TEEKAY CORPORATION

Moderator: Bjorn Moller
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10:00 am CT

Operator: Good day, ladies and gentlemen and welcome to Teekay Corporations First Quarter 2010 Earnings Results conference call.

During the call, 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, participants will be asked to press star1 to register for a question. For assistance during the call, please press star 0 on your touch-tone phone. As a reminder, this call is being recorded.

Now for opening remarks and introductions I would like to turn the call over to Mr. Bjorn Moller, Teekay's President and Chief Executive Officer. Please go ahead.

(Kent): Before Mr. Moller begins, 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 earnings presentation. Mr. Moller and Mr. Lok will review this presentation during today's conference call.

Please allow me to remind you that our discussion today contains forward-looking statements. Actual results may differ materially from results projected by those forward-looking statements. Additional information concerning factors that could cause actual results to materially differ from those in the forward-looking statements is contained in the first quarter earnings release at earnings presentation available at our Web site.

I will now turn the call over to Mr. Moller to begin.

Bjorn Moller: Thanks (Kent) and good morning everyone. Thank you for joining us on this morning earnings call. I'm joined today by our CFO, Vince Lok and as usual for the Q&A session, we also have Teekay Corporations Chief Strategy Officer and the CEO of Teekay Energy and Teekay Offshore, Peter Evensen as well as our Corporate Controller. Brian Fortier.

We are reporting today on Teekay Corporations first quarter 2010 results which saw notable progress from the previous quarter. If you would turn to slide 3 of the presentation which is posted on our Web site, I'll briefly review some of our recent highlights.

For the first quarter, we recorded an adjusted net loss of $3.9 million or 5 cents per share. This represents a significant improvement over the loss of 45 cents per share recorded in the fourth quarter of last year. Please note that our results exclude the $30 million or 41cents per share catch up payment recognized in the quarter related to the ((inaudible)) contract amendment which I'll discuss later.

We generated cash flow from vessel operations or CFBO of $203.8 million for the quarter a 57% increase over the fourth quarter result and this was due to Teekay's stable foundation of fixed rate businesses augmented by the $30 million ((inaudible)) payment, stronger spot tanker rates and lower costs.

Teekay remains financially strong with consolidated liquidity of $2.9 billion including pre arranged financing for 100% of our new building capital commitments. We continue to benefit from our unique corporate structure by selling assets to our publicly traded daughter companies and using the proceeds to de-lever the balance sheet at the Teekay parent company level.

So far in 2010 such asset drop downs to our daughters have resulted in $340 million of net debt reduction at Teekay parent, reducing the parent's performer net debt to $567 million and its net debt to capital only 15%. Distributions Teekay received from both Teekay LNG partners and Teekay Offshore partners were increased by over 5% this quarter and Teekay Tankers dividend was also up substantially this quarter.

Turning to slide 4, the graph shows that our quarterly earnings shown by the red line have improved in part due to recovering spot tanker rates which are shown by the blue line. The narrowing gap between these two lines in Q1 however points to the fact that our earnings are growing faster than the rise in spot rates highlighting the success of our focus over the past year on improving our profitability.

The drivers of improved profitability cut across our businesses and include contract amendments and renewals on existing FPSO units starting with the Petrojarl Varg last July and more recently the Petrojarl Foinaven.

Our shuttle tanker fleet had a good first quarter due to high utilization and the effect of recent charter renewals at firm rates. Over the past year, we have redelivered over 25 in-charter vessels eliminating some $65 million in quarterly time charter ((inaudible)) at a high expense. And we saw a reduction in our operating and overhead expenses compared to Q4 last year. Based on specific initiatives already on the way we expect to achieve further improvements in 2010.

Turning to slide 5 we’re excited about the prospects for our offshore business. When we entered the FPSO business some 3 years ago through the acquisition of Petrojarl we factored into the price the assumption that its FPSO contracts had significant upside potential at their future renewal.

As I just mentioned, over the past year we have started to see our efforts to bring Petrojarl's contracts up to current market levels where approved. In March, we signed an amended contract for the Foinaven FPSO which is projected to provide an average of 30 to $40 million of incremental annual CFBO going forward.

