TEEKAY SHIPPING

Moderator: Bjorn Moller
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Operator: Ladies and gentlemen, thank you for standing by and welcome to the Teekay Shipping Corporation first quarter 2003 earnings results conference call. During the presentation all participants will be in a listen-only mode. Afterwards, you will be invited to participate in question-and-answer session. At that time, if you have a question, you will need to press star one on your touch-tone keypad. As a reminder, this conference is being recorded.

Now for opening remarks and introductions, I'd now like to turn the conference over to Mr. Bjorn Moller, President and Chief Executive Officer of Teekay Shipping Corporation. Mr. Moller, please go ahead, sir.

Jerome Holland: Before Mr. Moller begins, please allow me to remind you that various remarks we may make about future expectations, plans and prospects for the company and the shipping industry constitute forward-looking statements for purposes of the Safe Harbor provision under the Private Securities Litigation & Reform Act of 1995. Actual results may differ materially from those indicated by these forward-looking statements as a result of various important factors, including those discussed in our annual report on Form 20-F, dated March 31, 2003, which is on file with the SEC.

I'll now turn it over to Mr. Moller to begin.

Bjorn Moller: Thank you, Jerome. And good morning, ladies and gentlemen. Thank you for joining us today. This morning we are reporting a very strong quarter for Teekay and for the tanker market in general, driven by healthy fundamentals and augmented by a series of short-term factors.

For the quarter ended March 31, 2003 we reported net income of $53.6 million or $1.32 per share, net of a write down of $31.7 million relating to the sale or planned sale of a number of our oldest vessels as well as a mark to market write down of our 10 percent holding in Ness. Excluding this write down, our earnings per share would have been $2.10.

As we closed our acquisition of Navion after the end of the quarter, our published figures exclude their results. Had these been included with Teekay's income statement, it would have added approximately $1 per share to our first quarter figures. Thus, Teekay's earnings for the quarter before non-cash write-downs and including Navion would have been $3.10 per share.

This morning, I'll review tanker market dynamics and Vince Lok, our vice president of finance, will discuss our financial results. We also have Peter Antturi, our chief financial officer and now president of Navion joining us from Stavanger in case we have any questions for Peter.

So, turning first to tanker demand, we experienced strong demand throughout the quarter. Global oil supply grew steadily, averaging 79 million barrels per day, which is up 1.4 percent from the December quarter. The majority of this increase came from Middle East OPEC countries, providing an additional positive ton mile impact on demand. March oil supply is estimated to have reached a record 80 million barrels per day, as returning Venezuela production and high production in Saudi Arabia, Kuwait and the UAE more than outweigh the loss of Iraqi and part of Nigerian oil production.

Oil demand and underlying tanker demand factor was also strong in the first quarter. Global oil demand rose by 2.4 percent from one year ago, with U.S. oil demand up by three percent and Asian oil demand growing by more than five percent.

The performance of the tanker market over the next few quarters will largely depend on whether OPEC maintains a high level of production. IEA figures suggest that OPEC has room to do this, although perhaps not quite at current levels. The data indicates an average of 79 million barrels per day oil supply in the first quarter and projected demand for the balance of 2003 of an average of 78 million barrels per day. So, if current supply levels remain unchanged, there would be one million barrels per day surplus oil supply for rebuilding of depleted inventories.

The IEA's most recent figures show that at the end of February OECD industry stocks were down by 230 million barrels from one year earlier. Stocks would have to be replenished at an average of 850,000 barrels per day for the rest of the year just to reach inventory levels of one year ago. Full carted increases in non-OPEC production is expected. I expect it to provide some of the oil for this inventory replacement. With no slack in the global oil supply system outside the Middle East, however, there should be room for OPEC to maintain relatively high production levels on average for the rest of the year and thereby continue to drive a high level of tanker demand.

