

Transcript of ShawCor's 2006 Annual Meeting of Shareholders

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LESLIE E. SHAW (Chairman of the Board, ShawCor Ltd.): Welcome, ladies and gentlemen, fellow shareholders. I look over the crowd and I see a lot of familiar faces. I've been here a lot of years and I'm glad to see you back.

I don't think you need to know my name is Les Shaw. I've been hanging around here for a long time. But I'm the Chairman of ShawCor Ltd. and I want to personally thank you for joining us today, the 37th annual shareholders meeting of ShawCor.

At the head table, we have Bill Buckley on my right. Bill is the President and Chief Executive Officer. And Bill Sheridan, the Secretary of the corporation.

As we did last year, we are webcasting the annual meeting of shareholders. I'm delighted to welcome those people that are tuned in, whether it be at their homes, their office or wherever, to join us at this particular time.

With your approval, I will ask Bill Sheridan to be secretary... or the secretary of the corporation, to act as scrutineers of this meeting and representatives of CIBC Mellon Trust Company to be the scrutineers.

The notice of the meeting, together with the formal proxy and the management proxy of 1905(sic) and the annual report has been sent to all shareholders. We have additional copies of annual reports available to those that may wish an additional copy and if you'd hold up your hand, we'd see that you get that additional copy.

With your approval, we will dispense with the reading of the notice of the meeting. Proof of the meeting and the mailing of the notice of the meeting has been duly...

You know, I've got a little shadow, that light up there. Bill's got all the fancy gear here.

I would ask that the Secretary table a copy of the notice of proof of mailing with the record of this meeting. Thank you, Bill.

I understand that there is a quorum present. The scrutineers' report is now ready and I would ask the Secretary, Mr. Bill Sheridan, to read the scrutineers' report.

W. J. V. SHERIDAN (Secretary): Thank you. The scrutineers' report indicates that there are 106 shareholders holding 45,631,954 Class "A" shares represented in person or by proxy. That's 74.8 per cent of the outstanding Class "A" shares. And that there are 35 shareholders holding 12,349,392 Class "B" shares, that's representing 94.4 per cent of the total Class "B" shares outstanding.

LESLIE E. SHAW: Thank you, Bill.

The meeting, this properly constitutes the meeting and to transact business here today.

Would the Secretary please table the minutes of the meeting of shareholders held on May 5th, 1905(sic). Thank you, Bill.

The next item of business is the presentation of the annual report of, financial statements and the auditors' report. With your approval, we will dispense with the reading of the auditors' report, which is available to all shareholders in the 2005 annual report.

We will now proceed with the election of directors and I declare the meeting open for nominations. I think that Mr. Solomon has a presentation.

MR. SOLOMON: Mr. Chairman, I nominate William Buckley, Geoffrey Hyland, Murray Mullen, John Petch, Robert Ritchie, Paul Robinson, Leslie Shaw, Virginia Shaw, William Sheridan, Zoltan Simo, Charlene Valiquette and Donald Vaughn as directors of the corporation to hold office until the next annual meeting of shareholders or until their successors are elected or appointed subject to the provisions of the corporation's by-laws.

LESLIE E. SHAW: Thank you. Are there any further nominations? I now declare the nominations closed and Mr. McTurnan will present a motion in this regard.

JIM McTURNAN: Mr. Chairman, I move that the persons nominated as directors be elected as directors of the corporation to hold office until the next annual meeting of shareholders or until their successors are elected or appointed subject to the provisions of the corporation's by-laws.

LESLIE E. SHAW: Mr. Reynolds will second that motion. Is Ernie here?

UNIDENTIFIED MALE SPEAKER: (Off microphone)

LESLIE E. SHAW: My eyesight's bad.

UNIDENTIFIED MALE SPEAKER: (Off microphone)

(laughter)

LESLIE E. SHAW: All right. All in favour of the election of the nominated please signify by raising your right hand. Opposed, if any. Thank you.

I shall now ask the directors to stand to be recognized as I call their names. Bill Buckley. Geoffrey Hyland, Jack Petch, Rob Ritchie, Paul Robinson, Virginia Shaw, William Sheridan, Zoltan Simo, Charlene Valiquette. There are two directors, because of other business appointments, they were with us at the directors' meeting today, that asked that they be excused so that they could fulfil their duties early tomorrow, one in Houston, the other in Calgary.

