KBR, INC.
Form 10-Q
October 31, 2017

false--12-31Q320170001357615Large Accelerated
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drawn under the Credit Agreement will bear interest at variable rates, per annum, based either on (i)?the LIBOR plus an applicable margin of 1.375% to 1.75%, or (ii)?a base rate plus an applicable margin of 0.375% to 0.75%, with the base rate equal to the highest of (a)?reference bank?s publicly announced base rate, (b)?the Federal Funds Rate plus 0.5%, or (c)?LIBOR plus 1%. The amount of the applicable margin to be applied will be determined by the Company?s ratio of consolidated debt to consolidated EBITDA for the prior four fiscal quarters as defined in the Credit Agreement. The Credit Agreement provides for fees on letters of credit issued under the Credit Agreement at a rate equal to the applicable margin for LIBOR-based loans, except for performance letters of credit, which are priced at 50% of such applicable margin. KBR pays an annual issuance fee of 0.125% of the face amount of a letter of credit and pays a commitment fee of 0.225% to 0.25%,?per annum, on any unused portion of the commitment under the Credit Agreement based on the Company's consolidated leverage ratio.P34M20000002000000100000070000001000000400000020000004000000000.0010.00150000000500000000000033109528
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0001357615 kbr:PemexMember 2016-07-01 2016-09-30 0001357615 us-gaap:TreasuryStockMember 2016-01-01 2016-09-30 0001357615 us-gaap:TreasuryStockMember 2017-01-01 2017-09-30 0001357615 us-gaap:NoncontrollingInterestMember 2017-01-01 2017-09-30 0001357615 us-gaap:AdditionalPaidInCapitalMember 2017-01-01 2017-09-30 0001357615 us-gaap:RetainedEarningsMember 2017-01-01 2017-09-30 0001357615 us-gaap:AdditionalPaidInCapitalMember 2016-01-01 2016-09-30 0001357615 us-gaap:RetainedEarningsMember 2016-01-01 2016-09-30 0001357615 us-gaap:NoncontrollingInterestMember 2016-12-31 0001357615 us-gaap:AccumulatedOtherComprehensiveIncomeMember 2016-01-01 2016-09-30 0001357615 us-gaap:RetainedEarningsMember 2016-12-31 0001357615 us-gaap:AdditionalPaidInCapitalMember 2016-12-31 0001357615 us-gaap:RetainedEarningsMember 2016-09-30 0001357615 us-gaap:RetainedEarningsMember 2017-09-30 0001357615 us-gaap:AccumulatedOtherComprehensiveIncomeMember 2016-09-30 0001357615 us-gaap:NoncontrollingInterestMember 2016-01-01 2016-09-30 0001357615 us-gaap:TreasuryStockMember 2017-09-30 0001357615 us-gaap:AccumulatedOtherComprehensiveIncomeMember 2017-01-01 2017-09-30 0001357615 us-gaap:RetainedEarningsMember 2015-12-31 0001357615 us-gaap:AccumulatedOtherComprehensiveIncomeMember 2017-09-30 0001357615 us-gaap:AdditionalPaidInCapitalMember 2017-09-30 0001357615 us-gaap:TreasuryStockMember 2016-12-31 0001357615 us-gaap:AdditionalPaidInCapitalMember 2015-12-31 0001357615 us-gaap:TreasuryStockMember 2015-12-31 0001357615 us-gaap:AccumulatedOtherComprehensiveIncomeMember 2015-12-31 0001357615 us-gaap:AdditionalPaidInCapitalMember 2016-09-30 0001357615 us-gaap:NoncontrollingInterestMember 2016-09-30 0001357615 us-gaap:NoncontrollingInterestMember 2017-09-30 0001357615 us-gaap:AccumulatedOtherComprehensiveIncomeMember 2016-12-31 0001357615 us-gaap:NoncontrollingInterestMember 2015-12-31 0001357615 us-gaap:TreasuryStockMember 2016-09-30 0001357615 us-gaap:ReclassificationOutOfAccumulatedOtherComprehensiveIncomeMember us-gaap:AccumulatedDefinedBenefitPlansAdjustmentMember 2016-01-01 2016-09-30 0001357615 us-gaap:ReclassificationOutOfAccumulatedOtherComprehensiveIncomeMember us-gaap:AccumulatedDefinedBenefitPlansAdjustmentMember 2017-01-01 2017-09-30 0001357615 kbr:AccumulatedPensionLiabilityAdjustmentsMember 2016-12-31 0001357615 kbr:AccumulatedPensionLiabilityAdjustmentsMember 2017-09-30 0001357615 us-gaap:AccumulatedTranslationAdjustmentMember 2016-12-31 0001357615 kbr:AccumulatedUnrealizedLossesOnDerivativesMember 2016-12-31 0001357615 kbr:AccumulatedPensionLiabilityAdjustmentsMember 2017-01-01 2017-09-30 0001357615 kbr:AccumulatedUnrealizedLossesOnDerivativesMember 2017-01-01 2017-09-30 0001357615 us-gaap:AccumulatedTranslationAdjustmentMember 2017-01-01 2017-09-30 0001357615 kbr:AccumulatedUnrealizedLossesOnDerivativesMember 2017-09-30 0001357615 us-gaap:AccumulatedTranslationAdjustmentMember 2017-09-30 0001357615 kbr:AccumulatedUnrealizedLossesOnDerivativesMember 2016-09-30 0001357615 us-gaap:AccumulatedTranslationAdjustmentMember 2016-01-01 2016-09-30 0001357615 us-gaap:AccumulatedTranslationAdjustmentMember 2016-09-30 0001357615 kbr:AccumulatedUnrealizedLossesOnDerivativesMember 2016-01-01 2016-09-30 0001357615 kbr:AccumulatedUnrealizedLossesOnDerivativesMember 2015-12-31 0001357615 kbr:AccumulatedPensionLiabilityAdjustmentsMember 2016-09-30 0001357615 us-gaap:AccumulatedTranslationAdjustmentMember 2015-12-31 0001357615 kbr:AccumulatedPensionLiabilityAdjustmentsMember 2015-12-31 0001357615 kbr:AccumulatedPensionLiabilityAdjustmentsMember 2016-01-01 2016-09-30 0001357615 kbr:ShareRepurchaseProgramTwentyFourteenMember 2014-02-25 0001357615 kbr:SharesWithheldtoCoverMember 2016-07-01 2016-09-30 0001357615 kbr:ShareRepurchaseProgramTwentyFourteenMember 2016-01-01 2016-09-30 0001357615 kbr:SharesWithheldtoCoverMember 2016-01-01 2016-09-30 0001357615 kbr:ShareRepurchaseProgramTwentyFourteenMember 2017-07-01 2017-09-30 0001357615 kbr:SharesWithheldtoCoverMember 2017-07-01 2017-09-30 0001357615 kbr:ShareRepurchaseProgramTwentyFourteenMember 2017-01-01 2017-09-30 0001357615 kbr:SharesWithheldtoCoverMember 2017-01-01 2017-09-30 0001357615

