EVENT: SHAWCOR LTD. Q2 RESULTS CONFERENCE CALL
TIME: 10H00 E.T.
REFERENCE: SHAWCOR LTD.-CC-080610
LENGTH: 53 MINUTES
DATE: AUGUST 6, 2010

"Though CNW Group has used commercially reasonable efforts to produce this transcript, it does not represent or warrant that this transcript is error-free. CNW Group will not be responsible for any direct, indirect, incidental, special, consequential, loss of profits or other damages or liabilities which may arise out of or result from any use made of this transcript or any error contained therein."

« Bien que Groupe CNW ait fait tous les efforts possibles pour produire cet audioscript, la société ne peut affirmer ou garantir qu'il ne contient aucune erreur. Groupe CNW ne peut être tenue responsable de pertes ou profits, responsabilités ou dommages causés par ou découlant directement, indirectement, accidentellement ou corrélativement à l'utilisation de ce texte ou toute erreur qu'il contiendrait. »

OPERATOR: Good morning. My name is Tracy, and I will be your conference operator today. At this time I would like to welcome everyone to the ShawCor Limited second quarter results conference call.

All lines have been placed on mute to prevent any background noise. After the speakers' remarks, there will be a question-and-answer session. If you would like to ask a question during this time, simply press * then the number 1 on your telephone keypad. If you would like to withdraw your question, press the # key. Thank you.

I would now like to introduce ShawCor's Chief Financial Advisor. Mr. Gary Love, you may begin your conference.

GARY LOVE (Chief Financial Advisor, ShawCor Ltd.): Thank you, and good morning.

I would like to take a moment to remind all listeners that today's conference call includes forward-looking statements that involve estimates, judgments, risks and uncertainties that may cause actual results to differ materially from those projected. The complete text of ShawCor's disclaimer is included in the quarterly press release that is available on SEDAR at www.sedar.com, and may also be found on the Company's website at www.shawcor.com.

I will now turn the call over to Bill Buckley, ShawCor's CEO.

"Though CNW Group has used commercially reasonable efforts to produce this transcript, it does not represent or warrant that this transcript is error-free. CNW Group will not be responsible for any direct, indirect, incidental, special, consequential, loss of profits or other damages or liabilities which may arise out of or result from any use made of this transcript or any error contained therein."

« Bien que Groupe CNW ait fait tous les efforts possibles pour produire cet audioscript, la société ne peut affirmer ou garantir qu'il ne contient aucune erreur. Groupe CNW ne peut être tenue responsable de pertes ou profits, responsabilités ou dommages causés par ou découlant directement, indirectement, accidentellement ou corrélativement à l'utilisation de ce texte ou toute erreur qu'il contiendrait. »

WILLIAM BUCKLEY (Chief Executive Officer, ShawCor Ltd.): Thank you, Gary, and thank you, ladies and gentlemen, for participating in this morning's conference call.

Yesterday we released our second quarter 2010 financial results. In the second quarter revenue reached 235 million. This was up slightly from the first quarter, but was 25 per cent below the prior year, and reflects lower pipeline project activity. Earnings per share were largely in line with the first quarter, with an improvement in operating margins in both segments, largely offset by higher corporate costs related to corporate development activities, and $3.5 million swing in foreign exchange losses.

Operating margins in the pipeline segment improved by 1.6 percentage points over the first quarter, while margins in the petrochemical and industrial segment improved by 3.3 percentage points. We fully expect that the pipeline segment margins will improve at a much more rapid rate in the second half of 2010, and should approach the 20 per cent level reached in 2009.

This improvement will be largely based on the growth in revenue that we expect now that we have commenced production on the $185 million Papua New Guinea project as well as on the $42 million Epic Energy project.

"Though CNW Group has used commercially reasonable efforts to produce this transcript, it does not represent or warrant that this transcript is error-free. CNW Group will not be responsible for any direct, indirect, incidental, special, consequential, loss of profits or other damages or liabilities which may arise out of or result from any use made of this transcript or any error contained therein."

« Bien que Groupe CNW ait fait tous les efforts possibles pour produire cet audioscript, la société ne peut affirmer ou garantir qu'il ne contient aucune erreur. Groupe CNW ne peut être tenue responsable de pertes ou profits, responsabilités ou dommages causés par ou découlant directement, indirectement, accidentellement ou corrélativement à l'utilisation de ce texte ou toute erreur qu'il contiendrait. »

Also supporting the growth in revenue will be the mobilization of our Leith, Scotland facility to execute the Statoil T12, the Chevron Congo River, and the $93 million Totale Laggan project. The latter project was awarded in May, and will go into production in the fourth quarter, once we've completed the Statoil and Chevron projects.

The Laggan project award was a major reason for the improvement in the backlog in the quarter from 396 million to 422 million at quarter end. This backlog amount excludes more than half of the Laggan project, which is the portion of the project that we expect to execute beyond the next 12 months.

I'll comment further on the bidding activity and our current strategic activities in a few moments, but first I'll ask Gary Love, our CFO, to provide more detail on the second quarter 2010 financial results.

GARY LOVE: Yes, thanks, Bill. Second quarter earnings at $0.15 per share improved marginally from the first quarter, but are down significantly from the $0.49 per share recorded in the second quarter of last year. As with the first quarter, the main factor in the weak earnings performance was the revenue decline. Revenue, at 234 million, is down 25 per cent from the prior year, with the revenue weakness due to the pipeline segment. There we saw a year-over-year revenue decline of $80 million.

"Though CNW Group has used commercially reasonable efforts to produce this transcript, it does not represent or warrant that this transcript is error-free. CNW Group will not be responsible for any direct, indirect, incidental, special, consequential, loss of profits or other damages or liabilities which may arise out of or result from any use made of this transcript or any error contained therein."

« Bien que Groupe CNW ait fait tous les efforts possibles pour produire cet audioscript, la société ne peut affirmer ou garantir qu'il ne contient aucune erreur. Groupe CNW ne peut être tenue responsable de pertes ou profits, responsabilités ou dommages causés par ou découlant directement, indirectement, accidentellement ou corrélativement à l'utilisation de ce texte ou toute erreur qu'il contiendrait. »

Consistent with the first quarter, we continue to see year-over-year weakness in the North American markets most exposed to well completions, as well as lower project activity in Europe and the Middle East. Asia-Pacific also recorded a small decrease in revenue over the prior year, with our major facility in Malaysia idled at the beginning of the second quarter to prepare for the launch of the PNG pipe coating project. This project is now in full production.

Consistent with the first quarter, the low level of revenue caused a significant underutilization of plant capacity and under-absorption of fixed costs. This of course had a negative effect on operating margins. The pipeline segment operating margin declined by almost 9 percentage points from the prior year, to 11.9 per cent. This margin level was, however, an improvement, as Bill noted, over the first quarter.

Now, in contrast, the petrochemical and industrial segment reported continued improvement in operating margins, with the second quarter margin reaching 12.9 per cent, a 3.3 percentage point improvement over the first quarter, and a 5.6 percentage point improvement over the second quarter of the prior year.

Exchange rate fluctuations continued to be a major factor in year-over-year revenue and operating income comparison. The effect of the 12

"Though CNW Group has used commercially reasonable efforts to produce this transcript, it does not represent or warrant that this transcript is error-free. CNW Group will not be responsible for any direct, indirect, incidental, special, consequential, loss of profits or other damages or liabilities which may arise out of or result from any use made of this transcript or any error contained therein."

« Bien que Groupe CNW ait fait tous les efforts possibles pour produire cet audioscript, la société ne peut affirmer ou garantir qu'il ne contient aucune erreur. Groupe CNW ne peut être tenue responsable de pertes ou profits, responsabilités ou dommages causés par ou découlant directement, indirectement, accidentellement ou corrélativement à l'utilisation de ce texte ou toute erreur qu'il contiendrait. »

per cent strengthening of the Canadian dollar versus the U.S. dollar on the translation of foreign operations for Canadian dollar reporting had a negative impact on revenue of $24 million and a negative impact on operating income of $4.5 million versus the second quarter of 2009.

