

WILLBROS GROUP INC
Form 10-K
February 29, 2008

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

FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 2007

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
(Jurisdiction of incorporation)

98-0160660
(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

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

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

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

Indicate by check mark 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.

Edgar Filing: WILLBROS GROUP INC - Form 10-K

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

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

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

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 29, 2007) was \$829,377,089.

The number of shares of the Registrant's common stock outstanding at February 21, 2008 was 38,040,345.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's 2007 Proxy Statement for the Annual Meeting of Stockholders to be held on May 29, 2008 are incorporated by reference into Part III of this Form 10-K.

WILLBROS GROUP, INC.
FORM 10-K
YEAR ENDED DECEMBER 31, 2007
TABLE OF CONTENTS

	Page
<u>PART I</u>	
<u>Items 1. and 2. Business and Properties</u>	4
<u>Item 1A. Risk Factors</u>	23
<u>Item 1B. Unresolved Staff Comments</u>	33
<u>Item 3. Legal Proceedings</u>	34
<u>Item 4. Submission of Matters to a Vote of Security Holders</u>	35
<u>Item 4A. Executive Officers of the Registrant</u>	35
<u>PART II</u>	
<u>Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u>	37
<u>Item 6. Selected Financial Data</u>	38
<u>Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	40
<u>Item 7A. Quantitative and Qualitative Disclosures About Market Risk</u>	55
<u>Item 8. Financial Statements and Supplementary Data</u>	56
<u>Item 9. Changes in and Disagreements with Accountants</u>	106
<u>Item 9A. Controls and Procedures</u>	106
<u>Item 9B. Other Information</u>	107
<u>PART III</u>	
<u>Item 10. Directors, Executive Officers and Corporate Governance</u>	108
<u>Item 11. Executive Compensation</u>	108
<u>Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u>	108
<u>Item 13. Certain Relationships and Related Transactions, and Director Independence</u>	108
<u>Item 14. Principal Accounting Fees and Services</u>	108

PART IV

Item 15. Exhibits, Financial Statement Schedules 109

Signatures 114

1

FORWARD-LOOKING STATEMENTS

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

- difficulties we may encounter in connection with the previous sale and disposition of our Nigeria assets and Nigeria-based operations, including without limitation, obtaining indemnification for any losses we may experience if claims are made and substantiated against any parent company guarantees we provided and which remained in place subsequent to the closing;

- the consequences we may encounter if our settlements in principle with the Department of Justice (DOJ) and the Securities and Exchange Commission (SEC) are finalized, including the imposition of civil or criminal fines, penalties, disgorgement of profits, monitoring arrangements, or other sanctions that might be imposed as a result of government investigations;

- the consequences we may encounter if our settlements in principle with the DOJ and the SEC are not finalized, including the loss of eligibility to bid for and obtain US government contracts, and other civil and criminal sanctions which may exceed the current amount we have estimated and reserved in connection with the settlements in principle;

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

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

- adverse weather conditions not anticipated in bids and estimates;

- project cost overruns, unforeseen schedule delays, and the application of liquidated damages;

- cancellation of projects, in whole or in part;

- failing to realize cost recoveries from projects completed or in progress within a reasonable period after completion of the relevant project;

- inability to hire and retain sufficient skilled labor to execute our current work, our work in backlog and future work we have not yet been awarded;

- inability to execute cost-reimbursable projects within the target cost, thus eroding contract margin but not contract income on the project;

curtailment of capital expenditures in the oil, gas, power, refining and petrochemical 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;

inability to identify and acquire suitable acquisition targets on reasonable terms;

inability to obtain adequate financing;

inability to obtain sufficient surety bonds or letters of credit;

loss of the services of key management personnel;

the demand for energy moderating or diminishing;

downturns in general economic, market or business conditions in our target markets;

changes in the effective tax rate in countries where our work will be performed;

changes in applicable laws or regulations, or changed interpretations thereof;

changes in the scope of our expected insurance coverage;

inability to manage insurable risk at an affordable cost;

the occurrence of the risk factors listed under Item 1A of this Annual Report; and

other factors, most of which are beyond our control.

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

Unless the context otherwise requires, all references in this Annual Report to Willbros, the Company, we, us and our refer to Willbros Group, Inc., its consolidated subsidiaries and their predecessors. Unless the context otherwise requires, all references in this Annual Report to dollar amounts, except share and per share amounts, are expressed in thousands.

PART I

Items 1 and 2. Business and Properties

General

We are an independent international contractor serving the oil, gas and power industries, government entities and, with the November 2007 acquisition of Integrated Service Company LLC (InServ), the refinery and petrochemical industries. We provide engineering; construction; engineering, procurement and construction (EPC) and specialty services to industry and governmental entities worldwide, specializing in pipelines and associated facilities for onshore and coastal locations. We provide turnaround services, tank services, heater services, construction services and safety services to the downstream oil and gas markets, primarily refineries. We also manufacture specialty items for refinery and petrochemical process units. We provide, from time to time, asset development, and participate in ownership and operations as an extension of our portfolio of industry services. We place particular emphasis on achieving the best risk-adjusted returns. Depending upon market conditions, we may work in developing countries and we believe our experience gives us a competitive advantage in frontier areas where experience in dealing with project logistics is an important consideration for project award and execution. We also believe our engineering and planning and project management expertise, as it relates to optimizing the structure and execution of a project, provides us with a competitive advantage in all the markets we address.

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. All significant operations are carried out by the following material direct or indirect subsidiaries:

Willbros USA, Inc.;

Willbros Construction (US) LLC;

Willbros Canada Holdings Limited;

Integrated Service Company LLC;

Willbros Engineers (US) LLC;

Willbros Project Services (US) LLC;

Willbros Midstream Services LLC;

Willbros Construction Services (Canada) LP;

Willbros Midwest Pipeline Construction (Canada) LP;

Willbros Government Services (US) LLC;

Willbros Middle East, Inc.; and

The Oman Construction Company LLC.

The sale of our interests in Nigeria and Venezuela included the following subsidiaries:

Willbros West Africa, Inc.;

Willbros (Nigeria) Holdings Limited;

Willbros (Offshore) Nigeria Limited;

WG Nigeria Holdings Limited;

WG Nigeria Equipment Limited;

Constructora CAMSA, C.A.;

Construcciones Acuaticas Mundiales, S.A.;

Inversiones CAMSA, C.A.;

ESCA Equipment Service C.A.; and

Pretensado S.A.

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.

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. Our common stock is traded on the New York Stock Exchange under the symbol **WG**.

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

Recent Developments

On November 20, 2007, we completed the acquisition of Tulsa, Oklahoma-based InServ for approximately \$232.1 million, consisting of \$208.9 million in cash and the balance in Willbros Group, Inc. common stock. InServ is a fully integrated solutions provider of turnaround, maintenance and capital projects for the refining and petrochemical industries. As a result of this acquisition, we can now offer additional services to our existing customers and have also become a service provider in the downstream oil and gas market.

We entered into a new credit agreement on November 20, 2007 which provides us the financial flexibility to operate the business more efficiently. This agreement includes a senior secured three-year \$150 million revolving line of credit. Also on November 20, 2007 we completed a public offering of 7.9 million shares of our common stock resulting in net proceeds of approximately \$253.7 million. These funds were used to pay for the cash portion of the InServ acquisition of \$208.9 million, plus capital spending and general corporate requirements.

In October 2007 we reached agreements in principle with the Department of Justice and the Securities and Exchange Commission, subject to their approval, to settle their previously disclosed investigations involving possible violations of the Foreign Corrupt Practices Act and other provisions of the federal securities laws. These settlements require us to make payments over the next three years totaling \$32.3 million and enter into a three-year deferred prosecution agreement which will require us to engage a monitor, to be focused primarily on our international operations. In January 2008, the Company submitted a signed Consent Decree and Agreed Final Judgement to the SEC and, as required by the SEC, deposited the first installment payment of \$2,575 into an escrow account.

In July 2007 we acquired the assets and operations of Midwest Management Ltd. (**Midwest**) for approximately \$23.7 million. Midwest provides highly complementary services, such as pipeline construction, water crossing installations and facilities fabrication, and significantly increases our presence in the western Canada oil sands area.

During February 2007 we completed the sale of our assets and operations in Nigeria. We also sold our interest in a water injection facility in Venezuela and our TXP-4 gas processing plant in 2006. Accordingly, the results of operations for our Nigeria, Venezuela and TXP-4 Plant operations are reported as Discontinued Operations in our Consolidated Financial Statements. We are strategically focusing our resources and attention on the United States, Canada, Oman, Libya, Algeria, Saudi Arabia, the United Arab Emirates and a few other selected international markets which offer attractive risk-adjusted returns. The remainder of the discussion under Items 1 and 2, Business and Properties, in this Annual Report on Form 10-K pertains only to our continuing operations, unless otherwise noted.

Business Segments

Our segments are strategic business units that are defined by the industry segments served and are managed separately as each has different operational requirements and strategies. With the recent InServ acquisition, we now operate through three business segments: *Upstream Oil & Gas*, *Downstream Oil & Gas* and *Engineering*. These segments currently operate primarily in the United States, Canada, and Oman. Previously during 2007, we defined our business segments based on our then current core lines of business, which were defined as: *Construction*, *Engineering* and *Engineering, Procurement and Construction* (*EPC*). Management evaluates the performance of each operating segment based on operating income. Our corporate operations include the executive management, general, administrative, and financing functions of the organization. The costs to provide these services are allocated, as are certain other corporate assets, between the three operating segments. All periods presented reflect this change in segment reporting. Inter-segment revenue and revenue between geographic areas are not material.

We provide our services, as the scope of work requires, through professional engineering, technical, construction management and craft personnel utilizing engineering systems, hardware and software and a large fleet of company-owned and leased equipment that includes pipe laying equipment, heavy construction equipment, transportation equipment, camp equipment and specialty tools. An inventory of spare parts and tools, which we strategically position and maintain to maximize availability and minimize cost, supports our equipment fleet. Over the years, we have been employed by more than 400 clients to carry out work in 59 countries. Within the past ten years, we have worked in North America, the Middle East, Africa, Australia and South America. Historically, we have had a steady base of operations in the United States, Canada, Oman, Nigeria and Venezuela. We have sold our interests in Nigeria and Venezuela and also exited Bolivia and Ecuador in response to market conditions which we believe are unfavorable and will not attract capital to these markets for the types of projects we perform.

Private sector clients have historically accounted for the majority of our revenue. Government entities and agencies have accounted for the remainder. Our top ten clients were responsible for 73 percent of our continuing revenue in 2007 (61 percent in 2006 and 73 percent in 2005).

See Note 14 Segment Information and Note 18 Discontinuance of Operations, Asset Disposals and Transition Services Agreement to the Consolidated Financial Statements included in Item 8 of this Form 10-K for more information on our operating segments and Discontinued Operations.

Services Provided

The Company provides engineering, construction, and EPC services, including development activities, in the business 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, power and refining 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. We provide our engineering services through engineering resources located in Tulsa, Oklahoma; Salt Lake City, Utah and Kansas City, Missouri.

Specifically, 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.

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;

facility startup assistance; and

facility operations.

These services are furnished to a number of oil, gas, power, refining 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 may involve:

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

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

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

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

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

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

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

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

US Government Services. Since 1981, we have established our position with US 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 US 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 nine 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 US 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.

Upstream Oil & Gas Construction Services

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

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 for large diameter cross-country pipelines in remote areas and harsh climates where we believe our experience gives us a competitive advantage. In our history we have performed work in 59 countries and constructed over 200,000 kilometers of pipeline, which we believe positions us in the top tier of pipeline contractors in the world. To mitigate tight labor markets, since 2004, we have developed the expertise to employ automatic welding processes in the onshore construction of large-diameter (greater than 30-inch) natural gas pipelines and have constructed over 480 Kilometers of such pipelines using automatic welding processes in the United States, Canada and Oman. We currently have over 800 kilometers of such work under contract.

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

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

clear the right-of-way;

grade the right-of-way;

excavate a trench in which to bury the pipe;

haul pipe to intermediate stockpiles from which stringing trucks carry pipe and place individual lengths (joints) of pipe alongside the ditch;

bend pipe joints to conform to changes of direction and elevation;

clean pipe ends and line up the succeeding joint;

perform various welding operations;

inspect welds non-destructively;

clean pipe and apply anti-corrosion coatings;

lower pipe into the ditch;

backfill the ditch;

bore and install highway and railroad crossings;

drill, excavate or dredge and install pipeline river crossings;

tie in all crossings to the pipeline;

install mainline valve stations;

conduct pressure testing;

install cathodic protection system; and

perform final clean up.

Special equipment and techniques are required to construct pipelines across wetlands and offshore. We have used swamp pipe laying methods extensively in Nigeria, where a significant portion of our construction operations were carried out in the Niger River Delta. This expertise is applicable in wetland regions elsewhere and can provide a competitive advantage for projects in such venues as south Louisiana, where we expect to see additional work opportunities.

Fabrication. Fabrication services can be a more efficient means of delivering engineered, major process or production equipment with improved schedule certainty and quality. We provide fabrication services and are capable of fabricating such diverse deliverables as process modules, station headers, valve stations, and flare pipes and tips. We currently operate three fabrication facilities in Alberta, Canada, allowing us the opportunity to provide process modules and other fabricated assemblies to the burgeoning heavy oil market in northern Alberta.

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

Downstream Oil & Gas Construction Services

Our November 2007 acquisition of InServ gives us the ability to provide additional services to our existing customers and entry into the downstream oil and gas market. InServ is a fully integrated solutions provider of turnaround, maintenance and capital projects for the hydrocarbon processing and petrochemical industries, with a customer base including major integrated oil companies, independent refineries and marketers, marketing and pipeline terminals and petrochemical companies. We now provide services to select EPC firms, independent power producers, specialty process facilities and ammonia and fertilizer manufacturing plants and facilities. Our principal downstream construction services include:

turnkey project services through program management and EPC project services;

construction and turnaround services which include turnaround services for fluid catalytic cracking units, the main gasoline producing unit in a refinery, which have three to five year required maintenance intervals in order to maintain production efficiency;

manufacturing services for process heaters, heater coils, alloy piping, specialty components and other equipment for installation in oil refineries;

heater services including design, manufacture and installation of fired heaters in refining and process plants;

tank services for construction, maintenance or repair of petroleum storage tanks, typically located at pipeline terminals and refineries; and

safety services for supplementing a refinery's safety personnel and permitting and providing safety equipment.

Turnkey Project Services. The refining and process industries endeavor to minimize costs through operating efficiencies and hiring experienced process engineering as needed. Often it is more cost effective to engage a contractor to oversee and manage the planning, engineering, procurement, installation and commissioning of new capacity additions, revamps or new process units to support the need to meet new refining or manufacturing specifications. Our experience and capability covers the breadth of all process units in a refinery where we offer

clients a single source solution for accomplishing expansion and revamp programs. We seek to do this in the most efficient, competitive manner and supply both our own personnel and supplemental services of other contractors as needed.