At a meeting today, OPEC is discussing cuts to oil production in response to a seasonal drop in oil demand. A cut would reduce tanker demand in the near term. However, OPEC would likely have to reinstate higher production levels later in the year to meet winter oil demand.

Turning to tanker supply, according to (Clarkson), the world tanker fleet grew by two percent during the quarter. Deliveries of new capacity was 8.4 million tons. And with scheduled total deliveries for 2003, this is likely to be a representative quarterly figure for the rest of this year. Scrapping in the quarter fell to 2.5 million tons due to the very strong freight market. New tanker ordering rose to 14 million tons from seven million tons in the prior quarter. The auto book at the end of March stood at 65 million tons or 20.7 percent of the existing fleet, up from 59 million tons at the end of 2002.

In the Aframax sector, the fleet grew by 19 units to 660 ships, 25 ships delivered in the quarter while six ships were deleted. New orders were placed for 20 Aframaxes, resulting in an order book of 125 ships or 19 percent of the fleet, down slightly compared to the previous quarter.

Looking at overall tanker supply, we continue to expect a gross supply inflow of some 10 percent this year. On past conference calls, we have discussed reasons why tanker supply and demand on the whole may remain tightly balanced, despite this relatively high delivery figure, even if associated with periods of rate volatility. During this past quarter we saw some very promising developments on what is probably the most important of these factors.

In late March the EU Transport Council approved new regulations that would accelerate the phase out of old single hull tankers. If passed by the EU Parliament in June, the law would take effect – which would take effect on July 1, 2003 would result in an estimated 41 million tons of tankers, some 13 percent of the world fleet. And these are being banned from trading in EU waters with a further 90 million tons to be phased out by 2010. As a stand-alone regional set of regulations, this would create stratification and reduced efficiency within the world fleet. And what may be even more significant, the EU has also proposed that these same regulations be voted on a the IMO meeting in July 2003. Adoption by the IMO would result in a phase out of the same magnitude as in the EU, but on a global basis. Needless to say, this would have an immediate, dramatic effect on global tanker supply, benefiting owners of double hull and modern single hull tankers.

Industry observers are expressing confidence that the new regulations will become law in the EU this summer. It is too early to assess the probability of an adoption by the IMO, but anecdotally governments in key regions outside Europe are keen to follow suit if the EU goes ahead with this proposal.

Looking at the freight market in the quarter, tanker spot rates enjoyed an excellent quarter across all segments. According to (Clarkson), Aframax rates in the inter-Pacific rose from $30,000 per day at the beginning of January to $45,000 per day in late March. Tariff use Gulf rates were unusually volatile, ranging from $10,000 per day to $75,000 per day in the quarter. Teekay's realized average rate for the quarter was 33,900 per day on a (Clarkson) basis. We achieved a $2,200 per day premium over (Clarkson's) AG East with our inter-Pacific fleet, whereas we realized a negative spread of $3,200 per day against (Clarkson's) tariff U.S. Gulf with our Atlantic fleet.

As we've seen in other quarters where rates have risen to very high levels, the normal translation from (Clarkson's) figures to rates realized by our fleet becomes less reliable due to the exaggerated effect of factors such as timing differences up higher or waiting time. This is particularly true during periods of high volatility. For example, our $3,200 a day deficit against (Clarkson's) in the Atlantic is calculated by using the customary estimate of two week's lag against (Clarkson's) tariff U.S. Gulf rates. This deficit would be transformed into a $900 per day premium if using just a three-week lag. The key point is that except for occasional minor changes to our operating leverage due to changes in fleet size from time to time the rule of thumb we have provided in the past for projecting Teekay's earnings remains valid in all but the most extreme markets.

During the first week of the current quarter, we've seen a sharp race dip on most Aframax roots. (Sub racer) gradually recovering to the mid to high 20s per day. This volatility in rates indicates that the market remains finally balanced. In the near terms, rates may negatively impacted if OPEC announces cuts to production.

I'll now hand it over to Vince, who will review our financial results – Vince.