The gains in operating income and margins in each of our business segments, when compared with the first quarter of this year, were largely offset by higher corporate and finance costs and the net swing in foreign exchange losses of 3.4 million. The higher corporate and finance costs were primarily due to corporate development expenses relating to acquisition activity, while the foreign exchange losses reflect the impact of currency movements on working capital balances, net of hedging offsets.

In the second quarter 2010, amortization and depreciation, at $13.4 million, was exactly in line with the first quarter, but was reduced from the prior year's $15.7 million. And this of course reflects the reduced level of capital expenditures that have occurred since 2008.

The effective tax rate in the second quarter, at 34.2 per cent, was again well above our expected tax rate of 31 per cent. This high rate was due to adjustments to our tax provision relating to taxes owing from prior periods. Without these adjustments, the effective rate in the second quarter would have been less than 30 per cent. And as we've noted

"Though CNW Group has used commercially reasonable efforts to produce this transcript, it does not represent or warrant that this transcript is error-free. CNW Group will not be responsible for any direct, indirect, incidental, special, consequential, loss of profits or other damages or liabilities which may arise out of or result from any use made of this transcript or any error contained therein."

« Bien que Groupe CNW ait fait tous les efforts possibles pour produire cet audioscript, la société ne peut affirmer ou garantir qu'il ne contient aucune erreur. Groupe CNW ne peut être tenue responsable de pertes ou profits, responsabilités ou dommages causés par ou découlant directement, indirectement, accidentellement ou corrélativement à l'utilisation de ce texte ou toute erreur qu'il contiendrait. »

before, this is the effective tax rate that we should expect to see going forward.

Operating cash flow in the second quarter was greatly impacted by $42.8 million increase in working capital. The working capital increase was expected, and follows a reduction of over $100 million in working capital that has occurred since the third quarter of 2009. We should expect a further modest reinvestment in working capital as revenue accelerates in the second half of 2010.

The cash flows used in operating activities in the second quarter included capital expenditures of $10.5 million. This is a level that compared with $6 million a year ago. Capital expenditures were mainly focused on plant refurbishments at our pipe coating facilities in Australia and Malaysia in preparation for the launch of the Epic and PNG projects, as well as the installation of the concrete coating facility at our joint venture operation in Russia. We also had expenditures of just under $2 million at our Shaw Pipeline Services Division for the installation of new phased ray weld inspection units.

Partially offsetting the capital expenditures were proceeds of $3.4 million from the sale of a property in Welland, Ontario.

"Though CNW Group has used commercially reasonable efforts to produce this transcript, it does not represent or warrant that this transcript is error-free. CNW Group will not be responsible for any direct, indirect, incidental, special, consequential, loss of profits or other damages or liabilities which may arise out of or result from any use made of this transcript or any error contained therein."

« Bien que Groupe CNW ait fait tous les efforts possibles pour produire cet audioscript, la société ne peut affirmer ou garantir qu'il ne contient aucune erreur. Groupe CNW ne peut être tenue responsable de pertes ou profits, responsabilités ou dommages causés par ou découlant directement, indirectement, accidentellement ou corrélativement à l'utilisation de ce texte ou toute erreur qu'il contiendrait. »

The final cash flow of significance in the quarter was the repayment of U.S. $25 million in senior notes at the beginning – or sorry, at the end of the second quarter. With this debt repayment, total debt is now down to around $25 million. This compares with the Company's cash balances of in excess of $200 million.

I will now turn the call back to Bill, who will provide some comments on strategic developments underway at ShawCor, including our perspective on the status of the Socotherm investment.

WILLIAM BUCKLEY: Thanks, Gary. When we consider our prospects for revenue growth over the next few quarters, the growth in backlog is a key indicator. As we look into 2011 and beyond, the level of bidding activity is critical. And what we're currently seeing is a very strong increase in international bidding activity, particularly in Asia-Pacific but also in the Middle East and South America.

Projects in Asia-Pacific in the process of being bid or expected to be bid in the balance of the year are quite varied, encompassing onshore Australia, offshore Australia, Indonesia, and elsewhere in Southeast Asia. Based on book business, Asia-Pacific revenues will drive ShawCor growth in the second half of 2010. And based on bidding activity, we're confident

"Though CNW Group has used commercially reasonable efforts to produce this transcript, it does not represent or warrant that this transcript is error-free. CNW Group will not be responsible for any direct, indirect, incidental, special, consequential, loss of profits or other damages or liabilities which may arise out of or result from any use made of this transcript or any error contained therein."

« Bien que Groupe CNW ait fait tous les efforts possibles pour produire cet audioscript, la société ne peut affirmer ou garantir qu'il ne contient aucune erreur. Groupe CNW ne peut être tenue responsable de pertes ou profits, responsabilités ou dommages causés par ou découlant directement, indirectement, accidentellement ou corrélativement à l'utilisation de ce texte ou toute erreur qu'il contiendrait. »

that Asia-Pacific will remain an extremely active region for at least the next few years.

In the Middle East we're now seeing a strong resurgence in bidding activity as the cycle of project delays and cancellations that commenced with the economic crisis in late 2008 appears to be at an end. Saudi Aramco has announced a call for tenders for infrastructure for the massive Wasit offshore gas field. Due to the offshore location, the pipe coating requirements relating to Wasit will be very significant, and could commence as early as the second half of 2011.

In Iraq a number of tenders have been issued relating to pipelines to support the expansion of oil production. And given the oilfield development agreements that have been signed with numerous international E&Ps, it's reasonable to expect that Iraq's demand for pipeline infrastructure over the next decade will be significant.

In South America our main focus of course is on Brazil, where bidding continues to be very strong. Contract awards will likely be delayed until after the October presidential elections, however after this we expect a number of large projects to be sanctioned. And elsewhere in South America, we're bidding work in Colombia, Peru and Chile, using our portable concrete plant technology.

"Though CNW Group has used commercially reasonable efforts to produce this transcript, it does not represent or warrant that this transcript is error-free. CNW Group will not be responsible for any direct, indirect, incidental, special, consequential, loss of profits or other damages or liabilities which may arise out of or result from any use made of this transcript or any error contained therein."

« Bien que Groupe CNW ait fait tous les efforts possibles pour produire cet audioscript, la société ne peut affirmer ou garantir qu'il ne contient aucune erreur. Groupe CNW ne peut être tenue responsable de pertes ou profits, responsabilités ou dommages causés par ou découlant directement, indirectement, accidentellement ou corrélativement à l'utilisation de ce texte ou toute erreur qu'il contiendrait. »

We’re in the process of expanding our portable plant technology with the development of a portable anti-corrosion and deep water installation plant. Design work was completed over the last three years, and we’ve recently authorized an investment of $15 million to build the first plant of this type. It will be commissioned in 2011. We believe that this capability to rapidly deploy a full pipe coating plant anywhere in the world will open up many new markets and project opportunities for ShawCor, particularly in new and emerging markets.

Also on the technology front, we’ve made excellent progress in the second quarter on the commercialization of our new Thermotite Ultra patented offshore pipeline installation system. During the quarter we successfully completed the first commercial production of this new system with the Mariner Balboa installation coating project for the Gulf of Mexico. And we expect to secure a second award for Thermotite Ultra for a project in the North Sea as we continue to roll out this technology to our clients globally.

Also commencing construction in the second quarter was a state-of-the-art subsea testing facility at our research centre in Toronto. With its new deepwater simulated service vessel, our research centre, coupled with the growing awareness of the potential advantages of the Ultra

"Though CNW Group has used commercially reasonable efforts to produce this transcript, it does not represent or warrant that this transcript is error-free. CNW Group will not be responsible for any direct, indirect, incidental, special, consequential, loss of profits or other damages or liabilities which may arise out of or result from any use made of this transcript or any error contained therein."

