

EVENT: SHAWCOR LTD. – THIRD QUARTER FINANCIAL
RESULTS CONFERENCE CALL & WEBCAST
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OPERATOR: Good morning ladies and gentlemen and welcome to the ShawCor Third 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 the conference please press the star followed by the zero.

I would now like to turn the conference over to Mr. Jim McTurnan, Vice President of Legal. Please go ahead, sir.

JIM McTURNAN (Vice President, Legal, ShawCor Ltd.): Thank you Adam. Today's webcast includes forward-looking statements that involve estimates, judgments, risks, and uncertainties that could cause actual results to differ materially from those projected. The uncertainties include, among other things, economic conditions, levels of drilling and pipeline activity, environmental and regulatory risks, liability claims, exchange rate fluctuations, political risk, and raw material price. Further information on risks that could affect the Company can be found in ShawCor's 2004 annual report and quarterly reports for 2005, 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 would now like to turn the teleconference over to William Buckley, the President and CEO of the Company.

W.P. BUCKLEY (President, Chief Executive Officer, ShawCor Ltd.): Thank you Jim and good morning ladies and gentlemen. Welcome to our third quarter financial results conference call.

It was a very busy and successful quarter for us in terms of our operational performance and of course, this was combined with the successful closing of the sale of our OMSCO Drill Pipe Division on September 30th. Alan will explain the accounting issues and treatment related to that sale, but I wanted to first explain our rationale behind selling at this point.

Over the 15 years that we have owned OMSCO it has been our most volatile business and while it made money at the peak of the cycle, the financial returns over the full cycle have not been acceptable. Despite the significant improvements we were able to make in the last few years, OMSCO remained a weak number two in the market with little chance of catching the giant number one player. The dominant player has substantial excess capacity whereas OMSCO was basically at capacity. The full cycle returns on capital employed for the industry are low and we're beginning to see Chinese manufacturers successfully enter the lower end North American market with lower priced commodity based product.

We believe the price we received; 120 million US is full value for the business, reflecting the current going markets. It represents 8.6 times trailing 12 month June 30 EBITDA and 22 times 2004 and 70 times 2003 EBITDA levels.

Vallourec and Mannesmann, the successful bidder for OMSCO, after a vigorous auction process, is a major player in the international drill pipe market and with this entry into the US market they are in a position to do more work with the OMSCO assets than we were.

In the final analysis, we believe the timing was right for the sale. The price we got was very good and provides funds for reinvestment in our more profitable core businesses. While the sale of OMSCO will reduce the volatility of ShawCor's earnings over the longer term, which we believe to be positive, it will in the short term, reduce earnings until replacement.

For your reference, OMSCO's earnings were at a trailing 12 month run rate of about \$0.20 per share and OMSCO produced, on an after-tax basis, just over \$0.05 in the third quarter.

I'll now ask Alan to take us through the numbers and then I'll discuss the operations in a little more detail and talk about the outlook going forward. Alan?

A.R. Thomas (Vice President, Finance and Chief Financial Officer, ShawCor Ltd.): Thank you, Bill. I should start by explaining how we have accounted for the OMSCO sale and the impact that it has had on our financials.

Under generally accepted accounting principals we have to treat OMSCO as a discontinued business wherein we removed the revenues and expenses from continuing operations, both in the current and all previous quarters and show OMSCO's net earnings as income from discontinued operations. We also have to restate the segment results to exclude OMSCO and in doing so we made the decision that the Guardian pipe inspection business, which was the other part of the exploration and production segment, is not big enough by itself to remain a separate segment. We have therefore included it with the pipeline businesses, renaming the segment pipeline and pipe services. So it now includes Bredero

Shaw's pipe coating businesses, Canusa-CPS's joint protection business, Shaw Pipeline Services pipeline inspection business, and Guardian's tubular and drill pipe inspection business. The Petrochemical and Industrial segment remains unchanged. All of the comparisons to prior results I will make in this conference call are to the restated numbers excluding OMSCO.