Vince Lok: Thanks, Bjorn.

Teekay's first quarter results reflect the strong tanker rates that carried over from the previous quarter and continued to strengthen during the first quarter of 2003. Net income for the quarter was $53.6 million or $1.32 per share, which is net of a $31.7 million write-down in the carrying values of seven of our older vessels and marketable securities, namely, our investments in (Ness). Excluding the write-down, net income was $85.3 million or $2.10 per share.

In looking at the per day results for the quarter and comparing them to the previous quarter, I'll refer to the table on the first page of the press release and I'll look at the first – first, I'll look at the international tanker fleet. The number of revenue generating ship days decreased in the first quarter due to fewer days in the calendar quarter and increase in off hire and waiting time, the loss of the Alliance Spirit and the conversion of a Suezmax tanker prior to commencing its shuttle tanker contract. The international tanker fleet CCE, calculated on a calendar day basis, was $29,609 per day. That is up almost $11,000 per day from the fourth quarter.

Vessel operating expenses were $5,645 per day in the quarter, an increase of $400 per day from the previous quarter. OPECs in the fourth quarter was lower than normal due to low repair and maintenance activity in that quarter. The OPECs for the first quarter is more representative of our run rate for the current year. Our efficient spot Aframax operations generated over $21,000 per day in cash flow per ship per day in the quarter. That's almost double the $10,700 a day in cash flow per ship date generated in the previous quarter.

The (oval) fleet also benefited from the strong tanker rate, generating a 365 day TCE of almost $18,000 per day and roughly $8,100 in cash flow per ship per day in the quarter compared to $2,200 per day in the last quarter.

For the UNS fleet, operating cash flow decreased to about $14,700 per day in the first quarter from about $16,600 per day in the fourth quarter, mainly due to lower operating expenses in the fourth quarter due to unusually light repair and maintenance activity. Operating cash flow for the first quarter of 2003 for UNS is more representative of what is expected from the UNS fleet in the near term. Operating cash flow for the Australian fleet remained virtually unchanged from the fourth quarter at about $14,500 per day.

Turning next to the income statement on the fifth page of the press release, on running down the March 31st quarter figures and comparing them to the December 31st quarter, as discussed, net (orange) revenue increased due to the dramatic increase in spot tanker rates. OPECs was up about $2 million from the fourth quarter, due primarily to lower than normal repair and maintenance activity in the fourth quarter, mainly in the international and UNS shuttle tanker fleets.

Depreciation and amortization remained unchanged at $39 million, as the increase in amortization from vessel deliveries were offset by the loss of the Alliance Spirit during the first quarter. Included in depreciation expense is $6.4 million in dry dock amortization in the first quarter compared to $6.6 million in the fourth quarter.

G&A expenses increased slightly to $14.7 million in the first quarter compared to $14.4 million in the fourth quarter.

Net interest expense was virtually unchanged as well from the last quarter at $13.5 million in the first quarter. And EBITDA to interest coverage increased significantly from 5.8 times in the previous quarter to 9.5 times in the first quarter. The results for the quarter included a $26.8 million write down in the carrying value of seven of our older vessels. Thirteen point nine million of this write down relates to vessels that were sold – the three vessels that were sold in April, and the remaining 12.9 million relates to four of the vessels, which we anticipate selling during 2003. Other loss of $9.6 million includes the $4.9 million write down and a carrying value of our 10 percent investment in net, which we acquired as part of the UNS acquisition in March 2001. The remaining $4.7 million in other loss relates mainly to income tax expense, foreign exchange and minority interest expense, partially offset by joint venture income and a number of miscellaneous items.

With regard to our balance sheet, net debt to capitalization dropped slightly to 35 percent by the end of the first quarter from 36 percent last quarter. Capital expenditures for the first quarter of 2003 totaled $68 million, including $51 million for newbuilding installments, $5 million in dry-docking costs and the remainder relating to vessel conversions and upgrades. Forecasted cap ex for the next two years is roughly $200 million for the remainder of 2003 and $250 million in 2004. These include a rough estimate of $30 million in maintenance cap ex for the remainder of 2003 and for 2004.