« Bien que Groupe CNW ait fait tous les efforts possibles pour produire cet audioscript, la société ne peut affirmer ou garantir qu’il ne contient aucune erreur. Groupe CNW ne peut être tenue responsable de pertes ou profits, responsabilités ou dommages causés par ou découlant directement, indirectement, accidentellement ou corrélativement à l’utilisation de ce texte ou toute erreur qu’il contiendrait. »

installation system, will further advance our position as the global leader in offshore pipe coating solutions.

My final comments relate to the announced agreement to undertake an investment in conjunction with two private equity partners in Socotherm SPA. Socotherm is, as most of you know, ShawCor's leading competitor on pipe coatings. Socotherm is, however, a financially distressed company that has been operating under court-supervised creditor protection for a full year now.

It is vital to our industry that the Socotherm insolvency be resolved in an orderly manner. And to effect this, we have formed a partnership with two private equity firms to invest a total of 50 million Euros in Socotherm in return for a total shareholding interest in Socotherm of 95 per cent, of which ShawCor will hold 40 per cent. The closing of this share investment is subject to creditor approval and court approval.

On July 28th, we were informed that approximately 86 per cent of the creditors of Socotherm have approved the proposed transaction. The final step now is in the hands of the court, and the timing of the closing will depend on when the court convenes a hearing to consider the matter, and to what extent the court receives formal objections to the completion of the

"Though CNW Group has used commercially reasonable efforts to produce this transcript, it does not represent or warrant that this transcript is error-free. CNW Group will not be responsible for any direct, indirect, incidental, special, consequential, loss of profits or other damages or liabilities which may arise out of or result from any use made of this transcript or any error contained therein."

« Bien que Groupe CNW ait fait tous les efforts possibles pour produire cet audioscript, la société ne peut affirmer ou garantir qu'il ne contient aucune erreur. Groupe CNW ne peut être tenue responsable de pertes ou profits, responsabilités ou dommages causés par ou découlant directement, indirectement, accidentellement ou corrélativement à l'utilisation de ce texte ou toute erreur qu'il contiendrait. »

debt restructuring. It is currently our best estimate that the closing will not occur before the end of September.

It should be noted that ShawCor's investment in Socotherm is a financial investment. We will not control the company, and it will continue to be a competitor to ShawCor's Bredero Shaw pipe coating division. We do expect that the future management of Socotherm, however, will operate the company using sound business principles to maximize value for all shareholders.

And with that, I'll turn the call over to the operator for questions.

OPERATOR: At this time I would like to remind everyone in order to ask a question, press * then the number 1 on your telephone keypad. And we'll pause for just a moment to compile the Q&A roster.

Your first question comes from the line of Sarah Helppi from Cormark Securities. Your line is open.

SARAH HELPPI: Hi, good morning.

GARY LOVE: Morning.

WILLIAM BUCKLEY: Good morning.

SARAH HELPPI: Wanted to talk quickly about Asia-Pacific, obviously a very strong market for you. Based on the bidding activity that you're seeing over there and the number of projects you have ongoing for

"Though CNW Group has used commercially reasonable efforts to produce this transcript, it does not represent or warrant that this transcript is error-free. CNW Group will not be responsible for any direct, indirect, incidental, special, consequential, loss of profits or other damages or liabilities which may arise out of or result from any use made of this transcript or any error contained therein."

« Bien que Groupe CNW ait fait tous les efforts possibles pour produire cet audioscript, la société ne peut affirmer ou garantir qu'il ne contient aucune erreur. Groupe CNW ne peut être tenue responsable de pertes ou profits, responsabilités ou dommages causés par ou découlant directement, indirectement, accidentellement ou corrélativement à l'utilisation de ce texte ou toute erreur qu'il contiendrait. »

next year, would you have any concerns on your capabilities to work on all of these projects that you're bidding on, should they be awarded?

WILLIAM BUCKLEY: Should they all be awarded, it will require us to add capacity. We have plans to do that in our Kuantan facility, and we also have the capability of doing that in Australia as well. If we do the capacity expansion, even with possible project overlap we should be able to handle all the awards that we receive.

SARAH HELPPI: Okay. Great. Thank you. And moving over to North America, your comments on potential first fall diameter increase, albeit modest, have you seen any of that start to materialize yet?

GARY LOVE: Well Sarah, unfortunately the second quarter, as you know, is typically the seasonal weakest quarter for small diameter pipe coating in Canada. And so it doesn't give us a good read on the market particularly. For example, small diameter pipe coating in the second quarter of 2010 was roughly half of what it was in the first quarter. But of course we also had a long extended spring break-up, and you know, so that was a big factor in the second quarter.

What is encouraging is that we did see a slight pick-up year over year, albeit, because it's the second quarter, it was at a low level. But

"Though CNW Group has used commercially reasonable efforts to produce this transcript, it does not represent or warrant that this transcript is error-free. CNW Group will not be responsible for any direct, indirect, incidental, special, consequential, loss of profits or other damages or liabilities which may arise out of or result from any use made of this transcript or any error contained therein."

« Bien que Groupe CNW ait fait tous les efforts possibles pour produire cet audioscript, la société ne peut affirmer ou garantir qu'il ne contient aucune erreur. Groupe CNW ne peut être tenue responsable de pertes ou profits, responsabilités ou dommages causés par ou découlant directement, indirectement, accidentellement ou corrélativement à l'utilisation de ce texte ou toute erreur qu'il contiendrait. »

certainly second quarter 2010 was slightly higher than second quarter 2009. Our expectation is we will see an improvement in the second half.

SARAH HELPPI: Okay. Great. Thank you. That's it for me.

OPERATOR: Your next question comes from the line of Bert Powell from BMO Capital. Your line is open.

BERT POWELL: Great. Thanks. Bill, in your opening remarks, or maybe it was Gary, you talk about the pipeline and services margins, you know, getting into that 20 per cent range. I'm just wondering, with some of the, you know, efficiency initiatives that you're currently putting out through your facilities, and the margins in the backlog, is there a potential that we could see that, you know, higher?

WILLIAM BUCKLEY: Well, just to be really clear, I think the precise comment was that the margins would be... would approach the 20 per cent level that we saw in 2009. So just to be clear…

BERT POWELL: Okay.

WILLIAM BUCKLEY: That was the comment. But no, I think the potential is there. And it's going to be driven by utilization is... you know, we've commented before that's the single most important factor in, you know, in our operating margins. And you know, if we see good revenue growth, we know we're going to see good revenue growth in Europe and in

"Though CNW Group has used commercially reasonable efforts to produce this transcript, it does not represent or warrant that this transcript is error-free. CNW Group will not be responsible for any direct, indirect, incidental, special, consequential, loss of profits or other damages or liabilities which may arise out of or result from any use made of this transcript or any error contained therein."

« Bien que Groupe CNW ait fait tous les efforts possibles pour produire cet audioscript, la société ne peut affirmer ou garantir qu'il ne contient aucune erreur. Groupe CNW ne peut être tenue responsable de pertes ou profits, responsabilités ou dommages causés par ou découlant directement, indirectement, accidentellement ou corrélativement à l'utilisation de ce texte ou toute erreur qu'il contiendrait. »

Asia-Pacific. If we see some improvement in North America, then that's obviously positive for utilization and would be very positive for margins.

BERT POWELL: So is it really just North America, Gary, where we're seeing utilization rates and low levels? Now, in the second half when you start the facilities up in Asia-Pac regions, that that'll... you know, those'll be fully utilized?

GARY LOVE: Well, Asia-Pacific's going to be busy, yes. And Europe is becoming... is certainly moving in that direction as well. The area of lingering weakness – and I think this is a consistent comment we've had for a couple of quarters now – would be North America.

