WILLBROS GROUP INC
Form 10-K
June 16, 2006
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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, 2005

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 ¨   No x

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, 2005) was $308,483,044.

The number of shares of the Registrant s common stock outstanding at May 1, 2006 was 21,723,015.

Documents incorporated by reference: None

WILLBROS GROUP, INC.

FORM 10-K

YEAR ENDED DECEMBER 31, 2005

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Forward-Looking Statements

This 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 in this Form 10-K 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:

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

- **the consequences of the Company entering into a criminal plea agreement or a deferred prosecution agreement, including the imposition of civil or criminal fines, penalties, monitoring arrangements, or other sanctions that might be imposed as a result of government investigations;**

- **difficulties we may encounter in obtaining new business, retaining existing business and/or collecting receivables in Nigeria and elsewhere because of the severance of long-term relationships with consultants and other individuals;**

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

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

- **determination that the actions of former employees of the Company 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 current and former employees of the Company, 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 the Company s 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;

inclement weather;

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;

loss of the services of key management personnel;

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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 Form 10-K and in our other filings with the Securities and Exchange Commission from time to time; and

other factors, most of which are beyond our control.

Consequently, all of the forward-looking statements made in this Form 10-K 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 the current and former employees of the Company, see the Risk Factors included in this Form 10-K beginning on page 27.

Unless the context otherwise requires, all references in this Form 10-K 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

Website Access to Reports

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.

Restatement

Throughout 2005, Willbros was engaged in investigations into the misconduct of a former senior executive and some other former employees, a process that disrupted the Company s operations, reduced its productivity and added significant non-operating costs. As a result of an internal investigation, completed in 2005 and more fully described in Item 7 *Management s Discussion and Analysis of Financial Condition and Results of Operations Overview Restatement* of this Form 10-K, the Company s financial results for the years ended December 31, 2001, 2002, and 2003, and the first three quarters of 2004 were restated in the Company s annual report on Form 10-K for the year ended December 31, 2004. All financial results presented in this report for these periods reflect the restatement.

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 & Canada* (which we refer to as *International*). We provide construction, engineering 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 projects in countries where we believe our experience gives us a competitive advantage, including several developing countries.

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

- major cross country pipelines;
- offshore pipelines;
- gathering systems;
- flow stations;
- pump stations;

meter stations;

gas compressor stations;

gas processing facilities;

oil and gas production facilities;

subsea facilities;

offshore jackets and decks;

modular processing facilities;

piers;

pressure vessels;

dock facilities; and

bridges.

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Construction services are provided utilizing 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. Our equipment fleet is supported by an extensive inventory of spare parts and tools, which we strategically position and maintain throughout the world to maximize availability and minimize cost. We also own fabrication facilities in Canada, Nigeria, the United States, and Venezuela. Through our construction 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, and 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. The TXP-4 Plant was sold in January 2006 to Williams Field Services Company (See Note 18 to the Consolidated Financial Statements included in this Form 10-K).

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;
- facilities startup assistance; and
- operation of facilities.

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

- dredging;
- pipe corrosion coating;
- concrete weight coating;
- pipe double jointing;
- piling;
- pressure vessels;
- marine repair/heavy lift services;
- 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 55 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, Ecuador, Egypt, Gabon, Indonesia, Ivory Coast, Kuwait, Mexico and Pakistan.

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 73 percent of our total revenue in 2005 (64 percent in 2004 and 75 percent in 2003). In 2005, operating units of Royal Dutch/Shell Group and Exxon Mobil accounted for 32 percent and 11 percent of our total revenue, respectively.

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

Willbros Middle East, Inc.;

Willbros West Africa, Inc.;

Willbros (Nigeria) Limited;

Willbros (Offshore) Nigeria Limited;

- Constructora CAMSA, C.A.;
- The Oman Construction Company LLC; and
- Willbros Transandina, S.A.

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 Mt. West, Inc.;
- Willbros Engineers, Inc.;
- Willbros Project Services, Inc.;

Willbros Midstream Services LLC; and

Willbros Government Services, Inc.

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.

Current Market Conditions

We believe the fundamentals supporting the demand for engineering and construction services for the energy industry will continue to be strong for the next two to five years. Our operations for the three-month period ended December 31, 2005 generated better margins than the prior period (ended September 30, 2005) but margins for the year ended December 31, 2005 were lower than expected due to interruptions of work in progress in the United States by Hurricanes Katrina and Rita, low margin projects in Nigeria and unresolved change orders, which are expected to be resolved in future periods, in both Nigeria and North America. We continue to believe the outlook for our business is strong. The fundamentals supporting the demand for engineering and construction services for the oil, gas and power industries indicate that the market for our services will be strong in 2006 and 2007. Many positive developments reinforce our view. Capital spending for the exploration and production sector of the energy industry is expected to exceed $235 billion in 2006, a 15 percent increase over comparable expenditures in 2005. 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. We also believe new initiatives announced by the Mexican government to increase production and to expand pipeline infrastructure make that market attractive for our engineering and construction services after the 2006 national elections are conducted. 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. The move towards 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 has become capacity constrained and we are being more selective, accepting assignments that offer higher margins and position us for EPC assignments. We believe this heightened engineering activity is the precursor to higher levels of construction activity in North America. Our discussions with potential customers regarding pipeline and station construction projects in North America, coupled with the increase in engineering assignments, support our belief that activity in North America should increase in 2006 and 2007.

We expect demand in the *United States & Canada* market, which led the improvement in backlog in 2005, to continue to be strong and we expect the *International* market to also continue to exhibit strong demand as new energy infrastructure developments are contemplated in North and West Africa and the Middle East. The following factors have caused the short-term outlook for our business to strengthen:

Increased demand in North America for natural gas has resulted in the siting, 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.

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.

Improved 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.

In West Africa, we have major energy infrastructure projects under contract and underway and believe there are opportunities for us to perform multiple phases of follow-on work on these projects under improved contract terms and conditions.

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.

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- 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 in 2006 to increase from the 2005 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;
- Some state-controlled oil and gas companies seeking foreign investment;
- The increasing role of natural gas as a fuel for power generation and other uses in producing countries;
- The international effort to stabilize Iraq and restore Iraqi oil production;
- 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 2006 industry survey of pipeline construction suggests that planned worldwide pipeline construction expenditures will be higher in 2006 than in 2005. For 2006 only, operators plan to build more than 11,500 miles of oil and gas pipelines worldwide at a cost of $27.6 billion. For 2005 only, companies had expected to build more than 13,000 miles at a cost of more than $18 billion. For projects completed after 2006, companies plan to lay more than 50,000 miles of land and marine pipelines and spend more than $116 billion. This compares to 45,000 miles of line and $69 billion in expenditures expected in the prior year s industry survey. We expect more than $9 billion of these projects to meet our bidding criteria in 2006 and through mid-2007, and we expect to aggressively pursue these opportunities.

Partially offsetting these positive factors is the potential for political and social unrest in some countries in which we operate:

- In Nigeria, attacks on oil installations and the kidnapping of oil workers in the Niger Delta have escalated with the emergence of a group calling itself the Movement for the Emancipation of the Niger Delta (MEND). The crux of the Niger Delta conflict is the escalation of a longstanding troubled relationship between the Federal Government of Nigeria and the oil producing communities in the Niger Delta region, with the latter asserting that historically there has been inequitable sharing of Niger Delta oil revenue. Some production operations in the Western Delta area are now shut in, having had the combined effect of elevating oil prices and interrupting or delaying projects we have underway in that market. We are in negotiations with our clients in Nigeria to address these heightened security concerns and to mitigate the commercial impacts on us of these recent events in Nigeria. While our clients have demonstrated an appreciation of our problems and a willingness to work with us on this combination of security concerns and commercial issues, the outcome of those negotiations is still uncertain as is their ultimate effect on our revenue, operating results and cash flow.

Continuing unrest and security concerns in the Middle East have created greater than normal uncertainty in the global oil markets. This uncertainty continues to cause caution among oil and gas producers with respect to their planned capital expenditure programs. This caution is despite the high levels for oil and gas prices enjoyed by producers over the past two years and may also stem from skepticism as to the sustainability of current energy prices.

Policies of populist governments in some South American countries have caused foreign investment in certain sectors, including energy, to decrease.

The political situation in Bolivia and Venezuela remains uncertain and projects in both countries continue to be delayed. Because the governments of both countries continue to pursue an agenda which includes nationalization and/or renegotiation of contracts with foreign investors, Willbros views these markets as having limited opportunities in the near term.

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Business Strategy

We seek to maximize stockholder value through our business strategy. The core elements of this strategy are to:

- Concentrate on projects and prospects in areas where we can be most competitive and obtain the highest profit margins consistent with the appropriate level of contractual and geo-political risk;
- Pursue EPC contracts with vigor because they can often yield higher profit margins on the engineering and construction components of the contract than stand-alone contracts for similar services;
- Focus on performance and project execution in order to maximize the profit potential on each contract awarded;
- Place an increased focus on our commitments to safety and quality because these elements of performance measurement are increasingly important as differentiators from our competitors;
- Develop alliances with other service providers who will enhance our capabilities and competitiveness in markets throughout the world;
- Pursue asset development and operation opportunities to leverage our expertise in design and construction, and to provide a more predictable stream of revenue and cash flow;
- Endeavor to maintain a strong balance sheet, which balances business risk with financial risk, and keep operating and overhead costs commensurate with anticipated levels of revenue;
- Pursue alliances and equity investment opportunities with clients to secure long-term contracts which provide greater stability in our future revenue and cash flow streams; and
- Pursue growth through expansion and acquisitions in complementary business lines.

In pursuing this strategy, we rely on the competitive advantage gained from our experience in completing logistically complex and technically difficult projects in remote areas with difficult terrain and harsh climatic conditions, 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:

Geographic Focus. Our objective is to maintain and enhance our presence in regions where we have developed a strong base of operations, such as Africa, the Middle East and North America by capitalizing on our local experience, established contacts with local customers and suppliers, and familiarity with local working conditions. In pursuing this strategy, we seek to identify a limited number of long-term niche markets in which we can outperform the competition and establish an advantageous position. In 2001, to establish our presence in Canada, we acquired Willbros MSI Canada Inc. (formerly MSI Energy Services Inc.), a Canadian contractor active in the oil sands producing area of northern Alberta. We also seek to establish or enhance our presence in other strategically important areas.

EPC Contracts. We will continue to 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 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. We intend to capitalize on being one of the few pipeline construction companies worldwide with the ability to provide the full range of EPC services in order to capture more of this business.

Focus on Superior Project Execution. We will continue to focus on performance and project execution in order to maximize customer satisfaction and the profit potential on each contract awarded. Our work force benefits from and integrates feedback from complementary activities conducted by our engineering and construction organizations. Our global experience enables our engineering teams to incorporate best practice for any geographic region, terrain or climate. New technologies and designs introduced first in engineering studies and project management tools are leveraged to increase productivity and maximize asset utilization in capital intensive construction activities. By doing so, we improve our competitive position and we also enhance our potential for repeat business and/or add-on engineering or specialty services.

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Safety and Quality Improvements. Our Health, Safety and Environmental (HSE) program enhances our ability to meet the specific requirements of our customers through continuous improvements to all our business processes. The HSE program is a systems-based approach that follows the API 9100 guidelines. These guidelines are based on regulatory laws and best practices that include general standards, construction activities and maintenance operations in the oil services industry, and focus on management leadership in the safety process. HSE goals and objectives are an integral part of our business strategy, aimed to promote continuous improvement in safety performance through management commitment and visibility. Our HSE program includes specific training, audits, recognition and accountability, action plans, and pre-planning as proactive measures.

Strategic Alliances. We seek to establish strategic alliances with companies whose resources, skills and strategies are complementary to and are likely to enhance our business opportunities. We currently have alliances to pursue or perform work in Abu Dhabi, Algeria, Australia, Canada, China, Libya, Saudi Arabia, and the United States.

Acquisitions. We seek to identify, evaluate and acquire companies that offer growth opportunities and that complement our resources and capabilities. Consistent with this strategy, in October 2001, we acquired Willbros MSI Canada, Inc. (formerly MSI Energy Services, Inc.), a Canadian contractor active in the oil sands producing area of northern Alberta.

Asset Development and Operations. We may decide to make an equity investment in a project in order to enhance our competitive position and/or maximize project returns. In 1998, this strategy led to our Venezuelan subsidiary taking a 10 percent equity interest in a joint venture which was awarded a 16-year contract to operate, maintain and refurbish water injection facilities in Lake Maracaibo, Venezuela. Also, since 1998, we have owned and operated fueling facilities for an agency of the U.S. Government. In 2003, we entered into an agreement with a U.S. natural gas processor to design, construct and own the TXP-4 Plant near Opal, Wyoming to process gas production from nearby fields for an annual processing fee plus a share of sales of natural gas liquids extracted. The TXP-4 Plant was completed in early 2004 and is currently in commercial operation. We sold this facility in January 2006 to the Williams Field Services Company, the owner and operator of the major Opal Plant facilities.