Next quarter we'll be revising the format of our earnings release to incorporate Navion's results. As previously mentioned, although the effective date of Navion's acquisition was January 1st, Navion's results will be consolidated with Teekay's on the closing date, April 7th. As a result, the cash flow generated by Navion from January 1st to April 7th will effectively reduce our purchase price for Navion. The acquisition was financed with a one-year $500 million debt facility, together with the existing cash and credit lines. The one-year facility will be replaced with a five-year $550 million revolving credit facility, which we expect to have in place by the end of May.

I'll now turn it back to Bjorn to conclude.

Bjorn Moller: Thank you, Vince. Let me close with a few other highlights.

We successfully completed the Navion acquisition in early April. And as mentioned earlier during this presentation, Navion produced strong results during the quarter due to very high conventional tanker rates and a high utilization rate in its shuttle fleet. At this time, though, our previous guidance remains unchanged, namely, approximate earnings accretion of $1 per share annually from the offshore loading business and with Navion's conventional tanker fleet breaking even in a typical mid-cycle Aframax market.

Secondly, six newbuilding tankers due to join our fleet by the end of 2003 and two converted Suezmax shuttle tankers will all enter profitable fixed rate charters at an average duration of length of more than 12 years. These eight ships alone will add 55 cents per share annually to Teekay's earnings.

And finally, we continued our fleet renewal program in the quarter by exercising attractively priced options to build a further four high specification Aframax tankers for delivery in 2005. This takes our order book to a total of 15 ships for delivery over the next three years. We have also sold three older vessels over the past month as part of this renewal program. And as Vince mentioned earlier, we anticipate further ship sails this year. The combined Teekay and Navion fleet and owned and in-charter fleets, excluding newbuildings on order, have an average age of only nine years. The addition of our newbuildings will reduce the average age of our fleet by one year. Even without the beneficial impact on percentages from possible further sales of single hull tonnage, approximately 70 percent of Teekay's combined fleet will be double hulled when our newbuildings join the fleet.

Thank you for taking the time to join us today for our conference call. And we'll now be happy to answer any questions you may have.

Operator: Thank you. Our question and answer session will be conducted electronically today. We do ask that if you do have a question, please press star followed by the digit one on your touch-tone telephone at this time. Once again, that is star followed by the digit one on your touch-tone telephone at this time. We do ask those participants who are using speakerphones or cellular phones to please pick up their handsets and to release their mute functions so that your signal can reach our equipment. Once again, that is star one if you do have a question. We'll now take a moment to assemble our question queue.

We'll take our first question today from Linc Werden with HG Wellington.

Lincoln Werden: OK. Among the write-downs, there was a 12 cent a share in the carrying value of marketable securities. Could you give a little color on what that entailed and what securities were involved?

Vince Lok: Yes. The securities is our 10 percent investment in Nordic American Tankers, or NAT. And we acquired that as part of the UNS acquisition. That actually – that investment has been mark to market on our balance sheet every quarter and we're just taking that to the P&L this quarter under U.S. GAAP rules. So, actually there is no impact on our book value for that particular write down.

In terms of the vessel write downs, as we mentioned, three of those vessels were sold in April. And that resulted in about a $13.9 million loss on those, the book loss. And the rest are related to four vessels we anticipate on selling in 2003.

Lincoln Werden: All right. That was the other – that was the 66 cents, the seven vessels, wasn't it? Yes?

Vince Lok: That's right.

Lincoln Werden: But the 12 cents was a write down – a 10 percent write-down in, what, Nordic American Tankers?

Vince Lok: That's right. It's not a 10 percent write-down. It's just writing down to its market value.

Lincoln Werden: Well, your 10 percent interest in.

Vince Lok: That's correct.