kbr:ShareRepurchaseProgramTwentyFourteenMember 2016-07-01 2016-09-30 0001357615
kbr:BalanceSheetHedgeMember 2017-09-30 0001357615 us-gaap:CashFlowHedgingMember 2017-09-30
kbr:companies xbrli:shares xbrli:pure iso4217:USD xbrli:shares iso4217:USD kbr:lawsuits kbr:claim kbr:defendent
iso4217:GBP

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

FORM 10-Q

ý **Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the quarterly period ended September 30, 2017
OR
¨ **Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the transition period from to**
Commission File Number: 1-33146

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

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

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

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

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

Indicate by check mark 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	ý	Accelerated filer	¨
Non-accelerated filer	¨ (Do not check if a smaller reporting company)	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 is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes ¨ No ý

As of October 12, 2017, there were 140,079,609 shares of KBR, Inc. Common Stock, par value $0.001 per share, outstanding.

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Forward-Looking and Cautionary Statements

This Quarterly Report on Form 10-Q contains certain statements that are, or may be deemed to be, "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Exchange Act, as amended. The Private Securities Litigation Reform Act of 1995 provides safe harbor provisions for forward-looking information. Some of the statements contained in this Quarterly Report on Form 10-Q are forward-looking statements. All statements other than statements of historical fact are, or may be deemed to be, forward-looking statements. The words "believe," "may," "estimate," "continue," "anticipate," "intend," "plan," "expect" and similar expressions are intended to identify forward-looking statements. Forward-looking statements include information concerning our possible or assumed future financial performance and results of operations.

We have based these statements on our assumptions and analyses in light of our experience and perception of historical trends, current conditions, expected future developments and other factors we believe are appropriate in the circumstances. Forward-looking statements by their nature involve substantial risks and uncertainties that could significantly affect expected results, and actual future results could differ materially from those described in such statements. While it is not possible to identify all factors, factors that could cause actual future results to differ materially include the risks and uncertainties disclosed in our 2016 Annual Report on Form 10-K contained in Part I under "Risk Factors" and in this Quarterly Report on Form 10-Q in Part II under "Risk Factors."

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

Glossary of Terms

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

Abbreviation/Acronym	**Definition**
Affinity	Affinity Flying Training Services Ltd.
AOCL	Accumulated other comprehensive loss
ASBCA	Armed Services Board of Contract Appeals
ASC	Accounting Standards Codification
ASU	Accounting Standards Update
BIE	Billings in excess of costs and estimated earnings on uncompleted contracts
CAS	Cost Accounting Standards
CIE	Costs and estimated earnings in excess of billings on uncompleted contracts
CODM	Chief operating decision maker
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
E&C	Engineering & Construction
EBITDA	Earnings before interest, taxes, depreciation and amortization
EBIC	Egypt Basic Industries Corporation
EPC	Engineering, procurement and construction
EPIC	EPIC Piping LLC
ESPP	Employee Stock Purchase Plan
Exchange Act	Securities Exchange Act of 1934
FAR	Federal Acquisition Regulation
FASB	Financial Accounting Standards Board
FCA	False Claims Act
FKTC	First Kuwaiti Trading Company
FLNG	Floating liquefied natural gas
FPSO	Floating production, storage and offshore
FPUs	Floating production units
FSRU	Floating storage and regasification unit
GS	Government Services
GTL	Gas to liquids
HETs	Heavy equipment transporters
HTSI	Honeywell Technology Solutions Inc.
ICC	International Chamber of Commerce
Ichthys JV	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 (Part I, Item 2 of this Quarterly Report on Form 10-Q)
MFRs	Memorandums of Record
MoD	Ministry of Defense
NCI	Noncontrolling interests

Abbreviation/Acronym	Definition
PEMEX	Petróleos Mexicanos
PEP	Pemex Exploration and Production
PFIs	Privately financed initiatives and projects
PIC	Paid-in capital
PPE	Property, Plant and Equipment
PSC	Private Security Contractor
RIO	Restore Iraqi Oil
SFO	U.K. Serious Fraud Office
SEC	U.S. Securities and Exchange Commission
T&C	Technology & Consulting
TSA	Transition Service Agreement
U.K.	United Kingdom
U.S.	United States
U.S. GAAP	Accounting principles generally accepted in the United States
UKMFTS	U.K. Military Flying Training System
VAT	Value-added tax
VIEs	Variable interest entities
Wyle	Wyle Inc.