BERT POWELL: Okay. And can you... Gary, can you give us a sense in just in terms of the incremental costs that are through G&A for the quarter that relate to corporate development initiatives that... you know, now that, I guess, Socotherm is... we're just waiting for the vote, or the court's decision?

GARY LOVE: Yes, it was in the 1.5 million to 2 million range.

BERT POWELL: Okay. And then just lastly, in terms of revenue in the pipe coating segment, is there any... was there any... what were the large orders that got run through this quarter?

"Though CNW Group has used commercially reasonable efforts to produce this transcript, it does not represent or warrant that this transcript is error-free. CNW Group will not be responsible for any direct, indirect, incidental, special, consequential, loss of profits or other damages or liabilities which may arise out of or result from any use made of this transcript or any error contained therein."

« Bien que Groupe CNW ait fait tous les efforts possibles pour produire cet audioscript, la société ne peut affirmer ou garantir qu'il ne contient aucune erreur. Groupe CNW ne peut être tenue responsable de pertes ou profits, responsabilités ou dommages causés par ou découlant directement, indirectement, accidentellement ou corrélativement à l'utilisation de ce texte ou toute erreur qu'il contiendrait. »

WILLIAM BUCKLEY: I… you know, I don't think we had any... we did not have any really blockbuster projects running through the quarter.

BERT POWELL: Okay, so this is just standard kind of singles and doubles?

WILLIAM BUCKLEY: I think that's a good way to characterize it, yes.

BERT POWELL: Okay, perfect. Thank you.

OPERATOR: Your next question comes from the line of Roger Serin from TD Securities. Your line is open.

ROGER SERIN: Morning, guys.

GARY LOVE: Morning.

WILLIAM BUCKLEY: Morning.

ROGER SERIN: A couple of questions. I'm not sure you're able to do this, or willing to do it, but in your backlog, can you break it out by your geographic segments a little bit more?

WILLIAM BUCKLEY: We haven't certainly published that information, but you know, I can say directionally that a very significant percentage of it is Asia-Pacific. That's hardly a surprise, given that, you know, there's two large projects, one for 185 million, which is Papua New Guinea, and one for 42 million, which is the Epic Energy. So those are, you know, those two are obviously a good percentage of the backlog.

"Though CNW Group has used commercially reasonable efforts to produce this transcript, it does not represent or warrant that this transcript is error-free. CNW Group will not be responsible for any direct, indirect, incidental, special, consequential, loss of profits or other damages or liabilities which may arise out of or result from any use made of this transcript or any error contained therein."

« Bien que Groupe CNW ait fait tous les efforts possibles pour produire cet audioscript, la société ne peut affirmer ou garantir qu'il ne contient aucune erreur. Groupe CNW ne peut être tenue responsable de pertes ou profits, responsabilités ou dommages causés par ou découlant directement, indirectement, accidentellement ou corrélativement à l'utilisation de ce texte ou toute erreur qu'il contiendrait. »

In addition, you know, we have some large projects in Europe. And so between Europe and Asia-Pacific, you know, you are looking at the majority and strong majority of the backlog.

ROGER SERIN: Is the majority, in your mind, does that... it sort of sounds like that's in the 70 per cent range.

WILLIAM BUCKLEY: Yes, I don't have the math in front of me, but that's probably the zone, yes.

ROGER SERIN: Okay. So the reason I'm asking is, you know, a lot of noise recently on Keystone XL. What would be the implications for you on your backlog if that was delayed, just given some of the noise that's going on?

WILLIAM BUCKLEY: We have purchase orders to execute pipe coating for that pipeline. Our work will be executed, and we have heard no indication from our client to, in any way, shape or form, alter our production schedule. We will be going into production on Keystone XL imminently.

ROGER SERIN: Okay. Maybe one other question, then. When you talked about approach – I'll try and get the words exactly right – when you were approaching 20 per cent margins in the pipeline segment in the second half of the year, could you put a plus or minus? Is that the upper end, but it could also be three to 400 per – you know, 3 to 4 per cent lower

"Though CNW Group has used commercially reasonable efforts to produce this transcript, it does not represent or warrant that this transcript is error-free. CNW Group will not be responsible for any direct, indirect, incidental, special, consequential, loss of profits or other damages or liabilities which may arise out of or result from any use made of this transcript or any error contained therein."

« Bien que Groupe CNW ait fait tous les efforts possibles pour produire cet audioscript, la société ne peut affirmer ou garantir qu'il ne contient aucune erreur. Groupe CNW ne peut être tenue responsable de pertes ou profits, responsabilités ou dommages causés par ou découlant directement, indirectement, accidentellement ou corrélativement à l'utilisation de ce texte ou toute erreur qu'il contiendrait. »

than that? Is there a bracket? You know, we're obviously coming off the first half, and I'm just trying to get the high-low range.

WILLIAM BUCKLEY: We're confident that we're going to be moving close to 20 per cent. I don't think we'll exceed it, unless we see some really very strong demand in particularly North America. But I'm not expecting that.

ROGER SERIN: Okay. Thanks very much, guys.

OPERATOR: Your next question comes from the line of Dana Benner from Stifel Nicolaus. Your line is open.

DANA BENNER: Thanks. Good morning, guys.

WILLIAM BUCKLEY: Morning.

GARY LOVE: Morning.

DANA BENNER: I wanted to start with understanding the second quarter a little bit better. Was there any contribution at all from PNG or Epic? You noted that you had taken the accumulation facility off line in preparation, but did any volumes flow through and hit the P&L in Q2?

WILLIAM BUCKLEY: We were running some PNG volume in Indonesia, none in Malaysia in the second quarter. And we were also running some of Epic in I think again Indonesia. We had not yet started Australian production for Epic. That is now underway. And Malaysia

"Though CNW Group has used commercially reasonable efforts to produce this transcript, it does not represent or warrant that this transcript is error-free. CNW Group will not be responsible for any direct, indirect, incidental, special, consequential, loss of profits or other damages or liabilities which may arise out of or result from any use made of this transcript or any error contained therein."

« Bien que Groupe CNW ait fait tous les efforts possibles pour produire cet audioscript, la société ne peut affirmer ou garantir qu'il ne contient aucune erreur. Groupe CNW ne peut être tenue responsable de pertes ou profits, responsabilités ou dommages causés par ou découlant directement, indirectement, accidentellement ou corrélativement à l'utilisation de ce texte ou toute erreur qu'il contiendrait. »

production, which is the big sections of PNG, that is now underway in Kuantan.

DANA BENNER: Right. So maybe just a very minor contribution to the P&L?

WILLIAM BUCKLEY: Yes, correct.

DANA BENNER: Right. Second question is maybe one that steps up a level. Just thinking about the variability of your margins, you know, if there's maybe one bugaboo out there, notwithstanding all the great things you've done and how far you've moved the ball forward, I think it's safe to say that what may surprise people, certainly me, is maybe the amount or the... or the variability in the margins that we've seen with ShawCor.

We all understand that first half volumes were down significantly, but does the variability surprise you at all, that you've hit the levels that you have, and recognize you'll be close to 20 per cent and perhaps beyond next year, but are you surprised that they've been as low as they have in the first half?

WILLIAM BUCKLEY: You know, I think there's an element of disappointment from our side. That's clear. But you know, we look at what drives margins. And you know, as I indicated a few moments ago, the most important factor in driving margins is utilization. And it's particularly

"Though CNW Group has used commercially reasonable efforts to produce this transcript, it does not represent or warrant that this transcript is error-free. CNW Group will not be responsible for any direct, indirect, incidental, special, consequential, loss of profits or other damages or liabilities which may arise out of or result from any use made of this transcript or any error contained therein."