Lincoln Werden: OK. Thanks.

Operator: Our next question will come from Magnus Fyhr with Jeffries & Company.

Magnus Fyhr: Hi, good morning. A couple of questions, if I may, starting with the Navion acquisition. You said you're going to deduct the cash generated during the first part of the year. What – I don't know if I heard it right, but did you mention the amount – the dollar amount of that cash generated?

Vince Lok: Yes. It's roughly about $50 million.

Magnus Fyhr: Fifty million dollars?

Vince Lok: Yes.

Magnus Fyhr: OK. And, second, just on guidance going forward, looking at the Aframax fleet, I guess utilization averaged 94 percent fourth Q and 90.6 percent in the first quarter. What should we expect for the second quarter? Should we expect to be maintained at current – the first quarter level or return to the fourth quarter levels?

Peter Antturi: Hi, Magnus. Which – were the percentages you referring to what percentages are they, the utilization percentages? Is that for ...

Magnus Fyhr: Right.

Peter Antturi: ... world fleet or ...

Magnus Fyhr: For the international tanker fleet.

Peter Antturi: OK.

Magnus Fyhr: Like, I guess put it differently, the revenue generating ship days were at 4,731 for the quarter. Should we ...

Peter Antturi: I expect you're just looking for the amount of ship days to calculate. I guess there were a couple of things that affected that that would not be recurring. Vince, you want to comment on that?

Vince Lok: Well, obviously we lost Alliance there on February 1st in the first quarter. So, there'll be an additional 30 days that you wouldn't have in the second quarter. And for the three ship sails, one of those delivered on April 9th and the other two delivered just yesterday. So, I guess you could take that into account when you're doing your forecast for days in the second quarter.

Magnus Fyhr: OK. And just commenting on the rates currently, we're almost through April right now. Can you comment on what you sort of see what kind of averages you've seen for your fleet so far on the AGAs versus the Caribbean Atlantic?

Bjorn Moller: Well, I guess I'll talk to the open market. It's been quite volatile. We saw, for example, rates in the cross U.K. continent rate went from 75,000 to 42,000 in the last two weeks of the last quarter and the first week of this quarter they were at 18,000, then they're back up at 25,000. I would say right now you use a mid 20s rate. That'd probably be slightly conservative, but it's probably – if rates stay where they are now that's probably a reasonable estimate ...

Magnus Fyhr: OK.

Bjorn Moller: ... mid to high 20s maybe.

Magnus Fyhr: All right. That's all I have. Thank you.

Bjorn Moller: Thank you, Magnus.

Operator: Just as a reminder if you do have a question or a comment for any of our speakers today, we do ask that you please press star followed by one on your touch-tone telephone at this time. And we'll now take a question from Martin Roher with MSR Capital Management.

Martin Roher: Thank you very much, operator. I just wanted to get a little more color on how you see this EU regulation developing. You say here that it may take effect as soon as two months from now. And 41 million tons and then eventually 90 million tons are just enormous numbers given the size of the world fleet. Do you think this will just shift the older vessels to other parts of the world for a period of time or actually force them out of the trading totally?

Bjorn Moller: Hi, (Marty). I think that – this is – let's not underestimate the dramatic nature of this regulation. If it's in the EU only, clearly older ships will go elsewhere, there's no doubt. I'd say the Europe – the trade around Europe is kind of mixed. There are big pockets of very modern tonnage and there are some trades with older tonnage. So, the impact would be felt. But generally there would be a period of disruption and then there would be kind of a new normalization of new trading patterns. What would happen is, though, you would have less slack of flexibility in ships and moving towards pockets of burst of activity. And that inefficiency would create more volatility and probably a high average rates. That's if it happens in the EU alone. And it is very dramatic. Forty-one million tons banned in three month's time is hugely dramatic.