PART I. FINANCIAL INFORMATION

Item 1. Financial Information

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	**2016**	**2017**	**2016**
Revenues	$1,034	$1,073	$3,234	$3,078
Cost of revenues	(947)	(1,109)	(2,957)	(2,972)
Gross profit (loss)	**87**	**(36)**	**277**	**106**
Equity in earnings of unconsolidated affiliates	23	19	64	81
General and administrative expenses	(37)	(43)	(107)	(111)
Asset impairment and restructuring charges	—	(7)	—	(21)
Gain on disposition of assets	—	—	5	6
Operating income (loss)	**73**	**(67)**	**239**	**61**
Interest expense	(6)	(3)	(16)	(7)
Other non-operating income (expense)	(4)	2	(9)	8
Income (loss) before income taxes and noncontrolling interests	**63**	**(68)**	**214**	**62**
Benefit (provision) for income taxes	(16)	11	(50)	(27)
Net income (loss)	**47**	**(57)**	**164**	**35**
Net income attributable to noncontrolling interests	(2)	(6)	(5)	(9)
Net income (loss) attributable to KBR	**$45**	**$(63)**	**$159**	**$26**
Net income (loss) attributable to KBR per share				
Basic	$0.32	$(0.44)	$1.12	$0.18
Diluted	$0.32	$(0.44)	$1.12	$0.18
Basic weighted average common shares outstanding	**140**	**142**	**141**	**142**
Diluted weighted average common shares outstanding	**140**	**142**	**141**	**142**
Cash dividends declared per share	**$0.08**	**$0.08**	**$0.24**	**$0.24**

See accompanying notes to condensed consolidated financial statements.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Net income (loss)	$47	$(57)	$164	$35
Other comprehensive income, net of tax:				
Foreign currency translation adjustments:				
Foreign currency translation adjustments, net of tax	2	10	7	21
Reclassification adjustment included in net income	—	—	—	—
Foreign currency translation adjustments, net of taxes of $1, $2, $7 and $2	**2**	**10**	**7**	**21**
Pension and post-retirement benefits, net of tax:				
Actuarial losses, net of tax	—	—	—	—
Reclassification adjustment included in net income	5	6	18	18
Pension and post-retirement benefits, net of taxes of $(2), $(1), $(4) and $(4)	**5**	**6**	**18**	**18**
Changes in fair value of derivatives:				
Changes in fair value of derivatives, net of tax	1	—	1	—
Reclassification adjustment included in net income	(1)	(1)	(1)	(1)
Changes in fair value of derivatives, net of taxes of $0, $0, $0 and $0	**—**	**(1)**	**—**	**(1)**
Other comprehensive income, net of tax	**7**	**15**	**25**	**38**
Comprehensive income (loss)	54	(42)	189	73
Less: Comprehensive income attributable to noncontrolling interests	(3)	(5)	(4)	(8)
Comprehensive income (loss) attributable to KBR	**$51**	**$(47)**	**$185**	**$65**

See accompanying notes to condensed consolidated financial statements.

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

	September 30, 2017	December 31, 2016
	(Unaudited)	
Assets		
Current assets:		
Cash and equivalents	$ 511	$ 536
Accounts receivable, net of allowance for doubtful accounts of $14 and $14	501	592
Costs and estimated earnings in excess of billings on uncompleted contracts	412	416
Claims receivable	—	400
Other current assets	94	103
Total current assets	**1,518**	**2,047**
Claims and accounts receivable	100	131
Property, plant, and equipment, net of accumulated depreciation of $323 and $324 (including net PPE of $35 and $36 owned by a variable interest entity)	134	145
Goodwill	965	959
Intangible assets, net of accumulated amortization of $119 and $100	237	248
Equity in and advances to unconsolidated affiliates	401	369
Deferred income taxes	122	118
Other assets	124	127
Total assets	**$ 3,601**	**$ 4,144**
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable	$ 398	$ 535
Billings in excess of costs and estimated earnings on uncompleted contracts	360	552
Accrued salaries, wages and benefits	211	171
Nonrecourse project debt	10	9
Other current liabilities	193	292
Total current liabilities	**1,172**	**1,559**
Pension obligations	520	526
Employee compensation and benefits	116	113
Income tax payable	81	78
Deferred income taxes	66	149
Nonrecourse project debt	32	34
Revolving credit agreement	470	650
Deferred income from unconsolidated affiliates	98	90
Other liabilities	188	200
Total liabilities	**2,743**	**3,399**
KBR shareholders' equity:		
Preferred stock, $0.001 par value, 50,000,000 shares authorized, 0 shares issued and outstanding	—	—
Common stock, $0.001 par value, 300,000,000 shares authorized, 176,527,539 and 175,913,310 shares issued, and 140,079,193 and 142,803,782 shares outstanding	—	—
Paid-in capital in excess of par	2,095	2,088
Accumulated other comprehensive loss	(1,024)	(1,050)
Retained earnings	613	488
Treasury stock, 36,448,346 and 33,109,528 shares, at cost	(817)	(769)

Total KBR shareholders’ equity	**867**	**757**
Noncontrolling interests	(9)	(12)
Total shareholders’ equity	**858**	**745**
Total liabilities and shareholders’ equity	**$ 3,601**	**$4,144**

See accompanying notes to condensed consolidated financial statements.