« Bien que Groupe CNW ait fait tous les efforts possibles pour produire cet audioscript, la société ne peut affirmer ou garantir qu'il ne contient aucune erreur. Groupe CNW ne peut être tenue responsable de pertes ou profits, responsabilités ou dommages causés par ou découlant directement, indirectement, accidentellement ou corrélativement à l'utilisation de ce texte ou toute erreur qu'il contiendrait. »

important. Utilization of certainly our major facilities, you know, has such a very big impact on consolidated margins. And so that's something that, you know, we have, you know, pretty good insight into, and I think that's why we have, you know, some good degree of confidence regarding our outlook for the second half.

We have and continue to be disappointed with the level of utilization in North America, and you know, if we look back a year or two or three ago, when we were operating at much higher levels of utilization, we had a very important contribution to overall consolidated margins. And we don't have that today. And so that's a factor that weighs negatively on the margins.

There's probably not a prospect in the very short term that that's going to change dramatically, but I think when we look a little further into the future, that does tend to give us some confidence regarding upside potential for margins.

DANA BENNER: Right. And that was where I was to go next, was North America. You know, you used to be a smaller company, and it simply mattered more. But given the dramatic increase in drilling in the U.S. and you had a meaningful recovery happening in Canada, are you surprised that you haven't seen a quicker build in demand for some of your

"Though CNW Group has used commercially reasonable efforts to produce this transcript, it does not represent or warrant that this transcript is error-free. CNW Group will not be responsible for any direct, indirect, incidental, special, consequential, loss of profits or other damages or liabilities which may arise out of or result from any use made of this transcript or any error contained therein."

« Bien que Groupe CNW ait fait tous les efforts possibles pour produire cet audioscript, la société ne peut affirmer ou garantir qu'il ne contient aucune erreur. Groupe CNW ne peut être tenue responsable de pertes ou profits, responsabilités ou dommages causés par ou découlant directement, indirectement, accidentellement ou corrélativement à l'utilisation de ce texte ou toute erreur qu'il contiendrait. »

small diameter product, or was it simply that inventories were so flush that it's taken a while to draw them down?

GARY LOVE: Dana, I think it's the latter. It's the inventory lag. You know, clearly with the increased well completion numbers, we are going to see a rise in our small diameter activity. Of course there's the seasonality to that business related to construction timing. But you know, we are going to be seeing those numbers go up. As we talk to our customers and the distributors in terms of their pipe commitments that are then going to come to us for coating, we can see that we're going to have an uptick as we go through the third and fourth quarters and into next year.

DANA BENNER: Right. If we could move to 2011, recognizing that the backlog is trending higher, and you've got some very nice projects due to execute here over the next, I guess, three quarters and even beyond, how do we handicap your ability to move that higher? And I think there are probably a lot of us who have some pretty solid expectations for you in 2011. Maybe help us understand the likelihood that you can continue to move your project backlog higher as we move into and through '011.

WILLIAM BUCKLEY: Well, we, you know, have visibility on what we're bidding and what we've been told by clients we will likely be bidding in the next few quarters. And that's something that we track closely. What

"Though CNW Group has used commercially reasonable efforts to produce this transcript, it does not represent or warrant that this transcript is error-free. CNW Group will not be responsible for any direct, indirect, incidental, special, consequential, loss of profits or other damages or liabilities which may arise out of or result from any use made of this transcript or any error contained therein."

« Bien que Groupe CNW ait fait tous les efforts possibles pour produire cet audioscript, la société ne peut affirmer ou garantir qu'il ne contient aucune erreur. Groupe CNW ne peut être tenue responsable de pertes ou profits, responsabilités ou dommages causés par ou découlant directement, indirectement, accidentellement ou corrélativement à l'utilisation de ce texte ou toute erreur qu'il contiendrait. »

we of course cannot have any certainty around is, you know, when projects get sanctioned and when bidding activity turns into contract orders. So that's the difficult part of our, you know, ability to forecast 2011/2012, is the timing of big projects.

So you know, I can't tell you that you're going to see a steady upward progression in the backlog quarter over quarter as bids fall neatly into place. Unfortunately, it doesn't work that way. It happens when it happens.

I think one has to have a macro view of what's happening globally, and there's many different factors that affect whether projects go ahead. We believe, on balance, those factors ought to be very positive for a number of these projects to proceed. And when they do, that will translate into contract orders if we are successful in winning those contracts. And we will certainly win our fair share of them.

DANA BENNER: Right. So I guess even handicapping regions are... would we most likely see success, continued success in Southeast Asia, perhaps followed by South America and the Middle East? Is that how you'd maybe rank the areas in terms of success rate?

WILLIAM BUCKLEY: I would personally say Asia-Pacific and what we call EMAR, which is our Europe-Middle East-Africa-Russia. Those two

"Though CNW Group has used commercially reasonable efforts to produce this transcript, it does not represent or warrant that this transcript is error-free. CNW Group will not be responsible for any direct, indirect, incidental, special, consequential, loss of profits or other damages or liabilities which may arise out of or result from any use made of this transcript or any error contained therein."

« Bien que Groupe CNW ait fait tous les efforts possibles pour produire cet audioscript, la société ne peut affirmer ou garantir qu'il ne contient aucune erreur. Groupe CNW ne peut être tenue responsable de pertes ou profits, responsabilités ou dommages causés par ou découlant directement, indirectement, accidentellement ou corrélativement à l'utilisation de ce texte ou toute erreur qu'il contiendrait. »

would be probably running neck and neck as the areas most likely for some of these very large projects to be sanctioned and move ultimately into contract orders for us. Certainly that's where we expect our activity to be strongest. And then possibly Latin America falling in behind that slightly.

DANA BENNER: Right. I don't want to hog the call. I may have a couple of questions at the end. Thank you.

WILLIAM BUCKLEY: Sure.

OPERATOR: Your next question comes from the line of Bill Doyle from Columbia Wagner. Your line is open.

BILL DOYLE: Hi, Gary and Bill.

GARY LOVE: Morning.

WILLIAM BUCKLEY: Morning.

BILL DOYLE: In some of the areas that are unutilized, can you remind us what plants are affected, and a little bit of a mix of those on large diameter versus small diameter? So for instance, the ShawFlex plant is its own plant, right, which I assume is at relatively low utilization?

WILLIAM BUCKLEY: Oh, well, no. ShawFlex, that's in our petrochemical and industrial segment. And no, I think that segment, both ShawFlex and DSG Canusa have shown some pretty good improvement. Now, mind you, they're coming off recessionary levels of 2009.

"Though CNW Group has used commercially reasonable efforts to produce this transcript, it does not represent or warrant that this transcript is error-free. CNW Group will not be responsible for any direct, indirect, incidental, special, consequential, loss of profits or other damages or liabilities which may arise out of or result from any use made of this transcript or any error contained therein."

« Bien que Groupe CNW ait fait tous les efforts possibles pour produire cet audioscript, la société ne peut affirmer ou garantir qu'il ne contient aucune erreur. Groupe CNW ne peut être tenue responsable de pertes ou profits, responsabilités ou dommages causés par ou découlant directement, indirectement, accidentellement ou corrélativement à l'utilisation de ce texte ou toute erreur qu'il contiendrait. »

An interesting comment on DSG Canusa, you know, a large part of their business, of course, is based in Europe, and the depreciation of the Euro has had a negative effect on our reported results. The actual business, DSG business in Europe, has done quite well and has strengthened quite significantly, but we're not getting, you know, the full benefit of that in Canadian dollars when we translate the results to our reporting currency.

In the pipeline segment, and of course in our pipe coating business, we've talked about North America. That's the area where utilization has lagged. And you know, we've got a number of small diameter facilities, both in Canada and the U.S., and so there's a lot of capacity and thus upside should we see an improvement in utilization.

In our other pipeline segment businesses, of course Flexpipe, which started...

BILL DOYLE: Sorry, that's what I meant to say.