Construction, Turnaround and Specialty Welding Services. When performing a construction and maintenance project as part of a refinery turnaround, detailed planning and execution to minimize the length of the outage, which can cost owners millions of dollars in downtime, is demanded . Our experience includes successful turnaround execution on the largest, most complex fluid catalytic cracking (FCC) units, the major process unit in a refinery. Our record in providing a construction-

driven approach with attention to planning, schedule and safety places us at the forefront of qualified bidders in North America for work on FCC units and that recognition enables us to qualify to bid for most turnaround projects of interest to us. These services include refractory related projects, furnace re-tube and revamp projects, stainless and alloy welding services and heavy rigging and equipment setting. The skills and experience imparted from our turnaround experience apply equally to less schedule-sensitive new construction and we can provide construction services for new units or expansion and revamp projects.

Manufacturing Services. We have manufacturing facilities located on two sites in the Tulsa, Oklahoma area, with easy access to truck, rail, air and river barge transportation through the inland most ice-free port in the United States, the Kerr-McClellan Navigation System. Specialty equipment that can be fabricated includes FCC components, reactors and regenerators, refractory, process heater coils and components, process piping spools (alloy and carbon steel), specialty welding, and plate cutting and rolling. Our Mohawk facility is one of the largest convection section fabricators in the world and additionally fabricates heater and furnace components in our 150,000 square feet of manufacturing space located on our 78 acre site. We believe our ability to combine the quality fabrication and timely manufacturing of these components is complementary to other services we provide and offers a competitive advantage for us.

Heater Services. We are a vertically integrated provider of process heater services in North America which can perform engineering studies; process, mechanical, structural, and instrumentation and electrical design; fabrication and manufacture; and installation and erection of fired heaters in a one-stop shop. We also specialize in modifications to existing fired heaters for expanded service or process improvement. Our senior managers we have over 30 years of experience in this specialized service.

Tank Services. We provide services to the aboveground storage tank industry. Areas we address include: API 653 tank maintenance and repair; floating roof seals; floating roof installations and repairs; secondary containment bottoms, cone roof and structure replacements; and new API 620 /650 aboveground storage tanks. We provide these services as stand-alone or in combination, including EPC solutions.

Safety Services. We provide both safety services and equipment to support the safety and quality requirements of our clients. We can provide safety supervisors, confined space and fire watch services, confined space rescue and training, safety planning services, technicians, training, drug screening and medical personnel. Our safety services also include safety service vehicles to support the services offered and to provide necessary equipment including first aid equipment, fire retardant clothing, fall protection equipment, fresh air equipment, gas detectors and breathing air supply trailers. We are an authorized dealer for fire-retardant and Nomex safety clothing and a variety of equipment lines.

EPC Services

EPC projects often yield profit margins on the engineering and construction components consistent with stand-alone contracts for similar services. Our benefits in the EPC offering include the overall income associated with project management and the income we capture on the procurement component of the contract. Both of these income generating activities are relatively low risk compared with the construction aspect of the project. In performing EPC contracts, we participate in numerous aspects of a project. We are therefore able to determine the most efficient design, permitting, procurement and construction sequence for a project in connection with making engineering and constructability decisions. EPC contracts enable us to deploy our resources more efficiently and capture those efficiencies in the form of improved margins on the engineering and construction components of these projects, at the same time optimizing the overall project solution and execution. While EPC contracts carry lower margins for the procurement component, which can be a significant portion of the total contract value, we believe the increased control over all aspects of the project, coupled with higher margins for engineering and construction portions, makes these types of contracts attractive to us. EPC projects are managed and reported by the segment and business unit best qualified to provide the identified scope of work. We intend to capitalize on being one of the few pipeline engineering, construction and EPC services companies worldwide with the ability to provide the full range of EPC services in order to capture more of this business.

Specialty Services

We utilize the skill sets and resources from our engineering, construction and EPC services to provide a wide range of support and ancillary services related to the construction, operation, repair and rehabilitation of pipelines. Frequently, such services require the utilization of specialized equipment, which is costly and requires operating expertise. Due to the initial equipment cost and operating expertise required, many client

companies hire us to perform these services. We own and operate a variety of specialized equipment that is used to support construction projects and to provide a wide range of oilfield services. We provide the following primary types of specialty services:

transport of dry and liquid cargo;

pipe double-jointing;

rig moves;

maintenance and repair services;

operation and development of facilities; and

building, owning and operating military fueling facilities.

Current Market Conditions

We believe the fundamentals supporting the demand for our services in the energy industry will continue to be strong for the next two to five years as labor and equipment resources continue to be in short supply. The fundamentals supporting the demand for engineering, construction, EPC and specialty services for the oil, gas, power and refinery industries indicate that the market for our services will be strong into 2010. Many positive developments reinforce our view. According to a recent survey by Lehman Brothers, capital spending for the exploration and production sector of the energy industry worldwide is expected to exceed \$369 billion in 2008, the sixth year running that this sector has witnessed capital expenditure increases on the scale of over 10 percent. Industrial Information Services is tracking, for 2008 and beyond, a total of 1,282 planned turnarounds in the North American petroleum refining industry, as compared to 257 at the end of 2006. A recent (February 2008) Oil & Gas Journal survey identified over 85,000 miles of pipeline projects planned worldwide for 2008 and beyond as compared to 68,000 miles 2007.

Upstream O&G

A recent survey (Douglas-Westfield) suggests planned worldwide onshore pipeline capital investment over the next five years will total \$180 billion. In North America, where we have refocused our business, the survey also indicated that operators plan to spend approximately \$43 billion, or 24 percent of the global amount. 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. Development of gas reserves in the Barnett, Woodford and Fayetteville shales has created the need for new mainline pipeline infrastructure to transport natural gas to high value markets in the eastern United States. Canadian activity continues to be driven by investment in new bitumen production in the oil sands region, which is expected to exceed Cdn \$100 billion as production levels are tripled by year-end 2015. Our analysis suggests expansion of Canadian pipeline infrastructure will require nearly 10,000 km of new crude and natural gas pipelines. Liquefied natural gas (LNG) is also expected to bring more opportunities, both in North America and in other producing/exporting countries. We also believe actual material failures in aging pipeline infrastructure and the ensuing affect on the commodity markets will drive additional expenditures on pipeline maintenance in North America. Our internal analysis of the market for pipeline maintenance services indicates expenditures in excess of \$500 million per year.

Downstream O&G

The supply of light and medium sweet crude in the United States is declining. This results in the need to process heavier, more sour crude streams. Many of the existing refineries require upgrading in order to process this lower quality crude supply. Tighter environmental standards relative to sulfur content in motor fuels are driving additional upgrades to existing refineries. These upgrades, combined with capacity increases to meet greater demand for refined products are precipitating more extensive maintenance activities and expenditures. An increase of 1.6 million barrels of refining capacity is planned in the United States by 2012. These increases are expected through expansions of existing refineries. Industry data indicate that the market in the United States for capital maintenance, repair and

overhaul (MRO) projects will continue to exceed \$8 billion per year. More than 260 turnarounds are planned in the next three years and along with high utilization rates of refineries, coupled with margins higher than historical averages, have generated incremental funds for our clients to perform upgrades and critical maintenance. As the investment in crude upgrading in the Canadian oil sands comes on line, refiners planning to process the new feedstock will be installing additional residual conversion capacity. Additionally, FCC feed pre-treating capacity will also be necessary to maintain acceptable yields. Increased demand for new hydrocracking capacity and associated services will provide new turnaround, maintenance and construction opportunities for our downstream business.

Engineering

The engineering market in North America continues to be capacity constrained and we are selecting and accepting assignments that offer higher margins and position us for EPC assignments. Our engineering operations are currently at capacity, constrained by the availability of qualified personnel. We believe our location in Tulsa, Oklahoma protects us to some degree from the high turnover of technical employees, characteristic in energy centers such as Houston, Texas. Our successful expansion of engineering activity into the Salt Lake City, Utah area has provided us a model for expansion into other areas. We have also established an engineering office in Kansas City, Missouri to address opportunities in the pipeline maintenance market and to access additional professional staff.

General

We believe the high level of engineering activity in recent years has been the precursor to higher levels of construction activity in North America. These expected higher activity levels are evidenced by our backlog at December 31, 2007 of \$1.3 billion for continuing operations which reflects growth of work under contract from \$602.3 million at December 31, 2006; and by proposed major pipeline projects, such as the Bronco and Ruby projects to transport natural gas to west coast markets in the United States; and our discussions with potential customers regarding pipeline and station construction projects in North America.

Additionally, our recent contract awards, coupled with the increase in engineering assignments, reinforce our belief that our ability to obtain improved terms and conditions and better pricing will continue in the near term. We believe customers recognize the imbalance in the supply and demand for pipeline engineering, construction and EPC services, and will offer better terms and conditions, resulting in lower pressure on us to dampen pricing increases for our services.

Demand in the United States market, coupled with the InServ acquisition, led the improvement in backlog for continuing operations in 2007, and we believe demand will continue to be strong. Backlog in the Downstream Oil & Gas segment at December 31, 2007 of \$199.6 million was all attributable to the InServ acquisition. We also expect the international market to continue to exhibit strengthening demand as new energy infrastructure developments are contemplated in North Africa and the Middle East, markets which are of interest to us. The following factors have caused the future outlook for our business to strengthen:

Generally healthy refining margins resulting in continued strong budgets dedicated to refinery construction, maintenance and turnarounds and expansion of capacity.

Increased numbers of refineries scheduling projects to enable upgraded processing of the increased production of crude from the Canadian market.

Significant increases in the market for petroleum storage tanks due to the infrastructure changes occurring in the crude oil supply chain.

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

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

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

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

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

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

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

As a result of these factors, we expect our revenue from continuing operations in 2008 to increase from the 2007 level.

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

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

rising global energy demand resulting from economic growth in developing countries;

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

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

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

initiatives to reduce natural gas flaring worldwide; and

the aging of energy infrastructure.

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

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

Business Strategy

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

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

leverage engineering expertise to attract additional EPC contracts;

increase contract margin through improved bidding discipline and contract management;

penetrate, on a selective basis, international markets with relatively more attractive operating and financial parameters;

align G&A costs with revenue; and

manage cash rigorously.

We rely on the competitive advantage gained from:

our experience in the construction, modification and maintenance at refinery process units;

our experience in performing large-diameter cross-country pipeline construction in remote areas with difficult terrain and harsh climatic conditions;

our ability to manage complex EPC projects to optimize the ultimate project solution;

our longstanding customer relationships; and

our experienced multinational employee base. Recognizing that our employees are 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 experiences and capabilities:

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

Construction. We have constructed over 200,000 kilometers of pipelines during our long history. Our skill sets include pipeline and station construction in all types of terrain, from coastal plains, mountains, swamps and desert, to arctic environments. We have also worked in 59 different countries and have logistics and constructability experience to accommodate multiple solutions for project execution depending upon client preference and availability of equipment and personnel. We have crossed the Andes Mountains five

times and completed multiple projects in Alaska, Africa, Canada, the United States, Asia and South America. We are a leader in employing automated welding procedures in the construction of large-diameter pipelines.

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

Conservative Financial Management. We understand and emphasize that a strong balance sheet is needed to develop and grow our business. We also seek to obtain contracts that are likely to result in recurring revenue in order to partially mitigate the cyclical nature of our engineering, construction and EPC businesses. Improved systems and processes for contract management are intended to maximize the cash flows from projects and minimize project working capital requirements. Additionally, whenever possible we act to minimize our exposure to currency fluctuations through the use of US dollar-denominated contracts and by limiting payments in local currency to approximately the amount of local currency expense. We may seek additional financing, in the form of either debt or equity, as market conditions allow and as business opportunities and capital equipment requirements may dictate.

Our focus in 2008 will be on execution of the record backlog at December 31, 2007, continued emphasis on adding higher quality backlog with the best risk-adjusted returns, growing our downstream oil & gas business, continuing the implementation of more sophisticated and effective contract management systems and processes, aligning general and administrative cost levels with revenue, and leveraging engineering expertise to attract additional EPC contracts.

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

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

Willbros Background

We are the successor to the pipeline construction business of Williams Brothers Company, which was started in 1908 by Miller and David Williams and eventually became The Williams Companies, Inc., a major US energy and interstate natural gas and petroleum products transportation company (Williams).

In December 1975, Williams elected to discontinue its pipeline construction activities and sold substantially all of the non-US assets and international entities comprising its pipeline construction division to a newly formed, independently owned Panamanian corporation. Ownership of the new privately-held company (eventually renamed Willbros Group, Inc.) changed infrequently during the 1980s and 1990s until an initial public offering of common stock was completed in August 1996.

Having been in business for 100 years, we have achieved many milestones, which are summarized as follows:

- 1915 Began pipeline work in the United States.
- 1923 First project outside the United States performed in Canada.
- 1939 Began pipeline work in Venezuela, first project outside North America.
- 1942-44 Served as principal contractor on the Big Inch and Little Big Inch War Emergency Pipelines in the United States which delivered Gulf Coast crude oil to the Eastern Seaboard.
- 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.
- 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 we believe 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.
- 1970-72 Built the Trans-Ecuadorian Pipeline, crossing the Andes Mountains, consisting of 315 miles (505 kilometers) of 20-inch and 26-inch pipeline, seven pump stations, four pressure-reducing stations and six storage tanks. Considered the most logistically difficult pipeline project ever completed at the time.
- 1974-76 Led a joint venture which built the northernmost 225 miles (365 kilometers) of the Trans Alaska Pipeline System.
- 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.
- 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.
- 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.

Edgar Filing: WILLBROS GROUP INC - Form 10-K

- 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.
- 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.
- 2007 Completed the sale of our Nigerian interests in February 2007. Acquired Midwest in July 2007 and InServ in November 2007.

GEOGRAPHIC REGIONS

We operate globally but have refocused our operations in recent years on certain markets in North America and the Middle East. Our continuing operations contract revenue for 2007, 2006 and 2005 by geographic region is shown in the following table:

	2007		Year Ended December 31, 2006		2005	
	Amount	Percent	Amount	Percent	Amount	Percent
	(Dollar amounts in thousands)					
<u>Contract Revenue</u>						
<i>United States</i>	\$ 612,647	64.7%	\$ 312,121	57.5%	\$ 214,252	72.8%
<i>Canada</i>	244,806	25.8%	161,924	29.8%	54,754	18.6%
<i>Oman</i>	90,238	9.5%	69,214	12.7%	25,294	8.6%
<i>Ecuador</i>		%		%	179	%
Total	\$ 947,691	100.0%	\$ 543,259	100.0%	\$ 294,479	100.0%

United States

We have provided services to the US oil and gas industry for more than 90 years. We believe that the United States will continue to be an important market for our services. Market conditions for the short-term showed improvement in 2007 and are expected to show more improvement in 2008, as many of the energy transportation companies, with improved financial condition, and focus on expansion of core businesses. The February 2008 Oil & Gas journal survey of planned worldwide pipeline construction indicates additional planned projects, for 2008 and beyond, in the United States in excess of 20,000 miles an increase of approximately 10 percent over 2007. 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 Rocky Mountain region, the Gulf of Mexico, the Barnett and Fayetteville shales in the southwestern United States and newly proposed and permitted liquefied natural gas (LNG) regasification terminals along the Gulf Coast. Environmental concerns will likely continue to require careful, thorough and specialized professional engineering and planning for all new facilities within the oil, gas and power sectors. Furthermore, the demand for replacement and rehabilitation of pipelines is expected to increase as pipeline systems in the United States approach the end of their design lives and population trends influence overall energy needs. We are recognized as an industry leader in the United States for providing project management, engineering, and 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; Salt Lake City (Murray), Utah and Kansas City, Missouri. Construction operations based in Houston, Texas provide the majority of construction services in the United States.