I might also mention at this time that if you look over your last year's list of directors, you will see that Jack Murphy has asked to step down from the board. When you lose a fellow of Jack's calibre, you feel lost. You know, he was so quick and so correct but there comes a time, Jack asked to step off the board three or four years ago and in not quite as buoyant a time. We asked him to stay on and he did. So we want to thank Jack for all the contributions he gave us and we'll miss him.

But we have a good board and Don and Murray say they wish they were here.

I ask now that we have the appointment of auditors and I think I believe Mrs. Brown has a motion in this regard.

MRS. BROWN: I move that Ernst & Young, LLP, be appointed auditor of the corporation until the next annual meeting and that the board of directors be authorized to fix the remuneration of the auditor.

LESLIE E. SHAW: Thank you, Mrs. Brown. Mr. Thomas will second that motion.

MR. THOMAS: Mr. Chairman, I am pleased to second the motion.

LESLIE E. SHAW: Thank you. You have heard the motion. All in favour, please accept the motion by raising your right hand. Thank you. Opposed. The motion is carried.

This concludes the formal business of the meeting and we shall now proceed with the president's remarks, after which Bill will answer any and all questions or have some of his troops who are scattered throughout the audience explain it in more detail in their areas. I would ask Bill, our President and CEO, to address the meeting.

WILLIAM P. BUCKLEY (President and Chief Executive Officer, ShawCor Ltd.): Well, thank you, Les, and good afternoon, ladies and gentlemen.

I want to thank all of you shareholders, employees, customers, suppliers and all of our partners for attending our annual meeting today and I'd like to also welcome those that are listening in on the webcast.

Now today, some of my comments will include forward-looking statements, I'd like to point out that the risks and uncertainties inherent in our industry may cause actual results to vary from those projected.

Now having said that, 2005 was a very good year for ShawCor. Financial performance improved significantly and new records were established for both revenue and net income. Revenue on a continuing operations basis exceeded \$1 billion for the first time in ShawCor history. This represents a 36-per-cent increase over 2004. EBITDA increased 30 per cent to 140 million. Net income reached 139 million, or \$1.85 per share and this number includes the gain on the sale of our OMSCO drill pipe business and the losses on our now-closed Mobile, Alabama facility.

On a continuing operations basis, income reached 83 million, or \$1.10 per share, and I would note that this number does include \$0.25 per share of tax benefits related to the utilization of tax loss carry-forwards on the sale of OMSCO.

These results represent a significant improvement from the loss recorded in 2004 and are the results of several factors. The positive impact of stopping the losses for Mobile, the improved performance from the strengthened Bredero-Shaw organization, the above-planned performance from four of our other five divisions, and generally strengthening market conditions.

Turning now to cash flow in 2005, we generated 80 million in cash flow from operations, an increase of 14 per cent over 2004. Capital expenditures consumed 36 million in cash, an increase of 20 per cent and included the construction of the new facility in Kabil, Indonesia.

The sale of OMSCO generated 130 million in cash and prior year's net operating losses in our U.S. legal entity sheltered the gain on the sale of OMSCO from all cash taxes. Dividends utilized 7 million and as you may recall, the dividend was increased by 11 per cent over last year.

And we invested 15 million buying back 1.1 million in Class "A" shares in the fourth quarter of 2005 at an average price of \$13.95 per share, using our normal course issuer bid at prices we considered were well below fair value.

We closed the year with 200 million of cash and cash equivalents on the balance sheet and we have outstanding debt of 89 million, the majority of which is in U.S. denominated medium-term note at 5.11 per cent interest. This note provides a natural hedge to our U.S. dollar assets and operations.

Our balance sheet is obviously very strong and able to support the expected ramp-up in business over the next several years, which we will address with new plant mobilizations and other capital expansion initiatives. And our balance sheet can also support strategic acquisitions and increase dividend and further share buy-backs under a normal course issuer bid.

Underpinning these numbers are several important initiatives and milestones achieved by our employees over the last year. First and foremost is the strengthening and the turnaround program of Bredero-Shaw. This involved the establishment of more effective controls and better business processes, the strengthening of management through promotions and by transferring in

competent executives from our other ShawCor business units and through external recruitment.

The introduction of the well-established ShawCor marketing strategy based on early involvement with clients, identifying how we can bring value to clients' projects and save them money through differentiated products and processes and supporting this by achieving lowest cost of producer status in our plants.