To compensate us for our operations in prior periods we will also receive catch-up payments totally $60 million. And I'll provide more background in a moment. In addition, we're engaged in discussions to renew or amend other existing FPSO contracts as well as pursuing new FPSO projects in what is an active project pipeline in the sector. The outlook for our shuttle tanker fleet is also positive.

Our Q1 shuttle tanker segment boost – posted its best results in several quarters as fleet utilization improved and cost management measures put in place starting in second quarter last year began taking affect. On the revenue side, the trend is also positive, rates on shuttle tanker contracts renewals are generally trending upward reflecting a tight supply and demand balance especially driven by Brazilian demand.

In July and September this year, we are scheduled to take delivery of the first two of our state-of-the-art Aframax shuttle tanker new buildings and there is considerable customer interest in these vessels and we are in active discussion regarding their employment which will lead to further top line growth.

We are taking a disciplined approach with respect to investment hurdle rates and new offshore investments. We believe that by focusing on higher value needs projects that play to Teekay's strengths in harsh weather operations, for example, we will be able to meet those relatively high hurdles.

Turning to slide 6, I would like to spend a few minutes on the Foinaven FPSO contract amendment which is an important milestone for our offshore franchise. It marks the second contract upgrade of the five FPSOs included in our purchase of Petrojarl and is the result of over 2 years of negotiations.

This FPSO has operated on the Foinaven field in the U.K. sector of the North Sea for over 12 years and it is the centerpiece of the investment program, the Foinaven co-ventures are making in order to extend the field life and enhance production output. As a result, the field is anticipated to provide employment for the Foinaven FPSO until 2021 and beyond. To enable the unit to remain on the field throughout this period the project will involve investment by both Teekay and its customer to complete life extension upgrades.

On slide 7, we outline some of the key financial aspects of the Foinaven contract amendment. In return for us operating the FPSO for the past 2 years while the renegotiation was taking place we will be paid two lump sum catch-up payments totally $60 million or 82 cents per share. Half of this amount has already been recognized in the first quarter and the other half is expected to be included in the second quarter. The contract amendment introduces a revised revenue formula effective January 1, 2010 consisting of four main components.

A daily base rate which is paid for each day the unit is on hire. A daily operating efficiency rate which provides payments for meeting pre-specified operational uptime requirements. A per barrel tariff based on the volume of oil produced and a supplemental per barrel oil price tariff which provides upside and to a lesser extent downside exposure based on the annual average Brent crude oil price.

Based on current production estimates and the current forward oil price curve we project that the revised revenue formula will provide an incremental 30 to $40 million of CFBO annually. However, significant upside exists for Teekay in the event of higher oil prices and or increased production volumes.

I mentioned a moment ago that the unit will undergo ((inaudible)) upgrades to increase its production. This will mean that for 2010 CFBO will be somewhat lower than in future years. It should also be noted that the timing of cash flows will be lumpy as a result of (true ops) on the annual performance and oil prices in the fourth quarter each year. As a result, we expect approximately 75% of incremental annual payments from the contract to be recognized in the fourth quarter with a remaining 25% spread evenly through the first three quarters of the year.

Overall, the Foinaven contract represents significant new value to Teekay. Applying a ten times multiple to the $35 million midpoint of the illustrative annual operating cash flow amount and adding the $60 million lump sum payment. The amended contract has an estimate value of approximately $5.60 per Teekay share.

Slide 8 quantifies how our re-contracting efforts are significantly enhancing our FPSO cash flows. On the slide, the dark blue bar shows the guidance on future cash flows from our existing FPSO units which we first provided you at our investor day last June and we are now providing updated guidance through 2011.

In July 2009, the Petrojarl Varg contract shown here in grey was renewed and subsequently this FPSO was sold in September to our daughter company Teekay Offshore. However, it is included here for comparison purposes. Starting in 2010, the improved cash flows from the Foinaven FPSO are included. The white bar represents the $60 million catch up payment and as you can see, the big step up in recurring cash flows starts in 2011 and assumes that the Foinaven refurbishment is completed.

As you can see although the timing of our FPSO contract renewals has shifted slightly from what we projected last June, the key take away is that going forward our existing FPSO fleet is projected to generate strong cash flows well above 2009 levels.

