EVENT:	SHAWCOR LTD. -Q2 RESULTS CONFERENCE CALL & WEBCAST
TIME:	10H00 E.T.
REFERENCE:	CNW GROUP - TORONTO
LENGTH:	APPROXIMATELY 20 MINUTES
DATE:	AUGUST 5, 2005

OPERATOR: Good morning, ladies and gentlemen and welcome to the ShawCor second quarter financial results conference call. At this time, all participants are in a listen-only mode. Following today's presentation, instructions will be given for the question-and-answer session. If anyone needs assistance at any time during today's conference, please press the * followed by the 0.

As a reminder, this conference is being recorded Friday, August 5th, 2005.

I would now like to turn the conference over to Mr. Bill Sheridan, Secretary of ShawCor. Please go ahead, sir.

BILL SHERIDAN (Secretary, ShawCor Ltd.): Good morning.

Today's webcast includes forward-looking statements that involve estimates, judgements, risks and uncertainties that could cause actual results to differ materially from those projected. The uncertainties include, among others, economic conditions, levels of drilling and pipeline activity, environmental and regulatory risks, liability claims, exchange rate fluctuations, political risk and raw material prices. For further information on risks that could affect the company, please see ShawCor's 2004 annual report, copies of which are available on SEDAR at www.sedar.com and may also be found on the ShawCor website at www.shawcor.com.

I'd now like to turn the meeting over to Bill Buckley, CEO.

WILLIAM BUCKLEY (President and Chief Executive Officer, ShawCor Ltd.): Thank you, Bill, and good morning, ladies and gentlemen, and welcome to ShawCor's second quarter conference call. My name is Bill Buckley and as most of you know, I officially replaced Geoff Hyland as President and CEO on June 30th of this year.

For those of you who don't know me, I've been with ShawCor for the last 12 years, the last four years as Chief Operating Officer, and for most of the last year, also as President of our largest division, the Bredero Shaw pipe coating business.

Now, let me begin by saying we continue to be optimistic about our future business prospects. The outlook for our major markets is buoyant and our programs for operational improvements are on track and beginning to take effect.

Before we get into some of those details, I'd ask Alan Thomas, our CFO, to take us quickly through the numbers for the second quarter.

Alan?

ALAN THOMAS (Chief Financial Officer, ShawCor Ltd.): Thanks, Bill, and good morning, everyone.

On a year-over-year base comparison, the second quarter results continue to show substantial improvement, earnings of 9.7 million and $0.13 a share compared to a loss of $0.05 last year. 2004 of course included substantial losses from our Mobile, Alabama pipe coating and fabrication facility. When you exclude the Mobile losses, we earned $0.15 per share this quarter compared to $0.12 in the second quarter of last year. Year-to-date earnings of 27.5 million, or $0.37 a share, compared to just breakeven for the first six months of last year. Again, excluding Mobile, we would have earned $0.43 year-to-date this year compared to $0.26 last year, a 65-per-cent improvement.

Consolidated revenue for the quarter totalled 270 million, a 33-per-cent increase over the same period last year. Year-to-date sales are up $168 million, or 43 per cent over the first six months of last year with both the pipeline and the upstream exploration and development segments showing strong year-over-year growth.

At the revenue line, our results are in line with expectations. Compared to the first quarter of 2005, revenue was down some $15 million, or 5 per cent, due to the seasonal slowdown in Western Canada, the planned wind-down of activity in Mobile, and some minor project delays in the Western United States.

Operating income was significantly lower than in the first quarter as (inaudible) of the lower sales volumes. The pipe-coating operations in the North Sea in Africa reported lower earnings than expected for a number of reasons. In Norway, the switch in the quarter from coating 44-inch pipe to 42-inch pipe had some initial teething issues with very high initial reject rates. Bill can explain more, and those problems have been solved. Production is now back on plan.