Conservative Financial Management. We emphasize the maintenance of 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 construction and engineering businesses. 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 short term focus will be on execution of the record backlog generated in 2005, continued emphasis on maintaining a balanced portfolio of work with the objective of achieving a fifty-fifty balance between *United States & Canada* and *International,* returning general and administrative cost levels to 6-8 percent of revenue, and supporting and seeking closure on SEC, DOJ and OFAC investigations.

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.

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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.

Willbros Milestones

The following are selected milestones which we have achieved:

1915	Began pipeline work in the United States.
1939	Began international pipeline work in Venezuela.
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.

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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.
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.

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2000	Relocated the Willbros USA, Inc. administrative headquarters 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.
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.
2005	Generated record backlog of $985 million at September 30, 2005.

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Business Segments

Historically, the Company reported in one operating segment offering three integrated services: engineering, construction, and specialty. In mid-2004, the Company restructured its operating segments to include Engineering and Construction and Facilities Development and Operations. Beginning in the fourth quarter of 2004, the Company restructured its business into two operating segments, *International* and *United States & Canada*. All periods presented reflect this most recent change in segments.

The Company s segments are strategic business units that are managed separately as each segment has different operational requirements and marketing strategies. Management believes, due to the composition of current work and potential work opportunities, and the nuances of the geographic markets the Company serves, that the organization should be viewed on a geographic basis. Consequently, the businesses have been restructured and we are reporting on the basis of two operating segments: *International* and *United States & Canada*. The *International* segment consists of all construction, engineering and facilities development operations in countries other than the United States and Canada. Currently such operations are in Africa, the Middle East, and South America. The *United States & Canada* segment consists of all construction, engineering and facilities development operations in the United States and Canada. 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 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 14 to the Consolidated Financial Statements included in Item 8 of this Form 10-K for more information on our operating segments.

Services Provided

The Company provides engineering, construction, specialty services and 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.

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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.

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 19 major natural gas pipeline projects in the United States, totaling more than 7,000 miles (11,200 kilometers) of large diameter pipe for new systems and expansions of existing systems. During this same period, we were also the engineering contractor for over 80 compressor stations, including new stations and additions to existing stations for 17 clients.

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 seven 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.

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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 and offshore pipelines; to fabricate 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 offshore platforms, subsea facilities, 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.

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 use swamp pipelaying methods extensively in Nigeria, where a significant portion of our construction operations are carried out in the Niger River Delta. In addition to our primary offshore and swamp equipment such as lay barges, dredges and swamp backhoes, we have a substantial investment in support vessels, including tugboats, barges, supply boats and houseboats, which are required in order to maintain and support our capabilities in offshore and swamp pipeline construction.

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 in both the *International* and *United States & Canada* segments and are capable of fabricating such diverse deliverables as process modules, subsea templates, flare piles and tips and offshore jackets and decks. The deepwater projects being developed offshore West Africa offer significant opportunities for fabrication services and we completed initial projects in 2004 which establish Willbros as a qualified provider of these services. We are one of the few qualified companies able to offer local content and meet stringent quality requirements. Additional emphasis by the host government on local content has the effect of making our service capabilities more attractive to project developers. These developers are required by the government to demonstrate that their projects meet certain levels of local content. Also, Willbros MSI Canada Inc. (Willbros MSI) purchased 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 nearly 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.

Marine Construction. Our marine construction equipment, including conventional combination derrick/pipelay barges, pile driving barges, tugs and support vessels, service the Lake Maracaibo and near shore areas in Venezuela and offshore West Africa. In Lake Maracaibo and near shore locations, we construct and install fixed drilling and production platforms, berthing docks, jetties and mooring facilities. Offshore West Africa, the primary construction vessels we own and operate are the combination derrick/pipelay barge WB 318, the hook up/support barge WB 82, and the multi-purpose motor vessel Eros III. We also operate the shallow water pipelay barge LB 41. The WB 318 size of 300 x 90 , lift capacity of 250 tons and center slot pipelay make the vessel ideal for the West Africa offshore projects involving platform installation, removal and pipelay for up to 24-inch pipe in water depths up to 200 feet. The hook up barge WB 82, measuring 256 x 69 with quarters for 150 persons and a 100-ton crane, is well suited for the platform and facilities retrofit and maintenance projects in the area. The 3,200 horsepower M/V Eros III, measuring 150 x 36 , with quarters for 42 and a four point mooring system, is well suited for construction support, platform survey, dive support and survey projects. The LB 41, a 180 x 54 shallow water pipelay vessel, is well suited for the shallow water pipelay market for offshore West Africa.

Specialty Services

We 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:

Dredging;

Pipe Coating;

Concrete Weight Coating;

Pipe Double-Jointing;

Piling;

Pressure Vessels;

Marine Heavy Lift Services;

Transport of Dry and Liquid Cargo;

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. We received an annual processing fee and shared in the proceeds from the sales of natural gas liquids extracted. 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.

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 contract revenue for 2005, 2004 and 2003 for the *International* and *United States & Canada* operating segments are shown in the following table.

	Year Ended December 31,					
	2005		2004		2003	
	Amount	Percent	Amount	Percent	Amount	Percent
	(Dollar amounts in thousands)					
Contract Revenue						
International	$ 412,761	58.4%	$ 290,524	60.1%	$ 262,241	63.0%
United States & Canada	293,761	41.6	192,794	39.9	154,332	37.0
Total	$ 706,522	100.0%	$ 483,318	100.0%	$ 416,573	100.0%

International

Africa

Africa has been an important strategic market for us. There are large, potentially exploitable reserves of natural gas in West Africa, extending from the Ivory Coast to Angola. Depending upon the world market for natural gas and the availability of financing, the amount of potential new work could be substantial. We intend to maintain our presence in Africa and seek to increase our share of available work. Currently, we are monitoring or bidding on major work prospects in Algeria, Angola, Egypt, Gabon, Libya, Nigeria 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 resident in Africa, assisted by engineers, managers and craftsmen with extensive African experience, who are capable of providing construction expertise, fabrication services, repair and maintenance services, dredging operations, pipe coating and engineering support. Strong local relationships have enabled us to satisfy the varied needs of our clientele in this region.

We have maintained a continuous presence in Nigeria since 1962. Our activities in Nigeria are directed from a fully staffed operational base near Port Harcourt. This 150-acre site includes office and living facilities, equipment and vehicle repair shops, a marine jetty, warehouses, fabrication and lay-down areas for both the client s and our materials and spare parts. We have diversified our range of services by adding additional pipe coating expertise, drydock facilities, and, in 2004, fabrication services. The deepwater projects being developed offshore West Africa offer significant opportunities for fabrication services, and we completed deepwater projects in 2004 which establish Willbros as a qualified provider of these services. We are one of the few qualified companies able to offer local content and meet stringent quality requirements. Additional emphasis by the host government on local content has the effect of making our service capabilities more attractive to project developers. These developers are required by the government to demonstrate that their projects meet certain levels of local content. Having diverse yet complementary capabilities has often given us a competitive advantage on projects that contain several distinct work elements within a project s scope of work. For example, we believe that we are currently among only a few contractors operating in the Nigerian oil and gas sector capable, with our own resources, of executing EPC projects for pipelines and related facilities for onshore, swamp, and offshore locations.

Since our purchase of the WB 318 combination derrick/pipelay barge in 1998 and the WB 82 hook-up/support barge in 2001, we have successfully completed several offshore projects, including repair and maintenance, installation of decks and other production facilities on offshore platforms, multiple offshore pipeline construction projects, the installation of a single-point mooring, and various other services for our clients.

In Nigeria, attacks on oil installations and the kidnapping of oil workers in the Niger Delta have escalated with the emergence of a group calling itself MEND. The crux of the Niger Delta conflict is the escalation of a longstanding troubled relationship between the Federal Government of Nigeria and the oil producing communities in the Niger Delta region, with the latter asserting that historically there has been inequitable sharing of Niger Delta oil revenues. Some production operations in the Western Delta area are now shut in, having had the combined effect of elevating oil prices and interrupting or delaying projects we have underway in that market. We are in negotiations with our clients in Nigeria to address these heightened security concerns and to mitigate the commercial impacts on us of these recent events in Nigeria. While our clients have demonstrated an appreciation of our problems and a willingness to work with us on this combination of security concerns and commercial issues, the outcome of those negotiations is still uncertain, as is their ultimate effect on our revenue, operating results and cash flow.

Middle East

Hostilities in the Middle East continued during 2005 and caused the short-term outlook for projects in the region to remain 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 2006 and into 2007. In Qatar, investment in oil and gas infrastructure is expected to exceed $75 billion in the next five to seven years. We continue to monitor project opportunities throughout the Middle East and are currently investigating prospects in Abu Dhabi, Jordan, Kuwait, Oman, Qatar, Saudi Arabia and Yemen.

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 Iran, 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.

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 Venezuela and Bolivia have been disrupted by political instability. We expect gas transportation projects in Bolivia, Brazil, Chile, Peru and Venezuela to continue to evolve to meet increasing demand for gas for industrial and power usage in the rapidly growing urban areas. In Venezuela and Ecuador, crude oil transportation systems will likely need to be built and/or upgraded so that the vast crude reserves in these countries can be efficiently exported to the world market. While we are not focused on South America as a regional market, we are selectively pursuing business opportunities in South America.

The political situation in Bolivia and Venezuela remains uncertain and projects in both countries continue to be delayed. Because the governments of both countries continue to pursue an agenda which includes 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.

Venezuela is the largest oil producer in South America and conservative estimates place proven reserves at more than 77 billion barrels of oil and 146 trillion cubic feet of natural gas. The government of Venezuela, under Presidente Hugo Chavez, is moving toward more state control of energy projects. New hydrocarbon laws and the reopening and renegotiation of production services contracts and royalty agreements have added perceived political risk to investment decisions by international production companies. This has resulted in more deliberate and slower project development. We believe the large reserves and favorable location of Venezuela to the U.S. market will continue to attract investment but expect the process to be slower and more cautious.

In Venezuela, we maintain an operating facility including offices, equipment, yard and dock facilities on a 15-acre waterfront site on Lake Maracaibo. We provide services for both onshore and offshore projects. Services include pipeline construction, repair and maintenance services, fabrication and installation of concrete piles and platforms, marine-related services, engineering support and other needed services. In 1998, a joint venture in which we hold a 10 percent equity interest was awarded a 16-year contract valued at $785 million to operate, maintain and refurbish the Lake Maracaibo water injection program for PDVSA Gas. In 2002, in a joint contract with a Venezuelan company, we were awarded a project for the engineering, procurement and construction of a marine loading terminal for Petrolera Ameriven, a joint venture of ConocoPhillips, ChevronTexaco and PDVSA. This project was completed in 2004.

Mexico

We have operated in Mexico for many years, completing several projects, including the Samalayuca Gas Pipeline project from Texas into Mexico in 1998. We believe the government-owned oil company, Petroleos de Mexico (PEMEX), will spend in excess of $13.1 billion in 2006 to expand and modify production facilities both onshore and offshore Mexico. We expect this market to be attractive for our engineering and construction services after the 2006 national elections are completed.

Asia and Australia

Markets in Asia and Australia continue to be of interest due to the relative abundance of undeveloped natural gas resources and the strong growth rates in energy demand. That abundance, and environmental concerns, favor the use of natural gas for power generation and industrial and residential usage in Asia and Australia. We are selectively conducting marketing and business development activities in these markets.

United States & Canada

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 are expected to show more improvement in 2006, 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 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 Mackenzie Delta in northern Canada, western Canada, 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.

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 be invested in the next 10 years. 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. 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.

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, (Willbros RPI); Fruita, Colorado (Willbros Mt. West); and Ft. McMurray and Edmonton, Alberta (Willbros MSI) provide the majority of construction services in North America.

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.

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, 2005, backlog was $816.4 million with an estimated embedded margin of 15.5%, compared to $660.9 million with an estimated embedded margin of 21.6% at December 31, 2004. If the December 31, 2004 backlog data is reduced for the backlog associated with the TXP-4 Plant, the backlog would have been $640.2 million with an embedded margin of 19.1%. We believe the backlog figures are firm, subject only to the cancellation and modification provisions contained in various contracts. We expect that approximately $673 million or about 82%, of our existing backlog at December 31, 2005, will be recognized in revenue during 2006. 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.

