TEEKAY SHIPPING LTD.

Moderator: Bjorn Moller
October 23, 2003
10:00 a.m. CT

Operator: Good day, ladies and gentlemen. Thank you for standing by. Welcome to the Teekay Shipping Corporation Third 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 a question-and-answer session. At that time if you have a question, you will need to press star one. As a reminder, this conference is being recorded.

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

Male: 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 constitutes forward-looking statements for purposes of the Safe Harbor Provision under Private Securities Litigation Reform Act of 1995. Actual results may differ materially from those indicated by these forward-looking as a result of various important factors, including those discussed in our annul report on Form 20F, dated March 31, 2003, which is on file at the SEC.

I will now it over to Mr. Moller to begin.

Bjorn Moller: Good morning, ladies and gentlemen, and thanks very much for joining us in today's call. We're pleased to report to you on our third quarter results. In terms of earnings, we recorded net income of $20.3 million, or 50 cents per share, reflecting a decline in the tanker market over the summer. In terms of strategic (roles) and (sleep) development, we made significant strides in the quarter.

This morning, I will review the latest developments in our business, and Peter Evensen will discuss our financial results. I will first review our (spart) tanker business, in which we have approximately half of our capital employed. We operate 84 owned and chartered tankers and have eight ships on order in this segment. The (spart) business produced EBITDA of $54 million down from $126 million in the prior quarter due to weaker (spart) tanker charter rates.

With the recent sale of a number of older ships from our (spart) tanker segment, our operating leverage is down slightly yet it's still very significant. For each $1,000 a day increase in (day) rates, our EPS increases by 65 to 70 cents annually and our net income break even remains roughly $13,500 a day. Looking in turn at each of the demand and supply (fundamentals) affecting the (spart) tanker market, oil demand and underlying driver of tanker demand rose in the third quarter from the June quarter with the bulk of demand growth coming from non-(OECD) and, in particular, from China and the former Soviet Union.

Comparing the quarter to figures from one year earlier, demand rose .9 percent over the past year according to the IEA. Global oil supply – the most direct driver of tank and (ton-mile) demand – averaged 79.5 million barrels per day, up by almost two percent from the June quarter. Two-thirds of this increase came from non-OPEC producers whose oil is less (ton-mile intense) on average than OPEC oil.

In late September, OPEC surprised the market with a decision to cut oil production by 900,000 barrels per day beginning November 1st. At first glance, one would expect this to have a negative effect on tanker demand yet this quarter reduction was agreed by OPEC to make room for Iraqi oil – oil which would make up for any tanker demand lost from the OPEC cut. Also, with oil demand now approaching its peak season and (with) oil inventories (modest) by historical standards, all practice have remained strong leading to speculation that OPEC may unwind these cuts before they take affect. We, therefore, believe that there's still reason to expect good tanker demand over the winter season. Looking beyond the seasonality and oil demand the IEA's forecasting average oil demand for 2004 as a whole to increase by 1.3 percent over 2003.

Turning to the supply side, tanker supply was up marginally from the previous quarter. According to (Clarkson's), the world's fleet rose by .4 percent, a high pay for scraping largely offset and active delivery schedule of new tankers. The pace of ordering of new tankers was still high at nine million tons in the quarter, slowed considerably from the pace of the first six months of this year and the total (autobroke) remains unchanged at 23 percent of the existing world fleet.

Despite a significant delivery schedule of new tankers over the next two years, we appear to be on track for a continued (tri-balance) in global tanker supply through the end of 2005. By then, approximately 40 million tons of tanker capacity will have been regulated out of the market. Adding the typical annual growth in tanker (ton-mile) demand of 2.5 percent would call for an additional 18 million tons during this period for a total requirement of 58 million tons of new tankers. This figure is very close to the total schedule – new building deliveries through 2005 which essentially, capped at 62 million tons.

This balance equation does not take into account the potential positive affect of above average economic growth and oil demand over the next couple of years nor does it take into account any of the voluntary early scraping that is like to occur over the next two years beyond that mandated by regulation. The world's shipyards are now busier than at any time since the early 1970. (Lead) times for new deliveries have (written) to between 36 and 42 months.

Soaring demand for container ships, drive out (bressels) and (L&G carrier) is crowding out yacht base for tanker construction. With a combination of (grateful) demand, higher steel prices and a weakening dollar, yachts are now forcing prices upwards. (Underpinning) the net asset value of tanker companies. For example, over the past 12 months since Teekay placed it's most recent orders for (spart) trading new buildings at the bottom of the (ship-price) cycle. The quoted price for new Aframax tankers has risen by 20 percent. Based on these factors, it seems likely that tanker deliveries will slow considerably beyond 2005.

Turning to the freight market, crude oil tanker rates weakened in the quarter despite a rising oil supply and a (static) world fleet size. Sort term factors such as (punching) of tonnage in main loading areas and North Sea oil field maintenance are likely to have driven (sentiment) downwards despite the positive underlying (fundamentals). Towards the end of the quarter, we saw a rapid firming in Aframax and Suezmax freight rates, again demonstrating the finely balanced nature of the market and this has continued into October.

According to (Clarkson's), Aframax rates are currently averaging $27,000 per day. Rates are being driven upwards by several factors. There has been a sharp rebound in the (shore-hold) freight in the North Sea. There is systematic traffic congestion in the (Bosarus) Straits causing waiting times for a large number of ships and this is expected to be a factor for the next six months and finally, there has been a reduction in tanker supply due to OBO carriers switching out of the oil trades and into dry trades where rates are at an all time high. OBOs, which are included in tanker fee statistics, represent four percent of the world tanker fleet.

These regional and segment specific factors are likely to maintain a positive impact on medium size tankers over the next several months. (Well), the (VSEC) rates will also recover from their current low levels and drive further strength through the rest of the tanker market will hinge on the strength of oil consumption in the coming winter market, the Iraqi oil production levels and OPEC (code decisions).

Next, I'd like to turn to development in Teekay (spart) tanker activities. During the quarter, we continued our fleet modernization program and our (spart) tanker segment with two new Aframaxes joining the fleet and with the sale into a strengthening market of several more of our oldest vessels during the quarter and continuing into early October. As a result of these changes and other changes done (to) earlier in the year, the average age of our (spart) trading fleet has been transformed from 12 years at the beginning of this year to only 7.6 years.

We now have no tankers in our (spart) fleet over the age of 15 years. In a significant development which occurred at the end of the quarter, we acquired 50 percent of (Scoggin Petro Trand's), the world's premier provider of ship-to-ship licensing services to oil companies in locations such as the Gulf of Mexico. SPT arranges for the transfer of oil from (deep drop) ((inaudible)) to Aframax tankers some fifty miles off shore and these ships, in turn, deliver the oil at shallow water oil terminals along the Gulf coast.

SPT provides a turn-key service which includes guaranteed on-time availability of Aframax off-set tankers, support boats, transfer equipment and supervisory personnel. If you'd like to know more about the lightering business, you'll find an interesting over view of SPTs business – lightering 101 on our Web site at teekay.com. SPT has acknowledged by oil companies as the leader in quality and service in its field. On the strength of this reputation, it has filled a leading market share handling 14 percent of U.S. crude oil imports. SPT utilities and in charters cold fleet of about 10 double-hulled Aframax tankers plus regular (in-chartering) of (spart) tonnage to balance its requirements.

With virtually no invested capital, SPT has consistently produced high margins due to it's expertise in efficiently (fondling) these complex logistics averaging approximately $20 million in annual operating cash flow over the past three years. The lightering business is a logical extension of Teekay's business. It expands on evolvement in our customer's logistics chain. In the case of (Stat-off), for example, we will now be moving their oil from North Sea oil fields to nearby terminals by our shuttles anchor, lift this oil on (SOT) tonnage from the North Sea to the Gulf of Mexico and then (trans-ship) and deliver it to its end destination through SPT. Teekay's involvement of the partner SPT significantly expands SPTs fleet access and allows enhanced scheduling. In addition, Teekay's global reach offers SPT a broad platform from which to expand its business to geographically in the future.

Finally, on our (spart) tanker segment, we took further steps in the quarter in developing our product tanker involvement through our investment in (Torm) as well as through upgrading two of our Aframax's new buildings to product tanker specification known as (LA2) Product Tankers. The (spart) – the product tanker market is another natural extension of our customer relationships including our access to all of (Stedall's) product's movement.

Next, I'd like to talk about development in Teekay's fixed rate segment. Our fixed rate segment provided 46 million in EBITDA during the quarter, down from $56 million in the second quarter but decline was a result of seasonal variation in Navion Shuttle Business up by a very strong June quarter. While Navion Shuttle Bay rates are fixed, volumes vary through the year with the low point occurring during the summer when oil field maintenance causes reduction – reduced oil production and when calm weather ((inaudible)) reduces the number of day spent on each voyage. I would like to emphasize that the figure that we have give you in the past of $1 per share an EPS from Navion's fixed rate business is an average annual figure and this figure remains our guidance going forward.

During the quarter we concluded several valuable new transactions in our fixed rated business segment. In the shuttle segment, we took over the North Sea shuttle activities of (Portland), the leading (Finnish) Energy group. In this transaction we acquired one Aframax shuttle tanker along with two fixed rate contract of (efraitment) which will employ the vessel for a number of years into the future, providing an attractive return. Also in the shuttle sector, we secured two 13-year charter contracts from (TransPetro) and in this connection acquired two Suezmax tanker new buildings for conversion.

The growth in (Preciels) shuttle trade has increased the world's shuttle business by 10 percent and with our latest contracts; we will have six of the seven shuttle tankers on charter to (TransPetro). This demonstrates the scalability of our shuttle business. In August, we announced that we had secured a contract from (Unical) to provide a floating storage and (uptake) in Thailand on a minimum 10-year fix-rate contract. We will convert a 15 year old single hull tanker for this project allowing the ship to earn an attractive return until and possibly beyond the age of 25 years and in any event, significantly longer than it would have been tradable as a conventional tanker under new regulations.

This will be our fourth episode and this project demonstrates both the ongoing potential in this business and it's synergy without conventional tonnage. These three transactions, I expect it to increase our annualized operating cash flow from fixed-rate contract by $25 million taking our projected annualized fix-rate operating cash flow to $285 million by the fourth quarter of 2004. There were a number of other developments not fixed-rate fleet. We completely construction in all and delivered the first two of five conventional tankers on 12-year charters to Conoco-Phillips. The third vessel was scheduled to deliver in current quarter and the two remaining ships in January 2004. During the third quarter, we also took deliver of a new Suezmax shuttle tanker which will serve in the Navion Shuttle Seaway business.

And it's worth highlighting that there are – there is a continuing stream of small (but) valuable developments occurring in our shuttle operations. During the quarter, we achieved milestones on two oil fields where we commenced service under contracts concluded some time ago. These involve the employment of a total of three of our older smaller shuttle tankers which have undergone field specific conversion work. One vessel received first oil from the (Sable) Oil Field of South Africa representing the first use of shuttle tonnage in that part of the world.

The second project involves the (Odmal) Field in the UK North Sea where our subsidiary U&S delivered a low cost turn-key solution involving two shuttle tankers and a (subsea mooring) system. We recently commenced loading on this field. This project is significant because it's the first time for the previously abandoned oil field has been brought back into production in this region. (Odmal) is the former (argyle) field which was the first production field in the UK started out back in the 1970s. This project has been followed closely by the offshore industry as a potential role model for extending a restarting module fields in the North Sea. It's successful commencement ((inaudible)) average trend for this (type) of operation. With Teekay shuttle fleet decision to benefit from such further investments.

In another (shadow) related development during the quarter, Navion was awarded a contract by our consortium of major oil companies to procure and install on a number of shuttle tankers, plants that reduce emissions during harbor operations. Navion which is already successfully delivered a number of these sophisticated $15 million plants in the past. It's expected to invest a further $50 million – five zero million – over the next two years. These are full payout contracts with attractive guaranteed returns and we expect to finance these investments (up) balance sheet. As you can see from all of these developments, there's a great deal of momentum in our fixed rate segment.

I'll now hand it over to Peter Evensen to discuss our financial results. Peter?

Peter Evensen: Thanks, Bjorn. Our third quarter was a good quarter financially and, while (stock) raised from the summer months were lower than the first two quarters of the year following a normal season rate cycle, it is important to note that the average rates we recorded in the third quarter to (be) declined only to mid-cycle rates.

In the month of October, rates have rebounded upward, again, following the normal seasonal pattern and are currently at historically strong levels. Net income for the quarter was $20.3 million, or 50 cents per share, which includes $9.9 million in non-cash charges. These non-cash charges resulted from two factors – $5.8 million, or 14 cents per share, related to the write down on five vessels sold during the third quarter and the beginning of the fourth quarter and $4 million, or 10 cents per share, related to deferred income tax expense in Norway arriving from unrealized foreign exchange gains in connection with the financing of Navion.

Excluding these non-cash charges, net income was $30.2 million, or 74 cents per share. Teekay generated $99.5 million to EBITDA during the quarter of which $45.8 million was from long-term fixed rate contracts. Compared to the third quarter of 2002, the results, primarily reflect the inclusion of Navion in the fix-rate segment and in the (spart) tanker segment, the increase in charter rates as our Aframax, (spart) fleet generated an average time charter equivalent of $18,318 per day compared to $13, 833 per day during the same period last year.

Rates in the third quarter were lower than in the second quarter of 2003 which averaged $27,327 per day so we are encouraged by the start of the present quarter, which so far, has seen a rise in Aframax rates back to levels of the second quarter. In looking at the segment results for the quarter and comparing them to the third quarter of 2002, I will refer to the operating results section beginning on the second page of our press release. Our fixed-rate segment includes the Company’s shuttle tanker operations both Navion and (Ugland) Nordic Shipping, SSO vessels and LPG carrier in certain conventional crude oil and product tankers on long term fixed-rate contracts. We will not be giving out separate information on Navion going forward as the Company is being integrated into our overall shuttle tanker operation.

The fixed-rate segment generated $45.8 million in EBITDA during the third quarter, compared to $21.9 million in the third quarter of 2002. Primarily due to the inclusion of Navion shuttle tanker fleet, is worth noting that the third quarter figure was below the second quarter of $56.2 million. This was because Navion shuttle tanker business experienced lower utilization caused by normal scheduled maintenance of oil production platforms and facilities in the North Sea.

However, as (Gary) mentioned, this was factored into the guidance we have at the time of our acquisition that the shuttle tanker activities of Navion were (accreted) to our annual earnings by $1 a share. The EBITDA generated by our fixed-rate segment will continue to wrap up with the earnings from the shuttle tanker recently acquired from (Flordum) Shipping and the delivery of the series of five vessels to Conoco-Phillips which commenced in early September and will be completed by the end of January, 2004.

Looking further into 2004, we have the (patonic cirrus episode) commencing operations in April 2004 and two Suezmax shuttle tankers commencing operations in Brazil in the third quarter of 2004. With these contracts in place, the Company expects a fixed-rate segment to generalize – generate annualized operating cash flow of approximately $285 million by the fourth quarter of 2004.

Turning to the (spart) tanker’s segment, the acquisition of Navion added 2,182 ship days to our (spart) tanker fleet compared to the prior year. With the exception of two owned vessels, the Navion conventional tanker fleet consists of chartered (end) vessels at different rates for different periods and may vary depending upon the requirements of our customers. The additional ship dates were partially offset by a reduction in ship dates from the sale of four older Aframax vessels that are – that were delivered to their new owners during the third quarter.

Our Aframax fleet generated a 365 day time-chartered equivalent of 18,318 per day compared to 27,000 per day from the second quarter. This drop in our average TCE rate reflects a decline in market rates from the high level seen in the previous two quarters for the reasons sited earlier. The ship dates for the OBO fleet also decreased in the third quarter due to the sale of three vessels from this fleet in September.

Turning next to our income statement on the sixth page of the press release and running down the September 30th quarter figures and comparing them to the June 30th quarter, net ((inaudible)) revenues had decreased by $79 million over the prior quarter to $275 million. Ninety percent of this decrease is attributable to the Company's (spart) fleet which earned lower (spart) ((inaudible)) (anchor) rates in the previous quarter. Our operating expenses were virtually unchanged from the prior quarter. Our time charter expense grew by $2 million over the prior quarter due primarily to an additional (in chartered spart) tanker.

Depreciation and amortization remains substantially unchanged from the prior quarter as the increase from new buildings delivered the substantially offset by decreases from vessels sold during the quarter. Included in depreciation expenses, $7 million in dry dock amortization in the third quarter compared to $6.7 million in the second quarter. G&A expenses increased to $24.1 million in the third quarter compared to $21.9 million in the second quarter due, primarily, to expenses related to the closure of our (auso) office and a one time expense related to (stock-brand).

Net interest expense increased slightly to $21 million from $20.4 million in the second quarter. An EBITDA interest coverage decreased from 8.1 times cover in the second quarter to 4.6 times in the third quarter due primarily to the reduction in (spart) tanker rates and lower utilization of the shuttle tanker fleet previously discussed.

The results for the third quarter included 5.8 million of non-cash charges related to five vessels sold during the third quarter end and the beginning of the fourth quarter of 2003. When we took the larger write down in the first quarter of this year, it was not anticipated that two of vessels would be sold and these two vessels accounted for the bulk of the extra write down this quarter.

Deferred income taxes has decreased to $6 million from $13.8 million in the previous quarter due primarily to lower operating profit from Navion (spart) and shuttle tanker fleets in the third quarter, counter balanced by a $4 million increase in deferred taxes on unrealized foreign exchange gain. Other incomes of $3.5 million relates mainly to income from joint ventures, dividend income and a number of miscellaneous items partially offset by the foreign exchange losses and minority (interest) expense.

Looking at the balance sheet and treating the mandatory exchange ((inaudible)) preferred issue as equity net (stets) to capitalization increased slightly from the second quarter at 42 percent as a result of the delivery of several new buildings in the quarter. Our liquidity consisting of cash, cash equivalents and undrawn availability under revolving credit with $697 million.

Capital expenditure's for the third quarter totaled $121 million including $93 million in new building installment, $9 million in dry docking cost and the remainder related to vessel conversions and upgrades. Forecast at cap ex, excluding annual maintenance cap ex of approximately $30 million until 2005, is roughly $37 million for the remainder of 2003, $305 million in 2004 and $118 million in 2005.

I will now turn the mike back to Bjorn to conclude.

Bjorn Jordan: Thank you, Peter. Teekay was an incidental almost $1.5 billion of new highly profitable investments over the past four months, growing and significantly modernizing every segment of our fleet. These investments and those made previously will generate a significant amount of cash. We intend to put this cash to good use and we believe that we have demonstrated over the past quarter the ability of our growing franchise to do exactly that.

In the September quarter alone, we committed to approximately $265 million of new investments in our fixed-rate segment and in SPT and these investments, I expect it to generate approximately $37 million in operating cash flow annually, a 14 percent yield. We remain an active but disciplined growth mode for as long as we continue to see attractive new investment opportunities. We also continue to carry a large amount of debt which we wish to reduce towards the lower end of our target range in order to maintain our financial flexibility.

Despite these compelling uses of our cash, Teekay's board recently approved a 16 percent increase in our quarterly dividend payouts after eight years of eight years unchanged dividend policy. This decision signals that the board believes that the growth in our business is sustainable and that our business model will remain profitable through any shipping cycle.

This permits us to return more of our cash to shareholders without negatively impacting future revenue and earnings growth. It also signals that in the future the board will monitor developments of Teekay on a continual basis and when appropriate, from time to time, act to further increase dividend payouts.

Thank you very much for listening in today, and we'll be happy to take your questions now.

Operator: Thank you, Mr. Moller. The question-and-answer session will be conducted electronically. If you would like to ask a question, please do so by pressing star one followed by the digit, excuse me, star key followed by the digit one on your touch-tone telephone. If you are using a speakerphone, please make sure your mute function is turned off to allow your signal to reach our equipment. We will proceed in the order that you signal us and we'll take as many questions as time permits. Once again, please press star one to ask a question. If you found that your question has been answered, you may remove yourself from the queue by pressing the pound key. Also anyone using a hands-free phone, please pick up your handset when asking your question.

Our first question will come from Magnus Fyhr with Jefferies & Company.

Magnus Fyhr: Yes. Good morning. Just a question on the OBO carriers, you had mentioned four percent of the total tanker fleet consists of OBOs. Have you guys done any analysis on recent changes there on how many are trading dry instead of wet?

(Peron Jordan): I don’t have the numbers, Magnus, but I can be – you can be assured that it’s a very high number trading in dry. I’d say, I mean, certainly, the majority of those are Suezmax, Aframax and (Panamax) OBOs, all of which are, you know, red hot in terms of that size of drop out activity so it moves around ((inaudible)) combination trading with which they were meant to do but we know that (Frontline), (Genmar) and (Gebson), for example, they are using their ships extensively in the dry market so that is having an effect.

Magnus Fyhr: Yes. I mean just (Genmar) and (Frontline) would be like two million dead weight ton which would be pretty significant.

(Peron Jordan): Yes. It would.

Magnus Fyhr: Also, in the recent presentation on a evaluation of your stock, you have a presentation showing a value $63 per share. I was just curious given that, you know, evaluation, are you guys going to start buy-back stock, these levels, you know has lagging the group and, you know, down here at $43 to $44 look, you know, very attractive so I just wanted to see what your take on that.

(Peron Jordan): Well, I think we will, I guess, say what we said previously, we have extremely attractive uses of our cash. We have increased the dividend which is a reflection that we would like to return some more cash to share holders and I think, you know, we do want to educate people who may not fully understand very rapidly growing ((inaudible)) business.

So, I think that process as far as making sure our stock is fairly valued is something we're working, you know, stock buy back is something we want to check continually and it's one of the options that always remains open to us.

Magnus Fyhr: OK. Lastly, a question on Navion mentioned still that you guys are sticking to your dollar (cretion) per year with the third quarter being, you know, somewhat, you know, a smaller contribution in the third quarter. What, you know, should we expect, you know, if it's 25 cents per quarter. My calculations, you know, looking at, maybe a less than 10 cents, you know addition in the third quarter. Should we expect, you now, more than 35 cents per share in the fourth quarter?

Peter Evensen: Magnus, Peter Evensen here. Your figures for the third quarter are light as it relates to Navion. We don't have that much volatility in the seasonal results going forward as you see it so we wouldn't expect to see that much (osculation).

Magnus Fyhr: OK, so, you know, sticking to the 25 cents a quarter.

Peter Evensen: Yes.

Magnus Fyhr: Thank you.

Operator: Our next question will come from John Chappell with J.P. Morgan.

John Chappell: Good morning, guys. I had a question on the Aframax (spart) rates. Pre-Navion when you went around and talked about how to forecast the raise, you had a split between the Pacific and the Atlantic base and 60/40. And then, you had premiums of $3,000, $1,000 that you put on there so you could take the (Clarkson's) rates and kind of figure out where the rates should be. It didn't necessarily jive this time and the Aframax (buyer) came in much lower than I expected.

Is there any reason for that? I mean, I know the Navion trade business changes your – the Teekay business but the Aftermax (spart) rate should kind of still be the same.

Male: From our standpoint, we're – we are holding to the 60/40 percent. You are correct that there was some weakness in the North Sea which moved the rates around a little bit as it relates to our conventional fleet that we operate the Navion. But the 60/40 is the general (bellwether) that we are speaking to.

John Chappell: What about the $1,000, $3,000 typical triangulation premium that you had historically had within those range. Are they still there? ((inaudible)) based on current conditions.

Male: Well, as we was a little reluctant to using that guide just because of the noise of having, you know bigger and smaller ships in the (star) fleet. This particular quarter – we did outperform the Atlantic by about $2,000 a day ((inaudible)) Atlantic number and we outperformed (Clarkson's) AGE by about $300 a day so a little bit lower or quite a bit lower, if you will, than the normal premium …

John Chappell: Yes.

Male: … but I think what's happening is also that, you know, the dynamics in the (Indo-Pacific) are changing. the AGE (strude) is pretty liquid and there's some very steep kind of (two-tier) rates and I think the reliability of that number is not as obvious as it was, so, you know, I think that there, basically, I think you can – if you compare us to our peers, we are out performing the numbers that are being published by others …

John Chappell: True

Male: … and that's sort of the real benchmark, frankly. (Clarkson) is a bit of a theoretical number. It's a helpful guide to analyst and investors but, you know, we keep monitoring – we're only two quarters into the Navion fleet and the ((inaudible)) why the range of ships in our star fleet so we'll keep monitoring it, John, and try and see if we can help you guys with some good tools along the way.

John Chappell: Well, we appreciate that.

Peter Evensen: I would also point out that we're quoting our TCE on a calendar shift day, so that includes everything in it whereas (Clarkson) doesn't assume any waiting time at all.

John Chappell: OK. If I could ask one follow-up – the income tax expense – have you exclude $4 million charge that you talked about on the front page. It's $2 million of expense and the June quarter had about $14 million. Were there any non-returning issues in that $14 million in June or is that differentiation that large on a quarter to quarter basis. We have bench locked it and maybe, (Vince), you can ((inaudible)).

(Vince): Yes. John, a lot of that was the Navion conventional (stock issues) as well which earned a bigger profit in the second quarter so there were no non-recurring items in the second quarter that was material.

John Chappell: OK, because that $12 million swing on a quarter-to-quarter basis is quite a large amount of EPI. Is there normalized level we should look for. Is it going to be volatile based on the (spideramament).

(Vince): It might be a little bit higher. We had some timing differences in quarter-to-quarter so it might be a little bit higher going forward. Again, that's dependent on stock rates?

(John chapel): All right. Thanks a lot, guys.

Operator: At this time, we have one question remaining in the queue. If you'd like to ask a question or if you have a follow-up question, please press star one to signal. As a reminder if you are using a speakerphone, please make sure your mute function is turned off to allow your signal to reach our equipment.

We'll take our next question from Fred Wadler with Eagle Capital.

Fred Wadler: Hi, yes. Thank you. I just wanted to ask about the volume of scraping that's happening, just, you know, which countries may be responsible for this and how do you feel the volume of scrapping, you know, for this quarter and near future? You discussed it briefly, but I'm just wondering if you could just expand on it a little better.

Male: I'll try. The majority of scrapping is occurring in India-Pakistan and China and scrape prices – scrape steel prices are very high and that, certainly, is, you know, helping attract a little shift towards the scrapping option so that we expect, we're seeing, you know, a fairly active level of scrapping.

One of the characteristics of the last two or three years a very strong market is that scrapping levels have been high where typically scrapping is low during strong freight markets. That's a signal that scrapping is occurring because of (regulatory) pressure and because of customer discrimination.

Now ((inaudible)) really adopt the 21st, the EEU put in place it's new regulations from the (IMosby) is going to look at – well, I think it's regulations in December or implementation in the spring of 2005. There's a huge amount of tonnage could be regulated out and these shifts – some of them will come up against expensive (surveys) between now and the spring of '05 and even in a strong market, we will see a lot of ships scrapped under those circumstances.

So, the scrapping, I think, it's been a positive surprise or a positive story when it came to fleet supply in the last several years where the capacity of shipyards, otherwise, could have been, you know, a negative event. We're surprised that the world fleet is really quite stable and continues to be stable.

Fred Wadler: Thanks very much. I appreciate it.

Operator: Moving on, we'll go to Walter Lovato with Passport Capital.

Walter Lovato: Good morning. I had a question regarding – (no more) question. The first one – the 40 million (pun) that you listed as maybe mandated out by the end of 2005, first of all, is that – did I hear that correctly and secondly is this an existing regulation or is this – does this include a potential new IMO regulation?

Male: The number is correct. It's $40 million and the IMO did not finish it's work in July when it met and there are several things before the IMO. One is the accelerated phase out of category one tankers and then there's the accelerated phase out of categories two and three tankers. The category one that was (uniminity) or at least a clear majority at the IMO and basically, made the decision that they will accelerate the phase out of schedule of a type one tankers.

However there was disagreement at the back end, should it be 2010, you know, the 20th anniversary or other methods to phase out the rest of the ships and that was what was left unfinished and will be worked on again in December. So, in effect, the early end is pretty much locked in – both by the IMO and the EEU and, therefore, is a global situation. The regulations just hasn't been written up because they have some blank pages behind it.

Walter Lovato: OK, so the 40 million would include this category one phase out?

Male: That's correct.

Walter Lovato: OK. Another question, you mentioned that the write downs included ((inaudible)) those that were subsequently sold or sold in the fourth quarter.

Male: That's not quite correct. I think that what we meant was that in the second quarter, we took a write down …

Walter Lovato: Oh, OK.

Male: … so then the second quarter and ships anticipated to be sold in the third quarter. We did those ships but then we sold a couple of extra ships in the third quarter that we had not previously …

Walter Lovato: OK.

Male: … and therefore the second quarter write down was not adequate. We had to do a write down in the third quarter …

Walter Lovato: OK.

Male: … (particularly) two ships that we sold.

Walter Lovato: OK.

Male: Other than subsequent sales that I mentioned on our press release and I think we're say that there is going to be a (modular) gain from those ships but, you know, obviously, if other transactions take place, that could change.

Walter Lovato: OK. The other think I noticed is that the expected cap ex for next year has gone up by about $115 million from what I recall. Is – you mentioned $50 million worth of Navion investments. Is the, sort of, remaining $65 in your regular Aframax ((inaudible))?

Male: Do you want …

Male: I believe that's our two contracts that we have for (subtle) tankers in Brazil where we put 10 percent down and we have the balance due in 2004 so it'll be coming on the third quarter of 2004.

Male: And then the Navion, $60 million investment is spread out over the next two years so that isn't just next year.

Walter Lovato: OK. So, great. Well, things got very (excited). The – just checking my numbers. It seems that, you know, by end of Q4 '04, you could be generating almost $7 of EBITDA from you fixed rate business.

Male: That's what it looks like, yes.

Walter Lovato: And so, the dividend coverage on a normal, you know, on a normal rate environment would be enormous and could be – OK, maybe, perhaps not, at that point having past the bulk of your capital expenditure, I mean, your cash flow will be significant at that point. So, I'm just thinking ahead, fixed – so 12 months, what – you mentioned that in the press release that that the board will be sort of monitoring the dividend payout on – it's an ongoing basis. Would it be fair to assume that dividend payouts would increase?

Male: Well, I guess we've given the guidance that we think that it's reasonable to give at this point. What is so exciting – well, it is where that we're seeing so many attractive investment opportunities and we are clearly going to be disciplined, I think, I hope you see that what we're doing is very disciplined …

Walter Lovato: Yes.

Male: … and long as there's obvious opportunities. We certainly feel that it's (partly) valid for Teekay to grow it's business and strengthen it's franchise so I think, what we're saying is there may be room for both. Time will show but things are looking extremely good.

Walter Lovato: How many more opportunities for the type of investments in the, I guess, Navion – the ones that you just ((inaudible)). I don't exactly know what the name of – but these conversion facilities …

Male: Yes.

Walter Lovato: How much more opportunity for this – for 14 to 15 percent cash return investments is there?

Male: Well, I can only say that nine months ago, I don't think any of the investments we concluded in the third quarter were known to us and I think what's happening there – I think there's a bit of gravity pull going on, now with Teekay's business. The breath of our place in the logistics chain is really offering ((inaudible)) number of doors that we can open and look through.

And so, I mean, I think, for example, floating storage is an area where we could use potential. You know, Brazil is moving a long, other countries are doing increasing amounts of off shore oil exploration. I – the point to, you know, percentages and it will be lumpy, no doubt, but we're certainly pretty busy here, let me put it that way.

Walter Lovato: OK. And just – sorry, for all these questions but the final one is – the strength – you went into the strength of the current Aframax environment. It's really kind of showing you how segmented the market actually is between the VLCC and Aframax is I guess because of the Mediterranean, that's the real (Mediterranean-Bossus), that's the key, am I correct in …

Male: I would say that, generally, you said "segmented," it is generally highly correlated and typically what drives a very strong tanker market is a good market for VLCCs and the (trickle) effect all the way through market, however, what's – it's true that the smaller ships can (encroach) on the bigger ships business and that's why it's (vulnerable), however when, occasionally, you have disruptions in the business. The smaller ships, isn't necessary (vulnerable) the other way.

You can't have, you know, some ((inaudible)) and I think that, you know, if we another cold winter, we see, you know, a lot of delays – traffic into the Baltic, for example, and another place where a lot of Russian's oil is coming out, so you could have a pretty strong event in segments even if the large tankers are not enjoying such good rates.

Walter Lovato: So, you mentioned, sort of, for congestion, ((inaudible)) it's a six month – potentially a six month phenomenon so the – when I look at that in terms of $27,000 Aframax and then you look at VLCCs, you know, have to break even or below and normally, I would be afraid and say, “Oh, ((inaudible)) going to come down.” But what I’m hearing is that at least that the, you know, the next couple of weeks, at least, that is no way the case.

Male: Well, we certainly see that the rates have been very firm despite the mediocre (sea) markets. We’re estimating that the voyage lengths are sometimes doubling in the Mediterranean around ships trying to transit in and out of the Black Sea and, normally, anywhere between 10 to 30 Aframaxes times 20 Suezmaxes are sitting either side awaiting transit and that’s a daytime – sorry a nighttime transit restriction which occurs when days get shorter causes a lot less traffic opportunity through the Straits. (So) with the amount of oil coming out of that region, then they want to ships hauling in and out, that’s a very significant expert demand if you will, artificially that’s created.

Walter Lovato: OK. Thank you very much and thank you very much for the ((inaudible)) increase.

Male: Thank you.

Operator: Moving on, our next question will come from Linc Werden with HG Wellington.

Linc Werden: OK. Hi. I’ve been asked by several of our accounts if I can have a definitive answer on whether a (Bohemiem) corporation your dividends qualify for the 15 percent U.S. tax (treatment)?

Male: Technically, we are a (Marshall Island’s) corporation …

Male: … and we have received legal advice so we do qualify for the 15 percent dividend mix – dividend tax …

Male: Treatment.

Male: … treatment.

Linc Werden: I see and you're Marshall Islands, not Bahamas.

Male: We're incorporating the Marshall Islands and we're headquartered in Bahamas.

Linc Werden: Yes. OK. You do …

Male: We're listed on the New York Stock Exchange with is our primary listing.

Linc Werden: Right, no, no, I've – I'm aware of that but you do qualify for the U.S. 15 percent.

Male: Yes. That's …

Linc Werden: … right, on the dividend.

Male: … we're received, yes.

Linc Werden: OK. Thank you.

Operator: Moving on, we'll go to Jordan Alliger with Lazard.

Jordan Alliger: Yes. Hi, guys. Just a question. I don't know if you touched on it directly, but realizing that the EEU band is just very recently gone into place, you have any sense from your chartering guys, you know, if they're seeing implications of that if it's sort of working it's way through at this point or has it been working it's way through before the 21st as ships just, sort of, repositioned? Just curious if you've got any sort of market color outward (chatter) in this regard.

Male: I would say it's probably worked its way through in this last six months and there was no sort of major pop when it came into effect. I mean, it's – you'd have to – coincidentally, maybe or maybe some influence psychology you have had a real surge in freight rates in the north sea and the Mediterranean in the past three or four weeks. My sense is that it's really only when the IMO comes in to show them that it's going to be a real event.

Jordan Alliger: And to that from an IMO standpoint, has there been any thing that's, ((inaudible)) sort of leaked out around the edges as to what they're thinking. Is it pretty much full speed ahead in terms of working out something – in terms of the category two and three tankers?

Male: No, there hasn't been anything like that. As I indicated in an earlier question, the front end phase out is already downhill.

Jordan Alliger: Right.

Male: But I guess in the meantime there has been somewhat unfortunate incidents involving older ships in the Eastern Hemisphere for a change and some of those have received quite a high profile including from some of the countries that probably were not as supportive in the IMO as before so if anything, I think that, you know, if the kettle's still boiling pretty good.

Jordan Alliger: Great. Thanks very much.

Operator: And it's (Joe Breaux) with Tiger Management has our next question.

(Joe Breaux): Good morning.

Male: Morning.

(Joe Breaux): (You) had mentioned that the current break even rate is about $13,500, did I hear that correctly?

Male: That is correct and that is likely to be moving down as more of these long-term fixed rate contracts come into place over the next 12 months.

(Joe Breaux): Right. I wanted to ask you how the progressed into the fourth quarter of ’04? If there is a number for that right now?

Male: I think we’re expecting it to arrive at $12,500 a day but by the fourth quarter …

Male: That’s right, Bjorn. With the delivery of the five vessels to Conoco-Phillips by the beginning of next year, it’ll drop down to $13,000 and it’ll (grow) progressively down to $12,000 by the end of ’04.

(Joe Breaux): OK and given the shift in the vessels in the fleet, how should we think about the mid-cycle rate which was previously probably around $18,5000 per day on the Aframax?

Male: Well, I think the (Key-case) average earnings are probably going to improve on a per ship basis in any given market considering that we’ve shed 16 of our older ships. The average age of the ships we sold in the past nine months – six months has been 20 years of age and those are typically ships with less utilization.

However, I mean, the number that we have used as a mid-cycle market for Teekay is based on a ten year average and I think our fleet has been moved around in age so I would use that as the guide for the moment until we see that it changes.

(Joe Breaux): OK. Thank you.

Male: Thanks.

Operator: And we have one question remaining the queue, and it comes from Jim Bussone with Delphi Management.

Jim Bussone: Hi, Bjorn.

Operator: I'm sorry, Mr. Bussone, could you re-queue please? Star, zero – star one, excuse me. Go ahead, Mr. Bussone.

Jim Bussone: OK. Sorry about that. Just quickly you mentioned about working the debt down. What is the target levels now that you're looking for on your debt?

Male: We would – we're at 42 percent measured on (net-bet to cap) and we would like to see ourselves down below 30.

Jim Bussone: OK. Thank you.

Operator: At this time, there are no further questions. Mr. Moller, please go ahead.

Bjorn Moller: Well, thank you very much for taking part this morning. We're pretty excited about what's going on at Teekay, and thanks for listening in. We'll talk to you probably next year.

Operator: That concludes today's conference. Thank you for your participation.

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