WILLIAM BUCKLEY: Yes, I suspected that was the case, and I was getting there. You know, Flexpipe is really important, I think, going forward. And it will certainly benefit should the continued pick-up in well completions, should that continue, we are going to see... we are confident we're go see a good improvement in utilization in Flexpipe.

"Though CNW Group has used commercially reasonable efforts to produce this transcript, it does not represent or warrant that this transcript is error-free. CNW Group will not be responsible for any direct, indirect, incidental, special, consequential, loss of profits or other damages or liabilities which may arise out of or result from any use made of this transcript or any error contained therein."

« Bien que Groupe CNW ait fait tous les efforts possibles pour produire cet audioscript, la société ne peut affirmer ou garantir qu'il ne contient aucune erreur. Groupe CNW ne peut être tenue responsable de pertes ou profits, responsabilités ou dommages causés par ou découlant directement, indirectement, accidentellement ou corrélativement à l'utilisation de ce texte ou toute erreur qu'il contiendrait. »

You know, Flexpipe's business has been traditionally roughly two-thirds Canadian, one-third U.S. We're now seeing that move closer to 50/50. And I think, as we move into the second half of 2010 and certainly by 2011, we expect our sales in the US to exceed Canadian sales for the Flexpipe product. And that will be very helpful in terms of fully utilizing their production capacity and will have a meaningful impact on our consolidated margins.

BILL DOYLE: But that's still at a relatively low level of utilization today.

WILLIAM BUCKLEY: It is today, absolutely. But it is, you know, again, we're coming off a spring break-up in western Canada, and things are moving upward. They are. How quickly that happens, of course, you know, we'll see as we get into the fall.

You know, historically their peak business, at least in Canada, is the fourth quarter/first quarter. The U.S. market tends to be a little more level loaded. So I think we have the possibility of, you know, moving into higher sort of seasonal levels in western Canada, where the product is well established and, you know, has a solid market share. So that's favourable. And then in the U.S., it's really getting the product acceptance amongst a broad customer base. And that's a process that we're accelerating.

"Though CNW Group has used commercially reasonable efforts to produce this transcript, it does not represent or warrant that this transcript is error-free. CNW Group will not be responsible for any direct, indirect, incidental, special, consequential, loss of profits or other damages or liabilities which may arise out of or result from any use made of this transcript or any error contained therein."

« Bien que Groupe CNW ait fait tous les efforts possibles pour produire cet audioscript, la société ne peut affirmer ou garantir qu'il ne contient aucune erreur. Groupe CNW ne peut être tenue responsable de pertes ou profits, responsabilités ou dommages causés par ou découlant directement, indirectement, accidentellement ou corrélativement à l'utilisation de ce texte ou toute erreur qu'il contiendrait. »

BILL DOYLE: And remind me, two of the larger facilities in North America are Regina and…

WILLIAM BUCKLEY: Camrose.

BILL DOYLE: … and Camrose? Okay.

WILLIAM BUCKLEY: Yes, those are the two large diameter facilities, both of which will be fully involved with Keystone XL and other projects in the second half of the year.

BILL DOYLE: Okay. So off of Keystone those get an uptick in the second half?

WILLIAM BUCKLEY: They do. They certainly do.

BILL DOYLE: Okay. Okay, thank you. I appreciate it.

OPERATOR: Your next question comes from the line of Brian Purdy from National Bank. Your line is open.

BRIAN PURDY: Morning, guys.

GARY LOVE: Good morning.

WILLIAM BUCKLEY: Good morning.

BRIAN PURDY: I just wanted to see if you could give us... I don't know if it’s difficult to get your arms around at the moment, but you know, you talked about some new opportunities in Iraq, and you know, obviously that’s an area that’s getting a lot of new investment. Do you have a feeling

"Though CNW Group has used commercially reasonable efforts to produce this transcript, it does not represent or warrant that this transcript is error-free. CNW Group will not be responsible for any direct, indirect, incidental, special, consequential, loss of profits or other damages or liabilities which may arise out of or result from any use made of this transcript or any error contained therein."

« Bien que Groupe CNW ait fait tous les efforts possibles pour produire cet audioscript, la société ne peut affirmer ou garantir qu’il ne contient aucune erreur. Groupe CNW ne peut être tenue responsable de pertes ou profits, responsabilités ou dommages causés par ou découlant directement, indirectement, accidentellement ou corrélativement à l’utilisation de ce texte ou toute erreur qu’il contiendrait. »

for, you know, how big the projects are out there? I mean, are there bids being put out that have a size to them?

GARY LOVE: Oh, yes, they do.

WILLIAM BUCKLEY: Yes.

GARY LOVE: For sure.

WILLIAM BUCKLEY: They do. There's several that we're working on right now that are going through the pre-engineering phase and pre-bid phase. One of them that you may have heard about relates to the Basra oil terminal, which is, you know, a major offloading site that was, of course, damaged during the war and went out of service, and they're now bringing it back into service. That's likely to be one of the first projects that's awarded, and that would, you know, likely happen, barring any delays, over the next couple of quarters.

BRIAN PURDY: Okay. I mean, would these be, you know, on par with the opportunities that you see in, you know, the North Sea or Australia, and or are they smaller because they're onshore?

GARY LOVE: Yes, they're smaller. You know, on the northwest shelf of Australia there's project that are, you know, going to be awarded over the next year or two that are going to be hundreds of millions of dollars in value for each of those projects. The projects in Iraq are – some of the first

"Though CNW Group has used commercially reasonable efforts to produce this transcript, it does not represent or warrant that this transcript is error-free. CNW Group will not be responsible for any direct, indirect, incidental, special, consequential, loss of profits or other damages or liabilities which may arise out of or result from any use made of this transcript or any error contained therein."

« Bien que Groupe CNW ait fait tous les efforts possibles pour produire cet audioscript, la société ne peut affirmer ou garantir qu'il ne contient aucune erreur. Groupe CNW ne peut être tenue responsable de pertes ou profits, responsabilités ou dommages causés par ou découlant directement, indirectement, accidentellement ou corrélativement à l'utilisation de ce texte ou toute erreur qu'il contiendrait. »

ones to come out are likely to be, you know, $40 million, $50 million in size.

BRIAN PURDY: Okay. And the other think I wanted to ask about was the coal scene projects. You know, I know there was a bunch of uncertainty around the changes to the Australian mining tax, and I was just wondering if you had any updates from your customers on when those types of projects might go forward.

GARY LOVE: You know, there's five projects that are progressing. It appears at the moment that two of them are likely to result in awards for pipe and coating prior to the end of this year. So two of them are getting pretty close. One of them involves a company that's going through an organizational change, so that could get delayed. The other looks like it's quite certain to progress.

BRIAN PURDY: Okay. Great. And I was wondering if you could give us an update on Russia. I mean, obviously that's a new facility for you. Are you comfortable with the backlog for that, now that you're sort of getting into the qualification phases?

GARY LOVE: Yes, the arrangement we have in Russia with our joint venture partners is we have a work implementation agreement, where they

"Though CNW Group has used commercially reasonable efforts to produce this transcript, it does not represent or warrant that this transcript is error-free. CNW Group will not be responsible for any direct, indirect, incidental, special, consequential, loss of profits or other damages or liabilities which may arise out of or result from any use made of this transcript or any error contained therein."

« Bien que Groupe CNW ait fait tous les efforts possibles pour produire cet audioscript, la société ne peut affirmer ou garantir qu'il ne contient aucune erreur. Groupe CNW ne peut être tenue responsable de pertes ou profits, responsabilités ou dommages causés par ou découlant directement, indirectement, accidentellement ou corrélativement à l'utilisation de ce texte ou toute erreur qu'il contiendrait. »

pay us for work provided, and we also have a lease agreement on the concrete coating plant that we have in place.

The plant has now been commissioned, and it's going through approvals with Gazprom. And those are going to be rather lengthy in nature, so it may be that through this summer season we only get revenues from the work implementation agreement and lease, and that we do very little coating, if any, for Gazprom this season, but basically put that into full production for Gazprom next year.