Turning to slide 9 we take a look at the growth opportunity in the FPSO market after 2015. The chart shows that future FPSO demand, net of redeployments looks promising even if all prices should moderate considerably from where there are today. With the oil price averaging around $70 a barrel in the first 4 months of this year, we're certainly seeing a much higher volume of new inquiry for FPSOs compared to 1 year ago when all prices dropped below $40 a barrel.

It is important to note, that due to the long timelines in oil field developments, most of this projected FPSO demand over the next 5 years is linked to fields on which expiration drilling has already been completed.

So on next to slide 10, we show highlights to our conventional tanker business in 2010 to date. The key story has been the general improvement in spot rates, which are well off the bottom seen in the third quarter last year. In the first quarter, average Suezmax and Aframax spot rates were up by 50% from the previous quarter.

So far, in the second quarter rates have remained relatively firm. With 50% of our spot days booked for the quarter, our Aframax spot rates have averaged $17,000 a day, although rates are well above these levels as I speak and our Suezmax spot bookings have averaged $29,000 a day. During the past 4 months, we've completed the dropdown of six conventional tankers to daughter companies, for total net proceeds of approximately $300 million.

In addition to the cash we received, which provides further de-levering for the Teekay Parent Balance Sheet, we also benefit from the related increased distributions from our daughters. We re-delivered one in-chartered vessel and sold one older Aframax. Yet we increased our commercial footprint due to the continued growth of our tonnage pools with six vessels joining our Gemini Suezmax pool in recent months, bringing the total number of vessels in that pool to 44.

On slide 11, you can see that spot tanker rates for crude tankers have been on a rising trend since last August, driven by strengthening market fundamentals. Encouragingly, rates in Q2 to date have been relatively firm doing what is usually the seasonally weakest quarter of the year for all consumption.

Under larger crude oil tankers, the ton-mile intensive movements to China, coupled with floating storage in the Atlantic and off Iran, have supported rates although they're off their recent peak levels. This week's strong rally in Aframax rates in the Atlantic appears to be driven by rising cargo volumes in the North Sea and increased transatlantic cargo movement due to higher U.S. refinery utilization.

On slide 12, we discuss the oil market fundamentals (underpinning) the spot tanker market. Oil demand growth in 2010 is forecast by the IEA to be the strongest since 2004 on the back of the global economic recovery. Once again, this demand growth is expected to come from non-OECD led by China.

China's crude imports are running 16% ahead of 2009 and are being sourced from ton-mile intensive OPEC and Atlantic base and suppliers. It is also important to note that oil demand in the OECD has finally stabilized after 2 years of negative growth and this removes a major drag on tanker demand.

OPEC quarter compliance continues to slip. OPEC production in April was nearly $1 million barrels a day higher than in the same month last year and this had been a major driver behind tanker demand growth. Looking at the second half of the year, the call on OPEC crude is expected to be higher as global oil demand increases seasonally.

Turning over to tanker supply on slide 13, the impact of the IMO targeted single-hull tanker scrapping is now evident as tanker removals have risen considerably compared to 2009 as shown in the top chart. The noose for single hulls is tightening further, as Thailand, which is the second largest spot charter of single hull vessels recently announced that it is considering a ban on single hull ships.

Also the recent events in the U.S. gulf may have – may lead to the discontinuation of ship-to-ship lightering in U.S. waters involving single hull tankers. It is perhaps telling that this past week, Vela, the shipping arm of Saudi Aramco has reportedly sold five of its single hull VLCCs for dry bulk conversion.

As you can see in the bottom table, year to date net fleet growth has been limited to only 1.5% due to slippage in the schedule of new buildings and the high rate of removals. On slide 14, we have updated our 2010 fleet utilization outlook slide.

I won't review the details, since not much has changed in the numbers from what we presented when we presented this slide last quarter. However, we have included it again, mainly as a reminder of the plausible path that could take us at least part of the distance from our best-case fleet utilization of 86%, which should result in a mid-cycle type tanker market, to our recovery case which could ultimately see a return to full utilization and higher rates.

As the various factors play out, we do expect volatility to remain a factor throughout 2010. I will now hand it over to Vince to discuss the company's financial results, Vince.

