TEEKAY SHIPPING LTD.

Moderator: Bjorn Moller
July 28, 2005
10:00 a.m. CT

Operator: Welcome to the Teekay Shipping Corporation second quarter 2005 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 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 statements, I would like to direct all participants to our Web site, at www.teekay.com, where you will find a copy of the second quarter 2005 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 in 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 most recent annual report on Form 20-F dated December 31, 2004, 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 today. I'm pleased to report to you on another very positive quarter for Teekay Shipping, and I'll begin with the highlights for the quarter, on slide number three.

We recorded net income of $104.6 million or $1.23 per share. Our earnings were positively impacted by Aframax rates, averaging 34,500 a day, the highest ever recorded in the second quarter. We completed the IPO of Teekay LNG Partners in the quarter. And this hardly successful launch of the partnership adds to the competitive advantage TK is rapidly building in the LNG sector. And it also highlights the significant value represented by TK's fixed rate business.

Yesterday, we announced that we had been awarded 20 year contracts with two new LND carriers, to service the Tangguh project in Indonesia beginning in late 2008. With our continued strong cash flow, and based on our view that cyclical asset prices remain very high, we maintained our strict financial discipline during the quarter, by returning surplus capital to shareholders through an aggressive repurchase of our shares. And yesterday, we announced a further $250 million increase to this share repurchase program.

This morning, I'll provide you with an overview of the main developments in our business segments. I'll give you a brief overview of our tanker market fundamentals, and also commentary on the background for our share repurchase program. And Peter Evensen will review our financials before we open it up to questions.

Turning first to the developments in Teekay's LNG segment on slide four, a major highlight in the quarter was our successful IPO in May of Teekay LNG Partners, an innovative transaction involving the first ever listing of a non US master limited partnership. We priced the deal at the upper end of the range, at $22 per unit, representing a 7.5 percent yield, which was a record low IPO yield on MLP. The success of the IPO was driven by a significant interest in LNG, the stable nature of the cash flows, and the strong sponsorship by TK Shipping. Considerable investor demand since the IPO has resulted in the United price increasing, in fact, to over $34 today. That's up more than 50 percent. And this makes Teekay's 78 percent share of the LNG worth, we have on the slide 780 million or $9 a share but it's a bit higher today.

At the target minimum cash distribution per unit, Teekay expects to receive approximately $40 million in annual distribution from Teekay LNG. We expect distributions to increase as future projects come on stream, such as the three vessels delivering on 20 year contracts to ((inaudible)) in 2006-2007. Teekay will offer to Teekay LNG, all future LNG projects that we secure, including the recently conclude Tangguh project. Tangguh is an Indonesian flagship project which is being developed by consortium led by a subsidiary of BP. And the LNG production is expected to supply gas to the US and Korea.

Next, turning to slide number five, in our fixed rates tanker segment, cash flow from vessel operations, was 75 million, up from 70 million in the first quarter, mainly due to high overall utilization in the shuttle tanker fleet, and the transfer of our (sole VLCC) to the fixed rate segment, which relates to a previously announced three year fixed rate time charter of that vessel.

During the quarter, we secured our first ever shuttle contract in Australia. The contract involves a profitable three year deal where Teekay will provide a shuttle tanker to support the development of a marginal oil field. When we first became involved in the shuttle business in 2001, our shuttle tankers were all employed in Europe. Upon the commencement of this new Australian contract, Teekay will have shuttle tankers in service on four continents. We expect the third quarter shuttle utilization will be slightly lower than normal, due to a series of scheduled maintenance dry dockings. We're generally seeing upward movement in the price we're able to charge on new shuttle contracts, in response to the active off short market.

Looking at our spot segment on slide number six, Teekay spot tanker earnings continued at historically firm levels in the quarter. Our spot Aframax fleet generated a TC of 34,500 which, as mentioned, was a record for the second quarter. And while our TCE figure was down by $5,000 per day from the March quarter, the decline in Teekay's rates was much less than the drop seen in the general marketplace, thanks to the high vessel utilization we generate from our efficient scheduling, within the Teekay trading system. Our spot Suezmax fleet earned a TC of 42,500 a day. This was, in fact, up by more than 3500 a day in the quarter, despite (Clarkson) and Index Suezmax TCEs dropping by one third from the first quarter, and despite the slight drag effect on our results from a derivative loss link to one in chartered vessel.

The strength of our TCE performance in the quarter reflects that our fleet is now almost entirely double hulled. It has become evident that our systematic single hull disposal program over the last year, was well timed, as there is now considerable customer discrimination against single hull's. This type of vessel now generates substantially lower cash flows from then double hull ships, because they compete in lower payer trades, face much higher idle time, and incur greater maintenance costs due to strict inspection regimes. By selling our single hulls at high prices, we effectively realized the future EPS of these ships before their earnings power started eroding.

In the quarter, we delivered four single hull ships to their new owners, three Aframaxes, and one Suezmax generating a gain of $26 million. This essentially completes our single hull sale program, with only two owned single hulls remaining in our conventional tanker fleet. We also redelivered two in chartered Aframaxes at the end of their charters.

