

EVENT: SHAWCOR LTD. Q3 RESULTS CONFERENCE CALL
TIME: 10H00 E.T.
REFERENCE: SHAWCOR LTD.-CC-111011
LENGTH: 62 MINUTES
DATE: NOVEMBER 10, 2011

"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 Alicia and I will be your conference operator today. At this time I would like to welcome everyone to the ShawCor Ltd. third 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, please press the # key. Thank you.

Mr. Gary Love, ShawCor's Chief Financial Officer, you may begin your conference.

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

We'd like to take a moment to remind all listeners that today's conference call includes forward-looking statements that involve estimates, judgements, risks and uncertainties that may cause actual results to differ materially from those projected. The complete text of ShawCor's statement on forward-looking information is included in section 5 of the third quarter 2011 press release that is available on SEDAR at www.SEDAR.com. It may also be found on the company's website at www.ShawCor.com.

"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. »

I will now turn the call over to Bill Buckley, ShawCor's Chief Executive Officer.

BILL 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 third quarter 2011 financial results. ShawCor reported a net loss of \$0.04 per share, which was a very significant decrease from the earnings per share of \$0.45 in the third quarter a year ago. The three factors that account for the weak results this quarter are the revenue mix, a foreign exchange loss and an increase in our allowance for doubtful accounts.

The first factor is revenue, which did decline modestly year over year. However, what was more significant was that the revenue dropped by 56 per cent in the pipeline segment's Asia-Pacific region. The gains in revenue in North America and EMAR could not offset the effect of much lower utilization at our facilities in Malaysia and Indonesia with the result that the gross margin in the pipeline segment fell by almost 8 percentage points.

The second factor is the movement of foreign exchange gains and losses, which swung from a gain of \$4.5 million in the third quarter of 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. »

to a loss of \$6.5 million in the third quarter of this year. The third factor was an increase of \$9.6 million in the allowance for doubtful accounts that is recorded in selling, general and administrative costs, and fully accounts for the year-over-year increase in SG&A.

The increased in allowance is a one-time charge as it relates to a very specific contract dispute with a customer in Brazil. I would point out that the contract in question was entered into and the work performed prior to ShawCor's acquisition of the 50 per cent of our Brazilian joint venture late in 2010. We are currently working with the client to resolve this dispute, but we have decided to record a provision against amounts owed by the client pending completion of these negotiations.

Now the third quarter results are very disappointing. However, many of the facility utilizations that have impacted performance throughout 2011 are now increasingly behind us. In a moment I'll take some time to explain our outlook and why we are optimistic about the company's prospects for much stronger performance beginning in the fourth quarter. First though I'll ask Gary Love, our CFO, to provide you with the other details on the third quarter financial results. Gary?

GARY LOVE: Yeah, thanks, Bill.

"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. »

Consolidated revenue declined by 4 per cent on a year-over-year basis with the pipeline segment down by 5 per cent. That was slightly offset by the petrochemical and industrial segment where revenue did increase by 10 per cent.

As Bill noted, the modest decline in pipeline revenue masks some very significant regional swings. The areas of strength were North America, which was up 28 per cent on stronger small diameter pipe coating, and a doubling of revenue from Flexpipe. The other area of strength was EMAR with revenue up 26 per cent following the restart of concrete coating for the Laggan project at our Leith, Scotland facility.

These revenue gains though were more than offset by revenue decreases in Latin America and Asia-Pacific. More critically, the decline in revenue had a disproportionate impact on gross margins, with the pipeline segment gross margin falling to 35 per cent compared with 42 per cent a year ago, and compared with 37 per cent in the second quarter of this year.

On margins the good news is that North American pipe coating margins held up very well while Flexpipe picked up 10 percentage points. The major factors pulling down gross margins were Latin America and Asia-Pacific.

"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 Latin America, as in the first half, revenue was well below breakeven, with gross margins below 30 per cent as a result of unabsorbed factory fixed costs.

In Asia-Pacific we produced very strong margins in 2010 when quarterly revenue exceed \$80 million. At that time we benefited from very high utilization and an excellent project mix with much of the revenue derived from the PNG LNG onshore project where we were producing our proprietary Rock Jacket product. In the third quarter of this year revenue of only \$35 million resulted in very low levels of utilization at our Asia-Pacific facilities with the resulting impact on gross margins.

Now in contrast to the pipeline segment gross margins in the petrochemical and industrial segment, at 28 per cent, were in line with both the prior year and the second quarter.

Bill mentioned the increase recorded in the allowance for doubtful accounts. This charge of \$9.6 million is included in SG&A, and excluding this amount selling, general admin costs, at \$60 million, were approximately 3 per cent lower than both the prior year and the second quarter.

EBITDA margins in the third quarter of 2011 declined in line with the segment operating margins. The pipeline segment EBITDA margin in 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. »

third quarter was 8.7 per cent, while the petrochemical and industrial segment EBITDA margin came in at 12.8 per cent, a slight improvement over the prior year.

During the third quarter total depreciation and amortization, at \$12.6 million, was unchanged from the second quarter and slightly reduced from \$13 million a year ago.