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

	Nine Months Ended September 30, 2017		2016	
Cash flows provided by operating activities:				
Net income	$ 164		$ 35	
Adjustments to reconcile net income to net cash provided by (used in) operating activities:				
Depreciation and amortization	38		31	
Equity in earnings of unconsolidated affiliates	(64	)	(81	)
Deferred income tax (benefit) expense	(75	)	7	
Other	20		4	
Changes in operating assets and liabilities:				
Accounts receivable, net of allowance for doubtful accounts	100		9	
Costs and estimated earnings in excess of billings on uncompleted contracts	11		25	
Claims receivable	400		—	
Accounts payable	(144	)	39	
Billings in excess of costs and estimated earnings on uncompleted contracts	(207	)	14	
Accrued salaries, wages and benefits	39		(19	)
Reserve for loss on uncompleted contracts	(43	)	(15	)
Payments from (advances to) unconsolidated affiliates, net	6		(3	)
Distributions of earnings from unconsolidated affiliates	41		43	
Income taxes payable	(7	)	(19	)
Pension funding	(28	)	(31	)
	4		(8	)

Net settlement of derivative contracts						
Other assets and liabilities	(17		)	(23		)
Total cash flows provided by operating activities	**$**	**238**		**$**	**8**	
Cash flows used in investing activities:						
Purchases of property, plant and equipment	$	(6	)	$	(8	)
Proceeds from sale of assets or investments	2			2		
Payments for investments in equity method joint ventures	—			(5		)
Acquisition of businesses, net of cash acquired	2			(911		)
Other	(2		)	—		
Total cash flows used in investing activities	**$**	**(4**	**)**	**$**	**(922**	**)**
Cash flows provided by (used in) financing activities:						
Payments to reacquire common stock	$	(52	)	$	(2	)
Distributions to noncontrolling interests	(1		)	(9		)
Payments of dividends to shareholders	(34		)	(34		)
Borrowings on revolving credit agreement	—			700		
Payments on revolving credit agreement	(180		)	(50		)
Payments on short-term and long-term borrowings	(5		)	(5		)
Total cash flows provided by (used in) financing activities	**$**	**(272**	**)**	**$**	**600**	
Effect of exchange rate changes on cash	13			—		
Decrease in cash and equivalents	(25		)	(314		)
Cash and equivalents at beginning of period	536			883		
Cash and equivalents at end of period	**$**	**511**		**$**	**569**	
Supplemental disclosure of cash flows						

information:				
Cash paid for interest	$	16	$	7
Cash paid for income taxes (net of refunds)	$	128	$	31
Noncash financing activities				
Dividends declared	$	11	$	12

See accompanying notes to condensed consolidated financial statements.

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KBR, Inc.
Notes to Condensed Consolidated Financial Statements
(Unaudited)

Note 1. Description of Company and Significant Accounting Policies

KBR, Inc., a Delaware corporation, was formed on March 21, 2006 and is headquartered in Houston, Texas. KBR, Inc. and its wholly owned and majority-owned subsidiaries (collectively referred to herein as "KBR", the "Company", "we", "us" or "our") is a global provider of differentiated, professional services and technologies across the asset and program life-cycle within the government services and hydrocarbons industries. Our capabilities include research and development, feasibility and solutions development, specialized technical consulting, systems integration, engineering and design service, process technologies, program management, construction services, commissioning and startup services, highly specialized mission and logistics support solutions, and asset operations and maintenance services and other support services to a diverse customer base, including government and military organizations of the U.S., U.K. and Australia and a wide range of customers across the hydrocarbons value chain.

Principles of Consolidation

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

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

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

Prior Period Adjustment

As originally disclosed in our June 30, 2017 Form 10-Q, during the second quarter of 2017 we corrected cumulative errors resulting in an increase to "Equity in earnings of unconsolidated affiliates" and "Net income attributable to KBR" within our condensed consolidated statements of operations of $9 million and $11 million, respectively. The errors in equity in earnings of unconsolidated affiliates primarily relate to our accounting for derivatives in one of our unconsolidated VIEs in our GS segment from the first quarter of 2016 through the first quarter of 2017. We evaluated these cumulative errors on both a quantitative and qualitative basis under the guidance of ASC 250 - Accounting Changes and Error Corrections. We determined that the cumulative impact of the errors did not affect the trend of net income, cash flows or liquidity and therefore did not have a material impact to previously issued financial statements. Additionally, we do not expect our consolidated financial statements for the current annual period to be materially impacted by the error correction.

Use of Estimates

The preparation of our condensed consolidated financial statements in conformity with U.S. GAAP requires us to make estimates, assumptions and judgments that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the condensed consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Areas requiring significant estimates and assumptions by our management include but are not limited to the following:

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

- valuation of pension obligations and pension assets
- accruals for estimated liabilities, including litigation accruals
- consolidation of VIEs
- valuation of share-based compensation
- valuation of assets and liabilities acquired in business combinations

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

Adoption of New Accounting Standards

Compensation. Effective January 1, 2017, we adopted ASU No. 2016-09, Compensation - Stock Compensation (Topic 718) - Improvements to Employee Share-Based Payment Accounting which was issued by the FASB on March 31, 2016. This ASU is intended to simplify several aspects of the accounting for share-based payment transactions including (a) the income tax consequences, (b) classification of awards as either equity or liabilities, and (c) classification on the statement of cash flows. ASU 2016-09 is effective for annual periods beginning after December 15, 2016 and interim periods within those annual periods. The adoption of ASU 2016-09 did not have a material impact on our financial statements.