InServ is currently most active in the United States and has an excellent nationwide reach, servicing 60 of the 149 operable refineries in the country. With a strong network of sales and operations offices, strategic plant locations and established labor and supplier relationships, InServ has the ability to rapidly mobilize people, materials and equipment to execute projects anywhere domestically or internationally. As refinery turnaround and maintenance projects are a fundamental part of safe plant operations, InServ's focus on turnaround and maintenance services provides for better

visibility and less vulnerability to the overall cyclicality of the energy industry. In particular, turnaround and maintenance projects are performed routinely and not susceptible to fluctuations in hydrocarbon prices. With the Clean Air Act of 1990 pushing the refining industry to meet stringent limitations on the sulfur content in gasoline fuels, InServ benefited from the influx of Clean Fuels projects from 2000 to 2005. Over the next few years, refiners will be required to meet another mandate by the Environmental Protection Agency (EPA). This mandate is targeted towards reducing sulfur content level in diesel fuels. To comply with this mandate, refiners are required to modify and/or expand existing distillate hydrotreating or hydrocracking capacity. Additionally, with refineries

operating at near capacity as a result of strong demand for gasoline, combined with a favorable pricing environment, most US operators have stretched their maintenance and turnaround projects to minimize loss time, implying more intensive maintenance and turnaround projects in the near term. Furthermore, with the increasing domestic and global demand for gasoline, there has also been an up-tick in the proposed capacity expansion and upgrading of existing refining units.

We have also provided significant engineering services to US government agencies during the past 25 years, particularly in fuel storage and distribution systems and aircraft fueling facilities.

Canada

Prevailing oil and gas prices at higher than historical averages have increased industry interest, investment and development in the oil sands region of northern Alberta, Canada, where industry estimates expect over Cdn \$100 billion to have been invested by the end of 2015. New process plant developments offer prospective fabrication and installation work as well as maintenance opportunities, and the anticipated increase in crude oil volumes to be shipped to markets in the United States and Asia has resulted in proposals for several major crude oil export pipelines from this region. The need for additional process fuel for the oil sands also is driving the development of new pipeline infrastructure from the Mackenzie Delta region. Construction, fabrication and maintenance services in Canada are provided primarily through facilities and resources located in Ft. McMurray and Edmonton, Alberta. In 2006, we were awarded a major construction project in the Ft. McMurray area, valued in excess of \$50 million, and in 2007, we were awarded a major cross-country pipeline construction project, valued in excess of \$70 million. With these contract awards, we are continuing to establish our experience and capability in Canada for such assignments.

Middle East

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

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. We believe the Middle East presents opportunities to provide an increased level of service for us.

Africa

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

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

maintenance services.

In February 2007, we sold our interests in Nigeria.

South America

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

We have been active in South America since 1939 and 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.

In 2006, we sold our business interests in Venezuela.

Backlog

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 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, 2007, total backlog from continuing operations increased \$703,169 (116.8 percent) to \$1,305,441 from \$602,272 at December 31, 2006. Backlog for Discontinued Operations was \$0 and \$406,780 at December 31, 2007 and 2006, respectively. As important as the overall growth in backlog is the composition of our backlog between fixed-price and cost reimbursable contracts. Cost reimbursable contracts comprised 74.9 percent of backlog at December 31, 2007 versus 44.8 percent of backlog at December 31, 2006. We expect that approximately \$1,089,801 or about 83.5 percent, of our existing total backlog at December 31, 2007, will be recognized in revenue during 2008.

We believe the backlog figures are firm, subject only to the cancellation and modification provisions contained in various contracts. 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 quarterly backlog reports. 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 business segment as of December 31, 2007 and 2006:

	Year Ended December 31,			
	2007		2006	
	Amount	Percent	Amount	Percent
	(Dollar amounts in thousands)			
<i>Upstream O&G</i>	\$ 941,301	72.1%	\$ 428,839	71.2%
<i>Downstream O&G</i>	199,646	15.3%		%
<i>Engineering</i>	164,494	12.6%	173,433	28.8%
Total, continuing operations	1,305,441	100.0%	602,272	100.0%
Discontinued operations			406,780	
Total backlog	\$ 1,305,441		\$ 1,009,052	

Competition

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

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

Our primary competitors in the downstream market include AltairStrickland, JV Industrial Companies, Plant Performance Services, KBR, Chicago Bridge & Iron and Matrix Services.

Primary competitors for engineering services include:

Alliance Engineering;

Bechtel;

Worley Parsons;

Fluor;

Gulf Interstate;

Jacobs Engineering;

KBR;

Mustang Engineering;

Paragon Engineering;

Snamprogetti;

Technip;

Trigon EPC; and

Universal Enasco.

Our primary competitors for international onshore construction projects in developing countries include Technip (France), CCC (Lebanon), Saipem (Italy), Spie-Capag (France), Techint (Argentina), Bechtel (US), 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. In Canada, competitors for onshore pipeline construction assignments include North American Energy Services, Flint Energy Services and OJ Pipelines.

We have different competitors in different markets. In Oman, competitors in oil field transport services include Ofsat and TruckOman, all Omani companies; and in construction and the installation of flowlines and mechanical services, we compete with Gulf Petrochemical Services (Oman), CCC (Lebanon), Dodsai (India), Saipem (Italy), Special Technical Services (Oman) and Galfar (Oman).

Joint Ventures

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

Contract Provisions and Subcontracting

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

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

cost plus fixed fee contracts under which income is earned solely from the fee received. Bidding cost plus fixed fee contracts has been the focus of our large project efforts in 2007;

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).

Changes in scope of work are subject to change orders to be agreed upon 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 US government contracts and many of our other contracts provide for termination of the contract for the convenience of the client. In addition, some contracts are subject to certain completion schedule requirements that require us to pay liquidated damages in the event schedules are not met as the result of circumstances within our control.

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

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 are 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 we seek 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 we do 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.

Employees

At December 31, 2007, we employed directly a multi-national work force of approximately 5,475 persons, of which approximately 82.2 percent were citizens of the respective countries in which they work. Although the level of activity varies from year to year, we have maintained an average work force of approximately 3,002 over the past five years. The minimum employment during that period has been 1,381 and the maximum was 5,475. At December 31, 2007, approximately 17.6 percent of our employees were covered by collective bargaining agreements. We believe relations with our employees are satisfactory.

The following table sets forth the location of employees by work countries as of December 31, 2007:

	Number of Employees	Percent
US Upstream O&G	1,644	30.0%
US Downstream O&G	987	18.0
US Engineering	531	9.7
US Administration	97	1.8
Canada	729	13.3
Oman	1,481	27.1
Other	6	0.1
Total	5,475	100.0%

Equipment

We own, lease and maintain a fleet of generally standardized construction, transportation and support equipment. In 2007 and 2006, expenditures for capital equipment were \$35.6 million and \$12.3 million, respectively. At December 31, 2007, the net book value of our property, plant, and equipment was \$159.8 million.

We are constantly evaluating the availability of equipment and in recent past years have leased equipment to ensure its availability to support projects. The increasing demand for construction equipment in North America, the consequential increase in rental rates and our improved liquidity have caused us to reevaluate our approach to securing necessary equipment and we currently believe that ownership of certain components of the equipment fleet may be more cost effective. We have entered into various capital leases in 2007 and 2006 adding approximately \$59.1 million of equipment during these periods. We continue to evaluate expected equipment utilization, given anticipated market conditions, and may buy or lease new equipment and dispose of underutilized equipment from time to time. All equipment is subject to scheduled maintenance to maximize fleet readiness. We have maintenance facilities at Azaiba, Oman; Ft. McMurray, Alberta, Canada; and Houston, Texas, as well as temporary site facilities on major jobs to minimize downtime. In 2006, we made the decision to consolidate our equipment yards and equipment maintenance activities in the US and sold our Channelview, Texas facility in 2007.

Facilities

The principal facilities that we utilize to operate our business are:

Principal Facilities			
Location	Physical Size/ Capacity	Description	Ownership
Houston, TX	10 acres, 16,700 sq. ft.	Equipment yard and maintenance facility	Own
Tulsa, OK	100,000 sq. ft.	Office building	Own
Catoosa, OK	30 acres	Manufacturing, warehouse and office	Own
Tulsa, OK	73 acres, 163,000 sq. ft.	Manufacturing, warehouse and office	Own
Edmonton, Alberta, Canada		Fabrication facility	Own
Ft. McMurray, Alberta, Canada		Fabrication facility	Own
Panama		Office space	Leased
Houston, TX		Office space	Leased
Tulsa, OK	35,000 sq. ft.	Office space	Leased
Salt Lake City, UT		Office space	Leased
Kansas City, MO		Office space	Leased
Oman		Office space and general warehouse building	Leased

We lease other facilities used in our operations, primarily sales/shop offices, equipment sites and expatriate housing units in the United States, Canada and Oman. Rent expense for all leased facilities was \$1.6 million in 2007 and \$1.5 million in 2006.

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 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, and 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.

Item 1A. Risk Factors

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

RISKS RELATED TO OUR BUSINESS

We may continue to experience losses associated with our prior Nigeria based operations.

In February 2007, we completed the sale of our Nigerian operations. In August 2007, we and our subsidiary, Willbros International Services (Nigeria) Limited, entered into a Global Settlement Agreement with Ascot Offshore Nigeria Limited (Ascot), the purchaser of our Nigerian operations and Berkeley Group Plc, the purchaser's parent company. Among the other matters, the Global Settlement Agreement (GSA) provided for the payment of an amount in full and final settlement of all disputes between Ascot and us related to the working capital adjustment to the closing purchase price under the February 2007 share purchase agreement. In connection with the sale of our Nigerian operations, we also entered into a Transition Services Agreement, and Ascot delivered a promissory note in favor of us.

The Global Settlement Agreement provided for a settlement in the amount of \$25,000, the amount by which we and Ascot agreed to adjust the closing purchase price downward (the Settlement Amount). Under the Global Settlement Agreement, we retained approximately \$13,900 of the Settlement Amount and credited this amount to the account of Ascot for amounts which were due to us under the Transition Services Agreement and promissory note. Our payment of the balance of the Settlement Amount settled any and all obligations and disputes between Ascot and us in relation to the adjustment to the closing purchase price under the share purchase agreement.

As part consideration for the parties' agreement on the Settlement Amount, Ascot secured with non-Nigerian banks supplemental backstop letters of credit totaling \$20,322. In addition, upon the payment of the balance of the Settlement Amount, all of the parties' respective rights and obligations under the indemnification provisions of the share purchase agreement were terminated, except as provided in the Global Settlement Agreement.

We may continue to experience losses or incur expenses subsequent to the sale and disposition of our operations and the Global Settlement Agreement. In particular:

Although we believe Ascot's provisions of supplemental backstop letters of credit has minimized our letter of credit risk, the same difficulties which led to our leaving Nigeria continue to exist. Ascot's continued willingness and ability to perform our former projects in West Africa are important ingredients to further reducing our risk profile in Nigeria and elsewhere in West Africa. As such, it was important under the Global Settlement Agreement to receive additional assurances from Ascot related to ongoing projects because of our continuing parent guarantees on those projects.

We issued parent company guarantees to our former clients in connection with the performance of some of our contracts in Nigeria and nearby West Africa locations. Although Ascot is now responsible for completing these projects, our guarantees may remain in force in varying degrees until the projects are completed. Indemnities are in place pursuant to which Ascot and its parent company are obligated to indemnify us for any losses we incur on these guarantees. However, we can provide no assurance that we will be successful in enforcing our indemnity rights. The guarantees include five projects under which we estimated that, at February 7, 2007, there was aggregate remaining contract revenue of approximately \$352,107, and aggregate cost to complete of approximately \$293,562.

Recently, we received our first notification asserting various rights under one of our outstanding parent guarantees. On February 1, 2008, WWAI, the Ascot company performing the West African Gas Pipeline (WAGP) contract, received a letter from West African Gas Pipeline Company Limited (WAPCo), the owner of WAGP, wherein WAPCo gave written notice alleging that WWAI was in default under the WAGP contract, as amended, and giving WWAI a brief cure period to remedy the alleged default. We understand that WWAI responded by denying being in breach of its WAGP contract obligations, and apparently also advised WAPCo that WWAI ...requires a further \$55 million, without which it will not be able to complete the work which it had previously undertaken to perform. We understand that, on February 27, 2008, WAPCo terminated the WAGP contract for the alleged continuing non-performance of WWAI, but simultaneously expressed that WAPCo was willing to re-engage WWAI under a new contract to finish some of the remaining WAGP contract work, and otherwise provide transition services to facilitate the handover of other unfinished WAGP contract work to alternative contractors yet to be identified.

Also, on February 1, 2008, we received a letter from WAPCo reminding us of our parent guarantee on the WAGP contract and requesting that we remedy WWAI's default under that contract, as amended. On previous occasions, we have advised WAPCo that, for a variety of legal, contractual, and other reasons, we did not consider our prior WAGP contract parent guarantee to have continued application, and we reiterated that position to WAPCo in our response to its February 1, 2008 letter. WAPCo disputes our position that we are no longer bound by the terms of our prior parent guarantee of the WAGP contract and has reserved all its rights in that regard. We anticipate that this developing dispute with WAPCo could result in a lengthy arbitration proceeding between WAPCo and WWAI in the London Court of International Arbitration to determine the validity of the alleged default notice issued by WAPCo to WWAI, including any resulting damage award, in combination with a lawsuit between WAPCo and us in the English Courts under English law to determine the enforceability, in whole or in part, of our parent guarantee, which we expect to be a lengthy process.

We have no intention of returning to Nigeria. If ultimately it is determined by an English Court that we are liable, in whole or in part, for damages that WAPCo may establish against WWAI for WWAI's alleged non-performance of the WAGP contract, or if WAPCo is able to establish liability against us directly under our parent company guarantee, and, in either case, we are unable to enforce our rights under the indemnity agreement entered into with Ascot in connection with the WAGP contract, we may experience substantial losses. However, management cannot, at this time, predict the outcome of any arbitration or litigation which may ensue in this developing WAGP contract dispute, or be certain of the degree to which the indemnity agreement given in our favor by Ascot will protect us. Based upon our current knowledge of the relevant facts and circumstances, we do not expect that the outcome of the dispute will have a material adverse effect on our financial condition or results of operations.

Although our current activities in Nigeria are now confined to providing a modest array of transition services to the new owner, including making available to Ascot currently four of our employees, if we are unable to continue to provide such transition services, or if the buyer is otherwise unable to perform under our contracts that were in effect as of the closing date, we may be required to respond under our parent company guarantees discussed above.

We may experience difficulty redeploying to our continuing operations certain owned equipment which is located in West Africa and which was not conveyed to Ascot at the closing of the sale of our Nigeria operations.

We have reached agreements in principle with the DOJ and the SEC to settle investigations involving possible violations of the Foreign Corrupt Practices Act (FCPA) and possible violations of the Securities Act of 1933 and the Securities Exchange Act of 1934. If a final settlement is not approved, our liquidity position and financial results could be materially adversely affected.

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 our investigation, we determined that J. Kenneth Tillery, then President of Willbros International, Inc (WII) and the individual principally responsible at that time for our 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. In January 2005, our 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 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. Our investigations determined that some of the actions of Mr. Tillery and other employees or consultants of WII or its subsidiaries may have caused us to violate U.S. securities laws, including the FCPA, and/or other U.S. and foreign laws.