The foreign exchange loss in the quarter was \$6.5 million. And this loss arose from the strengthening of the U.S. dollar during the month of September against several currencies in which the company maintains working capital and intercompany balances. This loss, while significant in amount, is unrealized, and largely reverses gains that were booked in the first half of the year when the U.S. dollar weakened. For the nine months ended September 2011 the net foreign exchange loss is only \$795,000.

Below operating income we have recorded a \$3.1 million equity loss from the investment in Socotherm, slightly better than the loss of \$3.6 million recorded in the second quarter. As in the second quarter the loss in Socotherm was primarily due to non-operational expenses, with positive EBITDA offset by restructuring charges, foreign exchange losses and interest expense.

"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. »

Against the pre-tax loss the company has recorded a tax recovery at a rate of 27 per cent, which is in line with Canadian statutory rates. For the nine months ended September 30, 2011 the effective tax rate is below 20 per cent as a result of tax benefits that we recorded in the second quarter following the reorganization of the company's legal structure in certain foreign jurisdictions.

Now as a result of the net loss reported in the quarter, cash flow from operating activities declined to negative \$800,000, and that compares with cash generated of \$11 million in the second quarter and cash generated of \$18.4 million in the third quarter of 2010. During the third quarter of this year working capital increased by \$11.7 million, and that was due to an increase in inventory and pre-paid expenses, in both cases associated with the purchase of raw materials for future booked pipe coating projects.

Cash flow used in investing activities in the third quarter was \$23.5 million, consisting of capital expenditures of \$13.8 million and additional investments in Socotherm totalling \$9.7 million.

Capital expenditures in the third quarter were focused on capacity additions and upgrades in our pipe coating facilities in Asia-Pacific. These expenditures are being undertaken now when activity levels are low 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. »

anticipation of the significant growth we expect for next year. The other important capital expenditures in the quarter were the completion of the Brigden facility in Texas and the completion of the installation of a third production line at Flexpipe in Calgary.

In terms of cash flows from financing activities, the company paid dividends in the quarter of \$5.6 million and repurchased 494,000 shares under the normal course issuer bid at an average price under \$25 and at a total cost of \$12.3 million. This cash outflow was partially offset by proceeds from the issue of shares on stock option exercise with the result that total cash flows from financing activities were an outflow of cash in the third quarter of approximately \$12 million.

We'll now turn it back to Bill Buckley for his comments on our outlook.

BILL BUCKLEY: Thanks, Gary.

I'd like to review our outlook in some detail on a region-by-region basis, starting with North America. In North America activity levels have been growing steadily, particularly for our small diameter pipe coating facilities and our flexible composite pipe business. This growth in activity mirrors the improvement in well completions in Canada and the United States, and is expected to further strengthen in the fourth 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. »

In addition, Flexpipe, our flexible composite pipe business, continues to gain market share in the U.S. market. So far in 2011 Flexpipe's revenues have grown by 89 per cent over last year, and the business is now strongly profitable. We expect that Flexpipe will continue to produce solid quarter-over-quarter growth in the fourth quarter.

The other area for optimism in North America is offshore in the Gulf of Mexico. Our mobile Brigden facility in Beaumont, Texas is now providing advanced flow assurance insulation coatings for the risers and flow lines for the Chevron Deepwater Jack/St. Malo project. This project is just the first of several that we expect to secure in the region in 2012 and 2013.

The second area where we saw reasonable revenue growth in the third quarter was in the EMAR region. As expected our Leith plant did restart concrete weight coating on the Total Laggan project, although this did not occur until the beginning of September. As a result it is reasonable to expect stronger performance in the fourth quarter when the Leith facility will be running at good utilization levels for the entire quarter.

Further contributing to revenue growth in the fourth quarter will be our Orkanger, Norway facility. In October we announced the award of a package of flow assurance projects from Subsea 7. This work will start

"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 in November and will contribute to what we expect will be a solidly profitable fourth quarter for EMAR.

Now the two areas of real weakness in the third quarter were Latin America and Asia-Pacific. First with Latin America the lack of project activity that impacted the first half of this year continued in the third quarter with some modest improvement in Mexico, but no relief in Brazil. In Mexico we did restart the concrete coating plant at Coatzacoalcos, however, volumes were not sufficient to generate much improvement. This is expected to improve gradually in upcoming quarters.

In Brazil we are now in production on the \$20 million P55 Riser project, and therefore we can safely predict a good improvement in revenue, utilization and profit for the Latin America region, both in the fourth quarter and through 2012.

Finally to Asia-Pacific where we reported revenue for the pipeline segment of only \$35 million, a level considerably below where the region has operated for the past several years. Adding to the low level of utilization was the fact that we have maintained very high staffing levels to prepare our facilities and train our staff for the significant upswing in activity that we expect for 2012. These initiatives were a negative factor in the quarter, but will be well rewarded as production begins on the M9

"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. »

project late in December, and the Wheatstone project in mid-2012. Furthermore, with a number of other projects nearing their final investment decision and likely to be in production in 2012, our outlook for Asia-Pacific remains very strong.

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

Operator?

