WILLBROS GROUP INC
Form 10-K
March 14, 2007
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2006

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 1-11953

Willbros Group, Inc.

(Exact name of registrant as specified in its charter)

Republic of Panama	**98-0160660**
(Jurisdiction of incorporation)	**(I.R.S. Employer Identification Number)**

Plaza 2000 Building

50th Street, 8th Floor

P.O. Box 0816-01098

Panama, Republic of Panama

Telephone No.: + 50-7-213-0947

(Address, including zip code, and telephone number, including area code, of principal executive offices of registrant)

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

Title of each class	**Name of each exchange on which registered**
Common Stock, $.05 Par Value	New York Stock Exchange
Preferred Share Purchase Rights	New York Stock Exchange

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

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

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

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 x No ¨

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

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act.

Large accelerated filer ¨ Accelerated filer x Non-accelerated filer ¨

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

The aggregate market value of the Registrant s Common Stock held by non-affiliates of the Registrant on the last business day of the Registrant s most recently completed second fiscal quarter (based on the closing sales price on the New York Stock Exchange on June 30, 2006) was $394,879,113.

The number of shares of the Registrant s common stock outstanding at February 28, 2007 was 25,776,878.

Documents incorporated by reference: NONE

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FORM 10-K

YEAR ENDED DECEMBER 31, 2006

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FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K includes forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. All statements, other than statements of historical facts, included or incorporated by reference in this Annual Report that address activities, events or developments which we expect or anticipate will or may occur in the future, including such things as future capital expenditures (including the amount and nature thereof), oil, gas, gas liquids and power prices, demand for our services, the amount and nature of future investments by governments, expansion and other development trends of the oil, gas and power industries, business strategy, expansion and growth of our business and operations, the outcome of government investigations and legal proceedings and other such matters are forward-looking statements. These forward-looking statements are based on assumptions and analyses we made in light of our experience and our perception of historical trends, current conditions and expected future developments as well as other factors we believe are appropriate under the circumstances. However, whether actual results and developments will conform to our expectations and predictions is subject to a number of risks and uncertainties. As a result, actual results could differ materially from our expectations. Factors that could cause actual results to differ from those contemplated by our forward-looking statements include, but are not limited to, the following:

- difficulties we may encounter in connection with the recently completed sale and disposition of our operations and assets in Nigeria, including without limitation, obtaining indemnification for any losses we may experience if claims are made against any corporate guarantees we provided or if calls are made against any letters of credit that were issued on our behalf and which will remain in place subsequent to the closing;

- the consequences we may encounter if we were to enter into a criminal plea agreement or a deferred prosecution agreement, including the imposition of civil or criminal fines, penalties, monitoring arrangements, or other sanctions, including the loss of U.S. government contracts, that might be imposed as a result of government investigations;

- the results of government investigations into our actions and the actions of our current and former officers and employees, including J. Kenneth Tillery, the former President of Willbros International, Inc.;

- adverse results that we could suffer in civil litigation involving or arising from the actions of our former employees and officers;

- the assertion by parties to contracts with us that the actions of our former officers and employees were improper which constitutes a breach of, or otherwise gives rise to claims under, contracts to which we are a party;

- determination that the actions of our former employees caused us to breach our credit agreements or debt instruments, which could result in the lack of access to our credit facilities and the requirement to cash collateralize our existing letters of credit;

- the commencement by foreign governmental authorities of investigations into the actions of our current and former employees, and the determination that such actions constituted violations of foreign law;

- the dishonesty of employees and/or other representatives or their refusal to abide by applicable laws and our established policies and rules;

- curtailment of capital expenditures in the oil, gas, and power industries;

political or social circumstances impeding the progress of our work and increasing the cost of performance;

failure to obtain the timely award of one or more projects;

cancellation of projects, in whole or in part;

adverse weather conditions not anticipated in bids and estimates;

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- project cost overruns, unforeseen schedule delays, and the application of liquidated damages;
- failing to realize cost recoveries from projects completed or in progress within a reasonable period after completion of the relevant project;
- inability to identify and acquire suitable acquisition targets on reasonable terms;
- inability to obtain adequate financing;
- inability to obtain sufficient surety bonds on letters of credit;
- loss of the services of key management personnel;
- the demand for energy moderating or diminishing;
- downturns in general economic, market or business conditions in our target markets;
- changes in the effective tax rate in countries where our work will be performed;
- changes in applicable laws or regulations, or changed interpretations thereof;
- changes in the scope of our expected insurance coverage;
- inability to manage insurable risk at an affordable cost;
- the occurrence of the risk factors listed under Item 1A of this Annual Report; and
- other factors, most of which are beyond our control.

Consequently, all of the forward-looking statements made or incorporated by reference in this Annual Report are qualified by these cautionary statements and there can be no assurance that the actual results or developments we anticipate will be realized or, even if substantially realized, that they will have the consequences for, or effects on, our business or operations that we anticipate today. We assume no obligation to update publicly any such forward-looking statements, whether as a result of new information, future events or otherwise. For a more complete description of the circumstances surrounding the actions of our current and former employees, see the Risk Factors listed under Item 1A of this Annual Report.

Unless the context otherwise requires, all references in this Annual Report to Willbros, the Company, we, us and our refer to Willbros Group Inc., its consolidated subsidiaries and their predecessors.

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PART I

Items 1 and 2. Business and Properties

Our public internet site is *http://www.willbros.com/*. We make available free of charge through our internet site, via a link to Edgar Online, 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 Securities Exchange Act of 1934, as amended, as soon as reasonably practicable after we electronically file such material with, or furnish it to, the Securities and Exchange Commission.

In addition, we currently make available on *http://www.willbros.com/* our annual reports to stockholders. You will need to have the Adobe Acrobat Reader software on your computer to view these documents, which are in the .PDF format. If you do not have Adobe Acrobat, a link to Adobe Systems Incorporated s internet site, from which you can download the software, is provided.

Recent Developments

In June 2006, we announced our decision to sell our assets and operations in Nigeria, and in February 2007, we completed the sale. In 2006, we also sold our interest in a water injection facility in Venezuela and our TXP-4 gas processing plant in Opal, Wyoming. The results of operations for each of Nigeria, Venezuela and the TXP-4 Plant are reported as discontinued operations in our Consolidated Financial Statements. We expect to focus our resources and attention on the United States and Canada and a few other selected international markets which offer attractive risk-adjusted returns. The remainder of the discussion under Items 1 and 2, Business and Properties, in this Annual Report on Form 10-K pertain only to our continuing operations, unless otherwise noted.

General

We are an independent international contractor serving the oil, gas and power industries and government entities worldwide. We currently operate our business in two segments: the United States and Canada (which we refer to as *United States & Canada*) and all other countries outside of the United States and Canada (which we refer to as *International*). We provide engineering; construction; engineering, procurement and construction (EPC); and specialty services to industry and governmental entities worldwide, specializing in pipelines and associated facilities for onshore, coastal and offshore locations. We are also actively involved in asset development, ownership and operations as an extension of our portfolio of industry services. We place particular emphasis on achieving the best risk adjusted returns. Depending upon market conditions, we may work in developing countries and we believe our experience gives us a competitive advantage in frontier areas where experience in dealing with project logistics is an important consideration for project award and execution. We also believe our engineering expertise, as it relates to optimizing the structure and execution of a project, provides us competitive advantage in all the markets we address.

We provide our engineering, construction and EPC services, as the scope of work requires, through professional engineering, technical staff, construction management and craft personnel utilizing engineering systems, hardware and software and a large fleet of company-owned and leased equipment that includes marine vessels, barges, dredges, pipelaying equipment, heavy construction equipment, transportation equipment and camp equipment. An inventory of spare parts and tools, which we strategically position and maintain to maximize availability and minimize cost, supports our equipment fleet. We also own fabrication facilities in Canada, Nigeria (discontinued operations), and the United States. As an adjunct to all our resources, we also provide specialty services, including asset development and operations. Our asset development and operations (also referred to as facility operations) include assets developed under Build, Own and Operate contracts, such as the fueling facilities operated for the Defense Energy Support Center, an agency of the U.S. government.

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Discontinued Operations

In discontinued operations we held business interests in Nigeria and Venezuela, and we also held a 10 percent ownership in a water injection facility in Venezuela. During 2004 and 2005, we owned a gas processing plant (TXP-4 Plant) in the Opal, Wyoming area. We sold the TXP-4 Plant in January 2006 to Williams Field Services Company. In October 2006, we completed the sale of our interests in Venezuela. In February 2007 we sold our interests in Nigeria. Services which were provided in discontinued operations were:

- Offshore pipelines
- Subsea facilities
- Offshore jackets and decks
- Dredging
- Pipe corrosion coating
- Concrete weight coating
- Marine repair
- Heavy lift services

Continuing Operations

The following discussion covers continuing operations unless specifically noted:

Our engineering services include, among others

- feasibility studies;
- conceptual engineering services;
- detailed design services;
- route/site selection;

- construction management;
- turnkey engineer, procure, and construct, or EPC arrangements;
- alliance arrangements;
- material procurement;
- overall project management;
- permitting services;
- commissioning/startup; and
- bid support for other Willbros subsidiaries.

We provide our engineering services through engineering resources located in Salt Lake City (Murray), Utah; Tulsa, Oklahoma; and Houston, Texas.

To complement our engineering services, Willbros also provides a full range of field services, including:

- surveying;
- right of way acquisition;
- material receiving and control;
- construction management;

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- facilities startup assistance; and
- operation of facilities.

Our construction services include, among others, the building, fabrication, installation, assembly, maintenance and replacement of:

- major cross country pipelines;
- gathering systems;
- flow stations;
- pump stations;
- meter stations;
- gas compressor stations;
- gas processing facilities;
- oil and gas production facilities;
- modular processing facilities;
- piers;
- dock facilities; and
- bridges.

Our EPC services include engineering, procurement, construction and project management resources to work with clients to provide total project solutions, which optimize project scope, schedule and deliverables to meet project objectives. We provide the project deliverables through our own resources or through selected subcontractors.

Finally, Willbros provides specialty service capabilities, including, among others:

- pipe double jointing;
- transport of dry and liquid cargo;
- rig moves;
- maintenance and repair services;
- operation and development of facilities; and
- building, owning and operating military fueling facilities.

We trace our roots to the construction business of Williams Brothers Company, founded in 1908. Through successors to that business, we have completed many landmark projects around the world, including the Big Inch and Little Big Inch War Emergency Pipelines (1942-44), the Mid-America Pipeline (1960), the TransNiger Pipeline (1962-64), the Trans-Ecuadorian Pipeline (1970-72), the northernmost portion of the Trans-Alaska Pipeline System (1974-76), the All-American Pipeline System (1984-86), Colombia s Alto Magdalena Pipeline System (1989-90), a portion of the Pacific Gas Transmission System expansion (1992-93), and through a joint venture led by a subsidiary of ours, the Chad-Cameroon Pipeline (2000-2003).

Over the years, we have been employed by more than 400 clients to carry out work in 57 countries. Within the past ten years, we have worked in Africa, Asia, Australia, the Middle East, North America and South America. We have historically had a steady base of operations in the United States, Canada, Nigeria, Oman, and Venezuela, which has been complemented by major projects in Australia, Bolivia, Cameroon, Chad, Colombia,

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Ecuador, Egypt, Gabon, Indonesia, Ivory Coast, Kuwait, Mexico and Pakistan. In 2006 we sold our interest in Venezuela and exited Bolivia and Ecuador in response to market conditions which we believe are unfavorable and will not attract capital to these markets for the types of projects we perform.

Private sector clients have historically accounted for the majority of our revenue. Government entities and agencies have accounted for the remainder. Our top ten clients were responsible for 61 percent of our continuing revenue in 2006 (73 percent in 2005 and 64 percent in 2004).

Corporate Structure

We are incorporated in the Republic of Panama and maintain our headquarters at Plaza 2000 Building, 50th Street, 8th Floor, P.O. Box 0816-01098, Panama, Republic of Panama; our telephone number is +50-7-213-0947. Panama s General Corporation Law is substantially modeled on the New York and Delaware corporate laws as they existed in 1932. Panama does not tax income derived from activities conducted outside Panama. The principal subsidiaries of Willbros Group, Inc. are:

- Willbros International, Inc.; and
- Willbros USA, Inc.

At the beginning of 2004, 100 percent ownership of the Willbros RPI, Inc. and Willbros Mt. West, Inc. subsidiaries was transferred to Willbros USA, Inc. Willbros USA, Inc. now owns all United States subsidiaries of the Company.

All significant operations in the *United States & Canada* are carried out by material direct or indirect subsidiaries of Willbros Group, Inc. Such material subsidiaries include:

- Willbros RPI, Inc.;
- Willbros MSI Canada Inc.;
- Willbros Engineers, Inc.;
- Willbros Project Services, Inc.;
- Willbros Midstream Services LLC; and
- Willbros Government Services, Inc.

All significant *International* operations are carried out by material direct or indirect subsidiaries of Willbros International, Inc., which is also a Panamanian corporation. Such material subsidiaries included in 2006:

- Willbros Middle East, Inc.; and

The Oman Construction Company LLC.

In October 2006, we sold the Venezuela businesses, which included Constructora CAMSA, C.A.. In February 2007, we sold our interests in Nigeria, which included:.

Willbros West Africa, Inc.;

Willbros (Nigeria) Limited; and

Willbros (Offshore) Nigeria Limited.

The Willbros corporate structure is designed to comply with jurisdictional and registration requirements associated with work bid and performed and to reduce worldwide taxation of operating income. Additional subsidiaries may be formed in specific work countries where necessary or useful for compliance with local laws or tax objectives. Administrative services are provided by Willbros USA, Inc., whose administrative headquarters are located at 4400 Post Oak Parkway, Suite 1000, Houston, Texas 77027, telephone number (713) 403-8000.

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Current Market Conditions

We believe the fundamentals supporting the demand for engineering, construction and EPC services for the energy industry, particularly services for pipelines in North America, will continue to be strong for the next two to five years. Our results for continuing operations for the three-month period ended December 31, 2006 generated better contract margins than the prior period (ended September 30, 2006) but contract margins for the year ended December 31, 2006, which were 9.9 percent, reflected lower margin work taken in earlier periods and engineering, procurement and construction projects which generated low single digit contract margins for the procurement portion which can be in the range of 30-40 percent of project revenue. We continue to believe the outlook for our business is strong. The fundamentals supporting the demand for engineering, construction and EPC services for the oil, gas and power industries indicate that the market for our services will be strong in 2007 and 2008. Many positive developments reinforce our view. Capital spending for the exploration and production sector of the energy industry is expected to exceed $300 billion in 2007. This is a 9 percent increase over 2006. Even with lower forecast crude oil prices, in the oil sands region of western Canada forecast capital expenditures on new bitumen production and processing facilities are expected to exceed C$100 billion through 2015, as production levels are increased from approximately one million barrels per day presently to more than three million barrels per day in 2015. In the United States, new gas production in the Rocky Mountain region has generated new plans for gas pipelines to the West, Midwest and East Coast. Liquefied natural gas (LNG) is also expected to bring more opportunities to Willbros, both in North America and in other producing/exporting countries.

The engineering market in North America continues to be capacity constrained and we are selecting and accepting assignments that offer higher margins and position us for EPC assignments. Our engineering operations are currently at capacity, constrained by the availability of qualified personnel. We believe our location in Tulsa, Oklahoma protects us to some degree from the high turnover of technical employees characteristic in energy centers such as Houston, Texas. Our successful expansion of engineering activity into the Salt Lake City, Utah area has provided us a model for expansion into other areas. We believe the high level of engineering activity in 2006 has been the precursor to higher levels of construction activity in North America and our backlog at December 31, 2006 of $602.3 million for continuing operations reflects growth of work under contract from $240.4 million at December 31, 2005 for comparable backlog. Our discussions with potential customers regarding pipeline and station construction projects in North America and recent contract awards, coupled with the increase in engineering assignments, reinforce our belief that our ability to obtain improved terms and conditions and better pricing will continue in 2007 and 2008. We believe customers recognize the imbalance in the supply and demand for pipeline engineering, construction and EPC services, and will offer better terms and conditions, resulting in lower risk to us, to dampen pricing increases for our services.

Demand in the *United States & Canada* market led the improvement in backlog for continuing operations in 2006, and we believe the demand there will continue to be strong. We also expect the *International* market to continue to expand and exhibit strengthening demand as new energy infrastructure developments are contemplated in North Africa and the Middle East, markets of interest to us. The following factors have caused the short-term outlook for our business to strengthen:

- The large economic base of hydrocarbon reserves in northern Canada and the commitments to large capital projects to develop them.

- Increased demand in North America for natural gas has resulted in the citing, permitting and approval of new LNG regasification terminals in addition to multiple proposals for additional facilities, principally regasification terminals and connecting pipelines in North America, but also de-bottlenecking of existing systems to allow higher flow rates.

- Increased demand for natural gas worldwide has also resulted in new LNG liquefaction facilities and expansion of existing facilities to meet the higher demand levels. These new facilities require additional pipeline capacity to transport the feed gas for liquefaction in such places as North Africa and the Middle East.

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- Global economic conditions have increased demand for oil, gas, and power resulting in an increase in the expected number of oil, gas and power projects.

- The increasing use of the EPC contract model should allow us to improve our market share in North America.

- New holders of North American pipeline assets acquired in the past three years through merger or outright purchase are now implementing plans to expand or upgrade those assets.

- Major customers are benefiting from high discretionary cash flow, which should enable them to implement expanded capital construction programs.

As a result of these factors, we expect our revenue from continuing operations in 2007 to increase from the 2006 level.

In the mid to long-term, we believe several factors influencing the global energy markets will result in increased activity across our primary lines of business. The fundamental factors that we expect will lead to higher levels of energy-related capital expenditures include:

- Efforts to establish new oil and gas production in more politically secure regions of the world;

- Rising global energy demand resulting from economic growth in developing countries;

- The need for larger oil and gas transportation infrastructures in a number of developing countries;

- The increasing role of natural gas as a fuel for power generation and other uses in producing countries;

- Decline in existing producing reservoirs which will require additional investment to stabilize or reverse the decline in production;

- Initiatives to reduce natural gas flaring worldwide; and

- The aging of energy infrastructure.

A February 2007 industry survey of pipeline construction suggests that worldwide pipeline construction planned for 2007 and beyond will total 67,000 miles. In North America, where we have refocused our business, the survey indicated that for 2007, in the United States, operators plan to construct over 2,800 miles of new pipeline at a cost of $5.4 billion. The survey indicates that, for 2007 and beyond, worldwide pipeline construction expenditures will total approximately $134 billion. The survey also identified proposals for Canadian pipeline expansions of over 10,000 kilometers planned for 2007 and beyond. U.S. Federal Energy Regulatory Commission applications for new or additional compression horsepower for natural gas pipelines increased over 300 percent from June 2005 to June 2006 to 583,000 horsepower. Our March 2007 review of prospective projects identified over $10 billion of projects which currently meet our bidding criteria and we expect to pursue these opportunities aggressively.

Partially offsetting these positive factors is the potential for political and social unrest in some countries of interest to us and the movement toward more populist programs, which have the effect of diminishing access to capital for projects. Willbros views these markets as having limited opportunities in the near term.

Price escalations for equipment, labor, fuel and permanent materials, and shortages of qualified technical and field personnel required to complete many proposed projects may impact project economics and schedules, resulting in delays and possible cancellation of some proposed projects.

Business Strategy

We seek to maximize stockholder value through our business strategy. This strategy is summarized by the following strategic imperatives:

- Concentrate resources in North America to address the expansion of the current business cycle;

- Leverage engineering expertise to attract additional EPC contracts;

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- Increase contract margin by improving bidding discipline and contract management;
- Penetrate, on a selective basis, international markets with relatively more attractive operating and financial parameters;
- Align G&A costs with revenue and maintain a ratio of G&A to revenue of 6-8 percent; and
- Manage cash rigorously.

We rely on the competitive advantage gained from:

- Our experience in performing large diameter cross-country pipeline construction in remote areas with difficult terrain and harsh climatic conditions;
- Our ability to manage complex EPC projects to optimize the ultimate project solution;
- Our longstanding customer relationships; and
- Our experienced multinational employee base. Recognizing our employees as key to our competitive advantage, we continue to invest in them to ensure that they have the training and tools needed to be successful in today s challenging environment.

In carrying out the core elements of our long-term strategies, we build from the following:

Engineering. Willbros is one of the few pipeline constructors with engineering capability. Our engineering experience and capability includes all the service offerings of a full-service engineering firm from feasibility studies through turn-key program management. This engineering capability affords us opportunities for early involvement in project development and allows us to influence the final project structure to benefit both the client and ourselves with respect to efficiencies which can be realized through application of broad technical expertise gained from performing natural gas, crude oil and products pipeline projects worldwide.

Construction. Willbros is noted for building over 200,000 kilometers of pipelines since its long history began in 1908. Our skill sets include pipeline and station construction in all types of terrain, from coastal plains, mountains, swamps and desert, to arctic environments. We have also worked in 57 different countries and have logistics and constructability experience to accommodate multiple solutions for project execution depending upon client preference and availability of equipment and personnel. We have crossed the Andes Mountains five times and completed multiple projects in Alaska, Africa, Canada, the United States, Asia and South America. We are a leader in employing automated welding procedures in the construction of large diameter pipelines,

EPC Contracts. We pursue EPC contracts because they can often yield higher profit margins on the engineering and construction components of the contract compared to stand-alone contracts for similar services. In performing EPC contracts, we participate in numerous aspects of a project. We are therefore able to determine the most efficient design, permitting, procurement and construction sequence for a project in connection with making engineering and constructability decisions. EPC contracts enable us to deploy our resources more efficiently and capture those efficiencies in the form of improved margins on the engineering and construction components of these projects, at the same time optimizing the overall project solution and execution. While EPC contracts carry lower margins for the procurement component, which can be a significant portion of the total contract value, we believe the increased control over all aspects of the project, coupled with higher margins for engineering and construction portions, makes these types of contracts attractive to us. We intend to capitalize on being one of the few pipeline engineering, construction and EPC services companies worldwide with the ability to provide the full range of EPC services in order to capture more of this business.

Conservative Financial Management. We emphasize a strong balance sheet in financing the development and growth of our business. We also seek to obtain contracts that are likely to result in recurring revenue in order to partially mitigate the cyclical nature of our engineering, construction and EPC businesses. Improved systems and processes for contract management are intended to maximize the cash flows from projects and minimize

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project working capital requirements. Additionally, whenever possible we act to minimize our exposure to currency fluctuations through the use of U.S. dollar-denominated contracts and by limiting payments in local currency to approximately the amount of local currency expense. We may seek new financing, in the form of either debt or equity, as market conditions allow and as business opportunities and capital equipment requirements may dictate.

Our focus in 2007 will be on execution of the backlog captured in 2006, continued emphasis on adding higher quality backlog with the best risk adjusted returns, continuing the implementation of more sophisticated and effective contract management systems and processes, maintaining general and administrative cost levels to 6-8 percent of revenue, and leveraging engineering expertise to attract additional EPC contracts.

Ethical Business Practices. Willbros demands that all of its employees and representatives conduct the business of the Company in accordance with the highest ethical standards in compliance with applicable laws, rules and regulations, with honesty and integrity, and in a manner which demonstrates respect for others. Willbros tradition of doing the right thing and abiding by the rule of law is reflected in its longstanding Code of Business Conduct and Ethics (the Code). In addition, in March 2005 Willbros issued an enhanced Foreign Corrupt Practices Act Compliance Manual (the Manual).

Both the Code and the Manual are available on our website and detail specific procedures to be followed in each employee s day-to-day activities in order to ensure compliance. The Code and the Manual are not just summary guidelines documenting the existing principles and procedures that govern our day to day work practices at Willbros. They are also a reflection of our culture of compliance, and our integrity as an organization. We endeavor to avoid even the appearance of impropriety as we carry out our individual job responsibilities at Willbros. Our good reputation is one of our most valuable assets, and preservation of that asset is a matter taken seriously across our entire organization.

Willbros Background

We are the successor to the pipeline construction business of Williams Brothers Company, which was started in 1908 by Miller and David Williams. In 1949, the business was reconstituted and acquired by the next generation of the Williams family. The resulting enterprise eventually became The Williams Companies, Inc., a major U.S. energy and interstate natural gas and petroleum products transportation company (Williams).

In 1975, Williams elected to discontinue its pipeline construction activities and, in December 1975, sold substantially all of the non-U.S. assets and international entities comprising its pipeline construction division to a newly formed, independently owned Panama corporation. The new company (eventually renamed Willbros Group, Inc.) implemented a new management structure and commenced a new era in the Company s history. In 1979, Willbros Group, Inc. retired its debt incurred in the acquisition by selling a 60 percent equity interest to Heerema Holding Construction, Inc. (Heerema). In 1986, Heerema acquired the balance of Willbros Group, Inc., which then operated as a wholly-owned subsidiary of Heerema until April 1992.

In April 1992, Heerema sold Willbros Group, Inc. to a corporation formed on December 31, 1991 in the Republic of Panama by members of the Company s management at the time, certain other investors, and Heerema. Subsequently, the original Willbros Group, Inc. was dissolved into the acquiring corporation which was renamed Willbros Group, Inc. In August 1996, we completed an initial public offering of common stock in which Heerema sold all of its shares of common stock; and in October 1997, we completed a secondary offering in which the other investors sold substantially all of their shares of common stock. In May 2002, we completed a third public offering of common stock, which was used to repay debt and to provide cash for general corporate purposes. In October 2006, we completed a private placement of common stock to raise additional capital to fund rapidly growing operations in North America and to be used for general corporate purposes.

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Willbros Milestones

The following are selected milestones which we have achieved:

1908	Williams Brothers began family business.
1915	Began pipeline work in the United States.
1923	First project outside the United States performed in Canada.
1939	Began pipeline work in Venezuela, first project outside North America.
1942-44	Served as principal contractor on the Big Inch and Little Big Inch War Emergency Pipelines in the United States which delivered Gulf Coast crude oil to the Eastern Seaboard.
1947-48	Built the 370-mile (600-kilometer) Camiri to Sucre and Cochabamba crude oil pipeline in Bolivia.
1951	Completed the 400-mile (645-kilometer) western segment of the Trans-Arabian Pipeline System in Jordan, Syria and Lebanon.
1954-55	Built Alaska s first major pipeline system, consisting of 625 miles (1,000 kilometers) of petroleum products pipeline, housing, communications, two tank farms, five pump stations, and marine dock and loading facilities.
1956-57	Led a joint venture which constructed the 335-mile (535-kilometer) southern section of the Trans-Iranian Pipeline, a products pipeline system extending from Abadan to Tehran.
1958	Constructed pipelines and related facilities for the world s largest oil export terminal at Kharg Island, Iran.
1960	Built the first major liquefied petroleum gas pipeline system, the 2,175-mile (3,480-kilometer) Mid-America Pipeline in the United States, including six delivery terminals, two operating terminals, 13 pump stations, communications and cavern storage.
1962	Began operations in Nigeria with the commencement of construction of the TransNiger Pipeline, a 170-mile (275-kilometer) crude oil pipeline.
1964-65	Built the 390-mile (625-kilometer) Santa Cruz to Sica Sica crude oil pipeline in Bolivia. The highest altitude reached by this line is 14,760 feet (4,500 meters) above sea level, which management believes is higher than the altitude of any other pipeline in the world.
1965	Began operations in Oman with the commencement of construction of the 175-mile (280-kilometer) Fahud to Muscat crude oil pipeline system.
1967-68	Built the 190-mile (310-kilometer) Orito to Tumaco crude oil pipeline in Colombia, one of five Willbros crossings of the Andes Mountains, a project notable for the use of helicopters in high-altitude construction.
1969	Completed a gas gathering system and 105 miles (170 kilometers) of 42-inch trunkline for the Iranian Gas Trunkline Project (IGAT) in Iran to supply gas to the USSR.
1970-72	Built the Trans-Ecuadorian Pipeline, crossing the Andes Mountains, consisting of 315 miles (505 kilometers) of 20-inch and 26-inch pipeline, seven pump stations, four pressure-reducing stations and six storage tanks. Considered the most logistically difficult pipeline project ever completed at the time.
1974-76	Led a joint venture which built the northernmost 225 miles (365 kilometers) of the Trans Alaska Pipeline System.
1974-76	Led a joint venture which constructed 290 miles (465 kilometers) of pipeline and two pump stations in the difficult to access western Amazon basin of Peru; another logistics challenge which required lightering from shipping on the Amazon River.
1974-79	Designed and engineered the 500-mile (795-kilometer) Sarakhs-Neka gas transmission line in northeastern Iran.

