TEEKAY SHIPPING

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

Operator: Welcome to the Teekay Shipping Corporation First 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 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 CEO of Teekay Shipping Corporation. Please go ahead, sir.

Scott Gayton: Before Mr. Moller begins and before I read the forward-looking statement, I would like to direct all participants to our Web site at www.teekay.com, where you will find a copy of the first 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, 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 statements, as a result of various important factors, including those discussed in our Annual Report on Form 20-F, dated March 31st, 2002 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. Thank you for joining us on this morning's call, and just to restate what Scott said that we will be referring to the numbered slides posted on our Web site at teekay.com, and I'll start with slide number three.

We're very pleased to report to you on an outstanding quarter for Teekay. We achieved record financial results, with quarterly net income of $189 million, an increase of 253 percent over the same period one year ago. We earned $4.37 per share, also a record. Both our spot tanker and fixed rate segments delivered their best results ever, combining to generate cash flow from vessel operations of $262 million. We announced the acquisition of Naviera Tapias, which establish Teekay in the strategically important LNG shipping market, and our board has authorized a two-for-one split of Teekay shares effective May 17th. During today's call, I will provide you an overview of tanker industry dynamics, and the highlights in our main business segments and our CFO Peter Evensen will review the company's financial results.

I'll begin with a look at the tanker market dynamics beginning with tanker demand on slide number four. Global oil demand, an underlying driver of tanker demand, continued its high rate of growth in the quarter with demand rising by 1.4 percent from one year ago. As you can see from the chart, a large majority of this demand increase came from China, which recorded 17 percent year-on-year growth in the first quarter. OECD oil consumption was flat compared to one year ago when demand was unusually high due to a cold winter, stock building ahead of the Iraq War, and the shutdown of a large number of Japanese nuclear power plants. The IEA's forecasting demand growth to accelerate further in the coming months, predicting a 2.4 percent increase, on average, for the rest of 2004. The IEA expects OECD countries to return to demand growth in the second half of the year, and it also expects China to continue to grow rapidly.

If you turn to slide number five, this shows the development in oil demand in a slightly different way. First of all, the charts remind us of the high degree of seasonality in oil demand. We are now in the slowest quarter of the year, in terms of demand, so it's no surprise that there's talk of oil inventory build in the oil market. Secondly, the chart highlights how steep the upturn in oil demand is expected to be later in the year and, finally, the chart also, clearly, shows just how fast oil demand is growing year-on-year.

On slide number six, we have compared changes in OPEC and non-OPEC oil production, the most direct driver of tanker demand, to changes in the price of WTI crude oil. The high correlation between oil price and OPEC production shows that OPEC has done a good job acting as the swing producer, reducing supply when prices were low and raising it when prices were high. As shown by the circles on the chart, it is customary for oil prices to dip every spring. Global oil supply in the first quarter was at an all time high, and has remained high into April, with OPEC continuing to produce well above its official quota. While this may lead to some decline in today's very high oil prices, the absolute price of oil, and a series of upgrades to demand forecasts by the IEA should encourage OPEC to maintain high oil production levels through the current quarter and throughout the year.

Now, next I'll review tanker supply starting with slide number seven. In the quarter, the world tanker fleet increased by 1.2 percent compared to the end of 2003. New tanker deliveries totaled 7.8 million tons, while four million tons were deleted from the fleet. The forward order book through 2006 remained unchanged as capacity is locked in through mid-2007. 2004 and 2005, I expected to see relatively high deliveries of new tankers, but this will coincide with the mandatory phase out of a large number of older ships. Deliveries in 2006, I expected to fall to only 18 million tons and for 2007, there is a limit to the amount of additional tankers that could be built beyond the 10 million tons, already on order, because yards have limited space left in 2007, and because there will be strong competition from other shipping segments.

The next slide on page eight is an updated table we've shown you in the past. It shows our view of how the tonnage supply and demand picture should develop through 2006. In 2004 and 2005, we can expect total deliveries of 59 million tons of new tankers according to Clarkson's. As I mentioned, this number is fixed, because if you order a tanker today, you have to wait until 2007 or 2008 for delivery. During that same period, 2004 to 2005, 34 million tons is expected to be forced out by IMO regulations, leaving net fleet growth of 25 million tons before voluntary scrapping. We're estimating that tanker demand will grow by 23 million tons during this same period, assuming a conservative two percent annual growth in oil demand. Therefore, we expect that the market balance, on average, through 2005 will remain unchanged from where it is today, and possibly, even a bit tighter, should some scrapping continue to occur voluntarily ahead of schedule as it has in the past.

Looking at the corresponding equations of 2006, we see 18 million tons of new capacity, only one million tons of mandatory phase out, but a further 12 million tons of demand growth, leaving a slight increase in tonnage availability by the end of the 2006.

This leads us to the comparison on slide number nine between quarterly estimates of world tanker fleet utilizations, and Aframax tanker rates. In practical terms, at 90 percent, the world fleet is considered to be a full utilization causing freight rates to spike, to very high levels, even with only small changes in utilization about 90 percent. For many years, full utilization used to be almost unheard of, but in recent years there's been occurring, on a regular basis, in late 2000, in early 2003, and again, in late 2003, with rates in each case spiking to new highs. While we don't yet have first quarter utilization estimates, we know that tanker rates, in that quarter, went even higher than during the fourth quarter, suggesting that utilization remained about 90 percent. When the starting point, going forward, is one of zero spare capacity in the world fleet, the significance of the previous slide, which showed rapidly growing tanker demand at solving net fleet growth for the next three years, suddenly becomes very obvious.

On the next slide, number ten; we show you the dramatic events that have been taking place in the shipbuilding sector over the past year or so. A synchronized upturn in commodities and global trade, driven to a large extent by China, has created huge demand for new building from every sector of shipping. Over the past year, this has led to a run on shipbuilding capacity. As you see from the top left chart, on the slide, the average waiting time for a new ship in Korea, the world's largest shipbuilding nation, has almost doubled from 1.9 years in early 2003, to 3.6 years today. During this same period, yard construction costs have risen substantially, exemplified by the price of steel plate, which is up by 55 percent on the year and still rising. That is, if yards can even obtain timely supply. The strong demand for all types of ships and increases in raw material and labor costs, are driving ship prices up on an almost weekly basis. Tanker prices have increased by approximately 30 percent over the past year.

Next, I will briefly address the freight market on slide number 11. Tanker rates strengthened in the first quarter from the already high levels seen in late 2003, reaching near record levels. Rates responded to fleet utilization being stretched due to high demand from record oil production, coupled with ship turnaround delays in some locations. So far in April, we have seen the normal seasonal pattern of rates declining from their highs from the last quarter. This has been mainly due to higher effective supply, as weather and transit delays have largely disappeared, while demand has remained high. Despite this decline, overall tanker rates remain high by historical standards, and as illustrated on the slide, we are essentially experiencing higher highs and higher lows due to the continued tight fundamentals in the tanker industry. The prospect for tanker rates for the remainder of 2004, appear very positive with tanker supply constrained by the upcoming IMO phase out deadline and higher global oil consumption growth driving strong demand.

Looking briefly at our business segments, I'll turn first to the spot tanker business, there's no slides for this section, but there were no major changes to the fleet composition, in the segment, during the first quarter. We are pleased with 192 million in cash flow from vessel operations generated by our 82-ship spot tanker fleet. This is an outstanding result and reflects, in part, well-timed decision making by our chartering group to charter in more vessels last summer increasing our operating leverage further.

Turning to our fixed rate segment, the absolute highlight of the quarter was, of course, the announcement, in March, regarding the Tapias acquisition. If you turn to slide 12, you will see that the Tapias deal will contribute to the quantum leap that is occurring in Teekay's fixed rate cash flow. From a solid base of $100 million in annual fixed rate cash flow, in 2002, we have achieved significant organic growth, in addition, to acquiring the Navion franchise. We are now on track to complete the Tapias transaction on April 30th, and once concluded, it should bring our annualized cash flow from vessel operations, in our fixed rate segment alone, to approximately $400 million by the end of 2004. This represents a compounded annual growth rate of more than 50 percent over the last four years.

Turning to slide number 13 let me just briefly remind you of the main details of the Tapias transaction. We have agreed to acquire Naviera Tapias, Spain's largest marine transporter of energy. We are paying $810 million in cash and assumed debt, and are taking on 540 million in building commitments. We get a modern fleet of four LNG ships and nine Suezmax crude oil tankers. We are creating a joint venture with the existing shareholders in Tapias to pursue further opportunities in Spain. The transaction is scheduled to close on April 30th, and it is expected to be immediately accretive to earnings and to generate 125 million in annual cash flow.

On number 14, are the key investment highlights. Again, you've seen these before, possibly, but Tapias provides an attractive low risk entry for Teekay into the high growth LNG shipping sector. The acquisition further extends our position as the world's leading shipper of sea borne oil. Through our new joint venture, we will be well positioned to gain new business in Spain, the world's third largest importer of LNG. As mentioned a moment ago, Tapias significantly increased our cash flow in the fixed rate segment, and the high debt carrying capacity of Tapias' contracts minimizes our cash outlay. In fact, after paying the cash component in late April, we expect to have the same amount of remaining liquidity that we had at the beginning of 2004. We're really excited about the Tapias transaction, due to the attractiveness of its existing contracts, and the platform it provides us to grow our LNG business faster in the future.

I will now hand it over to Peter to talk about our financial results.

Peter Evensen: Thanks. As Bjorn has said, the first quarter was a record quarter for Teekay, in terms of both net income and cash flow from vessel operations, reflecting higher spot rates and further growth in our fixed rate segment. Teekay generated $262 million in cash flow from vessel operations in the first quarter, an 84 percent increase over the same period last year. Of this, 192 million came from our spot tanker segment and 70 million from our fixed rate segment; consequently, Teekay generated its highest ever-quarterly net income of $189 million or $4.37 per share.

Looking at the results of each of our segments on page 15 of the presentation, cash flow from vessel operations, from our spot tanker segment, increased by 75 million or 64 percent, to 192 million in the first quarter compared to 117 million in the first quarter of 2003. The increase is due to the significant rise in spot tanker rates, and the inclusion of Navion’s conventional tanker fleet, which added over 2200 ship days to our spot tanker segment, but was partially offset by the sale of older vessels during 2003. Our spot Aframax fleet generated a 365-day calendar TCE of 40,200 per day in the first quarter compared to 28,700 per day in the same period last year, and 25,400 per day in the previous quarter.

Our fixed rate segment generated 70.3 million in cash flow from vessel operations during the first quarter compared to 25.3 million in the first quarter of 2003, an increase of 178 percent, primarily, due to the inclusion of Navion’s Shuttle tanker operations, and the addition of five conventional tankers on long-term fixed rate charter. It is also worth noting that the first quarter figure has increased from the fourth quarter figure of 61 million. This was because Navion's Shuttle tanker business experienced high utilization due to the typically higher oil production during the winter months in the North Sea. The delivery of the remaining two new buildings on charter to Conoco Phillips, and the delivery of the Shuttle tanker Nordic Brasilia during the first quarter. Our existing fixed rate segment is on pace to generate annualized cash flow from operations of $285 million by the end of 2004, including the vessels in the Tapias acquisition, we expect this figure to increase further to approximately $400 million, as Bjorn has said.

Turning next to slide 16, and reviewing our first quarter income statement figures in detail, comparing them to the December 31st, prior quarter. Net voyage revenues, that is, voyage revenues less voyage expenses, increased by $107 million over the prior quarter to 447 million. Ninety percent of this increase is attributable to the company's spot segment, which earned higher spot tanker rates than the previous quarter, and the balance is attributable to the company's fixed rate segment.

Our vessel operating expenses decreased by $8 million over the prior quarter, due to lower repair and maintenance costs. The sale of vessels during the last quarter, including the sale and lease back of the three Aframax vessels in December, and an insurance claim recovery of $1.3 million, which was partially offset by the delivery of three new buildings during the first quarter.

Our time charter expense grew by 6.4 million over the prior quarter due, primarily, to several additional in-charter product tankers, and the sale and lease back of the three Aframax vessels in December 2003.

Depreciation and amortization increased by 1.1 million over the prior quarter, as the result of the acceleration of depreciation on the vessels affected by the IMO's accelerated phase out of single hulled tankers, and the delivery of new buildings, which was partially offset by decreases from vessels sold during the fourth quarter. Included in depreciation expense, is 5.7 million in dry dock amortization in the first quarter compared to 6.4 million in the fourth quarter.

G&A expenses increased to 27.6 million in the first quarter compared to 26.4 million in the fourth quarter, which is due, primarily, to performance bonuses paid during the first quarter, but which were related to 2003.

Net interest expense decreased slightly to 20.3 million from 22.1 million in the fourth quarter, due primarily, to the repayment of approximately 100 million of our most expensive secured debt, our 8.32 bonds, during the fourth quarter of 2003 and continuing into the first quarter of 2004.

Cash flow from vessel operations, the interest coverage increased from 6.5 times cover, in the fourth quarter, to 12.2 times in the first quarter, due primarily, to the increase in spot tanker rates.

Deferred income tax expense decreased to 2.1 million from 13.3 million, in the previous quarter, due primarily, to a strengthening US dollar in the first quarter. This resulted in a deferred income tax recovery of 4.5 million related to an unrealized foreign exchange loss, arising from our US dollar denominated inter-company debt in Norway, which partially reverses the deferred income tax expenses of 6.5 million we recorded in the fourth quarter, relating again, to the same unrealized foreign exchange gain.

Other income of one million, relates primarily, to gain on the sale of our remaining shares in that dividend income, partially offset by foreign exchange losses, minority interest expense and the number of miscellaneous items. Our fully diluted number of shares outstanding for the first quarter, increased from 41.8 million, at December 31st, to 43.3 million, at March 31st, 2004, as a result of the effect of the increase in Teekay's stock price on the outstanding stock options, and the mandatory convertible preferred units, and this method is computed using the Treasury Stock Method.

Looking at the balance sheet, in July 2003, Teekay purchased a 16 percent investment in the product tanker company TORM, for $37.3 million. The market value of this investment, at March 31st, had appreciated to 173.3 million, which results in an unrealized gain of 136 million. This gain has been included in the company's stockholders equity, and has increased Teekay's book value, at the end of the quarter, by approximately $3.30 per share.

Turning to slide 17, capital expenditures in the first quarter totaled 94 million, including 88 million in new building installments and the remainder relating to vessel conversions, upgrades, and other equipment. Including the Tapias acquisition, forecast cap ex relating to the company's 20 new buildings on order, is roughly 260 million for the remainder of 2004, 238 million in 2005, 83 million in 2006 and 147 million in 2007 and early 2008. Long-term financing arrangements totaling, approximately, 466 million exists relating to these new building commitments.

Turning to slide 18, and treating the mandatory exchangeable preferred issue as equity, net debt to capitalization decreased from just under 40 percent at the end of 2003 to 35 percent at the end of the first quarter of 2004, which is due, primarily, to the significant amount of cash flow generated from vessel operations during the first quarter. It is interesting to note that our leverage is currently back down to the level of where it was prior to the Navion acquisition, which was only one year ago. Furthermore, the majority of our existing debt over the next several years is tied to fixed interest rates, and thus, we have limited exposure to spot interest rate increases over the next few years.

Our liquidity at March 31st, consisting of cash, cash equivalence, and (undrawn) availability under revolving credit facilities, was 786 million. We will be acquiring Tapias for a total enterprise value of 810 million through a combination of cash and the assumption of existing debt. Assuming the acquisition of Tapias occurred on March 31st, 2004, Teekay's net debt to capitalization would increase from 35 percent to 48 percent, excluding new building commitments. We expect the majority of the 540 million in new building commitments to be fully debt financed prior to vessel deliveries.

Although our leverage will increase as the result of the acquisitions, our fixed rate cash flow from vessel operations will increase by approximately 40 percent, which allows for greater debt carrying capacity, and should allow us to quickly de-lever the balance sheet under any spot tanker market conditions, but more rapidly under the current strong spot tanker market, similar to what was reported under the Navion acquisition. Liquidity, after closing on the April 30th date, is expected to be over 600 million, in the form of cash and (undrawn), long-term credit lines. Therefore, although this transaction is large, its unique characteristics preserve Teekay's strong balance sheet and financial flexibility, to pursue further growth opportunities.

This point is further illustrated on 19 of the presentation. On a combined basis, the cash flow from vessel operations from the fixed rate segment, by itself, relating to Teekay and Tapias of approximately 400 million in 2005, is more than enough to cover the company's total fixed charges, of the combined entity. In other words, in the unlikely event that Teekay's spot segment earns zero cash flow from vessel operations, overall, Teekay would still generate positive free cash flow.

The Tapias acquisition is on schedule to close April 30th, 2004, and as we indicated earlier, it is expected to immediately accretive to earnings. Tapias results will be consolidated with Teekay's commencing, approximately, May 1st, 2004. However, the acquisition is effective January 1st, which means that the net cash flow generated by Tapias for the first four months of 2004 will, effectively, reduce the acquisition price by approximately $15 million. Incidentally, the cash flow from operations generated by Teekay, in the first quarter of 262 million, is roughly the same amount of the cash component that will be paid for the Tapias shares. So, the company's already strong financial condition should continue to improve and leave Teekay well positioned for profitable growth, and it determined to be the best use of cash, to return capital to its shareholders.

As you can see on slide 20, we have very significant operating leverage in our spot market segment. The size of our spot fleet means that for every $1,000 per day increase in rates, our earnings per share increases by 16 to 17 cents per quarter, and our net income break even in 2004, is estimated to be $13,000 per day. Based on the first quarter's average Aframax time charter equivalent rate of 40,000 per day, there is – the resulting EPS was $4.37. Based on Clarkson's average Aframax TCE rates reported, thus far, in the second quarter of approximately 30,000 per day, and assuming this average prevails for the entire quarter, the resulting EPS would be approximately $2.75 for the second quarter. Currently, we have fixed approximately 60 percent of our total spot voyage days in the second quarter. Please note that the EPS figures have not given effect to the 2-for-1 stock split, which Bjorn spoke about.

Teekay's Board of Directors has authorized the 2-for-1 stock split, relating to our common stock, which will be effected in the form of a 100 percent stock dividend. All stockholders of record, on May 3rd, 2004, will receive one additional share of common stock for each share held, to be distributed beginning May 17th, 2004. We believe that the stock split should enhance the liquidity of our shares, and thus, help broaden our shareholder base. Furthermore, it reflects our confidence in Teekay's future growth prospects.

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

Bjorn Moller: Thanks Peter. Just a couple of concluding remarks before we open up to questions.

Over the past five years, Teekay has steadily expanded the scope of its business to meet the growing needs of its customers. We continue to leverage our core competencies by entering new areas of activity, adding to the services. Our entry into LNG shipping is the latest building block in the customer service platform we are creating.

Teekay is more than a conventional tanker company. Our unparalleled network of people, technology, and ships, make us an essential link between upstream oil production, and downstream refining. With the breadth of our services, the quality of operations, and the strength of our balance sheet, we are, more than any other company in our industry, an integral part of our customers' logistics chain. We are the marine, midstream company.

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

Operator: Thank you Mr. Moller. The question-and-answer session will be conducted electronically. If you would like to ask a question, please press the star key, followed by the digit one on your touch-tone telephone. If you are using a speakerphone, please make sure your mute button is turned off, to allow your signal to reach our equipment. We ask that anyone who is using a hands free phone or speakerphone, to please pick up the handset when asking your question. Once again that is star, one if you do have a question. We'll pause for a moment to give everyone the opportunity to queue.

We'll take our first question from Magnus Fyhr with Jeffries & Company.

Magnus Fyhr: Yes, thank you. Good morning. Just, maybe, a couple questions starting on the LNG side. You know, with LNG imports in Spain expected to double, here, by 2010, maybe, you can give us an update on some of the projects, a new terminal, vis-à-vis, the opportunities for you, you know, with – now the Tapias under your belt to capitalize on some of these expansion projects.

Bjorn Moller: Hi Magnus. Well that's an exciting area for us to explore in the future. I won't pretend to have all the answers, yet, exactly how we're going to build our position in Spain. There are four existing LNG liquid faction – sorry, (re-gasification) plants in Spain, and there are two planned or under construction, and that will lead to increased demand. Some of that demand has already been accounted for through existing contracts that customers have entered into, but we're pretty confident that Spain will continue to be one of the, you know, most rapid growth areas for LNG. So, we're going to be very well connected down there, both through our joint venture partner and through some excellent customer relationships, so that continues to be a very promising base for us, as well as, of course, pursuing LNG outside of Spain.

Magnus Fyhr: OK, and do you think there're, primarily, going to be opportunities in Spain or – I mean since you have large concentration there, now, are there opportunities elsewhere?

Bjorn Moller: Well, I guess, some estimates suggest that there's a need for another 100 LNG carriers beyond what's already on order by 2010, and as I think I've said before, there are a number of companies wanting to get into the business, but there will be a lot of capital required and, of course, the customer's extremely sensitive to the quality of the operation of this type of asset, so I would say, there should be ample opportunity for us to get up to the plate, whether we see something that's worth swinging at will be a different matter.

Magnus Fyhr: Right. What is your strategy? You know, if you compare with some of the other competitors out there, there's been some spec building of LNG's, would you order LNG's without contract or is, you know, a long-term contract a must before you enter into new building contracts?

Bjorn Moller: Our primary strategy will be build to suit. We think that makes a lot of sense because that's about following our customer and that's what we're trying to do, so that's our current strategy.

Magnus Fyhr: OK, and just two quick questions, if I may. You know, with interest rates, you know, expected to move up, here, any, you know, what do you think as far as, you know, locking in more on long-terms, since you have quite a lot of floating rates out there.

Peter Evensen: Well, actually, Magnus, we have fixed well over $1 billion of our net debt, prior to the most recent increase in interest rates, so we feel very comfortable with our net debt that we have fixed in, and we aren't, really, exposed to any increase in spot LIBOR rates, at the present time, due to our prior fixing in, either through contracts that have interest rate adjustments or through swaps in our fixed rate debt. We are taking on some exposure with the Tapias acquisition, but we expect that to be netted away by the cash flow from vessel operations that we're currently operating.

Magnus Fyhr: OK and just a final question on – referring to page 20, what would the EPS, using the actual been for the first month of the second quarter?

Peter Evensen: Well, you would take the level – I mean for the first quarter?

Magnus Fyhr: I'm sorry, for the year – in the second quarter.

Peter Evensen: For the second quarter, you would take the $2.75 and you would divide by three, if you wanted what April would be for the first month. That would be approximately 90 cents. If you wanted to do it a monthly basis, but as we pointed out, if you take April's figures, and you assume that they would extend all the way through the quarter, you would get approximately $2.75 for the second quarter, if the rate stays where they've been during the quarter to date.

Magnus Fyhr: OK. I guess my question was, what would the Teekay versus the Clarkson would have been?

Peter Evensen: What would the Teekay versus the Clarkson?

Magnus Fyhr: Yes.

Bjorn Moller: I guess we gave you a rule of thumb Magnus, and I guess we still believe that that rule of thumb holds pretty good, so I think there's no change in that guidance.

Magnus Fyhr: OK, figured I try. Thank you.

Operator: Our next question comes from Jon Chappell with JP Morgan.

Jon Chappell: Morning guys. I have a question regarding the Tapias acquisition. After the Navion acquisition, you had disclosed in some of your financials that you paid about $116 million for the long-term contracts, in excess of five years, have you disclosed a total yet for the long-term contracts that you're paying for Tapias?

Peter Evensen: Well, we have disclosed that of the 810 million, the cash component of that will be approximately 260 million to 265 million. As I indicated, we take – we took over that – or we are going to take over that company with effect from January 1st, so we got a reduction in the purchase price because we were able to get the cash flow and get the benefit of the high spot tanker rates. So, if you look at that figure of 260 million to 265 million, and you look at the $35 million of cash flow we will receive on that cash, you're looking at a cash-on-cash return on that cash of 13 to 14 percent per annum, stretching out for the annuity nature of that contract.

Jon Chappell: OK. Bjorn, I have a question for you regarding the Caribbean market. Obviously, (Carib's) the US Gulf Aframax is one of your primary trading routes and the volatility in that region over the last three months has been quite extreme, have there been any extenuating circumstances causing rates to, really, spike in depth, over the last weeks or is that just the normal, you know, run of the business, I guess?

Bjorn Moller: Last time I spoke to our guys in Houston, not long ago, the impression I got was that there are no so very specific factors. There's just a little bit of volatility, some length in tonnage, which is, you know, short-term. There's been some movement in rates in other sub-regions of the Atlantic, where ships are being pushed around a bit. I think there were refinery turnarounds in the US Gulf but I think they were in February and March, although, I think Valero is doing some turnarounds now, so I would say, you know, it's volatile because utilization is high, in the world fleet overall, but the Caribbean is notorious, I think, for volatility, so I'm not really concerned that's other than a passing phenomenon, and we expect the market to firm again, in the very near future.

Jon Chappell: OK, nothing political with what's been going on in Venezuela, you don't think?

Bjorn Moller: I don't believe so.

Jon Chappell: OK and then, finally, operating expenses came down quite significantly, sequentially, and I know that a part of that had to do with more ships going (at a) time charter, and it was offset, to a degree, by time charter higher expense, but the gap wasn't exactly the same, so are you seeing any operating synergies that are causing the cost per day for your vessels, whether it be the spot side or the fixed rate side, driving the cost per day down?

Peter Evensen: Well, we did get a surprise on our Navion Shuttle tanker fleet because those expenses came in a little bit better, and as you know, this is the – we get some seasoning as we get better control over those operating expenses, but the other factor that is affecting our operating expenses, is the fact that we sold older vessels, and we're taking in newer vessels, and those newer vessels are – have lower operating costs than the ones that we sold, so that's helping us, and then, there's just the general timing of selling vessels and getting new vessels in.

Jon Chappell: OK. Thanks a lot guys.

Peter Evensen: So, we're very happy about the reduction in the vessel operating expenses.

Jon Chappell: I hope so.

Bjorn Moller: Thanks John.

Operator: From Dahlman Rose Weiss, we'll hear from Jin Chun.

Jin Chun: Morning gentlemen, a fantastic quarter. The Tapias acquisition will certainly – has certainly bulked up the fixed rate segment of revenues, is there any thought of rebounding back to continue your former higher spot charter exposure?

Bjorn Moller: Hi, thanks for the question. Well, let me mention that in 19 – sorry, in 2003, the average size of our spot tanker fleet increased from 70 ships to 85 ships, so, we certainly have not neglected that segment. In addition, we have 12 Aframax tankers, currently, on order destined for our spot tanker segment, and we have been active in chartering vessels, you know, at a time when we sold some of our oldest ships to avoid reducing our operating leverage. So, basically, I think we are, definitely, focused on both segments, and as you've seen, our operating leverage has remained or grown to a very high level.

Jin Chun: Oh, absolutely but – so I guess, excluding the timing issues, is there a general rule of thumb, in terms of target operating days you're looking to have on spot and on ((inaudible)) or is this something that's very dynamic as you read a market?

Bjorn Moller: I think it's, really, about having a trader mentality. If you're operating in the spot market, of course, it's a customer service business, but at the end of the day, you have to accept there's deep cyclicality in spot assets, both in freight rates and asset prices, so we try to do our shopping when the market is below mid-cycle and right now, you know, I'd say asset prices are fairly high.

Jin Chun: Oh, absolutely, and just one last follow up on LNG, do you expect there to develop a critical mass in a spot market, in the next few years or – I understand you're primarily interested in building to suit, but it's just a more generic market question.

Bjorn Moller: Yes. Well, I think that you'll find most people would say there is not, really, a spot market for LNG, it's very much driven by projects and infrastructure. You could characterize them as floating pipelines, those ships. There are some ships speculative on order. There are some ships either on fixed or on short-term contracts. One of the interesting aspects may be looking five or 10 years down the road, is potential emergence of a spot market and that would, I think, cater to Teekay's skills on that side of the fence, as well. In addition, it would require, I think, a lot stronger balance sheet because you could not project finance vessels by trading in that kind of operation, and again, Teekay's strong balance sheet would become a competitive advantage, even more than it is today.

Jin Chun: I guess that leads to my final question, if – how long do you expect to take to be comfortable with – getting comfortable – fully comfortable in LNG via Tapias, before you take the next plunge, so to speak?

Bjorn Moller: Well, I would characterize our skills as being, adequate to secure LNG business even before we bought Tapias. We have a great deal of experience and talent within our organization. We, in fact, man four LNG ships in Australia for the Northwest Shell Project, which includes PHP, Phillips and Shell and so on, and so, you know, we certainly felt comfortable we could pursue projects. The benefit of the Tapias acquisition is two-fold, it gets us into the market right away and establishes, beyond any doubt, our credentials should anybody feel that physical LNG experience was an absolute requirement, and secondly, it broadens the number of berth or ships, you could say, on which we could train crews, as we look to grow the LNG business, something which will be a real scarcity factor of trained crews in LNG.

Jin Chun: Fantastic. Thank you very much.

Bjorn Moller: Thank you.

Operator: We'll now hear from Manish Chopra with Tiger Management.

Manish Chopra: Good morning. Just – Bjorn, I was hearing some controversy regarding the dead weight tons of mandated scrapping through '05, there's some numbers as low as 18 million dead weight tons, and ours is at 34. I'm not sure why this gap exists, and I'm wondering if you could shed some color on that and I'm also looking for your latest estimated voluntary scrapping number through '05. I believe it was nine million tons last time I met Peter in January, and could you just remind me on why that might happen again? Thank you.

Bjorn Moller: Sorry, what was the last thing you asked? ((inaudible)) OK. Right.

OK, well, as far as the numbers are concerned, let me try and be brief, Clarkson does a great job in providing data, but even as good as they are it is not an absolute science, so you get a little bit of movement in numbers, but I can assure you that even, after a lot of scrutiny by Clarkson's and a lot of dialogue that we had with them, the numbers are as stated on, to the best of our knowledge, as stated on page eight in our presentation. The numbers have moved down about 1.5 million tons since our conference call in February, because it was determined that certain smaller carriers, like (Veg Oil) carriers, and you know, Easy Chemical carriers, are exempt from the IMO regulations, but are governed by some other regulations, so they were pulled out, but you know, you can also reduce – you can reduce both the numerator and denominator, on that calculation and pretty much get to the same percentages, so the 18 million I have not heard from anyone. I have no idea where that comes from, but we spent a lot of time looking at this, and you – I know you have a dialogue with (Pankesh) from time to time, feel free to call (Pankesh) or he can call you and ...

Manish Chopra: Great.

Bjorn Moller: ... through that. As far as voluntary scrapping, I guess the beauty of voluntary scrapping is nobody knows until it gets sold. It's great that scrap prices remain very high, $350 to $400 per ton, which means an old VLCC, you know, could be worth $15 million in scrap, and so, knowing that you have some hard, brick wall deadlines coming at you, will definitely, cause some people to voluntarily scrap at investment hurdle times, where they otherwise, might have taken a punt. So, I would say, you know, the fact that four million tons left the fleet, in the strongest tanker market in 30 years, in the first quarter that's pretty remarkable.

Manish Chopra: Yes, I was surprised by that as well. Well, thank you. Continue the good work.

Bjorn Moller: Thank you Manish.

Operator: Moving on, we'll hear from Walter Lovato with Passport Capital.

Walter Lovato: Morning.

Bjorn Moller: Hey Walter.

Walter Lovato: Just continuing on the last line of questioning, so on page eight, does the mandatory scrapping or new building deliveries, et cetera, does that take into account what was delivered in Q1 '04?

Bjorn Moller: Correct. We had – we looked it at two ways. In fact, this is the more conservative way of looking at it. I looked at it, also, with Q1 gone, and actually, adjusting the oil demand forecasts to the last nine months of the year, where IEA's forecasting 2.4 percent, and you could, actually, arrive at a slightly negative number in the change in supply and demand doing that but just because the reconciliation between quarters and months, we went with the number that everybody else can dig out and go back and look at. So, I think, two percent is a pretty conservative number, right now. The March year-on-year oil demand grew by 3.2 percent, globally.

Walter Lovato: OK.

Bjorn Moller: And so the potential upside to this analysis is that oil demand is running way higher than two percent, and there is no voluntary scrapping assumed in these numbers.

Walter Lovato: Right. OK. On the – you mentioned, also that – I guess 2007, new tonnage is currently 10 million but you feel that that is or is going to be limited by berth space being taken up other vessel categories. Do you have a sense of what that limit is? I mean is it 20 million or is it 15 million or you just don't know?

Bjorn Moller: Well, I would have to – it would be a complete guess, I would stress, my sense is there's so much LNG business going on, there is so much drive off business, container business, car carriers, so on that you know, I would say 15 million is, probably, a high number.

Walter Lovato: OK.

Bjorn Moller: And I mean, you have to remember that with a fleet of 325 million tons and an average life of 25 years, you have to replace 12 or 13 million tons every year just to stand still.

Walter Lovato: Right.

Bjorn Moller: Even without any demand growth.

Walter Lovato: Yes. Given that you do have exposure to the bulk business through TORM, do you have a view on that? Is that – people are talking about how it's coming down. People are afraid that rates are going to come crashing down. Do you have ((inaudible)) anecdotal evidence or just a view on that?

Bjorn Moller: Our view is we got very lucky, but no, we don't, really, have any insight, I'd say that I can offer you beyond what we can all read in publications, but you know, we're not really looking at the drive off business as a Teekay business.

Walter Lovato: OK. So, anyway, given all that Peter mentioned on slight 18 and 19 – well, it kind of walked through how solid, sort of, the cash flows look on ((inaudible)) normal, even weak, market and he specifically mentioned that reduction and share – returning money to shareholders is going to be the focus, so the question is, how are you going to go about doing that?

Peter Evensen: Well, the first thing we're going to do is to de-lever similar to we've done with the Navion acquisition, and it's one of those things that we'll be looking at later on in the year, as the year develops, so that's something that our board will look at and respond to later this year.

Walter Lovato: So, what kind of – at what point of, sort of, net debt to cap, does de-levering not become an issue any more, assuming no other transactions?

Peter Evensen: Well, for us, getting down below 40 percent has always been a sort of marker that we like. With our fixed rate business growing, I think, we have moved that figure from 30 percent, which was the old net debt to cap figure we wanted to bring ourselves down to, up to 40 percent, so anywhere between 30 and 40 percent.

Walter Lovato: OK and OK, great. Well, thank you very much.

Peter Evensen: Thank you.

Bjorn Moller: Thanks Walter.

Operator: As a reminder that is star, one if you do have a question.

We do have a follow up from Magnus Fyhr with Jeffries & Company.

Magnus Fyhr: Thanks. Just a follow up on the G&A, I don't know if I missed this or not but it was up slightly from, you know, fourth quarter, and I think at the last conference call, you had guided down to the $23 million level, can you elaborate on that may be for Peter.

Peter Evensen: Sure. At the last conference call I indicated that we would probably trend that back down towards the 23 million, and what happened was, was that there was greater incentive based compensation that was put into the quarter that was unforeseen. That was as of a result of our bonus program. So, we haven't – when you look at that that accounted for the bulk of the rise above 23 million or approximately four million, and looking forward, we see on an annualized basis or on a run rate basis that will be at 23 million, but I would caution you that we have to add in Tapias ...

Magnus Fyhr: OK.

Peter Evensen: ... to that going forward, and we are not yet giving guidance on what the overhead change will be to reflect Tapias.

Magnus Fyhr: So maybe, conservatively, do a 25 million run rate?

Peter Evensen: Yes, to be conservative, yes.

Magnus Fyhr: All right, thanks.

Peter Evensen: Thank you.

Operator: From Wexford we'll hear from Ethan Silverman.

Ethan Silverman: Good morning. This is a question, I think, affects all shareholders, there is a lot of good news in this company in exciting acquisitions, supply/demand picture, capacity looks very positive, rates have been terrific, and the numbers you've been generating have been quite impressive, why do you think the stock is trading at such low valuation relative to your cash flow? I see you're coming to New York to do an Investor Day, is this something that frustrates you given the fact that you're generating, you know, so much cash?

Bjorn Moller: That's a great and deep question. We, definitely, think a lot about that. I would take the view that – a couple of factors. First of all, I would say I agree with you there's a lot of great news in Teekay, and we think that our job is to make sure we keep talking about that. That's, among other things, why we talk to you for 35 minutes this morning. The point, I think, partly is that the ((inaudible)) of the spot business has been a bit euphoric for the market looking at tankers, and I think Teekay, sometimes, is marked down in that kind of environment because of the fact that we're investing in profitable long-term business, which by the way, has ROEs that are superb.

I think, secondly that if people were to give us credit for that fixed rate, long-term business, the shipping industry is, frankly, littered with lots of broken promises, and for people to talk about future results, even though Teekay, I think, has a lot of credibility, I think it helps when those numbers start coming, and in this quarter, we did deliver $70 million in fixed rate EBITDA, which brings up to 280 million annualized, in line with what we said we would be at towards the end of this year, and so, you know, I think the Navion transaction was very transformational for us. It's a year old. It was a quantum leap, as I said and you know, I think it's very hard to value our segment, and I think we want to continue educating our constituents as much as we can.

Ethan Silverman: If I can follow up with two questions, relative to your fleet and your book value, it would seem to me that your book value is significantly understated relative to your current NAV, would you agree with that?

Peter Evensen: Yes, I would say with the uptick in the amount of the value of vessels that is true for us, and I would also say that our net asset value doesn't take into account our charter contracts that we have.

Ethan Silverman: All right and if I may, one final. You know, given what you just projected about the second quarter, in terms of current rate and earnings, and given the fourth quarter being, really, a peak, seasonal quarter, it would seem to me that with the demand picture, the fourth quarter is going to be, you know, quite significant, even relative to what you did in the first quarter, is that a correct assumption?

Bjorn Moller: Well, the first quarter was very strong. I think the current quarter, where we, I think, we've given a little bit of guidance is down because of seasonality. We expect to have new record high oil consumption over the winter, and you know, a little bit depends on OPEC. I mean they might maintain very high production through the summer; in which case, we might borrow a little bit from the winter. Vice versa, they might try and rein in supply, in which case, I think we could have a real, you know, hit, you know, big, big uptick in the fourth quarter. So, I personally believe that we're in for another very strong winter market, but how it'll exactly play out, will be volatile.

Ethan Silverman: Thank you so much.

Bjorn Moller: OK, thank you.

Operator: We'll now hear from Henrik With with DNB.

(Bjorn): Oh, hello, it's actually (Bjorn) speaking. Just a follow-up question, it's a minor thing, actually, concerning the Tapias acquisition. A lot of talking about the cash flow, but what the operating costs of those ships? We understand that running ships under Spanish flag is, sometimes, 70 to 100 percent above the comparative OPEC for other flags. Will this affect the operation cost for the Teekay fleet going forward?

Bjorn Moller: Well, we have not, you know, begun our detailed integration planning at Tapias yet. That will be one of the questions we'll answer when we get underway, Bjorn. I can't, really, give you a lot of guidance right now.

(Bjorn): OK. What about the Spanish flag requirements? A lot of those vessels are under long-term contracts, are the contracts requiring Spanish flag?

Bjorn Moller: There are some contracts that have flag requirements and others that don't.

(Bjorn): OK. Just one question, Peter, I'm not sure if I got you right, but did you say that 60 percent of your spot fleet was fixed for second quarter?

Peter Evensen: Yes.

(Bjorn): OK. That's – thanks.

Peter Evensen: Yes, 60 percent of spot days are fixed for the second quarter.

(Bjorn): OK. Thanks.

Bjorn Moller: OK.

Operator: And Mr. Moller, I'll turn the conference back over to you for any additional or closing remarks.

Bjorn Moller: Great. Well, we, again, thank you for being patient to listen to our many slides. We have a lot to talk about, and we thought it was worthwhile going through the very exciting supply and demand fundamentals, in particular, so enjoy the rest of your day and thank you for joining us. Bye.

Operator: That does conclude today's teleconference. Thank you for your participation. You may now disconnect.

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