OPERATOR: At this time I would like to remind participants in order to ask a question, you may press * then the number 1 on your telephone keypad.

Our first question comes from the line of Dan MacDonald with RBC Capital Markets. Your line is open.

DAN MACDONALD: Good morning, guys.

BILL BUCKLEY: Good morning.

GARY LOVE: Good morning.

DAN MACDONALD: Just wondering if you could... looking at Asia-Pacific maybe if you could comment on what sort of the base smaller project bread-and-butter kind of demand looked like in Q3 versus Q2?

GARY LOVE: Yeah, sure, Dan. I think that's an important point. Two really important factors with respect to the Asia-Pac revenue. First of all, PNG, that project, we probably only generated about, I think \$8 million 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. »

revenue in the quarter from that project. So we expect to see a significant pickup in the fourth quarter. There's at least \$20 million to be run on that project. It'll be completed this year, and that'll all be in the fourth quarter. So we'll complete PNG.

But you're alluding to I think another important aspect of the Asia-Pacific revenue base, and that's... you know, the projects that really form the base revenue of the region – and these are projects that, you know, are typically in the million to \$5 million range. And, you know, looking back, you know, probably back to at least the beginning of 2008 or the latter part of 2007, we've been averaging around 10 to 12 projects per quarter in Asia-Pacific in this sort of million to \$5 million range. And it's with a whole vast range of different clients in the region.

So that sort of base level of kind of mid-sized projects has really given us a fairly stable revenue level of, you know, between \$20 and \$30 million per quarter. That's what we did not see in the third quarter this year. In fact in the third quarter, by my count, I think we only had two projects that were in that million to \$5 million category. One was for Total and the other one was for Pertamina of Indonesia. But it's the kind of the loss of that kind of, you know, \$1 to \$5 million base project level that we just didn't

"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. »

see in the third quarter. And that really brought the region revenue down so sharply.

So we think that's a temporary occurrence. We think that that base load of business will come back, and of course it will be strongly supplemented by the large projects that we see coming in by the end of this year, but certainly as we get into 2012.

DAN MACDONALD: Have you started to see signs of that coming back or is that still tracking below what you would normally estimate here in the fourth quarter?

GARY LOVE: No. We've got...

DAN MACDONALD: (Inaudible) the first half of the year?

GARY LOVE: I don't know the exact number, but we have a number of sort of these mid-sized projects in our fourth quarter production plan. So we will see a pickup there.

You know, the region has been averaging around \$50 million. Of course we had, you know, the third quarter of 2010 that was very strong at \$80 million in revenue. The region's been averaging sort of \$50. And I don't know if we'll get back to that level precisely in the fourth quarter, but we definitely do see a pickup over the third 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. »

DAN MACDONALD: Thanks. And then just switching gears over to North America, can you... Do you see a significant difference in strength in Canada versus the U.S.? Or is it sort of strong across the board? How would you kind of contrast those two markets?

GARY LOVE: I think the story is similar in both Canada and the United States in terms of strong demand for small diameter pipe coating. And certainly on the Flexpipe side, you know, we've been picking up market share in the U.S., and so when we compare Flexpipe revenue to prior quarters we're seeing a big pickup in the U.S. because that's where we, you know, frankly have the opportunity to pick up market share, and are in fact doing so.

So I think we're going to continue to see the U.S. become more significant as a source of revenue for Flexpipe. But that's not to diminish the fact that the Canadian market is very strong for Flexpipe as well.

And of course the Canadian market with the seasonality, you know, typically the fourth quarter and the first quarter are the really strong quarters for well completions. And so we don't see this year being any different.

DAN MACDONALD: Great. Thanks a lot, guys.

"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: Our next question comes from the line of Sarah Hughes with Cormark Securities. Your line is open.

SARAH HUGHES: Hi, guys. The first question, I guess on just on the margin volatility that we've seen over the last number of quarters. And as you've gone through this, you know, and obviously probably you've dug into the numbers, is there anything or any changes you can make within the organization to help limit this volatility going forward or are you just at the mercy of capacity utilization?

GARY LOVE: Well capacity utilization is the single most important driver for margins in the business.

SARAH HUGHES: Yeah.

GARY LOVE: You know, the challenge is when we look at a region like Asia-Pacific we have a level of activity coming towards us that will be unprecedented in that region's history. And there are things that we are doing to prepare for that. And that has prevented us, quite frankly, from, you know, reducing, you know, staffing levels and cost levels that we would have otherwise done faced with the lack of demand we saw in the third quarter.

So, you know, the proof of whether our strategy is correct or not will be revealed in 2012, and I believe we'll be proven correct for the decisions

"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 we've taken, given the work that will be coming in. We are preparing those facilities for what will be very strong activity and very strong profitability in the upcoming couple of years.

SARAH HUGHES: And what about Latin America...?

GARY LOVE: Yeah. Latin America... there is things that we can do there, and in fact we have done... we've made some significant changes to the cost structure in Mexico. And I think that is going to benefit us going forward. We need to do similar... we need to make some similar changes in Brazil, and we've got some people working on that, and I think the strategy of making our cost structure more flexible, that's an underlying strategy. We're going to keep pushing on that, and there are opportunities definitely to make some headway there.