We have voluntarily reported the results of our investigations to both the SEC and the DOJ. We have also voluntarily reported certain 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. The SEC and the DOJ have been investigating actions taken by us and our former employees and representatives that may constitute violations of U.S. law. We continue to cooperate fully with all such investigations.

We have reached agreements in principle to settle the DOJ and the SEC investigations. As a result of the agreements in principle, we have established aggregate reserves relating to these matters of \$32,300. The aggregate reserves reflect our estimate of the expected probable loss with respect to these matters, assuming the settlement is finalized. Of the \$32,300 in aggregate reserves, \$22,000, representing the anticipated DOJ fines, was recorded as an operating expense for continuing operations and \$10,300, representing anticipated SEC disgorgement of profits and pre-judgment interest, was recorded as an operating expense for discontinued operations. In January 2008, the Company submitted a signed Consent Decree and Agreed Final Judgment to the SEC and, as required by the SEC, deposited the first installment payment of \$2,575 into an escrow account.

These settlements in principle are contingent upon the parties' agreement to the terms of final settlement agreements and require final approval from the DOJ and the SEC and confirmation by a federal district

court. We can provide no assurance that such approvals will be obtained. If a final resolution is not concluded, we believe it is probable that the DOJ and SEC will seek civil and criminal sanctions against us as well as fines, penalties and disgorgement. If ultimately imposed, or if agreed to by settlement, such sanctions may exceed the current amount we have estimated and reserved in connection with the settlements in principle.

In addition, with respect to OFAC's investigation, OFAC and Willbros USA, Inc. have agreed in principle to settle the allegations pursuant to which we will pay a total of \$6.6 as a civil penalty.

The terms of final settlements with the DOJ and SEC, and the prosecution of former employees that will follow, may negatively impact our ongoing operations.

Upon completion of final settlements with the DOJ and SEC, we expect to be subject to ongoing review and regulation of our business operations, including the review of our operations and compliance program by a government approved independent monitor. The activities of the independent monitor will have a cost to us and may cause a change in our processes and operations, the outcome of which we are unable to predict. In addition, the settlements, and the prosecution of former employees that will follow, may impact our operations or result in legal actions against us in countries that are the subject of the settlements. The settlements could also result in third-party claims against us, which may include claims for special, indirect, derivative or consequential damages.

Our failure to comply with the terms of settlement agreements with the DOJ and SEC would have a negative impact on our ongoing operations.

Under the settlements in principle with the DOJ and SEC, we expect to be subject to a three-year deferred prosecution agreement and to be permanently enjoined by the federal district court against any future violations of the federal securities laws. Our failure to comply with the terms of the settlement agreements with the DOJ and SEC could result in resumed prosecution and other regulatory sanctions, and could otherwise negatively affect our operations. In addition, if we fail to make timely payment of the penalty amounts due to the DOJ and/or the disgorgement amounts specified in the SEC settlement, the DOJ and/or the SEC will have the right to accelerate payment, and demand that the entire balance be paid immediately. Our ability to comply with the terms of the settlements is dependent on the success of our ongoing compliance program, including:

- our supervision, training and retention of competent employees;

- the efforts of our employees to comply with applicable law and our Foreign Corrupt Practices Act Compliance Manual and Code of Business Conduct and Ethics; and

- our continuing management of our agents and business partners.

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

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

Our management has concluded that we did not maintain effective internal controls over financial reporting as of December 31, 2007, 2006, 2005 and 2004. Management's assessment of the effectiveness of the Company's internal control over financial reporting as of December 31, 2007 identified a material weakness and confirmed that a previously disclosed material weakness in our internal control over financial reporting continued to exist. We believe that the other material weaknesses reported as of December 31, 2006 were eliminated in February 2007 as a result of the sale of our Nigerian assets and operations. However, our inability to remediate these material weaknesses prior to February 2007, our most recent material weaknesses and any other control deficiencies that we may discover in the future, could adversely affect our ability to report our financial condition and results of operations accurately and on a timely basis. As a result, our business, operating results and liquidity could be harmed.

As disclosed in our Annual Reports on Form 10-K for 2007, 2006, 2005 and 2004, management's assessment of our internal controls over financial reporting identified several material weaknesses. These

material weaknesses led to the restatement of our previously issued consolidated financial statements for fiscal years 2002 and 2003 and the first three quarters of 2004. Although we made progress in executing our remediation plans during 2005 and 2006, including the remediation of three material weaknesses, as of December 31, 2006, management concluded that we did not maintain effective internal controls over financial reporting due to the following remaining material weaknesses in internal controls:

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

Nigeria project controls estimate to complete: A material weakness existed related to controls over the Nigeria project reporting. This weakness existed throughout 2006 and is a continuation of a material weakness reported in our 2005 Form 10-K. The weakness primarily impacted one large Nigeria project with a total contract value of approximately \$165.0 million, for which cost estimates were not updated timely in the fourth quarter of 2006 due to insufficient measures being taken to independently verify and update reliable cost estimates. This material weakness specifically resulted in material changes to revenue and cost of sales during the preparation of our year-end financial statements by our accounting staff prior to their issuance.

Moreover, management's assessment of the effectiveness of the Company's internal control over financial reporting as of December 31, 2007 identified a material weakness and confirmed that a material weakness in our internal control over financial reporting previously identified on November 13, 2007 continued to exist. The newly identified material weakness relates to a lack of proper control over the update and renew of the worker's compensation insurance rate master file. The previously identified material weakness relates to management's review of subcontract cost calculations for a project in Canada.

The remediation plan for the material weakness relating to the lack of proper control over the update and review of the worker's compensation insurance rate master file consists of developing additional documented control procedures to ensure the worker's compensation insurance rate master file is accurately updated in a timely manner and the worker's compensation insurance cost calculations are performed accurately using the updated master file data. The remediation plan for the previously identified material weakness relating to management review of subcontract cost calculations began in the fourth quarter of 2007 and consists of:

- hiring an additional project controller;

- enhancing the management review process; and

- introducing system upgrades to automate certain processes, which management believes will prevent the omission of previously identified costs, such as those described above.

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

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

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

- increasing our supervision of accounting personnel;

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

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

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

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

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

We believe that our reported material weaknesses at December 31, 2006 were eliminated in February 2007 upon the sale of our Nigeria assets and operations since those material weaknesses related solely to our operations in that country. However, our inability to remediate these material weaknesses prior to February 2007, our most recent material weaknesses and any other control deficiencies we identify in the future, could adversely affect our ability to report our financial results on a timely and accurate basis, which

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

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

Our revenue and cash flow are primarily dependent upon major engineering and construction projects. The availability of these types of projects is dependent upon the economic condition of the oil, gas and power industries, 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 as well as refining margins;

the demand for electricity;

the abilities of oil, gas and power companies to generate, access and deploy capital;

exploration, production and transportation costs;

the discovery rate of new oil and gas reserves;

the sale and expiration dates of oil and gas leases and concessions;

regulatory restraints on the rates that power companies may charge their customers;

local and international political and economic conditions;

the ability or willingness of host country government entities to fund their budgetary commitments; and

technological advances.

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

Our bonding company provides surety bonds on a case-by-case basis for projects in North America and requires that we post backstop letters of credit in the amount of \$25,000 which expire November 2008. We are currently negotiating with our bonding company to eliminate the requirement to provide backstop letters of credit, but we can provide no assurance that we will be successful in removing this requirement. If we are unable to obtain surety bonds, or if the cost of obtaining surety bonds is prohibitive, our ability to bid some projects may be adversely affected in the event other forms of performance guarantees such as letters of credit or parent guarantees are deemed insufficient or unacceptable. In addition, the requirement for backstop letters of credit reduces the capacity available to us under our credit facility.

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

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

Conducting operations in developing countries presents significant commercial challenges for our business. A disruption of activities, or loss of use of equipment or installations, at any location in which we have significant assets or operations, could have a material adverse effect on our financial condition and results of operations. Accordingly, we are subject to risks that ordinarily would not be expected to exist to the same extent in the United States, Canada,

Japan or Western Europe. Some of these risks include:

civil uprisings, riots and war, which can make it impractical to continue operations, adversely affect both budgets and schedules and expose us to losses;

repatriating foreign currency received in excess of local currency requirements and converting it into

dollars or other fungible currency;

exchange rate fluctuations, which can reduce the purchasing power of local currencies and cause our costs to exceed our budget, reducing our operating margin in the affected country;

expropriation of assets, by either a recognized or unrecognized foreign government, which can disrupt our business activities and create delays and corresponding losses;

availability of suitable personnel and equipment, which can be affected by government policy, or changes in policy, which limit the importation of skilled craftsmen or specialized equipment in areas where local resources are insufficient;

government instability, which can cause investment in capital projects by our potential customers to be withdrawn or delayed, reducing or eliminating the viability of some markets for our services;

decrees, laws, regulations, interpretations and court decisions under legal systems, which are not always fully developed and which may be retroactively applied and cause us to incur unanticipated and/or unrecoverable costs as well as delays which may result in real or opportunity costs; and

terrorist attacks such as those which occurred on September 11, 2001 in the United States, which could impact insurance rates, insurance coverages and the level of economic activity, and produce instability in financial markets.

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

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

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

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

Our backlog is subject to unexpected adjustments and cancellations and is, therefore, an uncertain indicator of our future earnings.

We cannot guarantee that the revenue projected in our backlog will be realized or profitable. Projects may remain in our backlog for an extended period of time. In addition, project cancellations or scope adjustments may occur, from time to time, with respect to contracts reflected in our backlog and could reduce the dollar amount of our backlog and the revenue and profits that we actually earn. Many of our contracts have termination for convenience provisions in them in some cases, without any provision for penalties or lost profits. Therefore, project terminations, suspensions or scope adjustments may occur from time to time with respect to contracts in our backlog. Finally, poor project or contract performance could also impact our backlog and profits.

Our failure to recover adequately on claims against project owners for payment could have a material adverse effect on us.

We occasionally bring claims against project owners for additional costs exceeding the contract price or for amounts not included in the original contract price. These types of claims occur due to matters such as owner-caused delays or changes from the initial project scope, which result in additional costs, both direct and indirect. Often, these claims can be the subject of lengthy arbitration or litigation proceedings, and it is often difficult to accurately predict when these claims will be fully resolved. When these types of events occur and unresolved claims are pending, we

may invest significant working capital in projects to cover cost overruns pending the resolution of the relevant claims. A failure to promptly recover on these types of claims could have a material adverse impact on our liquidity and financial condition.

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

We operate primarily in the oil, gas, power and refinery 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. Three substantial clients are responsible for 47 percent of our backlog at December 31, 2007.

Our use of fixed-price contracts could adversely affect our operating results.

A substantial portion of our projects is 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, fabrication, pipeline rehabilitation services and construction and turnaround and maintenance services to refiners and petrochemical facilities. These operations involve a high degree of operational risk. Natural disasters, adverse weather conditions, collisions and operator 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.

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. However, with respect to EPC and other contracts, we may choose to subcontract a substantial portion of the project. In the construction industry, the prime contractor is normally responsible for the performance of the entire contract, including subcontract work. Thus, when acting as a prime contractor, we are subject to the risk associated with the failure of one or more subcontractors to perform as anticipated.

Governmental regulations could adversely affect our business.

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

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

expropriation or nationalization decrees;

confiscatory tax systems;

primary or secondary boycotts directed at specific countries or companies; embargoes;

extensive import restrictions or other trade barriers;

mandatory sourcing and local participation rules;

oil, gas or power price regulation; and

unrealistically high labor rate and fuel price regulation.

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

Our strategic plan relies in part on acquisitions to sustain our growth. Acquisitions of other companies present certain risks and uncertainties.

Our strategic plan involves growth through, among other things, the acquisition of other companies. Such growth involves a number of risks, including:

inherent difficulties relating to combining previously separate businesses;

diversion of management's attention from ongoing day-to-day operations;

the assumption of liabilities of an acquired business, including both foreseen and unforeseen liabilities;

failure to realize anticipated benefits, such as cost savings and revenue enhancements;

potentially substantial transaction costs associated with business combinations;

difficulties relating to assimilating the personnel, services and systems of an acquired business and to integrating marketing, contracting, commercial and other operational disciplines; and

difficulties in applying and integrating our system of internal controls to an acquired business.

In addition, we can provide no assurance that we will continue to locate suitable acquisition targets or that we will be able to consummate any such transactions on terms and conditions acceptable to us. Acquisitions may bring us into businesses we have not previously conducted and expose us to additional business risks that are different than those we have traditionally experienced.

Our operations expose us to potential environmental liabilities.

Our U.S. 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.

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 Conservation 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 ability to increase our revenues and operating profits is partly dependent on our ability to secure additional specialized pipeline construction equipment, either through lease or purchase. The availability of such equipment in the current market is highly limited.

Due to the substantial increase in investment in energy-related infrastructure, particularly hydrocarbon transportation, our industry is currently experiencing shortages in the availability of certain specialized equipment

essential to the construction of large diameter pipelines. We expect that these shortages will persist or even worsen. If we are unsuccessful in obtaining essential construction equipment on reasonable terms, our growth may be curtailed.

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-US operations became taxable in the United States.

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

We are dependent upon the services of our executive management.

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

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

We are a corporation organized under the laws of the Republic of Panama. In addition, one of our current board members is a resident of Canada. Accordingly:

it may not be possible to effect service of process on non-resident directors in the United States and to enforce judgments against them predicated on the civil liability provisions of the federal securities laws of the United States;

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 U.S. 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 U.S. federal securities laws by us or our management than it would otherwise be in the case of a U.S. corporation.

Our goodwill may become impaired.

We have a substantial amount of goodwill following our recent acquisition of InServ. At least annually, we evaluate our goodwill for impairment based on the fair value of each operating unit. This estimated fair value could change if there were future changes in our capital structure, cost of debt, interest rates, capital expenditure levels or ability to perform at levels that were forecasted. These changes could result in an impairment that would require a material non-cash charge to our results of operations.

RISKS RELATED TO OUR COMMON STOCK

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 U.S. tax law;

provide for a classified board of directors, which allows only one-third of our directors to be elected each year;

restrict the ability of stockholders to take action by written consent;

establish advance notice requirements for nominations for election to our Board of Directors; and

authorize our Board of Directors to designate the terms of and issue new series of preferred stock.

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

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

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

In the event we issue stock as consideration for certain acquisitions, we may dilute share ownership.

We grow our business organically as well as through acquisitions. One method of acquiring companies or otherwise funding our corporate activities is through the issuance of additional equity securities. If we do issue additional equity securities, such issuances may have the effect of diluting our earnings per share as well as our existing stockholders' individual ownership percentages in our company.

Our prior sale of common stock, warrants and convertible notes, and our outstanding warrants and convertible notes may lead to further dilution of our issued and outstanding stock.

On November 20, 2007, we completed an underwritten public offering of 7,906,250 shares of our common stock. In October 2006, we sold 3,722,360 shares of our common stock and warrants to purchase an additional 558,354 shares. The recent issuance of warrants and the prior issuance of \$70.0 million in aggregate principal amount of our 2.75% Convertible Senior Notes due 2024 and \$84.5 million of our 6.5% Senior Convertible Notes due 2012 (the 6.5% Notes) may cause a significant increase in the number of shares of common stock currently outstanding. In May 2007, we induced the conversion of approximately \$52.5 million in aggregate principal amount of our outstanding 6.5% Notes into a total of 2,987,582 shares of our common stock and may elect to enter into similar transactions in the future. If we agree to induce the conversion of additional convertible notes, we may cause a significant additional increase in the number of shares of common stock currently outstanding.

