Fourth Quarter & Year-End Conference Call

Conference Call Script – Monday, February 25, 2013

Peter Winkley

Good morning everyone and welcome to the Algoma Central Corporation Fiscal 2012 Year-End and Fourth Quarter Investor Conference Call. My name is Peter Winkley and I am Vice-President, Finance and Chief Financial Officer of Algoma.

Hopefully you have by now seen our Year-End news release, which was sent out on Friday afternoon.

We are broadcasting this event live courtesy of CNW and you will find a PowerPoint presentation on our profile page at the CNW website that will highlight the details of the conference call. Copies of these slides will be available following this call on our website.

Joining me this morning on the call is Greg Wight, President and CEO of Algoma.

This morning I will take you through the financial highlights for the year, following which I will turn the call over to Greg for his perspective on 2012 and outlook for the business. We will then open it up for questions.

Before we begin, I should remind you that our comments today may contain forward looking statements that are subject to risks and uncertainties that could cause actual results to differ materially. Some of these risks are disclosed in the Management's Discussion and Analysis portion of the Company’s Annual Report and in the Annual Information Form filed with the relevant securities regulators. Also, unless otherwise noted, all amounts are in Canadian dollars.

Financial & Highlights

I’m going to take you through our financials for the year and the fourth quarter and touch on our operational highlights.

We split our common shares on a 10-for-1 basis effective December 17, 2012. All references to per share amounts in my comments reflect amounts restated for the effect of this split.

We are very pleased with the result for 2012, although the results for the fourth quarter were negatively affected by utilization shortfalls, much of which was weather related. We are reporting revenues for the year of $560.4 million compared to reported revenues of $582.3 million last year. I must remind you that under IFRS, our reported revenues for the early part of 2011 did not include 100% of the dry-bulk revenues but rather included only the 59% of the revenues from that business attributable to our partnership interest. I will discuss this further when I get to the domestic dry-bulk business segment commentary.

Segment earnings after tax for fiscal 2012 were $60.8 million compared to a reported figure of $73.6 million for 2011. As a reminder, segment earnings net of tax reflects operating earnings attributable to our business segments on an after-tax basis and therefore is before considering foreign exchange gains or losses and net interest expense, which we do not allocate to our business segments.

As you know, we traditionally report a loss in the first quarter of each year as we take advantage of the closure of the canal during the winter to complete the vast majority of our annual maintenance on the domestic dry-bulk fleet. Our 2011 after-tax segment earnings include only 59% of this loss, as it was incurred prior to our ULG Transaction, which closed on April 14th of 2011. Had this Transaction closed prior to January 1, 2011 we would have reported 100% of the domestic dry-bulk results for the full year last year and on a pro-forma basis, segment earnings after tax for 2011 would have been $15.1 million lower than reported, or $58.5 million. On this apples-to-apples basis, segment earnings for 2012 were $2.2 million or 4% above last year's pro-forma level.

More importantly, expressed as a percentage of revenues, segment earnings for 2012 were 10.8% compared to 9.8% on a pro-forma basis last year. This improvement is a direct result of operating efficiencies we had realized stemming from actions taken immediately following the close of the Transaction as we focused on our One Vision, One Purpose, One Team integration strategy.

Looking quickly at 2011 net earnings, adjusting for the Transaction resulting in pro-forma net earnings for 2011 of $53.8 million and EPS of $1.38 compared to the $68.8 million and $1.77 reported. These pro-forma figures compare to $43.8 million and $1.13, respectively, for 2012. Fiscal 2012 was negatively impacted by $3.2 million of adverse foreign exchange movement and by higher tax expense than the prior year. In fact, $5.6 million of the increase in the tax expense relates to changes in tax rates resulting from budget proposals in the two years that had an impact on the carrying value of our deferred tax assets and liabilities. Taken together, these two items account for $8.8 million of the $10.0 million difference.

I will turn now to the results from our business units.

Domestic dry-bulk revenues for 2012 were $375.6 million compared to $389.2 million for 2011 or $402.5 million if adjusted to include 100% of revenues for the period prior to closing the Transaction. The drop in revenues for the year occurred mainly in Q4 and, as noted previously, a larger proportion of this relates to poor weather conditions in the Fall and early Winter.

The domestic dry-bulk segment after-tax operating earnings were $31.6 million for the year compared to $36.6 million reported for 2011. Pro-forma 2011 segment earnings, taking into account the full first quarter loss for the business, were $21.5 million. The 49% improvement in segment earnings is even more dramatic viewed as a percentage of segment revenues. This segment net margin was 8.4% for 2012 compared to pro-forma 5.3% for 2011, reflecting the significant operating efficiencies we have realized since closing the Transaction.

Revenues from Product Tankers for 2012 were $87.2 million, down slightly from $88.4 million for 2011. This decrease is attributable to planned dry-dockings which occurred in 2012, although favourable mix of business offset some of this impact. Fourth quarter revenues for Product Tankers were also lower than 2011, with this mainly attributable to weather. We also had a ship out of service for mechanical reasons later in the quarter, although this had a smaller net impact overall.

Segment earnings after tax were $10.3 million compared to $13.7 million for 2011. This drop is due almost entirely to the legal costs associated with our on-going JZU Arbitration, which Greg will address in his comments.

Revenues from Ocean Shipping were $67.7 million compared to $75.1 million for 2011. This is largely a result of the timing of planned dry-docking, and was particularly impactful in the fourth quarter. In addition, our joint venture sold one ship, the *MV Ambassador*, in the fourth quarter, which impacts our share of revenue from the International Pool. This ship was planned for retirement in early 2013 but we received an attractive offer from a buyer and elected to remove the vessel from the Pool early to take advantage of this sale opportunity.