Two Aframaxes joined our spot fleet, one new building, and one in chartered vessel. We also chartered in two MR product tankers as we continue to enhance our presence in the product tanker market. We expect two spot Aframax new buildings to deliver into fleet during the second half, and allow two product tanker in August, and an ice class 1A in October which is well timed for the 2005-2006 winter trade.

We are updating our rule of thumb guidance, of our earnings formula. Previously the guidance was 60 percent weighting (AG East) and 40 percent weighting carriage US Gulf. But based on changes in trading patterns, due to vessel sales over the past year, we are amending this guidance to a 50-50 weighting going forward.

Turning next to a brief overview of the tanker market fundamentals I'll begin with tanker demand in slide number seven. In the second quarter, world oil demand shown in the green bars, showed a typical seasonal decline from the previous quarter, but continued to grow versus one year ago, albeit, at a slower pace of one percent. As shown by the bars on the right, the IEA is projecting oil demand to return to a high rate of growth, estimating year-on-year growth of 2.4 percent, during the second half of this year, and 2.1 percent for 2006.

On the graph, we have also highlighted the rise in global inventories during the first half of this year, circled on the Red Line. This growth in inventories is inline with OPEC's strategy. Because of continued high oil prices, and limited spare production capacity, OPEC, earlier this year, decided to maintain high oil production over the summer months to build inventories. They saw this as the only way they could provide enough oil to meet peak demand during the upcoming winter, where demand is expected to exceed second quarter figures by an average of $4 million per day.

Global oil supply, shown by the blue line, rose in the second quarter, following a drop in the previous quarter, when OPEC did cut backs. And this provided support for global tanker demand.

Looking forward at tanker demand for the second half of the year, on slide number eight, we highlight the fact that after a two period of relatively flat no OPEC supply, non OPEC production growth is once again about to become a more important factor going forward. As you can see from the bars, over the next three quarters, non OPEC supply is projected to grow by 1.7 million barrels a day which translates into an estimated incremental tanker demand of two-and-a-half percent by the first quarter of 2006. A large proportion of this oil is likely to be carried on short to medium length routes by Aframax and Suezmax tankers.

Turning to tanker supply, the tanker fleet grew by 1.2 percent in the quarter. There was a slow down in the deliver of new tankers, but scrapping also continued to be slow. On slide number nine, we have highlighted the fact that the recent fleet growth has not had the same effect on different parts of the market. On the slide, we have compared average TCE rates in the second quarter of last year in the left column, with rates during the same period this year, shown in the third column as reported by (Clarkson's).

As you can see from the second column, all of the major crude oil tanker segments experienced similar supply growth over the past year. But while this translated into VRCC rates dropping by 40 percent, Aframax rates have remained unchanged. This fits in with anecdotal evidence, that there is considerable discrimination against single hull ships in the Aframax segment, while there is probably less discrimination in the VLCC segment. The reason is that Aframax's tend to navigate deeper into ports, and on to rivers, making added safety of double hulls more important to customers. Therefore, new Aframax's tend to immediately marginalize old Aframax's, thus leaving mainstream supply, effectively unchanged.

New VLCC's, on the other hand, have to compete against older ships to a much greater extent. Because VLCC's are often unloaded through ((inaudible)) far from land, some customers tend to be more pragmatic around double hull versus single hull, when it comes to VLCC chartering. With this in mind, it is perhaps, not surprising that 2005 Aframax scrapping is running ahead of

2004 year-to-date, while there has been practically no VLCC scrapping as older ships, which are still able to find employment are choosing to remain in the fleet.

On slide number 10, we have summarized our outlook for the market. Since the end of the quarter, we have seen some volatility between the different segments. VLCC rates have firmed up, finally responding to several months of increased sailings from the Middle East. Aframaxes, on the other hand, have weakened substantially in the Atlantic, due to a variety of short term factors, such as North Sea oil field maintenance, a temporary shortfall in Libyan export cargos, and hurricane related disruptions in the US Gulf. We consider this type of volatility to be part of normal seasonality.

We see the upcoming winter market in a positive light. We are starting the second half of the year, with the utilization of the world fleet, slightly down from its peak, but still at historically very high levels. (Clarkson) predicts a gross in flow of new tonnage, applied percent for the rest of this year, but this will be partially offset by scrapping and conversions, tankers for offshore use. But higher oil prices make it likely that OPEC will maintain or possibly further increase it's current high level of supply, and non OPEC supply growth should underpin the strong level of tanker demand.

Finally, the winter months, typically create fleet inefficiencies are vessels are delayed, due to weather, ice and reduced daylight hours. And this should influence rates in an upward direction.

On slide 11, we are showing our sum of the parts slide, which some of you may be familiar with from our past presentations. One of the reasons for the IPO of Teekay LNG was to attract an investor base that appreciated the special characteristics of the long-term, stable nature of the LNG business. And to provide access to capital to fund Teekay's growth in that sector. As I mentioned earlier, the value of Teekay share of Teekay LNG is over $9 per share as shown in the middle box on the slide.