This has been supported by the establishment of newer strengthened functional capabilities in marketing, business development, operations and procurement. The successful closing of our Mobile, Alabama facility in accordance with the plan outlined last year, while meeting all customer requirements, was the single biggest initiative to improving profits.

The losses from this location masked the good performance coming from our other units around the world.

Other highlights include the successful completion of the coating of the Langeled, the longest underwater pipeline in the world. This 1,200-kilometre pipeline will bring Norwegian gas to the U.K. We recently attended the last pipe ceremony with our client, Statoil, and Norsk Hydro.

While all 96,000 pipes have been coated, we still have 20,000 joints to be loaded out to the lay barges this summer.

We commenced operations at our new facility in Kabil, Indonesia. This first-class facility is located on Batam Island and will serve the needs of our domestic and international clients.

We completed the coating of the West Africa Gas project, the longest pipeline under construction in West Africa and we mobilized two of our portable heavy coat plants to Tema, Ghana to execute this work. One of these plants is now being sent to Port Elizabeth, South Africa, for a new project.

On September 30th, we announced the sale of our OMSCO business. This was our most cyclical business and failed to meet the returns we expect from our businesses over the full cycle. We took advantage of the strong markets to divest of this business. The proceeds of the sale will be reinvested in part or in total into our core businesses.

We made good progress during the year with our HSE program, reducing our total recordable case frequency to less than 10 per million person-hours worked. However, in September, we did have a fatality at our site in Ghana. This tragedy emphasizes that we have more to do to reach our goal of having an incident and injury-free culture throughout the company.

We established a new facility to provide flow assurance deep water insulation coatings in Belo Horizonte, Brazil, and we were successful in securing the PDEG order. This represents a new entry for us into the Brazilian off-shore market. We moved our glass syntactic polyurethane plant from Mobile to our

existing facility in Pearland, Texas. This plant serves the insulation needs for the tieback market in the deep water belts of Mexico.

Our Canusa-CPS Division had a record year for both revenue and profit in 2005 and added a new sheet extrusion line to increase capacity. Shaw Pipeline Services achieved record ROCE and completed the development of their next-generation compact digital ultrasonic inspection unit.

Our Guardian Division introduced a new mobile hardbanding unit into the field to serve their drilling contractor customers.

Our DSG-Canusa business added two more dual pressure expander lines to produce specialised shrinkable tubing for wire and wire harness applications.

And our ShawFlex control and instrumentation cable business increased their armoured cable capacity 40 per cent to meet the rising demand from the resource industry for these products.

These projects and the improved financial results would not have been achieved without the efforts and skills of our 5,200 employees located in plants and offices in over 20 countries around the world.

I'd like to recognize Geoff Hyland's leadership as CEO during the first half of 2005. I thank him for his support during the 12 years we have worked together and I look forward to his continued counsel.

(applause)

Now, as has been our longstanding tradition, I'd like to introduce our management team who are attending the meeting with us today. I'd first like to

introduce John Tikkanen, an energetic and youthful 25-year veteran who assumed the presidency of Bredero-Shaw last year. John. You'd better stand up again, John.

(laughter)

And Nick Gritis, Senior Vice-President, Strategic Marketing. Nick? I'd also like to introduce Ron Dunn, Vice-President and General Manager of Canusa-CPS. Canusa-CPS is one of our most global businesses and Ron and his team have consistently achieved record results.

Ernie Reynolds. Ernie, Vice-President and General Manager of DSG-Canusa and ShawFlex is also with us today. As are Fred Gallina, Vice-President of Operations, ShawCor. Dr. Bob Steele, Vice-President, Technology. Alan Thomas, Vice-President of Finance and CFO of ShawCor. And joining the company this year is Gary Love, Vice-President and Senior Controller, ShawCor. Peter Langdon, Vice-President, Human Resources. Jim McTurnan, Vice-President, Legal.

Gary Graham, Vice-President, Corporate Development. And Brian Conroy, a 30-year veteran and former CFO who has worked in some of the major projects that we have announced this year.

Thank you, gentlemen.

Earlier today, we released our first quarter results. Performance in the quarter was strong, as expected. Revenue for the quarter totalled 258 million, 6 per cent higher than in the first quarter of last year and 88 per cent of the record

level achieved in the fourth quarter of 2005. Net income totalled 25 million, or \$0.33 per share in the first quarter compared to \$0.24 per share in the first quarter of 2005 and to \$0.28 per share in the fourth quarter.