But what would be even more dramatic, as you can imagine, is if it became a global regulation. And what's interesting is that in the past the IMO has managed to talk the EU out of its rules, pleading global regulatory environments. This time the EU decided they weren't going to be talked out of what they're doing, so they've gone ahead. And now the ball is thrown in the IMO's court. If they want to have global regulations it's up to them to follow the EU. And if they don't they have a pretty good chance that the U.S., Japan and Australia and other countries are going to follow the EU unilaterally. So, the IMO is kind of have their backs to the wall a bit and we expect that there's a pretty good chance they might have to adopt this.

Martin Roher: Just a follow-up. Given the magnitude of the obsolescence that this will force, do you think it's going to be phased in over a longer period of time or there's going to be some significant modifications, or it really is about to take effect in July?

Bjorn Moller: Well, our every indication, including comments yesterday from a report from somebody – a politician in the EU who's so charged with developing the recommendations to the parliament – again, they're saying we're fully backing the Transport Commission's recommendation, which is this is an iron curtain going down on the date of this regulation for 41 million tons of tankers. And then over the next two years there's another seven million to 10 million tons and then there's sort of a bit of a lull, low numbers being phased out between 2006 and 2009 and then 2010 you'll have a huge number again. That's a very lumpy approach and it's not particularly logical, yet they seem determined to pursue that.

And I guess what's hurting them is that last time they changed their minds after the Erica and the Prestige stint occurred. And had they stuck to their guns after the Erica, the Prestige would not have been trading in Europe. And that irony is not lost on European politicians.

Martin Roher: Thank you. That's very helpful.

Operator: We'll take a question from Sunil Swami with Delphi Management.

Sunil Swami: Hello?

Bjorn Moller: Go ahead.

Sunil Swami: Yes. Hi. Could you comment on your insurance rates? Were they up, down?

Bjorn Moller: Well, I guess we have two types of insurance. We have machinery insurance, which Teekay's insurance is fortunately locked in on a full year fixed rate policy that was entered into in 2001 and which still runs. So, we're benefiting and enjoying a competitive advantage compared to many of our competitors who have been renewing insurance annually on that sector. That's about 50 percent of insurance costs for tankers.

The other sector is basically liability insurance, or P&I insurance, as it's called. That has – that renews annually and we have seen increases of 50 percent – 25 to 50 percent on P&I insurance, in line with what other owners have experienced. So, I think that's the best guidance I can give you.

Sunil Swami: Regarding the EU issue, if this actually goes through, you say 70 percent of your ships are double hull. Does that – would you be able to then use the other 30 percent elsewhere and actually benefit by gaining share?

Bjorn Moller: Well, two things on that. The majority of Teekay's single hull ships are – the vast majority are ships under 15 years of age. So, they actually will be the last to be phased out under this regulation. So, they will enjoy, if you will, the vacuum created by all the tankers leaving. And so, we definitely stand to benefit from the phase out of ships of 20 to 23 years of age that would occur right away. And so, we generally have a 20-year kind of useful life of ships in our fleet as a maximum, even though ships trade to the age of 25. We resell them to other operators who take them onto sort of more marginal tanker routes. And basically with the exception of a couple of our ships, they will all be able to trade to the age of 20 under these regulations. So, we are net beneficiaries by a wide margin.

Sunil Swami: Is it because you're a more modern fleet, right?

Bjorn Moller: Much more modern, yes.

Sunil Swami: OK. When you say mid 20s rates that's for the international fleet, the Aframaxes? Is that what you're ...

Bjorn Moller: That's correct.

Sunil Swami: OK.

Bjorn Moller: And, of course, in the Navion fleet the Navion conventional fleet is somewhat more diverse, if you will. It ranges from 15,000-ton product tankers to VLCCs, but the guidance we've given on operating leverage has kind of adjusted the average Navion fleet to an Aframax equivalent. So, I guess it's probably good enough for now as guidance is concerned to focus on the Aframax fleet, on the Aframax earnings.

Sunil Swami: Right. That guidance was like $1 for the year, right?