In the box on the left, we have calculated the value of our remaining fixed rate business. Applying a conservative 10 times multiple to the CFVO indicates an equity value of $25.80 per share for that part of our business. And on the right, we have calculated the value of Teekay spot tanker fleet. This is based on Teekay's 2004, CFVO to which we've applied a multiple of 5.6 times which is the average multiple for our peer group. This calculation implies an equity value from our spot segment of $29.10 per share. In total this method values Teekay at $64.07 per share, compared to our current price of $45.

A different way of looking at this value GAAP is that with Teekay at $45 a share, and our fixed rate segments valued, as shown in the boxes on the left and in the center, the resulting value of our stock fleet equates to $38 million on Aframax new building, compared to today's value of $65 million. And this gives no value to the fact that Teekay's spot chartering franchise outperforms the market.

We are continuing to generate strong cash flow, including the stable cash flows from our fixed rate business. And it is surplussed to our needs because we have all ready brought our leverage down towards the bottom end of our target range. We are not acquiring spot assets at cyclically high prices. And our LNG new building projects are largely debt financed. We therefore find ourselves with excess capital at a time, when in our view, Teekay shares represent compelling value. For this reason, we are aggressively buying back our shares.

On slide number 12, we provide an overview of our repurchase program. We completed our first program, a three million share purchase in early 2005, and announced a second $225 million program. Today, I'm pleased to report that in the second quarter, we executed on the majority of this second program with only $55 million remaining. Yesterday, we announced that our board had approved a further increase in our buyback authority, involving an additional 250 million, for a total of standing authority of $305 million. If we complete the entire program, we will have bought back more than 16 percent of our shares out standing in November of 2004. We believe that this return of capital demonstrates management's continued focus on ensuring an optimal financial profile for Teekay.

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

Peter Evensen: Thank you. One of the highlights for us, of this quarter, was the successful IPO of Teekay LNG partners, which we're very excited about, and believe will allow us to grow our LNG business. I would like to point out when discussing Teekay Shipping's results for the quarter, that the consolidated balance sheet, and income statement of Teekay continues to include 100 percent of Teekay LNG in each individual line item of our statements. The 22 percent public interest in Teekay LNG is reflected in the Teekay statement as minority interest, on both the balance sheet, and income statement.

As Bjorn indicated our net income this quarter was 104.6 million or $1.23 per share, which included a number of items that, on a net basis have the effect of increasing net income by 12.7 million or 15 cents per share. Excluding these items, net income would have been 91.8 million or $1.08 per share for the quarter.

Looking at the operating results for each our segments on slide 13 of the presentation, overall cash flow from vessel operations for the second quarter, decreased from 165.9 million from 182.5 million in the second quarter of 2004. The contribution from our spot tanker segment decreased by 33 million or 31 percent, to 73.6 million, compared to 106.5 million in the second quarter of 2004. This decrease was due primarily to the 20 percent net decline in revenue days resulting from the sale of our older vessels during the past 12 months, including four spot trading vessels sold in the current quarter, partially offset by an increase in the number of in charter double hull vessels, and an increase in time charter rates. Our spot Aframax fleet earned an average TCE of $34,500 per day, in the second quarter of 2005, up from 28,100 per day earned in the same period last year.

It's worth pointing out, again, this quarter, that our change in fleet composition, i.e., more chartered in newer double hulled tankers, and less older single hull owned tankers gives rise to an exaggerated drop in operating cash flows but not in net income. This is because the contribution to the cash flow from vessel operations or CFVO, from chartering in double hull tankers, is less than owning older single hull tankers because time charter expense includes an interest expense element. However, the impact to the net income line is not as great, because the chartered in vessel does not have any interest expense, below the income from the operations.

The fixed rate tanker segment generated 74.6 million in cash flow from vessel operations, during the second quarter, compared to 70.5 million in the second quarter of 2004. The increase was primarily due to the inclusion of Teekay Shipping Spain's fixed rate Suezmax tankers for a full quarter, compared to only two months in the prior period and the commencement of the three year fixed rate time charter, that Bjorn spoke of.

Our fixed rate LNG segment generated 17.7 in cash flow from vessel operations during the second quarter of 2005, compared to five-and-a-half million in the second quarter, 2004. This increase was again, mainly due to the inclusion of two of Teekay's shipping Spain's fixed rate LNG tankers for a full quarter, compared to only two months in the prior period. And the deliver of two LNG carriers during the latter half of 2004.

Turning next to slide 14 in reviewing the income statement figures in comparison to the second quarter of 2004. The results for the second quarter of 2005 included a gain of 26.1 million from the sale of the four older vessels. In the second quarter, we took a non cash right down, 10.2 million to the carrying value of some offshore equipment that was employed on a short term contract servicing a marginal oil field, which has prematurely shut down due to a lower than expected oil production rate.

We expect to be able to redeploy this equipment on other offshore projects, especially in the current strong offshore market. In fact, we're close to entering into a contract to employ some of this equipment on another field. However, for accounting purposes, we decided to write down the carrying value of the equipment to a conservative level. This incident has no impact on the rest of our shuttle tanker business, since this was a unique project to review a previously abandoned oil field in the UK sector of the North Sea, and thus, the expected lifespan of this field was relatively short to begin with.