Vince Lok: Thanks Bjorn and good morning everyone. Turning to slide 15, I will review our consolidated results for the quarter. In order to present the results on a comparative basis, we have shown an adjusted Q1 income statement against an adjusted Q4 income statement which excludes the items listed in appendix A of our earning release and it reallocates realized gains and losses from derivatives to the respective income statement line items.

Starting with net revenues, they increased by $11 million in the first quarter, primarily due to higher spot tanker rates and fewer dry dock days in the first quarter, compared to the previous quarter.

Note that the Q1 adjusted revenues excludes the $30 million catch-up payment relating to the Foinaven contract amendment which has been included in appendix A as a nonrecurring item. However, we are expecting to recognize the second catch-up installment of $30 million in the second quarter.

Vessel operating expenses decreased by $16 million from their previous quarter mainly due to the timing of repairs and maintenance activity in our FPSO and shuttle tanker fleets, as in the past we typically schedule more of our dry docks and maintenance activities for our North Sea's, FPSO and shuttle tanker fleets during the spring and summer months.

As a result, we expect vessel-operating expenses to be about $10 to $13 million higher in the second and third quarters compared to the first quarter. Time charter hire expense decreased from the previous quarter by approximately $10 million, mainly due to the redelivery of five in-charter vessels during Q4 and two in-charter vessels in Q1.

As a result of the Q1 redeliveries and additional redeliveries during Q2, we expect time-charter hire expense to decline buy a further $4 million in Q2. Depreciation expense decreased by $3 million, mainly as a result of revised residual value estimates for our FPSO fleet and a reduction in amortization of intangible assets that were written off in Q4. We expect depreciation expense to be similar in Q2.

G&A expenses decreased from the prior quarter, reflecting our continued focus on managing expenses. Conservatively we expect that – a G&A run rate of approximately $50 million per quarter for the next few quarters. Please note that we have reclassified crew-training costs from G&A expenses to vessel operating expenses which were $3 million in Q1 and $4.4 million in Q4. The Q4 G&A and OpEx figures have been reclassified to conform to this new presentation.

Net interest expense increased over the prior quarter by $4.4 million mainly due to the $450 million bond offering completed in January. Net interest expense is expected to increase slightly next quarter, reflecting the full quarter impact of the new bond. Income tax recovery of $4.1 million in Q1 was lower than in the previous quarter; however Q1 is more representative of a normalized run rate.

Non-controlling interest expense increased due to higher earnings in all three of our daughter companies as well as the recent equity offering in Teekay Offshore. Looking at the bottom line, adjusted net loss per share was 5 cents in the first quarter, an improvement compared to an adjusted net loss of 45 cents in the fourth quarter.

I would note again that the first quarter's adjusted net loss excludes the $30 million or 41 cents per share Foinaven catch-up payment and does not fully reflect the benefit of the amended Foinaven contract since as Bjorn mentioned, a large portion of the Foinaven revenues are recognized in the fourth quarter of each year.

Turning to slide 16, in an effort to provide greater transparency of the financial performance in cash flow generation at the Teekay parent level, we have created two new appendixes in our earnings release.

Appendix C provides a detailed breakdown of the cash flows generated by the various asset classes directly owned and in-chartered by Teekay parent. And appendix D provides a detailed summary of the total operating free cash flow at the Teekay parent level including the cash distributions received by our equity holdings of our daughter companies.

In addition, the appendixes to this earnings presentation, we have provided detailed information on Teekay parent's existing conventional tanker out-charters, its in-charter fleet, as well as its projected spot revenue days. We hope that you will find this additional information useful.

Looking briefly at appendix D on slide 16, Teekay parent's vessels generated positive cash flow from vessel operations of $36 million in Q1 compared to a negative cash flow of $19 million in the prior quarter. The improvement in Q1 mainly reflects the strengthening in spot tanker rates, as well as the $30 million catch-up payment relating to Foinaven.

The cash distributions from the daughter companies are also on a positive trend as both Teekay LNG and Teekay Offshore increased their distributions by over 5% in the first quarter. The general partner – or GP distributions – are also ramping up quickly, which is driven by two factors.

Firstly, the GP distributions increase in absolute dollar terms after each equity offering in the MLPs. This is because the absolute size of the GP also increases as the size of the limited partnership increases.