SARAH HUGHES: You know, in Latin America, would you be able to provide us kind of where your revenue breakeven level is? Like, I'm just trying to get a sense of – you know, as we move into 2012 – the type of potential profitability that we could see or a rebound that we could see from this region.

GARY LOVE: Well Mexico, at current levels, in the third quarter was, you know, it did generate a small profit. And so there's... I think there's some very good upside in Mexico as we get into 2012. There's a lot of

"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. »

work that needs to be undertaken in Mexico by Pemex, and we expect that it will... that it will start to flow through our facilities as we get into 2012. So Mexico today is actually in reasonably good shape. We can make money on current levels, and those levels are, from a historical perspective, you know, still quite depressed.

The Brazilian operation, with the P55 Riser project coming in, will be profitable. Where we are precisely on breakeven levels long term, I don't know. I think there's some things that we can do to bring our breakeven point down. But certainly with the P55 Riser project we feel that we're going to be well above breakeven.

SARAH HUGHES: And in Latin America, so how much are mainly Brazil? What kind of visibility outside of the P55 do you have in terms of contracts or revenue going into 2012?

GARY LOVE: The bidding activity in that market is the strongest it's ever been. Bill, I don't know if you want to...

BILL BUCKLEY: Yeah. There's a series of projects called Guara Lula 2, 3 and 4 that are actively being bid now, and we see a very significant ramp up in the offshore deep-water activity.

It's been a little bit long in coming, been talked about for the last year or so, but it is now manifesting itself. So 2012, you know, promises to be a

"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. »

more active year than 2011. And as Gary mentioned, we're actively bidding several projects right now and our bidding activity is at unprecedented levels for Brazil.

SARAH HUGHES: Okay. And then just wondering, in Flexpipe, I'm assuming you saw a strong rebound in the margins with the volume increase. Just wondering, is there much margin growth potential going forward for Flexpipe?

BILL BUCKLEY: There is. The big growth opportunity right at the moment is in the U.S. Our share in Canada is significantly higher than in the U.S., and we're having great success in increasing share in the U.S.

The opportunity is to reduce our cost in serving the U.S. market, and that would be by localizing production, and that's in our future plans. That's probably the most significant change we'll make. Also we're putting... as Gary mentioned, we put an additional line into Flexpipe. As we add additional lines to our existing facilities that improves the overall cost structure as well.

SARAH HUGHES: Okay. And then just lastly, Gary, the Laggan project, how much revenue do you expect to generate? I think the project's around \$90 million in 2010. Like, how much would that go into 2011 versus 2012?

"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. »

GARY LOVE: I think most of that project will be completed... Well the project will be done by the first quarter of 2012.

SARAH HUGHES: Yeah.

GARY LOVE: I think, you know, our intent is to run that project as hard as we can in the fourth quarter. I think we'll get better utilization and better profitability if we maximize production in this quarter. Whether we'll... I don't think we'll complete it this quarter. I think there will certainly be some carry over into the first quarter, but it's our intent to get as much of it in this period as we can.

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

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

BERT POWELL: Thanks. Bill, I'm wondering, you know, if we step back and look at the bidding opportunity that's in front of you, and you guys are certainly optimistic about 2012, and we've come through a period of, you know, lower bookings, but it looks like it's starting to ramp. I'm wondering if you can give us a view based on what you see today in terms of where you think we are in the cycle? In other words, do we have a bunch of business that has to be churned through and then we go quiet on

"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 other side? Or do you think we are in a situation where this is... we're at the beginning of a multi-year cycle here?

BILL BUCKLEY: Bert, as we've announced, we've got over \$1.5 billion in firm bids outstanding right at the moment, and that's an unprecedented level. And those are going to be awarded over the next six to nine months. But if you wanted to get close in for a second, I can just review what we see in front of us over the next several weeks.

On the Chevron Wheatstone project, we announced on October 12th that we had received the contract for the gas export trunk line, and that's a 225-kilometre, 44-inch diameter pipe that needs internal coating, external anti-corrosion coating and concrete-weight coating. And that will go into production in the second quarter of 2012. But yet to come on that project is the contract for the flow line coatings, and that's for the umbilicals, the risers and the flow lines. And that consists of 79 kilometres of 10- to 24-inch pipe that takes our very high value flow assurance coatings. And that'll be awarded within the next few weeks. So that's very close in.

The total value for the coating on both the gas export line and the URF portion of the Wheatstone project will be in the range of \$150 to \$200

"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. »

million. And as I mentioned that'll... the remaining part of that will be let in the next few weeks.

Beyond that there's an extension project that ties into the Wheatstone project called the Apache Julimar extension. And that'll be awarded over the next... not several weeks, but next several months. And that's in kind of the early bidding stages right at the moment.

The big project in the region is, of course, the Inpex Ichthys project. And LOI for the coating on the 900 kilometre gas export line, and that's a huge gas export line, which runs all the way over the top of Australia to Darwin Harbour. And the coating on it consists of internal coating, external anti-corrosion coating and heavy-fill concrete weight coating. And the LOI for that is expected to be issued within the next few weeks. And this is a very large project with the value of the coating on this gas export trunk line to be approximately \$400 million U.S. So a huge project and getting very close to award of the LOI.

