on February 28, 2020. The plaintiffs failed to file a response on March 13, 2020 and a hearing was scheduled for April 17, 2020. The hearing was postponed due to COVID-19 but took place on September 18, 2020. On October 9, 2020 the appellate court of Moundou awarded the plaintiffs approximately $19 million. SSI filed an appeal of this decision to the Chadian Supreme Court on December 28, 2020. SSI’s request for suspension on the enforceability of the award from the Chadian Supreme Court was granted on January 4, 2021 and therefore there is no current risk of enforcement of the judgment.

At this time, we do not believe a risk of material loss is probable related to this matter. SSI is no longer an existing entity in Chad or the United States. Further, we believe any amounts ultimately paid to the former employees related to this adverse ruling would be reimbursable by Exxon based on the applicable contract.

North West Rail Link Project. We participate in an unincorporated joint venture with two partners to provide engineering and design services in relation to the operations, trains and systems of a metro rail project in Sydney, Australia. The project commenced in 2014 and during its execution encountered delays and disputes resulting in claims and breach notices submitted to the joint venture by the client. Since November 2018, the client has submitted multiple claims alleging breach of contract and breach of duty by the joint venture in its execution of the services, claiming losses and damages of up to approximately $300 million Australian dollars. We currently believe the gross of amount of claims significantly exceeds the client's entitlement as well as the joint venture's limits of liability under the contract and that claims will be covered by project-specific professional indemnity insurance subject to deductibles.

In August 2019, the client advised that it has filed legal proceedings in the Supreme Court of New South Wales to preserve its position with regards to statute of limitations. The joint venture was served a notice of proceedings in November 2019 and an initial hearing was expected to occur in April 2020 but was postponed. The client submitted an amended statement on May 28, 2020 claiming damages of $301 million Australian dollars but did not provide any detail to support that sum. KBR has a 33% participation interest in the joint venture and the partners have joint and several liability with respect to all obligations under the contract. As of December 31, 2020, we have reserved an amount that is immaterial for this matter. However, it is reasonably possible that we may ultimately be required to pay material amounts in excess of reserves. At this time, fact discovery and expert review are still ongoing. Additionally, we have not received substantiation of the client's alleged damages and therefore, a more precise estimate cannot be made at this time. The joint venture, joint venture insurers, and client are engaged in discussions concerning potential resolution of the claims.

Environmental

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

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

We had been named as a potentially responsible party in various clean-up actions taken by federal and state agencies in the U.S. All of these matters have been settled or resolved and as of December 31, 2020, we have not been named in any additional matters.

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

Insurance Programs

Our employee-related health care benefits program is self-funded. Our workers' compensation, automobile and general liability insurance programs include a deductible applicable to each claim. Claims in excess of our deductible are paid by the insurer. The liabilities are based on claims filed and estimates of claims incurred but not reported. As of December 31, 2020, liabilities for anticipated claim payments and incurred but not reported claims for all insurance programs totaled approximately $42 million, comprised of $14 million included in "Accrued salaries, wages and benefits," $3 million included in "Other current liabilities" and $25 million included in "Other liabilities" all on our consolidated balance sheets. As of December 31, 2019, liabilities for unpaid and incurred but not reported claims for all insurance programs totaled approximately $42 million, comprised of $14 million included in "Accrued salaries, wages and benefits," $2 million included in "Other current liabilities" and $26 million included in "Other liabilities" all on our consolidated balance sheets.

Note 17. Leases

We enter into lease arrangements primarily for real estate, project equipment, transportation and information technology assets in the normal course of our business operations. Real estate leases accounted for approximately 86% of our lease obligations at December 31, 2020. An arrangement is determined to be a lease at inception if it conveys the right to control the use of identified property and equipment for a period of time in exchange for consideration. We have elected not to recognize an ROU asset and lease liability for leases with an initial term of 12 months or less. Many of our equipment leases, primarily associated with the performance of projects for U.S. government customers, include one or more renewal option periods, with renewal terms that can extend the lease term in one year increments. The exercise of these lease renewal options is at our sole discretion and is generally dependent on the period of project performance, or extension thereof, determined by our customers. When it is reasonably certain that we will exercise the option, we include the impact of the option in the lease term to determine total future lease payments. Because most of our lease agreements do not explicitly state the discount rate, we use our incremental borrowing rate on the commencement date to calculate the present value of future lease payments.

Certain leases include payments that are based solely on an index or rate. These variable lease payments are included in the calculation of the ROU asset and lease liability. Other variable lease payments, such as usage-based amounts, are excluded from the ROU asset and lease liability, and are expensed as incurred. In addition to the present value of the future lease payments, the calculation of the ROU asset also includes any deferred rent, lease pre-payments and initial direct costs of obtaining the lease, such as commissions.

In addition to the base rent, real estate leases typically contain provisions for common-area maintenance and other similar services, which are considered non-lease components for accounting purposes. We exclude these non-lease components in calculating the ROU asset and lease liability for real estate leases and expense them as incurred. For all other types of leases, non-lease components are included in calculating our ROU assets and lease liabilities.

The operating ROU asset and current and noncurrent operating lease liabilities are disclosed on our consolidated balance sheets. The finance ROU asset is included in "Property, plant and equipment" and the current and noncurrent finance lease liabilities are included in "Other current liabilities" and "Other liabilities," respectively, on our consolidated balance sheets.

The components of our operating lease costs for the years ended December 31, 2020 and 2019 were as follows:

	Year Ended December 31,	
Dollars in millions	2020	2019
Operating lease cost	$ 50	$ 54
Short-term lease cost	112	121
Total lease cost	$ 162	$ 175

Operating lease cost includes operating lease ROU asset amortization of $37 million and $38 million for the years ended December 31, 2020 and 2019, respectively, and other noncash operating lease costs related to the accretion of operating lease liabilities and straight-line lease accounting of $13 million and $16 million for the years ended December 31, 2020 and 2019, respectively.

Total short-term lease commitments as of December 31, 2020 and 2019 was approximately $107 million and $77 million, respectively. Additional information related to leases was as follows:

Dollars in millions	December 31, 2020	December 31, 2019
Cash paid for amounts included in the measurement of lease liabilities		
Operating cash flows from operating leases	$ 61	$ 56
Operating cash flows from financing leases	$ 11	$ 6
Right-of-use assets obtained in exchange for new operating lease liabilities	$ 62	$ 20
Right-of-use assets obtained in exchange for new finance lease liabilities	$ 34	$ 13
Weighted-average remaining lease term-operating (in years)	6 years	8 years
Weighted-average remaining lease term-finance (in years)	3 years	3 years
Weighted-average discount rate-operating leases	6.8 %	7.6 %
Weighted-average discount rate-finance leases	4.7 %	5.6 %

The following is a maturity analysis of the future undiscounted cash flows associated with our lease liabilities as of December 31, 2020:

	Year						
Dollars in millions	2021	2022	2023	2024	2025	Thereafter	Total
Future payments - operating leases	$ 56	$ 48	$ 42	$ 32	$ 27	$ 86	$ 291
Future payments - finance leases	12	8	3	2	—	—	25
Total future payments - all leases	$ 68	$ 56	$ 45	$ 34	$ 27	$ 86	$ 316

Dollars in millions	Operating Leases	Finance Leases	Total
Total future payments	$ 291	$ 25	$ 316
Less imputed interest	(61)	(2)	(63)
Present value of future lease payments	$ 230	$ 23	$ 253
Less current portion of lease obligations	(44)	(11)	(55)
Noncurrent portion of lease obligations	$ 186	$ 12	$ 198