Overall, as Bill mentioned, not a bad quarter, revenue of \$240 million, \$50 million or 26 percent higher than the third quarter of last year, and 5 million ahead of the second quarter of this year. Increased pipe coating activity in the North Sea, West Africa and the Far Eastern plants account for the increase over the prior year. This despite a \$10 million decrease in our translated Canadian dollar revenues due to the stronger Canadian dollar, which on a comparative basis was up more than 8 percent against the US dollar and 5 percent against the Euro.

Income from operations before interest and taxes was 20 million, a substantial improvement over the \$6 million loss reported in the third quarter last year, which of course included a \$15 million loss from our Mobile, Alabama operation. Excluding the Mobile costs, we still saw more than 100 percent improvement in operating earnings, up more than \$12 million. The stronger Canadian dollar reduced those earnings by some 1.5 million in the quarter compared to last year, but that was more than offset by the inclusion of 3.3 million on variation orders relating to the sub damage claims on the Ormen Lange project in Norway that were settled with the client in the third quarter. As

mentioned in our last call, the extra costs related that claim had been expensed in prior quarters. We have not made sufficient progress on the Nigerian variation order negotiations to include any of them in income at this point. Mobile related costs totaled 1.2 million for the quarter; 5.8 million for the year-to-date.

Income before tax is \$19 million, or \$54 million year-to-date, compared to a loss of 7 million and breakeven in the prior quarter and prior year-to-date. As mentioned, the Mobile losses included in last year's numbers were 15 million for the quarter and 34 million year-to-date.

The income tax expense in the quarter needs some explanation. We are able to shelter the gain on the sale of the OMSCO assets with prior year's tax losses that we'd accumulated, principally due to the Mobile situation. However, under the discontinued operations rules under generally accepted accounting principles, we must show the income tax expense that would have been paid on the gain, without the benefit of those losses and record the benefit of the losses in income from continuing operations. The logic is that those losses were generated by continuing operations and therefore the benefit should also be included in continuing operations. The net effect is that our tax expense for the quarter and year-to-date has been reduced by some \$18.4 million, or \$0.25 a share on what's reported in continuing operations.

Earnings from continuing operation for the quarter of 33 million, or \$0.44 a share and earnings from discontinued operations including a pre-tax gain on the sale of OMSCO of 75 million, of 57 million after tax, or \$0.76 a share. I

mentioned, excluding effects lost recovering earnings from continuing operations, we would have reported \$0.19. Earnings from continuing operations for the first nine months were \$55 million, or \$0.73 a share, including the \$0.25 benefit from the tax loss recoveries. OMSCO's pre-tax operating earnings for the quarter and the year-to-date were 6 million and 14.6 million respectively. These of course were included in discontinued operations, not in continuing operations and we included the OMSCO earnings in continuing operations for the quarter, we would have reported \$0.24 rather than the \$0.19 I referred to before the tax benefit.

Going forward, for the analysts in the crowd, an average effective tax rate before adjusting for the \$18 million loss carry forward benefit of 35 to 36 percent is still appropriate.

In the pipeline and pipe services segments, almost all of the increases in both revenues and operating income in the quarter compared to last year are in the pipe coating businesses. Both Canusa-CPS and Shaw Pipeline Services had solid quarters, but consistent with last year's levels. Guardian's inspection business was up nicely with increased volume both in Mexico and the far North in Canada. In the North Sea, all three pipe coating plants were busy and the West Africa gas pipeline project in Angola was up and running. Our existing Indonesian plant finished strong, but it is now shut down and the new plant in Kabil will have its first production in the fourth quarter. The Malaysian facility continues to be very busy, but the Middle Eastern coating plants are quite slow.

Canada and the US small diameter plants have picked up again after a slower second quarter, but large diameter activity in North America is still low. Compared to the second quarter, segment revenues were \$7 million higher with improved levels in the Americas and the Far East produced somewhat by the three week vacation shutdown in Norway on the Ormen Lange contract.

In the Petrochemical and Industrial segment, ShawFlex had another consistent and strong quarter, but the DSG European operations are somewhat lower than both the second quarter and last year's third quarter, reflecting the softness of the European auto industry. The weaker Euro didn't help either, as I mentioned it was on average, 5 percent lower this than last year.

Overall, earnings for the quarter were \$91 million or \$1.20 per share, including \$58 million or \$0.76 from discontinued operations.