In August 2006, our stockholders approved an increase in our authorized shares of common stock from 35 million to 70 million shares. The issuance of additional common stock or securities convertible into our common stock would result in further dilution of the ownership interest in us held by existing stockholders. We are authorized to issue, without stockholder approval, one million shares of Class A preferred stock, which may give other stockholders dividend, conversion, voting and liquidation rights, among other rights, which may be superior to the rights of holders of our common stock. Our Board of Directors has no present intention of issuing any such Class A preferred stock, but reserves the right to do so in the future.

Item 1B. Unresolved Staff Comments

None.

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.

The Company and its subsidiary, WII, have reached an agreement in principle with representatives of the DOJ, subject to approval by the DOJ, to settle its previously disclosed investigation into possible violations of the FCPA. In addition, the Company has reached an agreement in principle with the staff of the SEC to resolve its previously disclosed investigation of possible violations of the FCPA and possible violations of the Securities Act of 1933 and the Securities Exchange Act of 1934. These investigations stem primarily from the Company's former operations in Bolivia, Ecuador and Nigeria. As described more fully below, if accepted by the DOJ and the SEC and approved by the court, the settlements together will require us to pay over approximately three years, a total of \$32,300 in penalties and disgorgement, plus post-judgment interest on \$7,725 of that amount. In addition, WGI and WII will, for a period of approximately three years, each be subject to Deferred Prosecution Agreements (DPAs) with the DOJ. Finally, we will be subject to a permanent injunction barring future violations of certain provisions of the federal securities laws.

The terms of the agreement in principle with the DOJ include the following:

A six-count criminal information will be filed against WGI and WII as part of the execution of the DPAs between the DOJ and each of WGI and WII. The six counts include substantive violations of the anti bribery provisions of the FCPA, and violations of the FCPA's books-and-records provisions. All six counts relate to operations in Nigeria, Ecuador and Bolivia during the period from 1996 to 2005.

Provided that WGI and WII fully comply with the DPAs for a period of approximately three years, the DOJ will agree not to continue the criminal prosecution and, at the conclusion of that time, will move to dismiss the criminal information.

The DPAs will require, for each of their three year terms, among other things, full cooperation with the government; compliance with all federal criminal law, including but not limited to the FCPA; and a three year monitor for WGI and its subsidiary companies, primarily focused on international operations outside of North America, the costs of which are payable by WGI.

The Company will be subject to \$22,000 in fines related to FCPA violations. The fines are payable in four equal installments of \$5,500, first on signing, and annually for approximately three years thereafter, with no interest payable on the unpaid amounts.

With respect to the agreement in principle with the staff of the SEC:

The Company will consent to the filing in federal district court of a complaint by the SEC (the Complaint), without admitting or denying the allegations in the Complaint, and to the imposition by the court of a final judgment of permanent injunction against us. The Complaint will allege civil violations of the antifraud

provisions of the Securities Act and the Securities Exchange Act, the FCPA's anti-bribery provisions, and the reporting, books-and-records and internal controls provisions of the Securities Exchange Act. The final judgment will not take effect until it is confirmed

by the court, and will permanently enjoin us from future violations of those provisions.

The final judgment will order the Company to pay \$10,300, consisting of \$8,900 for disgorgement of profits and approximately \$1,400 of pre-judgment interest. The disgorgement and pre-judgment interest is payable in four equal installments of \$2,575, first on signing, and annually for approximately three years thereafter.

Post-judgment interest will be payable on the outstanding balance. In January 2008, the Company submitted a signed Consent Decree and Agreed Final Judgment to the SEC and, as required by the SEC, deposited the first installment payment of \$2,575 into an escrow account.

Failure by the Company to comply with the terms and conditions of either settlement could result in resumed prosecution and other regulatory sanctions.

The agreements in principle are contingent upon the parties' agreement to the terms of final settlement agreements, approval by the DOJ and the SEC and confirmation by a federal district court. There can be no assurance that the settlements will be finalized.

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.

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 2007 through the solicitation of proxies or otherwise.

Item 4A. Executive Officers of the Registrant

The following table sets forth information regarding the Company's executive officers. Officers are elected annually by, and serve at the discretion of, our Board of Directors.

Name	Age	Position(s)
Robert R. Harl	57	Director, President, Chief Executive Officer and Chief Operating Officer
John K. Allcorn	46	Executive Vice President
John T. Dalton	56	Senior Vice President and General Counsel
Van A. Welch	53	Senior Vice President and Chief Financial Officer

Robert R. Harl was elected to the Board of Directors and as President and Chief Operating Officer of Willbros Group, Inc. in January 2006, and as Chief Executive Officer in January 2007. Mr. Harl has over 30 years experience working with Kellogg Brown & Root (KBR), a global engineering, construction and services company, and its subsidiaries in a variety of officer capacities, serving as President of several of the KBR business units. Mr. Harl's experience includes executive management responsibilities for units serving both upstream and downstream oil and gas sectors as well as power, government and infrastructure sectors. He was President and Chief Executive Officer of KBR from March 2001 until July 2004 when he was appointed Chairman, a position he held until January 2005. KBR filed for reorganization under Chapter 11 of the US Bankruptcy Code in December 2003 in order to discharge certain asbestos and silica personal injury claims. The order confirming KBR's plan of reorganization became final in December 2004, and the plan of reorganization became effective in January 2005. Mr. Harl was engaged as a consultant to Willbros from August 2005 until he became an executive officer and director of Willbros in January 2006.

John K. Allcorn joined Willbros in May 2000 as Senior Vice President of Willbros International, Inc. and was elected Executive Vice President of Willbros Group, Inc. in 2001. Mr. Allcorn was employed at US Pipeline, Inc., a North American pipeline construction company, as Senior Vice President, from July 1997 until joining Willbros in May 2000. He served from 1985 to 1997 at Gregory & Cook, Inc., an international pipeline construction company, in various management capacities including Vice President from June 1996 to July 1997. Mr. Allcorn has over 21 years of pipeline industry experience including an established record in operations management, finance, and business development.

John T. Dalton joined Willbros in November 2002 and was elected Senior Vice President and General Counsel of Willbros Group, Inc. Mr. Dalton has over 28 years of oil and gas industry experience having worked in both the owner and contractor regimes. From 1993 to November 2002, Mr. Dalton served as outside counsel to Willbros advising on contracts. Between 1980 and 1993, Mr. Dalton was employed by

Occidental Petroleum Corporation (Occidental) where he served as an officer and chief legal counsel to various business units in Occidental s oil and gas division, both domestically and in Colombia, Pakistan and the United Kingdom. Before entering private practice in 1993, Mr. Dalton s last position with Occidental was Vice President and General Counsel of Island Creek Corporation in Lexington, Kentucky.

Van A. Welch joined Willbros in 2006 as Senior Vice President, Chief Financial Officer and Treasurer of Willbros Group, Inc.; Mr. Welch served as Treasurer until September 2007. Mr. Welch has over 28 years of experience in project controls, administrative and finance positions with KBR, Inc. (formerly known as Kellogg Brown & Root), a global engineering, construction and services company, and its subsidiaries, serving most recently as Vice President Finance and Investor Relations and as a member of KBR s executive leadership team. From 1998 to 2006, Mr. Welch held various other positions with KBR including Vice President, Accounting and Finance of the Engineering and Construction Division, Vice President, Accounting and Finance of Onshore Operations and Senior Vice President of Shared Services. Mr. Welch is a Certified Public Accountant.

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

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

	High	Low
For the year ended December 31, 2007:		
First Quarter	\$23.13	\$17.88
Second Quarter	30.63	21.86
Third Quarter	34.48	22.96
Fourth Quarter	43.53	31.81
For the year ended December 31, 2006:		
First Quarter	\$21.23	\$14.46
Second Quarter	24.53	17.38
Third Quarter	19.47	15.00
Fourth Quarter	19.93	14.00

Substantially all of our stockholders maintain their shares in street name accounts and are not, individually, stockholders of record. As of February 8, 2008, our common stock was held by 100 holders of record and an estimated 10,805 beneficial owners.

Dividend Policy

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

Issuer Purchases of Equity Securities

The following table provides information about purchases of our common stock by us during the fourth quarter of 2007:

	Total Number of Shares Purchased⁽¹⁾	Average Price Paid Per Share⁽²⁾	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number (or Approximate Dollar Value) of Shares That May Yet Be Purchased Under the Plans or Programs
October 1, 2007 – October 31, 2007		\$		
November 1, 2007 – November 30, 2007	6,943	35.66		

December 1, 2007	December 31, 2007	10,389	38.33
Total		17,332	\$ 37.26

(1) Represents shares of common stock acquired from certain of our officers and key employees under the share withholding provisions of our 1996 Stock Plan for the payment of taxes associated with the vesting of shares of restricted stock granted under such plan.

(2) The price paid per common share represents the closing sales price of a share of our common stock as reported by the New York Stock Exchange on the day that the stock was acquired by us.

Item 6. Selected Financial Data**SELECTED CONSOLIDATED FINANCIAL AND OTHER DATA**

(Dollar amounts in thousands, except per share data)

	Year Ended December 31,				
	2007	2006	2005⁽¹⁾	2004⁽¹⁾⁽²⁾	2003⁽¹⁾⁽²⁾
Statement of Operations Data:					
Contract revenue	\$ 947,691	\$ 543,259	\$ 294,479	\$ 272,794	\$ 271,021
Operating expenses: ⁽⁵⁾					
Contract ⁽⁵⁾	847,918	497,236	273,273	229,344	258,012
Amortization of intangibles	794				
General and administrative ⁽⁵⁾	68,071	58,054	46,837	35,314	30,263
Government fines	22,000				
Operating income (loss)	8,908	(12,031)	(25,631)	8,136	(17,254)
Interest expense, net	(3,103)	(8,265)	(3,904)	(2,480)	(518)
Other income (expense)	(3,477)	569	742	(387)	(965)
Loss on early extinguishment of debt	(15,375)				
Income (loss) from continuing operations before income taxes	(13,047)	(19,727)	(28,793)	5,269	(18,737)
Provision (benefit) for income taxes	14,503	2,308	1,668	(1,027)	(8,726)
Net income (loss) from continuing operations	(27,550)	(22,035)	(30,461)	6,296	(10,011)
Loss from discontinued operations net of provision for income taxes	(21,414)	(83,402)	(8,319)	(27,111)	(906)
Net loss	\$ (48,964)	\$ (105,437)	\$ (38,780)	\$ (20,815)	\$ (10,917)
Basic income (loss) per share:					
Continuing operations	\$ (0.94)	\$ (0.98)	\$ (1.43)	\$ 0.30	\$ (0.49)
Discontinued operations	(0.73)	(3.72)	(0.39)	(1.29)	(0.04)
Net loss	(1.67)	\$ (4.70)	\$ (1.82)	\$ (0.99)	\$ (0.53)
Diluted income (loss) per share:					
Continuing operations	\$ (0.94)	\$ (0.98)	\$ (1.43)	\$ 0.30	\$ (0.49)
Discontinued operations	(0.73)	(3.72)	(0.39)	(1.29)	(0.04)
Net loss	\$ (1.67)	\$ (4.70)	\$ (1.82)	\$ (0.99)	\$ (0.53)
Cash Flow Data:					
Cash provided by (used in):					
Operating activities	\$ (17,812)	\$ (103,352)	\$ (37,117)	\$ 37,410	\$ (15,209)
Investing activities	(150,601)	33,373	(36,964)	(36,751)	(32,589)
Financing activities	221,359	51,550	56,830	54,362	17,794

Effect of exchange rate changes	2,297	139	17	(829)	631
Balance Sheet Data (at period end):					
Cash and cash equivalents	\$ 92,886	\$ 37,643	\$ 55,933	\$ 73,167	\$ 18,975
Working capital	201,348	170,825	204,960	108,643	83,728
Total assets	779,413	589,982	498,885	417,110	304,694
Total liabilities	383,312	490,323	353,651	237,066	110,167
Total debt	152,346	167,139	138,020	73,495	18,322
Stockholders equity	396,101	97,931	145,234	180,044	194,527
Other Financial Data (excluding discontinued operations):					
EBITDA ⁽³⁾	\$ 10,731	\$ 968	\$ (13,201)	\$ 17,525	\$ (8,341)
Capital expenditures, excluding acquisitions	35,634	12,264	25,111	15,733	9,975
Backlog (at period end) ⁽⁴⁾	1,305,441	602,272	240,373	73,343	151,074
Number of employees (at period end):					
	5,475	4,156	2,519	1,381	1,478

(1) These amounts have been changed retrospectively to reflect the classification of discontinued operations as filed in the Form 8-K on December 12, 2006.

- (2) These amounts are presented as restated in the 2004 Form 10-K.
- (3) EBITDA from continuing operations represents earnings from continuing operations before net interest, income taxes, depreciation and amortization. EBITDA from continuing operations is not intended to represent cash flows for the respective period, nor has it been presented as an alternative to operating income from continuing operations as an indicator of operating performance. It should not be considered in isolation or as a substitute for measures of performance prepared in accordance with accounting principles generally accepted in the United States.

See our Consolidated Statements of Cash Flows in our Consolidated Financial Statements included elsewhere in this Form 10-K. EBITDA from continuing operations is included in this Form 10-K because it is one of the measures through which we assess our financial performance. EBITDA from continuing operations as presented may not be comparable to other similarly titled measures used by other companies. A reconciliation of EBITDA from continuing operations to GAAP financial information is provided in the table below.

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

reasonably
assured.

- (5) Historically, the Company has shown depreciation and amortization as a separate line item on its Consolidated Statements of Operations. Effective for the fiscal year ended December 31, 2007, Depreciation and amortization related to operating activities is included in Contract and Depreciation and amortization related to general and administrative activities is included General and Administrative (G&A). This change in presentation was made to bring the Company s presentation of financial results in line with its peers and provide greater comparability of its results within the industry.

Year Ended December 31,

	2007	2006	2005	2004	2003
Reconciliation of non-GAAP financial measure:					
Net income (loss) from continuing operations	\$ (27,550)	\$ (22,035)	\$ (30,461)	\$ 6,296	\$ (10,011)
Interest, net	3,103	8,265	3,904	2,480	518
Provision (benefit) for income taxes	14,503	2,308	1,668	(1,027)	(8,726)
Depreciation and amortization	20,675	12,430	11,688	9,776	9,878
EBITDA from continuing operations	\$ 10,731	\$ 968	\$ (13,201)	\$ 17,525	\$ (8,341)

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

The following discussion should be read in conjunction with the consolidated financial statements for the years ended December 31, 2007, 2006, and 2005, included in Item 8 of this Form 10-K.