General and administrative expenses were 40.2 million, compared to 25.8 million in the second quarter of 2004. This increase is primarily the result of the appreciation of non US dollar currencies, higher accruals for performance based bonuses, and the acquisition of Teekay Shipping Spain in April 2004. We currently G&A expenses to run at this level for the remainder of the year, subject to the impact the changes in our share price will have on stock compensation expense related to our long-term incentive plan.

Net interest expense decreased to 24.9 million in the quarter, from 25.8 million in the second quarter of 2004, primarily due to the reduction in interest expense, from the prepayment of term loans, and settlement of interest rate swaps, in connection with the initial public offering of Teekay LNG. Partially offset by additional interest expense resulting from the addition of Teekay Shipping Spain's fleet on April 30, 2004. We recognized an income tax recovery of a half million this quarter, compared to an income tax expense of 6.1 million in the second quarter of 2004.

The half a million income tax recovery includes a recover of 4.3 million relating unrealized foreign exchange losses. Other losses this quarter included foreign exchange gains of 16.6 million, net of the minority interest share of these gains, primarily resulting from the foreign currency translation gains, related to the company's euro denominated debt and deferred tax liability denominated in Norwegian (kronor).

In addition, we incurred losses totaling 24.1 million resulting from our prepayment of term loans, settlement of interest rate swap and the repurchase of 56.1 million of our 8.875 percent bond. These items are also outlined in appendix B of our earnings release.

Turning to slide 15, we have presented our June 30, balance sheet, and compared it with the March 31, 2005 balance sheet. Cash balances have returned back to normal levels as we have completed our rearrangement of our loan facilities in Spain in connection with the IPO of Teekay LNG including repaying debt, and resetting interest rate swaps as indicated.

Minority interest has increased to 161 million at June 30, 2005, from 15 million at December 31, 2004. This increase is primarily the result of a net proceeds receipt received from the IPO.

Our net debt, including capital lease obligations remain substantially unchanged from the prior quarter. We used our cash flow from vessel operations, the proceeds from the sale of our vessels and the proceeds from the IPO of Teekay LNG to fund capital expenditures for vessel construction repurchase shares, repay debt, and settle the interest rate swaps.

Treating the mandatory exchangeable preferred issue is equity, net debt to capitalization was 34 percent at the end of the quarter, substantially unchanged from the prior quarter. Our total liquidity at June 30 was over 1.4 billion. Turning to slide 16, we retained significant operating leverage in our spot tanker segment. However, our EPS rule of thumb has changed slightly. Our net income break even Aframax TCEE rate for the third quarter, is estimated to be approximately 15,000 per day. This has increased, mainly due to the additional in chartered vessels and a lower expected shuttle tanker utilization in the third quarter, that Bjorn spoke of.

However, as a result of the share repurchases, our operating leverages – excuse me – our operating leverage has increased from five-and-a-half cents, to six cents per share, per quarter.

This means that for every 1,000 per day increase in Aframax rates, our earnings per share increases by approximately six cents per quarter. Looking at the third quarter, rates have declined in a normal seasonal pattern, and we have fixed approximately 40 percent of our spot voyage days at an average Aframax TCE of approximately 23,000 per day.

As Bjorn mentioned, during the second quarter, we've repurchased approximately 170 million of our common stock or 3.9 million shares, at an average cost of $43.37 per share. Together with yesterday's announced 250 million increase in the share repurchase plan, we now have a total share repurchase authorization of $305 million remaining. If we complete this based on the $45 share price today, we will have repurchased over 16 percent, or 600 million of our out standing shares, since November 2004, when our first share repurchase was announced. The execution of our share repurchase program not only reflects the strength of our balance sheet, and the strong cash flows, but also demonstrates our strong view about the underlying value in our stock price. I will now turn the mike over to Bjorn to conclude.

Bjorn Moller: Thanks, Peter. For your information, Bjorn Moller will be hosing the first quarterly conference call for Teekay LNG partners starting at 1 p.m. East Coast time today and invite you to listen in. You'll find a link to the Webcast on Teekay, www.TeekayLNG.com. Thanks for listening in this morning, and we will be happy to take your questions.

Operator: Certainly. Once again if anyone in our audience would like to ask a question, you may do signal by pressing the star key followed by the digit one on your touch-tone telephone. Again, that's star one. I'd like to remind anyone who may be using a speakerphone, please make sure your mute function is disengaged before you press star one. It may block the signal from reaching our equipment. Again, that's star one.

We'll take our first question from Justin Yagerman, with Bear Stearns.

Justin Yagerman: Hey, good morning, fellows. I wanted to get a little bit more color on the Aframax rate that you just went into. You said that 40 percent of the fleet – 40 percent of the days in the third quarter, are fixed at $23,000 a day. Is that the whole fleet on an Aframax equivalent basis? Or is that just the Aframax fleet?

Bjorn Moller: I guess it's – we give a rule of thumb, and if you apply an Aframax, if you sort of synthetically assume that our entire fleet was Aframax, we found that rule of thumb to guide pretty well on how our earnings go. So I would just use the Aframax assumption on that.