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The following table shows our backlog by operating segment and geographic region as of December 31, 2005 and 2004:

	2005		2004	
	Amount	Percent	Amount	Percent
	(Dollar amounts in thousands)			
Backlog				
International				
Africa	$ 564,343	69%	$ 554,692	84%
South America	11,639	1	12,211	2
Middle East	47,196	6	2,500	<1
Subtotal *International*	623,178	76	569,403	86
United States & Canada				
United States	36,242	5	68,926	10
Canada	156,935	19	22,603	4
Subtotal *United States & Canada*	193,177	24	91,529	14
Total	$ 816,355	100%	$ 660,932	100%

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.

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 Nigeria, we compete for pipe coating work with ShawCor Ltd. (Canada), while our dredging competitors include Bos Kalis Westminster (Netherlands), Dredging International (Belgium), Bilfinger + Berger (Germany), Nigerian Dredging & Marine (Netherlands) and Ham Dredging (Netherlands). In offshore West Africa, we compete with SaiBos (Italy), Stolt Offshore (United Kingdom), Global Industries, Ltd. (United States), and Adamac Group (Nigeria). 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). In Venezuela, competitors in marine support services include Raymond de Venezuela, Petrolago, and Siemogas, all Venezuelan companies. In the Southern Cone of South America, major competitors include Techint (Argentina), Conduto (Brazil), Odebrecht (Brazil), and Contreras Hermanos (Argentina).

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;

Colt Engineering;

Fluor;

Gulf Interstate;

Jacobs Engineering;

KBR;

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- Mustang Engineering;
- Paragon Engineering;
- Snamprogetti;
- Technip;
- Trigon Sheehan; and
- Universal Ensco.

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. We completed the construction of the onshore pipeline for the Chad Development Project in Chad and Cameroon, in such a joint venture with Spie-Capag (Jersey) Ltd. in 2003.

Contract Provisions and Subcontracting

Most of our revenue is derived from engineering and construction contracts. We enter into four basic types of construction and specialty service contracts:

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

We generally enter into three types of engineering contracts:

- firm fixed-price or lump sum fixed-price contracts;

- time and materials contracts pursuant to which engineering services are provided under an agreed schedule of hourly rates for different categories of personnel, and materials and other direct costs are reimbursable; and

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

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, many 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.

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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 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, 2005, we employed directly a multi-national work force of approximately 4,870 persons, of which approximately 79 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 4,066 over the past five years. The minimum employment during that period has been 2,194 and the maximum was 4,870. At December 31, 2005, approximately 39 percent of our employees were covered by collective bargaining agreements. We believe our relations with our employees are satisfactory.

The following table sets forth the location of employees by work countries as of December 31, 2005:

	Number of Employees	Percent
Nigeria	2,351	48%
U.S. Construction	952	20
Oman	811	17
Canada	293	6
U.S. Engineering	265	5
U.S. Administration	180	4
Other	18	
Total	4,870	100%

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Equipment

We own, lease, and maintain a fleet of generally standardized construction, transportation and support equipment. In 2005 and 2004, expenditures for capital equipment were $38.9 million and $38.5 million, respectively. At December 31, 2005, the net book value of our property, plant, equipment was $116.3 million.

Historically, we have elected to own rather than lease 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 may from time to time pursue the leasing of equipment to support projects. In recent years, the leasing market for heavy construction equipment in international locales has become much more competitive. As a result, we have recently made more significant use of leasing to support our project equipment requirements. We continue to evaluate expected equipment utilization, given anticipated market conditions, and may 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; Fruita, Colorado; Ft. McMurray, Alberta, Canada; Houston, Texas; Maracaibo, Venezuela; and Port Harcourt, Nigeria, as well as temporary site facilities on major jobs to minimize downtime.

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 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 a 10,000 square foot fabrication shop on three acres of land in Ft. McMurray, Alberta, and another 10,000 square foot facility in Edmonton, Alberta, Canada. In 2005, we purchased an additional 90,000 square foot fabrication facility in the Edmonton area. In Venezuela, our offices and construction facilities are located on 15 acres of land, which we own, on the shores of Lake Maracaibo. We own an office/shop/warehouse facility in Gillette, Wyoming, which consists of a 50 foot by 150 foot building on a 4.5-acre site. We lease all other facilities used in our operations, including corporate offices in Panama; administrative, procurement and engineering offices in Houston, Texas; Fruita, Colorado; Salt Lake City (Murray), Utah and various office facilities, equipment sites and expatriate housing units in the United States, Bolivia, Canada, England, Nigeria, Oman, and Venezuela. Rent expense for these facilities was $2.3 million in 2005 and $1.8 million in 2004.

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.

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.

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 is commencing 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. There can be no assurance that the severance of long term relationships with influential consultants and other individuals will not adversely impact the Company s ability to retain business it currently has, its ability to collect receivables currently outstanding or its ability to collect receivables from new business, particularly in Nigeria.

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 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. In some cases, the Company may still be acquiring goods or services from entities in which Mr. Tillery has an interest because suitable alternatives have not yet been found or legal constraints prevent the immediate termination of those relationships. However, the Company has discontinued all payments to all such entities that it believes might constitute a violation of law. 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. See Note 17 of our Notes to Consolidated Financial Statements included in Item 8 of this Form 10-K for additional information regarding related party transactions.

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. In addition, certain of the actions already taken by Mr. Tillery and others may continue to impose serious obstacles to implementation of the enhanced compliance controls procedures we are now striving to implement, particularly in Nigeria. Some individuals who received the improper payments may threaten the personal safety of our employees and may seek to bar us from continuing to win or carry out business with entities that are subject to their influence. In addition, those individuals may seek to cause such entities to stop or delay payments that are due us.

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

Our international business operations 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.

Investors are seeking to recover damages from us because of the actions of Mr. Tillery and others.

Several lawsuits have been brought against the Company and certain of our current and former officers and directors, asserting violations of federal securities laws. We cannot predict the outcome of these lawsuits. While the Company maintains insurance that may cover the defense of those lawsuits and damages or other monetary remedies assessed against us or our current and former officers and directors, such insurance may not cover all claims or may not be adequate to cover all costs, damages and assessments. Substantial, uninsured damages or other monetary remedies assessed against us could have a material adverse effect on our business, results of operations, financial condition and cash flows. See Item 3 *Legal Proceedings* of this Form 10-K for a discussion of the various lawsuits.

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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 obtain a new credit facility to replace the 2004 Credit Facility, our ability to operate may be significantly restricted.

Our ability to obtain new contracts and retain existing contracts, primarily for our International operating segment, is in part dependent on our access to a credit facility under which we can issue letters of credit. Our inability to issue letters of credit could negatively affect our ability to take on new work or bid additional work where letters of credit are required by our customers. We have begun discussions to obtain a new credit facility to replace the 2004 Credit Facility that expires in March 2007. However, we cannot provide assurance that we will be successful in obtaining a new credit facility. Should we fail to obtain a new credit facility, our ability to operate may be significantly restricted.

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

We are currently negotiating with major surety bonding companies to obtain new surety bonding facilities. An inability to obtain surety bonds could negatively affect our opportunities to take on new work or bid additional work where performance surety bonds are required by our customers, in the event other forms of performance guarantees such as letters of credit or parent guarantees are deemed insufficient or unacceptable. Should we fail to obtain new surety bonding facilities, our ability to generate significant new work may be restricted.

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

We have substantial operations and/or assets in Africa (Nigeria and Offshore West Africa), the Middle East (Oman) and South America (Venezuela). Approximately 58 percent of our contract revenue for 2005 was derived from activities outside of North America, and approximately 57 percent of our long-lived assets as of December 31, 2005 were located outside of North America. For a list of revenue and assets by country, see Note 14 of our Notes to Consolidated Financial Statements included in Item 8 of this Form 10-K.

Each of these locations is presently a unique commercial and political environment for our business. A disruption of activities, or loss of use of the equipment or installations, at any of these locations could have a material adverse effect on our financial condition and results of operations. In particular, Nigeria and West Africa have represented and are expected to continue to represent a significant percentage of our assets, backlog and revenue. These areas have experienced periods of extreme political instability in recent years. 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:

- 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;
- civil uprisings, riots and war, which can make it impractical to continue operations, adversely affect both budgets and schedules and expose us to 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 loss of business which could have 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 currently have, and expect that we will continue 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 our operations. At December 31, 2005, our property, plant, equipment and spare parts were located in Nigeria, the United States, Canada, Offshore West Africa, South America and the Middle East and 69 percent of our backlog was located in Nigeria and Offshore West Africa. Our operations and assets are subject to various risks inherent in conducting business in these countries and regions.

For example, in Nigeria, a spate of attacks on oil installations and the kidnapping of oil workers in the Niger Delta have escalated with the emergence of a group calling itself MEND. The crux of the Niger Delta conflict is the escalation of a longstanding troubled relationship between the Federal Government of Nigeria and the oil producing communities in the Niger Delta region, with the latter asserting that historically there has been inequitable sharing of Niger Delta oil revenues. Some production operations in the Western Delta area are now shut in, having had the combined effect of elevating oil prices and interrupting or delaying projects we have underway in that market. We are in negotiations with our clients in Nigeria to address these heightened security concerns and to mitigate the commercial impacts on us of these recent events in Nigeria. While our clients have demonstrated an appreciation of our problems and a willingness to work with us on this combination of security concerns and commercial issues, the outcome of those negotiations is still uncertain as is their ultimate effect on our revenue, operating results and cash flow. However, to date these events have had a negative impact on our revenue, operating results and cash flow, and it is likely this negative impact will continue in the near term.

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 73 percent of our revenue in 2005 (64 percent in 2004 and 75 percent in 2003). Operating units of Royal Dutch Shell Group and Exxon Mobil accounted for 32 percent and 11 percent, respectively, of our total revenue in 2005.

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 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 and 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. For example, in Nigeria, the Ministry of Transport is charged with enforcement of the Cabotage Act, a relatively new piece of legislation, still without implementing regulations, that requires local ownership and operation of certain marine vessels operating in Nigerian waters, subject to phased-in application procedures and discretionary waivers under certain circumstances. 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 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.

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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 to 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.

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.

The Stockholder Rights Plan 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.

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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

- 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.

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 on page 27 of this Form 10-K.

The DOJ is currently conducting an investigation concerning possible violations of the FCPA and other applicable U.S. laws.

The SEC is currently conducting 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 Items 1 and 2 of this 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 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 seek 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 alleges 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 relate 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 seeks unspecified monetary damages and other relief. WGI filed a motion to dismiss the complaint on March 9, 2006, and briefing on that motion was completed on June 14, 2006. The Court has not indicated whether it will hear oral argument on the motion and/or when it will decide the motion. While the outcome of such lawsuits cannot be predicted with certainty, the Company believes that it has meritorious defenses and is defending itself vigorously.

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 2005 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 Purchaser 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 in the New York Stock Exchange composite transactions, for the periods indicated:

	High	Low
2004:		
First Quarter	$ 16.08	$ 11.80
Second Quarter	15.70	13.05
Third Quarter	15.38	12.72
Fourth Quarter	23.60	13.87
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

Substantially all of our stockholders maintain their shares in street name accounts and are not, individually, stockholders of record. As of May 19, 2006, our common stock was held by 81 holders of record and an estimated 2,253 beneficial owners.

In order to fund the development and growth of our business, we intend to retain our earnings rather than pay dividends in the foreseeable future. Since 1991, we have not paid any dividends, except dividends in 1996 on our outstanding shares of preferred stock, which were converted into shares of common stock on July 15, 1996. Subject to restrictions under credit arrangements, the payment of any future dividends will be at the discretion of our Board of Directors and will depend upon, among other things, our financial condition, cash flow from operations, the level of our capital expenditures and our future business prospects. Our present credit agreement prohibits us from paying cash dividends on our common stock.

On October 12, 2005, an aggregate of 13,750 shares of our common stock were issued to a former employee in connection with the exercise of stock options at an average exercise price of $5.35 per share. The issuance of such shares was exempt from registration under Section 4(2) of Securities Act of 1933, as amended (the Securities Act). The former employee was an accredited investor (as defined under Rule 506 of Regulation D under the Securities Act).