OVERVIEW

Our Business

We are an independent international contractor serving the oil, gas and power industries; government entities; and with the November 2007 acquisition of Integrated Services Company LLC (InServ), the refinery and petrochemical industries. We provide engineering; construction; engineering, procurement and construction (EPC); and specialty services to industry and governmental entities worldwide, specializing in pipelines and associated facilities for onshore and coastal locations. We provide turnaround services, tank services, heater services, construction services and safety services to the downstream oil and gas markets, primarily refineries. We also manufacture specialty items for refinery and petrochemical process units. We provide, from time to time, asset development and participate in ownership and operations as an extension of our portfolio of industry services. We place particular emphasis on achieving the best risk-adjusted returns. Depending upon market conditions, we may work in developing countries and we believe our experience gives us a competitive advantage in frontier areas where experience in dealing with project logistics is an important consideration for project award and execution. We also believe our engineering, and planning and project management expertise, as it relates to optimizing the structure and execution of a project, provides us competitive advantage in all the markets we address.

In particular, we are a leading service provider to the hydrocarbon pipeline market, having performed work in 59 countries and constructed over 200,000 kilometers of pipelines in our history, which we believe positions us in the top tier of pipeline contractors in the world. We complement our pipeline construction expertise with our service offering to the downstream market providing integrated solutions for turnaround, maintenance and capital projects for the hydrocarbon processing and petrochemical industries. We have performed these downstream services for 60 of 149 refineries in the United States. Together these business lines allow us to offer a wide range of services to our customers, including engineering, project management, construction services and specialty services, such as operations and maintenance, each of which we offer discretely or in combination as a fully integrated offering, which we refer to as EPC.

Our Segments

As a result of our acquisition of InServ in November 2007, we expanded our service offering to include the refinery and petrochemical markets. The business was reorganized into three new segments, *Upstream Oil & Gas* (O&G), *Downstream O&G*, and *Engineering*. We can support our clients' needs related to EPC projects through any of our segments.

Upstream O&G

We provide our construction expertise including systems, personnel and equipment to construct and replace large-diameter cross-country pipelines; fabricate engineered structures, process modules and facilities; and construct oil and gas production facilities, pump stations, flow stations, gas compressor stations, gas processing facilities and other related facilities. We also provide certain specialty services to increase our equipment and personnel utilization. We currently provide these services in the United States, Canada, and Oman through our *Upstream O&G* segment, and with our international experience can enter (or re-enter) individual country markets if conditions there are attractive to us.

Downstream O&G

We provide turnkey project execution through program management and EPC services. We are one of four major contractors in the United States that provides services for the overhaul of high-utilization fluid catalytic cracking units, the primary gasoline-producing unit in refineries. These catalytic cracking units, which operate continuously for long periods of time, are typically overhauled on a three to five-year cycle. We also provide similar turnaround services for other refinery process units, as well as specialty services associated with welding, piping and process heaters. We provide these services primarily in the United States, but our experience includes international projects and we are exploring opportunities to expand this offering to other attractive risk-adjusted locations with our *Downstream O&G*

segment.

Engineering

We specialize in providing engineering services, from feasibility studies to detailed design work, to assist clients in conceptualizing, evaluating, designing and managing the construction or expansion of pipelines, compressor stations, pump stations, fuel storage facilities, field gathering facilities and production facilities. We provide these services primarily in the United States through our *Engineering* segment.

Our Strategy

We work diligently to increase stockholder value by leveraging our competitive strengths to take advantage of the current opportunities in the global energy infrastructure market and position ourselves for sustained long-term growth. Core tenets of our strategy are described below.

Focus on managing risk.

We have implemented a core set of business conduct, practices and policies which have fundamentally improved our risk profile. We have implemented our risk management policy by exiting higher risk countries, increasing our activity levels in lower risk countries, diversifying our service offerings and end markets, practicing rigorous financial management and limiting contract execution risk. Risk management is emphasized throughout all levels of the organization and covers all aspects of a project from strategic planning and bidding to contract management and financial reporting.

Focus resources in markets with the highest risk-adjusted return. We believe North America currently offers us the highest risk-adjusted returns and the majority of our resources are focused on this region. For 2007 we earned 90 percent of our revenue in North America. However, we continue to seek international opportunities which can provide superior risk-adjusted returns and believe our extensive international experience is a competitive advantage. We believe that markets in North Africa and the Middle East, where we also have substantial experience, may offer attractive opportunities for us in the future given mid and long-term industry trends.

Maintain a conservative contract portfolio. Our current contract portfolio is composed of 74.9 percent cost-reimbursable work which provides for a more equitable allocation of risk between us and our customers. While strong current market conditions have been beneficial in transitioning our backlog away from higher-risk, fixed-price contracts, we intend to maintain a balanced risk-to-reward portfolio.

Ethical business practices. We demand that all of our employees and representatives conduct our business in accordance with the highest ethical standards in compliance with applicable laws, rules and regulations, with honesty and integrity, and in a manner which demonstrates respect for others.

Leverage core capabilities and industry reputation into a broader service offering.

We believe the global energy infrastructure market remains capacity constrained and we are focused on new opportunities within this market. Additionally, we believe our core capabilities can be expanded beyond the global energy infrastructure market and we are selectively evaluating these prospects. In November of 2007, we completed the acquisition of InServ which allowed us to enter the downstream energy infrastructure market.

Our potential customers are invoking contract award criteria other than price, such as safety performance, schedule certainty and specialty expertise. Our established platform and track record strongly position us to capitalize on this trend by leveraging our expertise into a broader range of related service offerings. While we currently provide a number of discrete services to both our core and other end-markets, we believe additional opportunities exist to expand our core capabilities through both acquisitions and internal growth initiatives. We strive to leverage our project management, engineering and construction skills to establish additional service offerings, such as instrumentation and electrical services, turbo- machinery services, environmental services and pipeline system integrity services. We expect this approach to enable us to attract more critical service resources in a tight market for both qualified personnel and critical equipment resources.

Establish and maintain financial flexibility.

As we address increasingly larger projects and the complex interaction of multiple projects simultaneously underway, we must possess the financial flexibility to meet material, equipment and personnel needs to support our

project commitments. In 2007, we increased our working capital position, excluding Discontinued

Operations, by \$140,390 (239.1 percent) to \$199,115 from \$58,725 at December 31, 2006. This improved financial position in conjunction with our enhanced credit facility significantly improves our financial flexibility. We intend to use our credit facility for performance letters of credit, financial letters of credit and cash borrowings. Our continued emphasis is on the maintenance of a strong balance sheet to maximize flexibility and liquidity for the development and growth of our business.

Leverage core service expertise into additional full EPC contracts.

Our core expertise and service offerings allow us to provide our customers with a single source EPC solution which creates greater efficiencies to the benefit of both our customers and our company. In performing integrated EPC contracts, we establish ourselves as overall project managers from the earliest stages of project inception and are therefore better able to efficiently determine the design, permitting, procurement and construction sequence for a project in connection with making engineering decisions. Our customers benefit from a more seamless execution, while for us, these contracts often yield higher profit margins on the engineering and construction components of the contract compared to stand-alone contracts for similar services. Additionally, this contract structure allows us to deploy our resources more efficiently and capture both the engineering and construction components of these projects.

Significant Business Developments

In 2007, we made significant progress in re-establishing Willbros Group, Inc. as an industry leader. Positive events included:

We sold our interests in Nigeria in February 2007.

We achieved profitability in our continuing operations, and during the third and fourth quarters of 2007 we recorded combined net income of \$16,168 from these operations. We believe this is the result of new processes and vision for the Company and the steps that are being taken to achieve this vision.

Strategic transformation of the Company by completing two acquisitions in 2007, Midwest and InServ, which significantly expanded our capabilities in Canada and gave us an entry into the downstream oil and gas market.

We added new directors who bring industry experience and diversified expertise to lead the organization forward with its new strategic plan.

We have significantly improved our financial position through a public offering of common shares and by delivering improved operational performance. Our improved financial position enabled us to put in place a new \$150,000 revolving bank credit facility led by Calyon New York Branch as administrative agent. The new facility provides for cash borrowings of up to one-third of the facility for general corporate purposes and for financial letters of credit as well as performance letters of credit. We have the option, with the lenders' consent, to increase the size of the facility to \$200,000 within the next two years.

Significant Project Awards

During 2007, we were awarded multiple projects valued at approximately \$1,495,680, as described below:

We were awarded an installation contract for the construction of three segments of the Midcontinent Express Pipeline by Midcontinent Express Pipeline LLC, a joint venture between Kinder Morgan Energy Partners and Energy Transfer Partners (ETP). The three segments will traverse Oklahoma, Texas and Louisiana and are comprised of approximately 257 miles of 42-inch pipeline. The projected start date for the project is third quarter 2008.

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

We were awarded a contract for the construction of two sections of natural gas pipeline looping sections west of Fort McMurray for TransCanada Corporation. The two continuous segments, which total 115 kilometers of 36-inch

diameter pipeline, will include the installation of pre-fabricated valve assemblies and horizontal

directional drilling of three significant water crossings. Construction of the project began in November 2007, with final project clean-up scheduled for the 2008-2009 winter work session.

We were also awarded a contract to construct and install the Pipeline Alley tie-in connections for Kinder Morgan.

Also in Canada, we were awarded a construction contract by Suncor for pipeline and civil works associated with the Steepbank Extraction Plant (SEP). SEP is a new extraction facility to allow for the mining of a new area of the Suncor lease in the Fort McMurray region. The award includes interconnecting pipelines, ranging from 4-inch to 42-inch diameter, to the new extraction facility. The project began in July 2007.

We were awarded an EPC contract for a new pump station and the modification of four existing stations to support the expansion of Marathon Oil Company's Garyville, Louisiana refinery. Construction on this associated pipeline portion of the Garyville Major Expansion began in November 2007, with completion expected in the first quarter of 2009.

Willbros US Construction was awarded a contract by Trunkline Gas Company, a unit of Southern Union Company, to construct two pipelines that are part of Trunkline's Field Zone Expansion Project. One pipeline, a 45-mile 36-inch diameter pipeline along an existing right of way from the Kountze, Texas, compressor station to the Longville, Louisiana, compressor station, gives customers increased access to additional Texas supply. The other pipeline is a 13.5 mile, 36-inch diameter pipeline that extends from Kaplan, Louisiana, directly to the Henry Hub.

Willbros US Construction was also awarded a large diameter pipeline project for the construction of 80 miles of 42-inch diameter pipeline from Farrar to Kountze, Texas by ETP. This project was nearly complete as of December 31, 2007.

Also in the United States, Willbros Engineering was awarded contracts for front end engineering by Colonial Pipeline and additional capital project engineering activities for BP Pipelines (North America) Inc.

Financial Summary

Results and Financial Position

For the year ended December 31, 2007, we incurred a net loss from continuing operations of \$27,550 or \$0.94 per share on revenue of \$947,691. This compares to a net loss from continuing operations of \$22,035 or \$0.98 per share on revenue of \$543,259 for the year ended December 31, 2006.

Revenue for 2007 increased \$404,432 (74.4 percent) to \$947,691 from \$543,259 in 2006. Following are the key components of the increase in revenue:

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

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

Operating income for 2007 increased \$20,939 (174.0 percent) to \$8,908 from an operating loss of \$12,031 in 2006, and operating margin increased 3.1 percent to 0.9 percent in 2007 from a negative operating margin of 2.2 percent in 2006. The operating income increase is a result of the increase in contract income of \$53,750 (116.8 percent) from 2006, partially offset by the increase in general and administrative (G&A) expenses of \$10,017 and \$22,000 of government fines in 2007.

Other non-operating, net expense for 2007 increased \$14,259 (185.3 percent) to \$21,955 from \$7,696 in 2006. The other non-operating, net expense increase was primarily driven by a loss on early extinguishment of debt of \$15,375 related to the induced conversion of \$52,450 of our 6.5% convertible notes.

Provision for income taxes for 2007 increased \$12,195 (528.4 percent) to \$14,503 on a loss from continuing operations before income taxes of \$13,047 as compared to a provision for income taxes of \$2,308 on a loss from continuing operations before income taxes of \$19,727 in 2006. The increase in the provision for income taxes is due to improved operating results in the US and Canada, thereby generating more taxable income in 2007 as compared to 2006. The Company incurred income tax expense while having a loss from continuing operations as a result of approximately \$50,000 of losses incurred in Panama, where the Company is domiciled, that we were unable to offset against taxable income generated in the US and Canada, and thus, received no tax benefit.

Working capital at December 31, 2007, excluding discontinued operations, increased \$140,390 (239.1 percent) to \$199,115 from \$58,725 at December 31, 2006. The increase in working capital was primarily driven by an increase in accounts receivable of \$114,642 and contract cost and recognized income not yet billed of \$38,206, partially offset by an increase in accounts payable and accrued liabilities of \$33,990.

Our debt to equity ratio at December 31, 2007, decreased to 0.39:1 from 1.71:1 at December 31, 2006, primarily as a result of the conversion of \$54,450 of aggregate principal of our senior convertible notes and the completion of our public offering in November 2007 resulting in \$253,707 of net capital. These events are partially offset by the increase of our capital lease obligations of \$39,621 to \$51,222 at December 31, 2007.

Consolidated cash flows provided in 2007, including discontinued operations, increased \$73,533 (402.0 percent) to \$55,243 from cash consumed of \$18,290 in 2006. Cash used in operating activities in 2007 decreased \$85,540 (82.8 percent) to \$17,812 from \$103,352 in 2006. Cash used in investing activities in 2007 increased \$183,974 (551.3 percent) to \$150,601 from cash provided of \$33,373 in 2006. Cash provided by financing activities in 2007 increased \$169,809 (329.4 percent) to \$221,359 from 51,550 in 2006. Cash provided by the effect of exchange rates on cash in 2007 increased \$2,158 to \$2,297 from \$139 in 2006.

Other Financial Measures

Backlog

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

Backlog consists of anticipated revenue from the uncompleted portions of existing contracts and contracts whose award is reasonably assured. At December 31, 2007, total backlog from continuing operations increased \$703,169 (116.8 percent) to \$1,305,441 from \$602,272 at December 31, 2006. Backlog for discontinued operations was \$0 and \$406,780 at December 31, 2007 and 2006, respectively. As important as the overall growth in backlog is the composition of our backlog between fixed-price and cost reimbursable contracts. Cost reimbursable contracts comprised 74.9 percent of backlog at December 31, 2007 versus 44.8 percent of backlog at December 31, 2006. We expect that approximately \$1,089,801 or about 83.5 percent, of our existing total backlog at December 31, 2007, will be recognized in revenue during 2008.

We believe the backlog figures are firm, subject only to the cancellation and modification provisions contained in various contracts. 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 quarterly backlog reports. 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 as of December 31, 2007 and 2006:

	Year Ended December 31,			
	2007		2006	
	Amount	Percent	Amount	Percent
<i>Upstream O&G</i>	\$ 941,301	72.1%	\$ 428,839	71.2%
<i>Downstream O&G</i>	199,646	15.3%	N/A	N/A%
<i>Engineering</i>	164,494	12.6%	173,433	28.8%
Total, continuing operations	1,305,441	100.0%	602,272	100.0%
Discontinued operations			406,780	
Total backlog	\$ 1,305,441		\$ 1,009,052	

EBITDA from Continuing Operations

We use EBITDA (earnings before net interest, income taxes, depreciation and amortization) as part of our overall assessment of financial performance by comparing EBITDA between accounting periods. We believe that EBITDA is used by the financial community as a method of measuring our performance and of evaluating the market value of companies considered to be in businesses similar to ours. EBITDA from continuing operations for 2007 increased \$9,763 (1,000.8 percent) to \$10,731 from \$968 in 2006. The increase in EBITDA is primarily the result of increased contract income of \$61,919 (excluding depreciation) partially offset by an increase in G&A of \$10,735 (excluding depreciation), government fines of \$22,000 and loss on early extinguishment of debt of \$15,375.