Note 18. Accumulated Other Comprehensive Loss

Changes in AOCL, net of tax, by component

Dollars in millions	Accumulated foreign currency translation adjustments	Accumulated pension liability adjustments	Changes in fair value of derivatives	Total
Balance at December 31, 2018	$ (304)	$ (592)	$ (14)	$ (910)
Other comprehensive income adjustments before reclassifications	(3)	(76)	(11)	(90)
Amounts reclassified from AOCL	(8)	14	7	13
Net other comprehensive income (loss)	(11)	(62)	(4)	(77)
Balance at December 31, 2019	$ (315)	$ (654)	$ (18)	$ (987)
Other comprehensive income adjustments before reclassifications	36	(130)	(21)	(115)
Amounts reclassified from AOCL	(12)	20	11	19
Net other comprehensive income (loss)	24	(110)	(10)	(96)
Balance at December 31, 2020	$ (291)	$ (764)	$ (28)	$ (1,083)

Reclassifications out of AOCL, net of tax, by component

Dollars in millions	December 31, 2020	December 31, 2019	Affected line item on the Consolidated Statements of Operations
Accumulated foreign currency adjustments			
Reclassification of foreign currency adjustments	$ 12	$ 8	Net income attributable to noncontrolling interests and Gain on disposition of assets and investments
Tax benefit	—	—	Provision for income taxes
Net accumulated foreign currency	$ 12	$ 8	
Accumulated pension liability adjustments			
Amortization of actuarial loss (a)	$ (24)	$ (17)	See (a) below
Tax benefit	4	3	Provision for income taxes
Net pension and post-retirement benefits	$ (20)	$ (14)	Net of tax
Changes in fair value for derivatives			
Foreign currency hedge and interest rate swap settlements	$ (13)	$ (8)	Other non-operating income
Tax benefit	2	1	Provision for income taxes
Net changes in fair value of derivatives	$ (11)	$ (7)	Net of tax

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

Shares of common stock

Shares in millions	Shares
Balance at December 31, 2018	177.4
Common stock issued	0.9
Balance at December 31, 2019	178.3
Common stock issued	0.8
Balance at December 31, 2020	179.1

Shares of treasury stock

Shares and dollars in millions	Shares	Amount
Balance at December 31, 2018	36.5	$ 817
Treasury stock acquired, net of ESPP shares issued	—	—
Balance at December 31, 2019	36.5	817
Treasury stock acquired, net of ESPP shares issued	1.8	47
Balance at December 31, 2020	38.3	$ 864

Dividends

We declared dividends totaling $57 million and $46 million in 2020 and 2019, respectively.

Note 19. Share Repurchases

Authorized Share Repurchase Program

On February 25, 2014, our Board of Directors authorized a plan to repurchase up to $350 million of our outstanding shares of common stock, which replaced and terminated the August 26, 2011 share repurchase program. As of December 31, 2019, $160 million remained available under this authorization. On February 19, 2020, our Board of Directors authorized an increase of approximately $190 million to our share repurchase program, returning the authorization level to $350 million. As of December 31, 2020, $303 million remains available for repurchase under this authorization. The authorization does not obligate the Company to acquire any particular number of shares of common stock and may be commenced, suspended or discontinued without prior notice. The share repurchases are intended to be funded through the Company's current and future cash flows and the authorization does not have an expiration date.

Share Maintenance Programs

Stock options and restricted stock awards granted under the KBR, Inc. 2006 Stock and Incentive Plan ("KBR Stock Plan") may be satisfied using shares of our authorized but unissued common stock or our treasury share account.

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

Withheld to Cover Program

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

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

	Year ending December 31, 2020		
	Number of Shares	Average Price per Share	Dollars in Millions
Repurchases under the $350 million authorized share repurchase program	1,823,434	$ 25.70	$ 47
Withheld to cover shares	168,671	25.65	4
Total	1,992,105	$ 25.70	$ 51

	Year ending December 31, 2019		
	Number of Shares	Average Price per Share	Dollars in Millions
Repurchases under the $350 million authorized share repurchase program	—	$ —	$ —
Withheld to cover shares	194,124	20.59	4
Total	194,124	$ 20.59	$ 4

Note 20. Share-based Compensation and Incentive Plans

KBR Stock Plan

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

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

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

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

At December 31, 2020, approximately 5.2 million shares were available for future grants under the KBR Stock Plan, of which approximately 2.1 million shares remained available for restricted stock awards or restricted stock unit awards.

KBR Stock Options

Under the KBR Stock Plan, stock options are granted with an exercise price not less than the fair market value of the common stock on the date of the grant and a term no greater than 10 years. The term and vesting periods are established at the discretion of the Compensation Committee at the time of each grant. The fair value of options at the date of grant are estimated using the Black-Scholes-Merton option pricing model. The expected volatility of KBR options granted in each year is based upon a blended rate that uses the historical and implied volatility of common stock for KBR. The expected term of KBR options granted was based on KBR's historical experience. The estimated dividend yield is based upon KBR’s annualized dividend rate divided by the market price of KBR’s stock on the option grant date. The risk-free interest rate is based upon the yield of U.S. government issued treasury bills or notes on the option grant date. We amortize the fair value of the stock options over the vesting period on a straight-line basis. Options are granted from shares authorized by our Board of Directors. There were no stock options granted in 2020, 2019 or 2018.

The following table presents stock options granted, exercised, forfeited and expired under KBR share-based compensation plans for the year ended December 31, 2020.

KBR stock options activity summary	Number of Shares	Weighted Average Exercise Price per Share	Weighted Average Remaining Contractual Term (years)	Aggregate Intrinsic Value (in millions)
Outstanding at December 31, 2019	1,602,587	$ 26.74	3.33	$ 0.87
Granted	—	—		
Exercised	(211,531)	19.37		
Forfeited	(172,548)	—		
Expired	—	26.71		
Outstanding at December 31, 2020	1,218,508	$ 28.02	2.34	$ 0.58
Exercisable at December 31, 2020	1,218,508	$ 28.00	2.34	$ 0.58

The total intrinsic values of options exercised for the years ended December 31, 2020, 2019 and 2018 were $0.1 million, $0.3 million and $0.1 million, respectively. As of December 31, 2020, there was no unrecognized compensation cost, net of estimated forfeitures, related to non-vested KBR stock options. Stock option compensation expense was $0 million in 2020, 2019 and 2018. Total income tax benefit recognized in net income for share-based compensation arrangements was $0 million in 2020, 2019 and 2018.

KBR Restricted stock

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

The following table presents the restricted stock awards and restricted stock units granted, vested and forfeited during 2020 under the KBR Stock Plan.

Restricted stock activity summary	Number of Shares	Weighted Average Grant-Date Fair Value per Share
Nonvested shares at December 31, 2019	1,230,045	$ 17.37
Granted	567,237	26.66
Vested	(504,831)	17.41
Forfeited	(104,972)	20.10
Nonvested shares at December 31, 2020	1,187,479	$ 21.54

The weighted average grant-date fair value per share of restricted KBR shares granted to employees during 2020, 2019 and 2018 was $26.66, $19.01 and $15.93, respectively. Restricted stock compensation expense was $12 million for 2020, $12 million for 2019 and $10 million for 2018. Total income tax benefit recognized in net income for share-based compensation arrangements during 2020, 2019 and 2018 was $3 million, $3 million, and $2 million, respectively. As of December 31, 2020, there was $15 million of unrecognized compensation cost, net of estimated forfeitures, related to KBR's non-vested restricted stock and restricted stock units, which is expected to be recognized over a weighted average period of 1.99 years. The total fair value of shares vested was $13 million in 2020, $14 million in 2019 and $10 million in 2018 based on the weighted-average fair value on the vesting date. The total fair value of shares vested was $9 million in 2020, $11 million in 2019 and $10 million in 2018 based on the weighted-average fair value on the date of grant.