Peter Evensen: But the actual $23,000 per day, only pertains to Aframaxes. Our Suezmaxes, for example are making much more than that.

Justin Yagerman: No. But I was wondering if, you know, the difference in the magnitude of rate in the different asset classes was skewing that one way or the other, if you were setting everything to an Aframax equivalent basis?

Bjorn Moller: Yes, I think some of our smaller product tankers, you know, obviously a lot less volatile than this, but I would still guide that if you use the rule of thumb, that's going to get you in the right neighborhood.

Justin Yagerman: OK. And how – I guess, so that takes us through about 40 percent of the quarter, where would you expect rates at this point to be for the other part of the quarter, on a relative basis.

Bjorn Moller: Well obviously (Clarkson) numbers in the very short term are jumping around quite a bit. The Atlantic Aframax as indicated is quite weak, but it's almost not uncommon for it to be very volatile. Last year, for example in the third quarter, at one stage, we had Caribbean Aframax rates at 16,000 a day. Six weeks later it was 75,000 a day. And in the Suezmax you saw rates go down to 30 or 40,000 a day and a month later, they were about 160,000. So, you know, I think it's short term volatility. And I think it's probably over swung in the short term, as it often does. But we can best guide you to look at (Clarkson), of course, as we all do.

Justin Yagerman: OK. When looking, obviously, you know, it was very fortunate timing to have gotten rid as many single hull vessels as you have. What are you seeing in the market in terms of discrimination in double hulls and single hulls, what's the rate differential right now on an Aframax? And maybe, what's an approximately weighting time deferential as you're looking to fix those voyages on those vessels?

Bjorn Moller: It jumps around a lot. I think that some of it has to do with the reputation of the owner, for example, Teekay is fixing its single hull ships in the Indo-Pacific basin, without insignificant weighting time, because we have contracts, and close customer relationships. But if you kind of go to a more open spot market situation, you know, it's not uncommon for single hull Suezmaxes to sit for a month in West Africa looking for business. And, you know, they might have to reposition somewhere else to get a cargo. So it's a little bit binary. And of course, in periods of weak market, it really widens out. Whereas, if you get a pick up in activity they will suffer less, but it can be a very substantial difference.

Justin Yagerman: That makes sense. I know, usually you can't discuss too many terms around the new LNG contracts, but can you just refresh our memory on kind of a target return that you look at when evaluating those contracts? And whether they're worthwhile for you? And how you go about estimating, you know, any of the rates, and what have you on those?

Peter Evensen: Well we're not giving specific guidance on the new contracts. Those will be given later in the year, in connection with Teekay LNG. But what we generally look at is that we're trying to get a return above our weighted average cost of capital. So we compute our weighted average cost of capital, and then we have a margin that takes into account the risk adjustment for each specific project. So it's on a project by project basis. And of course, we make sure that it's both above our weighted averaged cost of capital and it's accretive to our earnings.

Justin Yagerman: OK. Thank you very much.

Peter Evensen: Thanks, Justin.

Operator: We'll take our next question from Jon Shappell with JP Morgan.

Jon Shappell: Good morning. I just have one question today. TGP has been a superstar since you brought it public, and really the value of the move in that stock hasn't been reflected in the Teekay share price. Now, other than your sum of the parts slide, and the occasional analyst writing about the value that you should have on Teekay, is there anyway that you can monetize the success of TGP? I know you really want to hold out and maybe distribute more shares for, you know, the growth of that business. But does it make sense for Teekay to maybe distribute a secondary portion of its 78 percent holdings to monetize the success of TGP.

Bjorn Moller: Well we're certainly extremely gratified by the success of TGP. And it's demonstrated, the fact that there was considerable value in our fixed rate business. We have certainly highlighted that value, and I guess, the fact that we're buying our shares back, I think demonstrates that there's evident value here. So, you know, whether we can use the strength of TGP, we don't think we're done going up with that company, by the way. So, you know, we will continue to try to optimize our capital structure, and based on, you know, what we see in the market. And I think there's no plans for Teekay to dispose of any of its 78 percent units. There will be more capital raised, obviously, as new L&G projects, you know, get delivered. But it's been very positive.

Jon Shappell: OK. Thanks, Bjorn.

Operator: We'll take our next question from Jordan Alliger with Deutsche Bank.

Jordan Alliger: Hi, good morning. Just a couple of questions. The – in the new breakeven rate, is that – should we consider that longer term, like looking beyond the third and fourth quarter of this year? Or could that move around depending, I think, some of the factors you talked about?

Peter Evensen: Right now, we're only saying that that's for the third quarter, and that was brought up or brought up because of the additional in charter vessels which takes up a little bit longer term as well as through – because of the lower utilization on the shuttle tanker side. But you shouldn't take it that it's up to a permanently level of 15,000 a day. It could very well come back down.

Jordan Alliger: OK. And then, can you maybe talk a little bit about your thoughts on the charter end strategy. You do have a number of those vessels I imagine, renewals have and will start coming up in the next, you know, 12 to 24 months. What are your thoughts on that?