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

Discontinued Operations

In 2006, we announced our intention to sell the TXP-4 Plant, and our assets and operations in Venezuela and Nigeria, which led to their classification as discontinued operations (Discontinued Operations). In 2006, we completed the sale of the TXP-4 Plant and our assets and operations in Venezuela. Furthermore, we sold our Nigeria assets and operations on February 7, 2007 to Ascot Offshore Nigeria Limited (Ascot) pursuant to a Share Purchase Agreement by and between us and Ascot (the Agreement).

For the year ended December 31, 2007, the loss from Discontinued Operations was \$21,414 or \$0.73 per basic share. This compares to a loss from Discontinued Operations of \$83,402 or \$3.72 per basic share for the year ended December 31, 2006. In 2007, the net loss from Discontinued Operations was comprised primarily of the accrual of a settlement amount of \$10,300 due to the SEC under an agreement in principle, consisting of \$8,900 for profit disgorgement plus \$1,400 of pre-judgment interest thereon, and results of our Nigeria operations for 38 days prior to its sale. The profit disgorgement was specifically attributable to one of our Nigerian projects, and is therefore classified as discontinued operations. Additionally, the results from Discontinued Operations include a small gain on the sale of our Nigeria assets and operations and 327 days of income for services provided under the Transition Services Agreement (TSA). During 2007, Discontinued Operations provided cash of \$1,651 from operating activities.

Transition Services Agreement

Concurrent with the sale of our Nigeria assets and Nigeria-based operations, we entered into a two-year TSA with Ascot. Under the TSA, we were primarily providing equipment and labor in the form of seconded employees to work under the direction of Ascot. Ascot has agreed to reimburse us for the seconded employee transition services costs. As of December 31, 2007 four employees remain seconded to Ascot. There remain unresolved issues related to the use of our equipment as described below which we are working toward resolving. Through December 31, 2007, total reimbursable costs totaled approximately \$23,966. We are working with Ascot to shift from the transition services provided by us to direct services secured by Ascot.

As previously discussed, we have made available certain equipment to Ascot for its use. This equipment was not sold to Ascot under the Agreement. Due to business and legal conditions in Nigeria, we took an impairment charge of \$1,542 related to this equipment in the fourth quarter of 2007. Our remaining net book value for this equipment at December 31, 2007 was \$1,205. This equipment is comprised of construction equipment, rolling stock, and generator sets. We are working with Ascot to resolve the issue of rental equipment, either through cash settlement or through an exchange of equipment.

Global Settlement Agreement (GSA)

On September 7, 2007, we finalized the GSA with Ascot. The significant components of the agreement include:

A reduction to the purchase price of \$25,000, in resolution of all working capital adjustments as provided for in the Agreement;

Ascot agreed to provide supplemental backstop letters of credit in the amount of \$20,322 issued by a non-Nigerian bank approved by the Company;

Ascot provided specific indemnities related to two ongoing projects that they acquired as part of

the Agreement; and

Except as provided in the GSA, Ascot and the Company waived all of our respective rights and obligations relating to indemnifications provided in the Agreement concerning any breach of a covenant or representation or warranty.

By finalizing the GSA with Ascot, we have further reduced our risk profile. The reduction to the purchase price was offset with amounts owed to us by Ascot of \$11,299 under the TSA and \$2,625 from a note payable. This resulted in a net payment to Ascot of \$11,076. As a result of Ascot providing non-Nigerian backstop bank letters of credit that we have ready access to, we believe our risk of incurring losses from calls being made on our outstanding letters of credit is minimized. However, during the transition from us to Ascot, their operations in Nigeria have continued to be impacted by the same difficulties that led to our exit from Nigeria, as well as by additional challenges. Ascot's continued willingness and ability to perform our former projects in West Africa are important ingredients to further reducing our risk profile in Nigeria and elsewhere in West Africa. As such, it was important to receive additional assurances from Ascot related to ongoing projects because of our continuing parent guarantees on those projects.

Recently, we received our first notification asserting rights under one of our outstanding parent guarantees. On February 1, 2008, WWAI, the Ascot company performing the West African Gas Pipeline (WAGP) contract, received a letter from West African Gas Pipeline Company Limited (WAPCo), the owner of WAGP, wherein WAPCo gave written notice alleging that WWAI was in default under the WAGP contract, as amended, and giving WWAI a brief cure period to remedy the alleged default. We understand that WWAI responded by denying being in breach of its WAGP contract obligations, and apparently also advised WAPCo that WWAI ...requires a further \$55 million, without which it will not be able to complete the work which it had previously undertaken to perform. We understand that, on February 27, 2008, WAPCo terminated the WAGP contract for the alleged continuing non-performance of WWAI, but simultaneously expressed that WAPCo was willing to re-engage WWAI under a new contract to finish some of the remaining WAGP contract work, and otherwise provide transition services to facilitate the handover of other unfinished WAGP contract work to alternative contractors yet to be identified.

Also, on February 1, 2008, we received a letter from WAPCo reminding us of our parent guarantee on the WAGP contract and requesting that we remedy WWAI's default under that contract, as amended. On previous occasions, we have advised WAPCo that, for a variety of legal, contractual, and other reasons, we did not consider our prior WAGP contract parent guarantee to have continued application, and we reiterated that position to WAPCo in our response to its February 1, 2008 letter. WAPCo disputes our position that we are no longer bound by the terms of our prior parent guarantee of the WAGP contract and has reserved all its rights in that regard. We anticipate that this developing dispute with WAPCo could result in a lengthy arbitration proceeding between WAPCo and WWAI in the London Court of International Arbitration to determine the validity of the alleged default notice issued by WAPCo to WWAI, including any resulting damage award, in combination with a lawsuit between WAPCo and us in the English Courts under English law to determine the enforceability, in whole or in part, of our parent guarantee, which we expect to be a lengthy process.

We have no intention of returning to Nigeria. If ultimately it is determined by an English Court that we are liable, in whole or in part, for damages that WAPCo may establish against WWAI for WWAI's alleged non-performance of the WAGP contract, or if WAPCo is able to establish liability against us directly under our parent company guarantee, and, in either case, we are unable to enforce our rights under the indemnity agreement entered into with Ascot in connection with the WAGP contract, we may experience substantial losses. However, management cannot, at this time, predict the outcome of any arbitration or litigation which may ensue in this developing WAGP contract dispute, or be certain of the degree to which the indemnity agreement given in our favor by Ascot will protect us. Based upon our current knowledge of the relevant facts and circumstances, we do not expect that the outcome of the dispute will have a material adverse effect on our financial condition or results of operations.

The GSA also resolves all working capital adjustment issues between us and Ascot. In resolving the working capital adjustment, we were able to relieve assets and liabilities from our books that we felt would have been components of any working capital adjustment. The completion of the GSA allows us to recognize a gain on the transaction of \$183. It also allows us to move even closer to putting the Ascot transaction and our exit from Nigeria

behind us and focus on better risk-adjusted opportunities.

Additional financial disclosures on Discontinued Operations are provided in Note 18 Discontinuance of Operations, Asset Disposals and Transition Services Agreement in the Notes to Consolidated Financial Statements in this Form 10-K.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Revenue

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

Revenue for fixed-price and cost plus fixed fee contracts is recognized on the percentage-of-completion method. Under this method, estimated contract income and resulting revenue is generally accrued based on costs incurred to date as a percentage of total estimated costs, taking into consideration physical completion. Total estimated costs, and thus contract income, are impacted by changes in productivity, scheduling, 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 to 10 percent complete, depending upon the nature of the contract. If a current estimate of total contract cost indicates a loss on a contract, the projected loss is recognized in full when determined.

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

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

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

Income Taxes

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

RESULTS OF OPERATIONS

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

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

Fiscal Year Ended December 31, 2007 Compared to Fiscal Year Ended December 31, 2006**Contract Revenue**

Contract revenue increased \$404,432 (74.4 percent) to \$947,691 from \$543,259 due to increases across all segments. A year-to-year comparison of revenue is as follows:

	Year Ended December 31,			Percent Change
	2007	2006	Increase	
<i>Upstream O&G</i>	\$ 744,308	\$ 424,317	\$ 319,991	75.4%
<i>Downstream O&G</i>	23,821	N/A	23,821	100.0%
<i>Engineering</i>	179,562	118,942	60,620	51.0%
Total	\$ 947,691	\$ 543,259	\$ 404,432	74.4%

Upstream O&G revenue increased \$319,991 (75.4 percent) to \$744,308 from \$424,317 in 2006. The increase in revenue is primarily a result of increased 2007 business activity in the United States of \$211,042, of which \$210,375, or approximately 99 percent, was attributable to three major projects that started in 2007 along with an increase in facility work of \$40,025 offset by decreases of \$39,363 related to projects that completed in 2006 or early 2007. Canada revenue increased \$87,925 in 2007 due to an increase of \$50,163 for major projects, an increase of \$17,624 for a pipeline construction project attributable to the Midwest acquisition made during the third quarter of 2007 and an increase of \$16,798 for fabrication and field services. Oman revenue increased \$21,024 in 2007 which is primarily attributable to an increase in oilfield construction services.

Downstream O&G revenue increased \$23,821 as a result of revenues earned in the 41 day period from November 20, 2007 through December 31, 2007 subsequent to the acquisition of InServ.

Engineering revenue increased \$60,620 (51.0 percent) to \$179,562 from \$118,942 in 2006. The increase in revenue is a result of increased demand for pipeline and facility engineering services. The volume and size of projects performed in 2007 were significantly greater than in 2006. This increased activity level is reflected in the *Engineering* year-end headcount of 611, up 46.5 percent over-year end 2006, while maintaining very high utilization.

Operating Income

Segment operating income increased \$42,939 (356.9 percent) to \$30,908 from an operating loss of \$12,031 in 2006. A year-to-year comparison of operating income is as follows:

	Year Ended December 31,			Percent Change		
	2007 ⁽¹⁾	Operating Margin %	2006		Operating Margin %	Increase
<i>Upstream O&G</i>	\$ 21,875	2.9%	\$ (15,481)	(3.6)%	\$ 37,356	241.3%
<i>Downstream O&G</i>	670	2.8%	N/A	N/A	670	100.0%
<i>Engineering</i>	8,363	4.7%	3,450	2.9%	4,913	142.4%
Total	\$ 30,908	3.3%	\$ (12,031)	(2.2)%	\$ 42,939	356.9%

(1) This table does not reflect government fines of \$22,000 in 2007 which is included in

consolidated
operating
results.

Government
fines were
characterized as
a Corporate
expense and are
not allocated to
the reporting
segments.

Upstream O&G operating income increased \$37,356 (241.3 percent) to \$21,875 from an operating loss of \$15,481 in 2006. The increase in operating income was a result of previously discussed revenue increases with increasing margins for the segment. Higher margins in the United States were partially offset by lower margins in Canada, while margins in Oman were consistent with the prior year. Also impacting operating income year over year was an increase for depreciation expense, reflecting additional capital investment in heavy equipment towards the end of 2006 and throughout 2007 and an increase in G&A necessary to support the increased level of business activity for the segment.

Downstream O&G operating income increased \$670. The operating income was a result of 41 days of operating results of InServ subsequent to its acquisition in November 2007. These results include a charge of \$794 for the amortization of intangibles acquired.

Engineering operating income increased \$4,913 (142.4 percent) to \$8,363 from \$3,450 in 2006. The increase in operating income was primarily a result of the increased mix of our direct labor versus third party and subcontractor services. The higher mix of in-house labor, improved utilization and higher headcount were characteristics of the strong demand for engineering work and our success in hiring and retaining in-house engineers.

Non-Operating Items

Interest, net expense decreased \$5,162 (62.5 percent) to \$3,103 from \$8,265 in 2006. The decrease in interest expense is due to reduced interest expense as a result of the conversion of \$54,450 in aggregate principal amount of the 2.75% and 6.5% Senior Convertible Notes, partially offset by increased interest expense associated with capital lease additions of \$48,454 in 2007. Interest income increased as a result of cash proceeds received from the sale of our Nigeria assets and operations of \$105,568 and excess proceeds from our public offering completed in November 2007 that were not used for our acquisition of InServ.

Other, net income decreased \$4,046 (711.1 percent) to an expense of \$3,477 from income of \$569 in 2006. The decrease in other, net is primarily a result of \$1,071 related to the settlement of a vendor lawsuit that originated in 2003, \$997 of registration delay payments associated with the registration rights agreement for the 6.5% Senior Convertible Notes, \$750 of commitment fees related to a potential term loan that was not executed, and an increase in foreign exchange losses of \$532.

Loss on early extinguishment of debt expense of \$15,375 as a result of inducing conversion of \$52,450 of aggregate principal of our 6.5% Senior Convertible Notes in May 2007. The loss on early extinguishment consisted of \$12,720 of cash payments made to the note holders as an inducement to convert, \$273 of other transaction costs and the write-off of \$2,382 of debt issuance costs.

Provision for income taxes increased \$12,195 (528.4 percent) to \$14,503 from \$2,308 in 2006. We recognized \$14,503 of income tax expense on a loss from continuing operations before income taxes of \$13,047 in 2007 as compared to income tax expense of \$2,308 on a loss from continuing operations before income taxes of \$19,727 in 2006. The increase in the provision for income taxes is due to improved operating results in the U.S. and Canada, thereby generating more taxable income in 2007 as compared to 2006. The Company incurred income tax expense while having a loss from continuing operations as a result of approximately \$50,000 of losses incurred in Panama, where the Company is domiciled, that we were unable to offset against taxable income generated in the U.S. and Canada, and thus, received no tax benefit.

Loss from Discontinued Operations, Net of Taxes

Loss from discontinued operations, net of taxes decreased \$61,988 (74.3 percent) to \$21,414 from \$83,402 in 2006. In 2007, the net loss from Discontinued Operations was comprised primarily of the charge of a settlement amount due to the SEC under an agreement in principle of \$10,300, consisting of \$8,900 for profit disgorgement plus \$1,400 of pre-judgment interest thereon, and results of our Nigeria operations for 38 days prior to its sale. The profit disgorgement was specifically attributable to one of our Nigerian projects, and is therefore classified as discontinued operations. Additionally, the results from Discontinued Operations include the gain on the sale of our Nigeria assets and operations and 327 days of income for services provided under the TSA.

Fiscal Year Ended December 31, 2006 Compared to Fiscal Year Ended December 31, 2005**Contract Revenue**

Contract revenue increased \$248,780 (84.5 percent) to \$543,249 from \$294,479 in 2005 primarily as a result of increases in *Upstream O&G*. A year-to-year comparison of revenue is as follows:

	Year Ended December 31,			Percent Change
	2006	2005	Increase	
<i>Upstream O&G</i>	\$ 424,317	\$ 214,020	\$ 210,297	98.3%
<i>Downstream O&G</i>	N/A	N/A	N/A	N/A%
<i>Engineering</i>	118,942	80,459	38,483	47.8%
Total	\$ 543,259	\$ 294,479	\$ 248,780	84.5%

Upstream O&G revenue increased \$210,297 (98.3 percent) to \$424,317 from \$214,020 in 2005. The increase in revenue is a result of increased work in Canada and the U.S. The increase in Canada revenue of \$102,127 was largely attributable to \$57,011 in new major projects, increased fabrication and maintenance revenue of \$29,555, and our new Edmonton modular fabrication facility that opened in the fourth quarter of 2005 which generated revenue of approximately \$13,828 in 2006, compared to \$87 in 2005 as well as other increases of approximately \$1,820. Additionally, United States revenue increased \$64,427 due to a higher level of activity with major construction projects, Oman revenue increased \$43,922 due to new pipeline construction contracts and oilfield services contracts and other decreases in revenue of \$179.