Share-based compensation expense

If an award is modified after the grant date, incremental compensation cost is recognized immediately as of the modification. Share-based compensation expense consists of $3 million recorded to cost of revenues and $9 million to selling, general, and administrative expenses on our consolidated statements of operations. The benefits of tax deductions in excess of the compensation cost recognized for the options (excess tax benefits) are classified as additional paid-in-capital, and cash retained as a result of these excess tax benefits is presented in the statements of cash flows as financing cash inflows.

Share-based compensation summary table	Years ended December 31,		
Dollars in millions	2020	2019	2018
Share-based compensation	$ 12	$ 12	$ 10
Income tax benefit recognized in net income for share-based compensation	$ 3	$ 3	$ 2
Incremental compensation cost	$ 1	$ —	$ 1

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

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

Under the KBR Stock Plan, for Cash Performance Awards granted in 2020, 2019 and 2018, performance is based 50% on average Total Shareholder Return ("TSR"), as compared to the average TSR of KBR's peers, and 50% on KBR's Job Income Sold ("JIS"). In accordance with the provisions of ASC 718 - Compensation-Stock Compensation, the TSR portion for the performance award units are classified as liability awards and remeasured at the end of each reporting period at fair value until settlement. The fair value approach uses the Monte Carlo valuation method which analyzes the companies comprising KBR's peer group, considering volatility, interest rate, stock beta and TSR through the grant date. The JIS calculation is based on the Company's JIS earned at a target level averaged over a three year period. The JIS portion of the Cash Performance Award is also classified as a liability award and remeasured at the end of each reporting period based on our estimate of the amount to be paid at the end of the vesting period. The cash performance award units may only be paid in cash.

Under the KBR Stock Plan, in 2020, we granted 19 million performance based award units ("Cash Performance Awards") with a 3-year performance period from January 1, 2020 to December 31, 2022. In 2019, we granted 19 million Cash Performance Awards with a three-year performance period from January 1, 2019 to December 31, 2021. In 2018, we granted 18 million Cash Performance Awards with a three-year performance period from January 1, 2018 to December 31, 2020. Cash Performance Awards forfeited, net of previous plan payout, totaled 7 million units, 3 million units, and 3 million units during the years ended December 31, 2020, 2019 and 2018, respectively. At December 31, 2020, the outstanding balance for Cash Performance Awards is 46 million units. Cash Performance Awards are not considered earned until required performance conditions are met. Additionally, approval by the Compensation Committee of the Board of Directors is required before earned Cash Performance Awards are paid.

Cost for the Cash Performance Awards is accrued over the requisite service period. For the years ended December 31, 2020, 2019 and 2018, we recognized $17 million, $34 million and $15 million, respectively, in expense for Cash Performance Awards. The expense associated with these Cash Performance Awards is included in cost of services and general and administrative expense in our consolidated statements of operations. The liability for Cash Performance Awards includes $21 million recorded within "Accrued salaries, wages and benefits" and $17 million recorded within "Employee compensation and benefits" on our consolidated balance sheets as of December 31, 2020. The liability for Cash Performance Awards includes $27 million recorded within "Accrued salaries, wages and benefits, and $23 million recorded within "Employee compensation and benefits" on our consolidated balance sheets as of December 31, 2019.

KBR Employee Stock Purchase Plan ("ESPP")

Under the ESPP, eligible employees may withhold up to 10% of their earnings, subject to some limitations, to purchase shares of KBR's common stock. Unless KBR's Board of Directors determines otherwise, each six-month offering period commences at the beginning of February and August of each year. Employees who participate in the ESPP will receive a 5% discount on the stock price at the end of each period. During 2020 and 2019, our employees purchased approximately 182,000 and 166,000 shares, respectively, through the ESPP. These shares were issued from our treasury share account.

Note 21. Income (loss) per Share

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

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

	Years ended December 31,		
Shares in millions	2020	2019	2018
Basic weighted average common shares outstanding	142	141	140
Stock options, restricted shares, and convertible debt	—	1	1
Diluted weighted average common shares outstanding	142	142	141

For purposes of applying the two-class method in computing income (loss) per share, net earnings allocated to participating securities was none for fiscal year 2020, $1.5 million, or $0.01 per share for fiscal year 2019, and $1.8 million, or $0.01 per share for fiscal year 2018. The diluted income (loss) per share calculation did not include 1.1 million, 1.3 million, and 1.5 million antidilutive weighted average shares for the years ended December 31, 2020, 2019 and 2018, respectively.

Note 22. Fair Value of Financial Instruments and Risk Management

Fair value measurements. The fair value of an asset or liability is the price that would be received to sell an asset or transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. The Company utilizes a fair value hierarchy that maximizes the use of observable inputs and minimizes the use of unobservable inputs when measuring fair value and defines three levels of inputs that may be used to measure fair value. Level 1 inputs are quoted prices in active markets for identical assets or liabilities. Level 2 inputs are inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly, including quoted prices for similar assets or liabilities in active markets, quoted prices in markets that are not active, inputs other than quoted prices that are observable for the asset or liability, or inputs derived from observable market data. Level 3 inputs are unobservable inputs that are supported by little or no market activity and are significant to the fair value of the assets or liabilities.

The carrying amount of cash and equivalents, accounts receivable and accounts payable, as reflected in the consolidated balance sheets, approximates fair value due to the short-term maturities of these financial instruments. The carrying values and estimated fair values of our financial instruments that are not required to be recorded at fair value in our consolidated balance sheets are provided in the following table.

		December 31, 2020		December 31, 2019	
Dollars in millions		Carrying Value	Fair Value	Carrying Value	Fair Value
Liabilities (including current maturities):					
Term Loan A	**Level 2**	$ 285	$ 285	$ 176	$ 176
Term Loan B	**Level 2**	516	517	756	764
Convertible Notes	**Level 2**	350	480	350	466
Senior Notes	**Level 2**	250	262	—	—
Senior Credit Facility	**Level 2**	260	260	—	—
Nonrecourse project debt	**Level 2**	7	7	18	18

See Note 12 "Debt and Other Credit Facilities" for further discussion of our term loans, convertibles notes, and nonrecourse project debt.

The following disclosures for foreign currency risk and interest rate risk includes the fair value hierarchy levels for our assets and liabilities that are measured at fair value on a recurring basis.

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

As of December 31, 2020, the gross notional value of our foreign currency exchange forwards and option contracts used to hedge balance sheet exposures was $85 million, all of which had durations of 15 days or less. We also had approximately $4 million (gross notional value) of cash flow hedges which had durations of 7 months or less. The cash flow hedges are primarily related to the British Pound.

The fair value of our balance sheet and cash flow hedges included in "Other current assets" and "Other current liabilities" on our consolidated balance sheets was immaterial at December 31, 2020, and 2019, respectively. The fair values of these derivatives are considered Level 2 under ASC 820, Fair Value Measurement, as they are based on quoted prices directly observable in active markets.

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

	Years ended December 31,	
Gains (losses) dollars in millions	2020	2019
Balance Sheet Hedges - Fair Value	$ (5)	$ 1
Balance Sheet Position - Remeasurement	9	3
Net	$ 4	$ 4

Interest rate risk. We use interest rate swaps to reduce interest rate risk and to manage net interest expense by converting our LIBOR based loans into fixed-rate loans. In October 2018, we entered into interest rate swap agreements with a notional value of $500 million, which are effective beginning October 2018 and mature in September 2022. Under the October 2018 swap agreements, we receive one-month LIBOR and pays monthly a fixed rate of 3.055% for the term of the swaps. In March 2020, we entered into additional swap agreements with a notional value of $400 million, which are effective beginning October 2022 and mature in January 2027. Under the March 2020 swap agreements, we will receive a one-month LIBOR and pay a monthly fixed rate of 0.965% for the term of the swaps. Our interest rate swaps are reported at fair value using Level 2 inputs. The fair value of the interest rate swaps at December 31, 2020 was $33 million, of which $15 million is included in "Other current liabilities" and $18 million is included "Other liabilities." The unrealized net losses on these interest rate swaps was $33 million and included in "AOCL" as of December 31, 2020. The fair value of the interest rate swaps at December 31, 2019 was $21 million, of which $8 million is included in "Other current liabilities" and $13 million is included in "Other liabilities". The unrealized net losses on these interest rate swaps was $21 million and included in "AOCL" as of December 31, 2019.