Bjorn Moller: Well first of all, I guess we – our internal strategy is very helpful because it puts us in a sort of win-win situation. We have significant exposure to the spot market, but if we should have any period of weakness, it will enable us to go back in and replenish our spot tanker in charter fleet, which is really a strategy – which I'll remind you, none of our competitors is really executing on anywhere near this scale.

We don't have a significant redelivery program for the next six to nine months in our in charter fleet. We have several spot vessels joining our fleet, a couple of new buildings, an in chartered Suezmax in January. So I think you'll see a fairly stable fleet for some time. And it gives us the time to look for periods of weakness to step into the market.

Jordan Alliger: OK. And then just final question, the run rate on the fixed fleet, seemed to be a little bit better, than we might have been looking for. As the general expectation in terms of fixed revenues, you know, working off this new level, which I think was 196 million or so.

Bjorn Moller: Sorry, what was the 196?

Jordan Alliger: Sort of just looking at the total fixed anchor fleet revenue…

Bjorn Moller: Right.

Jordan Alliger: LNG plus the conventional I mean at least for the time being, you know, that kicked up versus the quarter. Is that the run rate we should be looking at looking forward?

Peter Evensen: I would say that that is, with the exception that we're probably a little weaker in the third quarter, or based on the shuttle tanker utilization being abnormally lower for a quarter. Yes, that run rate is picking up as we forecast it to.

Jordan Alliger: OK. Thank you very much.

Operator: Next from Jefferies & Company, we'll hear from Magnus Fyhr.

Magnus Fyhr: Hey, good morning. Congratulations to a great quarter. Question on the sum of the parts valuation, maybe referring to your, you know, spot tanker segment, let's say the market knows how to value your spot tanker segment, since there are several peers out there, trading between five to six times EBITDA putting a value of around $25 on your spot tanker business. And we know that the Teekay LNG partners is getting close to $10. That would effectively put a value of about $10 per share on your fixed rate tanker business, or about four or five times EBITDA.

Could it be that the market is not understanding that part of the business? And given the success of the TGP spin off, what's your thoughts about maybe monetizing that part of the segment.

Peter Evensen: Well thanks, Mangus. I think it's always a great question why you have this discrepancy. As Bjorn said, you could either say that the spot tanker market is cheap, or you could saying as you're saying that the fixed rate side is cheap. I think that's something that we have to look at. We're getting a lot of response from investors who understand the sum of parts. But more importantly, they understand that Teekay is not a spot tanker company. And they are saying to us that Teekay should be valued differently than the spot tanker company. So we hope to be able to close that GAAP and hope to get a relatively good out performance, rather than from our pure spot tanker peers. But obviously, the success of Teekay LNG partners could be replicated in some of our other fixed rate segments should we not get the valuation that we want.

Magnus Fyhr: OK. And just a follow up question on discrimination against single hull vessels, there's been some scrapping of Aframaxes this year, what are your thoughts there going forward, as far as, you know, can you maybe share with us what the internal scrapping forecast is at Teekay for all segments? Or if you can?

Bjorn Moller: Yes, it's going to be influenced by, I guess the rate levels and also people's expectations as we move in through the winter. I think a lot of people expect a strong winter market, and nobody is going to throw in the towel early. There's quite a lot of ships being pulled out for offshore conversion projects. I think that pace is probably the highest we've seen, maybe at least since the mid '90s, and maybe as high as we've ever seen. So that, of course, if you will may influence that some ships don't go for scrap, but go for conversions.

We've kind of eyeballed a number of 10 million tons for the year, at the beginning of the year. It looks like, as we reach the middle of the year, we arrive right on that market, halfway. So I guess that's sort of my own personal forecast. But it could – you could have the flood gates open if you had any sort of adverse incident on an older tanker, or if you had a period of weakness over the second – over the third quarter.

Magnus Fyhr: Thank you.

Operator: Our next question comes from Harvey Stober with Dahlman Rose.

Harvey Stober: Thank you. Can you give us some sense of how you indent to replace your chartered in vessels when they roll off?

Bjorn Moller: We will continue to be opportunistic. Again, it's an extra, I guess tool in our inventory, in our – it's an extra weapon our armory, if you will that we have the in charter strategy. As I said, there isn't any particular rapid run off in our in charter fleets for the next six to 12 months. But, you know, we have had periods where we have been very active in the market, and other periods where we stepped back. So it's really a matter of price sensitivity. And of course, when it comes to replenishing our stock fleet longer term, you know, we'll be looking for the cyclical window to open around new buildings, and second hand acquisitions, and industry consolidations. So we have short term strategy and a long-term strategy.

Harvey Stober: OK, thank you.

Operator: Next, we'll hear from Philippe Lanier with Banc of America.

Philippe Lanier: Yes, good morning. I've got a couple of questions. First of all, on the product market in Asia, I noticed that you continue to increase your in chart product fleet. I wanted to ask you how you're viewing the successes of that strategy in terms of is the product market exceeding your expectations or meeting them in that market? And in terms of a more concrete investment in product, are there any large scale fleets on the Asian side of the business that are potential acquisition targets out there?