BRIAN PURDY: Okay. And is that a seasonal plant as well?

GARY LOVE: It is a seasonal plant at this time. And for the Baydaratskaya Bay projects which we expect to run for the next three years, we had planned on running it on a seasonal basis to meet the requirements there. But we're also now looking at doing additional work for the water market, as it's called, and this is really a muskeg swamp type of market, where they use concrete weight coating and concrete weight coating for protection in the muskeg regions where they get a freeze-thaw cycle and watered conditions.

So that if we start to penetrate that market, and it looks like we will in the next, you know, upcoming year or two, what our intention would be is to convert our plant, or upgrade our plant if you like, so that it can run year

"Though CNW Group has used commercially reasonable efforts to produce this transcript, it does not represent or warrant that this transcript is error-free. CNW Group will not be responsible for any direct, indirect, incidental, special, consequential, loss of profits or other damages or liabilities which may arise out of or result from any use made of this transcript or any error contained therein."

« Bien que Groupe CNW ait fait tous les efforts possibles pour produire cet audioscript, la société ne peut affirmer ou garantir qu'il ne contient aucune erreur. Groupe CNW ne peut être tenue responsable de pertes ou profits, responsabilités ou dommages causés par ou découlant directement, indirectement, accidentellement ou corrélativement à l'utilisation de ce texte ou toute erreur qu'il contiendrait. »

round. And it was designed with that, you know, capability and option in place, so it could be that next year we're winterizing that plant so it can run on a 12-month-a-year basis.

BRIAN PURDY: Okay. And then finally, you know, I'm not sure if it was just Russia you were referring to, but you commented on Europe showing some big opportunities. I was just wondering if you, you know, had anything specific you could share with us in terms of large projects in that area.

WILLIAM BUCKLEY: It looks like there's going to be a number of insulation, pipe coating insulation projects related to northern North Sea. So this is work with primarily Statoil but other EPs in that area. So we've had... there's been a bit of an ebb of activity, and that appears to be about to change, and projects for 2011 and 2012 look pretty solid in that region.

BRIAN PURDY: Okay, great. Thanks very much.

OPERATOR: Again, if you would like to ask a question, press * then the number 1 on your telephone keypad.

Your next question comes from the line of Roger Serin from TD Securities. Your line is open.

ROGER SERIN: Yes, I had a follow-up question following up on something Dana asked. In North America, you know, we've seen

"Though CNW Group has used commercially reasonable efforts to produce this transcript, it does not represent or warrant that this transcript is error-free. CNW Group will not be responsible for any direct, indirect, incidental, special, consequential, loss of profits or other damages or liabilities which may arise out of or result from any use made of this transcript or any error contained therein."

« Bien que Groupe CNW ait fait tous les efforts possibles pour produire cet audioscript, la société ne peut affirmer ou garantir qu'il ne contient aucune erreur. Groupe CNW ne peut être tenue responsable de pertes ou profits, responsabilités ou dommages causés par ou découlant directement, indirectement, accidentellement ou corrélativement à l'utilisation de ce texte ou toute erreur qu'il contiendrait. »

significant increasing activity in Canada, but it's much more development focused, particularly on the oil side. So are we getting a bit of a mixed message in terms of increased activity may not lead to quite as much small diameter pipe activity because of the shift in the type of activity, more development, more oil, and more on existing fields?

WILLIAM BUCKLEY: You know, I think there's going to be a range of pipeline infrastructure that's required. And you know, certainly if the well completions that are taking place in regions where the pipeline infrastructure is extensive, then that would imply less activity than, say, something like, you know, Horn River, where there's very, very little pipeline infrastructure.

So you know, we're not suggesting anything about where and how quickly things are going to start to ramp up for us in North America. We're simply – and I think we've been clear that we have had, for us, depressed conditions, and we think there's room for upside. We haven't particularly seen it yet. And so we are being... and I think we've been pretty cautious on this in terms of when that might start to positively impact us.

ROGER SERIN: And outside of the obvious big projects which you talked about, you're not getting much feedback from your closer-to-the-

"Though CNW Group has used commercially reasonable efforts to produce this transcript, it does not represent or warrant that this transcript is error-free. CNW Group will not be responsible for any direct, indirect, incidental, special, consequential, loss of profits or other damages or liabilities which may arise out of or result from any use made of this transcript or any error contained therein."

« Bien que Groupe CNW ait fait tous les efforts possibles pour produire cet audioscript, la société ne peut affirmer ou garantir qu'il ne contient aucune erreur. Groupe CNW ne peut être tenue responsable de pertes ou profits, responsabilités ou dommages causés par ou découlant directement, indirectement, accidentellement ou corrélativement à l'utilisation de ce texte ou toute erreur qu'il contiendrait. »

ground suppliers in terms of improving situations, despite what we see as increasing drilling, particularly on the Canadian side?

WILLIAM BUCKLEY: No, I think our guys are feeling better today than they were six months ago.

ROGER SERIN: Okay. Thanks, guys.

WILLIAM BUCKLEY: Okay.

OPERATOR: Your next question comes from the line of Gary Chapman from Guardian Capital. Your line is open.

GARY CHAPMAN: Thanks. Hi, Bill and Gary.

GARY LOVE: Hi.

GARY CHAPMAN: I'd just like to ask about the Socotherm, your participation in a group that wants to buy it. In terms of the 40 per cent, would you have liked to have had more? Were there sort of concerns that it wouldn't be approved by the courts if you had more? Could you just talk about that a bit?

WILLIAM BUCKLEY: I think there were several factors, not... I wouldn't suggest that the court would have been an impediment, but I would say that there would have been some anti-trust considerations and merger monopoly approval hurdles had we gone in with a different structure. And I'm not certain what the outcome of that would have been,

"Though CNW Group has used commercially reasonable efforts to produce this transcript, it does not represent or warrant that this transcript is error-free. CNW Group will not be responsible for any direct, indirect, incidental, special, consequential, loss of profits or other damages or liabilities which may arise out of or result from any use made of this transcript or any error contained therein."

« Bien que Groupe CNW ait fait tous les efforts possibles pour produire cet audioscript, la société ne peut affirmer ou garantir qu'il ne contient aucune erreur. Groupe CNW ne peut être tenue responsable de pertes ou profits, responsabilités ou dommages causés par ou découlant directement, indirectement, accidentellement ou corrélativement à l'utilisation de ce texte ou toute erreur qu'il contiendrait. »

but certainly I think I can say there would have been a lot more considerations around regulatory approval.

And then the other factor, and probably the more important factor, is customer acceptance. You know, I think that the customer base has reacted positively to the announced transaction, and I can say that the customer base is anxiously awaiting completion of the investment, as are we. You know, our investment and the structure that we've put forward provides a good solution for the industry, and that's very important to our client base. And so we certainly are very cognizant of having a structure that works... works well for our client base.

GARY CHAPMAN: Okay. Thanks very much.

OPERATOR: Your next question comes from the line of Dana Benner from Stifel Nicolaus. Your line is open.

DANA BENNER: Thanks, guys. Just a couple of follow ups. I guess firstly, following up on Gary's question on Socotherm, how would you... I mean, it sounds like it's a virtual done deal. Any chance that any opposition shown in the final stages of this could materially delay closure, or even prevent it in some fashion?

WILLIAM BUCKLEY: Dana, yes, I would share your optimism that the deal should close. We are certainly frustrated that the closing is so

"Though CNW Group has used commercially reasonable efforts to produce this transcript, it does not represent or warrant that this transcript is error-free. CNW Group will not be responsible for any direct, indirect, incidental, special, consequential, loss of profits or other damages or liabilities which may arise out of or result from any use made of this transcript or any error contained therein."