Credit Losses. We are exposed to credit losses primarily related to our professional services, project delivery, and technologies offered in our ES and TS business segments. We do not consider our GS business segment to be at risk for credit losses because substantially all services within this segment are provided to agencies of the U.S., U.K. and Australian governments. We determined our allowance for credit losses by using a loss-rate methodology, in which we assessed our historical write-off of receivables against our total receivables and contract asset balances over several years. From this historical loss-rate approach, we also considered the current and forecasted economic conditions expected to be in place over the life of our receivables and contract assets.

We monitor our ongoing credit exposure through an active review of our customers' receivables balance against contract terms and due dates. Our activities include timely performance of our accounts receivable reconciliations, assessment of our aging of receivables, dispute resolution and payment confirmation. We also monitor any change in our historical write-off of receivables utilized in our loss-rate methodology and assess for any forecasted change in market conditions to adjust our credit reserve.

At December 31, 2020, our ES and TS business segments that are subject to credit risk reported approximately $409 million of financial assets consisting primarily of accounts receivable and contract assets, net of allowances of $13 million. Although there continues to be an economic disruption resulting from the impact of COVID-19 and the decline in energy markets in 2020, changes in our credit loss reserve were not material for the year ended December 31, 2020. Based on an aging analysis at December 31, 2020, 82% of our accounts receivable related to these segments were outstanding for less than 90 days.

Sales of Receivables. From time to time, we sell certain receivables to unrelated third-party financial institutions under various accounts receivable monetization programs. The receivables sold under the agreements do not allow for recourse if such receivables are not collected by the third-party financial institutions. The Company accounts for these receivable transfers as a sale under ASC Topic 860, Transfers and Servicing, as the receivables have been legally isolated from the Company, the financial institution has the right to pledge or exchange the assets received and we do not maintain effective control over the transferred accounts receivable. Our only continuing involvement with the transferred financial assets is as the collection and servicing agent. As a result, the accounts receivable balance on the consolidated balance sheets is presented net of the transferred amount. The Company has derecognized $779 million of accounts receivables from the balance sheet under these agreements as of December 31, 2020. The fair value of the sold receivables approximated their book value due to their short-term nature. The fees incurred are presented in "Other non-operating (loss) income" on the consolidated statements of operations.

Activity for third-party financial institutions consisted of the following:

Dollars in millions	Year Ended December 31, 2020
Sale of receivables	$ 779
Settlement of receivables	(647)
Cash collection, not yet remitted	(20)
Outstanding balances sold to financial institutions	$ 112

On September 21, 2020, the Company entered into a Master Accounts Receivable Purchase Agreement (the "RPA") with MUFG Bank, Ltd. ("MUFG"), which provides for the sale to MUFG of certain of our designated eligible receivables, with a significant portion of such receivables being owed by the U.S. government. The receivables sold under the RPA are without recourse for any credit risk or financial inability to pay any of the customers. The RPA has an initial term of one year, which will automatically renew annually unless terminated by either party. During the year ended December 31, 2020, the Company sold certain receivables totaling $723 million under the RPA.

Note 23. Recent Accounting Pronouncements

New accounting pronouncements requiring implementation in future periods are discussed below.

In August 2018, the FASB issued ASU No. 2018-14, Disclosure Framework - Changes to the Disclosure Requirements for Defined Benefit Plans. This ASU amends ASC 715 to add, remove and clarify certain disclosure requirements related to defined benefit pension and other post-retirement plans. ASU No. 2018-14 is effective for fiscal years ending after December 15, 2020, with early adoption permitted. We do not expect the adoption of ASU No. 2018-14 to have any impact on our financial position, results of operations or cash flows.

In December 2019, the FASB issued ASU No. 2019-12, Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes. This ASU removes specific exceptions to the general principles in ASC Topic 740 related to the incremental approach for intraperiod tax allocation, accounting for basis differences for ownership changes in foreign investments and interim period income tax accounting for year-to-date losses that exceed anticipated losses. The ASU also improves financial statement preparers' application of income tax-related guidance and simplifies GAAP for franchise taxes that are partially based on income, transactions with a government that result in a step up in the tax basis of goodwill, separate financial statements of legal entities that are not subject to tax and enacted changes in tax laws in interim periods. For public entities, this ASU is effective for fiscal years beginning after December 15, 2020, and interim periods within those years. Early adoption is permitted. We are currently evaluating the future impact of adoption of this standard.

In March 2020, the FASB issued ASU No. 2020-04, Reference Rate Reform (Topic 848) - Facilitation of the Effects of the Interbank Offered Rate Transition on Financial Reporting to provide optional relief from applying generally accepted accounting principles to contracts, hedging relationships and other transactions affected by reference rate reform. In addition, in January 2021, the FASB issued ASU No. 2021-01, Reference Rate Reform (Topic 848) – Scope, to clarify that certain optional expedients and exceptions in Topic 848 for contract modifications and hedge accounting apply to derivatives that are affected by the discounting transition. The guidance is effective upon issuance and generally can be applied through December 31, 2022. We are currently evaluating the future impact of adoption of this standard.

In August 2020, the FASB issued ASU No. 2020-06, Debt - Debt with Conversion and other Options (Subtopic 470-20) and Derivatives and Hedging - Contracts in Entity's Own Equity (Subtopic 815-40): Accounting for Convertible Instruments and Contracts in an Equity's Own Equity. This guidance simplifies the accounting for convertible instruments by reducing the number of accounting models available for convertible debt instruments. This guidance also eliminates the treasury stock method to calculate diluted earnings per share for certain convertible instruments and requires the use of the if-converted method. ASU 2020-06 is effective for us for annual reporting periods beginning after December 15, 2021 and for interim periods within those annual periods, and can be applied utilizing either a modified or full retrospective transition method. We are currently evaluating the future impact of adoption of this standard.

In September 2020, the FASB issued ASU No. 2020-09, Debt (Topic 470) Amendments to SEC Paragraphs Pursuant to SEC Release No. 33-10762, Financial Disclosures about Guarantors and Issuers of Guaranteed Securities and Affiliates Whose Securities Collateralize a Registrant's Securities. This ASU includes amendments to the financial disclosure requirements applicable to registered debt offerings that include credit enhancements, such as subsidiary guarantees. These SEC changes are intended to both improve the quality of disclosure and increase the likelihood that issuers will conduct debt offerings on a registered basis. For public entities, this ASU is effective on January 4, 2021, and voluntary compliance with the final amendments in advance will be permitted. We are currently evaluating our transition to comply with this SEC amendment.

Note 24. Quarterly Data *(Unaudited)*

Summarized quarterly financial data for the years ended December 31, 2020 and 2019 is presented in the following table. In the following table, the sum of basic and diluted “Net income attributable to KBR per share” for the four quarters may differ from the annual amounts due to the required method of computing weighted average number of shares in the respective periods. Additionally, due to the effect of rounding, the sum of the individual quarterly earnings per share amounts may not equal the calculated year earnings per share amount.