After-tax earnings for the segment were $15.0 million compared to $15.5 million reflecting strong operating results from the Pool and the gain from the sale of the *Ambassador*.

Revenue from our real estate segment, Algoma Central Properties, was unchanged at $30.0 million for the year. Higher occupancy our Sault Ste. Marie properties was offset by some vacancies in Waterloo and St. Catharines. Segment after-tax earnings are down slightly, mostly as a result of annualized depreciation on property improvements completed last year.

Cash flow from operations for the year was $84.2 million compared to $103.8 million in 2011. The majority of this drop is due to Algoma not being responsible for 41% of the Q1 loss in 2011. In addition, our interest cost was higher in 2012, reflecting the debt capacity we took on last year in preparation for the ULG Transaction and to fund the construction commitments for the *Equinox Class* ships.

Algoma continues to have a strong balance sheet. At the end of the year we had cash of $129 million and net working capital of $208 million. This is more than adequate to cover our 2013 cash commitments of $116 million, the majority of which is *Equinox Class* construction costs. I should note that we have classified the refundable deposits related to the JZU tanker contracts for current assets as at December 31, 2012.

Our shareholders' equity at year-end was $499 million, or $12.82 per share.

That covers the operating and financial highlights of the second quarter. I will now turn it over to Greg Wight, our CEO, who will provide his perspective on 2012 and on the year ahead.

Greg Wight – CEO Perspective and Outlook

Thank you, Peter.

We are very pleased with our reported earnings for 2012 especially when looking at segmented operating earnings net of income tax.

As Peter mentioned, our operating earnings net of income tax for 2012 were $60.8 million compared to $73.6 million reported for 2011. And after adjusting for the timing of the 2011 Upper Lakes transaction the comparable number for 2011 would be $58.5 million or a 4% increase.

More importantly, operating earnings net of income tax have increased 36% over the five year period from 2007 to 2012. This increase over the five year period can be attributed almost entirely to improvements in our Domestic Dry-Bulk segment resulting from the 2011 acquisition of the Upper lakes vessels and partnership interest and the subsequent restructuring and reorganization of our domestic operations.

Shortly after this key acquisition and co-incident with our reorganization efforts, an ROCE Improvement Plan was initiated. In 2012, with further expansion and refinement, this Plan now encompasses all four of our business segments, with the goal to develop and implement strategies to increase the adjusted return on capital employed for existing assets to our target levels. Our adjusted ROCE for 2012 was 12.5%, up from 11.3% for 2011. I should mention that the 2011 figure treats the ULG Transaction as if it had occurred on January 1st last year, so these adjusted ROCE figures are apples to apples.

The key areas of focus for this Plan in 2012 continued to be cost control, incident reduction, minimized unproductive time and improved asset utilization. We have seen many tangible positive results from these initiatives and will continue this focus throughout 2013 looking for further ROCE improvements.

In addition to the impact of our ROCE Improvement initiatives, beginning in 2013 our results will be positively impacted by the arrival of our new Equinox Class vessels. The Equinox Class vessels will bring significant improvements in operational efficiency as a result of carrying more cargo, at faster speeds while consuming less fuel than the vessels they will be replacing.

At this point in the project, steel cutting has taken place for all eight vessels, keels have been laid for five vessels and the first vessel, the *Algoma Equinox*, was launched on December 24, 2012. I would refer you to our website to view a very interesting video of the launching of the *Algoma Equinox*.

We are very pleased with the quality of the workmanship at the Nantong Mingde Shipyard in Nantong, China, although we continue to push for an accelerated work schedule. We expect to take delivery of the *Algoma Equinox* in late April in China and the vessel should enter Canadian service in late June or early July. The balance of vessels will follow through 2013 and 2014.

The arbitration hearing relating to the Corporation's cancellation of the three shipbuilding contracts at JZU Shipyard in China took place in London, England in September 2012. Although the arbitration panel has not yet rendered a decision in this matter, we believe that during the arbitration we were able to support our position that the cancellation of these contracts occurred within the permitted cancellation terms. Payments made to the Shipyard in the amount of $35.4 million are backed by refund guarantees issued by major Chinese banks. Our right to demand payment on these refund guarantees has been stayed pending the outcome of the arbitration.

On December 14, 2012 the Toronto Stock Exchange closed with the Corporation's shares trading at $129.50 and reopened on December 17th with the shares trading at $12.95, reflecting a stock dividend of nine shares for every one share held. This 10 for one share split was done to make the Corporation's shares more accessible to a broader group of retail investors. We have seen considerable interest in Algoma over the last few years and we wanted to take steps to make an investment in our common shares affordable to smaller investors, including our employees. In fact, since December 17th, the volume traded has increased by 30% over the prior 12 month period.

We are pleased to note that the Corporation's annual per share dividend increased to $0.22 or $2.20 before the 10 for 1 split. The quarterly dividend was increased twice during the year and on January 17, 2013 we announced a further increase to $0.07 or $0.28 annualized. This dividend, which will be paid on March 1st, marks the 72nd consecutive quarterly dividend paid to shareholders.

In 2012 the total Shareholder Return for Algoma Central Corporation shareholders was 41%. This follows Total Shareholder Returns of 11% in 2011 and 21% in 2010.

We are committed to achieving continued growth in Shareholder Value and we are confident the positive initiatives undertaken in 2011 and 2012 will deliver success.

I will now turn it over to the Conference Operator for the Question and Answer session.

Q&A

Greg Wight

Thank you for joining us today. Should you have any further questions, please give Peter or me a call.