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1982-83	Built the Cortez carbon dioxide pipeline system in the southwestern United States, consisting of 505 miles (815 kilometers) of 30-inch pipeline.
1984-86	Constructed, through a joint venture, the All-American Pipeline System, a 1,240-mile (1,995-kilometer), 30-inch heated pipeline, including 23 pump stations, in the United States.
1984-95	Developed and furnished a rapid deployment fuel pipeline distribution and storage system for the U.S. Army which was used extensively and successfully in Saudi Arabia during Operation Desert Shield/Desert Storm in 1990/1991, in Somalia during 1993 and in Iraq in 2003.
1985-86	Built a 185-mile (300-kilometer), 24-inch crude oil pipeline from Ayacucho to Covenas in Colombia, another Andean challenge.
1987	Rebuilt 25 miles (40 kilometers) of the Trans-Ecuadorian crude oil pipeline, mobilizing to Ecuador in two weeks and completing work within six months after major portions were destroyed by an earthquake.
1988-92	Performed project management, engineering, procurement and field support services to expand the Great Lakes Gas Transmission System in the northern United States. The expansion involved modifications to 13 compressor stations and the addition of 660 miles (1,060 kilometers) of 36-inch pipeline in 50 separate loops.
1989-92	Provided pipeline engineering and field support services for the Kern River Gas Transmission System, a 36-inch pipeline project extending over 685 miles (1,100 kilometers) of desert and mountains from Wyoming to California.
1992-93	Rebuilt oil field gathering systems in Kuwait as part of the post-war reconstruction effort.
1996	Listed shares upon completion of an initial public offering of common stock on the New York Stock Exchange under the symbol WG.
1996-97	Achieved ISO Certification for seven operating companies.
1996-98	Performed an EPC contract with Asamera (Overseas) Limited to design and construct pipelines, flowlines and related facilities for the Corridor Block Gas Project located in southern Sumatra, Indonesia.
1997-98	Carried out a contract for the construction of 120 miles (200 kilometers) each of 36-inch and 20-inch pipelines in the Zuata Region of the Orinoco Belt in Venezuela.
1997-98	Completed an EPC contract for El Paso Natural Gas Company and Gasoductos de Chihuahua, a joint venture between El Paso and PEMEX, to construct a 45-mile (75-kilometer) gas pipeline system in Texas and Mexico.
1999-00	Carried out a contract through a joint venture to construct a 492-mile (792-kilometer), 18-inch gas pipeline in Australia.
2000	Acquired Rogers & Phillips, Inc., a United States pipeline construction company.
2000	Relocated the Willbros USA, Inc. administrative offices from Tulsa, Oklahoma to Houston, Texas.
2001	Acquired MSI Energy Services Inc., an Alberta, Canada based contractor working in the oil sands area, and established a presence in Canada.
2001	Ended year with record backlog of $407.6 million.
2002	Acquired the Mt. West Group to enhance presence in the western United States and to improve our service capabilities worldwide.
2002	Completed engineering and project management of the Gulfstream project, a $1.6 billion natural gas pipeline system from Mobile, Alabama crossing the Gulf of Mexico and serving markets in central and southern Florida.

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2002	Elected Michael F. Curran CEO, succeeding Larry J. Bump, who retired after 22 years as Willbros CEO.
2002	Completed the Centennial Pipeline Project: FERC application support, engineering, procurement, construction and construction management of new-build and conversion to refined products service of a natural gas system from Gulf Coast to mid-western United States, 797 miles (1,275 kilometers) of 24-inch and 26-inch pipelines and facilities.
2003	Completed work on the Explorer Pipeline Mainline expansion project, adding 12 new pump stations and additional storage to this products pipeline from the Gulf Coast to central Illinois.
2003	Completed an EPC contract for the 665-mile (1,070-kilometer), 30-inch crude oil Chad Cameroon Pipeline Project, through a joint venture with another international contractor.
2003	Completed construction of the GASYRG natural gas pipeline in Bolivia, 144 miles (230 kilometers) of 32-inch pipeline from the San Alberto gas field to connect with export facilities to Brazil.
2004	Completed construction and began commercial operation of the Opal Gas Plant with nominal capacity of 350 million standard cubic feet per day.
2004	Began work on the Eastern Gas Gathering System (EGGS) project, an 83-kilometer 40-inch feed gas pipeline to the Bonny Island LNG facilities in Nigeria.
2004	Awarded the contract for the onshore portions of the West Africa Gas Pipeline project, to transport natural gas from Nigeria to end users in Ghana, Togo and Benin.
2004	Began work on a field upgrade East Area Platforms Retrofit and Wellhead Tie-ins Project (EPC-IV), offshore Nigeria, for a major exploration and production company.
2004	Completed pipeline rehabilitation and replacement project in Iraq.
2004	Ended year with record backlog of $660.9 million, including discontinued operations.
2005	Generated record backlog of $985 million at September 30, 2005, including discontinued operations.
2006	Expanded activities in Canada to include maintenance, small capital construction and modular fabrication for oil sands developments.
2006	Awarded the R1-R2 pump house construction contract for CNRL Horizon project, first $50 million plus contract in Canada.
2006	Placed Nigeria interests up for sale and reclassified them as discontinued.
2006	Ended year with record North American backlog of $565.4 million.
2006	Elected Randy R. Harl CEO, succeeding Michael F. Curran.
2007	Completed sale of Nigerian interests in February 2007.

Business Segments

In 2004, the Company restructured its business into two operating segments, *United States & Canada* and *International*. All periods presented reflect this change in segments.

The Company s segments are strategic business units that are managed separately to deliver engineering, construction and EPC services in markets with different operational requirements and marketing strategies. The *United States & Canada* segment consists of all engineering, construction, and EPC services provided in those countries. The *International* segment consists of all services provided in other countries. In 2006 such operations were focused in Oman. The Company s corporate operations include the general and administrative and financing functions of the organization. The costs of these functions are allocated between the two operating

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segments. The Company s corporate operations also include various other assets that are allocated between the two operating segments. Inter-segment revenue and revenue between geographic areas are not material.

See Footnote 12 to the Consolidated Financial Statements included in Item 8 of this Form 10-K for more information on our operating segments and discontinued operations.

Services Provided

The Company provides engineering, construction, and EPC services, including development activities, in each of the geographic segments described above. We also have experience in the operation of the types of facilities we design and build. We may make equity investments in some projects to enhance our competitive position for the work assignments associated with the project. In other instances, our experience enables us to understand and manage project completion risk and in these cases we may elect to develop and own a complete facility which will provide attractive internal rates of return over an extended period of time.

Engineering Services

We provide project management, engineering, and material procurement services to the oil, gas and power industries and government agencies. We specialize in providing engineering services to assist clients in constructing or expanding pipeline systems, compressor stations, pump stations, fuel storage facilities, and field gathering and production facilities. Over the years, we have developed expertise in addressing the unique engineering challenges involved with pipeline systems and associated facilities.

To complement our engineering services, we also provide a full range of field services, including:

- surveying;
- right-of-way acquisition;
- material receiving and control;
- construction inspection;
- facilities startup assistance; and
- facilities operations.

These services are furnished to a number of oil, gas, power and government clients on a stand-alone basis and are also provided as part of EPC contracts undertaken by us.

The buying process of our customers includes close scrutiny of our experience and capabilities with respect to project requirements. Some of those requirements involve:

Climatic Constraints. In the design of pipelines and associated facilities to be installed in harsh environments, special provisions for metallurgy of materials and foundation design must be addressed. We are experienced in designing pipelines for arctic conditions (where permafrost and extremely low temperatures are prevalent), desert conditions, mountainous terrain, swamps and offshore.

Environmental Impact of River Crossings/Wetlands. We have considerable capability in designing pipeline crossings of rivers, streams and wetlands in such a way as to minimize environmental impact. We possess expertise to determine the optimal crossing techniques, such as open cut, directionally-drilled or overhead, and to develop site-specific construction methods to minimize bank erosion, sedimentation and other environmental impacts.

Seismic Design and Stress Analysis. Our engineers are experienced in seismic design of pipeline crossings of active faults and areas where liquefaction or slope instability may occur due to seismic events. Our engineers also carry out specialized stress analyses of piping systems that are subjected to expansion and contraction due to temperature changes, as well as loads from equipment and other sources.

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Hazardous Materials. Special care must be taken in the design of pipeline systems transporting sour gas. Sour gas not only presents challenges regarding personnel safety since hydrogen sulfide leaks can be extremely hazardous, but also requires that material be specified to withstand highly corrosive conditions. Our engineers have extensive natural gas experience which includes design of sour gas systems.

Hydraulics Analysis for Fluid Flow in Piping Systems. We employ engineers with the specialized knowledge necessary to address properly the effects of both steady state and transient flow conditions for a wide variety of fluids transported by pipelines, including natural gas, crude oil, refined petroleum products, natural gas liquids, carbon dioxide and water. This expertise is important in optimizing the capital costs of pipeline projects where pipe material costs typically represent a significant portion of total project capital costs.

We have developed significant expertise with respect to each of the following:

Natural Gas Transmission Systems. The expansion of the natural gas transportation network in the United States in recent years has been a major contributor to our engineering business. We believe we have established a strong position as a leading supplier of project management and engineering services to natural gas pipeline transmission companies in the United States. Since 1988, we have provided engineering services for over 20 major natural gas projects in the United States, including the Gulfstream Natural Gas System project, completed in 2002, and the Guardian Pipeline Project, both Phase I, completed in 2004 and Phase II, currently underway.

Liquids Pipelines and Storage Facility Design. We have engineered a number of crude oil and refined petroleum products systems throughout the world, and have become recognized for our expertise in the engineering of systems for the storage and transportation of petroleum products and crude oil. In 2001, we provided engineering and field services for conversion of a natural gas system in the mid-western United States, involving over 797 miles (1,275 kilometers) of 24-inch to 26-inch diameter pipeline to serve the upper Midwest with refined petroleum products. In 2003, we completed EPC services for the expansion of another petroleum products pipeline to the Midwest involving 12 new pump stations, modifications to another 13 pump stations and additional storage.

U.S. Government Services. Since 1981, we have established our position with U.S. government agencies as a leading engineering contractor for jet fuel storage as well as aircraft fueling facilities, having performed the engineering for major projects at eight U.S. military bases including three air bases outside the United States. The award of these projects was based largely on contractor experience and personnel qualifications. Also, in the past eight years we have won five of ten so-called Design-Build-Own-Operate-Maintain projects to provide fueling facilities at military bases in the United States for the U.S. Defense Energy Support Center.

Design of Peripheral Systems. Our expertise extends to the engineering of a wide range of project peripherals, including various types of support buildings and utility systems, power generation and electrical transmission, communications systems, fire protection, water and sewage treatment, water transmission, roads and railroad sidings.

Material Procurement. Because material procurement plays such a critical part in the success of any project, we maintain an experienced staff to carry out material procurement activities. Material procurement services are provided to clients as a complement to the engineering services performed for a project. Material procurement is especially critical to the timely completion of construction on the EPC contracts we undertake. We maintain a computer-based material procurement, tracking and control system, which utilizes software enhanced to meet our specific requirements.

Construction Services

We are one of the most experienced contractors serving the oil, gas and power industries. Our construction capabilities include the expertise to construct and replace large-diameter cross-country pipelines; to fabricate

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engineered structures, process modules and facilities; to construct oil and gas production facilities, pump stations, flow stations, gas compressor stations, gas processing facilities and other related facilities; and to construct piers, docks and bridges.

Pipeline Construction. World demand for pipelines results from the need to move millions of barrels of crude oil and petroleum products and billions of cubic feet of natural gas to refiners, processors and consumers each day. Pipeline construction is capital-intensive, and we own, lease, operate and maintain a fleet of specialized equipment necessary for operations in the pipeline construction business. We focus on pipeline construction activity in remote areas and harsh climates where we believe our experience gives us a competitive advantage. We believe that we have constructed more miles of pipeline than any other private sector company. Since 2004, we have developed the expertise to employ automatic welding processes in the onshore construction of large-diameter (greater than 30-inch) natural gas pipelines and have constructed over 210 miles of such pipelines using automatic welding processes in the Barnett Shale region of the southwestern United States.

The construction of a cross-country pipeline involves a number of sequential operations along the designated pipeline right-of-way. These operations are virtually the same for all overland pipelines, but personnel and equipment may vary widely depending upon such factors as the time required for completion, general climatic conditions, seasonal weather patterns, the number of road crossings, the number and size of river crossings, terrain considerations, extent of rock formations, density of heavy timber and amount of swamp.

Onshore construction often involves separate crews to perform the following different functions:

- clear the right-of-way;
- grade the right-of-way;
- excavate a trench in which to bury the pipe;
- haul pipe to intermediate stockpiles from which stringing trucks carry pipe and place individual lengths (joints) of pipe alongside the ditch;
- bend pipe joints to conform to changes of direction and elevation;
- clean pipe ends and line up the succeeding joint;
- perform various welding operations;
- inspect welds non-destructively;
- clean pipe and apply anti-corrosion coatings;
- lower pipe into the ditch;

backfill the ditch;

bore and install highway and railroad crossings;

drill, excavate or dredge and install pipeline river crossings;

tie in all crossings to the pipeline;

install mainline valve stations;

conduct pressure testing;

install cathodic protection system; and

perform final clean up.

Special equipment and techniques are required to construct pipelines across wetlands and offshore. We have used swamp pipelaying methods extensively in Nigeria, where a significant portion of our construction

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operations were carried out in the Niger River Delta. This expertise is applicable in wetland regions elsewhere and can provide a competitive advantage for projects in such venues as south Louisiana, where we expect to see additional work opportunities.

Fabrication. Fabrication services can be a more efficient means of delivering engineered, major process or production equipment with improved schedule certainty and quality. We provide fabrication services and are capable of fabricating such diverse deliverables as process modules, subsea templates, flare piles and tips and offshore jackets and decks. Also, Willbros MSI Canada Inc. (Willbros MSI) purchased in 2006 an additional 90,000 square foot fabrication facility in Edmonton, Alberta. This facility has expanded Willbros MSI fabrication capability to provide process modules to the burgeoning heavy oil market in northern Alberta. Including the new facility in Edmonton, Willbros MSI currently operates three fabrication facilities in Ft. McMurray and Edmonton, Alberta, Canada.

Station Construction. Oil and gas companies require various facilities in the course of producing, processing, storing and moving oil and gas. We are experienced in and capable of constructing facilities such as pump stations, flow stations, gas processing facilities, gas compressor stations and metering stations. We can provide a full range of services for the engineering, design, procurement and construction of processing, pumping, compression, and metering facilities. We are capable of building such facilities onshore, offshore in shallow water or in swamp locations. The construction of station facilities, while not as capital-intensive as pipeline construction, is generally characterized by complex logistics and scheduling, particularly on projects in locations where seasonal weather patterns limit construction options, and in countries where the importation process is difficult. Our capabilities have been enhanced by our experience in dealing with such challenges in numerous countries around the world.

EPC Services

Engineering, procurement and construction (EPC) projects can often yield higher profit margins on the engineering and construction components of the contract compared to stand-alone contracts for similar services. In performing EPC contracts, we participate in numerous aspects of a project. We are therefore able to determine the most efficient design, permitting, procurement and construction sequence for a project in connection with making engineering and constructability decisions. EPC contracts enable us to deploy our resources more efficiently and capture those efficiencies in the form of improved margins on the engineering and construction components of these projects, at the same time optimizing the overall project solution and execution. While EPC contracts carry lower margins for the procurement component, which can be a significant portion of the total contract value, we believe the increased control over all aspects of the project, coupled with higher margins for engineering and construction portions, makes these types of contracts attractive to us. We intend to capitalize on being one of the few pipeline engineering, construction and EPC services companies worldwide with the ability to provide the full range of EPC services in order to capture more of this business.

Specialty Services

We utilize the skill sets and resources from our engineering, construction and EPC services to provide a wide range of support and ancillary services related to the construction, operation, repair and rehabilitation of pipelines. Frequently, such services require the utilization of specialized equipment, which is costly and requires operating expertise. Due to the initial equipment cost and operating expertise required, many client companies hire us to perform these services. We own and operate a variety of specialized equipment that is used to support construction projects and to provide a wide range of oilfield services. We provide the following primary types of specialty services:

- Transport of dry and liquid cargo;
- Pipe double-jointing;
- Rig moves; and
- Maintenance and repair services.

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Facilities Development and Operations

Our workforce has significant experience in the operation of the types of facilities we design and build. In some instances, we make equity investments in projects to enhance our competitive position for the work assignments associated with the project. In other instances, our experience enables us to understand and manage project completion risk, and in these cases we may elect to develop and own a complete facility which will provide attractive internal rates of return over an extended period of time.

Opal Gas Plant. We designed, built and owned a turbo-expander plant which processes gas produced from the Pinedale anticline. The TXP-4 Plant is located near Opal, Wyoming in southwestern Wyoming and is designed to process volumes in excess of 350 million standard cubic feet per day of natural gas, producing 7,000 to 11,000 barrels per day of natural gas liquids at various operating conditions. The TXP-4 Plant began commercial natural gas processing activity in the first quarter of 2004. We sold this facility in January 2006 to Williams Field Services Company, the owner and operator of the major Opal Plant facilities.

U.S. Defense Energy Support Center. Since 1998, we have constructed five fueling facilities for the U.S. Defense Energy Support Center. Currently, we own and operate two fueling facilities at Ft. Bragg, North Carolina, which were constructed by us in 1998 and a similar facility completed in 2000 at Twenty-nine Palms Marine Corps Base in California. In 2001, we were awarded contracts for similar facilities at Ft. Stewart, Georgia and Ft. Gordon, Georgia; these facilities were completed and operational in 2002. In 2005, we were awarded a contract for another such facility at Ft. Campbell, Kentucky.

In our *International* segment in 1998, through our Venezuelan subsidiary, we took a 10 percent equity interest in a joint venture which was awarded a 16-year contract to operate, maintain and refurbish water injection facilities on Lake Maracaibo in Venezuela. This interest was sold in 2006.

Geographic Regions

The Company has operated worldwide but has focused its operations in recent years on certain markets in North America, South America, West Africa and the Middle East. Our continuing operations contract revenue for 2006, 2005 and 2004 for the *United States & Canada* and *International* operating segments are shown in the following table.

	Year Ended December 31,					
	2006		2005		2004	
	Amount	Percent	Amount	Percent	Amount	Percent
	(Dollar amounts in thousands)					
Contract Revenue						
United States & Canada	$ 474,045	87.3%	$ 269,006	91.3%	$ 171,578	62.9%
International	69,214	12.7	25,473	8.7	101,216	37.1
Total	$ 543,259	100.0%	$ 294,479	100.0%	$ 272,794	100.0%

United States & Canada

United States

We have provided services to the U.S. oil and gas industry for more than 90 years. We believe that the United States will continue to be an important market for our services. Market conditions for the short-term showed improvement in 2006 and are expected to show more improvement in 2007, as many of the energy transportation companies improve their financial condition and focus on core businesses. To improve their liquidity, some of our traditional clients sold pipeline assets, in some cases, to new industry participants. These new owners are beginning to develop and implement their capital budgets for these newly acquired assets, as

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they have completed their evaluation of the newly acquired assets and are finalizing their strategies for maximizing the return on their investments in these assets. Deregulation of the electric power and natural gas pipeline industries in the United States has led to the consolidation and reconfiguration of existing pipeline infrastructure and the establishment of new energy transport systems, which we expect will result in continued demand for our services in the mid to long-term. The demand for natural gas for industrial and power usage in the United States should increase the demand for additional new natural gas transportation infrastructure. We anticipate that additional supply to satisfy such market demand for natural gas will come from existing and new production in the North Slope of Alaska, the Rocky Mountain region, the Gulf of Mexico, and newly proposed and permitted liquefied natural gas (LNG) regasification terminals along the Gulf Coast. Environmental concerns will likely continue to require careful, thorough and specialized professional engineering and planning for all new facilities within the oil, gas and power sectors. Furthermore, the demand for replacement and rehabilitation of pipelines is expected to increase as pipeline systems in the United States approach the end of their design lives and population trends influence overall energy needs. We are recognized as an industry leader in the United States for providing project management, engineering, procurement and construction services. We maintain a staff of experienced management, construction, engineering and support personnel in the United States. We provide these services through engineering offices located in Tulsa, Oklahoma and Salt Lake City (Murray), Utah. Construction operations based in Houston, Texas provide the majority of construction services in the United States.

We have also provided significant engineering services to U.S. government agencies during the past 24 years, particularly in fuel storage and distribution systems and aircraft fueling facilities.

Canada

Prevailing oil and gas prices at higher than historical averages have increased industry interest, investment and development in the oil sands region of northern Alberta, Canada, where industry estimates expect over C$100 billion to have been invested by the end of 2015. New process plant developments offer prospective fabrication and installation work as well as maintenance opportunities, and the anticipated increase in crude oil volumes to be shipped to markets in the United States and Asia has resulted in proposals for several major crude oil export pipelines from this region. The need for additional process fuel for the oil sands also is driving the development of new pipeline infrastructure from the Mackenzie Delta region. Construction, fabrication and maintenance services in Canada are provided primarily through facilities and resources located in Ft. McMurray and Edmonton, Alberta. In early 2005, Willbros MSI purchased a 90,000 square foot fabrication facility in the Edmonton, Alberta area. This facility has expanded Willbros MSI s fabrication capability to provide process modules to the burgeoning heavy oil market in northern Alberta. In 2006 we were awarded a major construction project in the Ft. McMurray area, valued in excess of $50 million, and we are expanding our experience and capability for such assignments.

International

Middle East

Hostilities in the Middle East continued during 2006 and the short-term outlook for projects in the region remained very limited. However, we continue to believe that increased exploration and production activity in the Middle East will be the primary factor influencing the construction of new energy transportation systems in the region. The majority of future transportation projects in the region are expected to be centered around natural gas due to increased regional demand, governments recognition of gas as an important asset and an underdeveloped gas transportation infrastructure throughout the region. In April 2003, we were awarded an EPC contract for a natural gas pipeline system in Oman and completed that project in 2004. In October 2003, we were awarded work as a subcontractor to repair damaged pipelines in northern Iraq. This work was completed in late 2004. Projects delayed in the region by uncertainty associated with the hostilities in Iraq are now being tendered and awarded. We believe the Middle East in general will present opportunities to provide an increased level of services through 2007 and into 2008.

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Our operations in the Middle East date back to 1948. We have worked in most of the countries in the region, with particularly heavy involvement in Kuwait, Oman and Saudi Arabia. Currently, we have ongoing operations in Oman, where we have been active continuously for more than 40 years. We maintain a fully staffed facility in Oman with equipment repair facilities and spare parts on site and offer construction expertise, repair and maintenance services, engineering support, oil field transport services, materials procurement and a variety of related services to our clients. In 2004, we were awarded a new five-year contract by Oman LNG for general maintenance services. We believe our presence in Oman and our experience there and in other Middle Eastern countries will enable us to successfully win and perform projects in this region. We have evaluated the opportunities in the Middle East and determined that we should focus our efforts on continued development of our operations in Oman and the extension of that expertise and capability into the market in Saudi Arabia, where we have a joint venture relationship with the foremost provider of services to Saudi Aramco.

Africa

Africa has been an important strategic market for us and may remain so despite our decision to exit Nigeria in 2006. There are large, potentially exploitable reserves of natural gas in North Africa. Depending upon the world market for natural gas and the availability of financing, the amount of potential new work could be substantial. Currently, we are monitoring or bidding on major work prospects in Algeria, Libya, and Tunisia.

Over the past 50 years, we have completed major projects in a number of African countries including Algeria, Cameroon, Chad, Egypt, Gabon, Ivory Coast, Libya, Morocco and Nigeria. We have management staff in our organization and engineers, managers and craftsmen with extensive African experience, who are capable of providing engineering, construction and EPC expertise, fabrication services, repair and maintenance services. Strong local relationships have enabled us to satisfy the varied needs of our clientele in this region.

In February 2007 we sold our interests in Nigeria.

South America

We have been active in South America since 1939. The medium to long-term market outlook has not changed, but in the short-term, the markets in Bolivia, Ecuador and Venezuela have been disrupted by a populist political agenda and its emphasis on state control of natural resources and energy projects. The political situations in Bolivia, Ecuador and Venezuela remain uncertain and projects in these countries continue to be delayed. Because the governments of these countries continue to pursue agenda which include nationalization and/or renegotiation of contracts with foreign investors, Willbros views these markets as having limited opportunities in the near term.

We have performed numerous major projects in South America, where our accomplishments include the construction of five major pipeline crossings of the Andes Mountains and the world altitude record for constructing a pipeline. Most recently, we completed, in an alliance with another international contractor, a 144-mile (230-kilometer) 32-inch natural gas pipeline in Bolivia for the Transierra consortium. This project was completed in the first half of 2003, and resolution and settlement of contract variations was finalized in 2004.

In 2006 we sold our business interests in Venezuela and our 10 percent interest in a joint venture there.

Backlog

In our industry, backlog is considered an indicator of potential future performance because it represents a portion of the future revenue stream. Our strategy is not focused solely on backlog additions but, rather, on capturing quality backlog with margins commensurate with the risks associated with a given project.

Backlog consists of anticipated revenue from the uncompleted portions of existing contracts and contracts whose award is reasonably assured. At December 31, 2006, backlog for continuing operations was

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$602.3 million compared to $240.4 million on a comparable basis at December 31, 2005. We believe the backlog figures are firm, subject only to the cancellation and modification provisions contained in various contracts. We expect that approximately $461.8 million or about 77 percent, of our existing backlog at December 31, 2006, will be recognized in revenue during 2007. Historically, a substantial amount of our revenue in a given year has not been in our backlog at the beginning of that year. At the end of 2006, we believe we have an extraordinary amount of work for 2007 already under contract. Additionally, due to the short duration of many jobs, revenue associated with jobs awarded and performed within a reporting period will not be reflected in quarterly backlog reports. We expect the amount of such revenue to be less than in previous years due to the high expected utilization rate for our resources in 2007. We generate revenue from numerous sources, including contracts of long or short duration entered into during a year as well as from various contractual processes, including change orders, extra work, variations in the scope of work and the effect of escalation or currency fluctuation formulas. These revenue sources are not added to backlog until realization is assured.