BERT POWELL: Would you expect to get... you know, does the \$400 go to all to one person or does it get split up?

BILL BUCKLEY: You never know. We certainly are working to secure 100 per cent of it. We have the capacity in place to do that, but, you know, until it's a contract that question won't be answered. But it is

"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 the biggest target in the region and the one that we've been focused on for the last nine months.

Now in addition to it, there's also the URF flow-assurance coating on 160 kilometres of flow lines, and that will be awarded, again, not within the next few weeks, but within the next few months.

Both of these awards will be subject to a final investment decision by the Inpex-Total consortium. And they've announced that they're going to make their FID decision in December or January. But the LOI for the trunk line will come out earlier, as I mentioned.

Bert, beyond that there's the Woodside Browse project, which is a little further out. It's also a North-West Shelf Australia project, 1,300 kilometres of 6- to 42-inch, has a gas-export line, also has a flow-assurance URF portion. Final bidding for that will be in the fourth quarter of this year and first quarter of 2012. And FID is expected on that mid-2012. So that answers, in part, your question that there's going to be sort of series of projects rolling out over the next 12 months that will be executed beginning in 2012, but they'll be running through 2013 and 2014 and beyond.

By the way a couple of other projects that are likely to be awarded in the near term, one is the Exxon Mobil Barzan project in Qatar. That's a

"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. »

project that involves anti-corrosion coating and concrete-weight coating for us, 185 kilometres, estimated value of \$40 to \$50 million. That we would expect will be awarded within the next two weeks.

And maybe finally in addition there's several large offshore projects in Latin America that we're currently bidding with an aggregate value that you could say is in excess of \$100 million.

So a lot of activity and it is going to impact us for at least the next three years.

BERT POWELL: Okay. And then just if I could take Gary's comments earlier about the base business. You know, Gary, you talked about it as it related to Asia-Pacific. But could you give us a sense of, you know, the usual singles and doubles overall in the business, where we are relative to history?

GARY LOVE: Well, yeah. You know, relative to history the... the region where we're seeing good, steady and continuing flow of those singles and doubles, as you call them, is North America. We're not seeing them in many of the other regions. And I think that's going to change and I really do. I think we're going to start to see Mexico come back. You know, it is historically a market of those smaller projects, but a volume of those projects that tends to be steady and give us reasonably good utilization 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. »

our three plants in Mexico. We haven't seen that this year. I think that will come back as we get into next year.

Similarly in... we talked about Asia-Pacific, but certainly in the Middle East, our facility in Saudi Arabia, as an example, we've seen a downturn in smaller project activity, but again, we have a positive outlook going forward. Saudi Aramco are now reactivating their project activity that they call maintain potential. It's the flow of work that is connected with field stimulation. And that's been historically a big part of our business doing many of these maintain potential projects. And that's gone away and that's going to come back. I think that's something we again could see supporting that operation there in 2012 and beyond.

Other activity in the region, I think Iraq is about to embark on a similar program of field stimulation, very comparable to what Aramco does in Saudi Arabia. And that's going to require a lot of pipe and a lot of coating, and I think our facilities in the region are well situated to participate in that activity.

So again, I think we're at a low point. Perhaps outside of North America we're at a low point. We think that's going to start to pick up now.

BERT POWELL: Okay. And just lastly on Socotherm. When do you think that will be... you know, that equity accounting, when do you think

"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'll be a positive running through? I think earlier indications in the year were that that should be breakeven by the end of the year, and you indicate that there's some non-operating numbers in there. But when do you think we'll see a clean number?

GARY LOVE: Yeah. I think we're starting to come to the end of those sort of non-recurring or restructuring charges. Socotherm had discontinued a couple of operations so they've got a loss from discontinued operations, and that I think is now behind us.

More positively, they are looking at some significant pickup in activity in Latin America and in their USA facilities. So that, combined with the elimination of those, you know, restructuring charges, should see their operational EBITDA flowing through to positive net income, which is then what we pick up in our equity pickup.

BERT POWELL: Okay. And...

GARY LOVE: So for 2012. I certainly see it for 2012.

BERT POWELL: And you wrote them a cheque this quarter for \$8.3 million?

GARY LOVE: There was a loan. What's really been driving that is, you know, just eliminating some of the debt at their subsidiary level. For example, in Latin America, the parent company, Socotherm, has funded

"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 Latin American subsidiary, and the effect of that is that the parent company has increased its ownership in the Socotherm America's group to something in the order of 90 per cent, up from about 76 per cent. So there's an overall increase in, you know, our participation in the sort of underlying operations of the group through this financing.

BERT POWELL: Thank you.

OPERATOR: Our next question comes from the line of Scott Treadwell with TD Securities. Your line is open.