Secondly, when the distribution per unit increases for the limited partners, the GP distributions increase proportionately higher. This is because of the GPs incentive distribution rates. Both TGP and TOO are currently at the 25% tier of the incentive distribution rates, meaning that the

GP receives 25% of any incremental distribution increases compared to only 2% when the MLPs were initially launched.

On an annualized basis, Teekay parent is currently receiving over $200 million in distributions from its daughter companies, which is more than double the current Teekay Corporation annual dividend of $92 million. Turning to slide 17, over the past 15 months we have significantly strengthened Teekay parent's balance sheet.

Reducing our total net debt and new build commitments by over $900 million during this period so far in 2010 we have completed asset drop downs to each of our three daughter companies resulting in a reduction in Teekay parent's net debt by $340 million. As you can see, Teekay parent is well on its way to becoming net debt free.

On slide 18, we provide the composition of Teekay parent's net debt, its liquidity and its remaining new building commitments. As of March 31 the Teekay parent's debt included $472 million of unsecured bonds, most of which is (the new) $450 million 10 year bond we issued earlier this year.

Remaining debt is primarily advertising term loans. Including the net proceeds from the drop down of three vessels to Teekay Tankers in April, Teekay parent’s net debt reduced to $567 million resulting in a net debt to capitalization ratio of only 15%. All of its parent companies revolvers are now undrawn, which together with our cash balance of about $400 million, results in current liquidity of over $1.2 billion.

In addition to that we have pre arranged new building financing of $583 million resulting in total liquidity of over $1.8 billion. At the bottom of this slide, we have provided the breakdown of Teekay parent's remaining new building commitments. As you can see, not only are these commitments pre-financed, but these assets are also destined to be dropped down to Teekay

Offshore in the case of a new build shuttle tankers and Teekay LNG in the case of the Angola vessels.

As a result, these CapEx payments won't remain on Teekay parent's balance sheets. I should also note that the Angola vessels are equity accounted for given our one third-equity ownership interest so only the equity portion or roughly 20% of these amounts will be on balance sheet.

Although we are carrying more cash than we have in the past, which comes with a carrying cost, we believe that having a strong balance sheet, ample liquidity and access to capital will provide Teekay with the competitive advantage going forward. We are optimistic that we will have the opportunity to deploy this capital profitably.

Slide 19 provides an updated debt profile for Teekay parent. With the completion of the $450 million tenure bond in January, we now have virtually no debt balloon payments due over the next several years which gives us a significant amount of financial flexibility.

I will now turn over to Bjorn to conclude.

Bjorn Moller: Thank you, Vince. Teekay Corporation share price continues to trade at roughly half of its sum of the parts value. You'll find an updated sum of the parts slide in the appendix. We believe that increasing our profitability is the key to increasing our share price and narrowing the sum of the parts discount.

This morning we've emphasized our team focus on profitability and the considerable progress we are making. We intend to maintain this focus and anticipate being able to report further improvements to you in the coming quarters. Thank you for listening in this morning and we will now be happy to take your questions.

Operator: Thank you. Ladies and gentlemen, as a reminder if you wish to ask a question, please press star 1 on your touch-tone phone. To withdraw your request, please press the pound sign.

Our first question today comes from Justin Yagerman of Deutsche Bank please go ahead.

(Rob Salmon): Hey good morning guys. This is Rob Salmon on for Justin.

Bjorn Moller: Good morning.

Rob Salmon: I guess I'll start off with a few broader industry questions and then follow up with a couple company specific. I was curious if you guys have seen any sort of impact from the events which happened in the U.S. Gulf to the underlying market, in particular the Aframax market?

Bjorn Moller: Hi, thanks for the question. I would say there hasn't been any concrete displacement of tonnage. We've seen stronger rates in the Atlantic basin but I believe that's driven by other fundamentals, which I indicated, which is high volume of cargo in the North Sea and high U.S. refinery utilization so we have not seen any significant or any noticeable impact on our fleet of that incident.

Rob Salmon: Got you and then when I'm thinking about the Aframax market in general, what do you think has caused that market to lag the VLCC and Suezmax markets and what do you think we need to have to drive an improvement in the Aframax market in terms of rates?