(Dollars in millions, except per share amounts)	First	Second	Third	Fourth	Year
2020					
Total revenues	$ 1,537	$ 1,385	$ 1,379	$ 1,466	$ 5,767
Gross profit	186	142	172	166	666
Equity in earnings of unconsolidated affiliates	1	16	13	—	30
Operating income	(69)	(12)	93	45	57
Net income	(84)	(39)	52	20	(51)
Net income attributable to noncontrolling interests	(20)	—	—	(1)	(21)
Net income attributable to KBR	(104)	(39)	52	19	(72)
Net income attributable to KBR per share:					
Net income attributable to KBR per share—Basic	$ (0.73)	$ (0.28)	$ 0.36	$ 0.14	$ (0.51)
Net income attributable to KBR per share—Diluted	$ (0.73)	$ (0.28)	$ 0.36	$ 0.13	$ (0.51)

(Dollars in millions, except per share amounts)	First	Second	Third	Fourth	Year
2019					
Total revenues	$ 1,340	$ 1,422	$ 1,425	$ 1,452	$ 5,639
Gross profit	153	160	169	171	653
Equity in earnings of unconsolidated affiliates	—	15	9	11	35
Operating income	78	92	104	88	362
Net income	42	50	58	59	209
Net income attributable to noncontrolling interests	(2)	(2)	(2)	(1)	(7)
Net income attributable to KBR	40	48	56	58	202
Net income attributable to KBR per share:					
Net income attributable to KBR per share—Basic	$ 0.28	$ 0.34	$ 0.39	$ 0.41	$ 1.42
Net income attributable to KBR per share—Diluted	$ 0.28	$ 0.34	$ 0.39	$ 0.40	$ 1.41

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

Not applicable.

Item 9A. Controls and Procedures

Management's Evaluation of Disclosure Controls and Procedures

In accordance with Rules 13a-15(b) under the Securities and Exchange Act of 1934, as amended (the "Exchange Act"), we carried out an evaluation, under the supervision and with the participation of management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e)) as of the end of the period covered by this report. Our disclosure controls and procedures are designed to ensure that information required to be disclosed in reports filed or submitted under the Exchange Act is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure and is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of December 31, 2020 at the reasonable assurance level.

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

Management's Annual Report on Internal Control Over Financial Reporting

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

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

Management, including our Chief Executive Officer and Chief Financial Officer, carried out an evaluation of the effectiveness of our internal control over financial reporting as of December 31, 2020. In conducting this evaluation, our management used the criteria for effective internal control over financial reporting described in Internal Control-Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on that evaluation, management has determined our internal control over financial reporting was effective as of December 31, 2020.

As disclosed in Note 4 to our consolidated financial statements, we acquired Centauri Platform Holdings, LLC and Scientific Management Associates (Operations) Pty Ltd during 2020. As permitted by guidelines established by the Securities and Exchange Commission for newly acquired businesses, we excluded these acquisitions from the scope of our annual report on internal controls over financial reporting for the year ended December 31, 2020. These acquisitions comprised approximately $246 million of our consolidated total assets as of December 31, 2020 and $146 million of our consolidated revenues for the year ended December 31, 2020. We are in the process of integrating these businesses into our overall internal controls over financial reporting and plan to include them in our scope for the year ended December 31, 2021.

The effectiveness of our internal control over financial reporting as of December 31, 2020 has been audited by KPMG LLP, an independent registered public accounting firm, as stated in their report, which is included in this Annual Report on Form 10-K.

Changes in Internal Control Over Financial Reporting

There have been no changes in our internal control procedures over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting during the three months ended December 31, 2020.

Report of Independent Registered Public Accounting Firm

To the Shareholders and Board of Directors
KBR, Inc.:

Opinion on Internal Control Over Financial Reporting

We have audited KBR, Inc. and subsidiaries' (the Company) internal control over financial reporting as of December 31, 2020, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2020, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheets of the Company as of December 31, 2020 and 2019, the related consolidated statements of operations, comprehensive income (loss), shareholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2020, and the related notes and financial statement schedule II (collectively, the consolidated financial statements), and our report dated February 25, 2021 expressed an unqualified opinion on those consolidated financial statements.

The Company acquired Centauri Platform Holdings, LLC and Scientific Management Associates (Operations) Pty Ltd during 2020, and management excluded from its assessment of the effectiveness of the Company's internal control over financial reporting as of December 31, 2020, these acquired businesses' internal control over financial reporting associated with total assets of $246 million and total revenues of $146 million included in the consolidated financial statements of the Company as of and for the year ended December 31, 2020. Our audit of internal control over financial reporting of the Company also excluded an evaluation of the internal control over financial reporting of these acquired businesses.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying *Management's Annual Report on Internal Control Over Financial Reporting*. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

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

Definition and Limitations of Internal Control Over Financial Reporting

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

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

/s/ KPMG LLP

Houston, Texas
February 25, 2021

Item 9B. Other Information

Not applicable.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

The information required by this Item is incorporated herein by reference to the KBR, Inc. Company Proxy Statement for our 2021 Annual Meeting of Stockholders.

KBR has adopted a "code of ethics," as defined in Item 406(b) of SEC Regulation S-K. KBR's code of ethics, known as the Code of Business Conduct, applies to all directors, officers, and employees of KBR, including our principal executive officer, principal financial officer, principal accounting officer, and controllers, and also applies to all employees of KBR's agents. The Code of Business Conduct is available on our website, www.kbr.com. KBR intends to satisfy the disclosure requirements regarding amendments to, or waivers from, any provision of the Code of Business Conduct by posting such information on our website.

Item 11. Executive Compensation

The information required by this Item is incorporated herein by reference to the KBR, Inc. Company Proxy Statement for our 2021 Annual Meeting of Stockholders.

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

The information required by this Item is incorporated herein by reference to the KBR, Inc. Company Proxy Statement for our 2021 Annual Meeting of Stockholders.

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

The information required by this Item is incorporated herein by reference to the KBR, Inc. Company Proxy Statement for our 2021 Annual Meeting of Stockholders.

Item 14. Principal Accounting Fees and Services

The information required by this Item is incorporated herein by reference to the KBR, Inc. Company Proxy Statement for our 2021 Annual Meeting of Stockholders.

PART IV

Item 15. Exhibits and Financial Statement Schedules.

(a) The following documents are filed as part of this report or incorporated by reference:

1. The consolidated financial statements of KBR listed on page 61 of this annual report on Form 10-K.
2. The exhibits of KBR listed below under Item 15(b); all exhibits are incorporated herein by reference to a prior filing as indicated, unless designated by a * or **.

(b) Exhibits:

EXHIBIT INDEX

Exhibit Number	Description
2.1†	Agreement and Plan of Merger by and among Wyle Inc., KBR Holdings, LLC, Road Runner Merger Sub, Inc., and CSC Shareholder Services LLC dated as of May 18, 2016 (incorporated by reference to Exhibit 2.1 to KBR's current report on Form 8-K filed May 23, 2016; File No. 001-33146)
2.2†	Purchase and Sale Agreement by and among Honeywell International Inc., Honeywell Technology Solutions Inc., and KBR Holdings, LLC dated as of August 12, 2016 (incorporated by reference to Exhibit 2.1 to KBR's current report on Form 8-K filed August 12, 2016; File No. 001-33146)
2.3†	Equity Purchase Agreement, dated as of February 22, 2018, by and among KBRwyle Technology Solutions, LLC, Kamco Holdings, Inc., the shareholders of Kamco Holdings, Inc., SGT, Inc., and Kamal S. Ghaffarian, in his capacity as Sellers' Representative and Sellers' Guarantor (incorporated by reference to Exhibit 2.1 to KBR's current report on Form 8-K filed February 23, 2018; File No. 001-33146)
2.4†	Agreement and Plan of Merger, dated as of August 17, 2020, by and among KBR Wyle Services, LLC, Astrid Merger Sub, LLC, Centauri Platform Holdings, LLC and Centauri ACP Holdings, LLC, in its capacity as representative for the Equityholders (incorporated by reference to Exhibit 2.1 to KBR's Current Report on Form 8-K filed on August 19, 2020; File No. 001-33146)
3.1	KBR Amended and Restated Certificate of Incorporation (incorporated by reference to Exhibit 3.1 to KBR's current report on Form 8-K filed June 7, 2012; File No. 001-33146)
3.2	Amended and Restated Bylaws of KBR, Inc. (incorporated by reference to Exhibit 3.2 to KBR's annual report on Form 10-K for the year ended December 31, 2013 filed on February 27, 2014; File No. 001-33146)
4.1	Form of specimen KBR common stock certificate (incorporated by reference to Exhibit 4.1 to KBR's registration statement on Form S-1; Registration No. 333-133302)
4.2	Indenture related to the 2.50% Convertible Senior Notes due 2023, dated as of November 15, 2018, among KBR, Inc. and Citibank, N.A., as trustee (incorporated by reference to Exhibit 4.1 to KBR's current report on Form 8-K filed November 16, 2018; File No. 001-33146)
4.3	Form of 2.50% Convertible Senior Note due 2023 (incorporated by reference to Exhibit 4.2 to KBR's current report on Form 8-K filed November 16, 2018; File No. 001-33146)
4.4*	Description of Securities Registered Under Section 12 of the Securities Exchange Act of 1934.
4.5	Indenture, dated September 30, 2020, by and among KBR, Inc., the guarantors party thereto and Citibank, N.A., as trustee (incorporated by reference to Exhibit 4.1 to KBR's Current Report on Form 8-K filed on October 5, 2020; File No. 001-33146)
4.6	Form of 4.750% Senior Notes due 2028 (incorporated by reference to Exhibit 4.2 to KBR's Current Report on Form 8-K filed on October 5, 2020; File No. 001-33146)
4.7	First Supplemental Indenture, dated as of January 6, 2021, by and among KBR Inc., the guarantors named therein and Citibank, N.A. as trustee (incorporated by reference to Exhibit 4.1 to KBR's Current Report on Form 8-K filed on January 6, 2021; File No. 001-33146)
10.1	Master Separation Agreement between Halliburton Company and KBR, Inc. dated as of November 20, 2006 (incorporated by reference to Exhibit 10.1 to KBR's current report on Form 8-K filed November 27, 2006; File No. 001-33146)
10.2	Tax Sharing Agreement, dated as of January 1, 2006, by and between Halliburton Company, KBR Holdings, LLC and KBR, Inc., as amended effective February 26, 2007 (incorporated by reference to Exhibit 10.2 to KBR's annual report on Form 10-K for the year ended December 31, 2006; File No. 001-33146)
10.3	Employee Matters Agreement dated as of November 20, 2006, by and between Halliburton Company and KBR, Inc. (incorporated by reference to Exhibit 10.6 to KBR's current report on Form 8-K filed November 27, 2006; File No. 001-33146)
10.4	Intellectual Property Matters Agreement dated as of November 20, 2006, by and between Halliburton Company and KBR, Inc. (incorporated by reference to Exhibit 10.7 to KBR's current report on Form 8-K filed November 27, 2006; File No. 001-33146)
10.5	Form of Indemnification Agreement between KBR, Inc. and its directors and executive officers (incorporated by reference to Exhibit 10.7 to KBR's annual report on Form 10-K for the year ended December 31, 2013 filed on February 27, 2014; File No. 001-33146)

10.6	Credit Agreement, dated as of April 25, 2018, by and among KBR, Inc., Bank of America, N.A., as Administrative Agent, Swing Line Lender and a Letter of Credit Issuer, and the other lenders party thereto (incorporated by reference to Exhibit 10.1 to KBR’s current report on Form 8-K filed April 27, 2018; File No. 001-33146)
10.7	First Amendment to Credit Agreement, dated November 12, 2018, among KBR, Inc., Bank of America, N.A., as Administrative Agent, Swing Line Lender and a Letter of Credit Issuer, and the other lenders party thereto (incorporated by reference to Exhibit 10.1 to KBR’s current report on Form 8-K filed November 13, 2018; File No. 001-33146)
10.8	Amendment No. 2 to Credit Agreement, dated as of February 7, 2020 with Bank of America, N.A., as administrative agent, swing line lender and a letter of credit issuer, the lenders party thereto, and each of the subsidiaries of KBR party thereto (incorporated by reference to Exhibit 10.1 to KBR’s current report on Form 8-K dated February 12, 2020; File No. 001-33146)
10.9	Amendment No. 3 to Credit Agreement, dated as of July 2, 2020 with Bank of America, N.A., as administrative agent, swing line lender and a letter of credit issuer, the lenders party thereto, the swing line lenders party thereto, the letter of credit issuers party thereto and each of the subsidiaries of KBR party thereto (incorporated by reference to Exhibit 10.1 to KBR’s current report on Form 8-K dated July 8, 2020; File No. 001-33146)
10.10	Amendment No. 4 to Credit Agreement, dated as of September 14, 2020 with Bank of America, N.A., as administrative agent, swing line lender and a letter of credit issuer, the lenders party thereto, the swing line lenders party thereto, the letter of credit issuers party thereto and each of the subsidiaries of KBR party thereto (incorporated by reference to Exhibit 10.1 to KBR’s Current Report on Form 8-K dated September 14, 2020; File No. 001-33146)
10.11	Guaranty Agreement dated as of May 18, 2016 by and between KBR, Inc. in favor of Wyle Inc. (incorporated by reference to Exhibit 10.1 to KBR's current report on Form 8-K filed May 23, 2016; File No. 001-33146)
10.12	Guaranty Agreement dated as of August 12, 2016 by and between KBR, Inc. in favor of Honeywell International Inc. (incorporated by reference to Exhibit 10.1 to KBR's current report on Form 8-K filed August 12, 2016; File No. 001-33146)
10.13	Guaranty, dated as of February 22, 2018, by and between KBR, Inc. and Kamco Holdings, Inc. (incorporated by reference to Exhibit 10.1 to KBR’s current report on Form 8-K filed February 23, 2018; File No. 001-33146)
10.14	Commitment Letter, effective as of February 22, 2018, by and among Bank of America, N.A., Merrill Lynch, Pierce, Fenner & Smith Incorporated and KBR, Inc. (incorporated by reference to Exhibit 10.2 to KBR’s current report on Form 8-K filed February 23, 2018; File No. 001-33146)
10.15	Purchase Agreement, dated November 12, 2018, among KBR, Inc., Merrill Lynch, Pierce, Fenner & Smith Incorporated and the other initial purchasers named in Schedule A thereto (incorporated by reference to Exhibit 10.1 to KBR’s current report on Form 8-K filed November 16, 2018; File No. 001-33146)
10.16	Letter Agreement, dated November 12, 2018, between KBR, Inc. and Bank of America, N.A., regarding the Convertible Note Hedge Transactions (incorporated by reference to Exhibit 10.2 to KBR’s current report on Form 8-K filed November 16, 2018; File No. 001-33146)
10.17	Letter Agreement, dated November 12, 2018, between KBR, Inc. and BNP Paribas, regarding the Convertible Note Hedge Transactions (incorporated by reference to Exhibit 10.3 to KBR’s current report on Form 8-K filed November 16, 2018; File No. 001-33146)
10.18	Letter Agreement, dated November 12, 2018, between KBR, Inc. and Citibank, N.A., regarding the Convertible Note Hedge Transactions (incorporated by reference to Exhibit 10.4 to KBR’s current report on Form 8-K filed November 16, 2018; File No. 001-33146)
10.19	Letter Agreement, dated November 12, 2018, between KBR, Inc. and Bank of America, N.A., regarding the Warrant Transactions (incorporated by reference to Exhibit 10.5 to KBR’s current report on Form 8-K filed November 16, 2018; File No. 001-33146)
10.20	Letter Agreement, dated November 12, 2018, between KBR, Inc. and BNP Paribas, regarding the Warrant Transactions (incorporated by reference to Exhibit 10.6 to KBR’s current report on Form 8-K filed November 16, 2018; File No. 001-33146)
10.21	Letter Agreement, dated November 12, 2018, between KBR, Inc. and Citibank, N.A., regarding the Warrant Transactions (incorporated by reference to Exhibit 10.7 to KBR’s current report on Form 8-K filed November 16, 2018; File No. 001-33146)