The following table shows our backlog by operating segment and geographic region as of December 31, 2006 and 2005:

	2006		2005	
	Amount	Percent	Amount	Percent
	(Dollar amounts in thousands)			
Backlog				
United States & Canada				
United States	$ 387,866	64%	$ 36,242	15%
Canada	177,542	30	156,935	65
	565,408	94	193,177	80
International				
Middle East	36,864	6	47,196	20
Total, continuing operations	602,272	100%	240,373	100%
Discontinued operations	406,780		575,982	
Total backlog	$ 1,009,052		$ 816,355	

Competition

We operate in a highly competitive environment. We compete against government-owned or supported companies and other companies that have financial and other resources substantially in excess of those available to us. In certain markets, we compete against national and regional firms against which we may not be price competitive.

In the United States, our primary construction competitors on a national basis include Associated Pipeline Contractors, Gregory & Cook, H. C. Price, Sheehan Pipeline Construction, U.S. Pipeline and Welded Construction. In addition, there are a number of regional competitors, such as Sunland, Dyess, Flint, and Jomax.

Primary competitors for engineering services include:

- Alliance Engineering;
- Bechtel;

Worley Parsons;

Fluor;

Gulf Interstate;

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- Jacobs Engineering;
- KBR;
- Mustang Engineering;
- Paragon Engineering;
- Snamprogetti;
- Technip;
- Trigon EPC; and
- Universal Ensco.

Our primary competitors for *International* onshore construction projects in developing countries include Technip (France), CCC (Lebanon), Saipem (Italy), AMEC Spie-Capag (UK), Techint (Argentina), Bechtel (U.S.), Stroytransgaz (Russia), Tekfen (Turkey), and Nacap (Netherlands). We believe that we are one of the few companies among our competitors possessing the ability to carry out large projects in developing countries on a turnkey basis (engineering, procurement and construction), without subcontracting major elements of the work. As a result, we may be more cost effective than our competitors in certain instances or offer a superior value proposition.

We have different competitors in different markets. In Oman, competitors in oil field transport services include Desert Line, Al Ahram, Hamdam and TruckOman, all Omani companies; and in construction and the installation of flowlines and mechanical services, we compete with Taylor Woodrow Towell (UK), CCC (Lebanon), Dodsal (India), Saipem (Italy), Desert Line (Oman) and Galfar (Oman).

Joint Ventures

From time to time in the ordinary course of our business, we enter into joint venture agreements with other contractors for the performance of specific projects. Typically, we seek one or more joint venture partners when a project requires local content, equipment, manpower or other resources beyond those we have available to complete work in a timely and efficient manner or when we wish to share risk on a particularly large project. Our joint venture agreements identify the work to be performed by each party, the procedures for managing the joint venture work, the manner in which profits and losses will be shared by the parties, the equipment, personnel or other assets that each party will make available to the joint venture and the means by which any disputes will be resolved.

Contract Provisions and Subcontracting

Most of our revenue is derived from engineering, construction, and EPC contracts. The majority of our contracts fall into the following basic categories:

- firm fixed-price or lump sum fixed-price contracts, providing for a single price for the total amount of work or for a number of fixed lump sums for the various work elements comprising the total price;

unit-price contracts, which specify a price for each unit of work performed;

time and materials contracts, under which personnel and equipment are provided under an agreed schedule of daily rates with other direct costs being reimbursable;

cost plus fixed fee contracts, common with U.S. government entities and agencies under which income is earned solely from the fee received. Cost plus fixed fee contracts are often used for material procurement services; and

a combination of the above (such as lump sums for certain items and unit rates for others).

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Changes in scope of work are subject to change orders to be agreed to by both parties. Change orders not agreed to in either scope or price result in claims to be resolved in a dispute resolution process. These changes and claims can affect our contract revenue either positively or negatively.

We usually obtain contracts through competitive bidding or through negotiations with long-standing clients. We are typically invited to bid on projects undertaken by our clients who maintain approved bidder lists. Bidders are pre-qualified by virtue of their prior performance for such clients, as well as their experience, reputation for quality, safety record, financial strength and bonding capacity.

In evaluating bid opportunities, we consider such factors as the client, the geographic location, the difficulty of the work, our current and projected workload, the likelihood of additional work, the project s cost and profitability estimates, and our competitive advantage relative to other likely bidders. We give careful thought and consideration to the political and financial stability of the country or region where the work is to be performed. The bid estimate forms the basis of a project budget against which performance is tracked through a project control system, enabling management to monitor projects effectively.

All U.S. government contracts and many of our other contracts provide for termination of the contract for the convenience of the client. In addition, some contracts are subject to certain completion schedule requirements that require us to pay liquidated damages in the event schedules are not met as the result of circumstances within our control.

We act as prime contractor on a majority of the construction projects we undertake. In our capacity as prime contractor and when acting as a subcontractor, we perform most of the work on our projects with our own resources and typically subcontract only such specialized activities as hazardous waste removal, non-destructive inspection, tank erection, catering and security. In the construction industry, the prime contractor is normally responsible for the performance of the entire contract, including subcontract work. Thus, when acting as a prime contractor, we are subject to the risk associated with the failure of one or more subcontractors to perform as anticipated.

A substantial portion of our projects are currently performed on a fixed-price basis. Under a fixed-price contract, we agree on the price that we will receive for the entire project, based upon specific assumptions and project criteria. If our estimates of our own costs to complete the project are below the actual costs that we may incur, our margins will decrease, and we may incur a loss. The revenue, cost and gross profit realized on a fixed-price contract will often vary from the estimated amounts because of unforeseen conditions or changes in job conditions and variations in labor and equipment productivity over the term of the contract. If we are unsuccessful in mitigating these risks, we may realize gross profits that are different from those originally estimated and may incur losses on projects. Depending on the size of a project, these variations from estimated contract performance could have a significant effect on our operating results for any quarter or year. In some cases, we are able to recover additional costs and profits from the client through the change order process. In general, turnkey contracts to be performed on a fixed-price basis involve an increased risk of significant variations. This is a result of the long-term nature of these contracts and the inherent difficulties in estimating costs and of the interrelationship of the integrated services to be provided under these contracts whereby unanticipated costs or delays in performing part of the contract can have compounding effects by increasing costs of performing other parts of the contract. Our accounting policy related to contract variations and claims requires recognition of all costs as incurred. Revenue from change orders, extra work and variations in the scope of work is recognized when an agreement is reached with the client as to the scope of work and when it is probable that the cost of such work will be recovered in a change in contract price. Profit on change orders, extra work and variations in the scope of work is recognized when realization is assured beyond a reasonable doubt. Also included in contract costs and recognized income not yet billed on uncompleted contracts are amounts the Company seeks or will seek to collect from customers or others for errors or changes in contract specifications or design, contract change orders in dispute or unapproved as to both scope and price, or other customer-related causes of unanticipated additional contract costs (unapproved change orders). These amounts are recorded at

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their estimated net realizable value when realization is probable and can be reasonably estimated. Unapproved change orders and claims also involve the use of estimates, and it is reasonably possible that revisions to the estimated recoverable amounts of recorded unapproved change orders may be made in the near-term. If the Company does not successfully resolve these matters, a net expense (recorded as a reduction in revenues), may be required, in addition to amounts that have been previously provided for.

Employees

At December 31, 2006, we employed directly a multi-national work force of approximately 4,156 persons, of which approximately 72 percent were citizens of the respective countries in which they work. Although the level of activity varies from year to year, we have maintained an average work force of approximately 3,972 over the past five years. The minimum employment during that period has been 3,282 and the maximum was 4,870. At December 31, 2006, approximately 24 percent of our employees, all in Nigeria, were covered by collective bargaining agreements which are in dispute. We believe relations with our remaining employees are satisfactory.

The following table sets forth the location of employees by work countries as of December 31, 2006:

	Number of Employees	Percent
U.S. Construction	865	20.8%
U.S. Engineering	351	8.5
U.S. Administration	215	5.2
Canada	453	10.9
Oman	1,269	30.5
International	4	0.1
Nigeria (discontinued operations)	999	24.0
Total	4,156	100%

Equipment

We own, lease, and maintain a fleet of generally standardized construction, transportation and support equipment. In 2006 and 2005, expenditures for capital equipment were $12.3 million and $25.1 million, respectively. At December 31, 2006, the net book value of our property, plant, equipment was $65.3 million.

Historically, we have elected to own rather than rent equipment to ensure the required equipment is available as needed. We believe this has resulted in lower equipment costs. We are constantly evaluating the availability of equipment and in the past two years have leased equipment to ensure its availability to support projects. The increasing demand for construction equipment in North America and our improved liquidity have caused us to reevaluate our approach to securing necessary equipment and we currently believe that ownership of certain components of the equipment fleet may be more cost effective. We continue to evaluate expected equipment utilization, given anticipated market conditions, and may buy or lease new equipment and dispose of underutilized equipment from time to time. All equipment is subject to scheduled maintenance to maximize fleet readiness. We have maintenance facilities at Azaiba, Oman; Channelview, Texas; Ft. McMurray, Alberta, Canada; Houston, Texas, and Port Harcourt, Nigeria, as well as temporary site facilities on major jobs to minimize downtime. In 2006, we made the decision to consolidate our equipment yards and equipment maintenance activities in the United Sates and have placed the Channelview facility up for sale. The Port Harcourt facility is included in the Nigeria interests which were sold in February 2007.

Facilities

In Channelview, Texas, near Houston, we own a 20-acre equipment and maintenance facility, which includes an office and maintenance shop building. In Houston, we own a 10-acre equipment yard and

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maintenance facility which includes an 8,500 square foot maintenance/warehouse building and an office building totaling approximately 8,200 square feet. Also, in Tulsa, Oklahoma we own a 100,000 square foot office building. In Canada, we own three fabrication facilities, totaling over 110,000 square feet, in Edmonton and Ft. Mc Murray, Alberta. At December 31, 2006, we leased all other facilities used in our operations, including corporate offices in Panama; administrative, procurement and engineering offices in Houston, Texas; Salt Lake City (Murray), Utah and various office facilities, equipment sites and expatriate housing units in the United States, Canada, and Oman. Rent expense for these facilities was $2.7 million in 2006 and $2.3 million in 2005.

Insurance and Bonding

Operational risks are analyzed and categorized by our risk management department and are insured through major international insurance brokers under a comprehensive insurance program, which includes commercial insurance policies, consisting of the types and amounts typically carried by companies engaged in the worldwide engineering and construction industry. We maintain worldwide master policies written mostly through highly-rated insurers. These policies cover our land and marine property, plant, equipment and cargo against all normally insurable risks, including war risk, political risk and terrorism, in third-world countries. Other policies cover our workers and liabilities arising out of our operations. Primary and excess liability insurance limits are consistent with the level of our asset base. Risks of loss or damage to project works and materials are often insured on our behalf by our clients. On other projects, builders all risk insurance is purchased when deemed necessary. Substantially all insurance is purchased and maintained at the corporate level, other than certain basic insurance, which must be purchased in some countries in order to comply with local insurance laws.

The insurance protection we maintain may not be sufficient or effective under all circumstances or against all hazards to which we may be subject. An enforceable claim for which we are not fully insured could have a material adverse effect on our results of operations. In the future, our ability to maintain insurance, which may not be available or at rates we consider reasonable, may be affected by events over which we have no control, such as those that occurred on September 11, 2001.

We often are required to provide surety bonds guaranteeing our performance and/or financial obligations. The amount of bonding available to us depends upon our experience and reputation in the industry, financial condition, backlog and management expertise, among other factors. We also use letters of credit issued under our credit facility in lieu of bonds to satisfy performance and financial guarantees on some projects when required.

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Item 1A. Risk Factors

The nature of our business and operations subjects us to a number of uncertainties and risks.

We may continue to experience losses associated with our prior activities in Nigeria.

In February 2007, we completed the sale of our Nigeria operations. We may continue to experience losses or incur expenses subsequent to the sale and disposition of our operations. In particular:

- We have issued parent company guarantees to our clients in connection with the performance of our Nigeria contracts. Although the buyer will now be responsible for completing these projects, our guarantees will remain in force until the projects are completed. The buyer has entered into an Indemnity Agreement pursuant to which the buyer and its parent company are obligated to indemnify us for any losses we incur on these guarantees. However, we can provide no assurance that we will be successful in enforcing our rights under the Indemnity Agreement. The guarantees include five projects under which we estimate that, at December 31, 2006, there was aggregate remaining contract revenue, excluding any additional claim revenue, of approximately $374.8 million, and aggregate cost to complete of approximately $316.0 million. At December 31, 2006, we estimated that only one of the contracts covered by the guarantees was in a loss position and had accrued for such loss in the amount of approximately $33.2 million on our December 31, 2006 balance sheet. If we are required to resume operations in Nigeria under our performance guarantees and are unable to enforce our rights under the Indemnity Agreement, we may experience losses and those losses could exceed the amount accrued at December 31, 2006, including losses that we could incur in completing projects that were not considered to be in a loss position as of December 31, 2006, due to additional expenses associated with the start-up and redeployment of our equipment or personnel or a further deterioration of the already challenging operating environment in Nigeria.

- Although our current activities in Nigeria are confined to providing transition services to the new owner, we may find it difficult to provide those services to the buyer if we experience high levels of employee turnover or for other reasons. If we are unable to provide adequate transition services or if the buyer is otherwise unable to perform under our contracts that were in effect as of the closing date, we may be required to perform under our parent company guarantees discussed above.

- As of the February 2007 closing date, approximately $22.6 million of letters of credit had been issued and were still outstanding on our behalf to our clients to secure our performance under various Nigeria projects. Pursuant to our agreement with the buyer, Intercontinental Bank Plc issued five irrevocable unconditional backstop standby letters of credit in the same total amount to provide indemnification to us for the outstanding letters of credit issued on our behalf which remain in effect. We can provide no assurance that, if any letters of credit are drawn upon by our former clients, we will be able to fully indemnify ourselves by successfully drawing upon our backstop letters of credit.

- We may experience difficulty redeploying certain equipment to our continuing operations that we previously leased for our Nigeria projects and that was not conveyed to the buyer at closing.

- The purchase price will be adjusted subsequent to the closing to reflect our subsidiary s working capital as of the closing date. Due to the many variables affecting our contracts and commercial negotiations in Nigeria, the final adjustments may not be determined for several months. We can provide no assurance that the adjustment will not be substantial.

- The share purchase agreement provides that we are required to indemnify the buyer in the event that we breach certain representations, warranties and covenants that we made to the buyer. Our liability for breaches of representations, warranties and covenants is limited to 10 percent of the purchase price, or $15.5 million.

A portion of the purchase price ($5.5 million) was paid in the form of a promissory note, of which $2.6 million remains outstanding. Although the note is secured by a corporate guarantee of the buyer s

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parent company, we can provide no assurance that we will be able to collect the remainder of the purchase price.

Governmental investigations into the activities of the Company, J. Kenneth Tillery, the former President of our principal international subsidiary, and other current and former employees of the Company could adversely affect us.

In late December 2004, we learned that tax authorities in Bolivia had charged our Bolivian subsidiary with failure to pay taxes owed, filing improper tax returns and the falsification of tax documents. As a result of the Company s investigation, we determined that J. Kenneth Tillery, then President of Willbros International, Inc. (WII) and the individual principally responsible at that time for the Company s international operations outside of the United States and Canada, was aware of the circumstances that led to the Bolivian charges. Mr. Tillery resigned from the Company on January 6, 2005. Based on our preliminary investigation, we determined that our Bolivian subsidiary had also failed to properly withhold taxes on payments made in Bolivia and had failed to file tax returns related to those withholding taxes. We reported this information to the Bolivian government. In March, 2005, we paid approximately $3.3 million to resolve outstanding assessments with the Bolivian tax authorities.

On January 18, 2005, the Company s Audit Committee engaged independent outside legal counsel for the purpose of conducting an investigation into the circumstances surrounding the Bolivian tax assessment as well as other activities which were previously under the control of Mr. Tillery. The independent counsel retained forensic accountants to assist with the investigation.

The investigations conducted by the Audit Committee and senior management have revealed information indicating that Mr. Tillery, and others who directly or indirectly reported to him, engaged in activities that were and are specifically contrary to established Company policies and possibly the laws of several countries, including the United States. A summary description of the activities carried out by Mr. Tillery and others that may have damaged the Company or that may cause such damage in the future is provided in the risk factor below entitled The actions of Mr. Tillery and others have harmed the Company and may harm the Company in the future. Our investigations determined the following:

- Under the direction of Mr. Tillery and others acting under his direction, the Company s Bolivian subsidiary filed incorrect tax returns, failed to file required tax returns and failed to pay taxes owed.

- Mr. Tillery and other employees or consultants of WII or its subsidiaries may have made or caused others to make payments directly or indirectly to government officials in connection with the submission of incorrect tax information.

- Mr. Tillery and other employees or consultants of WII or its subsidiaries may have made or caused others to make payments directly or indirectly to government officials and client representatives in connection with the award and retention of business in Nigeria, the reduction of Nigerian tax obligations, the facilitation of Nigerian customs clearances and the disposition of Nigerian legal proceedings.

- Mr. Tillery and other employees or consultants of WII or its subsidiaries have made or caused others to make payments directly or indirectly to government officials in connection with attempts to obtain and/or retain business in Ecuador.

- Mr. Tillery and other employees or consultants of WII or its subsidiaries usurped corporate opportunities and owned undisclosed interests in enterprises with which the Company had material relationships.

- Mr. Tillery and other employees or consultants of WII or its subsidiaries may have engaged in discussions or entered into arrangements with competitors of the Company regarding bidding strategies for projects outside the United States.

- Mr. Tillery may have acquiesced to, or approved a prior commitment by another to make an improper future payment in Mexico.

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Mr. Tillery and other employees of WII or its subsidiaries may have received kickbacks, payments and/or other improper benefits from Company consultants, suppliers and/or competitors or may otherwise have benefited personally as a result of the activities described above.

Mr. Tillery and other employees or consultants of WII or its subsidiaries may have intentionally mischaracterized Company expenditures resulting in the Company s books not accurately reflecting the true nature of such expenditures.

Acts carried out by Mr. Tillery and others acting under his direction with respect to a bid for work in Sudan may constitute facilitation efforts prohibited by U.S. law, a violation of U.S. trade sanctions and the unauthorized export of technical information.

Some of the actions of Mr. Tillery and other employees or consultants of WII or its subsidiaries may have caused the Company to violate U.S. securities laws, including the Foreign Corrupt Practices Act (FCPA), and/or other U.S. and foreign laws.

Following Mr. Tillery s resignation, other employees of WII or its subsidiaries may have continued to carry out improper activities previously initiated by Mr. Tillery. Those employees may have made payments directly to certain government officials or to third party consultants with the understanding that such payments would be paid to government officials.

We have voluntarily reported the results of our investigations to both the United States Securities and Exchange Commission (SEC) and the United States Department of Justice (DOJ). We have also voluntarily reported the potentially improper facilitation and export activities to the United States Department of Treasury s Office of Foreign Assets Control (OFAC), and to the DOJ and to the SEC. OFAC has commenced an investigation of the reported facilitation and export activities. The SEC and the DOJ are each conducting their own investigations of other actions taken by the Company and its employees and representatives that may constitute violations of U.S. law. We are cooperating fully with all such investigations. If the Company or one of its subsidiaries is found to have violated the U.S. securities laws (including the FCPA), that entity could be subject to civil penalties of up to $650,000 per violation, and criminal penalties of up to the greater of $2 million per violation or twice the gross pecuniary gain resulting from the improper conduct and other sanctions. If the Company or one of its subsidiaries is found to have violated U.S. trade sanctions or U.S. export restrictions that entity could be subject to civil penalties of up to $11,000 per violation and criminal penalties of up to $250,000 per violation. In each case there could be multiple violations. The Company and its subsidiaries could also be barred from participating in future U.S. government contracts and from participating in certain U.S. export transactions. It is also possible that governmental agencies could require that we enter into a criminal plea agreement or a deferred prosecution agreement which could include fines, penalties, monitoring arrangements and other sanctions. There may be other penalties that could apply under other U.S. laws or the laws of foreign jurisdictions. The Company cannot predict the outcome of the investigations being conducted by the SEC, the DOJ and OFAC, including the Company s exposure to civil or criminal fines or penalties, or other regulatory action which could have a material adverse effect on the Company s business, financial condition and results of operations.

The Company has terminated employment relationships and commercial and/or consulting arrangements with multiple entities and individuals by whom, through whom and to whom potentially improper payments may have been made in Bolivia, Nigeria and Ecuador. In at least two instances, we have received claims that such terminations are unjustified and may constitute a breach of contract.

The actions of Mr. Tillery and others have harmed the Company and may harm the Company in the future.

Mr. Tillery became the Managing Director of the Company s affiliate in Nigeria in 1995. Evidence that arose from our investigations indicates that Mr. Tillery thereafter acquired interests in, or began exercising some control over, several entities that did business with the Company and did not disclose such interests and relationships to the Company. Mr. Tillery authorized and directed numerous transactions between Company

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subsidiaries and entities in which he owned an interest or over which he exercised control. That practice continued until his resignation from the Company. Mr. Tillery obtained significant personal benefit from such dealings and such benefit should have been made available to the Company. During the course of his employment with various subsidiaries of the Company, Mr. Tillery submitted numerous certifications disclaiming any related party interests or transactions with the Company or its subsidiaries. His failure to disclose his interests was a violation of the Company s written policies and may have caused the Company to violate rules or laws related to the public disclosure of such information.

Although no Company official is authorized to do so, Mr. Tillery used the apparent authority of his positions with Company subsidiaries and affiliates to personally make or cause to be made numerous unauthorized payments from the Company s bank accounts and cash reserves. Some such payments were significant and were used, for among other purposes:

- to influence various officials and judicial authorities for the purpose of reducing tax obligations;
- to dispose of lawsuits and/or influence a variety of legal matters; and
- to facilitate actions by customs officials in connection with the importation and exportation of materials and equipment.

Mr. Tillery and other employees of WII or its subsidiaries also caused substantial payments to be made from Company funds for the nominal purpose of obtaining consulting or advisory services when the actual purpose of at least a portion of the amounts paid was to fund payments to government or client officials for the purpose of obtaining or retaining Company business. Some of these payments appear to have benefited Mr. Tillery s own personal interests as well as those of others who cooperated with him. There is a significant probability that such activities constituted violations of U.S. and other laws. See the risk factor above entitled Governmental investigations into the activities of the Company, J. Kenneth Tillery, the former President of our principal international subsidiary, and other current and former employees of the Company could adversely affect us.

Our reputation and our ability to do business may be impaired by the corrupt behavior of Mr. Tillery and other employees of WII or its subsidiaries.

We are committed to conducting business worldwide in a legal and ethical manner. Many of our clients make compliance with applicable laws and ethical conduct a condition to their business relationships. The actions of Mr. Tillery and other employees of WII or its subsidiaries may cause us to be disqualified from some business opportunities with clients and others who require their business partners to maintain high ethical standards.

Special risks associated with doing business in highly corrupt environments may adversely affect our business.

Although we have completed the sale of our operations in Nigeria, our international business operations may continue to include projects in countries where corruption is prevalent. Since the anti-bribery restrictions of the FCPA make it illegal for us to give anything of value to foreign officials in order to obtain or retain any business or other advantage, we may be subject to competitive disadvantages to the extent that our competitors are able to secure business, licenses or other preferential treatment by making payments to government officials and others in positions of influence.

Our management has concluded that we did not maintain effective internal control over financial reporting as of December 31, 2004, December 31, 2005 and December 31, 2006 because of the existence of material weaknesses in our internal control over financial reporting. We believe that our remaining material weaknesses were eliminated in February 2007 as a result of the sale of our Nigeria assets and operations. However, our inability to remediate these material weaknesses prior to February 2007, or any control deficiencies that we may discover in the future, could adversely affect our ability to report our financial condition and results of operations accurately and on a timely basis. As a result, our business, operating results and liquidity could be harmed.

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As disclosed in this Annual Report on Form 10-K and in our Annual Reports on Form 10-K for 2004 and 2005, management s assessment of our internal controls over financial reporting identified several material weaknesses. These material weaknesses led to the restatement of our previously issued consolidated financial statements for fiscal years 2002 and 2003 and the first three quarters of 2004. We made progress in executing our remediation plans during 2005 and 2006, however, as of December 31, 2006, management concluded that we did not maintain effective internal control over financial reporting due to the following remaining material weaknesses in internal controls:

- Nigeria Accounting: During the fourth quarter of 2006, we determined that a material weakness in our internal control over financial reporting exists related to the Company s management control environment over the accounting for our Nigeria operations. This weakness in management control led to the inability to adequately perform various control functions including supervision over and consistency of: inventory management; petty cash disbursements; accounts payable disbursement approvals; account reconciliations; and review of timekeeping records. This material weakness resulted primarily from our inability to maintain a consistent and stable internal control environment over our Nigeria operations in the fourth quarter of 2006.

- Nigeria Project Controls Estimate to Complete: A material weakness existed related to controls over the Nigeria project reporting. This weakness existed throughout 2006 and is a continuation of a material weakness reported in our 2005 Form 10-K. The weakness primarily impacted one large Nigeria project with a total contract value of approximately $165 million, for which cost estimates were not updated timely in the fourth quarter of 2006 due to insufficient measures being taken to independently verify and update reliable cost estimates. This material weakness specifically resulted in material changes to revenue and cost of sales during the preparation of our year-end financial statements by our accounting staff prior to the issuance of the financial statements.

In 2006, our efforts to strengthen our control environment and correct the material weakness in company level controls over the financial statement close process included:

- reviewing and monitoring the accounting department structure and organization, both in terms of size and expertise;

- hiring additional senior accounting personnel at the corporate administrative offices;

- increasing our supervision of accounting personnel;

- recruiting candidates in order to expeditiously fill vacancies in our accounting, finance, and project management functions; and

- developing documentation and consistent execution of controls over our financial statement close process.

Our efforts during 2006 to improve our control environment in response to the weakness in construction contract management identified at December 31, 2005 included:

- initiating efforts to expand operations and accounting supervisory controls over consistency of the project reporting process and documentation for Nigeria contracts through the addition of supervisory personnel; and

- developing more standardized documentation related to project management reporting and management review processes.

We believe that our remaining material weaknesses were eliminated in February 2007 upon the sale of our Nigeria assets and operations. However, our inability to remediate these material weaknesses prior to February 2007, and any other control deficiencies we identify in the future, could adversely affect our ability to report our financial results on a timely and accurate basis, which could result in a loss of investor confidence in our

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financial reports or have a material adverse affect on our ability to operate our business or access sources of liquidity. Furthermore, because of the inherent limitations of any system of internal control over financial reporting, including the possibility of human error, the circumvention or overriding of controls or fraud, even effective internal control over financial reporting may not prevent or detect all misstatements.

Our business is highly dependent upon the level of capital expenditures by oil, gas and power companies on infrastructure.

Our revenue and cash flow are primarily dependent upon major engineering and construction projects. The availability of these types of projects is dependent upon the condition of the oil, gas and power industries, and, specifically, the level of capital expenditures of oil, gas and power companies on infrastructure. Our failure to obtain major projects, the delay in awards of major projects, the cancellation of major projects or delays in completion of contracts are factors that could result in the under-utilization of our resources, which would have an adverse impact on our revenue and cash flow. There are numerous factors beyond our control that influence the level of capital expenditures of oil, gas and power companies, including:

- current and projected oil, gas and power prices;
- the demand for electricity;
- the abilities of oil, gas and power companies to generate, access and deploy capital;
- exploration, production and transportation costs;
- the discovery rate of new oil and gas reserves;
- the sale and expiration dates of oil and gas leases and concessions;
- regulatory restraints on the rates that power companies may charge their customers;
- local and international political and economic conditions;
- the ability or willingness of host country government entities to fund their budgetary commitments; and
- technological advances.

If we are not able to renegotiate our surety bond lines, our ability to operate may be significantly restricted.

Our new bonding facility to provide surety bonds on a case-by-case basis for projects in North America requires that we post backstop letters of credit for a percentage of the bond which is acceptable to insurer. We are currently negotiating with our bonding company to eliminate the requirement to provide backstop letters of credit, but we can provide no assurance that we will be successful in removing this requirement. If we are unable to obtain surety bonds, or if the cost of obtaining surety bonds is prohibitive, our ability to bid some projects may be adversely affected, in the event other forms of performance guarantees such as letters of credit or parent guarantees are deemed insufficient or unacceptable. In addition, the requirement that we post backstop letters of credit until such time as the bonded projects are substantially completed reduces the amount of funds available to us under our credit facility for other corporate purposes.

Our significant international operations are subject to political and economic risks of developing countries.

Although we recently sold our operations in Nigeria and Venezuela we have substantial operations in the Middle East (Oman) and anticipate that a significant portion of our contract revenues will be derived from, and a significant portion of our long-lived assets will be located in, developing countries.

Conducting operations in developing countries presents significant commercial challenges for our business. A disruption of activities, or loss of use of the equipment or installations, at any location in which we have significant assets or operations could have a material adverse effect on our financial condition and results of

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operations. Accordingly, we are subject to risks which ordinarily would not be expected to exist to the same extent in the United States, Canada, Japan or Western Europe. Some of these risks include:

- civil uprisings, riots and war, which can make it impractical to continue operations, adversely affect both budgets and schedules and expose us to losses;
- repatriating foreign currency received in excess of local currency requirements and converting it into dollars or other fungible currency;
- exchange rate fluctuations, which can reduce the purchasing power of local currencies and cause our costs to exceed our budget, reducing our operating margin in the affected country;
- expropriation of assets, by either a recognized or unrecognized foreign government, which can disrupt our business activities and create delays and corresponding losses;
- availability of suitable personnel and equipment, which can be affected by government policy, or changes in policy, which limit the importation of skilled craftsmen or specialized equipment in areas where local resources are insufficient;
- government instability, which can cause investment in capital projects by our potential customers to be withdrawn or delayed, reducing or eliminating the viability of some markets for our services;
- decrees, laws, regulations, interpretations and court decisions under legal systems, which are not always fully developed and which may be retroactively applied and cause us to incur unanticipated and/or unrecoverable costs as well as delays which may result in real or opportunity costs; and
- terrorist attacks such as those which occurred on September 11, 2001 in the United States, which could impact insurance rates, insurance coverages and the level of economic activity, and produce instability in financial markets.

Our operations in developing countries may be adversely affected in the event any governmental agencies in these countries interpret laws, regulations or court decisions in a manner which might be considered inconsistent or inequitable in the United States, Canada, Japan or Western Europe. We may be subject to unanticipated taxes, including income taxes, excise duties, import taxes, export taxes, sales taxes or other governmental assessments which could have a material adverse effect on our results of operations for any quarter or year.

These risks may result in a material adverse effect on our results of operations.

We may be adversely affected by a concentration of business in a particular country.

Due to a limited number of major projects worldwide, we expect to have a substantial portion of our resources dedicated to projects located in a few countries. Therefore, our results of operations are susceptible to adverse events beyond our control that may occur in a particular country in which our business may be concentrated at that time. Economic downturns in such countries could also have an adverse impact on our operations.

Our business is dependent on a limited number of key clients.

We operate primarily in the oil, gas and power industries, providing construction, engineering and facilities development and operations services to a limited number of clients. Much of our success depends on developing and maintaining relationships with our major clients and obtaining a share of contracts from these clients. The loss of any of our major clients could have a material adverse effect on our operations. Our 10 largest clients were responsible for 61 percent of our revenue in 2006 (73 percent in 2005 and 64 percent in 2004).

Our dependence upon fixed-price contracts could adversely affect our operating results.

A substantial portion of our projects are currently performed on a fixed-price basis. Under a fixed-price contract, we agree on the price that we will receive for the entire project, based upon a defined scope, which includes specific assumptions and project criteria. If our estimates of our own costs to complete the project are

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below the actual costs that we may incur, our margins will decrease, and we may incur a loss. The revenue, cost and gross profit realized on a fixed-price contract will often vary from the estimated amounts because of unforeseen conditions or changes in job conditions and variations in labor and equipment productivity over the term of the contract. If we are unsuccessful in mitigating these risks, we may realize gross profits that are different from those originally estimated and incur reduced profitability or losses on projects. Depending on the size of a project, these variations from estimated contract performance could have a significant effect on our operating results for any quarter or year. In general, turnkey contracts to be performed on a fixed-price basis involve an increased risk of significant variations. This is a result of the long-term nature of these contracts and the inherent difficulties in estimating costs and of the interrelationship of the integrated services to be provided under these contracts whereby unanticipated costs or delays in performing part of the contract can have compounding effects by increasing costs of performing other parts of the contract.

Percentage-of-completion method of accounting for contract revenue may result in material adjustments that would adversely affect our operating results.

We recognize contract revenue using the percentage-of-completion method on long-term fixed price contracts. Under this method, estimated contract revenue is accrued based generally on the percentage that costs to date bear to total estimated costs, taking into consideration physical completion. Estimated contract losses are recognized in full when determined. Accordingly, contract revenue and total cost estimates are reviewed and revised periodically as the work progresses and as change orders are approved, and adjustments based upon the percentage-of-completion are reflected in contract revenue in the period when these estimates are revised. These estimates are based on management s reasonable assumptions and our historical experience, and are only estimates. Variation of actual results from these assumptions or our historical experience could be material. To the extent that these adjustments result in an increase, a reduction or an elimination of previously reported contract revenue, we would recognize a credit or a charge against current earnings, which could be material.

Terrorist attacks, war or risk of war may adversely affect our results of operations, our ability to raise capital or secure insurance or our future growth.

The continued threat of terrorism and the impact of military and other action, including U.S. military operations in Iraq, will likely lead to continued volatility in prices for crude oil and natural gas and could affect the markets for our operations. In addition, future acts of terrorism could be directed against companies operating both outside and inside the United States. Further, the U.S. government has issued public warnings that indicate that pipelines and other energy assets might be specific targets of terrorist organizations. These developments have subjected our operations to increased risks and, depending on their ultimate magnitude, could have a material adverse effect on our business.

Our operations are subject to a number of operational risks.

Our business operations include pipeline construction, dredging, fabrication, pipeline rehabilitation services, marine support services and the operation of vessels and heavy equipment. These operations involve a high degree of operational risk. Natural disasters, adverse weather conditions, collisions and operator or navigational error could cause personal injury or loss of life, severe damage to and destruction of property, equipment and the environment and suspension of operations. In locations where we perform work with equipment that is owned by others, our continued use of the equipment can be subject to unexpected or arbitrary interruption or termination. The occurrence of any of these events could result in work stoppage, loss of revenue, casualty loss, increased costs and significant liability to third parties.

The insurance protection we maintain may not be sufficient or effective under all circumstances or against all hazards to which we may be subject. An enforceable claim for which we are not fully insured could have a material adverse effect on our financial condition and results of operations. Moreover, we may not be able to maintain adequate insurance in the future at rates that we consider reasonable.

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We may become liable for the obligations of our joint ventures and our subcontractors.

Some of our projects are performed through joint ventures with other parties. In addition to the usual liability of contractors for the completion of contracts and the warranty of our work, where work is performed through a joint venture, we also have potential liability for the work performed by our joint ventures. In these projects, even if we satisfactorily complete our project responsibilities within budget, we may incur additional unforeseen costs due to the failure of our joint ventures to perform or complete work in accordance with contract specifications.

We act as prime contractor on a majority of the construction projects we undertake. In our capacity as prime contractor and when acting as a subcontractor, we perform most of the work on our projects with our own resources and typically subcontract only such specialized activities as hazardous waste removal, nondestructive inspection, tank erection, catering and security. In the construction industry, the prime contractor is normally responsible for the performance of the entire contract, including subcontract work. Thus, when acting as a prime contractor, we are subject to the risk associated with the failure of one or more subcontractors to perform as anticipated.

Governmental regulations could adversely affect our business.

Many aspects of our operations are subject to governmental regulations in the countries in which we operate, including those relating to currency conversion and repatriation, taxation of our earnings and earnings of our personnel, the increasing requirement in some countries to make greater use of local employees and suppliers, including, in some jurisdictions, mandates that provide for greater local participation in the ownership and control of certain local business assets. In addition, we depend on the demand for our services from the oil, gas and power industries, and, therefore, our business is affected by changing taxes, price controls and laws and regulations relating to the oil, gas and power industries generally. The adoption of laws and regulations by the countries or the states in which we operate that are intended to curtail exploration and development drilling for oil and gas or the development of power generation facilities for economic and other policy reasons, could adversely affect our operations by limiting demand for our services.

Our operations are also subject to the risk of changes in laws and policies which may impose restrictions on our business, including trade restrictions, which could have a material adverse effect on our operations. Other types of governmental regulation which could, if enacted or implemented, adversely affect our operations include:

- expropriation or nationalization decrees;
- confiscatory tax systems;
- primary or secondary boycotts directed at specific countries or companies;
- embargoes;
- extensive import restrictions or other trade barriers;
- mandatory sourcing and local participation rules;
- oil, gas or power price regulation; and

unrealistically high labor rate and fuel price regulation.

Our future operations and earnings may be adversely affected by new legislation, new regulations or changes in, or new interpretations of, existing regulations, and the impact of these changes could be material.

Our operations expose us to potential environmental liabilities.

Our United States operations are subject to numerous environmental protection laws and regulations which are complex and stringent. We regularly perform work in and around sensitive environmental areas such as

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rivers, lakes and wetlands. Significant fines and penalties may be imposed for non-compliance with environmental laws and regulations, and some environmental laws provide for joint and several strict liability 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. In addition to potential liabilities that may be incurred in satisfying these requirements, we may be subject to claims alleging personal injury or property damage as a result of alleged exposure to hazardous substances. 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 which were in compliance with all applicable laws at the time these acts were performed.

We own and operate several properties in the United States that have been used for a number of years for the storage and maintenance of equipment and upon which hydrocarbons or other wastes may have been disposed or released. Any release of substances by us or by third-parties who previously operated on these properties may be subject to the Comprehensive Environmental Response Compensation and Liability Act (CERCLA), the Resource Compensation and Recovery Act (RCRA), and analogous state laws. CERCLA imposes joint and several liability, without regard to fault or the legality of the original conduct, on certain classes of persons who are considered to be responsible for the release of hazardous substances into the environment, while RCRA governs the generation, storage, transfer, and disposal of hazardous wastes. Under such laws, we could be required to remove or remediate previously disposed wastes and clean up contaminated property. This could have a significant impact on our future results.

Our operations outside of the United States are oftentimes potentially subject to similar governmental controls and restrictions relating to the environment.

Our industry is highly competitive, which could impede our growth.

We operate in a highly competitive environment. A substantial number of the major projects that we pursue are awarded based on bid proposals. We compete for these projects against government-owned or supported companies and other companies that have substantially greater financial and other resources than we do. In some markets, there is competition from national and regional firms against which we may not be able to compete on price. Our growth may be impacted to the extent that we are unable to successfully bid against these companies.

Our operating results could be adversely affected if our non-U.S. operations became taxable in the United States.

If any income earned, currently or historically, by Willbros Group, Inc. or its non-U.S. subsidiaries from operations outside the United States constituted income effectively connected with a United States trade or business, and as a result became taxable in the United States, our consolidated operating results could be materially and adversely affected.

We are dependent upon the services of our executive management.

Our success depends heavily on the continued services of our executive management. Our management team is the nexus of our operational experience and customer relationships. Our ability to manage business risk and satisfy the expectations of our clients, stockholders and other stakeholders is dependent upon the collective experience and relationships of our management team. In addition, we do not maintain key man life insurance for these individuals. The loss or interruption of services provided by one or more of our senior officers could adversely affect our results of operations.

It may be difficult to enforce judgments which are predicated on the federal securities laws of the United States against us.

We are a corporation organized under the laws of the Republic of Panama. Accordingly:

- because a substantial amount of our assets are located outside the United States, any judgment obtained against us in the United States may not be fully collectible in the United States; and

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- we have been advised that courts in the Republic of Panama will not enforce liabilities in original actions predicated solely on the United States federal securities laws.

These factors mean that it may be more costly and difficult for you to recover fully any alleged damages that you may claim to have suffered due to alleged violations of federal securities laws by us or our management than it would otherwise be in the case of a United States corporation.

Our stockholder rights plan, articles of incorporation and by-laws may inhibit a takeover, which may adversely affect the performance of our stock.

Our stockholder rights plan and provisions of our articles of incorporation and by-laws may discourage unsolicited takeover proposals or make it more difficult for a third party to acquire us, which may adversely affect the price that investors might be willing to pay for our common stock. For example, our articles of incorporation and by-laws:

- provide for restrictions on the transfer of any shares of common stock to prevent us from becoming a controlled foreign corporation under United States tax law;
- provide for a classified board of directors, which allows only one-third of our directors to be elected each year;
- restrict the ability of stockholders to take action by written consent;
- establish advance notice requirements for nominations for election to our board of directors; and
- authorize our board of directors to designate the terms of and issue new series of preferred stock.

We also have a stockholder rights plan which gives holders of our common stock the right to purchase additional shares of our capital stock if a potential acquirer purchases or announces a tender or exchange offer to purchase 15 percent or more of our outstanding common stock. The rights issued under the stockholder rights plan would cause substantial dilution to a person or group that attempts to acquire us on terms not approved in advance by our board of directors.

Future sales of our common stock may depress our stock price.

Sales of a substantial number of shares of our common stock in the public market or otherwise, either by us, a member of management or a major stockholder, or the perception that these sales could occur, could depress the market price of our common stock and impair our ability to raise capital through the sale of additional equity securities.

We recently sold common stock, warrants and convertible notes, and our outstanding warrants and convertible notes may lead to further dilution of our issued and outstanding stock.

In October 2006, we sold 3,722,360 shares of our common stock and warrants to purchase an additional 558,354 shares. The recent issuance of warrants and the prior issuance of $70.0 million in aggregate principal amount of 2.75% Convertible Senior Notes due 2024 and $84.5 million of 6.5% Senior Convertible Notes may cause a significant increase in the number of shares of common stock currently outstanding. Moreover, in August 2006, our stockholders approved an increase in our authorized shares of common stock from 35 million to 70 million. The issuance of additional common stock or securities convertible into our common stock would result in further dilution of the ownership interest in us held by existing stockholders. We are authorized to issue, without stockholder approval, 1 million shares of Class A preferred stock, which may give other stockholders dividend, conversion, voting, and liquidation rights, among other rights, which may be superior to the rights of holders of our common stock. Our board of directors has no present intention of issuing any such Class A preferred stock, but reserves the right to do so in the future.

Item 1B. Unresolved Staff Comments

None.

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Item 3. Legal Proceedings

In late December 2004, senior management of Willbros learned that tax authorities in Bolivia had charged its Bolivian subsidiary with failure to pay taxes owed, filing improper tax returns and the falsification of tax documents. As a result of the Company s investigation, it was determined that J. Kenneth Tillery, then President of Willbros International, Inc. and the individual principally responsible at that time for the Company s international operations outside of North America, was aware of the circumstances that led to the Bolivian charges. Mr. Tillery resigned from the Company on January 6, 2005. Willbros promptly reported this information to the Bolivian government and in March, 2005 paid approximately $3.3 million to resolve all outstanding assessments with the Bolivian tax authorities.

On January 18, 2005, the Company s Audit Committee engaged independent outside legal counsel for the purpose of conducting an investigation into the circumstances surrounding the Bolivian tax assessment as well as other international activities under Mr. Tillery s control. The independent counsel retained forensic accountants to assist with the investigation. Willbros voluntarily reported the initiation of its investigation to the U.S. Department of Justice (DOJ) and the U.S. Securities and Exchange Commission (SEC).

On May 16, 2005, Willbros announced that it had substantially completed its investigation. The investigation revealed information indicating that Mr. Tillery, and others who directly or indirectly reported to him, engaged in a pattern of activity over a number of years that was and is specifically contrary to established Willbros policies and possibly the laws of several countries, including the United States. A description of the activities carried out by Mr. Tillery and others that may have damaged Willbros, or that may cause such damage in the future, is provided in the risk factor entitled ***The actions of Mr. Tillery and others have harmed the Company and may harm the Company in the future*** set forth in Item 1A of this Annual Report on Form 10-K.

The DOJ continues to investigate violations of the FCPA and other applicable U.S. laws.

The SEC continues to conduct a formal non-public investigation into whether the Company and others may have violated various provisions of the Securities Act of 1933 (the Securities Act) and the Securities Exchange Act of 1934 (the Exchange Act).

We have also voluntarily reported to OFAC the substance of certain activities conducted by certain employees that may constitute a violation of U.S. trade sanctions administered and enforced by the Department of Treasury and U.S. export restrictions administered by the Department of Commerce. OFAC is currently investigating the information we have provided and could conclude that we have violated the Sudanese Sanctions Regulations.

The Company is cooperating fully with all of these investigations. Any violations could result in civil or criminal charges, penalties or other actions including deferred adjudication or other long term sanctions or remedial actions, that may adversely impact our ability to continue or undertake operations in some countries. The Company cannot predict the outcome of the investigations being conducted by the SEC, the DOJ and OFAC, including the Company s exposure to civil or criminal fines or penalties, or other regulatory action which could have a material adverse effect on the Company s business, financial condition and results of operations.

For a further discussion of the potential adverse impact on our business, financial condition and results of operations related to these investigations, see the risk factor contained in Item 1A of this Annual Report on Form 10-K entitled *Governmental investigations into the activities of the Company, J. Kenneth Tillery, the former President of our principal international subsidiary, and other current and former employees of the Company could adversely affect us.*

On May 18, 2005 a securities class-action lawsuit, captioned *Legion Partners, LLP v. Willbros Group, Inc. et al.,* was filed in the United States District Court for the Southern District of Texas against the Company and

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certain of its present and former officers and directors. Thereafter, three nearly identical lawsuits were filed. Plaintiffs purport to represent a class composed of all persons who purchased or otherwise acquired Willbros Group, Inc. common stock and/or other securities between May 6, 2002 and May 16, 2005, inclusive. These complaints generally allege violations by the defendants of Section 10(b) of the Exchange Act, Rule 10b-5 under the Exchange Act and Section 20(a) of the Exchange Act and allege, among other things, that defendants made false or misleading statements of material fact about the Company s financial statements. The plaintiffs sought unspecified monetary damages and other relief. On October 17, 2005, the Court ordered these actions consolidated and appointed ADAR Investments, LLC as Lead Plaintiff and Bernstein Liebhard & Lifshitz of New York as Lead Plaintiff s counsel. As ordered by the Court, the plaintiff filed a consolidated amended complaint on January 9, 2006. The Consolidated Amended Complaint alleged that WGI and certain of its present and former officers and directors, including Michael Curran, Warren Williams, and J. Kenneth Tillery, violated the Securities Exchange Act of 1934 through a series of false and misleading statements and a scheme to defraud. The alleged misrepresentations and scheme to defraud related to the activities of Mr. Tillery in Nigeria and Bolivia, certain alleged accounting errors, the restatement of past financial results, and alleged Foreign Corrupt Practices Act violations. The plaintiffs seek to recover damages on behalf of all purchasers of WGI common stock during the purported class period. The complaint sought unspecified monetary damages and other relief. WGI filed a motion to dismiss the complaint but in August 2006, before the motion was considered by the Court, WGI reached a settlement in principle with the Lead Plaintiff and the parties signed a Memorandum of Understanding (Settlement). The Settlement provides for a payment of $10.5 million to resolve all claims against all defendants. The full settlement amount is escrowed and is funded by WGI s insurance carriers and as part of WGI s agreement with it insurers, also provides for payment of WGI s attorneys fees. Following limited confirmatory discovery by Plaintiffs and notice to the purported class, none of the Plaintiffs elected to opt out of the settlement, which was approved by the Court on February 15, 2007.

In addition to the matters discussed above, we are a party to a number of other legal proceedings. We believe that the nature and number of these proceedings are typical for a company of our size engaged in our type of business and that none of these proceedings will result in a material adverse effect on our business, results of operations or financial condition.

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Item 4. Submission of Matters to a Vote of Security Holders

No matter was submitted to a vote of security holders during the fourth quarter of 2006 through the solicitation of proxies or otherwise.

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PART II

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

Our common stock commenced trading on the New York Stock Exchange on August 15, 1996, under the symbol WG. The following table sets forth the high and low sale prices per share of our common stock as reported by the New York Stock Exchange for the periods indicated:

	HIGH	LOW
2005:		
First Quarter	$ 24.52	$ 18.68
Second Quarter	20.66	10.15
Third Quarter	17.80	14.14
Fourth Quarter	17.73	14.13
2006:		
First Quarter	$ 21.23	$ 14.46
Second Quarter	24.53	17.38
Third Quarter	19.47	15.00
Fourth Quarter	19.93	14.00

Substantially all of our stockholders maintain their shares in street name accounts and are not, individually, stockholders of record. As of February 9, 2007, our common stock was held by 98 holders of record and an estimated 8,400 beneficial owners.

Dividend Policy

Since 1991, we have not paid any cash dividends on our capital stock, except dividends in 1996 on our outstanding shares of preferred stock, which were converted into shares of common stock on July 15, 1996. We anticipate that we will retain earnings to support operations and to finance the growth and development of our business. Therefore, we do not expect to pay cash dividends in the foreseeable future. Our senior secured credit facility prohibits us from paying cash dividends on our common stock.

Issuer Purchases of Equity Securities

The following table provides information about purchases of our common stock by us during the fourth quarter of 2006:

Period	(a) Total Number Of Shares Purchased(1)	(b) Average Price Paid Per Share(2)	(c) Total Number Of Shares Purchased As Part Of Publicly Announced Plans or Programs	(d) Maximum Number (or Approximate Dollar Value) Of Shares That May Yet Be Purchased Under the Plans or Programs
October 1, 2006 October 31, 2006		$		
November 1, 2006 November 30, 2006	7,141	15.03		
December 1, 2006 December 31, 2006	4,787	18.85		
Total	11,928	$ 16.57		

(1) Represents shares of common stock acquired from certain of our officers and key employees under the share withholding provisions of our 1996 Stock Plan for the payment of taxes associated with the vesting of shares of restricted stock granted under such plan.
(2) The price paid per common share represents the closing sales price of a share of our common stock as reported by the New York Stock Exchange on the day that the stock was acquired by us.

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Item 6. Selected Financial Data

SELECTED CONSOLIDATED FINANCIAL AND OTHER DATA

(Dollar amounts in thousands, except per share data)

	Year Ended December 31,				
	2006	2005(1)	2004(1)	2003(1)(2)	2002(1)(2)(3)
Statement of Operations Data:					
Contract revenue	$ 543,259	$ 294,479	$ 272,794	$ 271,021	$ 462,855
Operating expense:					
Contract cost	489,494	266,072	222,357	250,103	391,631
Depreciation and amortization	12,430	11,688	9,776	9,878	11,472
General and administrative	53,366	42,350	32,525	28,294	26,307
Operating income (loss)	(12,031)	(25,631)	8,136	(17,254)	33,445
Net interest expense	(8,265)	(3,904)	(2,480)	(518)	(1,101)
Other income (expense)	569	742	(387)	(965)	(470)
Income (loss) from continuing operations before income taxes	(19,727)	(28,793)	5,269	(18,737)	31,874
Provision (benefit) for income taxes	2,308	1,668	(1,027)	(8,726)	2,502
Net income (loss) from continuing operations	(22,035)	(30,461)	6,296	(10,011)	29,372
Loss from discontinued operations net of provision for income taxes	(83,402)	(8,319)	(27,111)	(906)	(4,466)
Net income (loss)	$ (105,437)	$ (38,780)	$ (20,815)	$ (10,917)	$ 24,906
Basic income (loss) per share:					
Continuing operations	$ (0.98)	$ (1.43)	$ 0.30	$ (0.49)	$ 1.61
Discontinued operations	(3.72)	(0.39)	(1.29)	(0.04)	(0.25)
Net income (loss)	$ (4.70)	$ (1.82)	$ (0.99)	$ (0.53)	$ 1.36
Diluted income (loss) per share:					
Continuing operations	$ (0.98)	$ (1.43)	$ 0.30	$ (0.49)	$ 1.57
Discontinued operations	(3.72)	(0.39)	(1.29)	(0.04)	(0.24)
Net income (loss)	$ (4.70)	$ (1.82)	$ (0.99)	$ (0.53)	$ 1.33
Cash Flow Data:					
Cash provided by (used in):					
Operating activities	$ (103,352)	$ (37,117)	$ 37,410	$ (15,209)	$ 23,059
Investing activities	33,373	(36,964)	(36,751)	(32,589)	(23,998)
Financing activities	51,550	56,830	54,362	17,794	33,100
Effect of exchange rate changes	139	17	(829)	631	52
Other Data (excluding discontinued operations):					
EBITDA(4)	$ 968	$ (13,201)	$ 17,525	$ (8,341)	$ 44,447
Capital expenditures, excluding acquisitions	$ 12,264	$ 25,111	$ 15,733	$ 9,975	$ 16,144
Backlog (at period end)(5)	$ 602,272	$ 240,373	$ 73,343	$ 151,074	$ 125,608
Number of employees (at period end)(6)	4,156	2,519	1,381	1,478	3,140

Balance Sheet Data (at period end):					
Cash and cash equivalents	$ 37,643	$ 55,933	$ 73,167	$ 18,975	$ 48,348
Working capital	170,825	204,960	108,643	83,728	92,640
Total assets	588,254	498,885	417,110	304,694	295,035
Total liabilities	490,323	353,651	237,066	110,167	92,418
Total debt	166,152	138,020	73,495	18,322	1,171
Stockholders equity	97,931	145,234	180,044	194,527	202,617

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(1) These amounts have been changed retrospectively to reflect the classification of discontinued operations as filed in the Form 8-K on December 12, 2006.
(2) These amounts are presented as restated in the 2004 Form 10-K.
(3) We acquired Mt. West Group, comprised of four companies providing design-build services to the western U.S. energy industry, on October 23, 2002. Accordingly, its results of operations since that date are consolidated with our results of operations.
(4) EBITDA from continuing operations represents earnings from continuing operations before net interest, income taxes, depreciation and amortization. EBITDA from continuing operations is not intended to represent cash flows for the respective period, nor has it been presented as an alternative to operating income from continuing operations as an indicator of operating performance. It should not be considered in isolation or as a substitute for measures of performance prepared in accordance with accounting principles generally accepted in the United States. See our Consolidated Statements of Cash Flows in our Consolidated Financial Statements included elsewhere in this Form 10-K. EBITDA from continuing operations is included in this Form 10-K because it is one of the measures through which we assess our financial performance. EBITDA from continuing operations as presented may not be comparable to other similarly titled measures used by other companies. A reconciliation of EBITDA from continuing operations to GAAP financial information is provided in the table below.

	Year Ended December 31,				
	2006	2005	2004	2003	2002
Reconciliation of non-GAAP financial measure:					
Net income (loss) from continuing operations	$ (22,035)	$ (30,461)	$ 6,296	$ (10,011)	$ 29,372
Interest, net	8,265	3,904	2,480	518	1,101
Provision (benefit) for income taxes	2,308	1,668	(1,027)	(8,726)	2,502
Depreciation and amortization	12,430	11,688	9,776	9,878	11,472
EBITDA from continuing operations	$ 968	$ (13,201)	$ 17,525	$ (8,341)	$ 44,447

(5) Backlog is anticipated contract revenue from uncompleted portions of existing contracts and contracts whose award is reasonably assured.
(6) Includes employees of joint ventures in 2002.

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Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations (In thousands, except share and per share amounts or unless otherwise noted)

The following discussion should be read in conjunction with the consolidated financial statements for the years ended December 31, 2006, 2005, and 2004, included in Item 8 of this Form 10-K.

OVERVIEW

2006 General

We derive our revenue from engineering; construction; and engineering, procurement and construction (EPC) services provided to the oil, gas and power industries and government entities. Through the Company and our predecessors, we have provided services to customers in over 55 countries for almost 100 years. During 2006, we generated revenue from continuing operations primarily in the United States, Canada, and Oman. We obtain our work through competitive bidding and through negotiations with prospective clients. Contract values may range from a few thousand dollars to several hundred million dollars and contract durations range from a few weeks to more than two years.

Our strategy is to deploy our resources in markets for our engineering, construction and EPC services that can provide the highest risk adjusted return, while maintaining a balanced backlog with respect to commercial and political risks and market presence. Our overall strategy has not changed; however, as the fundamental drivers in different markets around the world change, our tactical approach is continuously adjusted and refined. Because of our ongoing evaluation of the Company s operations and markets, we are employing a new set of tactics to optimize the risk adjusted returns we seek. In late June 2006, this evaluation process resulted in our decision to sell our operations in Nigeria, joining Venezuela and the TXP-4 Plant as the Company s discontinued operations (Discontinued Operations). We concluded that the operating and commercial risks associated with doing business in Nigeria have exceeded our acceptable risk levels.

On February 7, 2007, we sold our Nigeria operations through a share purchase agreement for a total consideration of $155,250. Under the terms of the share purchase agreement with Ascot Offshore Nigeria Limited (Ascot), a Nigerian energy services company, we received $150,000 in cash with a $5,250 note for the balance of the purchase price for the shares of WG Nigeria Holdings Limited, the holding company which owns the operating and equipment companies supporting our activities in Nigeria. On February 12, 2007, we received $2,625 as partial payment on the note which is due and payable no later than August 1, 2007. The final net proceeds to the Company are subject to post-closing working capital and other adjustments. Due to the many variables affecting the Company s contracts and commercial negotiations in Nigeria, the final adjustments may not be determined for several months, and those adjustments may be substantial, but are not expected to result in the recognition of a loss on this sale. In conjunction with this transaction, we purchased certain minority interests at a total cost of $10,500.

The sale of our Venezuela operations was completed during the fourth quarter of 2006. The sale of the TXP-4 Plant in Opal, Wyoming, was completed in the first quarter of 2006. Therefore, included in discontinued operations are the financial results of the operations of the TXP-4 Plant and the Nigeria and Venezuela operations (collectively the Discontinued Operations). See Note 2 Discontinuance of Operations and Asset Disposal in the Notes to Consolidated Financial Statements included in Item 8 in the Form 10-K for additional information on Discontinued Operations.

With our exit from Nigeria and Latin America, we can now refocus our attention and resources to North America and a few other selected international markets. We also expect to benefit from additional cost savings which we can realize through a more opportunistic approach to our international business currently operating from our base in Oman where we are well positioned for project work in the Middle East and North Africa.

We believe the fundamentals supporting the demand for engineering, construction and EPC services for the energy industry, particularly for pipeline services in North America, will continue to be strong for the next two to

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five years. Many positive developments reinforce our view. Capital spending for the exploration and production sector of the energy industry is expected to exceed $300 billion in 2007; this is a 9 percent increase over 2006. Even with lower forecasted crude oil prices, the oil sands region of western Canada forecasted capital expenditures on new bitumen production and processing facilities are expected to exceed C$100 billion through 2015, as production levels are increased from approximately one million barrels per day presently to more than three million barrels per day in 2015. In the United States, new gas production in the Rocky Mountain region has generated plans for gas pipelines to the West, Midwest and East Coast. Liquefied natural gas is also expected to bring more opportunities to Willbros, both in North America and in other producing/exporting countries.

The engineering market in North America continues to be capacity constrained. We are selecting and accepting assignments that offer higher margins and better contract terms and position us for EPC assignments. Our engineering operations are currently at capacity, constrained by the availability of qualified personnel. We believe our locations in Tulsa, Oklahoma and Salt Lake City, Utah protect us to some degree from the high turnover of technical employees characteristic in energy centers such as Houston, Texas. We believe this high level of engineering activity has been the precursor to higher levels of construction activity in North America. Our backlog at December 31, 2006 of $602.3 million for continuing operations reflects the growth of work under contract from $240.4 million at December 31, 2005. Our discussions with potential customers and our recent awards regarding pipeline and station construction projects in North America, coupled with the increase in engineering assignments, reinforce our belief that our ability to obtain improved terms and conditions and better pricing will continue in 2007 and 2008. We believe customers recognize the imbalance in the supply and demand for pipeline engineering and construction, and will offer better terms and conditions, resulting in lower risk to us, to control pricing increases for our services.

Demand in the United States and Canada market, led the improvement in backlog from continuing operations in 2006, and we believe the demand there will continue to be strong. We also expect the *International* market to continue to expand and exhibit strengthening demand as new energy infrastructure developments are contemplated in North Africa and the Middle East, markets of focus for us.

Financing Transactions

Also on October 27, 2006, we concluded two financing transactions that were required to support our expected growth. Willbros USA, Inc., a wholly-owned subsidiary of the Company, entered into a new $100,000 three-year senior secured synthetic credit facility (the 2006 Credit Facility) with a group of lenders led by Calyon New York Branch (Calyon). Concurrent with the creation of the 2006 Credit Facility, the predecessor 2004 Credit Facility was terminated and a total of $38,708 of outstanding letters of credit was reissued under the 2006 Credit Facility. At December 31, 2006, the 2006 Credit Facility had availability of $35,455 and is scheduled to expire in October 2009. The Company may elect to increase the total capacity under the 2006 Credit Facility to $150,000, with consent from Calyon. Borrowings have not taken place, nor is it the Company s intent to use the 2006 Credit Facility for future borrowings. The 2006 Credit Facility was established to provide a source of letters of credit.

Also on October 27, 2006, the Company sold 3,722,360 shares of its common stock in a private placement (the Private Placement). The selling price was $14.00 per/share which was a discount of approximately 10 percent based on the Company s closing stock price of $15.50 on October 24, 2006. Net proceeds after estimated transaction costs were $48,748. Net proceeds will be used for general corporate purposes primarily to support the start-up of several new projects in the United States and Canada.

See Liquidity and Capital Resources below for additional information the 2006 Credit Facility and the Private Placement.

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SIGNIFICANT BUSINESS DEVELOPMENTS

During 2006 and through February 2007, we were awarded multiple projects valued at approximately $900,000. Significant project awards announced were as follows:

Willbros Engineers, Inc. (WEI) executed an EPC contract with Guardian Pipeline, L.L.C. to provide services for the Guardian Expansion and Extension Project. The Guardian Expansion and Extension Project will involve constructing 106 miles of 30-inch and 20-inch natural gas pipeline from the terminus of the existing Guardian Pipeline near Ixonia, Wisconsin, to the Green Bay area. Eight associated meter stations and two 39,000 horsepower compressor stations, one located in Dekalb County, Illinois, and the other in Walworth County, Wisconsin, will also be constructed. WEI s scope of work currently includes the pipeline and the meter stations.

WEI was also awarded an EPC contract by Cheniere Sabine Pass Pipeline Company (Cheniere), a wholly-owned subsidiary of Cheniere Energy, Inc. Under the EPC Agreement, which is effective as of February 1, 2006, Willbros will provide Cheniere with services for the management, engineering, material procurement, construction and construction management of the 16-mile, 42-inch pipeline and related facilities to be constructed from Cheniere s liquefied natural gas terminal being constructed at Sabine Pass to a pipeline interconnect at Johnson s Bayou, all located in Cameron Parish, Louisiana. WEI and Cheniere are entering into the EPC agreement sufficiently in advance of commencement of physical construction of the pipeline in order to perform detailed engineering and procure materials. Construction is scheduled to commence in April 2007 and to be completed in September 2007.

Willbros RPI, Inc., was awarded the installation of 71 miles of 42-inch natural gas pipeline in North Louisiana from CenterPoint Energy. This work consists of the eastern two loops of CenterPoint s planned 172-mile, 42-inch pipeline from Carthage, Texas to its Perryville Hub in Northeast Louisiana. The project commenced in the fourth quarter of 2006 and completion is scheduled for the second quarter of 2007.

The Oman Construction Company (TOCO), received a contract to perform additional maintenance activities and small capital projects for Occidental of Oman Inc. The duration of the assignment is expected to span the next 3 to 5 years, with an option to renew for an additional 1 to 2 years.

Willbros RPI, Inc., in February 2007 was awarded a contract with Southeast Supply Header, LLC (SESH), a joint venture between subsidiaries of Spectra Energy Corp and CenterPoint Energy Inc. (NYSE: CNP), to construct approximately 190 miles of the SESH project, consisting of 42-inch and 36-inch diameter pipeline. SESH will begin near the Perryville Hub in northeast Louisiana and will interconnect with the Gulfstream Natural Gas System, L.L.C. pipeline in Mobile County, Alabama. Construction of the project is anticipated to begin in the fourth quarter of 2007 and to be completed in the summer of 2008.

Financial Summary

For the year ended December 31, 2006, we incurred a net loss from continuing operations of $22,035 or $0.98 per share on revenue of $543,259. This compares to a net loss from continuing operations of $30,461 or $1.43 per share on revenue of $294,479 in 2005.

Our 2006 revenue was up 84.5 percent from 2005, primarily driven by improving market conditions in the *United States & Canada* business segment. (See Note 12 Segment Information in the Notes to Consolidated Financial Statements included in Item 8 of this Form 10-K for additional information regarding segment reporting). Following are the key components of the increase in revenue:

Commencement of work on new engineering and pipeline construction projects in the United States; and

Expansion of work relating to maintenance and fabrication contracts in the Canadian oil sands.

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Contract income for 2006 increased $25,358 to $53,765 from $28,407 in 2005, and contract margin increased to 9.9 percent in 2006 from 9.6 percent in 2005. Contract income increase was driven primarily by the increase in revenue as margins remained relatively consistent.

General and Administrative (G&A) expense increased $11,016 to $53,366 in 2006 from $42,350 in 2005. The increase in G&A not only reflected higher levels of business activity in the United States and Canada but also included severance costs of $6.3 million related to executive management changes and $3.4 million associated with increased costs in outside legal, accounting, auditing and consulting fees.

The Company recognized $2,308 of income tax expense on a loss for continuing operations of $19,727. This was an increase of $640 compared to 2005. Due to expenses of $28,311 occurring in Panama where no tax benefit is obtained, the Company incurred a tax expense on a loss from continuing operations. permanent timing differences in the U.S. also contributed to a higher effective tax rate.

Cash and cash equivalents decreased $18,290 to $37,643 at December 31, 2006, from $55,933 at December 31, 2005. The decrease resulted primarily from the cash consumed in our discontinued operations of $105,354 and capital expenditures of $12,264. The decrease was partially offset by cash generated from continuing operations investing activities of $40,804 and financing activities of $51,550.

Long-term debt increased to $166,152 in 2006 from $138,020 in 2005 primarily due to proceeds from the issuance of $19,500 of 6.5% Notes and an increase in capital lease obligations of $11,217.

Discontinued Operations

As discussed above in 2006 General , we sold our Nigeria operations on February 7, 2007. The decision to sell our Nigeria Operations was the result of the following:

In Nigeria we continued to see the spread and escalation of hostilities against oil and gas installations and the work forces charged with construction, maintenance and operation of those installations. The attacks by militants directly and indirectly affected the Company on a continuous basis since the hostage taking incident of February 18, 2006. However, since mid-June, the situation in Nigeria worsened, with attacks increasing throughout the country. Additional production operations in the Delta area have been and remain, shut in. These disruptions have had the combined effect of supporting higher oil prices and either frustrating projects or creating a force majeure event for our ongoing projects in Nigeria. In the current work environment, with the Nigeria government and local operating companies unable to provide the security necessary for us to conduct project operations, our project activities were frustrated and we could not expose our personnel on an ongoing basis to the very real and escalating threat posed by these militant and hostile community disturbances. Further, there existed the ongoing possibility that labor unrest could escalate into violence at the Choba facility due to a continuing labor dispute over a new May 2006 labor agreement.

In late September 2006, violence in the Port Harcourt area escalated to the point where we elected to transfer employees out of this area to ensure their continued safety. We subsequently reduced our Choba facility staff to a minimum number required to support a caretaker status. Critical ongoing support functions were shifted to Lagos and other locations outside the Port Harcourt area.

Discontinued Operations reported an $83,402 net loss or $3.72 loss per share for the year ended December 31, 2006. Net loss from Discontinued Operations were almost entirely attributable to our Nigeria operations which reported an $83,773 net loss for 2006. The operating results in Nigeria for 2006 were negatively impacted by schedule delays; increasing costs related to labor, equipment, materials, and security; disputes with clients related to change orders, and the lack of revenue on certain projects due to force majeure. Additionally during the process of selling our Nigeria operations, we incurred costs to protect the value of our franchise in Nigeria by continuing to qualify for future projects and by maintaining a certain level of workforce. During 2006, Discontinued Operations consumed $105,354 of cash in its operating and investing activities primarily due to the net loss generated by the Company s Nigeria operations.

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Additional financial disclosures on Discontinued Operations are provided in Note 2 Discontinuance of Operations and Asset Disposal in the Notes to Consolidated Financial Statements in this Form 10-K.

The remainder of Management s Discussion and Analysis of Financial Conditions and Results of Operations pertains only to continuing operations unless noted otherwise.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Revenue

A number of factors relating to the Company s business affect the recognition of contract revenue. The Company typically structures contracts as fixed-price, unit-price, time and material or cost plus fixed fee. Revenue from unit-price and time and material contracts is recognized as earned. The Company believes that its operating results should be evaluated over a time horizon during which major contracts in progress are completed and change orders, extra work, variations in the scope of work and cost recoveries and other claims are negotiated and realized.

Revenue for fixed-price and cost plus fixed fee contracts is recognized on the percentage-of-completion method. Under this method, estimated contract income and resulting revenue is generally accrued based on costs incurred to date as a percentage of total estimated costs, taking into consideration physical completion. Total estimated costs, and thus contract income, are impacted by changes in productivity, scheduling, the unit cost of labor, subcontracts, materials and equipment. Additionally, external factors such as weather, client needs, client delays in providing permits and approvals, labor availability, governmental regulation and politics may affect the progress of a project s completion and thus the timing of revenue recognition. The Company does not recognize income on a fixed-price contract until the contract is approximately 5 percent to 10 percent complete, depending upon the nature of the contract. If a current estimate of total contract cost indicates a loss on a contract, the projected loss is recognized in full when determined.

The Company considers unapproved change orders to be contract variations on which the Company has customer approval for scope change, but not for price associated with that scope change. Costs associated with unapproved change orders are included in the estimated cost to complete the contracts and are expensed as incurred. The Company recognizes revenue equal to cost incurred on unapproved changed orders when realization of price approval is probable and the estimated amount is equal to or greater than the Company s cost related to the unapproved change order. Revenue recognized on unapproved change orders is included in Contract costs and recognized income not yet billed on the balance sheet.

Unapproved change orders involve the use of estimates, and it is reasonably possible that revisions to the estimated costs and recoverable amounts may be required in the future reporting periods to reflect the changes in estimates or final agreement with customers.

The Company considers claims to be amounts the Company seeks or will seek to collect from customers or others for customer-caused changes in contract specifications or design, or other customer-related causes of unanticipated additional contract costs on which there is no agreement with customers on both scope and price changes. Revenue from claims is recognized when agreement is reached with customers as to the value of the claims, which in some instances may not occur until after completion of work under the contract. Costs associated with claims are included in the estimated costs to complete the contracts and are expensed when incurred.

Income Taxes

The Company accounts for income taxes by the asset and liability method under which deferred tax assets and liabilities are recognized for the future tax consequences of operating loss and tax credit carry forwards and temporary differences between the financial statement carrying values of assets and liabilities and their respective tax basis. The provision or benefit for income taxes and the annual effective tax rate are impacted by income

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taxes in certain countries being computed based on a deemed income rather than on taxable income and tax holidays on certain international projects.

OTHER FINANCIAL MEASURES

Backlog

In our industry, backlog is considered an indicator of potential future performance because it represents a portion of the future revenue stream. Our strategy is not focused solely on backlog additions but, capturing quality backlog with margins commensurate with the risks associated with a given project.

Backlog consists of anticipated revenue from the uncompleted portions of existing contracts and contracts whose award is reasonably assured. At December 31, 2006, total backlog from continuing and discontinued operations was $1,009,052 compared to $816,355 at December 31, 2005. Backlog for continuing operations at December 31, 2006 and 2005 was $602,272 and $240,373, respectively, a 151 percent increase. We believe the backlog figures are firm, subject only to the cancellation and modification provisions contained in various contracts. We expect that approximately $461.8 million or about 77 percent, of our existing total backlog at December 31, 2006, will be recognized in revenue during 2007. Historically, a substantial amount of our revenue in a given year has not been in our backlog at the beginning of that year. Additionally, due to the short duration of many jobs, revenue associated with jobs performed within a reporting period will not be reflected in backlog. We generate revenue from numerous sources, including contracts of long or short duration entered into during a year as well as from various contractual processes, including change orders, extra work, variations in the scope of work and the effect of escalation or currency fluctuation formulas. These revenue sources are not added to backlog until realization is assured.

The following table shows our backlog by operating segment and geographic region as of December 31, 2006 and 2005:

	2006		2005	
	Amount	**Percent**	**Amount**	**Percent**
Backlog				
United States & Canada				
United States	$ 387,866	64%	$ 36,242	15%
Canada	177,542	30	156,935	65
	565,408	94	193,177	80
International				
Middle East	36,864	6	47,196	20
Total, continuing operations	602,272	100%	240,373	100%
Discontinued operations	406,780		575,982	
Total backlog	$ 1,009,052		$ 816,355	

EBITDA from Continuing Operations

We use EBITDA (earnings before net interest, income taxes, depreciation and amortization) as part of our overall assessment of financial performance by comparing EBITDA between accounting periods. We believe that EBITDA is used by the financial community as a method of measuring our performance and of evaluating the market value of companies considered to be in businesses similar to ours. EBITDA from continuing operations for 2006 was $968 as compared to ($13,201) in 2005. The $14,169 increase in EBITDA is primarily the result of increased contract income of $25,358 partially offset by increased G&A expense of $11,016, including severance costs of $6,254.

A reconciliation of EBITDA to GAAP financial information can be found in Item 6 Selected Financial Data of this Form 10-K.

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RESULTS OF OPERATIONS

Our contract revenue and contract costs are significantly impacted by the capital budgets of our clients and the timing and location of development projects in the oil, gas and power industries worldwide. Contract revenue and cost vary by country from year to year as the result of: (a) entering and exiting work countries; (b) the execution of new contract awards; (c) the completion of contracts; and (d) the overall level of demand for our services.

Our ability to be successful in obtaining and executing contracts can be affected by the relative strength or weakness of the U.S. dollar compared to the currencies of our competitors, our clients and our work locations.

Fiscal Year Ended December 31, 2006 Compared to Fiscal Year Ended December 31, 2005

Contract Revenue

Contract revenue increased $248,780 (84.5 percent) to $543,259 due to increases in both the *International* and *United States & Canada* segments. A year-to-year comparison of revenue is as follows:

	Year Ended December 31,			
	2006	2005	Increase	Percent Change
United States & Canada	$ 474,045	$ 269,006	$ 205,039	76.2%
International	69,214	25,473	43,741	171.7%
Total	$ 543,259	$ 294,479	$ 248,780	84.5%

United States & Canada revenue increased $205,039 primarily as a result of increased 2006 business activity for U.S. construction of $61,382, U.S. engineering of $41,530 and Canada of $102,127. The increase in Canada revenue is attributable to $57,011 in new major projects, increased fabrication and maintenance revenue of $29,555 and our new Edmonton modular fabrication facility opened in the fourth quarter of 2005 which generated revenue of approximately $13,828 in 2006, compared to $87 in 2005.

International revenue increased $43,741 primarily due to a significant new project in Oman in 2006 which generated approximately $32,685 in revenue. Additional net revenue increases of $11,056 were primarily the result of additional time and material work.

Contract Income

Contract income increased $25,358 (89.3 percent) to $53,765 in 2006 as compared to 2005. A year-to-year comparison of contract income is as follows:

	Year Ended December 31,					
	2006	% of Revenue	2005	% of Revenue	Increase	Percent Change
United States & Canada	$ 44,594	9.4%	$ 26,535	9.9%	$ 18,059	68.1%
International	9,171	13.3%	1,872	7.3%	7,299	389.9%
Total	$ 53,765	9.9%	$ 28,407	9.6%	$ 25,358	89.3%

United States & Canada contract income increased $18,059 in 2006 as compared to 2005 income primarily as a result of previously discussed revenue increases. Higher margins in Canada were partially offset by lower margins in U.S. construction related to increased cost due to a tight labor market, project startup delays and inclement weather on several large construction projects.

International contract income increased $7,299 in 2006 as compared to 2005 primarily due to previously discussed Oman revenue increases as a result of additional projects.

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Other Operating Expenses

Depreciation and amortization increased $742 (6.4 percent) to $12,430 in 2006 from $11,688 in 2005 due to 2006 equipment purchases of $11,373 and property acquired through capital leases valued at $12,108. *United States & Canada* depreciation and amortization increased to $10,552 from $8,973, or 17.6 percent. International depreciation decreased to $1,878 from $2,715 for a 30.8 percent decrease.

General and Administrative (G&A) expense increased $11,016 to $53,366 in 2006 from $42,350 in 2005. The increase in G&A not only reflected higher levels of business activity in the United States and Canada but also included severance costs of $6.3 million related to executive management changes and $3.4 million associated with increased costs in outside legal, accounting, auditing and consulting fees.

Non-Operating Items

Interest net expense increased to $8,265 in 2006 from $3,904 in 2005 due primarily to additional interest expense related to the 6.5% Notes of $4,871.

Other net income decreased to $569 in 2006 from $742 in 2005, an unfavorable variance of $173. This variance is caused primarily by a $429 reduction in gains on sale of property, plant and equipment and an increase in foreign exchange loss of $164. These reductions in income were offset by an increase in miscellaneous income of $420 mainly related to the settlement of a class action suit relating to 2001.

Income tax The Company recognized $2,308 of income tax expense on a loss for continuing operations of $19,727. This was an increase of $640 compared to 2005. Due to expenses of $28,311 occurring in Panama where no tax benefit is obtained, the Company incurred a tax expense on a loss from continuing operations. Permanent timing differences in the U.S. also contributed to a higher effective tax rate.

Loss from Discontinued Operations, Net of Taxes

The Company recognized a net loss from Discontinued Operations of $83,402 in 2006 compared to a net loss of $8,319 in 2005, an increase loss of $75,083. The Nigeria operations accounted for $83,773 of the 2006 loss. A loss of $971 in Venezuela and a recognized net gain of $1,342 on the sale of the Opal TXP-4 account for the remainder of the 2006 loss from discontinued operations.

Fiscal Year Ended December 31, 2005, Compared to Fiscal Year Ended December 31, 2004

Contract Revenue

Contract revenue increased $21,685 (7.9 percent) to $294,479 in 2005 from $272,794 in 2004.

	Year Ended December 31,			
	2005	**2004**	**Increase (Decrease)**	**Percent Change**
United States & Canada	$ 269,006	$ 171,578	$ 97,428	56.8%
International	25,473	101,216	(75,743)	(74.8)%
Total contract revenue	$ 294,479	$ 272,794	$ 21,685	7.9%

United States & Canada revenue increased $97,428 (56.8 percent) in 2005 to $269,006 from $171,578 in 2004 primarily as a result of work on new engineering and pipeline construction projects in the United States and continuation of work relating to maintenance and fabrication contracts in the Canadian oil sands.

International revenue decreased by $75,743 (74.8 percent) in 2005 from 2004 primarily due to 2004 completion of a project in Iraq, representing $54,029 of the decrease, and a lower level of activity in Oman in 2005 as compared to 2004 representing an additional $11,554 decline.

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Contract Income

Contract income decreased $22,030 (43.7 percent) to $28,407 in 2005 from $50,437 in 2004. Variations in contract costs by country were closely related to the variations in contract revenue.

	Year Ended December 31,					
	2005	% of Revenue	2004	% of Revenue	Increase (Decrease)	Percent Change
United States & Canada	$ 26,535	9.9%	$ 19,319	11.3%	$ 7,216	37.4%
International	1,872	7.3%	31,118	30.7%	(29,246)	(94.0)%
Total contract income	$ 28,407	9.6%	$ 50,437	18.5%	$ (22,030)	(43.7)%

United States & Canada contract income increased $7,216 primarily due to increased revenue in the segment while contract margin percent declined by 1.4 percentage points. The decline in the contract margin percent is due to lower contract margin in Canada due to start-up costs associated with the new fabrication facility and costs overruns on certain construction projects. These declines in contract margin were partially offset by higher contract margins on engineering and pipeline construction projects in the United States.

International contract income decreased $29,246 primarily due to declines in contract income in Iraq, Bolivia and Ecuador as projects in these countries were completed or closed out in 2004. The decline in the contract margin percent resulted from the high margin recognized from the completed 2004 Iraq project and the 2004 benefit from the Bolivia Transierra Project claim settlement.

Other Operating Expense

Depreciation and amortization increased $1,912 (19.6 percent) to $11,688 in 2005 due to 2005 capital expenditures of $25,111 and a full year s depreciation on the new world-wide information technology system. *United States & Canada* depreciation and amortization increased to $8,973 from $6,911, or 29.8 percent. *International* depreciation decreased to $2,715 from $2,865, or 5.2 percent.

G&A expense increase $9,825 (30.2 percent) to $42,350 in 2005 compared to $32,525 in 2004. The increase in G&A was a result of increased activity in the *United States & Canada* business as well as increased spending on office facilities and information technology of approximately $5 million.