In addition, much of the bare pipe receipts in the quarter suffered salt water damage in transit to our plant, which required additional cleaning prior to coating. While we expect to recover the additional salt damage costs from the client, the additional potential revenue was not booked as written approval has not yet been received from our customer. In some cases, such approvals are not received until near the completion of the contracts.

We had a similar situation in Africa where variation orders or change orders were increased materially and roll-out costs incurred and expensed have been submitted but the expected written authorizations have not been received. While change orders in excess of $8 million are currently on outstanding, it's not possible at this point to estimate when or if approvals for these claims will be approved.

Looking at the segments in more detail, in the pipeline segment, both Canusa-CPS and Shaw Pipeline Services continue to see strong markets and good earnings, in Bredero Shaw the pipe-coating division, revenues are up 37 per cent over last year's levels with the larger increases in the North Sea and Africa.

Compared to the first quarter, the drop in revenues in the Americas, including a 10 million reduction in Mobile accounts for the $22 million drop in revenues compared to the first quarter.

Moving to operating earnings, compared to last year and excluding Mobile, operating earnings in the segment were 11.6 million versus $6.3 million a year ago. The $16 million decrease in operating earnings from the first quarter of 05 is divided between the extended seasonal shutdown in Western Canada and the costs and production problems in Africa in the North Sea.

In the exploration and production segments, the good news is OMSCO where customer drill pipe inventories have disappeared and OMSCO's order book is full. Segment revenues are almost double last year's levels and operating earnings are more than eight times last year and 30 per cent ahead of first quarter levels. EBITDA margins as a percentage of revenues for the E&P segment exceeded 20 per cent for the quarter.

In the petrochemical and industrial segments, revenue was down 7 per cent from last year but up 3 per cent from the first quarter. While ShawFlex earnings have continued at a steady pace, PFG's earnings have declined somewhat, reflecting the softness in the European electronic and automotive markets.

Looking at the rest of the income statement, income from operations includes our share of earnings from our Saudi Arabia joint venture which is suffering temporarily from delays in the commencement of a major water pipe project. We generated EBITDA of almost $29 million in the quarter compared to 72 million year to date, an 80-per-cent increase over the first six months of last year.

Depreciation expense in the quarter is down slightly due to the wind-down of activity in Mobile. The new facilities in Indonesia and Africa, which are starting up, will get our quarterly depreciation expense back up to the $13 million to $13.5 million run rate by the fourth quarter.

Looking at the rest of the income statement, interest expense remains steady, income taxes for the quarter at 34 per cent of pre-tax earnings is a fairly normal percentage; and while they move around a little quarter by quarter depending on where we're earning the money, the year-to-date rate of about 37 per cent should be pretty indicative of the expected annual rate.

In summary, in terms of earnings, much improved over the second quarter of last year. Compared to the first quarter of this year, our exploration and production earnings were up nicely. Petrochemical and industrial was down slightly. The big change was in pipeline, down almost $15 million. That's really, as I was referring to, due to three issues. The seasonal drop in Canada was in the area of $5 million, the production problems cost us $2 million to $3 million and the extra costs for which we hope to recover substantially is the remaining $8 million difference.

Turning to cash flows, cash generated from operations in the quarter totalled $39 million, including a $20 million reduction in working capital as receivable collections caught up with the higher sales levels. Spending on new pipe-coating facilities in Indonesia, Ghana and Nigeria make up the bulk of the $12 million of capital expenditures in the quarter and for the year to date.

For the year in total, capex is estimated to be in the $40 million to $45 million range. Overall, our cash resources increased in the quarter by $18 million to $82 million. For the sharp-eyed analysts out there, we are now grossing up our cash and short-term bank balances rather than netting them as in the past and we've retroactively changed the historical numbers. We've done the same thing with our deferred tax credits and debits since we have grossed them up as opposed to netting them on occasion.