Bjorn Moller: Right, I guess if you look at the delivery schedule, there was a – when you looked at the ramp up in the global order book a couple of years ago and then the delivery schedule that followed, the – both the product tanker market and the Aframax market were earlier to see the inflow of large numbers of new buildings whereas the Suez and VLs were looking at that happening later.

So in fact, 2009 was a significant growth year for Aframax so then we had the deteriorating supply and demand balance that was more serious in that sector than in the larger vessels.

I think that might reverse itself in the next year or 18 months so I think it'll even out. And I think we're seeing certainly currently this strength in Aframax rates indicates that there is not a lot of surplus, it doesn't take a lot to trigger a significant rate increase.

Rob Salmon: That was really helpful and I guess if I'm shifting a little bit in terms of you all's philosophy regarding employing vessels in the spotter charter market. How are you guys thinking about that mix over the next 6 to 12 months right now?

Bjorn Moller: Well, Teekay, due to its diversified business model has a lot of stability of cash flow from both the daughter company's distributions as well as the fixed rate business sitting up at the parent. So we are kind of – we have some built in hedges if you will and so we can view this conventional spot tanker segment in our fleet a little differently.

But I think we take a tactical approach with a combination of short to medium term time charters and some spot exposure. We have a fairly significant operating leverage still as indicated on one of the slides. So I think we have certainly good exposure to the upside that's being provided by the recovery that we're seeing. We're seeing some strengthening fundamental that are probably a little better than we had expected.

We also have structured a number of our time charters out to include profit share components which give us a flaw and gives us an upside potential. So we expect this year to continue to be volatile and so I think we have a good mix between time charter and spot.

Rob Salmon: Got you, that's really helpful. I guess when you're talking to your customers or potential customers, what sort of duration in time charters are they currently most interested in and how long are you guys going to sign vessels to charters currently given some of the improvement in the fundamentals that you had discussed a little bit earlier?

Bjorn Moller: Well, the typical time charter business is between 1 and 3 years. You don't often see contracts going extensively beyond that. Remember that Teekay and the – and the daughter companies have vehicles that focus on 10 to 25 year charters in Teekay LNG Partners, sort of 3 to 10 year charters in Teekay offshore. And have in Teekay tanker subsidiary we have a 0 to 3 year charter policy. I think in the conventional tanker market, most charters are 1 to 3 years.

Rob Salmon: OK, so we really haven't seen much of a shift in terms of how those have historically trended in terms of what customers are looking to try and sign charters for right now then?

Bjorn Moller: Not in any – not in any sort of significant trend. That would be pretty anecdoteable.

Rob Salmon: OK, and then I guess finally, on the – what types of vessels are you guys looking at, at potentially either acquiring or divesting in the S&P market right now?

Bjorn Moller: We are – we have a new billing auto book that's delivering in the next 2 years. That certainly will provide growth to Teekay. We're taking an opportunistic approach. We've sold some of our older vessels recently as you've noted. And we are basically comfortable – we don't think that there's any rush to move into acquisition of new tonnage right now. We have a pretty good exposure to the market. And we're looking mainly to invest in the offshore business, which we think offers attractive long term returns.

Rob Salmon: I appreciate the time gentlemen. I'll shift it over to someone else. Thank you.

Operator: Thank you. And our next question comes from Scott Burk from Oppenheimer. Please go ahead.

Scott Burk: Good morning Bjorn and Vince. You had the one chart in your presentation showing how earnings are growing fast the last couple of quarters and rebound in day rates. If day rates remain at near current levels, what other levels can you pull in terms of lower expenses to boost earnings you know over the next year?

Bjorn Moller: I think a lot of the cost savings we expect to achieve have been achieved. I think we have mainly focusing on maintaining the gains we have made. I think the biggest opportunity for profitability is through the re-contracting and renegotiation of existing assets.

And we've achieved significant steps forward and the two FPSOs we've renegotiated, we've renewed a number of shuttle tanker contracts at higher rates. And we have discussions on various projects within our existing fleet where we think we can do a lot more.

So that may be the major move of the profitability and that will not require any significant additional investment if any at all. But of course, we're also looking at trying to improve profitability by securing new profitable projects. So it's a – but I think there's a lot of low hanging fruit that we're continuing to be targeting.