Bjorn Moller: Well, the guidance is for Navion's offshore loading business $1 per share and their conventional fleet, breaking even, in a mid cycle environment. But the other way of calculating Teekay's earnings, just to restate that, is that net income break even occurs in about a $12,500 a day Aframax market. And for each $1,000 day movement in rates our earnings increase by – it was 70 cents per share. It's probably down to 68 cents per share now that we sold a few vessels. So, if you assume 68 cents per share increase in earnings annually for each $1,000 a day that rate exceeds $12,500. That's the earnings formula for Teekay.

Sunil Swami: OK. Any impact from West Africa and Nigeria, Venezuela?

Bjorn Moller: There is clearly an impact. The impact is reducing slightly now that Venezuela is ramping up oil production, but it's difficult to get hard data. It looks as if they still have not regained their production levels from prior to the strike in December. And we estimate maybe they're running around 2.5 million barrels a day, down from 3.1. Nigeria in the last few days we've seen a return to gradual increase in production, but they're still running short. That is having overall some impact because that, combined with Iraq's exit from the production, is allowing Middle East OPEC countries maybe to take a slightly more positive view on supply of oil balances, keeping production high, which is what I guess the tanker market wants.

Sunil Swami: Thanks.

Bjorn Moller: Thank you.

Operator: Just as a final reminder if you do have a question or a comment it is star one on your touch-tone telephone. And we'll now take a question from Hardin Bethea with Deprince Race & Zoll.

Hardin Bethea: Hi. This is Hardin Bethea at Deprince, Race & Zoll. My question actually relates to something, Bjorn, you said regarding your newbuilding schedule. Actually, that is my question. I'm interested in the timing of delivery of the six Aframax and two Suezmax conversions that you have slated for this year.

Bjorn Moller: OK. The Suezmaxes are actually just completing conversion roughly around this time and will be delivering on charters in Brazil, so they'll be on station by midyear. We have one additional shuttle tanker delivering in July, I believe it is, and I will be positioning to the North Sea, where it'll enter charter probably at the beginning of the fourth quarter. And then the remaining five vessels are the ConocoPhillips charters. The ships are delivering in the fourth quarter and will need to reposition. So, they'll probably be on station the first quarter 2004, but they will all be delivering by the end of this year, we anticipate. So, it's not necessarily going to contribute 55 cents per share this year, but it will provide annualized lift in earnings per share above where we are at the minute.

Hardin Bethea: OK. And, as well, a question – a clarification on your Navion guidance. What is break even for the conventional fleet?

Bjorn Moller: Well, it's – it moves around. It moves around a bit just because they have a fairly active chartering in program using third party tonnage in their system. So, the fleet moves around a bit in size and the blend of smaller and bigger ships changes as well. What we are using – just – we sort of just got our feet under the desk there, but what we're using for guidance at the minute is if you take a typical $18,000 day mid-cycle Aframax rate, that would be a reasonable proxy for where their fleet would break even. Of course, you could have occasional disconnects between how VLCC rates develop and product tanker rates develop. And with Navion having both types of ships, that may vary from time to time, but I think you can use that for now.

Hardin Bethea: OK.

Bjorn Moller: But it's filled in to – when we talk about our operating leverage of 68 cents or 70 cents per share for each $1,000 above $12,500, that of course has blended into it the Navion the numbers. That's a forward-looking number.

Hardin Bethea: OK. And regarding the write down of your investment in Nordic American, that's a non-cash – it just flows through your income statement ...

Bjorn Moller: That's correct.

Hardin Bethea: ... according to GAAP. How often is that? Do you do this every quarter?

Vince Lok: Every quarter we market to market on the balance sheet, but we don't take that to the P&L. This time we took a one-time transfer to the P&L. So, unless there's significant decreases in the share price going forward, that would imply a permanent impairment. And we wouldn't expect to (set) for the write-downs at this time.