Turning to cash flows; continuing operations generated \$23 million in cash flow for the quarter in spite of a \$16 million increase in working capital, reflecting the new pipe coating contracts in Africa, Malaysia, and the North Sea. Year-to-date operations generated 50 million, again despite a \$33 million increase in working capital. We would expect those working capital increases to start coming down as we go through the fourth quarter.

On a restated basis, depreciation is running in the 11 to \$12 million a quarter rate. Capital expenditures of 13 million in the quarter including ongoing construction of the new Kabil facility in Indonesia and expansion of our West Africa facilities. The Kabil plant is now more than 90 percent complete. Canusa-

CPS is adding some capacity to its Huntsville plant, and ShawFlex has added capacity in its Toronto plant. For the year we're still looking at capital expenditures in the range of 40 to \$45 million, about equal to our depreciation.

Net cash flow from continuing operations of 10 million in the quarter, plus 140 million from the discontinued operations, including the 120 million proceeds from the sale of OMSCO assets.

This leaves our balance sheet in very strong shape. At the end of the quarter cash balances of some 226 million, a debt to capital ratio of under .1 to 4 to 1 and a positive net cash as opposed to net debt position of 138 million. We have not restated the balance sheet to remove the OMSCO assets and liabilities from prior quarters, but we have summarized the OMSCO numbers in the notes to the statements.

I'll now ask Bill Buckley to take over to give some more insight into the operations and outlook.

W.P. BUCKLEY: Thanks Alan. We are pleased with both the outcome of our OMSCO divestment project and the operating results for the quarter, particularly the improvements we are seeing in the Bredero Shaw operations.

A number of the changes we have implemented over the past several months are now being reflected in the improved business metrics. We've added significantly to our senior management talent, starting with the new President of Bredero Shaw last spring. We have strengthened the finance function of the new VP Finance, and brought in experienced Business Managers to run the Americas

and North Sea Divisions. A new Central Purchasing Manager was hired from the automotive industry and he's already paying (phon) his way in cost savings.

Recently we combined all of our Norwegian operations under one manager; a Norwegian and he has already produced improved results on the big Ormen Lange contract with daily production now ahead of plans. He was also instrumental in successfully negotiating the sizable salt damage claim we've had on that contract.

In the Far East we kept the old Indonesian plant at Batu Ampar running a little longer than planned to deal with some additional unexpected work, but it is now shut down and the remaining equipment is being dismantled to move to the new site in Kabil. This site is a state of the art facility with excellent deep water access that will allow us to serve the offshore projects, as well as the local Indonesian work. It will be fully operational by the end of the first quarter.

Looking at the business units for the year-to-date, five of the six divisions are well ahead of plan. In Bredero Shaw all three regions have generated higher than planned revenues, but the operational issues in West Africa and Norway reduced our operating earnings from planned levels. In the Americas we continue to see some strong small diameter activity in both Canada and the US markets. Mexican revenues were down somewhat as a result of the delay of two key projects to the fourth quarter. Fixed costs in the region are up slightly, and this reflects the startup mobilization costs for the new facility in Brazil, which we

announced last month. Mobile costs for the quarter were 1.2 million, they are on plan.

In the European division, the start of the West Africa gas pipeline project in Ghana, and the B to B project in Leith contributed to the higher volumes. We're making headway on the operational issues at Leith, but still have some work to do. And recently we've moved the former manager of our OMSCO division, a Scot, to Leith, Scotland to take over management of that site. We had good results in both the Indonesian and Malaysian plants with additional work coming from the Farsund II project, the PTT, Wuangnoi (phon) project, and the Zaldatiwideri (phon) project. There was very little work in Rapheltima (phon) and are continuing client-related delays on large diameter water projects in Saudi Arabia, but this work will materialize early in the new year.

Canusa-CPS's joint protection business, and this is our most global business, continues with significant project successes and programs to gain market share globally. They're also expanding their local finishing capability in Asia.

New product development continues to be a high priority in all of our businesses. As examples, Shaw Pipeline Services, our girth-weld inspection business completed development of a new generation of AUT inspection equipment, which will now be rolled out to our major clients.