SCOTT TREADWELL: Thanks. Morning, guys. Wanted to circle back first, I guess, to Asia-Pacific. You know, obviously it sounds like pretty positive there. Can we read anything into the fact that you didn't layoff staff and you've done some upgrades that you may have better visibility today than say six weeks or three months ago on the potential for further awards? You know, you're a little closer or you've gotten kind of, you know, more positive indications that the backlog builds there materially here in the short term?

GARY LOVE: Well we... I think Bill covered it. You know, he took you through the big orders in the region, and, you know, we are firm in our belief that those projects are going to go forward. Of course they're subject to final investment decisions. But we're positive in our view that those

"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. »

projects will go forward, and that we will participate in them. We're certainly not making any statements about the degree of our participation, but we think we're going to participate in those projects, and those projects will at some point be sanctioned.

We want to be ready for that work. And we've now positioned our facilities in the region with upgrades across a range of activities to be able to sustain revenue, you know, with effective capacity at the \$100 million-a-quarter level. And that's not a prediction of where we're going to be, but it's certainly a statement around our commitment to our clients that we can sustain revenue at that level.

SCOTT TREADWELL: That's good colour there. Switching to Brazil, you talked about Guara Lula, I'm just wondering is that part of the sort of FPSO backlog that you sort of mentioned in the past or is that an additional kind of...?

GARY LOVE: Yeah, it is. In the Santos pre-salt basin the FPSOs that will be brought on stream to build out as production builds from the basin, there is... you know, today there's only two extended well tests that are actually producing. The first production intent FPSO and sub-sea infrastructure is going to go in place in 2012. And that first order was actually secured by Socotherm. What is now being looked at by the EPCs,

"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 pipe mills, and of course us, is the next phase of that development. And it's essentially four different production FPSOs that would be comparable to the first one, which as I say is going into production 2012-2013. So we see this activity now extending out over a couple of years. But it's the first of what will be a fairly consistent flow of production development with FPSOs and sub-sea infrastructure.

SCOTT TREADWELL: Okay. And I guess turning to Socotherm again, again, can we read something into the fact that you maybe stop making equity investments and now you're kind of doing a loan that... you know, from your investment point of view it looks like Socotherm is now likely to be cash flow positive and can handle the burden of debt service as they go forward?

GARY LOVE: Yeah, that's absolutely correct. And I would also add that, you know, Socotherm is... you know, as an entity, is debt-free at the parent-company level, and also at the level of the holding company in Latin America. And I think from a capital structure point of view there is an appropriate role for some very modest leverage in that group. You know, that will be put in place over time, but, you know, our thinking is that we want to have an appropriate capital structure certainly in that business.

"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. »

SCOTT TREADWELL: And I know you're obviously not involved in the day to day, but any comment that has Socotherm's backlog kind of mirrored your own in terms of, you know, it's growing and kind of holding in and it's participating in a similar or at least pro rata level of bid activity as you guys?

GARY LOVE: Yeah. Well, the only thing I can say on that point is that, you know, Socotherm is well positioned in the regions in which they're located that, you know, there's a tremendous amount of activity, bidding activity in Latin America, and they are absolutely well positioned to participate in a good, solid perhaps even major share of that work. So, you know, I think they're well positioned is the best way to say it.

SCOTT TREADWELL: Okay. And just a very quick one on Brigden. Any further plans to develop more plants or just the one in Beaumont at this point?

BILL BUCKLEY: The only commitment that we have is the one in Beaumont at the moment. I mentioned in the past that we had six other opportunities that we were pursuing, and we are pursuing those. In our plans we would expect to produce another Brigden, and have it operating in 2012. There's a lot of interest in the industry for Brigden. We're 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. »

discussions on several opportunities, as I've mentioned, and we'll be going forward with at least one of them next year.

SCOTT TREADWELL: Perfect. Thanks for the colour, guys.

OPERATOR: Our next question comes from the line of Dana Benner with Altacorp Capital. Your line is open.

DANA BENNER: Thanks. Good morning, guys.

BILL BUCKLEY: Good morning.

DANA BENNER: I just wanted to come back, you know, I really appreciate the colour going forward, and, you know, we all know how great the potential is. But I just... I want to get a better understanding of the cost structure of your business right now. If I look at... if I go back and I look at nine-month revenues in your pipe segment, you know, revenues up roughly \$63 million on a nine-month basis, and yet the segment margin's down \$29 million. And, you know, certainly aware of the cost absorption issues in Asia-Pacific, in Latin America. But having said that, North America and EMAR were up quite meaningfully on a nine-month basis. And so net-net, you know, there would be just as many reasons for margins to increase as they would be to decrease and perhaps more reasons. So maybe help us understand the math of why that would happen.

"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. »

GARY LOVE: Yeah. I think the... the key point is we have historically had an approach to our project facilities where we are able to mobilize those facilities and de-mobilize them in sync with volumes. And that's been, you know, an important means of mitigating the volatility and project activity and its impact on our overall margins.

In 2011 that approach has been impaired by two different things. And in the second quarter we talked about the impact of the break in the Total Laggan project on EMAR. And so when you look at our nine months, you know, that's a big factor in the nine-month story is what happened in the second quarter in Leith because of the break in the Laggan project between the first phase, which completed in the first quarter the 18-inch. And the second phase, the 30-inch, which didn't actually get into production until the beginning of September. So that's a factor.

