TEEKAY SHIPPING

Moderator: Bjorn Moller
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10:00 a.m. CT

Operator: Welcome to the Teekay Shipping Corporation Third Quarter 2004 Earnings Release 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 Bjorn Moller, President and CEO of Teekay Shipping Corporation. Please go ahead, sir.

(Scott): Before Mr. Moller begins and before I read the forward-looking statements, I would like to direct all participants to our Web site at www.teekay.com where you will find a copy of the third quarter of 2004 earnings presentation. Mr. Moller and Mr. Evensen will review this presentation during today's conference call.

I will now read the forward-looking statements. 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 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 December 31st, 2003, on file with the SEC.

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

Bjorn Moller: Thanks, (Scott) and good morning, ladies and gentlemen. Thanks for joining us for today's conference call. As usual, I'm joined by our Chief Financial Officer, Peter Evensen, who will discuss our financials.

Let me begin by saying that these are exciting times in the tanker business. We are in the midst of an outstanding tanker market. In my comments last quarter, I posed the rhetorical question whether there would actually be enough tankers to meet global demand. Well, since then tanker rates have doubled and in some cases tripled, making that question more relevant than ever.

I'll first turn to the highlights of the quarter on slide number three. Our net income in the third quarter was $245 million, or 2.77 per share, a record result. And for the first nine months we had net income of $533 million, or $6.12 per share, which was also a record. Our results for the quarter included $144 million in gains on vessel sales and sales of our shares in ((inaudible)). On September 30th we announced a dividend increase for the second consecutive year.

We progressed as scheduled with the integration of the Tapias acquisition, and our third L&G new ((inaudible)) delivered during the quarter. We are operating in an environment of strong global economic growth with global oil demand growing at the fastest pace in almost 30 years. And due to the cumulative effect of positive tanker demand fundamentals, we've seen rates surge in October with Aframax rates now ranging from $60,000 to $100,000 a day, and in some cases higher.

Turning now to an overview of tanker market fundamentals, starting with tanker demand. Slide number four shows the continued high rate of growth in global oil demand as well as the normal seasonality. In the third quarter, demand grew by 3.5 percent from one year ago. OECD demand rose by two percent while non-OECD rose by six percent. In its October report, the IEA again raised its forecast for 2004, predicting 3.4-percent growth overall, the highest rate of growth since 1978. The IEA reduced its 2005 growth forecast slightly to 1.8 percent, but I'll come back to that forecast in a minute.

Turning to slide number five, we see the same picture as last quarter, namely that world oil supply, shown by the blue line, continued to grow, driving up tanker demand in its wake. Yet with global inventories stuck below their five-year averages, oil supply is simply keeping up with the underlying demand that's shown by the bars on the chart. And with oil demand expected to continue to grow, we can look forward to further increases in tanker demand.

Coming back to the IEA's 2005 forecast for a minute. It's interesting to look back on the history of its forecasts for 2004 and compare these to global economic growth on slide number six. On the left side of the slide, the red line shows the progression of the IEA's monthly growth forecast for 2004. At the time of its initial forecast in July 2003, the IEA projected that oil demand would rise by only one – 1.3 percent this year, and that was at a time when the IMF was predicting over four percent GDP growth, shown by the blue line.

While the IMF forecast of GDP growth was subsequently raised to five percent, it is clear from the upward provisions made by the IEA to its forecasts in 10 out of the next (15) months that its initial forecast that oil demand growth would lag GDP growth by 2.8 percentage points was overly conservative. This gap has gradually halved to only 1.4 percentage points today. And this raises the question of whether the IEA is again being overly conservative in its estimate for 2005 oil demand growth.

And on the right-hand chart we've shown the latest IEA and IMF growth forecast for 2005. As you can see with the gap back up to 2.5 percentage points, the IEA is starting out almost as far below the IMF as it did last year. If the economy grows, as predicted by the IMF, it would appear to us that the 2004 pattern will also hold true in 2005 and that oil demand will grow by more than 1.8 percent next year. And this is especially likely given that the highest rate of economic growth is occurring in some of the world's most energy-intensive economies, such as China and India.

Looking at the second key driver of tanker demand, namely the distance factor, on slide number seven, we see that over the first 15 months Middle East supply, shown by the red line, has been growing three times faster than other supply sources, and thereby lengthening the average voyage of a tanker. And that's actually illustrated on slide eight. It shows you how critical it is for tanker demand just where the oil is produced.

The bars show how a one-percent increase in global oil supply translates into global tanker demand growth, which you can read off the horizontal axis, depending where the oil originates from. As you can see from the bottom bar, the Middle East – Middle East oil is a huge driver of tanker demand, with an increase in tanker demand of almost three percent for every time the Middle East produces an incremental one percent, or 800,000 barrels, of world oil supply. So overall, the tanker demand side looks very solid going forward and may even be understated.

Turning next to tanker supply, on slide number nine. This is a slide you're familiar with. The third quarter saw an increase in the world tanker fleet of 1.5 percent. New deliveries remained in line with prior quarters at six million tons, while scrapping dropped to 1.5 million tons due to higher charter rates. And moreover, it appears that ship owners with old tonnage that must be scrapped by next April under the IMO will wait until the last moment.

The forward order book shown here in the light blue bars was unchanged overall from the last quarter. But the amount of tonnage that remains to be delivered through 2005 dropped to 39 million tons, and 19 million tons is expected to be phased out under the IMO regulations through the end of next year. But as noted, very little scrapping is likely to occur during the rest of 2004 due to the strong market. So we can expect this entire 10 million to be scrapped in 2005.

Turning to slide number 10. We show the updated math around the tanker supply and demand balance for the next two years. We have used the IEA's very conservative demand assumption for 2005 of 1.8 percent oil demand growth, and we have used the traditional factor of one to 1.75 when translating this into tanker demand growth. It's certainly easy to argue that both of these factors should be higher.

But even using these conservative assumptions, we come out with the market believe roughly unchanged in 2005. And for 2006 we're showing a three-percent weakening in that balance. Of course, the figures for both years are based on the unrealistic assumption that there will be zero voluntary scrapping over a period of two years. And the reality is that since 2000, during a period of very high charter rates on average, annual scrapping has averaged 18 million tons annually, practically all of it voluntary.

However, if you turn to slide number 11, what is even more interesting in our view is to look beyond 2006 at the longer term supply and demand picture through 2010, by which time the world's remaining single-hull tankers are due to be phased out. On this chart we've added a third column to the math covering 2007 to 2010. And our projection calculates the total amount of new tonnage that needs to be delivered from the shipyards to maintain the status quo in market balance during that four-year period.

Let's go through it. If we assume as two-percent annual growth in oil demand, it would create the need for an additional 55 million tons of tankers by the end of 2010 to meet rising demand.

During the same four-year period, an estimated seven to eight million tons of tankers will be mandated out of the fleet by IMO regulations and would need to be replaced. This means that we would need a total of 133 million tons of new tanker deliveries over this four-year period.

With 2007 yard space pretty much sold out, we can comfortably project that 2007 deliveries will not exceed 25 million tons. This leaves a requirement of 36 million tons of new tanker deliveries each year during 2008, 2009, and 2010. In the modern era of ship building, the highest rate of deliveries in a single year is in fact the 32 million tons that we're expecting in 2005. Even if ship yards were to continue to allocate the same share of their capacity as in the past to building oil tankers, they would thus come up short.

But turning to slide number 12, the key point is that yards are not allocating the same amount of space (for) tankers. They are, in fact, reducing their focus on tankers. You can see from the area graph on top, which shows the amount of tanker deliveries by ship yard broken down by country that the overall deliveries are on a declining trend. And you can see it's clear that the yards are switching away from tankers. Instead, they're focusing on meeting the huge appetite for container ships and L&G carriers, which are more profitable for the yards. And as you can see on the chart on the bottom of slide 12, between 2003 and 2007 there's a significant shift away from tankers and towards container ships and L&G carriers.

To gauge the situation beyond 2007, where the order book is not very extensive yet, we have recently held discussions with a number of leading ship yards about that 2008 capacity, and they've made it very clear to us that tanker construction is at best their third priority at this time. It's apparent to us that when yards start taking orders in earnest for 2008, even less space will be allocated to tankers than was the case for 2007.

So in summary, the long-term supply picture in our industry is tight. And while the lumpiness of the IMO phase-out schedule will lead to volatility in this picture along the way, we believe that any spells over-supply during this period will be temporary and self-correcting. During any such spells, weaker tanker rates, customer discrimination, and classification survey investment hurdles would quickly push any old surplus tonnage to the scrap yards.

Looking next at the freight market, on slide number 13, average rates moved up in the third quarter from the already firm level seen in the previous three months. The chart shows that rising OPEC production was key factor in this move. Not shown on this slide is the fact that world fleet capacity utilization is once again exceeding 90 percent, the level normally considered full-use, leading to the spike in charter rates. What you can also see from this slide is the surge in freight rates that has occurred since October 1st, with spot rates more than doubling in just a few weeks.

There was no single event that precipitated this move. Rather, rates reacted to the cumulative effect of positive underlying fundamentals, which in turn have to led a sustained high oil production from all producers, OPEC and non-OPEC alike. These long-term fundamentals have been coupled with temporary events such as the beginning of the seasonal delays in the Straits in Bosporus, continued shut-downs of Japanese nuclear power plants, and hurricane-related loss of U.S. oil production for up to six months.

While low oil inventories – with low oil inventories providing no buffer and with the tanker fleet already stretched, we see no let-up in high freight rates. Turning next to the development in our main business segments, I'll begin with our spot tanker segment, on slide number 14. Our Aframax fleet generated $31,000 per calendar day in the quarter, up from 27,600 in the second quarter.

We continued our active fleet renewal program and we're in the midst of a major new (building) delivery program that will still see us take delivery of nine owned and two (in-charter) new buildings in the coming two years. Our fleet renewal program is being conducted in a very profitable manner. Let me give you an example. In the third quarter, we took delivery of an Aframax new building at a total cost of $37.5 million, a ship that was ordered in 2002.

In a parallel move, earlier this month we agreed to sell an 11-year-old Aframax OBO for $35 million. And it's our ability to execute on the timing of such arbitrage deals that allows us to realize significant gains on ship disposals on a regular basis. Our average fleet age has now dropped to only 7.5 years, excluding our new buildings still to come. And as we sell our older ships into the rising asset market as part of our fleet renewal, we're ensuring continued high operating leverage through a combination of new building deliveries and in-charters.

Let me show on slide number 15 just how active we have been in our fleet renewal this year. A total of 23 ships have left our spot fleet through the sale of ships or the expire of in-charters, but these ships have been replaced by a total of 19 owned or in-charter ships that have joined the fleet. And as I said, we have another 11 ships lined up for delivery over the next two years.

Slide number 16 is a new slide, and it gives you a picture of just how large and how profitable our in-charter strategy is. Our in charter spot fleet comprises 41 ships on charter from other owners. As you can see from the second column, the average remaining length of these charters, excluding options that we hold to extend them further, is just under two years.

You can see from the column marked "letter B" that the average break-even rate we are paying for these ships are very low. And based on the average spot market rates that Teekay earned over the past 12 months in each of these segments, shown in column C, our in-chartered spot fleet generates annualized net cash flow of $144 million. Of course, at today's rates this figure is far higher.

For the first nine months of the year, in an Aframax market averaging $33,000 a day, our owned and chartered spot market shops combined to generate an industry-leading return on invested capital of 36 percent. This high figure is a function of our efficient fleet utilization, the low average cost of our owned ships, and the low invested capital in our in-charter fleet.

Finally, slide number 17 provides the highlights for the quarter in our fixed-rate segments. Of note is that the Teekay was awarded a five-year contract (over freightment) by Marathon Oil to service the new (Alpine Field) in the North Sea starting in 2007. (Alpine) is one of several fields being developed in that region, underscoring the future potential of a significant shuttle tanker franchise.

I'll now hand it over to Peter to discuss our financials.

Peter Evensen: Thanks. As Bjorn has said, the third quarter was a record quarter for Teekay in terms of net income, reflecting a combination of strong spot rates, the continued growth of our fixed-rate business, and gains from the sale of assets. Consequently, Teekay generated its highest ever quarterly net income of 245 million, or $2.77 cents per share, and net income for the nine months year-to-date of 533 million has already exceeded the net income over any previous full fiscal year in the company's history.

The current quarter's results include a 143.6-million gain from the sale of our investment in TORM and eight of our older vessels and 9.9 million in non-cash expenses related to foreign exchange-related items. If you exclude these non-operating items, Teekay's net income would have been 111.6 million, or $1.26 per share, which is three cents per share higher than the analyst consensus.

Looking at the third-quarter operating results of each of our segments on slide 18 of the presentation. Overall, cash flow from vessel operations for the three months ended September 30th has increased significantly to 206 million from 99.5 million in the third quarter of 2003. The contribution from our spot tanker segment increased by 76 million, or 141 percent, to 129.5 million compared to 53.7 million in the third quarter of 2003.

This increase was due primarily to the rise in spot market rates, partially offset by a net decrease in calendar ship days resulting from the sale of our older vessels during the past 12 months, including eight vessels in the current quarter. Despite these vessel sales, the number of calendar ship days declined by only three percent this quarter compared to the prior year's third quarter as a result of the delivery of new buildings and additional chartered in vessels, as Bjorn detailed. Consequently, we've been able to renew our fleet profitably while maintaining our high operating exposure to the spot tanker market.

The fixed-rate tanker segment generated 63.6 million in cash flow from vessel operations during the third quarter compared to 45.8 million in the third quarter of 2003, an increase of 39 percent. This increase was primarily due to the inclusion of Teekay Shipping Spain's fixed-rate Suezmax tanker results and the addition of five conventional tankers on long-term fixed-rate charter to Conoco Philips.

Our fixed-rate L&G segment generated 12.9 million in cash flow from vessel operations during the second quarter, representing the results from Teekay Shipping Spain's three L&G carriers, which includes one L&G vessel that was delivered during July. We expected a fourth L&G carrier to be delivered at the end of the fourth quarter of 2004. So our fixed-rate continues to grow as new buildings are delivered. The integration of Naviera Tapias, re-named Teekay Shipping Spain, as you heard is on track.

Turning next to slide 19 and reviewing the remaining income statement figures in comparison to the third quarter of 2003. General and administrative expenses were 29 million compared to 23.5 million in the third quarter of 2003. This increase is primarily the result of the acquisition of

Tapias as well as higher accruals for performance-based bonuses in 2004 and the higher non-U.S. dollar cost due to the depreciation of the U.S. dollar.

Net interest expense was 29.3 million quarter compared to 21 million in the third quarter of 2003, primarily due to the additional interest expense resulting from our purchase of Tapias and the delivery of new buildings during the past 12 months. Income tax expense was 8.1 million this quarter compared to six million in the third quarter of 2003. Our deferred income tax expense primarily consists of income taxes incurred by our Norwegian shuttle tanker operations.

Including in these income tax figures is 4.3 million and four million in the third quarters of 2004 and 2003 relating to deferred income tax relating to unrealized foreign exchange gains. Gain on sale of marketable securities was 90.1 million this quarter due to our sale of remaining shares in TORM. This gain, combined with the gain realized in the second quarter, results in a total realized gain of 92.3 million on this $37.3-million made in July of 2003. Other loss of 4.6 million includes an unrealized foreign exchange loss of 5.6 million relating to the euro-denominated debt of Teekay Shipping Spain, partially offset by a number of smaller items.

Turning to slide 21 – 20, excuse me. We have presented our September 30th, 2004, balance sheet and compared it with the previous quarter. Our net debt, including capital lease obligations, decreased by 280 million in the quarter. The funds used to repay this debt came primarily from cash flow generated from vessel operations, the proceeds from the sale of our investment in TORM, and the sale of vessels. We also used cash to make installment payments toward our new building program.

Treating the mandatory exchangeable preferred issue as equity, net debt to capitalization declined from 49 percent at the end of the previous quarter to 44 percent at the end of the current quarter. This decrease is due to the previously mentioned asset sales and cash flow generated from vessel operations. If the strong spot market continues, we expect net debt to capitalization to decline below 40 percent by the end of 2004. And this would bring our net debt to capitalization down to what it was at the end of 2003.

This is noteworthy given that we've invested over 1.3 billion in vessels and the purchase of Tapias, which includes the assumption of debt, during the first nine months of 2004. As you can see on slide 21, we have very significant operating leverage in our spot tanker segment. The size of our spot fleet means that for every $1,000-per-day-increase in Aframax rates, our EPS increases by approximately eight to nine cents per quarter and our current income break-even is estimated to be between 14,000 to 15,000 per day, which has increased slightly because of the higher chartering-in activity and the sale of our older depreciated vessels.

Finally, because of the tight availability of tonnage, we are booking three to four weeks in advance instead of the more normal one to two weeks. So we have fixed approximately 43 percent of our total spot voyage days in the fourth quarter at an average of approximately 44,000 per day. However, as you've heard, the market has been much higher recently as current Aframax voyages are being booked at 60,000 to 100,000 per day. I will now turn the mike over to Bjorn to conclude.

Bjorn Moller: Thanks, Peter. I think it would be an understatement that we are enthusiastic about the tanker market. We're very excited about the current high tanker rates. At today's rates we're generating about six million daily in cash flow from vessel operations. But we're also excited about the potential longevity the cycle, driven on the supply side by the huge need for fleet replacement after a decade of under-investment and on the demand side by the world's most two most populous nations simultaneously undergoing enormous industrialization.

Above all, though, we're excited about how Teekay's positioned to benefit from these dynamics. And while we expect volatility to continue throughout this decade, we believe that the term super cycle is well – is a well-suited description of Teekay is experiencing today. Thanks for listening in, and we'll now turn it over to you for questions.

Operator: Thank you. The question-and-answer session will be conducted electronically today. If you would like to ask a question, simply press the star or asterisk key followed by the digit one on your touch-tone telephone. Again, that is star one. We also ask that anyone who is using a hands-free phone or a speakerphone to please pick up your handset when asking your question. One last item. If you do have a mute function on your phone, please make sure to disengage your mute in order to ensure that your signal will reach our equipment. Once again, that is star one to pose your question.

And we will take our first question from Magnus Fyhr, Jefferies & Company.

Magnus Fyhr: Good morning. Congratulations to a great quarter. A couple of questions. Looking at your average TC rate for the quarter and comparing that with (Clarkson), it looks like the discount has narrowed over the last, you know, nine months from the first quarter, close to 20 percent, 15 percent in the second quarter, and only 7.5 percent in the third quarter. Could you elaborate a little bit there, if there's been a change there, if you're doing more triangulation?

Bjorn Moller: Hi, Magnus. Thanks for the positive comment. We – I think you know that we look at two key (routes) and we have a blended average in our rates. And we track how we perform against (Clarkson) on those routes, we have in fact seen a – we consider it a premium on the (routes) that we compare to. So basically there hasn't been any very significant change in our trading patterns. We always use a lot of triangulation, and therefore achieve very good fleet utilization and TCE.

As we have reduced the single-hull fleet – I mean, we had a single-hull fleet of about 35 ships if you go back 18 months. Today we have I think 15 single-hull ships left. And so the higher percentage of double-hull ships, there is somewhat of a gap in the rates between single and double. And with the higher proportion of double-hull ships, I think that's maybe part of the reason you're seeing that shift.

Magnus Fyhr: OK and just another one – question, if I may. There's been a lot of talk about, you know, the mandatory scrapping. There's a lot of different numbers out there. I've seen your number has come down here in the last two quarters. I guess currently slightly below 20 million dead-weight ton for next year. How confident are you with that number? And maybe you can also elaborate a little bit on the differences between the numbers out there.

Bjorn Moller: I guess we are doing a lot of analysis work on that, Magnus. (It's an) important thing I think for the industry. I guess the issue is you have 3,500 oil tankers out there, and some of them are doing various weird things, coastal trading, storage, and other functions, and some of the configurations of the ships is – you know, the database in the global tanker fleet is not 100 percent. So some ships, do they have protectively located ballast tanks or don't they, things like that.

As we begin to dig much more into it, the world scrutiny is turning to that. Then, basically, you know, I think more completeness of data is forthcoming. I would say there's fairly high degree of uniformity in the number of – sort of 15 to 20 million tons being the number for next spring. The longer – the longer thing, the one we used for 2010 is I think a lot more solid, because single hull is much more definitive than category one or category two, these subtleties that we're seeing next year. So I think it's a pretty solid number, basically. But data is not scientific, but it's pretty accurate in our view.

Magnus Fyhr: OK. Thanks a lot.

Bjorn Moller: Thanks.

Operator: We will now hear from Jon Chappell, JP Morgan.

Jon Chappell: Thank you. Bjorn, I want to hear your opinion on China. It's obviously been the buzzword lately. And I think some of the talk from the IEA last week kind of spooked the stock market's bet for a couple days. Have you seen any slow-down in Chinese imports or Chinese demand? Are you concerned about that going forward? And then another thing people seem to overlook is just how much bigger the U.S. economy is. If China was to slow, you know, significantly while the U.S. economy stayed strong, would the hit to the tanker markets be as bad as some people expect?

Bjorn Moller: Well, I guess – you know, let me put it this way. I was in China last week, spent five days traveling around and met and listened to some of the top economists in China, sat at dinner with the Vice Chairman of the Finance Committee of The Peoples Party of China. And those guys are not focused on slow-down. They are very focused on managing the economy, but they are expressing a great deal of confidence that there's room to absorb double-digit growth rates for a long, long time to come.

So I would say we are not seeing it and we are not hearing from, you know, being on the ground there either. So, you know, it is a significant part of the growth in 2004. The IEA is already assuming a lower number for 2005. I think that's probably, if anywhere, the area where they will come in low, the IEA.

Jon Chappell: Yes. And obviously it's tough to quantify, but can you just, you know, rate the U.S. versus China as more important towards the tank – overall tanker demand?

Bjorn Moller: Well, I guess, the – I mean, in absolute terms the U.S. consumes three times more oil or more than three times more oil than China. So in terms of percentage growth, of course, you have a much bigger engine in the U.S. The intensity of the energy – intensity of the Chinese and the Indian economies is tremendous. So I think there will be a, you know, a dual – it would be (double) for us situation.

Jon Chappell: Yes. If I can just ask Peter a question. At the end of the presentation you kind if hinted that you'll be bringing the leverage down a bit on the balance sheet. You'll be generating a lot of cash in the fourth quarter at these rates. You're selling a bunch of ships in the fourth quarter with a lot of cash coming. Other companies are looking at things like share buy-backs, special dividends. What's your priorities for the uses of cash in the near-term?

Peter Evensen: Well, as I said during my remarks, we have invested a lot and we have more coming, as we detailed in the press release. We are going to pay down the debt. We want to get it under 40 percent. And we would like to get it down maybe to the mid 30s, which is where we bottomed out the last time.

Jon Chappell: Yes.

Peter Evensen: We're not buying spot assets. We're preferring to charter in. But this is a good problem that we have right now, and so this is something we're going to look at in the new year. But as we said to investors, if we can't find anything to do with the money, then we'll find a way to return it to the shareholders.

Jon Chappell: OK. Thanks, Bjorn and Peter.

Bjorn Moller: Thanks.

Operator: With Sidoti, Natasha Boyden.

Natasha Boyden: Hi there. Congratulations on a great quarter. I think most of my questions have been answered. I just wanted to touch – sort of just touch upon your entry into the L&G sector, which you did obviously with the last acquisition. Do you continue to look in that area just in terms of your expansion strategy, or are you focused – are you focusing on different areas, or have you come to any conclusions?

Bjorn Moller: We certainly continue to look at it very closely. We have a clear strategy of build-to-suit against long-term contracts. And, you know, there are many, many long-term contracts. But there's also, you know, a lot of – a lot of choice. And I think we are comfortable that there will be sufficient projects in the next five to 10 years that we can afford to be selective right now.

So we're looking at, we're optimistic; we're excited about our platform that we've created in that sector. It's a huge story for the energy – for energy shipping business. And we're right in the thick of it. So we've follow it and we'll certainly announce if we have anything to announce. But it's an exciting time in that business as well.

Natasha Boyden: OK, thank you. And then I just wanted to get your opinion on the third quarter. Obviously the rates were significantly higher than the second quarter. And, you know, usually that's your weakest quarter given the seasonality. Do you think this trend is going to continue just given the fact that oil demand is so strong, or do you think this is perhaps just an aberration for this year?

Bjorn Moller: Well, I guess – I think what we're showing on one of our charts is that it's higher lows and higher highs. And, in fact, if you look at the seasonality this year, the pattern has been in line with what it has been in other years. It went – it was high first quarter, lower second quarter, slightly higher third quarter, and we're now well into the fourth quarter and seeing a much higher level there.

So it's actually pretty close to following the oil demand seasonality. So I don't think it's an aberration. I think what's – what makes it feel different is that the rates are so strong in the third quarter. But that's just a sign of where the market is overall. But we're moving up from that third quarter is I think what's encouraging.

Natasha Boyden: OK. Oh, great. Thank you very much.

Bjorn Moller: Thank you.

Operator: We will now hear from Thano Hasiotis, with Lockhart Capital.

Thano Hasiotis: Hi. I have two questions. The first is I just want to make sure I understand the – slide 21, with your operating leverage. If I – if I make the assumption that roughly half of your business in the fourth quarter is going to be priced at – or has already been booked at 44,000-45,000 dollars a day, and then assume that for the rest of the quarter you're at, let's just say, the mid-point of 60,000 to 100,000 – call it 80,000 – I'm sort of coming up with a 375 EPS number. If those assumptions are correct, is my math right on the earnings?

Peter Evensen: Yes, if we average – if we average that, we would make about that. Yes.

Thano Hasiotis: OK. And then my second question is – is regarding the deletions that are scheduled for April 5th. And it seems that between the supply of Aframaxes or the addition between now and April 5th and the deletions, there will actually be a net reduction of one million dead-weight tons. Is your analysis the same or different?

Bjorn Moller: Well, I haven't counted the numbers between now and April 5th. Last quarter we had a slide in our presentation that showed that over the preceding 18 months the Aframax fleet had grown eight percent and the ((inaudible)) Suezmaxes fleet at grown two to five percent – or two or three percent. Then we'd flip followed and said for the next 18 months – because there's a disproportionately high number of old Aframaxes in that 19 million tons.

And whereas the number of Aframaxes on order is not – you know, it kind of continues at a normal pace, you could in fact a zero-percent change in the 18 months in Aframax while the bigger fleet segments would go up a bit more. So it certainly stands to reason, then, that in the period right around that actual cut-off date of April 5 you would see a – you would see a net reduction in the Aframax fleet. But I haven't – I haven't run those numbers. But it sounds reasonable.

Thano Hasiotis: If that were the happen, sort of logistically what happens in the business? Do other Suezmaxes come in or (DLCCs) or is there some sort of crisis, or would there be a lot of pressure from foreign governments to relax those IMO restrictions? Or how would that manifest itself?

Bjorn Moller: Well, that's a great question. I mean, there is no spare capacity in the world fleet. What's going to happen when overnight 19 million tons, or six percent of the world fleet, suddenly is gone? I mean, it's not likely they'll all be scrapped on April the fourth in the afternoon. So if they become ineligible for trade, as they do under the law, they will simply have to stop trading and lay up somewhere and wait for a ((inaudible)) to scrap. That's going to force rates up or rates could spike, and there is really no limit to where rates could go. That's the issue about the inelasticity in tanker rates, in tanker demand.

Thano Hasiotis: Thank you very much.

Bjorn Moller: Thank you.

Operator: Justine Fisher with Goldman Sachs, has our next question.

Justine Fisher: Good morning. I just have a quick question regarding additional possible vessel sales. I know that – I think that Bjorn mentioned that, you know, when you're buying new builds for $37 million and then selling older tankers for $35 million, you know, in this sort of environment it's attractive to get rid of that older tonnage.

I was wondering – and I know you probably can't tell us a precise schedule of, you know, how many additional older tankers you plan to sell – but is – you know, are you looking to get rid of all your tankers of a certain age or the single-huller? Is there any way you can give us some color as to potential vessel sales scheduled going forward?

Bjorn Moller: I can give you at least some parameters of how we're thinking about it.

Justine Fisher: OK.

Bjorn Moller: We have, as I think I mentioned, 15 single-hull ships remaining in our fleet. And, you know, that's part of an ongoing fleet renewal program that will unfold, I would imagine, in the next couple of years. So that – with the rising values, that's helpful that we're able to sell those ships into a very strong market.

And we are actively in-chartering ships. I think we also mentioned last quarter that we were chartering ships in, in the high 20s, $28,000 to $29,000 a day, the highest rates we were ever paid. But we're sure happy we did. So I think that's a very – that's a very good arbitrage. We're laying off residual risk on ships that have a shorter life-span than modern ships or than double-hull ships. If you asked the question, you know, would we – would we – would we cash in on the – on the high value of modern ships, the answer is probably not, because that's our core business and we're very bullish about the future.

So if we – the benefit we have because of the size of our fleet – and we have 85 percent double-hull ships now and the average age of our fleet is 7 years – you know, we can afford to be very opportunistic. And so we will be opportunistic and we are very disciplined in the cycle, as you know. And so that's what we'll continue to do.

Justine Fisher: OK. Thanks.

Operator: John Kartsonas with Smith Barney, has our next question.

John Kartsonas: Yes, hi, guys. My question has to do with the fixed-rate segment. And Q3 costs seem to be higher than the previous quarter. Is there any change in the cost structure that's going to maybe lead the annualized cash flow number that (you have) indicated to be lower going forward?

Peter Evensen: Well, in the fixed-rate segment we were hurt by the – by the normal seasonality that you find in the – in the shuttle tankers in the North Sea that we had lower utilization. In terms of the costs coming through, we still have to gain the synergies on Tapias, which we are in the process of getting through when we're looking at it. And so that's what – that's what is one of the drivers coming through that we're looking at. But the – but basically we've worked on getting our shuttle tanker maintenance up to an even higher level, and that's given us a few more costs that have fed through.

Bjorn Moller: I think it's also, if I could just add, I guess in the summer period we try to do as much of the maintenance as we can. And so there's lumpiness in that as well. I think the long-term prognosis for the cash flow in that segment remains as previously guided.

Peter Evensen: Yes.

Thano Hasiotis: OK, thank you.

Operator: Before we move to our next question, I would like to remind our audience members that it is star one to ask your question. Again, star one. Additionally if you're on a phone that has a mute, make sure to disengage your mute. If you're on a hands-free or a speakerphone, please pick up your handset before posing your question.

We will now hear from Martin Roher, MSR Capital Management.

Martin Roher: Thank you. It may be premature to talk about this, but there's been some press that Teekay has formed a joint venture to possibly develop a new form of compressed natural gas vessels. Is it anything you can bring us up to date on, on this or …

Bjorn Moller: Hey, Marty.

Martin Roher: Hi.

Bjorn Moller: Well, I guess CNG, as it's called, compressed natural gas, is one of the quandaries for the industry. There's a lot of what's called stranded gas at locations where there's not enough volume to justify a pipeline or a liquifaction plant that would allow it be L&G. And there are also increasingly strict environmental rules against flaring the gas off, which is happening – or has happened in the past.

So the issue is how do you get this gas removed. And if you're removing it, why not move it to commercial market. So a technology of compressing the gas into special types of vessels is what's – you know, the industry's looking for a commercially viable solution that technically is possible, but it hasn't been demonstrated to be commercially viable yet. Of course higher gas prices are helping. And, you know, the whole – the whole drive towards natural gas.

So we are one of a number of companies that are looking to commercialize that. And it's a little bit early I think to say what that will lead to, but it's certainly an exciting area. And once – if we do break through, I think that it could be a profitable business.

Martin Roher: Thank you and good luck.

Bjorn Moller: Thank you.

Operator: With Impala Asset Management, Gary Yablom has our next question.

Gary Yablom: Hi, guys. How are you?

Bjorn Moller: Hi.

Gary Yablom: Just two questions. Bjorn, on the rates you've seen most recently, could you just talk a little bit of the seasonality. Some of this is a little new to me. As you go through the balance of the quarter, is there any historical pattern you see so we can start to put this range you gave out of 60 to 100 in some kind of a framework?

Bjorn Moller: Well, let's talk about each of the factors very briefly. The demand side, all demand in seasonal, but the lead indicator for tanker rates is oil production. And so if oil production stays steady in a market of moving oil demand, that's going to be the oil inventories that absorb the seasonality, not the tanker rates.

Gary Yablom: Yes.

Bjorn Moller: What's happening right now is that there is no seasonality in oil production. There's just increasing oil production. And therefore we're seeing rising tanker rates. That's not necessarily only seasonal – it's fundamental. And if the oil demand continues to be strong beyond the winter because of economic growth, then we could see oil production to – would continue, especially in a very high-price environment.

And on the – on the – on the supply side, of course, the only seasonal factor on the supply side would be the inefficiencies in vessel utilization that occurs during the winter, one of which is the highly publicized Bosporus Straits delays where last winter the equivalent of 10 percent of the world's Aframax fleet was sitting parked at either end of the Bosporus, you know, one end or the other of the Bosporus because of nighttime sailing restrictions. So that's beginning to build up again. And, of course, there are more weather delays in the North Sea and there's ice in ports and things like that. So that's the seasonal factor there.

Gary Yablom: OK.

Bjorn Moller: So what used to happen is OPEC used to play – was playing, you know, cutting back in the springtime and ramping up production in the autumn because they were afraid of inventories building too much. We're not seeing that now. They're just pumping as hard as they can.

Gary Yablom: OK. Can I – can I follow and ask you, Bjorn, in the – in the presentation you talked about the multiplier effect. I think when you – when you created the supply-demand equation you said something on the order of 1.7ish has kind of been historically where it's been.

Bjorn Moller: Yes.

Gary Yablom: Some folks out there believe that that change, that will decline and that OPEC will actually lose share going forward. Can you talk to that a little bit?

Bjorn Moller: Well, I mean, I've heard – OPEC has historically agreed to be the swing supplier, except when they got really irritated and then they became just in a price war. But they have been the swing supplier. But it's also where – first of all, let's not forget this is where the only spare capacity in the world exists. So as long as oil demand is going up, I think they will gain market share, not lose it.

Gary Yablom: ((inaudible)).

Bjorn Moller: Secondly, if you had any kind of pockets of slower oil demand growth, and if – you know, non-OPEC oil is probably going to find ways to increase as well because of high oil prices. That stands to reason. But I think you have to look at the global trading patterns are also changing in a way that makes some of the traditional models a little bit obsolete.

((inaudible)) seeing a lot of movement of oil from the Atlantic basin to China and Japan and Korea, something that was pretty rare in the past. And so when Russian oil displaces North Sea Oil in the Northwest European market, then the North Sea oil that used to go to Rotterdam, if that goes to China, that's a very interesting development in the ton mile demand.

So I think it's a little bit too simplistic to look at OPEC and non-OPEC. I think you have to look at the fact that global trading patterns are becoming quite interesting, and a lot of new oil is also coming from West Africa, which is actually not that short haul if you start looking at where that ends up.

Gary Yablom: Yes. OK.

Bjorn Moller: So I would say it's a pretty rosy picture.

Gary Yablom: OK. Fair. Just one more balance sheet question, if I could. I think it was discussed in the Q&A about getting the leverage ratio somewhere down to the mid 30-percent range. I guess I'm not 100 percent sure why that low – given the long-lived nature of the asset base, given the outlook that you're seeing in the marketplace, why not be a bit more aggressive with the balance sheet in the more near-term.

Peter Evensen: Two reasons for that. First, Teekay has a very disciplined financial policy, and that enables us to get 20-year contracts with our customers. Because they know we're not going to be (a) cyclical. We're going to be profitable throughout the cycle. So that gives them the confidence to enter into long-term contracts with us, which differentiates us from other shipping companies. And we think that our strict financial policy helps us gets that kind of business, along with the Teekay brand that we have on the operating side. That's (what we have).

The second reason is, when the right deal comes along, we want the ability to use the balance sheet. So as you've seen over the last five years, starting with the acquisition (Bona) in 1999 and in 2003 with the acquisition of Navion for 800 million, the acquisition of Tapia earlier this year for 1.3 billion, we want the ability to be able to make the big strategic acquisition at the right time. And only be having debt capacity can you show up and be the cash buyer at that critical time. So that counter-cyclical investing is a key requirement for us to make (out-sized) returns in the shipping market.

Gary Yablom: OK. Thank you.

Bjorn Moller: Thank you.

Operator: Mr. Moller, it appears that there are no further questions. I will turn the conference back to you for any closing or additional comments.

Bjorn Moller: OK. Well, thanks very much for joining us. This is certainly the most exciting time I've ever had in the tanker business. So fasten your seatbelts and we'll talk to you after the next quarter. Thank you.

Operator: And thank you, everyone. That does conclude today's conference. We do thank you for your participation. On behalf of Mr. Moller and Teekay Shipping, I would like to wish everyone a great day.

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