Guardian continues to grow its pipe inspection business as its integrated pipe inventory management system gained more clients.

The disappointment is in the Petrochemical and Industrial segment. While ShawFlex is rolling along consistently putting up good numbers, the DSG-Canusa business is showing the effects of the weak European automotive market and currency impacts. Overall, this segment's operating results are down 25 percent from a year ago and 15 percent from the previous quarter. Some of this is due to the impact of the higher Canadian dollar on our translated Euro results and on our sales into the United States. ShawFlex, our specialty wire and cable division, has a very strong order book and is operating near capacity due to strong demand from the Petrochemical sector.

Overall, while the results are a big improvement over last year and even last quarter, we still have room for improvement. Looking ahead, our backlog of 373 million is down, but only slightly from last quarter's restated 383 million and this is a result of increased orders in the Americas and Asia, offsetting to a large degree, the expected decrease in the North Sea as we work through the balance of the Ormen Lange contract. This contract is expected to be finished early in the first quarter of 2006.

Activity levels in the Far East are expected to remain high, but we still do not see any large diameter work in North America in the near term, though there are several significant projects expected to begin early in 2007 and 2008.

Our entry into Brazil is an exciting new area of activity for us, as is the increased business in Mexico both in our pipe coating and tubular inspection businesses.

Overall we continue to expect to be very busy through the first part of next year, with potentially some moderate softening in the latter part of 2006, prior to the ramp up in planned global projects in 2007 and 2008.

And with that I'll now turn it back to the conference Operator for questions.
Adam?

OPERATOR: Thank you Mr. Buckley. Ladies and gentlemen at this time we will begin the question and answer session. If you have a question please press the star followed by the one on your push button phone. If you would like to decline from the polling process, press the star followed by the two. You will hear a three-tone prompt acknowledging your selection and your questions will be polled in the order they are received. If you are using speaker equipment you will need to lift the handset before pressing the numbers. One moment please for the first question.

Our first question comes from Dana Benner with Westwind Partners. Please go ahead with your question.

DANA BENNER: Good morning, gentlemen.

A.R. THOMAS: Good morning.

W.P. BUCKLEY: Morning, Dana.

DANA BENNER: Guys, I wonder if you could give us, perhaps a bit of a preview on the fourth quarter, you know, acknowledging that there's, you know, a little bit of, there can be a little bit of lumpiness in your major pipeline group. But

maybe give us a sense for what the fourth quarter is shaping up to be, perhaps divisionally.

W.P. BUCKLEY: Dana, I guess, you know, in total when we look at the fourth quarter it looks like it's going to be relatively strong and the strength is going to come from Bredero Shaw and it's also going to come from our Canusa-CPS business. Our Western Canadian Guardian business is going to remain strong and our inspection business is strong. We expect, in Petrochemical and Industrials, ShawFlex's business will continue to be strong and that's based on the backlog we see there.

And in the DSG-Canusa business, you know, some of their results have been impacted by currency, some by the weakness in the automotive market, particularly in Europe. We think that their results will probably maintain at about the same level as we saw in the third quarter. So, overall when we look at the fourth quarter it looks like it's going to be a relatively strong quarter.

DANA BENNER: If you were to add that up overall, would we expect to see out performance versus the third, or more kind of a run rate at these levels?

W.P. BUCKLEY: It would be, you know, a little bit ahead of the third quarter is our expectation.

DANA BENNER: Okay. If we were to then turn our attention to '06 versus '05 you know, certainly your '05 over '04 growth is pretty impressive overall. How would you preview '06, say from a top line perspective? Could we see, you

know, could you guys show 20 percent top line growth '06 versus '05 broadly? You know, certainly focusing on the pipeline group.

W.P. BUCKLEY: Yeah, I guess Dana; the best way I could answer that is we're going to start off '06 relatively strong. We think there's going to be some softening in the second half. We're working on a lot of projects right now in the engineering and pre-dis (phon) phase, but the timing of coating on these projects is really going to impact us in '07 and '08. So you know, in broad terms what we're looking at for '06 is revenues that are perhaps equal to a little softer than we saw in '05, but the operational improvements that we're working on and have achieved so far, particularly with Bredero Shaw we think will allow us to have, you know, improvement at the bottom line.