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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,				
	2005	2004	2003	2002(1)	2001(2)
Statement of Operations Data:					
Contract revenue	$ 706,522	$ 483,318	$ 416,573	$ 582,829	$ 389,761
Operating expense (income):					
Contract cost	624,556	417,671	374,442	494,318	325,265
Termination of benefit plans					(9,204)
Depreciation and amortization	21,586	16,747	15,570	16,627	13,389
General and administrative	75,430	46,614	36,300	34,046	29,975
Other operating costs	1,084	3,571	2,314	3,076	1,510
Operating income (loss)	(16,134)	(1,285)	(12,053)	34,762	28,826
Net interest income (expense)	(3,856)	(2,534)	(721)	(1,185)	(2,588)
Other income (expense)	(482)	(6,932)	(1,444)	(1,786)	(711)
Income (loss) before income taxes	(20,472)	(10,751)	(14,218)	31,791	25,527
Provision (benefit) for income taxes	18,308	10,064	(3,301)	6,885	10,362
Net income (loss)	$ (38,780)	$ (20,815)	$ (10,917)	$ 24,906	$ 15,165
Net income (loss) per share:					
Basic	$ (1.82)	$ (0.99)	$ (.53)	$ 1.36	$ 1.05
Diluted	(1.82)	$ (0.99)	(.53)	1.33	1.01
Cash Flow Data:					
Cash provided by (used in):					
Operating activities	$ (33,022)	$ 40,969	$ (14,324)	$ 21,014	$ 17,867
Investing activities	(36,964)	(36,751)	(32,589)	(23,998)	(29,251)
Financing activities	56,830	54,362	17,794	33,100	18,373
Effect of exchange rate changes	17	(829)	631	52	362
Other Data:					
EBITDA (3)	$ 4,970	$ 8,530	$ 2,073	$ 49,603	$ 41,504
Capital expenditures, excluding acquisitions	$ 38,888	$ 38,479	$ 33,984	$ 22,601	$ 22,003
Backlog (at period end) (4)	$ 816,355	$ 660,932	$ 223,531	$ 216,988	$ 407,683
Number of employees (at period end) (5)	4,870	3,766	3,282	4,620	3,790
Balance Sheet Data (at period end):					
Cash and cash equivalents	$ 65,581	$ 78,720	$ 20,969	$ 49,457	$ 19,289
Working capital	116,713	108,643	83,728	92,640	51,830
Total assets	498,981	417,110	304,694	295,035	224,905
Total liabilities	353,747	237,066	110,167	92,418	128,678
Total debt	138,020	73,495	18,322	1,171	39,284
Stockholders equity	145,234	180,044	194,527	202,617	96,227

(1) 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.

(2) We acquired MSI Energy Services Inc., a general contractor in Alberta, Canada, on October 12, 2001. Accordingly, its results of operations since that date are consolidated with our results of operations.

(3) EBITDA represents earnings before net interest, income taxes, depreciation and amortization. EBITDA is not intended to represent cash flows for the respective period, nor has it been presented as an alternative to operating income 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 is included in this Form 10-K because it is one of the measures through which we assess our financial performance. EBITDA as presented may not be comparable to other similarly titled measures used by other companies. A reconciliation of EBITDA to GAAP financial information is provided in the table below.

	Year Ended December 31,				
	2005	**2004**	**2003**	**2002**	**2001**
Reconciliation of non-GAAP financial measure:					
Net income (loss)	$ (38,780)	$ (20,815)	$ (10,917)	$ 24,906	$ 15,165
Interest, net	3,856	2,534	721	1,185	2,588
Provision (benefit) for income taxes	18,308	10,064	(3,301)	6,885	10,362
Depreciation and amortization	21,586	16,747	15,570	16,627	13,389
EBITDA	$ 4,970	$ 8,530	$ 2,073	$ 49,603	$ 41,504

(4) Backlog is anticipated contract revenue from uncompleted portions of existing contracts and contracts whose award is reasonably assured.

(5) Includes employees of joint ventures in 2002 and 2001.

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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 noted otherwise)

The following discussion should be read in conjunction with the consolidated financial statements for the years ended December 31, 2005, 2004 and 2003, included in Item 8 of this Form 10-K.

OVERVIEW

Restatement

In late December of 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 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 former President of WII. The investigation also determined that Mr. Tillery, in collusion with several members of the management of the international subsidiaries, was involved in a pattern of improper activities, primarily in the Company s Nigerian subsidiaries, which was specifically contrary to established Company policies, internal controls and possibly the laws of several countries, including the United States. These improper activities significantly impacted the Company s previously issued consolidated financial statements, resulting in the restatement of such consolidated financial statements as December 31, 2003 and for the years ended December 31, 2003 and 2002 and for the first, second and third fiscal quarters of 2004 and 2003. These restated financial statements were included in the Company s consolidated financial statements filed with the annual report on Form 10-K for 2004.

Financial statement adjustments resulting from the misconduct of certain members of the international subsidiaries management had a negative impact on the Company s consolidated cumulative earnings (loss) through December 31, 2003 of approximately ($13,307). The impact on the Company s consolidated cumulative earnings (loss) through December 31, 2003 for other accounting errors noted above decreased earnings by approximately ($5). The total impact on the Company s consolidated cumulative earnings (loss) of all financial statement adjustments through December 31, 2003 was approximately ($13,312). The total impact on the Company s consolidated earnings (loss) for the first three fiscal quarters of 2004 was approximately ($6,077), with the impact attributable to misconduct in the international operations being approximately ($6,629) of the total.

2005 General

We derive our revenue from providing engineering, construction, specialty services and development activities to the oil, gas and power industries and government entities worldwide. In 2005, our revenue was primarily generated from operations in Canada, Nigeria, Oman, and the United States. We obtain contracts for our work primarily by competitive bidding or through negotiations with long-standing or prospective clients. Our contracts have durations from a few weeks to several months or in some cases more than a year.

We continue to believe the fundamentals supporting the demand for engineering and construction services for the oil, gas and power industries indicate that the market for our services will be strong for the next two to five years. Many positive developments reinforce our view. Capital spending for the exploration and production sector of the energy industry is expected to exceed $235 billion in 2006, a 15 percent increase over comparable expenditures in 2005. 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. We also believe new initiatives announced by the Mexican government to increase production and to expand pipeline infrastructure make that market attractive for our engineering and construction services after the 2006 national elections are completed. In the United States,

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new gas production in the Rocky Mountain region has generated new plans for gas pipelines to the West, Midwest and East Coast. The move towards 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 has become capacity constrained, and we are being more selective, accepting assignments that offer higher margins and position us for EPC assignments. We believe this heightened engineering activity is the precursor to higher levels of construction activity in North America. Our discussions with potential customers regarding pipeline and station construction projects in North America, coupled with the increase in engineering assignments, support our belief that activity in North America should increase in 2006 and 2007.

In Nigeria, attacks on oil installations and the kidnapping of oil workers in the Niger Delta have escalated with the emergence of a group calling itself MEND. The crux of the Niger Delta conflict is the escalation of a longstanding troubled relationship between the Federal Government of Nigeria and the oil producing communities in the Niger Delta region, with the latter asserting that historically there has been inequitable sharing of Niger Delta oil revenues. Some production operations in the Western Delta area are now shut in, having had the combined effect of elevating oil prices and interrupting or delaying projects we have underway in that market. We are in negotiations with our clients in Nigeria to address these heightened security concerns and to mitigate the commercial impacts on us of these recent events in Nigeria. While our clients have demonstrated an appreciation of our problems and a willingness to work with us on this combination of security concerns and commercial issues, the outcome of those negotiations is still uncertain, as is their ultimate effect on our revenue, operating results and cash flow. However, to date these events have had a negative impact on our revenue, operating results and cash flow, and it is likely this negative impact will continue in the near term.

Given the risk profiles in some of our major markets, such as Latin America and West Africa, combined with the expanding opportunities in many of our other markets and the increased capital requirements the Company believes will be required to participate in the major expansion of the U.S. and international pipeline grid, the Company continues to engage investment bankers to assist in the evaluation of the Company s strategic alternatives. These alternatives could include equity or debt financings as well as transactions that could result in strategic acquisition(s) and/or the sale of all or a portion of the Company.

Financial Summary

For the year ended December 31, 2005, we had a net loss of $(38,780) or $(1.82) per share on revenue of $706,522. This compares to revenue of $483,318 in 2004 with net loss of $(20,815) or $(0.99) per share.

Our 2005 revenue was up 46.2 percent from 2004, primarily driven by improving market conditions in both the *International* and *United States & Canada* business segments. (See Note 14 of the Notes to Consolidated Financial Statements included in Item 8 of this Form 10-K for additional information regarding segment reporting). The increase in revenue is attributable to the following:

- Increased construction activity in Nigeria on four large EPC contracts with major oil companies partially offset by work completed in 2004 in Iraq, Venezuela, Oman, Bolivia and Ecuador;
- Commencement 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.

Contract income for 2005 increased $16,319 to $81,966 from $65,647 in 2004; however, contract margin decreased to 11.6 percent in 2005 from 13.6 percent in 2004. Contract income increased due primarily to increased revenue as discussed above. Our operations for 2005 generated lower contract margin than expected due to unresolved change orders which are expected to be resolved in future periods, low margin projects in Nigeria, start-up costs and cost overruns in Canada and interruptions of work in progress in the United States by Hurricanes Katrina and Rita. These lower contract margins were partially offset by higher contract margins on certain engineering and pipeline construction projects in the United States.

General and Administrative (G&A) expense increased $28,816 to $75,430 in 2005 from $46,614 in 2004. The increase in G&A included increases in external legal and accounting costs related primarily to the ongoing support for the class action lawsuits, the DOJ and SEC investigations, and the audit of the 2004 financial statements including the restatement of the first three quarters of 2004 and prior years. G&A

expense was also higher in Nigeria and Canada due to increased activity in those markets.

The provision for income taxes for 2005 of $18,308 was primarily the result of:

Income tax benefit on foreign losses of $1,469;

Income tax expense on foreign deemed income of $15,297; and

Income tax expense on income in the United States of $4,480.

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In 2005, our cash and cash equivalents decreased $13,139 to $65,581 from $78,720, and our long-term debt increased to $138,020 in 2005 from $73,495 in 2004. These changes were primarily due to the following:

- Proceeds from issuance of $65,000 of 6.5% Senior Convertible Notes due 2012;
- $33,022 of cash used by operating activities primarily attributable to low contract margin and increased G&A expense; and
- Investment of $38,888 in capital assets associated with the expansion of our operations and fabrication facilities in Nigeria and Canada, expansion of our housing and office facilities in Nigeria and the normal replacement of our equipment.

In December 2005, we issued $65,000 of 6.5% Senior Convertible Notes (the 6.5% Notes) in a private placement. During the first quarter of 2006, the initial purchasers of the 6.5% Notes exercised their option to purchase an additional $19,500 of the 6.5% Notes bringing the aggregate principal amount of the private placement to $84,500. 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 2004 and through the period ended June 14, 2006, the Company entered into various amendments and waivers of the 2004 Credit Facility with the syndicated bank group regarding its non-compliance with certain financial and non-financial covenants in the 2004 Credit Facility. 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. (See the related discussion in this Item 7 under Liquidity and Capital Resources).

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Revenue Recognition; Percentage-of-Completion Method

A number of factors relating to our business affect the recognition of contract revenue. Revenue from fixed-price construction and engineering 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, and 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. We do 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. 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 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. Revenue from unit-price and time and material contracts is recognized as earned. Revenue from operations of the Opal Gas Plant is recognized upon delivery of product to the customer. We believe that our 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.

All U.S. government contracts and many of our other contracts provide for termination of the contract for the convenience of the client. In the event a contract would be terminated at the convenience of the client prior to completion, we will typically be compensated for progress up to the time of termination and any termination costs. Many contracts are subject to certain completion schedule requirements which require us to pay liquidated damages in the event schedules are not met as the result of circumstances that are within our control. In addition, some contracts provide for bonus payments to us for early completion of the project and/or attainment of specified safety goals.

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Income Taxes

The determination of our tax provision is complex due to our operations in several tax jurisdictions outside the United States, which may be subject to certain risks which ordinarily would not be expected in the United States. Tax regimes in certain jurisdictions are subject to significant changes which may be applied on a retroactive basis. If this were to occur, our tax expense could be materially different than the amounts reported. Furthermore, in determining the valuation allowance related to deferred tax assets, we estimate taxable income into the future and determine the magnitude of deferred tax assets which are more likely than not to be realized. Future taxable income could be materially different than amounts estimated, in which case the valuation allowance would need to be adjusted.

Joint Venture Accounting

From time to time, 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. We have investments, ranging from 10 percent to 50 percent, in joint ventures that operate in similar lines of business as ours. Investments consist of a 10 percent interest in a consortium for work in Venezuela, and a 50 percent interest in a joint venture for work in Africa in 2003. Interests in these unconsolidated ventures are accounted for under the equity method in the consolidated balance sheets and on a proportionate consolidation basis in the consolidated statements of operations. This presentation is consistent with construction industry practice. Alternatively, if we were to account for these interests using the equity method in the consolidated statement of operations, revenue and contract cost would be materially lower; however, net income would not change.