Scott Burk: And when you approach your clients with these FPSOs and the shuttle tankers, what kind of leverage do you have to be able to negotiate those higher rates. Is it just as things role off or what's the – what's the leverage there?

Bjorn Moller: It's mainly as things role off and but it – we also have – we work with our customers to determine if we can figure ways to restructure contracts to mutual benefits. So we've been successful in that regard as well. So it's really a cooperative approach. I would say.

Scott Burk: OK, and then I wanted to also ask you about the vessel drop downs to the daughter companies. I had several you know several equity offerings at the daughter companies at the last – in the last quarter and a half and you know several drop downs.

What – talk about the decision process you go through as to when you're going to drop things down? Is it mostly just you know how receptive the equity market is? It's in other words implied cost of capital is fairly low or cost of equity is fairly low. Or what is the driver to that actually leads you to pull the trigger on dropping down a vessel.

Bjorn Moller: All right, why don't we ask Pete Evensen to respond to that?

Pete Evensen: Sure, well actually we have a process that starts with the Omnibus agreement that Teekay LNG Partners and Teekay Offshore have with Teekay. And if a gas project is put together by Teekay Corporation, it must offer it at cost to Teekay LNG. And likewise, if a new offshore project is put together at Teekay Corporation it must be offered at cost to Teekay Offshore.

Scott Burk: Yes.

Pete Evensen: When it comes to existing assets, when those get re-contracted, they are offered at fair market value. And the independent directors at each subsidiary form a conflict committee and they will make a determination of whether they wish to purchase that asset.

At the same time, Teekay Corporation has been willing to sell assets because they want to become net debt free. And of course, they have an incentive distribution right so that it's a favorable transaction for them but as it relates to the daughter companies.

They're interested in buying assets that will allow them to increase the distribution. Luckily we've been able to do that but on the off – on the subsidiary side we don't just look at Teekay assets, we look across the broad – the broad spectrum. Try to buy assets that we want at the price that will enable us to increase the distributions per share.

Bjorn Moller: I would also add though the add the model as we saw it in 2009 when probably the equity market would have been closed for practically everyone else that the daughter companies were able to access the capital markets and raise equity. So I think it gives us a lot of flexibility that model. So I think that's an important feature.

Scott Burk: OK. And then kind of one follow up that you talked about having quite a bit of cash in the balance sheet and you know presumably some of that is – can be traced back to being generated by the distributions at the daughter companies.

What's the trigger point to start paying more of that out to Teekay parent shareholders in terms of – in the form of higher dividends? Is it when you get to the net debt free point or is it just you got to wait for more of the general partner incentive distributions to kick in. Or what's kind of the trigger to increase the dividend at the parent corporation?

Bjorn Moller: Well, that's a question that we discussed with the Teekay board each quarter. I guess we have three uses for cash in general. It's to repay debt, it's to invest in profitable projects or to return it to the shareholders. But we've had a combination of those three things. If we run out of debt to repay then there's – we're down to two choices. And so that's a problem that we would like to have at some point and then we will address it.

So I would say we – that's why I referred in my presentation to the fact that we're focusing on a reasonable high level of hurdles in new investment because we realize that we have to – we have to compare favorably to the alternative use of our cash. Invest in new projects.

Scott Burk: Right. OK, thank you.

Bjorn Moller: Thanks.

Operator: Thank you. And our next question today comes from Urs Dur of Lazard Capital Managers. Please go ahead.

Urs Dur: Good Morning. Well, it's not really, well I don't know – I don't know what time it is. It's still morning. Good morning. Most asked and answered and I think Bjorn, you have made a need quote that in regards to profitability you might be able to bridge the gap between where the share is trading and the sum of the parts valuation.

And I'm not disputing the sum of the parts valuation calculation, it seems to make sense, but unfortunately, the street, right now at least, hasn't been taking that. So is it just profitability? Is there any other way that story can be conveyed to get the valuation to the sum of the parts?

Bjorn Moller: We keep telling it and I guess we should be open to ideas how to tell it differently, but I think the story is extremely compelling. You look at the fixed assets sitting at Teekay, you look at the investment at the daughter companies and you subtract the dwindling net debt and you can very quickly come to the sum of the parts valuation.