Additional Balance Sheet Information

Other Current Liabilities

The components of "Other current liabilities" on our condensed consolidated balance sheets as of September 30, 2017 and December 31, 2016 are presented below:

Dollars in millions	September 30, 2017	December 31, 2016
Reserve for estimated losses on uncompleted contracts (a)	$ 20	$ 63
Retainage payable	37	47
Income taxes payable	37	55
Restructuring reserve	8	30
Taxes payable not based on income	13	14
Value-added tax payable	17	16
Insurance payable	13	14
Dividend payable	11	12
Other miscellaneous liabilities	37	41
Total other current liabilities	$ 193	$ 292

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

Other Liabilities

Included in "Other liabilities" on our condensed consolidated balance sheets as of September 30, 2017 and December 31, 2016 is noncurrent deferred rent of $100 million and $103 million, respectively. Also included in "Other liabilities" is a payable to our former parent of $19 million in each of the periods presented. This amount will be paid to our former parent upon receipt of a tax refund from the U.S. Internal Revenue Service.

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Note 2. Business Segment Information

We are organized into three core business segments and two non-core business segments. Our three core business segments focus on our core strengths in technical services relating to government services, technology and consulting, and engineering and construction. Our two non-core business segments are our Non-strategic Business segment, which includes businesses we intend to exit upon completion of existing contracts because they are no longer a part of our future strategic focus, and "Other," which includes our corporate expenses and general and administrative expenses not allocated to the other business segments. Our business segments are described below:

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

In October 2017, we entered into a definitive agreement to acquire 100% of the outstanding stock of Sigma Bravo Pty Ltd, a leading provider of high-end, information and communication technology services specializing in mission planning systems and solutions to the Australian Defence Force. The estimated purchase price is $10 million and the transaction is expected to close in the fourth quarter of 2017. The acquisition will become a KBRwyle company and expands our Government Services business in Australia.

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

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

Non-strategic Business. Our Non-strategic Business segment represents the operations or activities that we intend to exit upon completion of existing contracts. All Non-Strategic Business projects are substantially complete as of September 30, 2017. We continue to finalize project close-out activities and negotiate the settlement of claims and various other matters associated with these projects.

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

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

Operations by Reportable Segment

	Three Months Ended September 30,		Nine Months Ended September 30,	
Dollars in millions	2017	2016	2017	2016
Revenues:				
Government Services	$582	$401	$1,640	$840
Technology & Consulting	78	67	236	262
Engineering & Construction	370	595	1,321	1,822
Other	—	—	—	—
Subtotal	1,030	1,063	3,197	2,924
Non-strategic Business	4	10	37	154
Total revenues	$1,034	$1,073	$3,234	$3,078
Gross profit (loss):				
Government Services	$39	$32	$113	$94
Technology & Consulting	20	17	51	49
Engineering & Construction	25	1	113	65
Other	—	—	—	—
Subtotal	84	50	277	208
Non-strategic Business	3	(86)	—	(102)
Total gross profit (loss)	$87	$(36)	$277	$106
Equity in earnings of unconsolidated affiliates:				
Government Services (a)	$14	$8	$41	$29
Technology & Consulting	—	—	—	—
Engineering & Construction	9	11	23	52
Other	—	—	—	—
Subtotal	23	19	64	81
Non-strategic Business	—	—	—	—
Total equity in earnings of unconsolidated affiliates	$23	$19	$64	$81
Segment operating income (loss):				
Government Services	$48	$25	$136	$104
Technology & Consulting	19	16	48	44
Engineering & Construction	25	(2)	120	76
Other	(22)	(21)	(65)	(65)
Subtotal	70	18	239	159
Non-strategic Business	3	(85)	—	(98)
Total segment operating income (loss)	$73	$(67)	$239	$61

(a) See Note 1 to our condensed consolidated financial statements for information related to a prior period adjustment in the second quarter of 2017.

Changes in Project-related Estimates

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

Changes in project-related estimates by business segment which significantly impacted operating income were as follows:

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Government Services

There were no significant changes in project-related estimates during the three and nine months ended September 30, 2017 within our GS business segment.

During the nine months ended September 30, 2016, revenues, gross profit, and segment operating income included a favorable change in estimate of $33 million as a result of a settlement with the U.S. government regarding reimbursement of previously expensed legal fees associated with the sodium dichromate litigation (see Note 14 to our condensed consolidated financial statements for information related to the settlement with the U.S. government). Additionally, we recognized a $15 million favorable change to gross profit related to the approval of a change order on a road construction project in the Middle East. The change order resulted in an extension of the contract terms and increased the total contract value.

Engineering & Construction

There were no significant changes in project-related estimates during the three and nine months ended September 30, 2017 within our E&C business segment, except for the PEMEX and PEP arbitration settlement (see Note 15 to our condensed consolidated financial statements) which resulted in additional revenues and gross profit of $35 million in the nine months ended September 30, 2017.

During the three and nine months ended September 30, 2016, we recognized $9 million of additional gross profit resulting from a favorable change in estimate resulting from the final settlement of outstanding claims on a legacy project in Canada.