SIGNIFICANT BUSINESS DEVELOPMENTS

On February 18, 2006, the Willbros 318 combination derrick/lay barge, working in the Forcados River in Nigeria, was attacked by militants allegedly affiliated with a group calling itself MEND. Nine personnel were taken hostage. As a result of the heightened security risk in the Niger Delta, three projects in the area were interrupted and security protocols for all the Company s work in Nigeria were reviewed and are being adjusted to meet this escalating threat. On March 1, 2006, six hostages were released unharmed and repatriated to their home countries. On March 27, the remaining three hostages were released unharmed and were likewise repatriated to their home countries. Negotiations for release of these hostages were, in large measure, the result of an extensive dialogue between Nigerian federal and state government representatives and representatives of MEND. Willbros paid no ransom for release of the hostages.

The Willbros 318 remains anchored in the Forcados River. The Company has had to cease work on certain projects in Niger Delta region of Nigeria as a result of the militant activities in the area. Other projects outside of the Niger Delta have also been negatively impacted by these militant activities. We are currently in discussions with our clients in Nigeria to address the changed working environment from both a security and commercial perspective. These discussions are still ongoing. Accordingly, we cannot estimate at this time the effect these escalating hostilities will have on our current or future project activities in Nigeria.

During 2005, the Company was awarded multiple projects valued at $861,945. Significant project awards announced during the year by the Company were as follows:

Willbros West Africa, Inc. was awarded an engineering, procurement and construction (EPC) contract to design, fabricate, install and provide other additional services necessary to furnish a new pipeline system for Chevron Nigeria Limited in the Escravos producing area of Nigeria. The scope of the project includes installation of 24-inch infield and export pipelines, a 20-inch infield pipeline, a 10-inch infield line, and a power cable. The pipelines will interconnect platforms and the Escravos Gas Plant. The 24-inch export pipeline includes the installation of a pipeline end manifold and a catenary anchor leg export mooring (CALM). Engineering and procurement activities have begun, and the project is expected to move to the field in late 2005. Completion is scheduled for the first quarter of 2007. In West Africa, Willbros units were also awarded new module fabrication work in support of an offshore deep water project and additional plant work on Bonny Island. These projects achieved completion in early 2006. Willbros was also awarded an offshore project comprising fabrication, installation and hook-up work. This project began in the fourth quarter of 2005, with completion scheduled for second quarter 2007.

Willbros Mt. West, with offices in Fruita, Colorado, was awarded an EPC contract by Cheyenne Plains Gas Pipeline Co. for its Sand Dune Amine Gas Processing Plant located in Kiowa County, Kansas. The plant is designed to process 110 mmscfd of natural gas to be carried on the Cheyenne Plains Gas Pipeline and was completed in the fourth quarter 2005. Willbros Mt. West was also awarded a contract by Kinder Morgan for works associated with its East Line Expansion project. The contract for construction services encompasses all civil, electrical and mechanical works supporting the installation of nine tanks, 50,000 bbl to 80,000 bbl each, and ancillary equipment for a grassroots breakout tank farm near El Paso, Texas; additions and improvements at two existing terminals near Phoenix and Tucson, Arizona; additional capacity at one existing pump station and demolition at two others located in Texas, New Mexico and Arizona. The project is scheduled for completion in 2006. Additionally, Willbros Mt. West was awarded a contract in the Rocky Mountain region by Encana Gas Gathering for the Middle Fork Compressor Station, a field booster station to include three field boosters, liquid collection facilities and ancillary equipment. This project was completed in late 2005.

Willbros RPI, Inc. (Willbros RPI), Houston, Texas, was awarded a contract by Enterprise Products for the construction of 22 miles of liquids pipeline from the BP refinery in Texas City, Texas to an interconnection near Friendswood, Texas with an existing Enterprise pipeline, which will transport the natural gas liquids to Mont Belvieu for further fractionation. The project commenced in May and was completed in August 2005. Energy Transfer awarded Willbros RPI a contract for construction of a grass roots compressor station in Texas.

Willbros MSI Canada Inc. (Willbros Canada) was awarded a follow-on five-year maintenance contract for the removal and replacement of slurry pipelines for the bitumen operations at the Mildred Lake and Aurora Projects by Syncrude Canada Ltd. The contract will run through June 2009. Willbros Canada was also awarded a four-year contract by Canadian Natural Resources Limited (CNRL) to provide procurement and construction services for pipelines and facilities associated with CNRL s Horizon Oil Sands Project. The contract calls for services to be provided from June 2005 through June 2009. Willbros Canada was also awarded a site services contract for piping and utilities installation at this project.

Willbros Government Services, Inc. was awarded a contract by the Defense Energy Support Center (DESC) to design, build, own, and operate an automated fuel dispensing facility at Fort Campbell, Kentucky. The five-year contract contains options for three additional five-year periods. The facility will provide petroleum products and services to government vehicles. This award is Willbros fifth such contract.

During the first quarter of 2006, the Company was awarded multiple significant projects valued in excess of $175,000 as follows:

Willbros Canada was awarded a contract for the fabrication of process modules by CNRL. The modules will be fabricated in Edmonton, Alberta at Willbros Canada s new 90,000 square foot fabrication facility, which was readied for service during 2005. The contract will run through the third quarter of 2006 and anticipates the follow-on services to erect, install and commission the modules at CNRL s Horizon Oil Sands Project.

Willbros RPI was awarded a project for the installation of 22 miles of 42-inch natural gas pipeline in Texas for Energy Transfer Corporation. Willbros RPI was also awarded a contract for the installation of 74 miles of 24-inch products pipeline in the Southeastern United States and the relocation of two natural gas processing plants in North Texas and Oklahoma.

Willbros Engineers, Inc. (WEI), Tulsa, Oklahoma was awarded several significant engineering contracts for confidential projects.

The Oman Construction Company (TOCO), Muscat, Oman, was awarded an engineering, procurement and construction project for the design and installation of a 104 kilometer, 18-inch natural gas condensate pipeline and an 80 kilometer, 36-inch natural gas pipeline in the Kauther area of Oman. The project is in its initial stage with completion anticipated in the third quarter of 2007.

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In West Africa, Willbros units were awarded a new assignment for installation of pipeline and plant facilities on Bonny Island for Total, a subsidiary of Elf Petroleum Nigeria, Limited. The project is expected to be completed in the second quarter of 2006.

In January 2006, Willbros sold the TXP-4 Plant at a complex in Opal, Wyoming to a unit of The Williams Companies. Designed, constructed and owned by Willbros under an agreement with Williams, the TXP-4 Plant was an innovative solution, developed and completed within a short timeframe, to respond to the need for additional gas processing capacity to handle growing natural gas production volumes whereby Williams operated the facility and both companies participated in the revenue stream generated by the unit. While commercially successful, the Company did not consider the plant a core asset and the proceeds from the sale were redeployed in core business opportunities. The Company received cash payments of approximately $32.5 million for the sale of the processing train and other matters associated with related 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, 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, 2005, backlog was $816,355 with an estimated embedded margin of 15.5%, compared to $660,932 with an estimated embedded margin of 21.6% at December 31, 2004. If the December 31, 2004 backlog data is reduced for the backlog associated with the TXP-4 Plant, the backlog would have been $640,245 with an embedded margin of 19.1%. We believe the backlog figures are firm, subject only to the cancellation and modification provisions contained in various contracts. We expect that approximately $673,000, or about 82%, of our existing backlog at December 31, 2005, will be recognized in revenue during 2006. 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, 2005 and 2004:

	2005		2004	
	Amount	Percent	Amount	Percent
	(Dollar amounts in thousands)			
Backlog				
International				
Africa	$ 564,343	69%	$ 554,692	84%
South America	11,639	1	12,211	2
Middle East	47,196	6	2,500	<1
Subtotal *International*	623,178	76	569,403	86
United States & Canada				
United States	36,242	5	68,926	10
Canada	156,935	19	22,603	4
Subtotal *United States & Canada*	193,177	24	91,529	14
Total	$ 816,355	100%	$ 660,932	100%

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EBITDA

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 for 2005 was $4,970 as compared to $8,530 in 2004. The $3,560 decrease in EBITDA is primarily the result of:

- Increased G&A expense of $28,816 in 2005 over 2004, offset by
- Increased contract income of $16,319 due to the increase in revenue in 2005 over 2004, and
- Improved other income (expense) of $6,450 due to a reduction in bad debts expense.

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

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 variations by country from year-to-year are the result of entering and exiting work countries; the execution of new contract awards; the completion of contracts; and the overall level of activity related to our services.

FISCAL YEAR ENDED DECEMBER 31, 2005

COMPARED TO FISCAL YEAR ENDED DECEMBER 31, 2004

Contract Revenue

Contract revenue increased $223,204 (46.2%) to $706,522 in 2005 from $483,318 in 2004.

	Contract Revenue - Year Ended December 31,			**Percent**
	2005	**2004**	**Increase**	**Change**
International	$ 412,761	$ 290,524	$ 122,237	42.1%
United States & Canada	293,761	192,794	100,967	52.4%
Total Contract Revenue	$ 706,522	$ 483,318	$ 223,204	46.2%

International revenue increased by $122,237, or 42.1 percent, primarily as a result of increased construction activity in Nigeria on four large EPC contracts. Increased levels of work in Nigeria were partially offset by declines in Iraq, Venezuela, Oman, Bolivia and Ecuador as these projects were completed or closed out during 2004.

United States & Canada revenue increased $100,967, or 52.4 percent, in 2005 to $293,761 from $192,794 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.

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Contract Income

Contract income increased $16,319 (24.9%) to $81,966 in 2005 from $65,647 in 2004. Variations in contract costs by country were closely related to the variations in contract revenue.

	Contract Income - Year Ended December 31,					
	2005	% of Revenue	2004	% of Revenue	Increase (Decrease)	Percent Change
International	$ 50,434	12.2%	$ 40,864	14.1%	$ 9,570	23.4%
United States & Canada	31,532	10.7%	24,783	12.9%	6,749	27.2%
Total Contract Income	$ 81,966	11.6%	$ 65,647	13.6%	$ 16,319	24.9%

International contract income increased $9,570 primarily due to increased revenue in Nigeria, partially offset by declines in contract income in Iraq, Bolivia, Venezuela and Ecuador as these projects were completed or closed out in 2004. The decline in the contract margin percent resulted from contract margin associated with work in Nigeria in 2005 being at a lower contract margin as compared to the margin recognized from the completed 2004 Iraq project and the 2004 benefit from the Bolivia Transierra settlement.

United States & Canada contract income increased $6,749 primarily due to increased revenue in the segment while contract margin percent declined by 2.2 percentage points. The decline in the contract margin percent is due to lower contract margin being realized at the gas processing TXP-4 Plant and 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 constructions projects in the United States.

Contract income and contract margin percentage in both segments were negatively impacted in 2005 by unresolved change orders which are expected to be resolved in future periods.

Other Operating Expense

Depreciation and amortization increased $4,839 (28.9%) to $21,586 in 2005 due to the 2005 acquisition of $38,888 in assets to be used primarily in Nigeria and a full year s depreciation on the new world-wide information technology system. *International* depreciation increased to $11,575 from $9,135, or 26.7 percent. *United States & Canada* depreciation and amortization increased to $10,011 from $7,612, or 31.5 percent.

G&A expense increased $28,816 (61.8%) to $75,430 in 2005 compared to $46,614 in 2004. The increase in G&A included increases in external legal and accounting costs related primarily to the ongoing support for the class action lawsuits, the DOJ and SEC investigations, and the audit of the 2004 financial statements including the restatement of the first three quarters of 2004 and prior years. G&A expense was also higher in Nigeria and Canada due to increased activity in those markets. *International* G&A increased to $54,920 in 2005 compared to $22,600 in 2004. *United States & Canada* G&A decreased to $20,510 in 2005 from $24,014 in 2004.

Other operating costs, representing fraudulent expenses identified in our investigation, as described in Note 1 to the Consolidated Financial Statements in Item 8 Financial Statements and Supplementary Data of this Form 10-K, decreased to $1,084 in 2005 from $3,571 in 2004. Subsequent to the first quarter of 2005, no further fraudulent costs have been identified.

Net Interest Income (Expense)

Interest expense, including amortization of debt issue cost, increased $2,112 to $5,525 in 2005 from $3,413 in 2004 due primarily to the write-off of debt restructuring cost of $1,203. Interest expense is expected to increase in 2006 due to higher debt levels. Interest income increased $790 to $1,669 in 2005 compared to $879 in 2004, as a result of an overall increase in invested funds in 2005 as compared to 2004.