« Bien que Groupe CNW ait fait tous les efforts possibles pour produire cet audioscript, la société ne peut affirmer ou garantir qu'il ne contient aucune erreur. Groupe CNW ne peut être tenue responsable de pertes ou profits, responsabilités ou dommages causés par ou découlant directement, indirectement, accidentellement ou corrélativement à l'utilisation de ce texte ou toute erreur qu'il contiendrait. »

delayed that, you know, it does not appear that it will close before the end of September. So that's very frustrating for us. It's very frustrating for Socotherm and the employees of Socotherm.

This transaction needs to close. It is the best solution, certainly for Socotherm, and all the stakeholders of Socotherm, and it's the best solution for our industry. So we can only hope that the court will consider that and make the right decision. But we can't predict with certainty what the court may choose to do.

DANA BENNER: Right. So if we assume that it closes by the end of September, how long do you think it will be before you start to get some visibility about how that backlog may be rebuilt, a portion of which, or a part of which you will share?

WILLIAM BUCKLEY: Yes, I think it'll take some time. The reinvention of Socotherm is going to be a lengthy project and will take some considerable time. So I can't give you any greater clarity on that. When the deal closes we'll update you on our perspective at that time.

DANA BENNER: Right. Just two final questions. Firstly, maybe you could update us on your approach to balance sheet management. You're in an enviable position in this sector, for sure. You'll be generating

"Though CNW Group has used commercially reasonable efforts to produce this transcript, it does not represent or warrant that this transcript is error-free. CNW Group will not be responsible for any direct, indirect, incidental, special, consequential, loss of profits or other damages or liabilities which may arise out of or result from any use made of this transcript or any error contained therein."

« Bien que Groupe CNW ait fait tous les efforts possibles pour produire cet audioscript, la société ne peut affirmer ou garantir qu'il ne contient aucune erreur. Groupe CNW ne peut être tenue responsable de pertes ou profits, responsabilités ou dommages causés par ou découlant directement, indirectement, accidentellement ou corrélativement à l'utilisation de ce texte ou toute erreur qu'il contiendrait. »

tremendous free cash flow. So maybe give us a sense for how you approach the balance sheet going forward?

And then secondly, maybe talk about the materiality of the commercialization of Thermotite, maybe even in the wake of the Deepwater disaster in the Gulf of Mexico, whether that should play into that at all? That's it.

WILLIAM BUCKLEY: Yes, with respect to your first question on the balance sheet, we are in a very, very strong position, strong cash position. And at the moment, we're quite happy with that position. There are lots of opportunities that we're evaluating on the acquisition front. You know, beyond the Socotherm announcement, we would expect that we will have other announcements for our shareholders as we go forward on great opportunities that are going to expand and strengthen our business in various markets.

You know, if we find ourselves as we go forward not using our cash position for acquisitions, then of course we'll consider, as we have in the past, on how we might return that to the shareholders in other ways. But we're quite happy to be in a position where we can execute on acquisition opportunities as they emerge and as we look to expand our business globally.

"Though CNW Group has used commercially reasonable efforts to produce this transcript, it does not represent or warrant that this transcript is error-free. CNW Group will not be responsible for any direct, indirect, incidental, special, consequential, loss of profits or other damages or liabilities which may arise out of or result from any use made of this transcript or any error contained therein."

« Bien que Groupe CNW ait fait tous les efforts possibles pour produire cet audioscript, la société ne peut affirmer ou garantir qu'il ne contient aucune erreur. Groupe CNW ne peut être tenue responsable de pertes ou profits, responsabilités ou dommages causés par ou découlant directement, indirectement, accidentellement ou corrélativement à l'utilisation de ce texte ou toute erreur qu'il contiendrait. »

With respect to your second question on events in the Gulf of Mexico, you know, it's an environmental disaster, it's a human tragedy, and it, you know, reflects poorly on our industry. And there has been a ripple effect throughout our customer base globally as our customers in virtually every jurisdiction review their methods and practices with respect to offshore drilling and completion.

And they are also looking at the whole area of contract management and risk management, and that is leading to a trend I think that we will see emerge over the next several quarters, which is a movement to look to be served by higher quality suppliers from the services sector, consideration for other factors beyond just price, and thinking that you can push terms and conditions down and that basically abrogates your responsibilities and reduces your risk as an E&P player.

So I think that puts us in a strong position. I think also the services suppliers that have technology, that have R&D facilities, that have a good understanding of the technology that's going into their products and can respond to the needs of the client base are going to step up going forward, and I think we're in a very strong position for that.

The Thermotite Ultra line that we're bringing out is a line that gives a higher level of assurance to our clients in shallow water applications, gives

"Though CNW Group has used commercially reasonable efforts to produce this transcript, it does not represent or warrant that this transcript is error-free. CNW Group will not be responsible for any direct, indirect, incidental, special, consequential, loss of profits or other damages or liabilities which may arise out of or result from any use made of this transcript or any error contained therein."

« Bien que Groupe CNW ait fait tous les efforts possibles pour produire cet audioscript, la société ne peut affirmer ou garantir qu'il ne contient aucune erreur. Groupe CNW ne peut être tenue responsable de pertes ou profits, responsabilités ou dommages causés par ou découlant directement, indirectement, accidentellement ou corrélativement à l'utilisation de ce texte ou toute erreur qu'il contiendrait. »

some real financial benefits to customers who are using real methods of offshore pipeline deployment. And then the Ultra deepwater play is really the only technology that will enable clients to use passive insulation on their gathering lines for those projects.

So we feel quite comfortable about that development. It was several years in the making in our R&D facilities, coming from the material... our polymer material science section, which we believe is the best in the world at what they do, and it's a great breakthrough.

I think also our decision that was made before the Macondo well disaster, the decision made to develop our subsea simulated service vessel test facility here in Toronto, which will allow our clients to not only test the performance of their passive coating systems that we provide but also the joint protection system, I think couldn't be more timely in light of recent events. I think clients' requirements for testing prior to deploying these systems in deepwater applications is just going to be higher. That's... and I think that's kind of self-evident.

So I think, you know, in summary, it's a terrible disaster, but I think companies like ShawCor are going to benefit because clients are going to need the kinds of services and capabilities we offer.

DANA BENNER: Okay, thank you.

"Though CNW Group has used commercially reasonable efforts to produce this transcript, it does not represent or warrant that this transcript is error-free. CNW Group will not be responsible for any direct, indirect, incidental, special, consequential, loss of profits or other damages or liabilities which may arise out of or result from any use made of this transcript or any error contained therein."

« Bien que Groupe CNW ait fait tous les efforts possibles pour produire cet audioscript, la société ne peut affirmer ou garantir qu'il ne contient aucune erreur. Groupe CNW ne peut être tenue responsable de pertes ou profits, responsabilités ou dommages causés par ou découlant directement, indirectement, accidentellement ou corrélativement à l'utilisation de ce texte ou toute erreur qu'il contiendrait. »

OPERATOR: There are no further questions at this time. I turn the call back over to the presenters.

GARY LOVE: Okay. Thank you, Tracy. I'd like to take this opportunity to thank everyone for their participation and interest today, and we look forward to updating you again after next quarter. Thank you.

OPERATOR: This concludes today's conference call. You may now disconnect.

*****

"Though CNW Group has used commercially reasonable efforts to produce this transcript, it does not represent or warrant that this transcript is error-free. CNW Group will not be responsible for any direct, indirect, incidental, special, consequential, loss of profits or other damages or liabilities which may arise out of or result from any use made of this transcript or any error contained therein."

« Bien que Groupe CNW ait fait tous les efforts possibles pour produire cet audioscript, la société ne peut affirmer ou garantir qu'il ne contient aucune erreur. Groupe CNW ne peut être tenue responsable de pertes ou profits, responsabilités ou dommages causés par ou découlant directement, indirectement, accidentellement ou corrélativement à l'utilisation de ce texte ou toute erreur qu'il contiendrait. »