Revenues, gross profit, and segment operating income during the three and nine months ended September 30, 2016 included $3 million and $59 million, respectively, related to a favorable change in estimate resulting from a settlement on close out of an LNG project in Africa.

During the three and nine months ended September 30, 2016, we recognized unfavorable changes in estimates of losses of $40 million and $110 million, respectively, on an EPC ammonia project in the U.S. primarily due to unforeseen costs related to the mechanical failure of a vendor supplied compressor and pumps that occurred during commissioning. The project was transferred to the customer in October 2016. Included in the reserve for estimated losses on uncompleted contracts, which is a component of "Other current liabilities" on our condensed consolidated balance sheets, is $2 million and $3 million as of September 30, 2017 and December 31, 2016, respectively, related to this project.

During 2016, we experienced weather delays as well as construction productivity rates less than previously expected on a downstream EPC project in the U.S. These issues delayed estimated completion of the project until 2018, which resulted in additional estimated costs to complete and recognition of liquidated damages which caused this project to become a loss project in the fourth quarter of 2016. There were no significant changes in estimated losses on this project during the three and nine months ended September 30, 2017. Included in the reserve for estimated losses on uncompleted contracts is $13 million and $35 million as of September 30, 2017 and December 31, 2016, respectively, related to this project. The EPC project was 85% complete as of September 30, 2017. Our estimated loss at completion represents our best estimate based on current information. Actual results could differ from the estimates we have used to account for this project as of September 30, 2017.

Non-strategic Business

There were no significant changes in project-related estimates during the three and nine months ended September 30, 2017 within our Non-strategic Business segment.

During the three and nine months ended September 30, 2016, we recognized unfavorable changes in estimates of losses on a power project of $86 million and $112 million, respectively, primarily due to increases in subcontractor costs to complete the project as a result of poor productivity from subcontractors. The project has completed performance testing and in April 2017, care, custody and control of the project were transferred to the customer. Included in the reserve for estimated losses on uncompleted contracts is $2 million and $14 million as of September 30, 2017 and December 31, 2016, respectively, related to this project.

Note 3. Acquisitions, Dispositions and Other Transactions

Wyle and Honeywell Technology Solutions Inc. Acquisitions

During the third quarter of 2016, we acquired 100% of the equity interests of Wyle (the "Wyle acquisition") and 100% of the outstanding common stock of HTSI (the "HTSI acquisition") and together with the Wyle acquisition, the "Wyle and HTSI acquisitions"). These acquisitions are reported within our GS business segment. The aggregate consideration paid for these acquisitions was $900 million, which was funded with $700 million in advances on our Credit Agreement and available cash on-hand. See Note 12 to our condensed consolidated financial statements for information related to our Credit Agreement.

During the third quarter of 2017, we completed the purchase accounting for the Wyle and HTSI acquisitions. In the same period, we made adjustments to reflect the final working capital settlement and the finalization of various immaterial contingencies for the Wyle and HTSI acquisitions. The net impacts of the Wyle adjustments were increases to liabilities and goodwill of $1 million. The net impacts of the HTSI adjustments were increases to goodwill, other assets, and liabilities of $2 million, $2 million and $4 million, respectively.

The following table summarizes the consideration paid for these acquisitions and the fair value of the assets acquired and liabilities assumed as of the respective acquisition dates.

Dollars in millions	Wyle	HTSI
Fair value of total consideration transferred	$623	$280
Recognized amounts of identifiable assets acquired and liabilities assumed:		
Cash	10	—
Trade receivables, net	47	29
CIE	98	93
Prepaids and other current assets	4	7
Total current assets	159	129
Property, plant and equipment, net	10	6
Intangible assets	141	70
Deferred income taxes	—	8
Total assets	310	213
Accounts payable	61	23
BIE	—	10
Other current liabilities	47	33
Total current liabilities	108	66
Deferred income taxes	51	—
Other liabilities	12	—
Total liabilities	171	66
Goodwill	$484	$133

For the three months ended September 30, 2017, the acquired Wyle and HTSI businesses contributed $179 million and $136 million of revenues and $15 million and $5 million of gross profit, respectively. For the nine months ended September 30, 2017, Wyle and HTSI contributed $523 million and $401 million of revenues and $40 million and $23 million of gross profit, respectively.

The following supplemental pro forma condensed consolidated results of operations assume that Wyle and HTSI had been acquired as of January 1, 2015. The supplemental pro forma financial information was prepared based on the historical financial information of Wyle and HTSI and has been adjusted to give effect to pro forma adjustments that are directly attributable to the transaction. The pro forma amounts reflect certain adjustments to amortization expense and interest expense associated with the portion of the purchase price funded by $700 million in advances on our Credit Agreement and also reflect adjustments to 2016 results to exclude acquisition related costs as they are nonrecurring and are directly attributable to the transaction. The supplemental pro forma financial information presented below does not include any anticipated cost savings or expected realization of other synergies associated with the transactions. 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, 2015, nor is it indicative of future results of operations.

Dollars in millions, except per share data	**Three Months Ended September 30, 2016**	**Nine Months Ended September 30, 2016**
	(Unaudited)	(Unaudited)
Revenue	$ 1,199	$ 3,939
Net income (loss) attributable to KBR	(54)	54
Diluted earnings per share	$ (0.38)	$ 0.38

Chematur Subsidiaries Acquisition

On January 11, 2016, we acquired 100% of the outstanding common stock of three subsidiaries of Connell Chemical Industry LLC (through its subsidiary, Chematur Technologies AB). The aggregate consideration paid for the acquisition was $25 million, less $2 million of acquired cash and other adjustments resulting in net cash consideration of $23 million. We recognized goodwill of $24 million arising from the acquisition. This acquisition and its subsequent operations are reported within our T&C business segment.