Other Income (Expense)

Other expense decreased $6,828 to $352 in 2005 from $7,180 in 2004, primarily as a result of the $6,737 in bad debt expense in 2004. The foreign exchange loss of $130 in 2005 compares unfavorably to the foreign exchange gain of $248 in 2004.

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Provision for Income Taxes

The provision for income taxes in 2005 increased $8,244 to $18,308 compared to 2004. This increase in the provision for income taxes is primarily due to the significant increase in revenue earned in Nigeria where the Company s subsidiaries are taxed based on deemed income. The provision for income taxes also increased in 2005 due to improved operating results in the U.S. where the Company s subsidiaries are subject to federal income tax up to 35 percent and state income tax at varying tax rates.

FISCAL YEAR ENDED DECEMBER 31, 2004

COMPARED TO FISCAL YEAR ENDED DECEMBER 31, 2003

Contract Revenue

Contract revenue increased $66,745 (16.0%) to $483,318 in 2004 from $416,573 in 2003.

	Contract Revenue - Year Ended December 31,			**Percent**
	2004	**2003**	**Increase**	**Change**
International	$ 290,524	$ 262,241	$ 28,283	10.8%
United States & Canada	192,794	154,332	38,462	24.9%
Total Contract Revenue	$ 483,318	$ 416,573	$ 66,745	16.0%

International revenue increased by $28,283, or 10.8 percent. Increased revenue in 2004 resulted from the start of the EGGS project in Nigeria ($62,313) and continued work related to rebuilding Iraq ($43,972) that was completed in 2004. These increases were offset by the 2003 completion of the Chad-Cameroon Pipeline project which resulted in a year-to-year construction revenue decline of $61,269. The completion of several Nigerian projects also contributed to revenue reductions from 2003. Venezuela and Oman revenue also decreased from 2003.

United States & Canada revenue increased $38,462, or 24.9 percent, in 2004 to $192,794, from $154,332 in 2003. The primary reasons for the increase in 2004 were the start-up of operations of the new Opal Gas Plant in Wyoming (approximately $21,216) and the expanded Albian Sands maintenance contract in Canada (approximately $8,766).

Contract Income

Contract income increased $23,516 or 55.8% to $65,647 in 2004 from $42,131 in 2003. Variations in contract costs by country were closely related to the variations in contract revenue.

	Contract Income - Year Ended December 31,					
		% of		**% of**	**Increase**	**Percent**
	2004	**Revenue**	**2003**	**Revenue**	**(Decrease)**	**Change**
International	$ 40,864	14.1%	$ 38,569	14.7%	$ 2,295	6.0%
United States & Canada	24,783	12.9%	3,562	2.3%	21,221	595.8%
Total Contract Income	$ 65,647	13.6%	$ 42,131	10.1%	$ 23,516	55.8%

International contract income increased $2,295 primarily as a result of increased revenue as the segment s contract margin dropped 0.6% from 14.7% in 2003 to 14.1%. This decrease in contract margin is despite the settlement of the claim on the Transierra Project in Bolivia that positively impacted contract income in 2004 by $6,308. Based on the findings related to the investigation into the Company s former President of WII s activities contract income in 2004 and 2003 was negatively impacted by approximately $4,265 and $360, respectively. Margins for 2004 and 2003 were reduced by approximately 1.5% and 0.1%, respectively.

United States & Canada contract income increased $21,221 as margins greatly improved from last year on engineering and construction activity. Three factors resulted in this improvement in the margins. First, our construction projects in the United States were not as negatively impacted by weather in 2004 as they had been in 2003. Second, our revenue was up over 2003, which resulted in increased contract income. And finally, our new Opal Gas Plant commenced operations in the first quarter of 2004 and contributed $5,464 of contract income.

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Other Operating Expense

Depreciation and amortization increased $1,177 (7.6%) in 2004 due to the acquisition of $38,479 in assets in 2004 and a change in the mix of assets and depreciable lines of our property, plant and equipment. *International* depreciation increased from $8,727 to $9,135 or 4.7 percent. *United States & Canada* depreciation and amortization increased from $6,843 to $7,612 or 11.2 percent.

G&A expense increased $10,314 or 28.4 percent to $46,614 in 2004 compared to $36,300 in 2003. The increase is a result of more resources dedicated to bidding, estimating, and supporting existing projects, regulatory compliance, litigation costs, and the implementation of a new accounting system. *International* G&A increased from $16,321 to $22,600. *United States & Canada* G&A increased from $19,979 to $24,014.

Other operating costs, representing fraudulent expenses identified in our investigation, as described in Note 1 to the Consolidated Financial Statements in Item 8 Financial Statements and Supplementary Data of this Form 10-K, increased from $2,314 to $3,571 in 2004.

Net Interest Income (Expense)

Net interest expense, including amortization of debt issue cost, increased $1,813 to $2,534 in 2004 from $721 in 2003. This increase is a direct result of interest on the $70,000 of 2.75% Convertible Senior Notes issued in the first quarter of 2004. Interest income increased $270 in 2004 as compared to 2003 as a result of an overall increase in invested funds in 2004 as compared to 2003.

Other Income (Expense)

Other expense increased $6,525 to $7,180 in 2004 from $655 in 2003, primarily as a result of the $6,737 increase in bad debt expense. The foreign exchange gain of $248 in 2004 was a favorable variance to the foreign exchange loss of $789 in 2003.

Provision for Income Taxes

The provision for income taxes in 2004 increased $13,365 as compared to 2003. This increase in the provision for income taxes is due to improved operating results in countries where income taxes are calculated on actual pre-tax earnings, increase in revenue in Nigeria where taxes are based upon deemed income, and an increase in the allowance against deferred tax assets in Bolivia.

LIQUIDITY AND CAPITAL RESOURCES

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 $13,139 to $65,581 at December 31, 2005, from $78,720 at December 31, 2004. The decrease is primarily the net result of investment of $38,888 in capital assets associated with the expansion of our fabrication facilities in Nigeria and Canada, expansion of our housing and office facilities in Nigeria, the implementation of a new information technology system in the United States and Canada, and the normal replacement of our equipment, cash used in operations of $33,022 and $6,405 paid on a capital lease, offset by $65,000 received from the sale of the 6.5% Notes.

Working capital increased $8,070 (7.4%) to $116,713 at December 31, 2005 from $108,643 at December 31, 2004. The increase was primarily attributable to an increase in accounts receivable and contract cost and recognized income not yet billed of $49,359 and increases in parts and supplies inventories and prepaid expenses of $24,824, offset by an overall increase in current liabilities of $52,974 and the reduction in cash of $13,139.

We believe the anticipated increase in revenue, a focus on reducing working capital requirements, and more stringent criteria in our analysis in the area of capital asset additions will improve cash flow from operations in 2006.

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 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, 2005). 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 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 extends 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.

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 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 option 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 to be paid semi-annually on June 15 and December 15, beginning 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 3,702,439 shares at December 31, 2005), subject to adjustment in certain circumstances.

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). The 2004 Credit Facility matures on March 12, 2007. The 2004 Credit Facility may be used for standby and commercial letters of credit, borrowings or a combination thereof. Borrowings are limited to the lesser of 40 percent of the borrowing base or $30,000 and are payable at termination on March 12, 2007. Interest is 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 is collateralized by substantially all of the Company s assets, including stock of the Company s principal subsidiaries, prohibits the payment of cash dividends and requires the Company to maintain certain financial ratios. The borrowing base is 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.

As of December 31, 2005, there were no borrowings under the 2004 Credit Facility and there were $54,928 in outstanding letters of credit. Letters of credit reduce the availability on the facility by 75 percent of their amount outstanding; however, the total value of letters of credit outstanding may not exceed $70,000 (see 2004 Credit Facility Waivers below).

2004 Credit Facility Waivers

For the quarter ended June 30, 2004, due to the Company s operating results and EBITDA (earnings before net interest, income taxes, depreciation and amortization) levels, an Amendment and Waiver Agreement (the Waiver Agreement) was obtained from the syndicated bank group to waive non-compliance with a financial covenant to the 2004 Credit Agreement at June 30, 2004 and to amend certain financial covenants. The Waiver Agreement provides for an amendment of certain quarterly financial covenants and the multiple of EBITDA calculation with respect to the borrowing base determination through September 30, 2005.

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.

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.

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Liquidity

We believe that cash flows from operations and the net proceeds from the 6.5% Notes offering and the sale of the TXP-4 Plant will be sufficient to finance working capital and capital expenditures for our normal ongoing operations at our present level of activity. Capital expenditures for equipment in 2006 are estimated at $25,000. We believe that while there are numerous factors that could and will have an impact on our cash flow, both positively and negatively, the vast majority of which, should they occur, could be funded from our future operations, existing cash balances and the net proceeds from the 6.5% Notes offering and the sale of our TXP-4 Plant. We are in the process of obtaining a new credit facility to replace the 2004 Credit Facility that expires March 12, 2007. However, since February 18, 2006, attacks on oil installations and the kidnapping of oil workers in the Niger Delta have escalated with the emergence of a group calling itself MEND. Some production operations in the Western Delta area are now shut in, having had the combined effect of elevating oil prices and interrupting or delaying projects we have underway in that market. We are in negotiations with our clients in Nigeria to address these heightened security concerns and to mitigate the commercial impacts on us from these recent events in Nigeria. While our clients have demonstrated an appreciation of our problems and a willingness to work with us on this combination of security concerns and commercial issues, the outcome of those negotiations is still uncertain as is their ultimate effect on our revenue, operating results and our cash flow. However, to date these events have had a negative impact on our revenue, operating results and cash flow, and it is likely this negative impact will continue in the near term. In addition, should the DOJ, SEC, or OFAC, as a result of their investigation, criminally charge the Company or otherwise levy material civil and/or criminal fines or penalties against the Company or the Company is unable to obtain a new credit facility to replace the 2004 Credit Facility, these events could have a material adverse effect on the Company s liquidity and operations. For a discussion of these and other events which could cause actual results to differ from our expectations and a discussion of risk factors that could impact cash flow, please refer to the section entitled Risk Factors contained in Item 1A 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
	(Dollar amounts in thousands)				
Convertible notes (1)	$ 135,000	$	$	$	$ 135,000
Capital lease obligations	446	229	217		
Operating lease obligations	12,330	8,502	3,264	260	304
Total	$ 147,776	$ 8,731	$ 3,481	$ 260	$ 135,304

(1) Does not include $19,500 of 6.5% Notes issued in the first quarter of 2006 with maturity in more than five years.

As of December 31, 2005, there were no borrowings under the 2004 Credit Facility and there were $54,928 in outstanding letters of credit. Letters of credit reduce availability on the facility by 75 percent of their amount outstanding; however, the total value of letters of credit outstanding may not exceed $70,000.

We have certain operating leases for equipment, office and camp facilities. Minimum lease commitments under operating leases as of December 31, 2005, totaled $12,330 and are payable as follows: 2006, $8,502; 2007, $2,630; 2008, $634; 2009, $174; 2010, $86 and later years, $304.

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.

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 $4,283 at December 31, 2005. There were no outstanding borrowings at December 31, 2005 or 2004.

During 2005, our allowance for doubtful accounts decreased from $7,598 to $6,672. This decrease in the allowance is due to an additional provision of $1,372 and net write-offs of uncollectible accounts of

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$2,298. 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.

In connection with our 10 percent interest in a joint venture in Venezuela, we issued a corporate guarantee equal to 10 percent of the joint venture s outstanding borrowings with two banks. The guarantee reduces as borrowings are repaid. The commitment as of December 31, 2005 totaled $2,106, the maximum amount of future payments we could be required to make.

A summary of our off-balance sheet commercial commitments as of December 31, 2005 is as follows:

		Expiration Per Period	
	Total Commitment	**Less Than 2 Years**	**More Than 2 Years**
	(Dollar amounts in thousands)		
Letters of credit:			
Nigeria projects performance	$ 40,311	$ 40,311	$
Chad-Cameroon Pipeline Project performance	6,072	6,072	
Other performance and retention	8,545	8,545	
Total letters of credit	54,928	54,928	
Insurance bonds primarily performance	66,510	62,830	3,680
Corporate guarantee	2,106	2,106	
Total commercial commitments	$ 123,544	$ 119,864	$ 3,680

These commercial commitments totaling $123,544 represent the maximum amount of future payments we could be required to make. We had no liability recorded as of December 31, 2005, related to these commitments.