Non-Operating Items

Interest, including amortization of debt issue cost, increased $2,133 to an expense of $5,481 in 2005 from an expense of $3,348 in 2004 due primarily to the write-off of debt restructuring cost of $1,203 and higher debt levels during 2005 versus 2004. Interest income increased $709 to $1,577 in 2005 compared to $868 in 2004, as a result of an overall increase in invested funds in 2005 as compared to 2004.

Income tax provision for income taxes in 2005 was $1,668, an increase of $2,695 over the 2004 benefit of $1,027. The company s net income in 2004 included non-taxable revenue from Iraq of $55 million allowing the net benefit, while in 2005 the company had expenses of $20 million in Panama where no tax benefit is obtained.

Loss from Discontinued Operations, Net of Taxes

The loss from Discontinued Operations decreased $18,792 from a loss of $27,111 in 2004 to a loss of $8,319 in 2005. The reduction in the loss from discontinued operations is due to a $212,791 increase in revenue attributable entirely to our Nigeria operations and a 6.8 percent increase in contract margin.

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LIQUIDITY AND CAPITAL RESOURCES

Liquidity

During 2006, operating activities for continuing operations used $5,429 of cash compared to a use of $34,631 during 2005. This represents an improvement in operating cash flows of $29,202 from 2006 to 2005. We believe that the proceeds from the sale of our Nigeria operations, proceeds from the private sale of equity and the improved cash flows from our continuing operations will be sufficient to finance working capital and capital expenditures for continuing operations and should give us the liquidity and flexibility to perform the increasing volume of projects we are currently pursuing or have in backlog. Capital expenditures for 2007 are estimated to exceed 2006 levels.

Capital Requirements

Our primary requirements for capital are to acquire, upgrade and maintain equipment, provide working capital for current projects, finance the mobilization of employees and equipment to new projects, establish a presence in countries where we perceive growth opportunities and finance the possible acquisition of new businesses and equity investments. Historically, we have met these capital requirements primarily from operating cash flows, borrowings under our credit facility, and debt and equity financings.

Working Capital

Cash and cash equivalents decreased $18,290 to $37,643 at December 31, 2006, from $55,933 at December 31, 2005. The decrease resulted primarily from the cash consumed in our discontinued operations of $105,354 and capital expenditures of $12,264. The decrease was partially offset by cash generated from continuing operations in investing activities of $40,804 and in financing activities of $51,550.

Working capital, excluding the net assets and liabilities of discontinued operations, decreased $29,221 (33.2 percent) to $58,725 at December 31, 2006 from $87,946 at December 31, 2005. The decrease was primarily attributable to an increase in accounts payable and contract billings in excess of cost and recognized income not yet billed of $68,358, a decrease in cash of $18,290, and partially offset by an increase in accounts receivable and prepaid expenses of $58,529.

2006 Financing Activities

2006 Credit Facility On October 27, 2006, we concluded two financing transactions that were required to support our expected growth. Willbros USA, Inc., a wholly-owned subsidiary of the Company, entered into a new $100,000 three-year senior secured synthetic credit facility (the 2006 Credit Facility) with a group of lenders led by Calyon New York Branch (Calyon). Concurrent with the creation of the 2006 Credit Facility, the predecessor 2004 Credit Facility was terminated and a total of $38,708 of outstanding letters of credit was reissued under the 2006 Credit Facility. At December 31, 2006, the 2006 Credit Facility had availability of $35,455 and is scheduled to expire in October 2009. The Company may elect to increase the total capacity under the 2006 Credit Facility to $150,000, with consent from Calyon. The Company currently has a commitment from Calyon to underwrite an increase to the 2006 Credit Facility by $25,000 subject to certain terms and conditions. The Company will increase the 2006 Credit Facility only if it has requirements to issue letters of credit in excess of $100,000. The 2006 Credit Agreement includes customary affirmative and negative covenants, such as limitations on the creation of certain new indebtedness and liens, restrictions on certain transactions and payments and maintenance of a maximum senior leverage ratio, a minimum fixed charge coverage ratio and a minimum tangible net worth requirement. Borrowings have not taken place, nor is it the Company s present intent to use the 2006 Credit Facility for future borrowings. The 2006 Credit Facility was established primarily to provide a source for letters of credit. Unamortized debt issue costs associated with the 2006 Credit Facility of $1,986 are included in other assets at December 31, 2006, and are being amortized over the three-year term of the credit facility ending October 2009.

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As of December 31, 2006, there were no borrowings outstanding under the 2006 Credit Facility and there were $64,545 in outstanding letters of credit, $41,920 issued for projects in continuing operations and $22,625 issued for projects related to discontinued operations. Borrowings have not taken place, nor is it the Company s intent to use the 2006 Credit Facility for future borrowings. The 2006 Credit Facility was established to provide a source of letters of credit.

Private Placement On October 27, 2006, the Company also sold 3,722,360 shares of its common stock in a private placement (the Private Placement). The selling price was $14.00 per share which was a discount of approximately 10 percent based on the Company s closing stock price of $15.50 on October 24, 2006. Net proceeds after estimated transaction costs were $48,748. Net proceeds will be used for general corporate purposes primarily to support the start-up of several new projects in the United States and Canada.

The buyers of the Private Placement common stock also acquired warrants to purchase an additional 558,354 shares at an exercise price of $19.03 per share. Each warrant will be exercisable, in whole or in part for a period of 60 months from the date of issuance. Additional information on the Private Placement and the 2006 Credit Facility is available in Note 10 Stockholders Equity and Note 7 Long-term Debt, respectively in the Notes to the Consolidated Financial Statements in this Form 10-K.

6.5% Senior Convertible Notes

On December 22, 2005, the Company entered into a purchase agreement for a private placement of $65,000 aggregate principal amount of its 6.5% Senior Convertible Notes due 2012 (the 6.5% Notes). The private placement closed on December 23, 2005. The net proceeds of the offering were used to retire existing indebtedness and provide additional liquidity to support working capital needs for our current level of operations. During the first quarter of 2006, the initial purchasers of the 6.5% Notes exercised their options to purchase an additional $19,500 of the 6.5% Notes, bringing the aggregate principal amount of the private placement to $84,500. The 6.5% Notes are general senior unsecured obligations. Interest is payable semi-annually on June 15 and December 15, and payments began on June 15, 2006.

The 6.5% Notes are convertible into shares of the Company s common stock at a conversion rate of 56.9606 shares of common stock per $1,000.00 principal amount of notes (representing a conversion price of approximately $17.56 per share resulting in 4,813,171 shares issuable at December 31, 2006), subject to adjustment in certain circumstances.

2.75% Convertible Senior Notes

During 2004, the Company completed an offering of $70,000 of 2.75% Convertible Senior Notes (the 2.75% Notes). The 2.75% Notes are general senior unsecured obligations. Interest is paid semi-annually on March 15 and September 15 and payments began on September 15, 2004. The 2.75% Notes mature on March 15, 2024 unless the notes are repurchased, redeemed or converted earlier. The holders of the 2.75% Notes may, under certain circumstances, convert the notes into shares of the Company s common stock at an initial conversion ratio of 51.3611 shares of common stock per $1,000.00 principal amount of notes (representing a conversion price of approximately $19.47 per share resulting in 3,595,277 shares issuable at December 31, 2006 subject to adjustment in certain circumstances). The notes will be convertible only upon the occurrence of certain specified events including, but not limited to, if, at certain times, the closing sale price of the Company s common stock exceeds 120 percent of the then current conversion price, or $23.36 per share, based on the initial conversion price.

On September 22, 2005, the Company entered into an amendment of the indenture with holders of the 2.75% Notes (the Indenture Amendment). The Indenture Amendment extended the initial date on or after which the 2.75% Notes may be redeemed by the Company to March 15, 2013 from March 15, 2011.

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2004 Credit Facility

On March 12, 2004, the existing $125,000 June 2002 credit agreement with Calyon was amended, restated and increased to $150,000 (the 2004 Credit Facility). The 2004 Credit Facility would have matured on March 12, 2007 but was replaced on October 27, 2006 by the 2006 Credit Facility (See Financing Transactions above). The 2004 Credit Facility was available for standby and commercial letters of credit, borrowings or a combination thereof. Borrowings were limited to the lesser of 40 percent of the borrowing base or $30,000. Interest was payable quarterly at a base rate plus a margin ranging from 0.75 percent to 2.00 percent or on a Eurodollar rate plus a margin ranging from 1.75 percent to 3.00 percent. The 2004 Credit Facility was collateralized by substantially all of the Company s assets, including stock of the Company s principal subsidiaries, prohibited the payment of cash dividends and required the Company to maintain certain financial ratios. The borrowing base was calculated using varying percentages of cash, accounts receivable, accrued revenue, contract cost and recognized income not yet billed; property, plant and equipment, and spare parts.

During the period from August 6, 2004 to August 18, 2006, the Company entered into various amendments and waivers to the 2004 Credit Facility with its syndicated bank group to waive non-compliance with certain financial and non-financial covenants. Among other things, the amendments provided that (1) certain financial covenants and reporting obligations were waived and/or modified to reflect the Company s current and anticipated future operating performance, (2) the ultimate reduction of the facility to $50,000 and provided for a letter of credit limit of $50,000 less the face amount of letters of credit issued prior to August 18, 2006, and provided that each new letter of credit must be fully cash collateralized and that a letter of credit fee of .25 percent be paid for each cash collateralized letter of credit and (3) a requirement for the Company to maintain a minimum cash balance of $15,000. The Sixth Amendment expired on September 30, 2006, and availability under the 2004 Credit Facility was reduced to zero. On October 27, 2006, the 2004 Credit Facility was replaced with the 2006 Credit Facility.

Additional information on the 2004 Credit Facility, the 6.5% Notes and the 2.75% Notes is available in Note 7 Long-term Debt in the Notes to the Consolidated Financial Statements in this Form 10-K.

Contractual Obligations

		Payments Due By Period			
	Total	**Less than 1 year**	**1-3 years**	**4-5 years**	**More than 5 years**
Convertible notes	$ 154,500	$	$	$ 70,000	$ 84,500
Capital lease obligations	13,144	5,480	7,664		
Operating lease obligations	17,650	7,755	7,971	1,924	
Total	$ 185,294	$ 13,235	$ 15,635	$ 71,924	$ 84,500

As of December 31, 2006, there were no borrowings under the 2006 Credit Facility and there were $64,545 in outstanding letters of credit, $41,920 issued for projects in continuing operations and $22,625 issued for projects related to discontinued operations.

Additionally, we have various notes and leases payable, generally related to equipment financing and local revolving credit facilities. All notes and leases are at market interest rates, and are collateralized by certain vehicles, equipment and/or real estate.

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We have unsecured credit facilities with banks in certain countries outside the United States. Borrowings under these lines, in the form of short-term notes and overdrafts, are made at competitive local interest rates. Generally, each line is available only for borrowings related to operations in a specific country. Credit available under these facilities is approximately $4,582 at December 31, 2006. There were no outstanding borrowings at December 31, 2006 or 2005.

During 2006, our allowance for doubtful accounts including Discontinued Operations increased from $6,672 to $10,389, with an increase in the allowance for continuing operations from $516 to $598 and $6,156 to $9,791 for discontinued operations. This increase in the allowance is due to an additional provision of $4,512, primarily related to discontinued operations, and net write-offs of uncollectible accounts of $795. We do not anticipate any significant collection problems with our customers beyond what has been already recognized in our allowance, including those in countries that may be experiencing economic and/or currency difficulties. Since our customers generally are major oil companies and government entities, and the terms for billing and collecting for work performed are generally established by contracts, we historically have had a very low incidence of collectability problems.

Off-Balance Sheet Arrangements and Commercial Commitments

From time to time, we enter into commercial commitments, usually in the form of commercial and standby letters of credit, insurance bonds and financial guarantees. Contracts with our customers may require us to provide letters of credit or insurance bonds with regard to our performance of contracted services. In such cases, the commitments can be called upon in the event of our failure to perform contracted services. Likewise, contracts may allow us to issue letters of credit or insurance bonds in lieu of contract retention provisions, in which the client withholds a percentage of the contract value until project completion or expiration of a warranty period.

A summary of our off-balance sheet commercial commitments for both continuing and discontinued operations as of December 31, 2006 is as follows:

	Total Commitment	Expiration Per Period Less Than 1 Year	1-2 Years	More Than 2 Years
Letters of credit:				
US performance	$ 33,250	$ 33,250	$	$
Canada performance	8,569	8,569		
Other performance and retention	5,282	1,602	3,680	
Nigeria projects performance	22,625	2,743	19,759	123
Total letters of credit	69,726	46,164	23,439	123
U.S. Insurance bonds primarily performance	99,050	35,936	53,700	9,414
Total commercial commitments	$ 168,776	$ 82,100	$ 77,139	$ 9,537

These commercial commitments totaling $168,776 represent the maximum amount of future payments we could be required to make. We had no liability recorded as of December 31, 2006, related to these commitments.

NEW ACCOUNTING PRONOUNCEMENTS

FIN No. 48 In June 2006, the Financial Accounting Standards Board (FASB) issued FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes, (FIN 48) an interpretation of Statement of Financial Accounting Standards (SFAS) No. 109, Accounting for Income Taxes . This interpretation clarifies the accounting for uncertainty in income taxes recognized in an enterprise s financial statements in accordance with SFAS No. 109. The interpretation prescribes a recognition threshold and measurement attribute for a tax position taken or expected to be taken in a tax return and also provides guidance on derecognition,

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classification, interest and penalties, accounting in interim periods, disclosure and transition. The provisions of FIN 48 are effective for fiscal years beginning after December 31, 2006. The Company is currently evaluating what impact, if any, this statement will have on its financial statements.

SFAS No. 157 In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements (SFAS No. 157). SFAS No. 157 clarifies the principle that fair value should be based on the assumptions market participants would use when pricing an asset or liability and establishes a fair value hierarchy that prioritizes the information used to develop those assumptions. SFAS No. 157 is effective for the Company s fiscal year beginning January 1, 2007. The Company is currently evaluating what impact, if any, this statement will have on its financial statements.

FASB Staff Position (FSP) No. AUG AIR-1 On September 7, 2006 the FASB issued this amendment to certain provisions in the American Institute of Certified Public Accountants (AICPA) Industry Guide, Audits of Airlines, and Accounting Principles Board (APB) Opinion No. 28, Interim Financial Reporting . This FSP prohibits the use of the accrue-in-advance method of accounting for planned major maintenance activities in annual and interim financial reporting periods. The guidance in this FSP shall be applied to the first fiscal year beginning after December 15, 2006. The Company intends to adopt this standard for the fiscal year beginning January 1, 2007. The Company is currently evaluating what impact, if any, this amendment will have on its financial statements, including the potential impact to retrospective periods

EFFECTS OF INFLATION AND CHANGING PRICES

Our operations are affected by increases in prices, whether caused by inflation, government mandates or other economic factors, in the countries in which we operate. We attempt to recover anticipated increases in the cost of labor, equipment, fuel and materials through price escalation provisions in certain major contracts or by considering the estimated effect of such increases when bidding or pricing new work.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk

Our primary market risk is our exposure to changes in non-U.S. currency exchange rates. We attempt to negotiate contracts which provide for payment in U.S. dollars, but we may be required to take all or a portion of payment under a contract in another currency. To mitigate non-U.S. currency exchange risk, we seek to match anticipated non-U.S. currency revenue with expense in the same currency whenever possible. To the extent we are unable to match non-U.S. currency revenue with expense in the same currency, we may use forward contracts, options or other common hedging techniques in the same non-U.S. currencies. We had no forward contracts or options at December 31, 2006 and 2005.

The carrying amounts for cash and cash equivalents, accounts receivable, notes payable and accounts payable and accrued liabilities shown in the consolidated balance sheets approximate fair value at December 31, 2006 due to the generally short maturities of these items. At December 31, 2006, we invested primarily in short-term dollar denominated bank deposits. We have the ability and expect to hold our investments to maturity.

Our exposure to market risk for changes in interest rates relates primarily to our borrowings under the 2006 Credit Facility. At December 31, 2006, there were no borrowings under the 2006 Credit Facility subject to variable interest rates. At December 31, 2006, our fixed rate debt approximated fair value based upon discounted future cash flows using current market rates.

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Item 8. Financial Statements and Supplementary Data

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Report of Independent Registered Public Accounting Firm

To the Board of Directors and

Stockholders of Willbros Group, Inc.

We have audited the accompanying consolidated balance sheets of Willbros Group, Inc. as of December 31, 2006 and 2005, and the related consolidated statements of operations, stockholders equity and comprehensive income (loss), and cash flows for each of the years in the two-year period ended December 31, 2006. These financial statements are the responsibility of the company s management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Willbros Group, Inc. as of December 31, 2006 and 2005, and the results of its operations and its cash flows for each of the years in the two-year period ended December 31, 2006 in conformity with accounting principles generally accepted in the United States of America.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of Willbros Group, Inc. s internal control over financial reporting as of December 31, 2006, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated March 12, 2007 expressed an unqualified opinion on management s assessment of internal control over financial reporting and an adverse opinion on the effectiveness of internal control over financial reporting.

We have also audited the adjustments to the 2004 consolidated financial statements to retrospectively apply the change in accounting, as described in Note 2. In our opinion, such adjustments are appropriate and have been properly applied. We were not engaged to audit, review or apply any procedures to the 2004 financial statements of the Company other than with respect to the adjustments and, accordingly, we do not express an opinion or any other form of assurance on the 2004 financial statements taken as a whole.

/s/ GLO CPAs, LLP

Houston, Texas

March 12, 2007

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Report of Independent Registered Public Accounting Firm

The Stockholders and Board of Directors

Willbros Group, Inc.:

We have audited, before the effects of the adjustments to retrospectively apply the change in accounting described in Note 2, the consolidated statements of operations, stockholders equity and comprehensive income (loss), and cash flows of Willbros Group, Inc. for the year ended December 31, 2004. 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 audit.

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

In our opinion, the consolidated financial statements, before the effects of the adjustments to retrospectively apply the change in accounting described in Note 2, present fairly, in all material respects, and the results of its operations and its cash flows for the year ended December 31, 2004, in conformity with U.S. generally accepted accounting principles.

We were not engaged to audit, review, or apply any procedures to the adjustments to retrospectively apply the change in accounting described in Note 2 and, accordingly, we do not express an opinion or any other form of assurance about whether such adjustments are appropriate and have been properly applied. Those adjustments were audited by GLO CPAs, LLP.

/s/ KPMG LLP

Houston, Texas

November 21, 2005

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Report of Independent Registered Public Accounting Firm

To the Board of Directors and

Stockholders of Willbros Group, Inc.

We have audited management s assessment, included in the accompanying Management s Report on Internal Control over Financial Reporting (Item 9A(b)), that Willbros Group, Inc. (the Company) did not maintain effective internal control over financial reporting as of December 31, 2006, because of the effect of material weaknesses identified in management s assessment, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organization of the Treadway Commission (COSO). 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. Our responsibility is to express an opinion on management s assessment and an opinion on the effectiveness of the Company s internal control over financial reporting based on our audit.

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

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

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

A material weakness is a control deficiency, or combination of control deficiencies, that results in more than a remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected. The following material weaknesses have been identified and included in management s assessment as of December 31, 2006.

Nigeria Accounting During the fourth quarter of 2006, the Company determined that a material weakness in their internal control over financial reporting exists related to the Company s management control environment over the accounting for their Nigeria operations. This weakness in management control led to the inability to adequately perform various control functions including supervision over and consistency of: inventory management; petty cash disbursement; accounts payable disbursement approvals; account reconciliation; and review of time keeping records. This weakness resulted primarily due to the Company being unable to maintain a consistent and stable internal control environment over its Nigeria operations in the fourth quarter of 2006.

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Nigeria Project Controls Estimate to Complete A material weakness exists related to controls over Nigeria project reporting. This weakness existed throughout 2006 and is a continuation of a material weakness reported in their 2005 Form 10-K. The weakness primarily impacted one large Nigeria project with a total contract value of approximately $165 million, for which cost estimates were not updated timely in the fourth quarter of 2006 due to insufficient measures being taken to independently verify and update reliable cost estimates. This material weakness specifically resulted in material changes to revenue and cost of sales during the preparation of their year end financial statements by their accounting staff prior to the issuance of the Form 10-K.

The above material weaknesses were considered in determining the nature, timing, and extent of audit tests applied in our audit of the 2006 consolidated financial statements, and this report does not affect our report dated March 12, 2007 which expressed an unqualified opinion on those financial statements.

In our opinion, management s assessment that the Company did not maintain effective internal control over financial reporting as of December 31, 2006, is fairly stated, in all material respects, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Also, in our opinion, because of the effect of the material weakness described above on the achievement of the objectives of the control criteria, the Company has not maintained effective internal control over financial reporting as of December 31, 2006, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

/s/ GLO CPAs, LLP

Houston, Texas

March 12, 2007

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WILLBROS GROUP, INC.

CONSOLIDATED BALANCE SHEETS

(In thousands, except share and per share amounts)

	December 31, 2006	December 31, 2005
ASSETS		
Current assets:		
Cash and cash equivalents	$ 37,643	$ 55,933
Accounts receivable, net	137,104	84,003
Contract cost and recognized income not yet billed	11,027	7,619
Prepaid expenses	17,299	11,871
Parts and supplies inventories	2,069	2,509
Assets of discontinued operations	294,192	261,099
Total current assets	499,334	423,034
Deferred tax assets	5,064	4,134
Property, plant and equipment, net	65,347	59,706
Goodwill	6,683	6,687
Other assets	11,826	5,324
Total assets	$ 588,254	$ 498,885
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Notes payable and current portion of long-term debt	$ 5,562	$ 2,680
Accounts payable and accrued liabilities	122,352	67,599
Contract billings in excess of cost and recognized income	14,947	1,342
Accrued income taxes	3,556	2,368
Liabilities of discontinued operations	182,092	144,085
Total current liabilities	328,509	218,074
2.75% convertible senior notes	70,000	70,000
6.5% senior convertible notes	84,500	65,000
Long-term debt	7,077	340
Other liabilities	237	237
Total liabilities	490,323	353,651
Commitments and contingencies (see Note 13)		
Stockholders equity:		
Class A preferred stock, par value $.01 per share, 1,000,000 shares authorized, none issued		
Common stock, par value $.05 per share, 70,000,000 shares authorized (35,000,000 at December 31, 2005) and 25,848,596 shares issued at December 31, 2006 (21,649,475 at December 31, 2005)	1,292	1,082
Capital in excess of par value	217,036	161,596
Accumulated deficit	(120,603)	(15,166)
Treasury stock at cost, 167,844 shares at December 31, 2006 (98,863 at December 31, 2005)	(2,154)	(1,163)
Deferred compensation		(3,720)
Note receivable for stock purchases		(231)
Accumulated other comprehensive income	2,360	2,836

Total stockholders equity	97,931	145,234
Total liabilities and stockholders equity	$ 588,254	$ 498,885

See accompanying notes to consolidated financial statements.

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WILLBROS GROUP, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except share and per share amounts)

	Year Ended December 31, 2006	2005	2004
Contract revenue	$ 543,259	$ 294,479	$ 272,794
Operating expense:			
Contract	489,494	266,072	222,357
Depreciation and amortization	12,430	11,688	9,776
General and administrative	53,366	42,350	32,525
	555,290	320,110	264,658
Operating income (loss)	(12,031)	(25,631)	8,136
Other income (expense):			
Interest income	1,803	1,577	868
Interest expense	(10,068)	(5,481)	(3,348)
Foreign exchange gain (loss)	(150)	14	(85)
Other, net	719	728	(302)
	(7,696)	(3,162)	(2,867)
Income (loss) from continuing operations before income taxes	(19,727)	(28,793)	5,269
Provision (benefit) for income taxes	2,308	1,668	(1,027)
Net income (loss) from continuing operations	(22,035)	(30,461)	6,296
Loss from discontinued operations net of provision for income taxes	(83,402)	(8,319)	(27,111)
Net loss	$ (105,437)	$ (38,780)	$ (20,815)
Basic income (loss) per common share:			
Income (loss) from continuing operations	$ (0.98)	$ (1.43)	$ 0.30
Loss from discontinued operations	(3.72)	(0.39)	(1.29)
Net loss	$ (4.70)	$ (1.82)	$ (0.99)
Diluted income (loss) per common share:			
Income (loss) from continuing operations	$ (0.98)	$ (1.43)	$ 0.30
Loss from discontinued operations	(3.72)	(0.39)	(1.29)
Net loss	$ (4.70)	$ (1.82)	$ (0.99)
Weighted average number of common shares outstanding:			
Basic	22,440,742	21,258,211	20,922,002
Diluted	22,440,742	21,258,211	20,922,002

See accompanying notes to consolidated financial statements.

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WILLBROS GROUP, INC.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY AND

COMPREHENSIVE INCOME (LOSS)

(In thousands, except share amounts)

	Common Stock			Retained Earnings					
	Shares	Par Value	Capital in Excess of Par Value	(Accumulated Deficit)	Treasury Stock	Deferred Compensation	Notes Receivable Stock Purchases	Accumulated Other Comprehensive Income (Loss)	Total Stock-holders Equity
Balance, December 31, 2003	20,748,498	$ 1,037	$ 149,373	$ 44,429	$ (345)	$	$ (982)	$ 1,015	$ 194,527
Comprehensive income (loss):									
Net loss				(20,815)					(20,815)
Foreign currency translation adjustments								579	579
Total comprehensive loss									(20,236)
Payment of notes receivable							990		990
Amortization of note discount							(224)		(224)
Restricted stock grants	183,000	9	2,312			(2,321)			
Forfeitures of restricted stock grants					(210)	210			
Deferred compensation			134			472			606
Issuance of common stock under employee benefit plan	15,603	1	220						221
Exercise of stock options	478,879	24	4,136						4,160
Balance, December 31, 2004	21,425,980	1,071	156,175	23,614	(555)	(1,639)	(216)	1,594	180,044
Comprehensive income (loss):									
Net loss				(38,780)					(38,780)
Foreign currency translation adjustments								1,242	1,242
Total comprehensive loss									(37,538)
Amortization of note discount							(15)		(15)
Restricted stock grants	175,000	9	3,822			(3,831)			
Vesting restricted stock rights	10,875	1	(1)						
Forfeiture of restricted stock grants					(357)	357			
Additions to treasury stock, vesting restricted stock					(251)				(251)
Deferred compensation			1,165			1,393			2,558
Issuance of common stock under employee benefit plan	3,870		80						80
Exercise of stock options	33,750	1	355						356
Balance, December 31, 2005	21,649,475	1,082	161,596	(15,166)	(1,163)	(3,720)	(231)	2,836	145,234
Comprehensive income (loss):									
Net loss				(105,437)					(105,437)
Foreign currency translation adjustments								(476)	(476)

Total comprehensive loss									(105,913)
Deferred compensation			3,520			3,720			7,240
Amortization of note discount							(12)		(12)
Stock received for note					(243)		243		
Restricted stock grants	168,116	8	(8)						
Vesting of restricted stock rights	12,125	1	(1)						
Additions to treasury stock, vesting restricted stock					(748)				(748)
Exercise of stock options	296,520	15	3,367						3,382
Private placement of common stock	3,722,360	186	45,139						45,325
Issuance of common stock warrants			3,423						3,423
Balance, December 31, 2006	25,848,596	$ 1,292	$ 217,036	$ (120,603)	$ (2,154)	$	$	$ 2,360	$ 97,931

See accompanying notes to consolidated financial statements.