Investments

UKMFTS project. In February 2016, we executed agreements to establish a new joint venture between KBR and Elbit Systems within our GS business segment, named Affinity. Affinity 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, which is accounted for under the equity method of accounting. 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. During the first quarter of 2016, under the terms of the subordinated debt agreement between the partners and Affinity, we advanced our proportionate share, or $14 million, to meet initial working capital needs of the venture. We expect repayment on the advance and the associated interest over the term of the project. This amount is included in "Equity in and advances to unconsolidated affiliates" in our condensed consolidated balance sheets as of September 30, 2017 and December 31, 2016, and in "Payments from (advances to) unconsolidated affiliates, net" in our consolidated statement of cash flows for the nine months ended September 30, 2016.

Note 4. Cash and Equivalents

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

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

Dollars in millions	September 30, 2017 International (a)	Domestic (b)	Total
Operating cash and equivalents	$134	$ 144	$278
Short-term investments (c)	97	68	165
Cash and equivalents held in joint ventures	65	3	68
Total	$296	$ 215	$511

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

(a) Includes deposits held in non-U.S. operating accounts.

(b) Includes U.S. dollar and foreign currency deposits held in operating accounts that constitute onshore cash for tax purposes but may reside either in the U.S. or in a foreign country.

(c) Includes time deposits, money market funds, and other highly liquid short-term investments.

Note 5. Accounts Receivable

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

Dollars in millions	September 30, 2017 Retainage	Trade & Other	Total
Government Services	$6	$179	$185
Technology & Consulting	—	53	53
Engineering & Construction	49	209	258
Other	—	—	—
Subtotal	55	441	496
Non-strategic Business	4	1	5
Total	$59	$442	$501

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

Note 6. Costs and Estimated Earnings in Excess of Billings on Uncompleted Contracts and Billings in Excess of Costs and Estimated Earnings on Uncompleted Contracts

Our CIE balances by business segment are as follows:

Dollars in millions	September 30, 2017	December 31, 2016
Government Services	$ 282	$ 271
Technology & Consulting	54	30
Engineering & Construction	76	115
Subtotal	412	416
Non-strategic Business	—	—
Total	$ 412	$ 416

Our BIE balances by business segment are as follows:

Dollars in millions	September 30, 2017	December 31, 2016
Government Services	$ 82	$ 76
Technology & Consulting	44	61
Engineering & Construction	226	388
Subtotal	352	525
Non-strategic Business	8	27
Total	$ 360	$ 552

Note 7. Unapproved Change Orders, Claims and Estimated Recoveries of Claims Against Suppliers and Subcontractors

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

Dollars in millions	2017	2016
Amounts included in project estimates-at-completion at January 1,	$294	$104
Additions	483	33
Approved change orders	(4)	(45)
Amounts included in project estimates-at-completion at September 30,	$773	$92
Amounts recognized on a percentage-of-completion basis at September 30,	$687	$77

As of September 30, 2017, most of the change orders, customer claims and estimated recoveries of claims against suppliers and subcontractors above relate to our proportionate share of unapproved change orders and claims associated with our 30% ownership interest in the Ichthys JV, which has contracted to perform the engineering, procurement, supply, construction and commissioning of onshore LNG facilities for a client in Darwin, Australia (Ichthys LNG Project). The contract between the Ichthys JV and its client is a hybrid contract containing both cost-reimbursable and fixed-price (including unit-rate) scopes. Our proportionate share of unapproved change orders, claims and estimated recoveries of claims against suppliers and subcontractors on the project increased by $201 million and $477 million for the three and nine months ended September 30, 2017, respectively.

These additional change orders, customer claims, estimated recoveries of claims against suppliers and subcontractors and additional costs have resulted in a reduction to our percentage of completion progress for the nine months ended September 30, 2017.

Further, there are additional claims we believe that we or our joint ventures are entitled to recover from clients which have been excluded from estimated revenues and profit at completion as appropriate under U.S. GAAP.

It is anticipated that these commercial matters may not be resolved in the near term. Our current estimates for the above unapproved change orders, customer claims and estimated recoveries of claims against suppliers and subcontractors may prove inaccurate and could result in significant changes to the estimated revenue, costs and profits at completion on the underlying projects. Significant contingencies related to the Ichthys JV are discussed further in Note 15 to our condensed consolidated financial statements.

Liquidated damages

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

It is possible that liquidated damages that have not been included in our estimates at completion in determining project income related to several projects totaling $10 million and $8 million at September 30, 2017 and December 31, 2016, respectively, could be incurred if the projects are completed as currently forecasted. However, based upon our evaluation of our performance and other mitigating factors, we have concluded these liquidated damages are not probable.

Note 8. Claims and Accounts Receivable

Our claims and accounts receivable balance not expected to be collected within the next 12 months was $100 million and $131 million as of September 30, 2017 and December 31, 2016, respectively. Claims and accounts receivable primarily reflects claims filed with the U.S. government related to payments not yet received for costs incurred under various U.S. government 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 the amount is $83 million as of September 30, 2017 and December 31, 2016 related to Form 1s issued by the U.S. government questioning or objecting to costs billed to them. See Note 14 of our condensed consolidated financial statements for additional discussions. The amount also includes $17 million and $48 million as of September 30, 2017 and December 31, 2016, respectively, related to contracts where our costs have exceeded the U.S. government's funded values on the underlying task orders or task orders where the U.S. government has not authorized us to bill. We believe 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 resolution occurs.