NEW ACCOUNTING PRONOUNCEMENTS

In December 2004, the FASB issued SFAS 153, Exchanges of Non-monetary Assets, which amends APB Opinion No. 29. The guidance in APB 29, Accounting for Non-monetary Transactions, is based on the principle that exchanges of non-monetary assets should be measured based on the fair value of the assets exchanged. The amendment made by SFAS 153 eliminates the exception for exchanges of similar productive assets and replaces it with a broader exception for exchanges of non-monetary assets that do not have commercial substance. The provisions of the statement are effective for exchanges taking place in fiscal periods beginning after June 15, 2005. The Company adopted the standard as of January 1, 2006 and believes it will not have a material impact on its consolidated financial statements.

In December 2004, the FASB issued SFAS 123R, Share-Based Payment . This standard requires expensing of stock options and other share-based payments and supersedes SFAS 123, which had allowed companies to choose between expensing stock options or showing pro forma disclosure only. SFAS 123(R) eliminates the alternative of applying the intrinsic value measurement provisions of APB Opinion No. 25 to stock compensation awards issued to employees. Rather, the new standard requires a company to measure the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award. This standard is effective for annual reporting periods beginning after June 30, 2005 and will apply to all awards granted, modified, cancelled or repurchased after that date as well as the unvested portion of prior awards.

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In March 2005, the Staff of the SEC issued Staff Accounting Bulletin No. 107, Share-Based Payment (SAB 107) which addresses the interaction between SFAS 123(R) and certain SEC rules and regulations, as well as providing Staff views regarding the valuation of share-based payment arrangements. SAB 107 also provides guidance relating to the initial implementation of SFAS 123(R), to share-based payments transactions with non-employees, valuation methods and disclosures in Management s Discussion and Analysis subsequent to adoption of SAFS 123(R).

SFAS 123(R) requires the use of the Modified Prospective Application Method as of the required effective date. Under this method:

- The provision of SFAS 123(R) are applied to new awards and to awards modified, repurchased or cancelled after the effective date.

- Compensation expense will be recognized for the portion of awards that are outstanding at the date of adoption, for which the requisite services have not been rendered (such as unvested options) based on the rendering of such remaining requisite services.

We adopted SFAS 123(R) on January 1, 2006 on a modified prospective basis, which will require recognition of compensation expense for all stock options or other equity-based awards that vest or become exercisable after the effective date. At December 31, 2005, unamortized compensation expense related to outstanding unvested options, restricted stock grants and other equity-based awards, determined in accordance with SFAS 123(R), that we expect to record during 2006 and 2007 is approximately $82 and $6, respectively, before provisions for income taxes and forfeitures. We are in the process of determining how the guidance regarding valuing share-based compensation as prescribed in SFAS 123(R) will be applied to valuing share-based awards granted after the effective date and the impact that the recognition of compensation expenses related to such awards will have on our consolidated financial statements.

In November 2004, the FASB issued SFAS No. 151, Inventory Costs, an amendment of Accounting Research Bulletin No. 43, Chapter 4. This statement clarifies the types of costs that should be expensed rather than capitalized as inventory. This statement also clarifies the circumstances under which fixed overhead costs associated with operating facilities involved in inventory processing should be capitalized. The provisions of SFAS No. 151 are effective for fiscal years beginning after June 15, 2005 and were adopted by the Company effective January 1, 2006. The adoption of SFAS No. 151 is not expected to have a significant impact on the consolidated financial position or results of operation of Company.

In May 2005, the FASB issued SFAS No. 154, Accounting Changes and Error Corrections to replace APB Opinion No. 20 and SFAS No. 3. This statement requires retroactive application of a change in accounting principle to prior years financial statements unless it is impracticable to determine the period-specific effects or the cumulative effect of a change. The provisions of SFAS No. 154 are effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. The adoption of this standard is not expected to materially impact the Company.

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, fuel and materials through price escalation provisions in certain of our major contracts or by considering the estimated effect of such increases when bidding or pricing new work.

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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, 2005 and 2004.

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, 2005 due to the generally short maturities of these items. At December 31, 2005, 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 2004 Credit Facility. At December 31, 2005, there were no borrowings subject to variable interest rates. At December 31, 2005, our fixed rate debt approximated fair value based upon discounted future cash flows using current market rates.

Item 8. Financial Statements and Supplementary Data

Index to Consolidated Financial Statements

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Report of Independent Registered Public Accounting Firm

The Stockholders and Board of Directors

Willbros Group, Inc.:

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

We 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 provides 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, 2005, and the results of its operations and its cash flows for the year then ended, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of Willbros Group, Inc. s internal control over financial reporting as of December 31, 2005, 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 June 14, 2006 expressed an unqualified opinion on management s assessment of, and an adverse opinion on the effective operation of, internal control over financial reporting.

GLO CPAs LLP

Houston, Texas

June 14, 2006

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Report of Independent Registered Public Accounting Firm

The Stockholders and Board of Directors

Willbros Group, Inc.:

We have audited the accompanying consolidated balance sheet of Willbros Group, Inc. as of December 31, 2004, 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, 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 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, 2004, and the results of its operations and its cash flows for each of the years in the two-year period ended December 31, 2004, in conformity with U.S. generally accepted accounting principles.

KPMG LLP

Houston, Texas

November 21, 2005

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders

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, 2005, 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 Organizations 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, 2005:

Company-Level Controls: As the Company finalized the preparation of the 2005 financial statements, management determined that a material weakness in the Company s internal control over financial reporting exists related to the Company s financial statement close process. This material weakness resulted in delays in management s ability to timely close the Company s books and records during 2005. Such delays in closing the books and records are at least in part a contributing factor to the delays management has experienced in filing the Company s quarterly and annual financial statements with the SEC. This material weakness resulted primarily from insufficient staffing of qualified accounting personnel.

Management believes this material weakness is due to a unique combination of factors including: a larger than normal turnover of international and corporate accounting personnel; a significant increase in the workload of the accounting staff as they supported the Audit Committee s independent investigation as well as the investigations of the SEC and the DOJ; and a substantial increase in the volume of accounting transactions associated with the 46 percent annual increase in the Company s revenue.

Construction Contract Management: A material weakness existed related to controls over the project reporting used in the accounting process. On certain Nigerian projects, cost estimates were not updated to reflect current information and insufficient measures were taken to independently verify uniform and reliable cost estimates. This material weakness can affect project related accounts, and it specifically resulted in adjustments to revenue and cost of sales on certain contracts during the preparation of the Company s preliminary financial statements.

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The above material weaknesses were considered in determining the nature, timing, and extent of audit tests applied in our audit of the 2005 consolidated financial statements, and this report does not affect our report dated June 14, 2006 which expressed an unqualified opinion on those consolidated financial statements.

In our opinion, management s assessment that the Company did not maintain effective internal control over financial reporting as of December 31, 2005, 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 weaknesses 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, 2005, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

GLO CPAs LLP

Houston, Texas

June 14, 2006

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WILLBROS GROUP, INC.

CONSOLIDATED BALANCE SHEETS

(In thousands, except share and per share amounts)

	December 31, 2005	December 31, 2004
ASSETS		
Current assets:		
Cash and cash equivalents	$ 65,581	$ 78,720
Accounts receivable, net	177,653	151,054
Contract cost and recognized income not yet billed	44,011	21,251
Prepaid expenses	26,619	11,323
Parts and supplies inventories	19,490	9,962
Total current assets	333,354	272,310
Deferred tax assets	4,940	6,416
Property, plant and equipment, net	116,260	116,643
Asset held for sale	23,049	
Investment in joint ventures	3,997	3,441
Goodwill	6,687	6,535
Other assets	10,694	11,765
Total assets	$ 498,981	$ 417,110
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Current portion of long-term debt	$ 2,680	$ 1,171
Accounts payable and accrued liabilities	184,292	122,470
Contract billings in excess of cost and recognized income	23,997	30,957
Accrued income taxes	5,672	9,069
Total current liabilities	216,641	163,667
2.75% convertible senior notes	70,000	70,000
6.5% senior convertible notes	65,000	
Long-term debt	340	2,324
Other liabilities	1,766	1,075
Total liabilities	353,747	237,066
Commitments and contingencies		
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, 35,000,000 shares authorized and 21,649,475 shares issued at December 31, 2005 (21,425,980 at December 31, 2004)	1,082	1,071
Capital in excess of par value	161,596	156,175
Retained earnings (deficit)	(15,166)	23,614
Treasury stock at cost, 98,863 shares at December 31, 2005 (63,196 at December 31, 2004)	(1,163)	(555)
Deferred compensation	(3,720)	(1,639)
Notes receivable for stock purchases	(231)	(216)
Accumulated other comprehensive income	2,836	1,594

Total stockholders equity	145,234	180,044
Total liabilities and stockholders equity	$ 498,981	$ 417,110

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, 2005	2004	2003
Contract revenue	$ 706,522	$ 483,318	$ 416,573
Operating expense:			
Contract (including related party costs of $7,213 in 2005, $7,694 in 2004 and $7,144 in 2003)	624,556	417,671	374,442
Depreciation and amortization	21,586	16,747	15,570
General and administrative	75,430	46,614	36,300
Other operating costs (including related party costs of $0 in 2005, $1,722 in 2004 and $814 in 2003)	1,084	3,571	2,314
	722,656	484,603	428,626
Operating loss	(16,134)	(1,285)	(12,053)
Other income (expense):			
Interest income	1,669	879	609
Interest expense	(5,525)	(3,413)	(1,330)
Foreign exchange gain (loss)	(130)	248	(789)
Other - net	(352)	(7,180)	(655)
	(4,338)	(9,466)	(2,165)
Loss before income taxes	(20,472)	(10,751)	(14,218)
Provision (benefit) for income taxes	18,308	10,064	(3,301)
Net loss	$ (38,780)	$ (20,815)	$ (10,917)
Loss per common share:			
Basic	$ (1.82)	$ (0.99)	$ (.53)
Diluted	$ (1.82)	$ (0.99)	$ (.53)
Weighted average number of common shares outstanding:			
Basic	21,258,211	20,922,002	20,662,305
Diluted	21,258,211	20,922,002	20,662,305

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						Notes Receivable For	Accumulated Other	
	Shares	Par Value	Capital in Excess of Par Value	Retained Earnings (Deficit)	Treasury Stock	Deferred Compen-sation	Stock Purchases	Compre-hensive Income (Loss)	Total Stock-holders Equity
Balance, December 31, 2002	20,615,875	$ 1,031	$ 148,509	$ 55,346	$ (345)	$	$ (953)	$ (973)	$ 202,615
Comprehensive income (loss):									
Net loss				(10,917)					(10,917)
Foreign currency translation adjustments								1,988	1,988
Total comprehensive loss									(8,929)
Payment of notes receivable							75		75
Amortization of note discount							(104)		(104)
Issuance of common stock under employee benefit plan	27,623	1	244						245
Exercise of stock options	105,000	5	620						625
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, Dec. 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
	3,870		80						80

Issuance of common stock under employee benefit plan									
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

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,		
	2005	**2004**	**2003**
Cash flows from operating activities:			
Net income (loss)	$ (38,780)	$ (20,815)	$ (10,917)
Reconciliation of net income (loss) to cash provided by (used in) operating activities:			
Depreciation and amortization	21,586	16,747	15,570
Amortization of debt issue costs	2,920	1,846	1,157
Non-cash compensation expense	2,558	606	
Deferred income tax expense (benefit)	2,180	1,773	(2,169)
Loss (gain) on sales and retirements of property, plant and equipment	80	368	(343)
Equity in joint ventures	(556)	9,908	2,659
Amortization of notes receivable discount	(15)	(224)	(85)
Provision (credit) for bad debts	1,372	6,737	199
Provision for inventory obsolescence	600	1,400	600
Changes in operating assets and liabilities:			
Accounts receivable	(27,014)	(55,231)	(7,340)
Contract cost and recognized income not yet billed	(23,026)	15,788	(9,904)
Parts and supplies inventories	(4,504)	(1,250)	(306)
Prepaid expenses	(20,859)	(4,016)	(923)
Other assets	(369)	(2,946)	(1,929)
Accounts payable and accrued liabilities	61,180	38,928	13,238
Accrued income taxes	(3,403)	7,383	(9,782)
Contract billings in excess of cost and recognized income	(6,972)	23,967	(4,049)
Cash provided by (used in) operating activities	(33,022)	40,969	(14,324)
Cash flows from investing activities:			
Proceeds from sales of property and equipment	1,924	1,728	1,395
Purchase of property, plant and equipment	(38,888)	(38,479)	(33,984)
Cash used in investing activities	(36,964)	(36,751)	(32,589)
Cash flows from financing activities:			
Proceeds from issuance of 6.5% senior convertible notes	65,000		
Proceeds from issuance of 2.75% convertible senior notes		70,000	
Proceeds from long-term debt	15,000		14,000
Proceeds from notes payable to banks	3,924	2,490	8,162
Proceeds from issuance of common stock	436	4,381	852
Repayment of long-term debt	(15,000)	(14,000)	
Payment of capital lease	(6,405)		
Repayment of notes payable to banks	(4,400)	(3,323)	(5,059)
Costs of debt issuance	(1,474)	(6,176)	(236)
Acquisition of treasury stock	(251)		
Collection of notes receivable for stock purchases		990	75
Cash provided by financing activities	56,830	54,362	17,794
Effect of exchange rate changes on cash and cash equivalents	17	(829)	631
Increase (decrease) in cash and cash equivalents	(13,139)	57,751	(28,488)
Cash and cash equivalents, beginning of year	78,720	20,969	49,457

Cash and cash equivalents, end of year	$ 65,581	$ 78,720	$ 20,969
Non-cash investing and financing transaction property obtained by capital lease	$ 6,667	$	$

See accompanying notes to consolidated financial statements.

