



David Sutherland  
PRESIDENT &  
CHIEF EXECUTIVE OFFICER

## LETTER TO OUR SHAREHOLDERS

# By carefully shaping the circumstances within our control, we're positioning IPSCO to outperform the industry throughout the cycle.

### RECORD FINANCIAL RESULTS

Supported by strong demand for our steel products, IPSCO posted its fifth consecutive year of record performance in 2006. Revenues rose 24% to \$3.78 billion and net income reached \$643.1 million or \$13.43 per share, an increase of 12% from 2005. Since 2003, our revenues have grown by 178%.

It's clear that the past three years have been good for IPSCO – so good that some investors might be wondering, “How long can this extraordinary performance continue?” Demand in this industry has always fluctuated; in fact, IPSCO elected to reduce output volumes in the fourth quarter of 2006 to accommodate what we believe will be short-lived inventory reductions in plate and tubular markets. As for how the demand and pricing environment for steel will play out in 2007 and in the years ahead, that's something we cannot predict with certainty. The more relevant question for us, however, is this: “Can IPSCO continue to outperform the industry?” Thanks to the strategies we've been following to shape the Company's future, I believe the answer is “Yes”.

### BUILDING OUR LEADERSHIP IN PLATE AND PIPE

Shaping our future starts with building meaningful scale in the most promising sectors of the steel business. We are the largest supplier of steel plate in North America, a region that hosts one of the world's steadiest economies, and our prospects are supported by positive fundamentals. Demand for high-quality plate products is expected to

remain strong thanks to steady economic growth and the required maintenance of North America's aging infrastructure. Meanwhile, rapid growth in the developing world will continue to sustain strong global demand.

Following the acquisition of NS Group, we improved our position as one of North America's leading producers of energy tubular products, with a greatly expanded product range that now includes seamless pipe and premium oilfield connections and services. This part of our business also continues to benefit from solid fundamentals. While energy prices can be volatile in the short term, most analysts have no doubt about the long-term trend toward higher energy prices and increased exploration activity. Better yet, we have the good fortune of being located in North America, a region that includes more than half of the world's active drilling rigs.

Our large diameter pipe business is similarly well positioned. IPSCO has long been a leader in the development of high-performance steels and the large diameter pipe produced from them. In response to strong demand, we'll be running our spiral mills at capacity through the first quarter of 2008. Our longer-term prospects also remain promising thanks to several million tons of pipeline projects currently under consideration. To meet this increased demand, we announced an \$80 million investment to increase the annual capacity at our large diameter spiral mills in Regina by 66% to 500,000 tons by early 2008.

# \$928

Revenue per ton sold reached a record \$928 in 2006.



A slab at IPSCO's Mobile Steelworks is readied for further processing. Mobile has the capacity to heat treat 170,000 tons of steel a year, part of our strategy to add more value to IPSCO's product mix.

# 0.09

Lost time injuries per 200,000 hours worked in 2006 were a record 0.09.

## **ADDING MORE VALUE**

At the same time, we continue to improve our prospects by adding more value to our products. Revenue per ton sold reached a record \$928 in 2006 and this important metric has more than doubled in the past four years. Our customers are looking for higher performance steels with advanced chemical and physical properties and we strive to meet those needs. Early in the year, we announced a \$17.7 million installation of a vacuum degasser in Montpelier that will enable us to produce ultra-low hydrogen steel for more demanding applications. We also continued to reap commercial benefits from the work of IPSCO's Frontier Pipe Research Unit, the only industry research facility that is principally focused on the development of advanced steel for sophisticated large diameter pipe applications. Aided by these efforts, IPSCO became the first North American steel producer to supply Grade X100 pipe. In December, we finalized the aforementioned acquisition of NS Group, which greatly advanced our value-added and diversification strategies by adding a wide range of seamless energy tubulars and premium oilfield connections to our product mix. NS Group itself had already initiated a \$98 million program to increase its seamless pipe and heat treating capabilities.

## **IMPROVING OUR OPERATIONS**

Proactively shaping the future also requires that we extend our leadership as a high quality, low-cost producer. From an operating perspective, we continued to break prior records in 2006 including vital measures such as total throughput, yield and man-hours per ton.

This performance rests on some very powerful competitive advantages. All of our steelworks feature mini-mill technology, which converts scrap to liquid steel with significant savings in labor, raw material and energy costs. We are also considered a leader in Steckel mill technology, which allows us to switch production between coil and a wide variety of discrete plate products in response to changing market opportunities. IPSCO's unique operating structure – with fully integrated platforms in plate and pipe – is another plus. Both our history and our strategic direction are based on integration along a single value chain from raw materials through steel making and processing. This allows us to optimize production, control quality and enhance margins at every step.

Even more important, IPSCO's operating performance has been accompanied by an unwavering commitment to safety and the environment. We reported the lowest lost time injury frequency rate in our Company's history during 2006 – 0.09 cases per 200,000 hours worked – while achieving record production and productivity.

# 50<sup>th</sup>

Our 50<sup>th</sup> year of operations included many new performance records.



CEO David Sutherland rang the closing bell in December to mark IPSCO's 10<sup>th</sup> anniversary of listing on the New York Stock Exchange.

# # 1

IPSCO is ranked #1 in overall plate customer satisfaction.

\*Source: Jacobson & Associates

## FOCUSING ON OUR CUSTOMERS

Today, IPSCO serves the needs of hundreds of customers in energy services, transportation, industrial equipment, construction and other markets. In all of these sectors, customers want to work with a smaller number of trusted suppliers and we are working hard to make IPSCO their first and best choice. We do it by working more collaboratively with original equipment manufacturers, as well as service centers and distributors, to find new solutions to emerging engineering and manufacturing challenges. And by making the required investments to meet their needs.

Above all, we strive to be regarded as their most dependable supplier and we consistently measure how we are doing. I am proud to report that an independent survey of our plate customers for 2006 ranked IPSCO #1 in overall customer satisfaction for the second straight year.

## THE YEAR AHEAD

The steel industry will continue to be cyclical, although likely less so than in years past as a result of recent consolidation and a steady rise in global demand. We will also continue to benefit from diversification and value-adding strategies which have helped stabilize earnings. What's more, the outlook in our chosen

businesses remains strong. Our plate customers are projecting steady activity in 2007, business in the energy sector is expected to pick up early in the year and we are adding capacity in large diameter pipe to keep up with demand.

Meanwhile, our financial position remains strong. During the past year, IPSCO's unsecured senior debt was elevated to investment grade by two of North America's principal rating agencies, Moody's and Standard & Poor's. We also remain firmly on track with regard to the integration and optimization of our new facilities and expect to exceed our initial \$25 million synergy targets during 2007.

As we close the books on 2006, IPSCO's 50<sup>th</sup> year of operation and the 10<sup>th</sup> anniversary of our listing on the New York Stock Exchange, I would like to thank our loyal customers and suppliers for making another great year possible. I would also like to thank our now more than 4,400 employees for helping us achieve record operating results while carefully shaping the conditions for IPSCO's continued success in the years ahead.

Handwritten signature of David Sutherland in blue ink.

David Sutherland  
President and Chief Executive Officer

March 1, 2007