Engineering revenue increased \$38,483 (47.8 percent) to \$118,942 from \$80,459 in 2005. The increase in revenue was primarily due to an increase of \$23,260 from a single large engineering project in the U.S. and approximately \$13,696 in new EPC projects.

Operating Income

Operating losses decreased \$13,600 (53.1 percent) to \$12,031 from \$25,631 in 2005. A year-to-year comparison of revenue is as follows:

	Year Ended December 31,		Year Ended December 31,		Increase	Percent Change
	2006	Operating Margin %	2005	Operating Margin %		
<i>Upstream O&G</i>	\$ (15,481)	(3.6)%	\$ (26,483)	(12.4)%	\$ 11,002	41.5%
<i>Downstream O&G</i>	N/A	N/A%	N/A	N/A%	N/A	N/A%
<i>Engineering</i>	3,450	2.9%	852	1.1%	2,598	304.9%
Total	\$ (12,031)	(2.2)%	\$ (25,631)	(8.7)%	\$ 13,600	53.1%

Upstream O&G operating loss decreased \$11,002 (41.5 percent) to \$15,481 from \$26,483 in 2005. The decrease in the operating loss was partially attributed to previously discussed revenue increases with increasing contract margins for the segment. Higher margins were attained, year-over-year, in the United States, Canada and Oman. Also impacting operating income year-over-year was an increase for depreciation, reflecting additional capital investment in heavy equipment towards the end of 2006, and an increase of G&A necessary to support the increased level of business activity for the segment.

Engineering operating income increased \$2,598 (304.9 percent) to \$3,450 from \$852 in 2005. The increase in operating income was a result of increased staffing within our engineering group driven by increased demand for our engineering services.

Non-Operating Items

Interest, net expense increased \$4,361 (111.7 percent) to \$8,265 in 2006 from \$3,904 in 2005. The increase in interest expense was due to additional interest expense related our 6.5% Senior Convertible Notes of \$4,871.

50

Other, net income decreased \$173 (23.3 percent) to \$569, from \$742 in 2005. The decrease in other, net income was primarily due to a \$429 reduction in gains on sale of property, plant and equipment and an increase in foreign exchange loss of \$164. These reductions in income were offset by an increase in miscellaneous income of \$420 mainly related to our participation as a plaintiff in the settlement of a class action suit.

Provision for income taxes expense increased \$640 (38.4 percent) to \$2,308 from \$1,668 in 2005. We recognized \$2,308 of income tax expense on a loss from continuing operation of \$19,727 in 2006 as compared to income tax expense of \$1,668 on a loss from continuing operations of \$28,793 in 2005. The increase in tax expense in 2006 was primarily due to a loss from continuing operations resulting from expenses of \$28,311 occurring in 2006 in Panama where no tax benefit is obtained. Permanent timing differences in the U.S. also contributed to a higher effective tax rate.

Loss from Discontinued Operations, Net of Taxes

Loss from discontinued operations, net of taxes increased \$75,083 (902.5 percent) to \$83,402 from \$8,319 in 2005. The increase in the loss from discontinued operations is primarily due to the operating results in Nigeria. Our Nigeria operations accounted for \$83,773 of the 2006 loss. A loss of \$971 in Venezuela and a recognized net gain of \$1,342 on the sale of the Opal TXP-4 account for the remainder of the 2006 loss from discontinued operations.

LIQUIDITY AND CAPITAL RESOURCES

Our objective in financing our business is to maintain adequate financial resources and access to additional liquidity. During the twelve months ended December 31, 2007, the proceeds from our public offering of common stock and the sale of our Nigeria assets and operations were our principal sources of funding. We anticipate that cash on hand, future cash flows from operations and the availability of a revolving credit facility will be sufficient to fund our working capital needs in the near term. However, we are reviewing all opportunities, including accessing the public markets to the extent that market conditions and other factors permit, to provide working capital to fund our growing backlog, to strengthen our balance sheet, to meet current capital equipment requirements, and to pursue business expansion opportunities including potential acquisitions. Our capital planning process is focused on utilizing cash in ways that enhance the value of our company. During the twelve months ended December 31, 2007, we used cash for a variety of activities including working capital needs, capital expenditures, and acquisitions.

Additional Sources and Uses of Capital

Public Offering and Acquisition of InServ

On November 20, 2007 we completed a public offering of our common shares from which we received approximately \$253,707 in net proceeds. We used \$208,925 of these proceeds to fund the cash portion of the purchase price for our acquisition of InServ. The remaining \$44,782 of net proceeds represents an additional source of capital.

2007 Credit Facility

Concurrent with our public offering and the InServ acquisition we replaced our synthetic credit facility with a \$150,000 senior secured revolving credit facility (2007 Credit Facility) that can be increased to \$200,000 with approval of the administrative agent. The entire facility is available for performance letters of credit and 33 percent of the facility will be available for cash borrowings and financial letters of credit. See Item 8. Financial Statements and Supplementary Data, Note 9 Long-term Debt for further discussion of the 2007 Credit Facility.

Cash Flows

Cash flows provided by (used in) continuing operations by type of activity were as follows for the twelve months ended December 31, 2007 and 2006:

	2007	2006
Operating activities	\$ (19,463)	\$ (5,429)
Investing activities	(150,601)	40,804
Financing activities	221,359	51,550

Statements of cash flows for entities with international operations that use the local currency as the functional currency exclude the effects of the changes in foreign currency exchange rates that occur during any given period, as these are non-cash charges. As a result, changes reflected in certain accounts on the consolidated condensed statements of cash flows may not reflect the changes in corresponding accounts on the consolidated condensed balance sheets.

Operating Activities

Operating activities of continuing operations used \$19,463 of cash in the twelve months ended December 31, 2007 compared to a use of \$5,429 in the twelve months ended December 31, 2006. Cash used in operating activities increased \$14,034 primarily due to:

a decrease in cash flow from the change in working capital accounts of \$56,401, primarily attributable to the increase in accounts receivable, contract cost and recognized income not yet billed and contract billings in excess of costs and recognized income. The increase in these working capital accounts is directly related to the increased revenue and project activity in 2007; and

an increase in the cash consumed by continuing operations of \$5,515, excluding the increase of non-cash charges in 2007 of \$47,882.

Investing Activities

Investing activities of continuing operations used \$150,601 of cash in the twelve months ended December 31, 2007 compared to providing \$40,804 in the twelve months ended December 31, 2006. Cash flows from investing activities decreased \$191,405 primarily due to:

acquisitions for the twelve months ended December 31, 2007 in the United States and Canada, which used \$232,670 of cash compared with no acquisitions in 2006;

purchases of property, plant, and equipment for the twelve months ended December 31, 2007 used \$26,094 of cash compared to \$11,373 in the twelve months ended December 31, 2006. These purchases consisted primarily of construction equipment to support our increased backlog; partially offset by

disposition of discontinued operations, for the twelve months ended December 31, 2007, which provided \$105,568 of cash compared to \$48,514 in the twelve months ended December 31, 2006. In 2007 the proceeds were from the sale of our Nigeria assets and operations, while in 2006 the proceeds were from the sale of the Opal gas facility and the sale of our Venezuela assets and operations.

Financing Activities

Financing activities of continuing operations provided \$221,359 of cash in the twelve months ended December 31, 2007 compared to \$51,550 in the twelve months ended December 31, 2006. Significant transactions impacting cash flows from financing activities included:

\$253,707 of cash provided by the public offering of common shares in 2007 compared with \$48,748 of cash provided by the private placement of common shares and warrants in 2006;

\$12,993 of cash used to induce the conversion of \$52,450 of the 6.5% Notes; and

cash used in payments on capital leases of \$9,540.

Capital Requirements

During 2007, we used \$19,463 of cash in our continuing operations. We believe that our improved financial results in the second half of 2007 combined with our rigorous financial management will ensure sufficient cash to meet our capital requirements for continuing operations. However, we will continue to utilize capital leases to acquire equipment whenever favorable rates are available. As such, we are focused on the following significant capital requirements:

providing working capital for projects in process and those scheduled to begin;

the procurement of additional construction equipment in light of our capital budget for 2008 of approximately \$60,000;

pursuing additional acquisitions that will allow us to expand our service offering; and

installment payments due to the government related to fines and profit disgorgement.

We believe that we will be able to support our ongoing working capital needs through our cash on hand, our operating cash flows and the availability of the 2007 Credit Facility, although we may be required to access the capital markets in the event we complete any significant acquisitions.

Contractual Obligations

As of December 31, 2007, we had \$100,050 of outstanding debt related to the convertible notes. In addition, in 2007 and 2006, we entered into various capital leases of construction equipment and property with a value of \$59,116.

Payments Due By Period

	Total	Less than 1 year	1-3 years	4-5 years	More than 5 years
Convertible notes	\$ 100,050	\$	\$	\$ 68,000	\$ 32,050
Capital lease obligations	58,844	15,400	32,381	10,979	84
Operating lease obligations	17,963	9,280	7,189	1,494	
Uncertain tax liabilities	6,612				
Total	\$ 176,857	\$ 24,680	\$ 39,570	\$ 80,473	\$ 32,134

At December 31, 2007 we had uncertain tax positions which ultimately could result in a tax payment. As the amount of ultimate tax payment is contingent on the tax authorities' assessment, it is not practical to present annual payment information.

As of December 31, 2007, there were no borrowings under the 2007 Credit Facility and there were \$78,711 in outstanding letters of credit consisting of \$58,829 issued for projects in continuing operations and \$19,882 issued for projects related to discontinued operations.

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

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 \$2,459 at December 31, 2007. There were no outstanding borrowings at December 31, 2007 or 2006.

During 2007, our allowance for doubtful accounts including Discontinued Operations decreased \$9,281 (89.3 percent) to \$1,108 from \$10,389 in 2006, with an increase of \$510 in the allowance for continuing operations to

\$1,108 from \$598 in 2006, and a decrease to \$0 from \$9,791 in 2006 for Discontinued Operations. The increase of \$510 in continuing operations was due to additional allowance provided in 2007 net of write-offs. The decrease in the allowance for doubtful accounts for Discontinued Operations is due to the sale of the Nigeria assets and operations in February of 2007. We do not anticipate any significant collection problems with our customers beyond what has been already recognized in our allowance. Since our customers generally are major oil companies and government entities, and the terms for billing and collecting for work performed are generally established by contracts, we historically have had a very low incidence of collectability problems.

Off-Balance Sheet Arrangements and Commercial Commitments

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

A summary of our off-balance sheet commercial commitments for both continuing and Discontinued Operations as of December 31, 2007 is as follows:

	Total Commitment	Expiration Per Period		More Than 2 Years
		Less than 1 year	1-2 Years	
Letters of credit:				
U.S. performance	\$ 46,981	\$ 46,981	\$	\$
Canada performance	11,751	11,751		
Other performance and retention	4,499	4,499		
Nigeria projects performance	19,882	19,759	123	
Total letters of credit	83,113	82,990	123	
US Insurance bonds primarily performance	214,292	84,288	29,162	100,842
Total commercial commitments	\$ 297,405	\$ 167,278	\$ 29,285	\$ 100,842

These commercial commitments totaling \$297,405 represent the maximum amount of future payments we could be required to make. We had no liability recorded as of December 31, 2007, related to these commitments.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

SFAS No. 157 - In September 2006, the Financial Accounting Standards Board (FASB) released Statements of Financial Accounting Standards No. 157, Fair Value Measurements (SFAS No. 157) and is effective for fiscal years beginning after November 15, 2007. SFAS No. 157 defines fair value, establishes a framework for measuring fair value in GAAP, and expands disclosures about fair value measurements. In November 2007, FASB agreed to a one-year deferral of the effective date for nonfinancial assets and liabilities that are recognized or disclosed at fair value on a nonrecurring basis. SFAS No. 157 is effective for the Company's fiscal year ending December 31, 2008. The Company is currently assessing the impact the adoption of this pronouncement will have on its financial statements.

SFAS No. 159 - In February 2007, the FASB released Statements of Financial Accounting Standards No. 159, The Fair Value Option for Financial Assets and Financial Liabilities (SFAS No. 159) and is effective for fiscal years beginning after November 15, 2007. SFAS No. 159 permits entities to choose to measure many financial instruments and certain other items at fair value. The objective is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. SFAS No. 159 is effective for the Company's fiscal year ending December 31, 2008. The Company did not elect to use the fair value option for any financial assets and financial liabilities that are not currently recorded at fair value.

SFAS No. 141-R - In December 2007, the FASB released Statements of Financial Accounting Standards No. 141-R, Business Combinations (SFAS No. 141R). SFAS No. 141R applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008, which are business combinations in the year ending December 31, 2009 for the Company. The objective is to improve the relevance,

representational faithfulness, and comparability of the information that a reporting entity provides in its financial reports about a business combination and its effects.

SFAS No. 160 - In December 2007, the FASB released Statements of Financial Accounting Standards No. 160, Non-controlling Interests in Consolidated Financial Statements an amendment of ARB No. 51 (*SFAS No. 160*). *SFAS No. 160* is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008. The objective is to improve the relevance, comparability, and transparency of the financial information that a reporting entity provides in its consolidated financial statements. *SFAS No. 160* is effective for the Company's fiscal year ending December 31, 2009 and the interim periods within that year. The Company is currently assessing the impact the adoption of this pronouncement will have on its financial statements.

EFFECTS OF INFLATION AND CHANGING PRICES

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

Item 7A. Quantitative and Qualitative Disclosures about Market Risk

Our primary market risk is our exposure to changes in non-U.S. currency exchange rates. We attempt to negotiate contracts which provide for payment in U.S. dollars, but we may be required to take all or a portion of payment under a contract in another currency. To mitigate non-U.S. currency exchange risk, we seek to match anticipated non-U.S. currency revenue with expense in the same currency whenever possible. To the extent we are unable to match non-U.S. currency revenue with expense in the same currency; we may use forward contracts, options or other common hedging techniques in the same non-U.S. currencies. We had no forward contracts or options at December 31, 2007 and 2006.

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, 2007 due to the generally short maturities of these items. At December 31, 2007, 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 2007 Credit Facility. At December 31, 2007, there were no borrowings under the 2007 Credit Facility subject to variable interest rates. At December 31, 2007, 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

	Page
Consolidated Financial Statements of Willbros Group, Inc. and Subsidiaries	
<u>Reports of Independent Registered Public Accounting Firms</u>	57
<u>Consolidated Balance Sheets as of December 31, 2007 and 2006</u>	61
<u>Consolidated Statements of Operations for the years ended December 31, 2007, 2006 and 2005</u>	62
<u>Consolidated Statements of Stockholders' Equity and Comprehensive Income (Loss) for the years ended December 31, 2007, 2006 and 2005</u>	63
<u>Consolidated Statements of Cash Flows for the years ended December 31, 2007, 2006 and 2005</u>	65
<u>Notes to Consolidated Financial Statements for the years ended December 31, 2007, 2006 and 2005</u>	67

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM