# TEEKAY SHIPPING

## Moderator: Bjorn Moller
## February 20, 2003
## 10:00 a.m. CT

Operator: Ladies and gentlemen, thank you for standing by, and welcome to the Teekay Shipping Corporation Fiscal 2002 Year End 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 do have a question, you will need to press star one on your touchtone telephone.

As a reminder, this conference is being recorded.

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

(Jerome): Before Mr. Moller begins, please allow me to remind you that various remarks we may make about future expectations, plans and prospects for the company and the shipping industry, constitute forward-looking statements for purposes of the Safe Harbor Provision under Private Securities Litigation Reform Act of 1995. Actual results may differ materially from those indicated by these forward-looking statements as a result of various important factors, including those discussed in our annual report on Form 20-F, dated March 29, 2002, and our Prospectus

Supplement dated February 14, 2003 relating to our recent securities offering., both of which are on file with the SEC.

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

Bjorn Moller: Thank you, (Jerome), and good morning, ladies and gentlemen. Thank you for joining us today for our year-end earnings release conference call. The highlight of Teekay in 2003 was undoubtedly the announcement in December of our acquisition of Navion. The transaction is expected to close in the second quarter, and while we have not yet taken over operational control of Navion, we have been spending in Stavanger since the announcement. We have been very pleased with our preliminary findings, all of which have confirmed the strategic value of this acquisition. We will be working on developing a format of disclosure and commentary in future quarters that will assist shareholders and analysts in modeling our more complex business in the future.

Turning to our financial results, for the quarter ending December 31, 2002, we reported net income of $33.1 million, or 82 cents per share. For the fiscal year, net income was $53.4 million, or $1.33 per share.

This morning, I will review what is turning out to be a very dynamic set of fundamentals in the tanker market, and Vince Lok, our Vice President of Finance, will discuss our financial results. Peter Antturi, our CFO, who is working full time on the Navion transaction, is also on hand for the Q&A session.

Looking first at tanker demand, tanker demand rose in the quarter, driven by a combination of increased oil production and longer average transportation distances. According to the IEA, fourth quarter year-on-year oil demand rose by 2.2 percent, the strongest growth recorded for nine quarters. Even though European demand was flat from one year earlier, OECD demand rose for the first time in seven quarters. Early figures for January suggest a continued strong showing of 2.2 percent demand growth.

Global oil supply, the most immediate driver of tanker demand, averaged 78 mb/d in the fourth quarter. This is almost 2 percent higher than the September quarter, and the increase was roughly evenly split between OPEC and non-OPEC. Production growth in the quarter would have been higher, had it not been for a drop in the December figures due to strikes in Venezuela. In January 2003, we have seen a partial rebound in production to fourth quarter average levels, but not yet to peak November levels.

Based on a typical transportation pattern, the 2 percent increase in oil production in the quarter would ordinarily have translated into roughly a 3.5 percent increase in tanker demand. However, with the production shift away from Venezuela and to the Middle East, which provided most of the replacement oil, the average transportation distance for the world's oil grew in December and January. As each 1 mb/d of oil production switched from Venezuela/U.S. to Middle East/U.S. trades increases global tanker demand by approximately 3.5 percent, this distance factor provided a further increase in tanker demand.

The outlook for tanker demand remains positive. Even though Venezuela is slowly restoring its production of short-haul oil, it is expected to take months before the majority of its production is restored, and even then it is widely predicted that there may be a permanent production loss of some 500,000 b/d. Middle East production may not be scaled back in step with Venezuelan increases, as global inventories are low. Combined oil stocks in the main user regions are below 5-year averages, and U.S. inventories are at 27-year lows.

If and when the effects of supply disruptions do subside, fundamental oil demand growth should continue to drive year-on-year tanker demand growth with the IEA predicting an increase in global oil demand in 2003 of 1.5 percent.

Turning next to tanker supply, tanker supply was steady across all segments, both for the quarter and for the year 2002. Overall supply increased by 1 percent during the fourth quarter, as deliveries rose to 6.9 million tons, while scrapping fell to 3.2 million tons. For 2002 as a whole, the fleet grew by .9 percent to 307 million tons. New deliveries totaled 32 million tons, up from 14 million tons in 2001. Scrapping and other deletions amounted to 21 million tons, up slightly from 2001. The size of the world fleet remains smaller today than 2 years ago.

New tanker ordering role in the fourth quarter to 7 million tons, from 4 million tons in the previous quarter, and for the whole year, ordering was 21 million tons, down from 27 million tons in 2001. At the end of December, the world orderbook stood at 61 million tons, or 20 percent of the existing fleet. This figure is down slightly from the end of the previous year.

In the Aframax segment, supply grew in the December quarter by 7 ships. 12 deliveries took place, and 5 ships were deleted. For the year, the fleet grew by 13 ships to 642 ships; overall, there were 36 deliveries and 23 scrappings in 2002, compared with 14 deliveries and 26 scrappings in 2001.

During the quarter, orders were placed for 12 new Aframaxes, maintaining the trend from previous quarters, and the Aframax orderbook stood at 131 ships, or 20 percent of the existing fleet at the end of December, unchanged from the end of September, and 121 ships at the end of 2001.

One of the big questions around the tanker sector has been the amount of new supply due for delivery in 2003. Let me give you our perspective on this issue.

Clarksons is projecting new tanker deliveries in 2003 equal to 11 percent of the existing world fleet. This will clearly result in a net increase in physical tanker supply this year. However, there is an unusually large number of factors involving tanker supply, oil demand, and politics, that could influence the tanker market in 2003. Let me try and run through some of those points for you.

First, there are three tanker supply related points, namely likely slippage in deliveries. Each year, there has been a consistent deferral into the following year for a considerable number of ships due for delivery. For example, roughly fifteen percent of tanker new buildings originally scheduled for delivery in 2002 were deferred to 2003. If 2003 follows this pattern, that is, a similar delay of deliveries into 2004, this would reduce the expected supply inflow this year from 11 percent to 9 percent.

There is a the increased replacement requirements. The Prestige incident has made ships over 20 years of age much more difficult to employ. If one assumes that the future effect of trading life of tankers will be around 20 years, 5 percent of the fleet, or 50 million tons, needs to be brought onstream each year to keep the size of the trading fleet stable.

And the third supply item is the dynamic regulatory picture. In the EU, and likely in a number of other regions, the aftermath of the Prestige oil spill will create new constraints on the utilization of tankers, which places further pressure on supply.

Next point is the fundamental oil demand picture that has projected oil demand growth of 1.5 percent for 2003, and this should translate into 2.5 percent tanker demand growth. We're starting from a point where there is no slack in tanker demand and supply balance, and that's demonstrated by today's high freight rates.

The third set of factors is the series of political factors that could drive tanker demand beyond what is dictated simply by oil demand growth. Firstly, the lingering effect of Venezuela, where even though part of tanker demand is linked to the temporary phenomenon in Venezuela, there are prospects for a slow and perhaps only partial recovery in production.

Next point, the likelihood of continued high Middle East production that even with recovering Venezuelan oil production, there is the prospect of sustained high Middle East production related to the need for rebuilding global inventories, as well as the potential shifts in OPEC policy towards market share instead of price defense.

And finally, the potential positive effect of a disruption to Iraq production -- if replaced by other Middle East oil, would be positive for tanker demand. Replacing the portion of Iraqi crude currently carried by pipeline to tanker ports in the Mediterranean with oil carried by tanker all the way from the Arabian Gulf would create great upturn mile demand.

In summary, these factors may counteract the 11 percent nominal delivery schedule for 2003 indicated by Clarksons.

Looking beyond this year, the delivery schedule for 2004 is considerably lower than 2003, and with 2005 rapidly filling up, would drive out container and other vessels in addition to tankers. The lead time for new tanker berths at shipyards is growing, capping new supply for the medium term.

Turning next to the freight market, tanker spot rates underwent a remarkable transformation in the fourth quarter, with average TCE rates doubling and in some case, tripling, from the third quarter.

Aframax rates rose steadily from the mid teens in early October to over $30,000 per day by the end of December, with the exception of the (carriage U.S. Gulf) route, which remained low due to lack of Venezuelan liftings. VLCC and Suezmax rates also rose strongly.

Teekay's realized blended rates for the quarter of $20,600 per day on a Clarkson basis represented a $1600 premium above Clarksons' carriage U.S. Gulf, whereas we realized no premium on the A.G. East route due to the lag effect of Teekay's longer voyages in a rising rate environment.

Of 2002 as a whole, we generated a premium to Clarkson A.T. East of $2,200 per day and on the carriage U.S. Gulf route, of $1,800 per day.

During January of this year, rates rose even further from December levels on most routes. In February, VLCC rates have eased off from their January peak but remain strong. Aframax East rates have slipped to the mid $20's per day, however, Suezmax and Atlantic Aframax rates remain at very high levels; above $40,000 per day.

I will now ask Vince to briefly run through our financial results – Vince.

Vince Lok: Thanks, Bjorn. Teekay's fourth quarter results reflect a significant increase in tankage spot rates during the quarter, which remain strong into the first quarter of 2003. During the fourth quarter, we generated $90 million in EBITDA, $33 million of which was generated from long-term contracts. By 2004, we estimate that roughly $260 million in EBITDA per annum will come from long-term fixed-rate contracts once our new buildings deliver, and including Navion.

In looking at the per-day results for the quarter, I'll refer to the table on the first page of our press release, and looking first at our international tanker fleet. The number of revenue-generating ship days increased in the fourth quarter, due to fewer idle and off-power days. Our international tanker fleet had 3 dry dockings in the fourth quarter, which is more typical compared to 7 in the fourth quarter, when we intentionally accelerated dry dockings during the weak tanker market.

The international tanker fleet TCE, calculated on a calendar day basis, was $18,689 per day; that is up almost $5,000 per day from the third quarter. (NETSO) operating expenses were $5,213 per day in the quarter, a decrease of $400 per day from the previous quarter, namely due to lower repairs and maintenance expenses as a result of fewer dry dockings.

The average op ex for fiscal 2002 of about $5500 per day is more representative of our run rate for next year, after adjusting for inflation. Our efficient spot Aframax operation generated $10,659 in cash flow per ship day in the quarter.

The OBO fleet generated roughly $2200 in cash flow per ship day in the fourth quarter compared to cash flow break-even last quarter, as a result of higher TCE rates, partially offset by higher operating expenses.

Operating cash flow for the Australian fleet remained virtually unchanged from the third quarter at about $14,800 per day.

For the UNS fleet, operating cash flow increased to $16,624 per day in the fourth quarter from $13,544 per day in the third quarter, mainly due to timing differences in dust-over care and maintenance activity. The operating cash flow for fiscal 2002 of about $14,900 per day is more representative of what is to be expected from a UNS (rate) in the near term.

Turning next to our income statement on the fourth page of the press release, in running down the December 31st quarter, comparing it to the September 30th quarter. As discussed, net voyage revenue increased due to the pickup in the spot tanker market. Op ex was down about $3.7 million from the third quarter, due to lower repairs and maintenance activity, mainly in the international and UNS shuttle tanker fleet.

Depreciation and amortization was up slightly by $1.9 million over last quarter, due to delivery of a shuttle tanker during the fourth quarter and an increase in dry-dock amortization expenses resulting from an intentionally heavy dry-dock schedule in the second and third quarters. Included in depreciation expense is $6.6 million in dry-dock amortization in the fourth quarter and $5.3 million in the third quarter.

G&A expenses were about the same as last quarter and net interest expense decreased slightly to $13.3 million in the fourth quarter. And EBITDA to interest coverage increased from 3.5 times to 5.8 times in the four.

Other income loss includes income tax expense partially offset by joint venture income and a number of miscellaneous items.

With regard to our balance sheet, net debt to capitalization remained unchanged from last quarter at 36 percent. Capital expenditures for fiscal 2002 totaled $263 million, including a $76 million deposit for the purchase of Navion, $35 million in dry-docking costs, and the remainder relating to vessel purchases and new building installments.

Forecasted cap ex for the next two years is roughly $280 million in 2003, and $150 million in 2004. These include a rough estimate of $30 million in maintenance cap ex in each year.

As previously indicated, the Navion transaction is expected to close in the second quarter of 2003, from which time the results will be included, together with Teekay's. However, Navion's cash flows from January 1st until the date of closing will accrue to Teekay, and therefore, in effect, reduce our cash purchase price for Navion.

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

Bjorn Moller: Thank you, Vince. Forecasting the outlook for the tanker market in 2003 is made tougher than normal by the uncertain potential outcomes of labor-related, regulatory, and geopolitical factors. It is difficult to imagine that the current very high tanker rates can be fully sustained for the rest of the year. However, there is certainly a growing prospect of a good year overall.

If the market turns in a mid-cycle performance this year, that is, an $18,000 per calendar day Aframax market, this should translate into EPS for Teekay of $3.85 per share, based on a net income break even of $12,500 per day and a full year of Navion's results. EBITDA under those circumstances should be $450 million.

In a stronger than mid-cycle market, our EPS would increase by $0.70, and our EBITDA by roughly $30 million for each $1,000 per day increase in TCE.

We continue to see the prospects of interesting and profitable growth opportunities for Teekay. It is with this potential in mind that we last week raised about $145 million in mandatory convertible securities. With our leverage towards the top end of our preferred range post-Navion and post our new buildings scheduled for delivery this year, we made this move to ensure that we'd have continued financial flexibility to pursue profitable opportunities. We chose the mandatory convertible security because it is the least dilutive to existing shareholders, while increasing our equity base.

When contemplating the possible use of these proceeds, we intend to follow the same disciplined approach we have used for the past five years, during which time we have more than doubled the size of Teekay and dramatically increased our earnings power in all tanker markets, adding considerably shareholder value in the process.

I'd like to thank you for listening in, and we'll now take your questions.

Operator: Thank you. Our question and answer session will be conducted electronically today. If you do have a question or a comment for any of our speakers today, we do ask that you please press star followed by the digit one on your touchtone telephone at this time. We do ask those participants who are using speaker phones to please turn off their mute function so that your signal may reach our equipment.

And we'll hear first from Clark Orsky from KDP Capital Management.

Clark Orsky: I just wondered, can you tell me what the availability and outstanding amounts are on your revolver?

Vince Lok: As of December 31st, we had $240 million in drawn and a total of $450 million was available. Sorry, $240 million was undrawn.

Clark Orsky: Okay. And any update on what your thoughts are on financing the Navion purchase?

Vince Lok: We have a 365-day facility in place already, and we're currently working on refinancing that or replacing that with a longer-term facility. We expect to have that in place over the next month or so.

Clark Orsky: Okay. And that would be for 100 percent of the purchase price.

Vince Lok: We expect that amount to be about $500 million to $550 million.

Clark Orsky: Okay and the balance?

Vince Lok: The balance will be financed with our existing credit line. We've already made a $76 million deposit on that on December.

Clark Orsky: Okay. Thanks a lot.

Vince Lok: Thanks.

Operator: We'll hear next from Martin Roher with MSR Capital.

Martin Roher: Thank you. I wonder if you can go into a little more detail about what you're seeing in terms of premiums for more modern vessels versus the older vessels. You mentioned in your press release there's a lot of articles about some countries being concerned about single-hull vessels docking at their ports. Can you sort of fill us in what's happening?

Bjorn Moller: Hi, Marty. It's a pretty dynamic picture, as you would imagine. Some countries in the EEU have implemented royal decrees that come into effect immediately; yet, anecdotally, they're not observing them. But I'd say on balance, a lot of it is driven by oil company behavior right now, in the absence of formal regulation having been passed. We're seeing certainly that most of the major oil companies in a sort of unofficial manner are adopting a maximum twenty-year rule; and some of them are adopting a maximum fifteen-year rule. We are seeing situations where double-hull Aframaxes or modern Aframaxes are chartered in, say, the Mediterranean market at $50,000 a day, while 22- or 23-year-old ships are sitting idle. And I think that's pretty significant. There used to be a gap. It's sort of a whole different world now.

Martin Roher: Just to follow up, do you think that's going to translate into a greater premium than you've had in the past for Teekay's rates versus the Clarkson rates?

Bjorn Moller: I don't think so. I think we should expect that modern ships will be in very strong demand for a number of years until – and that could be 5 to 7 years, if you take the most extreme consequence of the phase-out of all single-hull ships. And I think the fact that Teekay has the vast majority of its investment in tankers under 15 years of age – I think about 90 percent of our book value is on ships under 15 years of age – that bodes well for us and other tanker owners of modern ships. And so I think Clarkson typically measures predominately modern ships. So the premium will not change, but I think the earnings will.

Martin Roher: Thank you very much. Good luck.

Operator: We'll next hear from Jared Duty with Jeffries & Company.

Jared Duty: Hi, guys, good quarter. Just real quickly, to follow up on the AGA's premium that disappeared, you said, because of a lag here. Going forward, do we expect the premium to return or what do you see there?

Bjorn Moller: I don't have any reason to believe that the premium should not remain. As you saw for the year, the premium was $2200 a day, and there are some timing differences that makes it difficult to judge quarter by quarter. So I would keep an eye on the longer run rate. And what's interesting is, we've maintained most of our premium in the East – it has occasionally been $3,000 per day – but interestingly, we are developing a fairly consistent premium in the Atlantic, which indicates the success and the strategy of having contracts that enable us to gain a high market share on premium routes.

Jared Duty: And in the Caribbean, I guess, we saw December -- I guess mid-December through a lot of January – rates really suffer. Were you able to avoid much of the lower rates by repositioning? Or how were you impacted by that?

Bjorn Moller: We don't have the majority of our ships in the Caribbean; we use the Caribbean as a proxy because it's the most liquid and predictable trade to benchmark against, but we actually had, as you can see from our overall results, a pretty good quarter despite the weak Caribbean market. So we had a few ships that had some waiting time down there, but generally we were not affected very severely.

Jared Duty: Okay. And then just more of a housekeeping question here – do you have an estimate for principal payments in 2003 and 2004 yet, with Navion?

Vince Lok: For 2003, just looking for Navion is about $83 million, $84 million, for 2003. And then with Navion, that's probably going to increase by roughly $60 million, $70 million perhaps.

Jared Duty: $60 million to $70 million. Okay and then for 2004?

Vince Lok: Probably about the same.

Jared Duty: Okay. So the $60 million to $70 million was on a full-year basis?

Vince Lok: That's right.

Jared Duty: And then lastly, on the Navion, you said that you would be booking the cash from the first quarter. Do you have any estimate or a general range of what you think Navion's going to do in the first quarter, in terms of that cash?

Vince Lok: Given that the transaction hasn't closed, we're not really in a position to provide that information at this time.

Peter Antturi: Jared, this is Peter. We gave guidance that we expected that the transaction would be about $1.00 a share accretive, and that would be 25 cents a quarter. But obviously, they have some spot market exposure and should be expected to outperform that, but as to what the exact number is, couldn't say at this point.

Jared Duty: Okay. All right, guys, appreciate it.

Operator: And our next question will come from Jill Levins from JP Morgan.

Jill Evans: Hi, guys. A follow-up to what you were just saying, Bjorn, about the Caribbean. Rates now have skyrocketed there. So, now, are these a good proxy – for example, the latest Clarksons Caribbean-U.S. Gulf is $52,000; Caribbean-Europe is $70,000. So you're saying you're not really operating in the Caribbean – so are these high rates now a good proxy for your quarter in the first quarter?

Bjorn Moller: Well, this is a very dynamic market, Jill, and I would say, if you take the trades Teekay is active in, are cross-Med, UK-Cont/UK-Cont, UK-Cont/USAC, Caraj-US Gulf. And so if you saw a very significant disconnect in the TCE rates on those trades, you would possibly have difficulty using the rule of thumb. But if they're all up at these levels, we would expect you should be able to use the rule of thumb. Now, you should also be aware, of course, that the translation from Clarkson to real world, which includes dilution for such reality stuff like commissions and idle time, becomes a lot more dramatic, if you have day rates of $70,000. So in terms of the absolute dollar swing between physical voyages and Clarksons, which are theoretical numbers, it becomes more extreme.

So this is, I'd say, almost unprecedented, to see this kind of volatility, and the TransAtlantic market going from $10,000 to $60,000 a day in three weeks. And lag time, and things like that. I would say, use the rule of thumb, but – let's see what happens. It's a pretty interesting time.

Jill Evans: To follow up to that, just to hear your expertise, there's a huge gap between the spot rates and the one-year time charter rates, which would imply that these rates are not even close to standable – which I don't think anyone's modeling, obviously. But the one-year TCEA rates are more like the $18,000 levels – that's what I've seen recently. And there is also a very bearish case that kind of second, third quarter, rates are going to come way down in production – OPEC, for instance, is going to cut back. What's your take on that huge gap with the one-year time charter rates?

Bjorn Moller: I think the (backwardation) in rates -- in time charter rates -- was clearly discounting a situation where – or assuming a situation where – this was a flash in the pan, the Venezuelan situation would reverse quickly, and the Middle East OPEC production would have to be cut back as soon as we got into the spring, and we had weakening seasonal for the month. I listed a number of factors, and it was probably a little confusing, because I was running through 7 or 8 matters, I think all of which are known – nothing revolutionary in that. But I think the aggregation of all of those factors, or just the fact that a couple, three of them, may happen or are likely to happen, including the discrimination against older tankers, which, I think, is here to say – I think what we're going to see is two things. We're going to see the spot market come down, and we're going to see time charter rates go up.

Jill Evans: That's very helpful. Thank you very much.

Operator: And next we'll hear from Sector Asset Management's Jan Christiansen.

Jan Christiansen: Hi. Concluding the TEPS issue, will we be seeing similar transactions being done in the future? And also, I just thought on the fundamental side, with your positive view on the tanker market ahead, and the Aframax orderbook being record high, what is your forecast of Aframax scrapping?

Bjorn Moller: Jan, could you just repeat the first half of your question?

Jan Christiansen: Yes. With the TEPS issue being concluded, will we be seeing any similar transaction being done in the future?

Bjorn Moller: Are you asking whether we are intending to go ahead with (simultaneous speakers) transactions?

Jan Christiansen: Yes.

Bjorn Moller: We don't have any current plans for additional capital markets transactions. So that was the first part of your question. Aframax scrapping – I expect that Aframax scrapping and scrapping in all sectors will be substantial higher, once the froth comes off the market on the basis that probably you have the IMO rules that are kicking in, and you have the very significant discrimination that older ships face, and the high cost of passing surveys. All the oil companies are requiring what are called cap ratings now, even for ships over 15 years of age, let alone what's required by the IMO, which is on a much later stage. Cap ratings are very intense classifications, (society) scrutinies; they're very expensive to do, and they can't be achieved if you don't have a sound vessel. So we think that scrapping will be much higher.

Jan Christiansen: All right. Thanks.

Bjorn Moller: Thank you.

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

Bjorn Moller: Well, thank you, and I guess, having had conference calls so recently with the early release of our quarter, I guess we covered a lot of questions there. But anyway, thanks for the questions and thanks very much for listening in. We look forward to watching the spot market this next quarter. Have a good day.

Operator: And that does conclude today's teleconference. We'd like to thank everyone for their participation and wish everyone a good day.

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