10.22+	KBR, Inc. 2006 Stock and Incentive Plan (As Amended and Restated March 7, 2012) (incorporated by reference to KBR's definitive proxy statement dated April 5, 2012; File No. 001-33146)
10.23+	KBR, Inc. 2006 Stock and Incentive Plan, as amended and restated effective May 12, 2016 (incorporated by reference to Exhibit 10.1 to KBR’s current report on Form 8-K filed May 18, 2016; File No. 001-33146)
10.24+	KBR Dresser Deferred Compensation Plan (incorporated by reference to Exhibit 4.5 to KBR’s registration statement on Form S-8 filed on April 13, 2007)
10.25+	KBR Benefit Restoration Plan (incorporated by reference to Exhibit 10.4 to KBR’s current report on Form 8-K filed April 13, 2007; File No. 001-33146)
10.26+	KBR Elective Deferral Plan, as restated effective September 1, 2019 (incorporated by reference to Exhibit 10.27 to KBR’s quarterly report on Form 10-Q for the period ended September 30, 2019; File No. 001-33146)
10.27+	KBR Non-Employee Directors Elective Deferral Plan (incorporated by reference to Exhibit 10.1 to KBR's current report on Form 8-K filed December 17, 2013; File No. 001-33146)
10.28+	Form of revised Nonstatutory Stock Option Agreement for US and Non-US Employees pursuant to KBR, Inc. 2006 Stock and Incentive Plan (incorporated by reference to Exhibit 10.1 to KBR’s quarterly report on Form 10-Q for the period ended March 31, 2013; File No. 001-33146)
10.29+	Form of revised Restricted Stock Unit Agreement (Director) pursuant to KBR, Inc. 2006 Stock and Incentive Plan (incorporated by reference to Exhibit 10.3 to KBR’s quarterly report on Form 10-Q for the period ended March 31, 2013; File No. 001-33146)
10.30+	Form of revised Nonstatutory Stock Option Agreement for US and Non-US Employees pursuant to KBR, Inc. 2006 Stock and Incentive Plan (incorporated by reference to Exhibit 10.2 to KBR’s quarterly report on Form 10-Q for the period ended March 31, 2014; File No. 001-33146)
10.31+	Form of Severance and Change in Control Agreement (incorporated by reference to Exhibit 10.1 to KBR’s current report on Form 8-K filed August 29, 2008; File No. 001-33146)
10.32+	Amendment to the 2008 Severance and Change in Control Agreements effective as of December 31, 2008 (incorporated by reference to Exhibit 10.36 to KBR’s annual report on Form 10-K for the year ended December 31, 2011; File No. 001-33146)
10.33+	Severance and Change in Control Agreement effective as of June 2, 2014, between KBR Technical Services, Inc., a Delaware corporation, KBR, Inc. and Stuart J. Bradie (incorporated by reference to Exhibit 10.1 to KBR’s current report on Form 8-K dated April 9, 2014; File No. 001-33146)
10.34+	Form of Amendment to Severance and Change in Control Agreement (incorporated by reference to Exhibit 10.2 to KBR’s quarterly report on Form 10-Q for the period ended September 30, 2015; File No. 001-33146)
10.35+	Severance and Change of Control Agreement effective as of February 23, 2017, by and between KBR Technical Services, Inc., a Delaware corporation, KBR, Inc., and Mark Sopp (incorporated by reference to Exhibit 10.1 to KBR’s current report on Form 8-K filed December 13, 2016; File No. 001-33146)
10.36+	Form of Restricted Stock Unit Agreement (US Employee) pursuant to KBR, Inc. 2006 Stock and Incentive Plan (incorporated by reference to Exhibit 10.47 to KBR’s annual report on Form 10-K for the year ended December 31, 2017; File No. 001-33146)
10.37+	Form of revised Restricted Stock Unit Agreement (International Employee) pursuant to KBR, Inc. 2006 Stock and Incentive Plan (incorporated by reference to Exhibit 10.48 to KBR’s annual report on Form 10-K for the year ended December 31, 2017; File No. 001-33146)
10.38+	Form of revised Performance Stock Unit Agreement (US Employee) pursuant to KBR, Inc. 2006 Stock and Incentive Plan (incorporated by reference to Exhibit 10.49 to KBR’s annual report on Form 10-K for the year ended December 31, 2017; File No. 001-33146)
10.39+	Form of revised Performance Stock Unit Agreement (International Employee) pursuant to KBR, Inc. 2006 Stock and Incentive Plan (incorporated by reference to Exhibit 10.50 to KBR’s annual report on Form 10-K for the year ended December 31, 2017; File No. 001-33146)
10.40+	Form of revised Performance Award Agreement (US/International Employee) pursuant to KBR, Inc. 2006 Stock and Incentive Plan (incorporated by reference to Exhibit 10.51 to KBR’s annual report on Form 10-K for the year ended December 31, 2017; File No. 001-33146)
10.41+	Form of Restricted Stock Unit Agreement (US Employee) pursuant to KBR, Inc. 2006 Stock and Incentive Plan (incorporated by reference to Exhibit 10.61 to KBR’s quarterly report on Form 10Q for the period ended March 31, 2019; File No. 001-33146)