Hardin Bethea: OK. And in terms of dry docking amortization going forward, is the number you gave, the $6.4 million, for the first quarter a good number to assume?

Vince Lok: There would be a slight increase probably due to the addition of Navion going forward. That probably won't be a big number. Navion's own fleet is about 10, 11 ships.

Hardin Bethea: OK. Great. Thanks. Bye.

Operator: Mr. Bethea, did you have anything further?

Hardin Bethea: No, that's all, thanks.

Operator: We'll now take our next question from Walter Lovato with Passport Capital.

Walter Lovato: Good morning. Just had a question on what your plan is with Nordic American.

Bjorn Moller: It's a shareholding. I guess we own 10 percent of three Suezmaxes through this position. We're not normally in the role of minority shareholders and passive investment. So, we will – it's not a strategic investment for us, but on the other hand it's not a bad investment either. So, we will – we'll manage that. We've been selling down over time gradually in that share.

Walter Lovato: Thank you.

Bjorn Moller: Thanks.

Operator: We'll now take a follow-up question from Martin Roher with MSR Capital Management.

Martin Roher: Thank you. My question regards the offshore loading business. Thanks very much for putting that discussion on page 17 in your annual report for people like me that really don't know much about it. But in that discussion you mentioned that your investment in this segment will grow to more than $1.5 billion. What kind of returns do you expect that would yield on average over a period of time? What's a reasonable range of cash flow or return on equity, whatever number you feel comfortable talking about?

Bjorn Moller: I guess the best way to look at that is our fixed rate long term business, which has been growing very rapidly, is largely made up of the shuttle business, that there are a number of other ships, such as the five ConocoPhillips ships that I mentioned, which are representative of about a $250 million to $300 million investment. But out of the type of investment you're talking, the average return on equity that we project from our long-term fixed rate business is above 20 percent. And so, you can assume that that's pretty evenly distributed across the various types of long-term business that we have, and that's very attractive.

Martin Roher: So, does that apply to the whole $1.5 billion or just a segment of them, sort of ...

Bjorn Moller: That's the return on equity. I guess we typically can carry more leverage on long-term fixed rate business because the stable cash flow that we generate from that. So, we will often use about a 75 percent leverage on that kind of project.

Martin Roher: OK. Thank you very much.

Bjorn Moller: Thank you.

Operator: And we'll now take our final question is a follow-up from Sunil Swami with Delphi Management.

Sunil Swami: Yes. Regarding the scrapping, you said that if the EU regulations went through you expect 13 percent scrapping. Now, what would be the normal scrapping rate if the EU regulations did not go through this year?

Bjorn Moller: I guess – just to clarify, we are saying that 13 percent would be banned from trading in the EU.

Sunil Swami: I see.

Bjorn Moller: And, of course, if it were done by the IMO, 13 percent of the world fleet would be banned by all countries that are involved in that, which is basically the whole world. Whether the ships would scrap or find use for floating storage or so on, we don't know the answer to that. Typical scrapping varies significantly. It depends on the tanker market. That's sort of what drives the commercial life span of tankers. But what has increasingly been happening is technical obsolescence as well as charter discrimination has driven up scrapping and reduced the average age of scrapping gradually in the last couple years. And so, typically ships scrap at 23 to 25 years of age. And you can – you're seeing scrapping movement anywhere from – the last few years we've seen 10 to 15, 18 million tons scrapping annually, even in very strong markets, which is quite significant. But if you had obviously marginalization of a large number of ships, you could have a lot more scrapping.

Sunil Swami: Sure. Thanks.

Operator: And at this time, Mr. Moller, there are no further questions. I'll turn the conference back over to you for any additional or closing comments.

Bjorn Moller: Thank you very much. We appreciate you listening in today and we look forward to talking to you next quarter. Have a great day.

Operator: And that does conclude today's teleconference. We'd like to thank everyone for their participation and wish everyone a good day. And at this time, you may now disconnect.

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