The balance sheet continues to be in very good shape: net cash balances of $78 million, a debt-to-capital ratio of 0.17-to-1, and a net-debt-to-capital ratio of 0.03-to-1. A couple of the ratios we do track: return on equity year-to-date is 12.1 per cent; EBITDA as a percentage of revenue is 13 per cent year-to-date, just under 11 per cent for the quarter.

Now, I'd like to turn it back to Bill to talk a little more about the operations and the outlook going forward.

WILLIAM BUCKLEY: Thank you, Alan.

As I suggested earlier, with two major exceptions, we are pleased with the progress we made in the second quarter. The record rains in Western Canada in the quarter extended spring break-up substantially and this had a significant impact on our small-diameter pipe-coating and tubular inspection businesses in the region.

As Alan mentioned, we have had project cost over-runs in the North Sea and Nigeria and have some variation orders to recover these costs through our clients. We do not book these change orders until we receive written approval from our clients and negotiations are under way to gain final approval.

In Farsund, we completed work of a 44-inch pipe and switched to coating the 42-inch diameter pipe with different concrete thicknesses. We experienced efficiency issues relative to this changeover in ramp-up. These have now been mostly resolved and production is approaching standard rate.

In the third quarter, Farsund will be on a planned three-week summer shutdown. Remember, the Indonesian coating plant in Kabil is progressing well and we expect to be coating pipe by the end of the third quarter in this location. In Ghana, one concrete coating plant is now operational. We have just about completed the move of the chief steel plant from Mobile to our Pearland, Texas, location and will be coating pipe there by September and we continue to strengthen the management team at Bredero Shaw with the addition of a new Vice-President, Finance.

In addition, we have filled out the marketing team in Bredero Shaw with the addition of regional managers in the Far East and North Sea and additional senior management roles will be filled over the next few months.

Our teams in all three of our pipeline segment businesses are busy and our market outlook for the next two years is very good. As announced yesterday, we have signed a $33 million contract for the Ca Mau pipeline in Vietnam. This is a new market for us and we expect to be able to make additional announcements on projects over the next few weeks.

In the upstream segment, both OMSCO and Guardian are doing well. OMSCO sales and backlog are close to record levels. Price increases to date have recovered the dollar cost of the higher steel input costs but margin percentages have not yet reached the levels seen in the last up cycle.

The Guardian tubular tracking system continues to attract new inspection customers after a successful push into Canada's far north.

In the petrochemical segment, the ShawFlex specialty wiring cable business continues to enjoy strong demand from the oil sand and the utilities sector and at DSG-Canusa, we are being impacted by the softness in the North American and European automotive markets.

On the strategic side, we are actively exploring several expansion opportunities particularly in the pipeline segment.

In summary, year-over-year operating income for the quarter improved significantly. On a sequential quarter basis, operating income in Q2 was negatively impacted by three factors: first, with spring break-up and the reduced volume associated with that impacted operating earnings by about $5 million. Second, the temporary inefficiencies from the Farsund plant related to the major changeover impacted earnings to the extent of $2 million to $3 million and work completed and expensed in the quarter subject to claims to be paid in future periods impacted operating earnings to the extent of $8 million.

Our backlog at 450 million remains high. Bidding activities are strong. The company's management capability is being strengthened and this combined with a strong market outlook for most of our businesses gives us optimism as we look forward.

With that, I'll now turn the phone back over to the operator for questions.

OPERATOR: Thank you, sir. Ladies and gentlemen, at this time, we will begin the question-and-answer session. If you have a question, please press the * followed by the 1 on your pushbutton phone. If you'd like to decline from the polling process, please press the * followed by the 2. You will hear a three-tone acknowledging your selection and your questions will be polled in the order they are received. If you're using speaker equipment, you will need to lift the handset before pressing the numbers. One moment for our first question.

The first question comes from Dana Benner, with Westwind Partners. Please go ahead.

DANA BENNER: Good morning, gentlemen.

ALAN THOMAS: Good morning, Dana.

WILLIAM BUCKLEY: Good morning.