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WILLBROS GROUP, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands, except share amounts)

	Year Ended December 31,		
	2006	**2005**	**2004**
Cash flows from operating activities:			
Net loss	$ (105,437)	$ (38,780)	$ (20,815)
Reconciliation of net loss to cash provided by (used in) operating activities:			
Loss from discontinued operations	83,402	8,319	27,111
Depreciation and amortization	12,430	11,688	9,776
Amortization of debt issue costs	2,319	2,920	1,846
Non-cash compensation expense	7,240	2,558	606
Deferred income tax expense (benefit)	(895)	1,730	1,281
Loss (gain) on sales and retirements of property, plant and equipment	(3,914)	(910)	378
Equity in joint ventures		16	10,314
Amortization of notes receivable discount	(12)	(15)	(224)
Provision (credit) for bad debts	517	586	(262)
Provision for inventory obsolescence		600	1,400
Changes in operating assets and liabilities:			
Accounts receivable, net	(54,101)	(27,443)	(8,587)
Contract cost and recognized income not yet billed	(3,439)	(6,668)	5,972
Prepaid expenses	5,052	4,411	(186)
Parts and supplies inventories	603	(8,882)	(1,693)
Other assets	(3,123)	(373)	(194)
Accounts payable and accrued liabilities	39,117	18,961	7,215
Contract billings in excess of cost and recognized income	13,602	(2,290)	(2,705)
Accrued income taxes	1,210	(1,059)	7,443
Cash provided by (used in) operating activities of continuing operations	(5,429)	(34,631)	38,676
Net cash flows used in operating activities of discontinued operations	(97,923)	(2,486)	(1,266)
Cash provided by (used in) operating activities	(103,352)	(37,117)	37,410
Cash flows from investing activities:			
Proceeds from sales of property and equipment	3,663	1,740	1,274
Proceeds from sales of discontinued operations	48,514		
Purchases of property, plant and equipment	(11,373)	(18,706)	(15,733)
Cash provided by (used in) investing activities of continuing operations	40,804	(16,966)	(14,459)
Net cash flows used in investing activities of discontinued operations	(7,431)	(19,998)	(22,292)
Cash provided by (used in) investing activities	33,373	(36,964)	(36,751)
Cash flows from financing activities:			
Proceeds from private placement of equity	48,748		
Proceeds from exercise of stock options	3,382	436	4,381
Proceeds from issuance of 6.5% senior convertible notes	19,500	65,000	
Proceeds from issuance of 2.75% convertible senior notes			70,000
Proceeds from long-term debt		15,000	
Proceeds from notes payable to banks		3,924	2,490
Repayment of notes payable to banks	(12,135)	(4,400)	(3,323)
Costs of debt issuance	(6,306)	(1,474)	(6,176)
Payment of capital leases	(891)	(6,405)	
Acquisition of treasury stock	(748)	(251)	
Repayment of long-term debt		(15,000)	(14,000)
Collection of notes receivable for stock purchases			990

Cash provided by financing activities of continuing operations	51,550	56,830	54,362
Net cash flows provided by financing activities of discontinued operations			
Cash provided by financing activities	51,550	56,830	54,362
Effect of exchange rate changes on cash and cash equivalents	139	17	(829)
Increase (decrease) in cash and cash equivalents	(18,290)	(17,234)	54,192
Cash and cash equivalents, beginning of year	55,933	73,167	18,975
Cash and cash equivalents, end of year	$ 37,643	$ 55,933	$ 73,167
Supplemental cash flow information:			
Cash paid for interest (including discontinued operations)	$ 7,590	$ 2,421	$ 1,514
Cash paid for income taxes (including discontinued operations)	$ 11,782	$ 15,887	$ 2,393
Non-cash investing and financing transactions:			
Property and equipment obtained by capital lease	$ 12,108	$	$
Prepaid insurance obtained by note payable	$ 10,620	$	$
Treasury stock acquired for forfeited restricted stock grants	$	$ 357	$ 210
Settlement of officer note receivable for stock	$ 243	$	$
Distribution of property by joint ventures	$	$	$ 737
Receivable obtained by sale of discontinued operations	$ 3,300	$	$

See accompanying notes to consolidated financial statements.

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WILLBROS GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(In thousands, except share and per share amounts)

1. Summary of Significant Accounting Policies

Company Willbros Group, Inc. (WGI), a Republic of Panama corporation, and all of its majority-owned subsidiaries (the Company) provide construction, engineering, specialty services and development activities to the oil, gas and power industries and government entities. The Company s principal markets for continuing operations are the United States, Canada, and the Middle East. The disclosures in the notes to consolidated financial statements relate to continuing operations, except as otherwise indicated.

Basis of Presentation of Discontinuance of Operations and Asset Disposal During 2006, the Company chose to exit the following businesses: Nigeria, Venezuela, and the TXP-4 Plant, (collectively the Discontinued Operations), and accordingly, these businesses are presented as discontinued operations in the preceding consolidated financial statements. The net assets and net liabilities related to the Discontinued Operations are shown on the Consolidated Balance Sheets as components of Assets of discontinued operations and Liabilities of discontinued operations , respectively. The results of the Discontinued Operations are shown on the Consolidated Statements of Operations as a component of Loss from discontinued operations net of provision for income taxes , for all periods shown.

Principles of Consolidation The consolidated financial statements of the Company include the accounts of WGI and all of its majority-owned subsidiaries. Inter-company accounts and transactions are eliminated in consolidation. The ownership interest of minority participants in subsidiaries that are not wholly-owned (principally in Oman) is included in accounts payable and accrued liabilities and is not material. The minority participants share of the net income of those subsidiaries is included in contract costs. Interest in the Company s unconsolidated joint ventures is accounted for using the equity method in the consolidated balance sheet.

Restatement of Consolidated Financial Statements In late December 2004, the Company became aware of improprieties in the Company s Bolivian subsidiary related to assessment of certain Bolivian taxes and allegations that the subsidiary had filed improper tax returns. Upon learning of the tax assessment and alleged improprieties, the Company commenced an initial investigation into the matter and notified the Audit Committee of the Board of Directors, which retained independent counsel, who in turn retained forensic accountants, and began an independent investigation. Concurrent with the Audit Committee s investigation, the Company initiated its own review of the Company s accounting. This review focused primarily on the Company s international activities supervised by J. Kenneth Tillery, the former President of Willbros International, Inc. (WII), the primary international subsidiary of the Company, but also included other areas of the Company s accounting activities.

As a result of the investigations and the Company s accounting review, the Company determined that several members of the senior management of WII and its subsidiaries collaborated to misappropriate assets from the Company and cover up such activity. It was determined that the Bolivian subsidiary had in fact filed improper tax returns, or failed to file returns, at the direction of Mr. Tillery. The investigation also determined that Mr. Tillery, in collusion with several members of management of the international subsidiaries, was involved in a pattern of improper activities, primarily in the Company s Nigeria subsidiaries, which was specifically contrary to established Company policies, internal controls and possibly the laws of several countries, including the United States.

Use of Estimates The consolidated financial statements are prepared in accordance with generally accepted accounting principles in the United States and include certain estimates and assumptions by management of the Company in the preparation of the consolidated financial statements. These estimates and assumptions relate to the reported amounts of assets and liabilities at the date of the consolidated financial

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WILLBROS GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(In thousands, except share and per share amounts)

1. Summary of Significant Accounting Policies (continued)

statements and the reported amounts of revenue and expense during the period. Significant items subject to such estimates and assumptions include the carrying amount of property, plant and equipment, goodwill and parts and supplies inventories; quantification of amounts recorded for contingencies, tax accruals and certain other accrued liabilities; valuation allowances for accounts receivable and deferred income tax assets; and revenue recognition under the percentage-of-completion method of accounting, including estimates of progress toward completion and estimates of gross profit or loss accrual on contracts in progress. The Company bases its estimates on historical experience and other assumptions that it believes relevant under the circumstances. Actual results could differ from these estimates.

Commitments and Contingencies Liabilities for loss contingencies arising from claims, assessments, litigation, fines, penalties, and other sources are recorded when management assesses that it is probable that a liability has been incurred and the amount can be reasonably estimated. Recoveries of costs from third parties, which management assesses are probable of realization, are separately recorded as assets in other assets. Legal costs incurred in connection with matters relating to contingencies are expensed in the period incurred.

Accounts Receivable Trade accounts receivable are recorded at the invoiced amount and do not bear interest. The allowance for doubtful accounts is the Company s best estimate of the probable amount of credit losses in the Company s existing accounts receivable. A considerable amount of judgement is required in assessing the realization of receivables. Relevant assessment factors include the creditworthiness of the customer and prior collection history. Balances over 90 days past due and over a specified minimum amount are reviewed individually for collectibility. Account balances are charged off against the allowance after all means of collection are exhausted and the potential for recovery is considered remote. The allowance requirements are based on the most current facts available and are re-evaluated and adjusted on a regular basis and as additional information is received. The Company does not have any off-balance-sheet credit exposure related to its customers.

Inventories Inventories, consisting primarily of parts and supplies, are stated at the lower of cost or market. Cost is determined using the first-in, first-out (FIFO) method. Parts and supplies are evaluated at least annually and adjusted for excess and obsolescence. Parts and supplies related to continuing operations were valued at $2,069 and $2,509 at December 31, 2006 and December 31, 2005, respectively. No excess or obsolescence allowances existed at December 31, 2006 or 2005.

Other Operating Expense Other operating expense consists of the costs incurred by the Company associated with fraudulent invoices for fictitious supplies or services. See Note 2-Restatement, in the Company s 2004 Annual Report Form 10-K.

Property, Plant and Equipment Property, plant and equipment is stated at cost. Depreciation, including amortization of capital leases, is provided on the straight-line method using estimated lives as follows:

Construction equipment	4-6 years
Marine equipment	10 years
Transportation equipment	3-4 years
Buildings	20 years
Furniture and equipment	3-10 years

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WILLBROS GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(In thousands, except share and per share amounts)

1. Summary of Significant Accounting Policies (continued)

Assets held under capital leases and leasehold improvements are amortized on a straight-line basis. When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts and any resulting gain or loss is recognized in income for the period. Normal repair and maintenance costs are charged to expense as incurred. Significant renewals and betterments are capitalized. Long-lived assets are reviewed for impairment annually and whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of the asset to future net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured as the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell.

Goodwill Goodwill represents the excess of purchase price over fair value of net assets acquired. Goodwill is not amortized but instead is annually tested for impairment. Annual testing for impairment occurs during the fourth quarter of the fiscal year and more frequently if an event or circumstance indicates that an impairment has occurred. The impairment test involves determining the fair market value of each of the reporting units with which the goodwill is associated and comparing the estimated fair market value of each of the reporting units with its carrying amount. The Company completed its annual evaluation for impairment of goodwill as of December 31, 2006, and determined that no impairment of goodwill existed as of that date.

Revenue A number of factors relating to the Company s business affect the recognition of contract revenue. The Company typically structures contracts as fixed-price, unit-price, material and time or cost plus fixed fee. Revenue from unit-price and time and material contracts is recognized as earned. The Company believes that its operating results should be evaluated over a time horizon during which major contracts in progress are completed and change orders, extra work, variations in the scope of work and cost recoveries and other claims are negotiated and realized.

Revenue for fixed-price and cost plus fixed fee contracts is recognized on the percentage-of-completion method. Under this method, estimated contract income and resulting revenue is generally accrued based on costs incurred to date as a percentage of total estimated costs, taking into consideration physical completion. Total estimated costs, and thus contract income, are impacted by changes in productivity, scheduling, the unit cost of labor, subcontracts, materials and equipment. Additionally, external factors such as weather, client needs, client delays in providing permits and approvals, labor availability, governmental regulation and politics may affect the progress of a project s completion and thus the timing of revenue recognition. The Company does not recognize income on a fixed-price contract until the contract is approximately 5 percent to 10 percent complete, depending upon the nature of the contract. If a current estimate of total contract cost indicates a loss on a contract, the projected loss is recognized in full when determined.

The Company considers unapproved change orders to be contract variations on which the Company has customer approval for scope change, but not for price associated with that scope change. Costs associated with unapproved change orders are included in the estimated cost to complete the contracts and are expensed as incurred. The Company recognizes revenue equal to cost incurred on unapproved changed orders when realization of price approval is probable and the estimated amount is equal to or greater than the Company s cost related to the unapproved change order. Revenue recognized on unapproved change orders is included in Contract costs and recognized income not yet billed on the balance sheet.

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WILLBROS GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(In thousands, except share and per share amounts)

1. Summary of Significant Accounting Policies (continued)

Unapproved change orders involve the use of estimates, and it is reasonably possible that revisions to the estimated costs and recoverable amounts may be required in the future reporting periods to reflect the changes in estimates or final agreement with customers.

The Company considers claims to be amounts the Company seeks or will seek to collect from customers or others for customer-caused changes in contract specifications or design, or other customer-related causes of unanticipated additional contract costs on which there is no agreement with customers on both scope and price changes. Revenue from claims is recognized when agreement is reached with customers as to the value of the claims, which in some instances may not occur until after completion of work under the contract. Costs associated with claims are included in the estimated costs to complete the contracts and are expensed when incurred.

Income Taxes The Company accounts for income taxes by the asset and liability method under which deferred tax assets and liabilities are recognized for the future tax consequences of operating loss and tax credit carry forwards and temporary differences between the financial statement carrying values of assets and liabilities and their respective tax bases. The provision or benefit for income taxes and the annual effective tax rate are impacted by income taxes in certain countries (in discontinued operations) being computed based on a deemed profit rather than on taxable income and tax holidays on certain international projects.

Retirement Plans and Benefits The Company has a voluntary defined contribution retirement plan for U.S. based employees that is qualified, and is contributory on the part of the employees, and a voluntary savings plan for certain international employees that is non-qualified, and is contributory on the part of the employees.

Stock-Based Compensation Effective January 1, 2006, the Company adopted the fair value recognition provisions of Statement of Financial Accounting Standards (SFAS) No. 123R, Share-Based Payment, using the modified prospective application method. Under this method, compensation cost is recognized for the applicable amounts of: (a) compensation expense of all share-based payments granted prior to, but not yet vested as of, January 1, 2006 (based on the grant-date fair value estimated in accordance with the original provisions of SFAS No. 123, Accounting for Stock-Based Compensation, and previously presented in the pro forma footnote disclosures in the Company s SEC reports), and (b) compensation cost for all share-based payments granted subsequent to January 1, 2006 (based on the grant-date fair value estimated in accordance with the provisions of SFAS No. 123R). The Company uses the Black-Scholes valuation method to determine the fair value of stock options granted as of the grant date.

Foreign Currency Translation All significant monetary asset and liability accounts denominated in currencies other than United States dollars are translated into United States dollars at current exchange rates for countries in which the local currency is the functional currency. Translation adjustments are accumulated in other comprehensive income (loss). Non-monetary assets and liabilities in highly inflationary economies are translated into United States dollars at historical exchange rates. Revenue and expense accounts are converted at prevailing rates throughout the year. Foreign currency translation adjustments and translation adjustments in highly inflationary economies are recorded in income.

Concentration of Credit Risk The Company has a concentration of customers in the oil, gas and power industries which exposes the Company to a concentration of credit risk within a single industry. The Company seeks to obtain advance and progress payments for contract work performed on major contracts. Receivables are

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WILLBROS GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(In thousands, except share and per share amounts)

1. Summary of Significant Accounting Policies (continued)

generally not collateralized. The allowance for doubtful accounts, including that in discontinued operations, increased in 2006 to $10,389 from $6,672 in 2005. The Company believes the allowance for doubtful accounts is adequate.

Fair Value of Financial Instruments The carrying value of financial instruments does not materially differ from fair value.

Capitalized Interest The Company capitalizes interest as part of the cost of significant assets constructed or developed for its own use. Capitalized interest was $57, $168, and $349 in 2006, 2005 and 2004, respectively.

Income (Loss) per Common Share Basic income (loss) per share is calculated by dividing net income (loss), less any preferred dividend requirements, by the weighted-average number of common shares outstanding during the year. Diluted income (loss) per share is calculated by including the weighted-average number of all potentially dilutive common shares with the weighted-average number of common shares outstanding.

Derivative Financial Instruments The Company may use derivative financial instruments such as forward contracts, options or other financial instruments as hedges to mitigate non-U.S. currency exchange risk when the Company is unable to match non-U.S. currency revenue with expense in the same currency. The Company had no derivative financial instruments as of December 31, 2006 or 2005.

Cash Equivalents The Company considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.

Cash flows from investing activities The proceeds from sale of discontinued operations for the year ended December 31, 2006 includes $16,532 of non-refundable payments to be applied to the sale of Nigeria assets and operations.

Recently Issued Accounting Standards FIN No. 48 In June 2006, the Financial Accounting Standards Board (FASB) issued FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes, (FIN 48) an interpretation of SFAS No. 109, Accounting for Income Taxes (SFAS No. 109). This interpretation clarifies the accounting for uncertainty in income taxes recognized in an enterprise s financial statements in accordance with SFAS No. 109. The interpretation prescribes a recognition threshold and measurement attribute for a tax position taken or expected to be taken in a tax return and also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. The provisions of FIN 48 are effective for fiscal years beginning after December 31, 2006. The Company is currently evaluating what impact, if any, this statement will have on its financial statements.

SFAS No. 157 In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements (SFAS No. 157). SFAS No. 157 clarifies the principle that fair value should be based on the assumptions market participants would use when pricing an asset or liability and establishes a fair value hierarchy that prioritizes the information used to develop those assumptions. SFAS No. 157 is effective for the Company s fiscal year beginning January 1, 2007. The Company is currently evaluating what impact, if any, this statement will have on its financial statements.

FASB Staff Position (FSP) No. AUG AIR-1 On September 7, 2006 the FASB issued this amendment to certain provisions in the American Institute of Certified Public Accountants (AICPA) Industry Guide, *Audits of*

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WILLBROS GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(In thousands, except share and per share amounts)

1. Summary of Significant Accounting Policies (continued)

Airlines, and Accounting Principles Board (APB) Opinion No. 28, Interim Financial Reporting . This FSP prohibits the use of the accrue-in-advance method of accounting for planned major maintenance activities in annual and interim financial reporting periods. The guidance in this FSP shall be applied to the first fiscal year beginning after December 15, 2006. The Company intends to adopt this standard for the fiscal year beginning January 1, 2007. The Company is currently evaluating what impact, if any, this amendment will have on its financial statements, including the potential impact to retrospective periods.

Reclassification Certain reclassifications have been made to prior year balances to conform to current year presentations.

2. Discontinuance of Operations and Asset Disposal

Strategic Decisions

As part of the Company s ongoing strategic evaluation of operations, the following businesses have been discontinued: Nigeria, Venezuela, and the TXP-4 Plant, collectively the Discontinued Operations , and accordingly, these businesses are presented as discontinued operations in the preceding consolidated financial statements. The net assets and net liabilities related to the Discontinued Operations are shown on the Consolidated Balance Sheets as Assets of discontinued operations and Liabilities of discontinued operations , respectively. The results of the Discontinued Operations are shown on the Consolidated Statements of Operations as Loss from discontinued operations net of provision for income taxes for all periods shown.

The separate results of the Discontinued Operations, as well as a breakdown of the major classes of assets and liabilities included as part of Discontinued Operations, are detailed in the subsequent tables.

Nigeria

On February 7, 2007, the Company sold its Nigeria operations through a share purchase agreement for total consideration of $155,250. In conjunction with this transaction, the Company bought out certain minority interests at a total cost of $10,500. See Note 17 Subsequent Events for more information on the sale.

Nigeria operations and assets were previously included in the Company s *International* segment and retrospectively presented as discontinued operations on the Company s Form 8-K filed December 8, 2006.

As part of the sales process, the Company continues to evaluate the carrying value of the Nigeria assets and operations with respect to their estimated market value. As of December 31, 2006, the Company did not recognize an impairment of the Nigeria assets based upon this analysis. Any impairment would be included in the Loss from discontinued operations net of provision for income taxes .

Pipe coating joint venture

Kanssen International Pipe Coating Services Limited (Kanssen) and Willbros West Africa, Inc. (WWAI) a subsidiary of the Company entered into an agreement to upgrade facilities at the WWAI Choba pipe coating facility. The agreement was signed in June 2006 and included an installation of new concrete weight coating equipment furnished by Kanssen. WWAI and Kanssen participate in the venture with a 50 percent interest for each party with WWAI being paid a management fee on each contract not to exceed 9 percent of the

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WILLBROS GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(In thousands, except share and per share amounts)

2. Discontinuance of Operations and Asset Disposal (continued)

contract revenue. Currently, the pipe coating transactions are included in the revenues and expenses of the related WWAI projects. In 2006, the pipe coating facility had approximately $16.5 million in contract revenue.

Venezuela

Asset disposal On August 17, 2006, the Company entered into a share purchase agreement with a Venezuelan company (the Venezuelan Buyer), pursuant to which the Company sold all of its membership interests in Willbros (Barbados) Limited, Inc. (WBL), a wholly-owned subsidiary of the Company. WBL owns all of the assets and operations of the Company in Venezuela, with the exception of joint-venture interest in Harwat International Finance Corporation NV (Harwat). The Company received cash payments of $7,000 for conveyance of WBL with no gain recognized subject to the pending sale discussed below. The Venezuela operations and assets were previously a component of the Company s *International* segment and are retrospectively presented as discontinued operations in the Company s Form 8-K filed December 8, 2006.

Joint-venture interest disposal As part of the share purchase agreement, the Venezuelan Buyer agreed to purchase the Company s 10 percent interest in Harwat, as well as assume all guarantees of the Company related to the 10 percent interest in Harwat. The sale of the Harwat interest was completed November 28, 2006. The Company received a commitment from the Venezuelan Buyer to pay $3,300 before December 4, 2013. The present value of this commitment is $1,775.

The Company estimates no gain or loss on the sale of WBL and its 10 percent interest in Harwat.

TXP-4 Plant

Asset disposal On January 12, 2006, the Company entered into a purchase agreement and release with Williams Field Services Company (Williams), a wholly-owned subsidiary of The Williams Companies, Inc., pursuant to which the Company sold to Williams all of its membership interest in Opal TXP-4 Company, LLC, a wholly-owned subsidiary of the Company (the LLC). The LLC owns a gas processing plant known as the TXP-4 Plant (the TXP-4 Plant) at Opal in Lincoln County, Wyoming, in addition to certain facilities, equipment and supplies related to the TXP-4 Plant. Prior to the sale, the TXP-4 Plant was a component of the *US & Canada* segment and is retrospectively presented as discontinued operations on the Company s Form 8-K filed December 8, 2006. The Company received cash payments of $27,944 for conveyance of the LLC and realized a gain of $1,342, net of taxes of $691, reflected as a component of the Loss from discontinued operations net of provision for income taxes .

In addition to the cash payments described above, Williams agreed to pay the Company a portion of any recovery that Williams may obtain based on damages, loss or injury related to the TXP-4 Plant up to $3,400. This settlement is contingent upon Williams recovery from various third parties and is the only ongoing potential source of cash flows subsequent to the Purchase Agreement date. The timing and amount of any resolution to these claims cannot be estimated.

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WILLBROS GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(In thousands, except share and per share amounts)

2. Discontinuance of Operations and Asset Disposal (continued)

Results of Discontinued Operations

Condensed Statements of Operations of the Discontinued Operations are as follows:

	Year Ended December 31, 2006			
	Nigeria	Venezuela	Opal TXP-4	Discontinued Operations
Contract revenue	$ 447,757	$ 270	$	$ 448,027
Operating expense:				
Contract	473,479	562		474,041
Depreciation and amortization	3,569	378		3,947
General and administrative	31,620	322		31,942
	508,668	1,262		509,930
Operating loss	(60,911)	(992)		(61,903)
Other income (expense)	(11,579)	164	2,033	(9,382)
Income (loss) before income taxes	(72,490)	(828)	2,033	(71,285)
Provision for income taxes	11,283	143	691	12,117
Net income (loss)	$ (83,773)	$ (971)	$ 1,342	$ (83,402)

	Year Ended December 31, 2005			
	Nigeria	Venezuela	Opal TXP-4	Discontinued Operations
Contract revenue	$ 386,723	$ 565	$ 24,755	$ 412,043
Operating expense:				
Contract	337,234	1,492	19,758	358,484
Depreciation and amortization	8,270	590	1,038	9,898
General and administrative	32,552	528		33,080
Other operating expense	1,084			1,084
	379,140	2,610	20,796	402,546
Operating income (loss)	7,583	(2,045)	3,959	9,497
Other income (expense)	(1,408)	232		(1,176)
Income (loss) before income taxes	6,175	(1,813)	3,959	8,321
Provision (benefit) for income taxes	15,296	(2)	1,346	16,640
Net income (loss)	$ (9,121)	$ (1,811)	$ 2,613	$ (8,319)

	Year Ended December 31, 2004			
	Nigeria	Venezuela	Opal TXP-4	Discontinued Operations
Contract revenue	$ 171,558	$ 17,750	$ 21,216	$ 210,524
Operating expense:				
Contract	166,933	12,629	15,752	195,314
Depreciation and amortization	5,473	797	701	6,971
General and administrative	13,468	621		14,089
Other operating expense	3,571			3,571
	189,445	14,047	16,453	219,945
Operating income (loss)	(17,887)	3,703	4,763	(9,421)
Other income (expense)	(6,929)	330		(6,599)
Income (loss) before income taxes	(24,816)	4,033	4,763	(16,020)
Provision for income taxes	8,483	989	1,619	11,091
Net income (loss)	$ (33,299)	$ 3,044	$ 3,144	$ (27,111)

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WILLBROS GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(In thousands, except share and per share amounts)

2. Discontinuance of Operations and Asset Disposal (continued)

Nigeria Income Taxes

In Nigeria, the Company is subject to a deemed profit tax, which creates tax provisions based on gross revenue rather than pre-tax income.

Nigeria Federal Tax Audit

The Company s operations in Nigeria have been under audit by the Federal Inland Revenue Service (FIRS) for taxable years 1998 through 2004. The primary issues being investigated are related to transfer the pricing and unsubstantiated expenses. At this time, the Company estimates a possible additional tax liability in the range of $1,200 to $5,000. Based on current financial information, there is no better estimate of tax liability associated with the FIRS audit. Because there is no better estimate at this time, and because the Company does not expect to resolve this audit within one year, the Company has recorded a deferred income tax liability of $1,200.

Nigeria National Labor Contract

The previous Nigerian national labor contract, covering approximately 1,600 national laborers at the Company s Choba Site 1 facility expired in March 2006. A replacement agreement executed in May 2006 mistakenly included labor rate increases ranging between 300 percent to 350 percent which the labor union claims are binding upon the Company notwithstanding the obvious mistake in fact and other legal deficiencies in the form and substance of the replacement agreement (the May Agreement). However, based upon opinions of legal counsel in Nigeria, for a variety of reasons the Company believes the May Agreement is unenforceable in its current form and the Company and its legal counsel are pursuing measures to rectify the mistake and related deficiencies in the purported agreement, including, without limitation, through negotiation, mediation, and judicial actions provided for under the labor laws of Nigeria. During this rectification process, however, the Company has voluntarily increased the labor rate by 20 percent. An accrued liability of $5,514 has been recorded at December 31, 2006 to reflect the Company s current estimate of additional end-of-service costs attributable to reaching a mutually acceptable final form of labor agreement. Although the Company does not currently anticipate that the May Agreement will be determined to be enforceable in its current mistaken form, should rectification of that agreement be unsuccessful through the labor relations and related legal processes now underway, a substantially greater monthly labor expense would be incurred by the Company and an estimated additional $26,000 of end-of-service liability would result. Also, this rectification process now underway by the Company has incited protests and strikes from the rank and file workers covered by the May Agreement. The labor union has complained to national, local and regional politicians and the matter will be heard by the Labor Board to be resolved.