Note 9. Restructuring

In connection with our long-term strategic reorganization, we announced that beginning in the fourth quarter of 2014 we would undertake a restructuring, which would include actions such as reducing the amount of real estate we utilized and significantly reducing our workforce. There were additional actions undertaken in 2015 and 2016, including staff reductions to support current business levels. The employees affected by these reductions are eligible for separation benefits upon their expected termination dates which have occurred or are expected to occur through 2017. The table below provides a rollforward of one-time charges associated with employee terminations based on the fair value of the termination benefits. These amounts are included in "Other current liabilities" on our condensed consolidated balance sheets.

Dollars in millions	**Severance Accrual**
Balance at December 31, 2016	$ 8

Charges	—
Payments	(6)
Balance at September 30, 2017	$ 2
Balance at December 31, 2015	$ 19
Charges	15
Payments	(21)
Balance at September 30, 2016	$ 13

Note 10. Equity Method Investments and Variable Interest Entities

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

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

Dollars in millions	**September 30, 2017**	**December 31, 2016**
Beginning balance	$ 369	$ 281
Equity in earnings of unconsolidated affiliates	64	91
Distribution of earnings of unconsolidated affiliates (a)	(41)	(56)
Advances (receipts)	(6)	1
Investments (b)	—	61
Foreign currency translation adjustments	12	(8)
Other	2	(8)
Balance before reclassification	$ 400	$ 362
Reclassification of excess distributions (a)	6	12
Recognition of excess distributions (a)	(5)	(5)
Ending balance	$ 401	$ 369

(a) We received cash dividends in excess of the carrying value of one of our investments. We have no obligation to return any portion of the cash dividends received. We recorded the excess dividend amount as "Deferred income from unconsolidated affiliates" on our condensed consolidated balance sheets and recognize these dividends as earnings are generated by the investment.

(b) In 2016, investments included a $56 million investment in the Brown & Root Industrial Services joint venture and a $5 million investment in the EPIC joint venture.

Unconsolidated Variable Interest Entities

For the VIEs in which we participate, our maximum exposure to loss is generally comprised of our equity investment in the VIE, any amounts owed to us for services we may have provided to the VIE and our obligation to fund our proportionate share of any future losses incurred. In addition:

- The Affinity, Aspire Defence and U.K. Road joint venture projects are further exposed to the risks of construction and insurance losses, if any, on a joint and several basis. Any losses may be limited to the extent that these joint ventures become insolvent as the joint venture customer does not have recourse against the joint venture partners.

- The Ichthys LNG joint venture project is further exposed to certain losses to the extent our joint venture partners are unable to meet their obligations, as we have joint and several liability to the customer. See Note 15 to our condensed consolidated financial statements for further discussion regarding contingencies related to the Ichthys JV.

The maximum exposure to loss is computed as our “Equity in and advances to unconsolidated affiliates” because our projections do not indicate losses related to these projects and project-level debt is nonrecourse to us. If a project becomes a loss project in the future, our maximum exposure to loss could increase to the extent we are required to fund those losses through capital contributions resulting from guarantees or other financial commitments. See Note 15 to our condensed consolidated financial statements for further discussion of our potential funding commitments to the

Ichthys JV.

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

	September 30, 2017		
Dollars in millions	Total assets	Total liabilities	Maximum exposure to loss
Affinity (U.K. MFTS project)	$25	$ 3	$ 25
Aspire Defence project	$15	$ 114	$ 15
Ichthys LNG Project	$133	$ 18	$ 133
U.K. Road projects	$35	$ 10	$ 35
EBIC Ammonia plant (65% interest)	$38	$ 2	$ 25

	December 31, 2016		
Dollars in millions	Total assets	Total liabilities	Maximum exposure to loss
Affinity (U.K. MFTS project)	$12	$ 3	$ 12
Aspire Defence project	$14	$ 107	$ 14
Ichthys LNG Project	$124	$ 33	$ 124
U.K. Road projects	$30	$ 9	$ 30
EBIC Ammonia plant (65% interest)	$34	$ 2	$ 22

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 nine months ended September 30, 2017 and 2016, our revenues included $85 million and $179 million, respectively, related to the services we provided to our joint ventures, primarily the Ichthys JV within our E&C business segment. Under the terms of an alliance agreement with our EPIC joint venture, EPIC provides certain pipe fabrication services to KBR. For the nine months ended September 30, 2017 and 2016, EPIC provided $3 million and $22 million, respectively, of services to KBR under the agreement.

Under the terms of our TSA with Brown & Root Industrial Services joint venture, we collect cash from customers and make payments to vendors and employees on behalf of the joint venture. For the nine months ended September 30, 2017 and 2016, we incurred approximately $4 million and $13 million, respectively, of reimbursable costs under the TSA.

Amounts included in our condensed consolidated balance sheets related to services we provided to our unconsolidated joint ventures as of September 30, 2017 and December 31, 2016 are as follows:

Dollars in millions	September 30, 2017	December 31, 2016
Accounts receivable, net of allowance for doubtful accounts (a)	$ 10	$ 22
Costs and estimated earnings in excess of billings on uncompleted contracts (b)	$	