DANA BENNER: Right. I guess moving then to margins, a 10 percent EBIT margin in pipeline in the third quarter, I think the goal if I'm not mistaken, is to kind of move that toward 12 percent and then beyond that going forward, how would you chart your progress?

W.P. BUCKLEY: Well we chart, we're following fairly closely and maybe I'll refer to EBITDA margins, but basically in the second quarter our EBITDA margins, you know, disappointed us. They were in at about 11 percent. In the most recent quarter they're in at about 13 percent. If you go back to earlier years, 2004 they were up 14 percent; 2003, 13 percent; 2002, 10 percent. The peak was back at the peak years 17.9 percent, so that's kind of our goal, Dana is the 17, 18 percent area on EBITDA margin and we're at 13 now and you know,

we basically are putting in place the organization and the controls and the systems to get back to that number. And you know, we feel we're having some success in getting from those very low levels we had during the period that Mobile was creating the losses that it created to where we are now, but there's more to go. I think, you know, there's another four or five points to go.

DANA BENNER: And is that a two year project, a one year, it's probably too hard to do that in one year, is that sort of a two year project?

W.P. BUCKLEY: Well maybe the way to answer that is I think some of that's dependent on what we do internally and you know, maybe I'd break the number in half and say about half of that gap I think we can achieve with internal improvements and then the other half is really related to the market and the competitive situation and we're doing some work on that front as well. And that's a little harder call to make as to how long it will take, but you know, I think it's something that I'd like to be at that 17, 18 percent number certainly within the next 24 months.

DANA BENNER: Okay.

W.P. BUCKLEY: And you know, in '07, '08 with the projects coming through, if we can combine that with solid business fundamentals, I think that's when we achieve the number.

DANA BENNER: Okay. And then finally, you know, a fair bit of cash now on the balance sheet, no doubt you're looking at consolidating or acquiring within

your broad pipeline group. I would imagine that would be the first priority. Can you give us perhaps a bit more colour on your efforts?

W.P. BUCKLEY: A little bit, not too much. There are some opportunities, acquisition opportunities out there. We are working on them. There's also opportunities for geographic expansion. Other uses of the funds that we've looked at is paying off our long term notes, because when you look at the gap between the returns we're getting on the cash that we have invested versus the note that we put in place at a very attractive rates there a year or so ago, there really isn't any reason at this point to pay off the note.

We do have a normal course issuer bid in place and we will be, you know, looking at acquiring our stock on weakness (phon).

DANA BENNER: Are there, maybe sketch out what could be possible in terms of size. Are you after perhaps, you know a larger player, perhaps number of smaller tuck ins, do you have a preference?

W.P. BUCKLEY: I can't be too specific at this point, Dana, you know, for obvious reasons.

DANA BENNER: Sure.

W.P. BUCKLEY: But you know, I can tell you that, you know, we always are looking at tuck in opportunities and you know we've moved on several of those. But there's also, you know, some larger opportunities out there as well.

DANA BENNER: Great, that's all. Thank you.

OPERATOR: Ladies and gentlemen if there are any additional questions please press the star followed by the one at this time. As a reminder, if you are using speaker equipment you will need to lift the handset before pressing the numbers.

Our next question comes from Scott Lamacraft with Sprott Securities. Please go ahead with your question.

SCOTT LAMACRAFT: Hi, in your commentary about the change orders you mentioned that, I guess there's negotiations still going underway in Nigeria. Do you mean to suggest that there might be some doubt that you won't recover that cost?

A.R. THOMAS: I guess there's always doubt until we actually get the cash in the bank. There is some question, but certainly we're pursuing it aggressively. I mean we think we have a good case.

SCOTT LAMACRAFT: Okay, thank you.

OPERATOR: Gentlemen it appears there are no further questions at this time. Please continue.

W.P. BUCKLEY: So with that I'd like to thank everybody for tuning in and I'll say goodbye. Thank you.

OPERATOR: Ladies and gentlemen, this concludes the ShawCor Third Quarter Financial Results conference call. Thank you all for your participation; you may now disconnect.