10.42+	Form of revised Restricted Stock Unit Agreement (International Employee) pursuant to KBR, Inc. 2006 Stock and Incentive Plan (incorporated by reference to Exhibit 10.62 to KBR's quarterly report on Form 10-Q for the period ended March 31, 2019; File No. 001-33146)
10.43+	Form of revised Performance Stock Unit Agreement (US Employee) pursuant to KBR, Inc. 2006 Stock and Incentive Plan (incorporated by reference to Exhibit 10.63 to KBR's quarterly report on Form 10-Q for the period ended March 31, 2019; File No. 001-33146)
10.44+	Form of revised Performance Stock Unit Agreement (International Employee) pursuant to KBR, Inc. 2006 Stock and Incentive Plan (incorporated by reference to Exhibit 10.64 to KBR's quarterly report on Form 10-Q for the period ended March 31, 2019; File No. 001-33146)
10.45+	Form of revised Performance Award Agreement (US/International Employee) pursuant to KBR, Inc. 2006 Stock and Incentive Plan (incorporated by reference to Exhibit 10.65 to KBR's quarterly report on Form 10-Q for the period ended March 31, 2019; File No. 001-33146)
10.46+	Form of Restricted Stock Unit Agreement (US Employee) pursuant to KBR, Inc. 2006 Stock and Incentive Plan (incorporated by reference to Exhibit 10.1 to KBR's quarterly report on Form 10-Q for the period ended March 31, 2020; File No. 001-33146)
10.47+	Form of revised Restricted Stock Unit Agreement (International Employee) pursuant to KBR, Inc. 2006 Stock and Incentive Plan (incorporated by reference to Exhibit 10.2 to KBR's quarterly report on Form 10-Q for the period ended March 31, 2020; File No. 001-33146)
10.48+	Form of revised Performance Stock Unit Agreement (US Employee) pursuant to KBR, Inc. 2006 Stock and Incentive Plan (incorporated by reference to Exhibit 10.3 to KBR's quarterly report on Form 10-Q for the period ended March 31, 2020; File No. 001-33146)
10.49+	Form of revised Performance Stock Unit Agreement (International Employee) pursuant to KBR, Inc. 2006 Stock and Incentive Plan (incorporated by reference to Exhibit 10.4 to KBR's quarterly report on Form 10-Q for the period ended March 31, 2020; File No. 001-33146)
10.50+	Form of Performance Award Agreement (US/International Employee Cash Only) pursuant to KBR, Inc. 2006 Stock and Incentive Plan (incorporated by reference to Exhibit 10.5 to KBR's quarterly report on Form 10-Q for the period ended March 31, 2020; File No. 001-33146)
10.51+	Form of Performance Award Agreement (US/International Employee Cash/Stock) pursuant to KBR, Inc. 2006 Stock and Incentive Plan (incorporated by reference to Exhibit 10.6 to KBR's quarterly report on Form 10-Q for the period ended March 31, 2020; File No. 001-33146)
10.52+	KBR, Inc. Senior Executive Performance Pay Plan, as restated effective January 1, 2020 (incorporated by reference to Exhibit 10.7 to KBR's quarterly report on Form 10-Q for the period ended March 31, 2020; File No. 001-33146)
10.53+	KBR, Inc. Management Performance Pay Plan, as restated effective January 1, 2020 (incorporated by reference to Exhibit 10.8 to KBR's quarterly report on Form 10-Q for the period ended March 31, 2020; File No. 001-33146)
*10.54+	Form of Severance and Change in Control Agreement
*21.1	List of subsidiaries
*23.1	Consent of KPMG LLP—Houston, Texas
*31.1	Certification of the Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
*31.2	Certification of the Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
**32.1	Certification Furnished Pursuant to 18 U.S.C. Section 1350 as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
**32.2	Certification Furnished Pursuant to 18 U.S.C. Section 1350 as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
***101	The following materials from KBR annual report on Form 10-K for the period ended December 31, 2020, formatted in XBRL (Extensible Business Reporting Language): (i) Consolidated Statements of Operations, (ii) Consolidated Statements of Comprehensive Income (Loss), (iii) Consolidated Balance Sheets, (iv) Consolidated Statements of Shareholders' Equity, (v) Consolidated Statements of Cash Flows, and (vi) Notes to Consolidated Financial Statements
***104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101).

+	Management contracts or compensatory plans or arrangements
†	Schedules omitted pursuant to Item 601(b)(2) of Regulation S-K. KBR agrees to furnish supplementally a copy of any omitted schedule to the Securities and Exchange Commission upon request.
*	Filed with this annual report on Form 10-K
**	Furnished with this annual report on Form 10-K
***	Interactive data files

SIGNATURES

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

KBR, INC.
(Registrant)

By: /s/ Stuart J. B. Bradie

Stuart J. B. Bradie
President and Chief Executive Officer

Dated: February 25, 2021

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

Signature	Title
/s/ Stuart J. B. Bradie **Stuart J. B. Bradie**	Principal Executive Officer, President, Chief Executive Officer and Director
/s/ Mark W. Sopp **Mark W. Sopp**	Principal Financial Officer, Executive Vice President and Chief Financial Officer
/s/ Shad E. Evans **Shad E. Evans**	Principal Accounting Officer, Senior Vice President of Finance Operations
/s/ Mark E. Baldwin **Mark E. Baldwin**	Director
/s/ James R. Blackwell **James R. Blackwell**	Director
/s/ Lynn A. Dugle **Lynn A. Dugle**	Director
/s/ Lester L. Lyles **Lester L. Lyles**	Director
/s/ Wendy M. Masiello **Wendy M. Masiello**	Director
/s/ Jack B. Moore **Jack B. Moore**	Director
/s/ Ann D. Pickard **Ann D. Pickard**	Director
/s/ Umberto della Sala **Umberto della Sala**	Director

Dated: February 25, 2021

KBR, Inc.
Schedule II—Valuation and Qualifying Accounts

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

(Dollars in Millions)

Descriptions	Balance at Beginning Period	Additions: Charged to Costs and Expenses	Additions: Charged to Other Accounts	Deductions	Balance at End of Period
Year ended December 31, 2020:					
Deducted from accounts and notes receivable:					
Allowance for credit losses	$ 14	$ 11	$ —	$ (12)(a)	$ 13
Reserve for losses on uncompleted contracts	$ 10	$ 14	$ —	$ (8)	$ 16
Reserve for potentially disallowable costs incurred under government contracts	$ 58	$ 24	$ —	$ (28)	$ 54
Year ended December 31, 2019:					
Deducted from accounts and notes receivable:					
Allowance for credit losses	$ 9	$ 13	$ 3 (c)	$ (11)(a)	$ 14
Reserve for losses on uncompleted contracts	$ 6	$ 12	$ —	$ (8)	$ 10
Reserve for potentially disallowable costs incurred under government contracts	$ 55	$ 5	$ —	$ (2)	$ 58
Year ended December 31, 2018:					
Deducted from accounts and notes receivable:					
Allowance for credit losses	$ 12	$ 3	$ —	$ (6)(a)	$ 9
Reserve for losses on uncompleted contracts	$ 15	$ 9	$ —	$ (18)	$ 6
Reserve for potentially disallowable costs incurred under government contracts	$ 60	$ 13	$ 2 (b)	$ (20)	$ 55

(a) Receivable write-offs, net of recoveries
(b) Reserves of $2 million were recorded in the 2018 acquisition of SGT
(c) Reserves of $3 million was recorded as a reduction in revenue

See accompanying report of independent registered public accounting firm.

Board of Directors

Mark E. Baldwin
Former Executive Vice President
and Chief Financial Officer
Dresser-Rand Group, Inc.

James R. Blackwell
Former Executive Vice President,
Technology and Services
Chevron Corporation

Stuart J. B. Bradie
President and Chief Executive Officer
KBR, Inc.

Lynn A. Dugle
Former Chairman, President and
Chief Executive Officer
Engility Holdings, Inc.

General Lester L. Lyles, USAF (Ret.)
Independent Consultant

Lt. General Wendy M. Masiello, USAF (Ret.)
Independent Consultant

Jack B. Moore
Former Chairman of the Board and
President and Chief Executive Officer
Cameron International Corporation

Ann D. Pickard
Former Executive Vice President, Arctic
Royal Dutch Shell plc

Umberto della Sala
Former President and Chief Operating Officer
Foster Wheeler AG

Corporate Officers

Stuart J. B. Bradie
President and Chief Executive Officer

Mark W. Sopp
Executive Vice President and Chief Financial Officer

Eileen G. Akerson
Executive Vice President and General Counsel

Andrew J. Barrie
President, Government Solutions – EMEA

W. Byron Bright, Jr.
President, Government Solutions

Gregory S. Conlon
Chief Digital & Development Officer

Shad E. Evans
Senior Vice President of Finance Operations and
Interim Chief Accounting Officer

J. Jay Ibrahim
President, Sustainable Technology Solutions

Douglas N. Kelly
President, Technology

Jennifer C. Myles
Executive Vice President and Chief People Officer

April 5, 2021

Stockholder Information
Shares Listed
New York Stock Exchange
Symbol: KBR

Transfer Agent and Registrar
American Stock Transfer & Trust Company
6201 15th Avenue
Brooklyn, New York 11219
(800) 937-5449
help@astfinancial.com

To Contact Investor Relations
Stockholders may call the Company at 1-866-380-7721 or 713-753-5082 or contact us via email at investors@kbr.com.

The CEO and CFO certifications required by Section 302 of the Sarbanes-Oxley Act of 2002 have been filed as exhibits to KBR's Form 10-K. Our Annual CEO Certification for fiscal year 2020 was submitted to the NYSE timely and without qualification.