DANA BENNER: Bill, I wonder if you could maybe speak to the backlogs that you refer to in the press release. You've noted that it's up from your first quarter levels, which looks great. Can you give perhaps a bit of insight on how that unfolds over the next 12 months? Is there lumpiness to that or whether you think that rolls through on a fairly consistent basis?

WILLIAM BUCKLEY: Certainly, Dana. The backlog tends to be very lumpy. It's impacted by project bookings. We reflect in the backlog, any shippable work, billable work over the next 12-month period. The backlog actually in the second quarter declined somewhat from the first quarter because of course we have major billings and shipments that are related to the (inaudible) project. So we expect that it will move around over the next two or three quarters, as (inaudible) gets completed and as we add new projects such as the recent Ca Mau project.

DANA BENNER: I guess no sense of timing? Perhaps you can add a bit more guidance on which of the quarters may be more impacted than others?

WILLIAM BUCKLEY: Well, in terms of the existing backlog and the Farsund project, we'll basically be operating that at full output rates during the third quarter with the exception of a shutdown period which only impacts a part of the quarter. There will be full output rates in the fourth quarter and also through the first quarter of next year with that tapering off in the second quarter of next year.

And as I said, offsetting that will be additional projects that we'll be booking through the period, so we could see the backlog number move around over the next three or four periods. Generally, we expect over the longer term, you know, over the next three or four quarters that with the level of market activity and the level of bidding activity that we have at the outlook, you know, generally it will be quite strong for us.

DANA BENNER: Can you give us a bit more colour on your OMSCO business right now, how you… You know, maybe some of the real-time insight into pricing, market share issues, how core that business is to you, etc.?

WILLIAM BUCKLEY: Yes, sure. Well, as the numbers indicate, OMSCO right now is doing extremely well with respect to sales and earnings and SG&L release contained in our upstream segment numbers.

OMSCO is a business that has about 15 per cent market share, of the drill pipe market, so if you compare it to our other businesses, it tends to be a small-share player and as you know strategically, we want all of our businesses to be either number-one or a number-two player and if they are a number two-player, we want the ability to move them into a number-one position, or at least have the potential for doing that.

We also like to compete in all of our businesses on the basis of differentiated products as opposed to commodity products and with respect to OMSCO, we introduced the new torque master TL4 product line. That's had some positive impact but in reality, it only covers a certain percentage of the total product line.

So, you know, we tend to look at all of our businesses on an ongoing basis for the strategic fit. With respect to your question on pricing right now, we do have pricing power in the marketplace. We are increasing prices.

As I mentioned, we haven't yet reached the margin levels that we reached in the last peak. We expect that we may be able to achieve those levels in the not-too-distant future. The market is getting fairly tight for the supply of drill pipe and the industry is now beginning to build new rigs and there's been projections of another 200 rigs being added to the global fleet and that those builds are now under way.

So we expect margins will get better. I think in the short term, OMSCO's performance is going to be very good. I think strategically, you know, we look at that business and as I commented, we have some strategic issues that we want to see how we might address those over the longer period.

DANA BENNER: Great. Just one final question. You referred to expansion opportunities in your pipeline segment. Can you give us any more colour on that?

WILLIAM BUCKLEY: Dana, we're looking at geographical expansion opportunities. We're also looking at the possibility of acquisitions and joint ventures in that segment. When we look at the market fundamentals and the business drivers in the pipeline segment, those look very attractive to us over the intermediate and longer term.

DANA BENNER: That's great. Thank you very much.

WILLIAM BUCKLEY: Thank you.

OPERATOR: Ladies and gentlemen, if you have an additional question, please press the * followed by the 1. Gentlemen, at this time, I show no further questions.

BILL SHERIDAN: Okay, thank you, Operator. We'd like to thank everybody for tuning in to today's teleconference and we'll say goodbye now.

OPERATOR: Thank you. Ladies and gentlemen, this concludes the ShawCor second quarter financial results teleconference. Thank you for participating in today's conference and at this time, you may now disconnect.

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