Bjorn Moller: Well firstly, let me clarify that actually most of our product activity is in the Atlantic basin including some of our recent in charter strategy. And it's worth bearing in mind that we cooperate very closely with (Sat Oil) as part of the (Naviant) transaction. And in fact, cooperating around certain ships with them so – and have – you know, are based in various contracts including with (Sat Oil). So that's working out very well. And we are building that fleet gradually both in the MR segment, in the LR1 and LR2 segments.

We do have three LR2 product tankers in order, one which I mentioned we'll deliver in August, and that we'll, you know, we'll look at the best trading options for those ships, whether it be in the Middle East, or whether it be Middle East to Asia, or Middle East to the Atlantic and around the Atlantic. So the Asia product tank strategy is something we'll turn to at the appropriate time, but it's mainly an Atlantic strategy at the moment.

Philippe Lanier: OK. I didn't realize that, thank you. Another question on the in charter strategy, you know, following the weak period in the LCC market, and now the reciprocal weak period in the Aframax market, do you see much more attractive rates to charter tonnage now, than you did say six or nine months ago.

Bjorn Moller: It's been a little slow to react. I think there's still a lot of optimism around the winter market. So I think it's been slow to react. We've seen rates come down a little bit but not as much as they did last year in the second quarter, when in the second and third quarter, when you had some weakness. I think people are not prepared to (crawl) into the cycle yet.

Philippe Lanier: Yes. And then just one last question. I don't know if you have a perspective on this, but with the – all of the new Aframaxes that are coming out of the shipyards, are you noticing a trend, on whether those prefer to stay in Asia or come over to the Atlantic market, or is it pretty much across the board?

Bjorn Moller: I would say that it depends a little bit on the rate differential. We had, I guess, periods where the Asian market has been a lot more stable than the Atlantic, so I think we saw some ships stick around in the Far East at one point. Then we had some strength in the Atlantic Basin, and we saw ships piling through to the Atlantic, and now it's flipped around. So that's also, I think part of what's driving short term, the rate volatility seeing the Mediterranean, suddenly five ships show up at the Suez Canal from Asia saying, you know, we are ready for business. So these things quickly get absorbed and diluted out. But you can get a little choppiness. So I would say the trend is for them to go to the Atlantic on the whole.

Philippe Lanier: OK. Great. Thank you very much.

Bjorn Moller: Thanks.

Operator: Our next question comes from John Kartsonas from Citigroup.

John Kartsonas: Yes, hi. I have a couple of modeling questions, actually. Can you give us the minority interest line, how much it was for the quarter, please?

Peter Evensen: How much it was?

John Kartsonas: Yes.

Peter Evensen: Hold on. Let me look in my data. It was about six-and-a-half million.

John Kartsonas: Six-and-a-half million. Also, maybe I missed, but on G&A, what would be your guidance going forward for this year?

Peter Evensen: We expect it to stay roughly at the level that it's at, about 40 million tracking per quarter.

John Kartsonas: About 40 million. And lastly on the tax issue, for the rest of the year, do you expect any taxes? Or are you going to see again a tax deferral kicks in?

Peter Evensen: Well on the tax size, we will continue to see some, I would guess, about three to $4 million per quarter, but it's trending down as we're able to get our tax position more under control.

John Kartsonas: OK. That's all I had. Thank you very much.

Peter Evensen: Thank you.

Operator: We'll take our next question from Jin Chun with Maxim Group.

Jin Chun: Good morning. First, I'd like to congratulate Teekay on its asset management execution. But you've also mentioned Bjorn about a lot of interest in the conversions in this market. I'm just wondering why we haven't seen some more activity on Teekay's front end in ownership of floating storage and off take segment.

Bjorn Moller: Yes, right. Well the majority of the ships that have been sold for conversion have actually been sold for floating production storage and of take FPSO, which is quite a lot more complex than FSO.

Jin Chun: I see.

Bjorn Moller: And these are typically the LCC or Suezmax tankers that get sold for that. So I guess the people who are disposing of those ships, really don't have their own offshore engineering business that's simply selling the hull as a disposal option. And in many cases, the ships are sold subject to the buyer obtaining the project so they can tie the ships with up for six – three to six months, which can be kind of unfortunate if they call you back and he doesn't get the project, and then you got the ship back, and missed a window to maybe sell it or whatever.

So I guess the floating storage business, which Teekay is involved in, is not a very significant volume business. We pursue those projects, in which we think we can add value, and, you know, continue to manage our floating storage business. So at the end of the day, what's important is ships get taken out of the active trading fleet to help the macro picture.

Jin Chun: Even despite the attraction of the upcoming winter market isn't there a certain limitation where some of these vessels can't operate a minimum level for customers? In other words, they've been – they sought every waiver possible. They pushed off maintenance, delayed maintenance as long as possible. At the end of the day, they still have to pay the piper is that not the case?

Bjorn Moller: Yes, clearly. So it's a – I mean that clearly is a drop dead date. I think we described in one of our calls, a quarter or two ago, that the IML category one ships, some had sought a little bit of life extension by converting to category too. That brick wall is, you know, 12 to 24 months away from most of those ships. So you will see more scrapping. The question is will you see scrapping ahead of deadline because of the pressures of enhanced survey, customer discrimination, poor cash flow, and any other milestones that come up with regular survey investment hurdles.