Earlier today, the board of directors of ShawCor also approved the doubling of the dividend to \$0.18 annually on the Class "A" shares and \$0.1636 on the Class "B", which will now be paid quarterly. We believe that we can accommodate this dividend increase and still fund all of the growth programs.

Other highlights in the quarter included the securing of the KOC crude oil export pipeline projects with a value in excess of \$40 million U.S., the award of phases 1 and phases 2 of the South Sumatra to West Java project with a value in excess of \$30 million U.S. We announced an agreement with Oregon Steel to establish a coating facility at their site in Portland, Oregon, and this facility is now under construction and is using coating assets from our Mobile, Alabama, facility. It's expected to be in production before year-end.

As well in the quarter, we announced that we have entered into a definitive agreement to acquire all of the shares of Garneau Inc. Looking forward, we see positive fundamentals for our business, energy demand will continue to increase as global GDP growth increases, the current supply situation is tight, and as has been said, the easy oil and gas has been found. Now to meet demand, and to offset the impact of reservoir depletion, we're going farther, we're going deeper, we're going offshore and we're investing in sources such as the oil sands to meet the world's growing needs for energy.

These new energy sources require higher value coatings and we are well positioned to serve these needs. I'd invite you to see the displays and video clips at the back of the room that illustrates some of these new products that we're bringing to market to meet these needs.

The outlook for our business over the next few years is very positive. While our small diameter coating facilities have been operating near capacity, activity in large diameter has been spotty. Indeed, with the completion of the Langed and B2B projects in the first quarter, we expect a decline in revenue and income in the last half of this year.

But based on our current bidding activity, we're projecting a moderate revenue increase in 2007 followed by a sharp increase in 2008. We're well positioned with our strong balance sheet to meet this growing demand through expansions and productivity upgrades to our current facilities.

We are prepared to establish new greenfield sites as opportunities arise and we also see opportunities to grow our business through geographic expansion, new product introductions, share gain supported by productivity improvements and through joint ventures and acquisitions.

In closing, I'd like to thank our employees for the record year that they achieved for ShawCor in 2005. I'm confident that with the continuing support of our Chair, our Vice-Chair, our directors, our customers and our suppliers and our partners, that we'll continue to achieve great things for many years to come.

Thank you.

(applause)

Now, I'd be pleased to answer any questions at this time. As the meeting is being broadcast over the Internet, would you please use the microphone in the centre aisle to ask your questions, and please begin by stating your name and whether you're a shareholder or a proxyholder.

NIGEL BLUMENTHAL: I don't like to be the first up, but nobody else would do it. Nigel Blumenthal, shareholder.

Congratulations on these results, Mr. Buckley. You and your team have done really well. You have a roomful of happy shareholders here, I'm sure.

With the Canadian dollar at \$0.90, how does that impact the outlook for ShawCor's business and for income in the next year or so?

WILLIAM P. BUCKLEY: A good question, and it's good to see you again, Nigel.

The impact of a \$0.01 rise in the Canadian dollar on us this year is, at the net income line, is about \$500,000. So the dollar going up has a negative impact to us. Probably not as great as for some Canadian manufacturers because most of our input costs are in U.S. dollars, on our commodities, and most of the contracts that we enter into globally are also in U.S. dollars, so we're hedged a little bit that way, or protected a little bit that way.

But the rising Canadian dollar does have a mildly negative effect on our business and that was reflected in part in our first quarter results which in spite of that, were record results.

NIGEL BLUMENTHAL: Thank you.

WILLIAM P. BUCKLEY: With that, I'll turn the gavel back to the Chair.

LESLIE E. SHAW: I'm missing one page. Did I give you one page too many?

Thank you, Bill. We needed more questions. I think we're going to have to prompt some questions or appoint questions or write questions.

Has any shareholder any further business or questions to bring before this meeting at this time? Since there are no further matters, questions or comments to be brought forward to the meeting, I declare the meeting of ShawCor terminated.

If you no longer need your annual reports, you can leave them on the chair and we'll have them gathered.

I want to take this opportunity to thank everyone for joining us at this meeting and the interest they show in the company.

Thank you very much.

(applause)