Now might we have managed that differently, that's a point that could be debated, but simply from an impact perspective, in answer to your question, that's a key factor.

The second key factor is what we described on this call as it relates to Asia-Pacific with the significant decline in revenue. You know, that decline in revenue on a year-over-year basis that's reflected in the nine-month numbers, that all occurred in the third quarter basically. And it's

"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. It's a \$50 million drop in revenue in the third quarter on a year-over-year basis, and we described how that had an impact on margins.

And I would add some additional detail there. We talked about the fact that we made a conscious decision to maintain staffing levels. That's not what you do when you're mobilizing, de-mobilizing project plants. We made the decision to treat those facilities as something other than project plants because we have a long-term perspective that we need to protect. And that was the basis for that decision.

But the other thing though is just the impact on margins when one considers the overall margin level in that region, which has traditionally been very strong, as you know, and the impact of a decline in revenue on our overall consolidated margins. So... so Asia-Pacific is the other key factor looking at the nine months.

DANA BENNER: Right. And is it possible then that if we look at the strength in North America, it simply doesn't have the... it doesn't have the ability to move corporate margins up enough, given maybe the way that you've been able to match, you know, capacity with business in certain periods? Is that to follow on?

GARY LOVE: Gross margins in North America have remained fairly steady. And I would suggest that we may have an opportunity as we move

"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. »

forward to see, through utilization, a bit of a pickup on operating margins, which we haven't seen so far. And so that is a point, that is a fair point.

But generally with gross margins staying relatively constant there hasn't been a big impact on overall consolidated operating margins.

DANA BENNER: Okay. Well that's helpful. Secondly, maybe the issue of cost inflation as it relates to various materials, you know, cement prices, whatever, is it such in your business right now that maybe it's not busy enough that you're able to pass through enough in terms of price increases to match maybe the types of material or labour cost increases that you may be seeing in certain markets?

GARY LOVE: I would suggest that... we did see some upward movement in material costs in 2010 and I think through the early part of 2011. I think they've pretty much moderated now. So there may be a bit of a catch up required. I think that's a reasonable point. And I think we will have an opportunity to do that going forward. But we're not seeing a big cost push on raw materials at this time. We probably did absorb a bit of that earlier. We're not seeing that right now.

DANA BENNER: Right. So you're not at some major point right now.

GARY LOVE: If anything it's an opportunity going forward.

"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. »

DANA BENNER: Right. And just finally, maybe give us a sense for how you would assess your competitive positioning globally right now. Are there any markets where you think or maybe regions where you think your competitive position may have strengthened or alternately where it may have weakened for whatever reason?

BILL BUCKLEY: Yeah. Dana, generally our competitive position this year versus a year or two ago, you know, has never been stronger, you know, for some obvious reasons, of what's happened to certain of our competitors. Also though the push we've made on technology with our simulated service vessel, which can test offshore deep-water flow assurance and umbilicals and riser systems for our clients prior to deployment, puts us in a strong position. Our ULTRA proprietary deep-water flow-assurance coating system again is new and was launched last year and is, you know, being fully commercialized this year. So, you know, on a number of fronts we're in a very, very strong, competitive position, and I would say generally definitely stronger than in the last year or two.

If you look, though, at certain of our competitors and where they are located, in certain cases they are in advantageous logistics positions, co-located with certain pipe mills, for instance. And that's not a changed situation, but that is a situation where they have an advantageous

"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. »

competitive position because of that physical location. And in certain of those cases that still exists, and, you know, we're looking at how we expand our business looking at the competitive landscape as it is now. So I think there are future opportunities for us.

DANA BENNER: Right. So, I mean really I guess a better way for me to have asked that question is do you think that any change in the competitive dynamic in any region had any material impact on your financial results in the last nine months?

BILL BUCKLEY: No. Perhaps the only exception that as you know with Socotherm, coming out of the financial restructuring, they started this year with zero backlog, and they've built a backlog. And, you know, they have some logistics advantages in certain of their locations where they're co-located with pipe mills.

GARY LOVE: Dana, maybe I would add another market where there has been weakness is Australia, and that's been the result of pipe importations into the Australian market as it impacts the land market. No impact on the offshore market, which is what we're obviously targeting with the big mega projects, but there has been a change in the game as it is with the land market in Australia.

"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. »

DANA BENNER: Right. And one final question if you'll permit? Maybe give us a sense for how we may look at Q4. You've given us some good snippets, but overall, you know, is Q3 really the bottom for you guys? And I understand there's some one-time issues, but Q4, are you more optimistic?

BILL BUCKLEY: Yes, we are. You know, we have a business that's ramping up in North America, that's the Jack/St. Malo project in Brigden. We have full activity in Leith, Scotland with Laggan, and another actually significant project running in that facility. That's going to help our EMAR picture. Latin America we have P55 Risers in production, so the very difficult nine months we've had to absorb in Brazil is now... we're coming clear of that. And in Asia-Pacific we're not going to be back to year-ago levels, but we will see a modest uptick over... certainly over Q3 levels.