So, you know, it's- you know, one thing's for sure, you know, death and taxes, as they say. So these ships will have to go.

Jin Chun: And I guess my last follow up is can we expect more activity on the FFA front in the Aframax segment. I know you use it strictly as a hedge on some of your time – short term time in terms of the Suezmax, but as that market gets more liquid, and more developed, should we expect Teekay to be more active?

Bjorn Moller: Yes, I would hope we will be one of the kind of market leaders in developing the liquidity in derivatives market. But it is a very embryonic market still. So, you know, it will take a lot of work. We will be part of that, we hope.

Jin Chun: Thank you very much.

Bjorn Moller: Thanks.

Operator: Our next question will comes from Daniel Burke with Johnson Rice.

Daniel Burke: Good morning. Just two macro level questions left. First, I was curious about the rationale for your using a five times multiplier on non OPEC supply growth in terms of framing tanker demand, is that – is there a science behind that? Or is that sort of a historical Teekay rule of thumb?

Bjorn Moller: Well I guess it's tracking – if you are to peel the carpet back and see the exact trading pattern of all of the world's 3500 tankers, it's not an accurate science. But that, you know, can roughly – there are some rules of thumb that one million – sorry – one percent increase in oil production, if taken pro rata across all trades, OPEC and non OPEC increases tanker demand, by 1.75 percent. If you take OPEC production alone, that's probably a one to two-and-a-half. And if you take non OPEC, which tends to be shorter, it's probably one to 1.5. So that's, you know, somewhat scientific, but probably not, you know, to atomic standards.

Jin Chun: OK. Well thanks, I appreciate that. And then the other question, I think on your last conference call you had indicated you expected the North Sea maintenance season to proceed, if anything a little bit earlier than it typically does? Do you still feel that way? Or has some of that activity sort of been pushed back here?

Bjorn Moller: Well it's been a little bit of a tough year in the North Sea, there have been some fields that were out of service unplanned, and that actually became quite a significant factor in the end of the first quarter and the beginning of the second quarter. I think it distracted away from the timing. So we're actually going to see some maintenance on the North Sea in the third quarter as well, which is not uncommon but we actually thought we were going to have more of it in the second quarter. And that's why we are also taking the opportunity to dry dock a number of our shuttle tankers, while the volumes, the oil volumes might be down a bit.

Jin Chun: OK. Thank you.

Operator: And I would like to remind our audience, if you would like to ask a question you may signal by pressing the star key followed by the digit one. Next, we'll hear from Justine Fisher with Goldman Sachs.

Justine Fisher: Hi. I just have a quick question about the financing for the new LNG new builds. I know that you're going to offer them to Teekay LNG Partners. If you do, will they be financed with units issued there? Or will Teekay still have to use mainly debt to finance those?

Peter Evensen: Hi, Justine. Our general model is that we financed up to 80 percent on a non recoursed Teekay Shipping corporation basis. And then, Teekay Shipping will provide the equity during pre delivery. And when the asset is sold down into Teekay LNG Partners the debt – we have worked it out with the banks, that the debt will be automatically assumed by Teekay LNG Partners. And then Teekay Shipping can either receive cash from the sale of units at Teekay LNG or we can elect to take some units ourselves.

Justine Fisher: It's initially financed with debt, at Teekay. But the once the ship is delivered…

Peter Evensen: That's right. For the – we draw up to 80 percent on a project finance basis. And for the equity installments Teekay will use its revolving credit facilities. So that when it sold down into Teekay LNG Partners, Teekay will be repaying debt at the Teekay Shipping level.

Justine Fisher: OK. And then I know – well I guess you guys haven't given a number for how much these new builds will cost, so it's hard to predict what the peak debt level would be. Are there any numbers that you could give out, as far as that's concerned including the new builds?

Peter Evensen: We're not giving guidance yet, given that how far they are in the future. But if you look – but basically from the guidance you've seen in the past, the economics of LNG hasn't changed.

Justine Fisher: OK. Thank you.

Operator: And we'll take a follow up question from Justin Yagerman with Bear Stearns.

Justin Yagerman: Hey, I just had a quick question, you know, with the approaching stock option expensing regulations in '06, I was wondering what your projected impact is in '06 from the dilution stock options.

Peter Evensen: That would be about $3 million per quarter. As you know, as a foreign filer, it's delayed to 2006 as you mentioned. So it would have a run rate of about three million per quarter at present.

Justin Yagerman: Three million per quarter. OK, thank you. And what line is that coming in on?

Peter Evensen: That would come in the G&A expenses.

Justin Yagerman: Exclusively in G&A, OK, great. Thanks.

Operator: And at this time, it appears there are no further questions. Mr. Moller, I'll hand the conference back to you for any closing comments you may have.

Bjorn Moller: OK. Well thanks very much for a good discussion this morning. And enjoy the rest of your summer. We look forward to talking to you next quarter, and Peter Evensen will be performing at 1 p.m. Eastern. Thanks a lot.

Operator: Thank you. That does conclude our conference call. Again, thank you all for your participation. We hope you enjoy the rest of your day.

END