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2. Discontinuance of Operations and Asset Disposal (continued)

WILLBROS GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(In thousands, except share and per share amounts)

Balance Sheets of Discontinued Operations

Condensed Balance Sheets of the Discontinued Operations are as follows:

	December 31, 2006			
	Nigeria	Venezuela	Opal TXP-4	Discontinued Operations
Current assets:				
Cash and cash equivalents	$ 12,964	$	$	$ 12,964
Restricted cash	36,683			36,683
Accounts receivable, net	76,673			76,673
Contract cost and recognized income not yet billed	79,364			79,364
Prepaid expenses	16,017			16,017
Parts and supplies inventories	21,645			21,645
Total current assets	243,346			243,346
Property, plant and equipment, net	50,723			50,723
Other assets	123			123
Total assets	294,192			294,192
Current liabilities	148,135			148,135
Loss provision on contracts	33,957			33,957
Total current liabilities	182,092			182,092
Net assets of discontinued operations	$ 112,100	$	$	$ 112,100

	December 31, 2005			
	Nigeria	Venezuela	Opal TXP-4	Discontinued Operations
Current assets:				
Cash and cash equivalents	$ 9,514	$ 134	$	$ 9,648
Accounts receivable, net	93,667			93,667
Contract cost and recognized income not yet billed	36,392	32		36,424
Prepaid expenses	14,716	163		14,879
Parts and supplies inventories	16,818			16,818
Total current assets	171,107	329		171,436
Property, plant and equipment, net	52,200	4,354		56,554
Asset held for sale			23,049	23,049

Investments in joint ventures		3,961		3,961
Deferred tax assets		693		693
Other assets	5,256	150		5,406
Total assets	228,563	9,487	23,049	261,099
Current liabilities	142,171	498		142,669
Other liabilities		536	880	1,416
Total liabilities	142,171	1,034	880	144,085
Net assets of discontinued operations	$ 86,392	$ 8,453	$ 22,169	$ 117,014

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WILLBROS GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(In thousands, except share and per share amounts)

2. Discontinuance of Operations and Asset Disposal (continued)

Cash

Discontinued Operations in Nigeria had $36,683 of restricted cash at December 31, 2006. This amount was in a consortium bank account that requires the approval of the Company and its consortium partner to disburse funds. Additionally, cash and cash equivalents for Nigeria contained $9,482 that was designated to specific project uses.

Inventory

Discontinued Operations in Nigeria had parts and supplies inventories of $21,645 and $16,818 net of reserves of $12,159 and $5,052 at December 31, 2006 and December 31, 2005, respectively.

Loss provision on contracts

The Company has recognized $33,957 of estimated losses related to two projects in Nigeria as of December 31, 2006.

Contingencies, Commitments and Other Circumstances

At December 31, 2006, other assets and accounts receivable of the Discontinued Operations include anticipated recoveries from insurance or third parties of $1,191 primarily related to the repair of pipelines. The Company believes the recovery of these costs from insurance or other parties is probable. Actual recoveries may vary from these estimates.

At December 31, 2006, the Company had approximately $22,625 of letters of credit outstanding associated with the Discontinued Operations representing the maximum amount of future payments the Company could be required to make. See Note 13 Contingencies, Commitments and Other Circumstances for additional information on letters of credit and insurance bonds. The Company had no liability recorded as of December 31, 2006, related to these commitments.

3. Accounts Receivable

Accounts receivable, net as of December 31, 2006 and 2005 is comprised of the following:

	2006	2005
Trade	$ 109,880	$ 58,683
Contract retention	14,637	6,063
Unbilled revenue	12,598	14,766
Other receivables	587	5,007
Total accounts receivable	137,702	84,519
Less Allowance for doubtful accounts	(598)	(516)
Total accounts receivable, net	$ 137,104	$ 84,003

The Company expects all accounts receivable to be collected within one year. The provision (credit) for bad debts included in Other, net on the Consolidated Statement of Operations was $517, $586 and $(262) for the years ended December 31, 2006, 2005 and 2004, respectively.

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(In thousands, except share and per share amounts)

4. Contracts in Progress

Contract costs and recognized income not yet billed on uncompleted contracts arise when revenues have been recorded but the amounts cannot be billed under the terms of the contracts. Such amounts are recoverable from customers upon various measures of performance, including achievement of certain milestones, completion of specified units or completion of the contract. Also included in contract cost and recognized income not yet billed on uncompleted contracts are amounts the Company seeks to collect from customers for change orders approved in scope but not for price associated with that scope change (unapproved change orders). Revenue for these amounts are recorded equal to cost incurred when realization of price approval is probable and the estimated amount is equal to or greater than the Company s cost related to the unapproved change order. Unapproved change orders involve the use of estimates, and it is reasonably possible that revisions to the estimated recoverable amounts of recorded unapproved change orders may be made in the near-term. If the Company does not successfully resolve these matters, a net expense (recorded as a reduction in revenues), may be required, in addition to amounts that have been previously provided for.

Contract cost and recognized income not yet billed and related amounts billed as of December 31, 2006 and 2005 were as follows:

	2006	2005
Costs incurred on contracts in progress	$ 188,030	$ 122,935
Recognized income	12,039	6,818
	200,069	129,753
Progress billings and advance payments	(203,989)	(123,476)
	$ (3,920)	$ 6,277
Contract cost and recognized income not yet billed	$ 11,027	$ 7,619
Contract billings in excess of cost and recognized income	(14,947)	(1,342)
	$ (3,920)	$ 6,277

Contract cost and recognized income not yet billed includes $1,191 and $1,470 at December 31, 2006 and 2005, respectively, on completed contracts.

5. Property, Plant and Equipment

Property, plant and equipment, which are used to secure debt or are subject to lien, at cost, as of December 31, 2006 and 2005 were as follows:

	2006	2005
Construction equipment	$ 53,932	$ 47,773
Furniture and equipment	28,378	27,931
Land and buildings	26,047	25,018
Transportation equipment	20,874	21,612

Leasehold improvements	14,956	13,768
Marine equipment	101	190
	144,288	136,292
Less accumulated depreciation and amortization	(78,941)	(76,586)
	$ 65,347	$ 59,706

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(In thousands, except share and per share amounts)

5. Property, Plant and Equipment (continued)

Included in land and buildings is $1,446 and $0 at December 31, 2006 and 2005, respectively, for the cost of property which has been capitalized under capital leases. Additionally, included in construction equipment is $10,662 and $0 at December 31, 2006 and 2005, respectively, for the cost of new construction equipment which has been capitalized under capital leases.

6. Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities as of December 31, 2006 and 2005 were as follows:

	2006	2005
Trade accounts payable	$ 81,823	$ 49,745
Payroll and payroll liabilities	18,312	12,703
Advances	16,566	983
Minority interest	791	487
Provision for loss contracts costs	494	619
Other accrued liabilities	4,366	3,062
	$ 122,352	$ 67,599

As of December 31, 2006 the advances account included $16,532 of non-refundable payments to be applied to the sale of the Nigeria assets and operations. See Note 17 Subsequent Events, for discussion of the sale.

7. Long-term Debt

Long-term debt as of December 31, 2006 and 2005 were as follows:

	2006	2005
6.5% senior convertible notes	$ 84,500	$ 65,000
2.75% convertible senior notes	70,000	70,000
Capital lease obligations	11,601	384
Other obligations	51	2,636
2006 Credit Facility		
Total debt	166,152	138,020
Less current portion	(4,575)	(2,680)
Long-term debt	$ 161,577	$ 135,340

2006 Credit Facility

On October 27, 2006, Willbros USA, Inc., a wholly-owned subsidiary of the Company, entered into a new $100,000 three-year senior secured synthetic credit facility (the 2006 Credit Facility) with a group of lenders led by Calyon New York Branch (Calyon). The 2006 Credit Facility replaces the Company s 2004 Credit Facility. The Company may elect to increase the total capacity under the 2006 Credit Facility to $150,000, with consent from Calyon. The Company currently has a commitment from Calyon, which expires August 7, 2007 to underwrite an increase to the 2006 Credit Facility by $25,000 subject to certain terms and conditions. The

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7. Long-term Debt (continued)

Company will increase the 2006 Credit Facility only if it has requirements to issue letters of credit in excess of $100,000. The 2006 Credit Facility may be used for standby and commercial letters of credit, borrowings or a combination thereof. Borrowings, which may be made up to $25,000 less the amount of any letter of credit advances or financial letters of credit, must be repaid at least once a year and no new revolving advances made for a period of 10 consecutive business days thereafter.

Fees payable under the 2006 Credit Facility include a facility fee at a rate per annum equal to 5.0 percent of the 2006 Credit Facility capacity, payable quarterly in arrears (the facility fee will be reduced to 2.75 percent if the Company obtains a rating from S&P and Moody s greater than B and B2, respectively), and a letter of credit fee equal to 0.125 percent per annum of aggregate commitments. Interest on any borrowings is payable quarterly in arrears at the adjusted base rate minus 1.00 percent or at a Eurodollar rate at the Company s option. The 2006 Credit Facility is collateralized by substantially all of the Company s assets, including stock of the Company s principal subsidiaries. The 2006 Credit Facility contains a requirement for the maintenance of a $10,000 minimum cash balance, prohibits the payment of cash dividends and includes customary affirmative and negative covenants, such as limitations on the creation of certain new indebtedness and liens, restrictions on certain transactions and payments and maintenance of a maximum senior leverage ratio, a minimum fixed charge coverage ratio and minimum tangible net worth requirement. A default may be triggered by events such as a failure to comply with financial covenants or other covenants, a failure to make payments when due, a failure to make payments when due in respect of or a failure to perform obligations relating to debt obligations in excess of $5,000, a change of control of the Company or certain insolvency proceedings as defined by the 2006 Credit Facility. The 2006 Credit Facility is guaranteed by the Company and certain other subsidiaries. Unamortized costs associated with the creation of the 2006 Credit Facility total $1,986 and are included in other assets at December 31, 2006. These costs are being amortized to general and administrative expense over the three-year term of the credit facility ending October 2009.

As of December 31, 2006, there were no borrowings outstanding under the 2006 Credit Facility and there were $64,545 in outstanding letters of credit, consisting of $41,920 issued for projects in continuing operations and $22,625 issued for projects related to discontinued operations.

6.5% Senior Convertible Notes

On December 22, 2005, the Company entered into a purchase agreement (the Purchase Agreement) for a private placement of $65,000 aggregate principal amount of its 6.5% Senior Convertible Notes due 2012 (the 6.5% Notes). The private placement closed on December 23, 2005. During the first quarter of 2006, the initial purchasers of the 6.5% Notes exercised their options to purchase an additional $19,500 aggregate principal amount of the 6.5% Notes. Collectively, the primary offering and the purchase option of the 6.5% Notes total $84,500. The net proceeds of the offering were used to retire existing indebtedness and provide additional liquidity to support working capital needs.

The 6.5% Notes are governed by an indenture dated December 23, 2005 and were entered into by and among the Company, as issuer, Willbros USA, Inc., as guarantor (WUSAI), and The Bank of New York, as Trustee (the Indenture), and were issued under the Purchase Agreement by and among the Company and the initial purchasers of the 6.5% Notes (the Purchasers), in a transaction exempt from the registration requirements of the Securities Act of 1933, as amended (the Securities Act).

Pursuant to the Purchase Agreement, the Company and WUSAI have agreed to indemnify the Purchasers, their affiliates and agents, against certain liabilities, including liabilities under the Securities Act.

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(In thousands, except share and per share amounts)

7. Long-term Debt (continued)

The 6.5% Notes are convertible into shares of the Company s common stock at a conversion rate of 56.9606 shares of common stock per $1,000.00 principal amount of notes (representing a conversion price of approximately $17.56 per share resulting in 4,813,171 shares at December 31, 2006), subject to adjustment in certain circumstances. The 6.5% Notes are general senior unsecured obligations. Interest is to be paid semi-annually on June 15 and December 15, beginning June 15, 2006.

The 6.5% Notes mature on December 15, 2012 unless the notes are repurchased or converted earlier. The Company does not have the right to redeem the 6.5% Notes. The holders of the 6.5% Notes have the right to require the Company to purchase the 6.5% Notes for cash, including unpaid interest, on December 15, 2010. The holders of the 6.5% Notes also have the right to require the Company to purchase the 6.5% Notes for cash upon the occurrence of a fundamental change, as defined in the Indenture. In addition to the amounts described above, the Company will be required to pay a make-whole premium to the holders of the 6.5% Notes who elect to convert their notes into the Company s common stock in connection with the fundamental change. The make-whole premium is payable in addition to shares of common stock and is calculated based on a formula with the premium ranging from 0 percent to 31.4 percent depending on when the fundamental change occurs and the price of the Company s stock at the time the fundamental change occurs.

Upon conversion of the 6.5% Notes, the Company has the right to deliver, in lieu of shares of its common stock, cash or a combination of cash and shares of its common stock. Under the indenture, the Company is required to notify holders of the 6.5% Notes of its method for settling the principal amount of the 6.5% Notes upon conversion. This notification, once provided, is irrevocable and legally binding upon the Company with regard to any conversion of the 6.5% Notes. On March 21, 2006, the Company notified holders of the 6.5% Notes of its election to satisfy its conversion obligation with respect to the principal amount of any 6.5% Notes surrendered for conversion by paying the holders of such surrendered 6.5% Notes 100 percent of the principal conversion obligation in the form of common stock of the Company. Until the 6.5% Notes are surrendered for conversion, the Company will not be required to notify holders of its method for settling the excess amount of the conversion obligation relating to the amount of the conversion value above the principal amount, if any. In the event of a default of $10,000 or more on any credit agreement, including the 2004 Credit Facility and the 2.75% Notes, a corresponding event of default would result under the 6.5% Notes. Unamortized debt issuance costs of $4,103 and $698 associated with the 6.5% Notes are included in other assets at December 31, 2006 and 2005, respectively, and are being amortized over the seven-year period ending December 2012.

2.75% Convertible Senior Notes

On March 12, 2004, the Company completed a primary offering of $60,000 of 2.75% Convertible Senior Notes (the 2.75% Notes). On April 13, 2004, the initial purchasers of the 2.75% Notes exercised their option to purchase an additional $10,000 aggregate principal amount of the notes. Collectively, the primary offering and purchase option of the 2.75% Notes totaled $70,000. The 2.75% Notes are general senior unsecured obligations. Interest is paid semi-annually on March 15 and September 15 and payments began on September 15, 2004. The 2.75% Notes mature on March 15, 2024 unless the notes are repurchased, redeemed or converted earlier. The Company may redeem the 2.75% Notes for cash on or after March 15, 2011, at 100 percent of the principal amount of the notes plus accrued interest. The holders of the 2.75% Notes have the right to require the Company to purchase the 2.75% Notes, including unpaid interest, on March 15, 2011, 2014, and 2019 or upon a change of control related event. On March 15, 2011 or upon a change in control event, the Company must pay the purchase price in cash. On March 15, 2014 and 2019, the Company has the option of providing its common stock in lieu of cash or a combination of common stock and cash to fund purchases. The holders of the 2.75% Notes may, under

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(In thousands, except share and per share amounts)

7. Long-term Debt (continued)

certain circumstances, convert the notes into shares of the Company s common stock at an initial conversion ratio of 51.3611 shares of common stock per $1,000.00 principal amount of notes (representing a conversion price of approximately $19.47 per share resulting in 3,595,277 shares at December 31, 2006 subject to adjustment in certain circumstances). The notes will be convertible only upon the occurrence of certain specified events including, but not limited to, if, at certain times, the closing sale price of the Company s common stock exceeds 120 percent of the then current conversion price, or $23.36 per share, based on the initial conversion price. In the event of a default under any Company credit agreement other than the indenture covering the 2.75% Notes, (1) in which the Company fails to pay principal or interest on indebtedness with an aggregate principal balance of $10,000 or more; or (2) in which indebtedness with a principal balance of $10,000 or more is accelerated, an event of default would result under the 2.75% Notes.

On June 10, 2005, the Company received a letter from a law firm representing an investor claiming to be the owner of in excess of 25 percent of the 2.75% Notes asserting that, as a result of the Company s failure to timely file with the SEC its 2004 Form 10-K and its Quarterly Report on Form 10-Q for the quarter ended March 31, 2005, it was placing the Company on notice of an event of default under the indenture dated as of March 12, 2004 between the Company, as issuer, and JPMorgan Chase Bank, N.A., as trustee (the Indenture), which governs the 2.75% Notes. The Company indicated that it did not believe that it had failed to perform its obligations under the relevant provisions of the Indenture referenced in the letter. On August 19, 2005, the Company entered into a settlement agreement with the beneficial owner of the 2.75% Notes on behalf of whom the notice of default was sent, pursuant to which the Company agreed to use commercially reasonable efforts to solicit the requisite vote to approve an amendment to the Indenture (the Indenture Amendment). The Company obtained the requisite vote and on September 22, 2005, the Indenture Amendment became effective.

The Indenture Amendment extended the initial date on or after which the 2.75% Notes may be redeemed by the Company to March 15, 2013 from March 15, 2011. In addition, a new provision was added to the Indenture which requires the Company, in the event of a fundamental change which is a change of control event in which 10 percent or more of the consideration in the transaction consists of cash to make a coupon make-whole payment equal to the present value (discounted at the U.S. treasury rate) of the lesser of (a) two years of scheduled payments of interest on the 2.75% Notes or (b) all scheduled interest on the 2.75% Notes from the date of the transaction through March 15, 2013. Unamortized debt issue costs of $2,175 and $2,714 associated with the 2.75% Notes are included in other assets at December 31, 2006 and 2005, respectively, and are being amortized over the seven-year period ending March 2011.

2004 Credit Facility

On March 12, 2004, the existing $125,000 June 2002 credit agreement was amended, restated and increased to $150,000 (the 2004 Credit Facility). Although the 2004 Credit Facility was scheduled to mature on March 12, 2007, it was replaced in October 2006 when the Company secured the 2006 Credit Facility (see 2006 Credit Facility above). The 2004 Credit Facility could be used for standby and commercial letters of credit, borrowings or a combination thereof. Borrowings were limited to the lesser of 40 percent of the borrowing base or $30,000. Interest was payable quarterly at a base rate plus a margin ranging from 0.75 percent to 2.00 percent or on a Eurodollar rate plus a margin ranging from 1.75 percent to 3.00 percent. The 2004 Credit Facility was collateralized by substantially all of the Company s assets, including stock of the Company s principal subsidiaries, prohibited the payment of cash dividends and required the Company to maintain certain financial ratios. The borrowing base was calculated using varying percentages of cash, accounts receivable, accrued revenue, contract cost and recognized

WILLBROS GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(In thousands, except share and per share amounts)

7. Long-term Debt (continued)

income not yet billed, property, plant and equipment, and spare parts. Unamortized debt issue costs of $982 associated with the 2004 Credit Facility are included in other assets at December 31, 2005.

As of October 27, 2006 the Company terminated the 2004 Credit Facility with no borrowings outstanding and reissued the letters of credit outstanding under the 2006 Credit Facility. There were $54,928 of letters of credit outstanding as of December 31, 2005.

2004 Credit Facility Waivers

In January 2005, the Company obtained a Consent and Waiver from its syndicated bank group, covering a period through June 29, 2005, waiving certain defaults and covenants which related to the filing of tax returns, the payment of taxes when due, tax liens and legal proceedings against the Company related to a tax assessment in Bolivia. Additional Consent and Waivers were obtained from the syndicated bank group as of April 8 and June 13, 2005 with respect to these defaults and non-compliance with certain financial covenants as of June 13, 2005.

On July 19, 2005, the Company entered into a Second Amendment and Waiver Agreement (Waiver Amendment) of the 2004 Credit Facility with the bank group to obtain continuing waivers regarding its non-compliance with certain financial and non-financial covenants in the 2004 Credit Facility. Under the terms of the Waiver Amendment, the total credit availability under the 2004 Credit Facility was reduced to $100,000 as of the effective date of the Waiver Amendment. Subject to certain conditions, the bank group agreed to permanently waive all existing and probable technical defaults under the 2004 Credit Facility as long as the Company submitted year-end 2004 financial statements and interim financial statements for the quarters ended March 31 and June 30, 2005 by September 30, 2005. These conditions relate primarily to submissions of various financial statements and other financial and borrowing base related information.

The Waiver Amendment also modified certain of the ongoing financial covenants under the 2004 Credit Facility and established a requirement that the Company maintain a minimum cash balance of $15,000. Until such time as the waiver became permanent, the Company had certain additional reporting requirements, including periodic cash balance reporting. In addition, the Waiver Amendment prohibited the Company from borrowing cash under the 2004 Credit Facility until the waiver became permanent. The Company was not able to submit the referenced statements by September 30, 2005; therefore, the waiver did not become permanent.

During the period from November 23, 2005 to June 14, 2006, the Company entered into four additional amendments and waivers to the 2004 Credit Facility with its syndicated bank group to waive non-compliance with certain financial and non-financial covenants. Among other things, the amendments provided that (1) certain financial covenants and reporting obligations were waived and/or modified to reflect the Company s current and anticipated future operating performance, (2) the ultimate reduction of the facility to $70,000 for issuance of letter of credit obligations only, and (3) a requirement for the Company to maintain a minimum cash balance of $15,000.

On August 18, 2006 the Company entered into a Sixth Amendment and Temporary Waiver Agreement (the Sixth Amendment) which waived the Company s failure to comply with certain financial covenants of the 2004 Credit Facility during the fiscal quarter ended June 30, 2006 until the earlier of (i) September 30, 2006 or (ii) the occurrence of a waiver default, which is a breach by the Company of any covenant, a material breach of any representation and warranty or the occurrence of any default or event of default under the 2004 Credit Facility, other than the defaults which were temporarily waived by the Sixth Amendment. The Sixth Amendment

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7. Long-term Debt (continued)

further amended the 2004 Credit Facility to reduce the total commitment to $50,000 and provided for a letter of credit limit of $50,000 less the face amount of letters of credit issued prior to August 18, 2006, and provided that each new letter of credit must be fully cash collateralized and that a letter of credit fee of 0.25 percent be paid for each cash collateralized letter of credit. The Sixth Amendment expired on September 30, 2006, and availability under the 2004 Credit Facility was reduced to zero. On October 27, 2006, the Company entered into a new $100,000 synthetic credit facility and reissued under this facility all the then outstanding letters of credit (see 2006 Credit Facility above).

Capital Leases

Assets held under capital leases are summarized below:

	December 31, 2006	December 31, 2005
Construction equipment	$ 10,662	$
Land and buildings	1,446	
Furniture and equipment	535	535
Total assets held under capital lease	12,643	535
Less accumulated amortization	(1,572)	(312)
Net assets under capital lease	$ 11,071	$ 223

The following are the minimum lease payments for assets financed under capital lease arrangements as of December 31, 2006:

Fiscal year:	
2007	$ 5,480
2008	4,198
2009	3,466
2010	
2011	
Thereafter	
Total minimum lease payments under capital leases	13,144
Less: interest expense	(1,543)
Net minimum lease payments under capital leases	11,601
Less: current portion of net minimum lease payments	(4,524)
Long-term net minimum lease payments	$ 7,077

Other Obligations

The Company has various notes payable, generally related to equipment financing, and local revolving credit facilities. All are at market interest rates, and are collateralized by certain vehicles, equipment and/or real estate.

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7. Long-term Debt (continued)

The Company has unsecured credit facilities with banks in certain countries outside the United States. Borrowings in the form of short-term notes and overdrafts are made at competitive local interest rates. Generally, each line is available only for borrowings related to operations in a specific country. Credit available under these facilities is approximately $4,582 at December 31, 2006. There were no outstanding borrowings made under these facilities at December 31, 2006 or 2005.

8. Retirement Benefits

The Company has defined contribution plans that are funded by participating employee contributions and the Company. The Company matches employee contributions, up to a maximum of four percent of salary, in the form of cash. All contributions in the form of WGI common stock were suspended in 2005, and removed as an option on January 9, 2006. Company contributions for the plans were $1,761, $1,909, and $1,423 (including WGI common stock valued at $0, $80 and $221) in 2006, 2005 and 2004, respectively.

9. Income Taxes

The tax regimes of the countries in which the Company operates affect the consolidated income tax provision of the Company and its effective tax rate. The effective consolidated tax rate differs from the United States (U.S.) federal statutory rate as tax rates and methods of determining taxes payable are different in each country. Moreover, losses from one country generally cannot be used to offset taxable income from another country and, in some cases, certain expenses are not deductible for tax purposes. Income (loss) before income taxes and the provision (benefit) for income taxes in the consolidated statements of operations consist of:

	Year Ended December 31,		
	2006	**2005**	**2004**
Income (loss) before income taxes:			
Other countries	$ (15,468)	$ (27,977)	$ 16,100
United States	(4,259)	(816)	(10,831)
	$ (19,727)	$ (28,793)	$ 5,269

	Year Ended December 31,		
	2006	**2005**	**2004**
Provision (benefit) for income taxes:			
Current provision (benefit):			
Other countries	$ 901	$ 305	$ 564
United States:			
Federal	368	(1,214)	(3,369)
State	737	931	323
	2,006	22	(2,482)

Deferred tax expense (benefit):			
Other countries	1,644	(1,317)	2,087
United States	(1,342)	2,963	(632)
	302	1,646	(1,455)
Total provision (benefit) for income taxes	$ 2,308	$ 1,668	$ (1,027)

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(In thousands, except share and per share amounts)

9. Income Taxes (continued)

The provision for income taxes has been determined based upon the tax laws and rates in the countries in which operations are conducted and income is earned. The Company and many of its subsidiaries are Panamanian companies. Panamanian tax law is based on territorial principles and does not impose income tax on income earned outside of Panama.

The Company s principal international operations are in Oman. The Company s subsidiary in Oman is subject to a corporate income tax rate of 12 percent.

In 2004, the Company had foreign earnings which were non-taxable due to exemptions or tax holidays in certain countries. Non-taxable foreign earnings for taxable year 2004 were $5,066. The Company did not have any non-taxable foreign earnings for taxable years 2005 and 2006.

The Company s subsidiaries operating in the United States are subject to federal income tax rates up to 35 percent and varying state income tax rates and methods of computing tax liabilities. For 2006, the Company s subsidiaries operating in Canada are subject to a federal income tax rate of 22.12 percent and a provincial income tax of 10.37 percent.

A reconciliation of the differences between the provision for income tax computed at the appropriate statutory rates and the reported provision for income taxes is as follows:

	Year Ended December 31,		
	2006	**2005**	**2004**
Income tax provision at statutory rate (Panama)	$	$	$
Taxes on foreign earnings at greater than Panama rate			