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 are Africa, the Middle East, South America, Canada and the United States.

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 Nigeria and 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. The Company s equity in earnings in a 10% joint venture is recognized as contract revenue and its share of operations for a 50% joint venture is reflected in the statements of operations based on proportionate consolidation.

Restatement of Consolidated Financial Statements - In late December of 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 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 former President of WII. The investigation also determined that Mr. Tillery, in collusion with several members of the management of the international subsidiaries, was involved in a pattern of improper activities, primarily in the Company s Nigerian subsidiaries, which was specifically contrary to established Company policies, internal controls and possibly the laws of several countries, including the United States. These improper activities significantly impacted the Company s previously issued consolidated financial statements, resulting in the restatement of such consolidated financial statements as December 31, 2003 and for the years ended December 31, 2003 and 2002 and for the first, second and third fiscal quarters of 2004 and 2003. These restated financial statements were included in the Company s consolidated financial statements filed with the annual report on Form 10-K for 2004.

Financial statement adjustments resulting from the misconduct of certain members of the international subsidiaries management had a negative impact on the Company s consolidated cumulative earnings (loss) through December 31, 2003 of approximately ($13,307). The impact on the Company s consolidated cumulative earnings (loss) through December 31, 2003 for other accounting errors noted above decreased earnings by approximately ($5). The total impact on the Company s consolidated cumulative earnings (loss) of all financial statement adjustments through December 31, 2003 was approximately ($13,312). The total impact on the Company s consolidated earnings (loss) for the first three fiscal quarters of 2004 was approximately ($6,077), with the impact attributable to misconduct in the international operations being approximately ($6,629) of the total.

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

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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 (continued)

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 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 inventory; 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 those estimates.

Commitments and Contingencies - Liabilities for loss contingencies arising from claims, assessments, litigation, fines, and 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 amount of probable credit losses in the Company s existing accounts receivable. A considerable amount of judgment is required in assessing the realization of receivables. Relevant assessment factors include the creditworthiness of the customers, prior collection history with the customer and related aging of past due balances. Past due balances over 90 days and over a specified amount are reviewed individually for collectability. 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 generally of supplies and materials in transit to construction sites in Nigeria, are stated at the lower of cost or market. Cost is determined using the first-in, first-out (FIFO) method. Parts inventories are stated at the lower of average cost or market. Parts inventories are evaluated at least annually and adjusted for excess and obsolescence.

Other Operating Costs Other operating costs consist of the expenses incurred by the Company associated with fraudulent invoices for fictitious supplies or services.

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
Production facilities	10-25 years

WILLBROS GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(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 over the shorter of the lease term or the estimated useful life of the asset. 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. Major overhaul costs are accrued in advance of actual overhaul activities and are allocated to contracts based on estimates of equipment condition. Significant renewals and betterments are capitalized. Long-lived assets are reviewed for impairment 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 by 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 in accordance with provisions of Statement of Financial Accounting Standards (SFAS) No. 142, Goodwill and Other Intangible Assets , during the fourth quarter of its 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, 2005, 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. Revenue from fixed-price construction and engineering 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, and 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. 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 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. However, costs associated with revenue from claims are expensed when incurred. Revenue from unit-price and time and material contracts is recognized as earned. Revenue from operations of the Opal Gas Plant is recognized upon delivery of product to the customer. 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.

WILLBROS GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(In thousands, except share and per share amounts)

1. Summary of Significant Accounting Policies (continued)

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 for income taxes and the annual effective tax rate are impacted by income taxes in certain countries, primarily Nigeria, being computed based on a deemed income 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.

Common Stock Options - The Company applies the intrinsic-value-based method of accounting prescribed by Accounting Principles Board (APB) Opinion No. 25, Accounting for Stock Issued to Employees and related interpretations, including FASB Interpretation No. 44, Accounting for Certain Transactions involving Stock Compensation and interpretation of APB Opinion No. 25, to account for its fixed-plan stock options. Under this method, compensation cost is recorded on the date of grant only if the current market price of the underlying common stock exceeded the exercise price. SFAS No. 123, Accounting for Stock-Based Compensation and SFAS Statement No. 148, Accounting for Stock-Based Compensation Transition and Disclosure, an amendment of SFAS Statement No. 123 , established accounting and disclosure requirements using fair-value-based method of accounting for stock-based employee compensation plans. As permitted by existing standards, the Company has elected to continue to apply the intrinsic-value-based method of accounting described above, and has adopted only the disclosure requirements of Statement 123, as amended. Compensation cost related to restricted stock awards and restricted stock rights awards is measured as the market price of the Company s common stock at the date of the award, and compensation cost is recognized over the vesting period, typically four years.

The following table illustrates the effect on net income (loss) if the fair-value-based method had been applied to all outstanding and unvested awards in each period:

	Year Ended December 31,		
	2005	2004	2003
Net income (loss) as reported	$ (38,780)	$ (20,815)	$ (10,917)
Add stock-based employee compensation included in net income	2,558	606	
Less stock-based employee compensation determined under fair value method	(3,098)	(1,431)	(1,786)
Pro forma net income (loss)	$ (39,320)	$ (21,640)	$ (12,703)
Income (loss) per share:			
Basic, as reported	$ (1.82)	$ (.99)	$ (.53)
Basic, pro forma	$ (1.85)	$ (1.03)	$ (.61)
Diluted, as reported	$ (1.82)	$ (.99)	$ (.53)
Diluted, pro forma	$ (1.85)	$ (1.03)	$ (.61)

The fair value of granted options was estimated on the date of grant using the Black-Scholes option pricing model with the following weighted-average assumptions:

	Year Ended December 31,		
	2005	2004	2003
Expected option life in years	3	3	1-3
Risk-free interest rate	2.28%	0.97%	1.13%
Dividend yield			
Volatility	43.61%	45.41%	52.99%

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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 (continued)

The Company will adopt the provisions of SFAS Statement No. 123R, Share-Based Payment , regarding share-based compensation effective January 1, 2006, as discussed below.

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 transaction 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 risks within an industry. The Company seeks to obtain advance and progress payments for contract work performed on major contracts. Receivables are generally not collateralized. The allowance for doubtful accounts has decreased in 2005 to $6,672 from $7,598 in 2004. 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.

Cash Flows - In the determination of cash flows, all highly liquid investments with maturities of less than three months are considered to be cash equivalents. Cash equivalents were $61,025 and $63,756 at December 31, 2005 and 2004, respectively. The Company paid interest of $2,421 in 2005, $1,514 in 2004, and $300 in 2003 and income taxes of $15,887 in 2005, $2,393 in 2004, and $11,265 in 2003. In 2004, the Company s property, plant and equipment increased $737 from non-cash transactions as a result of distributions of property from a joint venture. Non-cash financing activities in 2004 include the addition of 17,000 shares to treasury stock resulting from forfeitures of restricted stock grants, valued at $210 based on the market price of the Company s common stock at the date of grant.

Capitalized Interest - The Company capitalizes interest as part of the cost of significant assets constructed or developed for the Company s own use. Capitalized interest was $168, $349 and $386 in 2005, 2004 and 2003, 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, 2005 or 2004.

Recently Issued Accounting Standards In December 2004, the FASB issued SFAS 153, Exchanges of Non-monetary Assets, which amends APB Opinion No. 29. The guidance in APB 29, Accounting for Non-monetary Transactions, is based on the principle that exchanges of non-monetary assets should be measured based on the fair value of the assets exchanged. The amendment made by SFAS 153 eliminates the exception for exchanges of similar productive assets and replaces it with a broader exception for exchanges of non-monetary assets that do not have commercial substance. The provisions of the statement are effective for exchanges taking place in fiscal periods beginning after June 15, 2005. The Company adopted the standard as of July 1, 2005 and the Company believes it will not have a material impact on its consolidated financial statements.

WILLBROS GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(In thousands, except share and per share amounts)

1. Summary of Significant Accounting Policies (continued)

In December 2004, the FASB issued SFAS 123R, Share-Based Payment . This standard requires expensing of stock options and other share-based payments and supersedes SFAS 123, which had allowed companies to choose between expensing stock options or showing pro forma disclosure only. SFAS 123(R) eliminates the alternative of applying the intrinsic value measurement provisions of APB Opinion No. 25 to stock compensation awards issued to employees. Rather, the new standard requires a company to measure the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award. This standard is effective for annual reporting periods beginning after June 30, 2005 and will apply to all awards granted, modified, cancelled or repurchased after that date as well as the unvested portion of prior awards.

In March 2005, the Staff of the SEC issued Staff Accounting Bulletin No. 107, Share-Based Payment (SAB 107) which addresses the interaction between SFAS 123(R) and certain SEC rules and regulations, as well as providing Staff views regarding the valuation of share-based payment arrangements. SAB 107 also provides guidance relating to the initial implementation of SFAS 123(R), to share-based payments transactions with non-employees, valuation methods and disclosures in Management s Discussion and Analysis subsequent to adoption of SFAS 123(R).

SFAS 123(R) requires the use of the Modified Prospective Application Method as of the required effective date. Under this method:

- The provisions of SFAS 123(R) are applied to new awards and to awards modified, repurchased or cancelled after the effective date.

- Compensation expense will be recognized for the portion of awards that are outstanding at the date of adoption, for which the requisite services have not been rendered (such as unvested options) based on the rendering of such remaining requisite services.

The Company will adopt SFAS 123(R) on January 1, 2006 on a modified prospective basis, which will require recognition of compensation expense for all stock options or other equity-based awards that vest or become exercisable after the effective date. At December 31, 2005, unamortized compensation expense related to outstanding unvested options, restricted stock grants and other equity-based awards, determined in accordance with SFAS 123(R), that the Company expects to record during 2006 and 2007 is approximately $82 and $6 respectively, before provisions for income taxes and forfeitures. The Company is in the process of determining how the guidance regarding valuing share-based compensation as prescribed in SFAS 123(R) will be applied to valuing share-based awards granted after the effective date and the impact that the recognition of compensation expenses related to such awards will have on the consolidated financial statements.

In November 2004, the FASB issued SFAS No. 151, Inventory Costs, an amendment of Accounting Research Bulletin No. 43, Chapter 4. This statement clarifies the types of costs that should be expensed rather than capitalized as inventory. This statement also clarifies the circumstances under which fixed overhead costs associated with operating facilities involved in inventory processing should be capitalized. The provisions of SFAS No. 151 are effective for fiscal years beginning after June 15, 2005 and was adopted by the Company effective January 1, 2006. The adoption of SFAS No. 151 is not expected to have a significant impact on the consolidated financial position or results of operation of Company.

In May 2005, the FASB issued SFAS No. 154, Accounting Changes and Error Corrections to replace APB Opinion No. 20 and SFAS No. 3. This statement requires retroactive application of a change in accounting principle to prior years financial statements unless it is impracticable to determine the period-specific effects or the cumulative effect of a change. The provisions of SFAS No. 154 are effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. The adoption of this standard is not expected to materially impact the Company.

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WILLBROS GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(In thousands, except share and per share amounts)

2. Accounts Receivable

Accounts receivable, net as of December 31, 2005 and 2004 is comprised of the following:

	2005	2004
Trade	$ 139,893	$ 125,875
Contract retention	17,150	5,176
Unbilled revenue	20,364	20,616
Other receivables	6,935	4,985
Advances to joint ventures	(17)	2,000
Total accounts receivable	184,325	158,652
Less Allowance for doubtful accounts	(6,672)	(7,598)
Total accounts receivable, net	$ 177,653	$ 151,054