DANA BENNER: Okay, guys. Thanks for the help.

BILL BUCKLEY: Okay.

OPERATOR: Your next question comes from the line of Graeme Hay with Wellington West Asset Management. Your line is open.

GRAEME HAY: Hi, guys. Thanks for taking the call.

BILL BUCKLEY: Yes.

"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. »

GRAEME HAY: I'll be brief. Just have a few questions maybe on Wheatstone to start out. You know, you've given sort of a target amount for the full size of the contract, including the flow lines. But I think with the contract that's been won so far you haven't disclosed the amount that's been awarded at this time. Just curious why that is.

BILL BUCKLEY: Yeah, Graeme, a good question. With the number of projects at play right at the moment for commercial reasons we felt it appropriate for us not to disclose the amount of the first phase, and to... you know, be prepared to disclose the amount later on.

GRAEME HAY: Okay. And then, you know, looking at Wheatstone in particular, you know, I didn't see it as a project that was necessarily in really your sweet spot because it wasn't sort of the ultra-deep-water type project. So I was wondering, you know, with what's been awarded so far, you know, what was really the key success factor in your mind as to why you guys won that project?

BILL BUCKLEY: Well, I would say it is absolutely in our sweet spot because it involves heavy-coat, concrete-weight coating on a large gas export trunk line. And that's where, you know, we are positioned as the most efficient... you know, we have the most efficient processes in the world for concrete heavy-weight coating on large-diameter pipe.

"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, on a project of this size you've got to have the ability to produce the pipe in the quantities and at the rates that the lay barges are going to lay that pipe, and you've got to do that in a manner that's going to be uninterrupted. So we get very much involved in the logistics planning with our clients. And we have the ability in Asia-Pacific to be able to execute a project like this from two high-volume sites, our Kabil, Indonesia facility and our Kuantan, Malaysia facility. And that again is a unique advantage that we have. And at both of those facilities we have the ability to take in large vessel loads of pipe, move it efficiently across the wharf, bring it into our facilities, coat it, and at the same time simultaneously being able to load out coated pipe. And we can do that at both facilities.

And over the last nine months we have expanded the wharf capability at both locations and also the pipe handling capabilities, as well as upgrading our coating lines and our anti-corrosion coating lines and our concrete coating lines.

So being able to pace the project, bring in the pipe efficiently, deliver it to the lay barges without interruption is key to our clients. A lot of work and negotiations gets done in terms of the logistic solution, and we have a unique advantage in the Asia-Pacific region by virtue of our two high volume sites and our coating 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. »

GRAEME HAY: So then comparing that to Inpex's project, given like the size and depth of that project, would you say it's kind of comparable to Wheatstone in terms of, you know, what could win that project for you guys?

BILL BUCKLEY: In terms of the logistics requirements on that project, you know, it's almost four times the size. The total value of the project will be at least double. So all of those factors that I mentioned are even more important to the joint venture partners on the Inpex project. And the question would be, you know, do we have the capacity to handle both projects? And the answer to that question is yes.

GRAEME HAY: Okay. That's very helpful. And then in terms of gross margins, you commented about how gross margins were, you know, quite good last year with the PNG project and I guess the products you were using on that. Would you say the Wheatstone project and the sure flow and heavy coats, would those be at similar margins to what we saw with PNG?

GARY LOVE: I would say they'll be at margins that are reflective of where we've been in the region generally over the last couple of years... last few years. The third quarter of 2010 had a particularly favourable project mix, if we could say it that way, just because that particular Rock

"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. »

Jacket activity, because of the proprietary nature of that, and the fact that we were able to mobilize a mobile plant to execute that work, that did give us some extra lift.

GRAEME HAY: Okay. And I guess just lastly, I'd be interested to hear you guys' thoughts on, you know, kind of long-term prospects for the large diameter market in North America. You know, we're seeing kind of daily trading of news between Enbridge and TransCanada on sort of pipelines in development. And just curious to hear what you guys' thoughts are on that market.

BILL BUCKLEY: Yeah, we're monitoring that as well, and we're in ongoing discussions with our clients. And you're aware of all of the proposed projects. So I think we share the view that the major producers in Canada have, which is it would be good for Canada to have two markets, not just one market, both for Canada's oil products, as well as for Canada's natural gas products. And our sense is that there is growing momentum behind that, and that would mean pipelines to the West Coast. And we are in discussions with our clients on, you know, the early engineering phases of those projects, the cost estimation phase of those projects, and we'd love to see them go ahead.

"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. »

GRAEME HAY: Okay. Thanks very much for answering my questions, guys.

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

Our next question comes from the line of Lara King with Stifel Nicolaus. Your line is open.

LARA KING: Hi folks. I'll take my questions offline. Thank you.

BILL BUCKLEY: Okay. Thanks, Lara.

OPERATOR: We have no further questions at this time. Mr. Buckley, I turn the call back over to you.

BILL BUCKLEY: Okay, thank you, Alicia. I'd just like to take this moment to thank everyone for their participation and interest today, and we look forward to talking with you again next quarter. So thank you.

OPERATOR: And 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. »