I think – I think it's a fair valuation …

Urs Dur: Yes.

Bjorn Moller: … and I believe that we will make progress that we really are making strides on the profitability and I think we have – we have to show that. So that's our key driver.

Urs Dur: Sure, OK. Yes, that – it's tough because you know I agree that the calculation makes quite a bit of sense. It doesn't seem the street is taking, unfortunately. On the offshore side, really a macro question, been probably way too early to even ask this, but I mean, how do you view the current situation in the Gulf?

Not from Aframax operations in the (Heedison) ship channel, but more from an offshore development slash demand and for your assets globally and how you view offshore drilling and opportunities going forward. You obviously say it's very strong, but do you see any hurdles that could be created by this current situation?

Bjorn Moller: It's certainly, as you point out, early in the proceedings to have a firm view of what the impact is, but I would say that this – that the oil business is a global business. We expect that globally, oil research and deport exploration will continue, will be a growth business, because that really is the, you know, we need the oil and gas and so the industry performs a very valuable role.

So there may be more regulation coming from this and of course, it's very regrettable what's happened, but I think if you look at just at the next – the next 5 years as I indicated because of the lead times the exploration wells that in 5 years will be new FPSO projects, those wells have already been drilled.

So it's – even if there's a delay or a slowdown in awarding new acreage in certain parts of the world, I think it'll take 5 to 7 years before it impacts the FPSO pipeline of projects. And of course, the quality focus will only heighten as it has done in the tanker industry over the past years based on mishaps in that industry so that actually helps companies that have good names.

Urs Dur: Great. Thank you finally, again sort of macro in (asset) question here, not that you have massive exposure, but the product tanker market's been specifically weak for quite some time. Is there any – is there ever going to be a turn in that market, are we terminally oversupplied, or is this the – or is there going to be more demand for long distance moves of products going forward and what's your view on the product tanker market?

Bjorn Moller: Well, our product view is that we believe primarily our business is linked in the large product tankers, LR2s …

Urs Dur: Sure.

Bjorn Moller: … this clearly is going to be a prolific product trade as there already is, but you know we just feel that the product tankers, that the smaller product tankers, medium size …

Urs Dur: Yes.

Bjorn Moller: Fragmented market which is somewhat commoditized, so we have focused on the LR2 as the – because of the long haul nature of new export refineries in Asia and there's a good adjacency between LR2 which are Aframax tankers with coating, Aframax franchise. So we have the ability to cross trade and so that makes a lot of sense for us.

So I would say we are not likely to look at the smaller product tankers for some time.

Pete Evensen: And I would also say that I think you really have to find refinery utilization coming up before you find the smaller product tankers recovering.

Urs Dur: Sure. Thanks, Peter and Bjorn. No, that's very helpful, thank you guys.

Bjorn Moller: Thank you.

Operator: Thank you. And our next question comes from Justine Fisher of Goldman Sachs. Please go ahead.

Justine Fisher: Good morning.

Pete Evensen: Hi, Justine.

Justine Fisher: So in the one of the later slides in your presentation, you were talking about how scraping is on track for the base case scenario of 45% of single hulls this year. And I was wondering if you could comment on what you think the feasibility is for the remaining single hulls to be scraped. I mean it seems to make sense from a regulatory perspective and an economic perspective that people may want to scrap lower earning single-hull vessels, but can the scrap yards actually take it? I mean is there anything that can happen to make it more feasible from the numbers?

Bjorn Moller: I think the issue is not the ability of scraping companies to handle the volume, I think it's simply driven by the ship owners deciding this is the right time. And we're helped by the strengthening steel prices. That's because it's an economic calculation, but I think there's no bottleneck in terms of the capacity to scrap large numbers of ships.

We've seen that in these industries can start up and shut down fairly quickly, so that is not the factor. And I think you know we're in fact slightly ahead of what we call the base case with – we're annualized running at like 27 million tons instead of 23 million.

And I mean I think if anything, the momentum is growing month by month as we also showed on the chart. So I think you know this is why I think it's interesting to keep an eye on the recovery case. We're also seeing continued good dry bulk interest and so it's not purely a matter of just the push by ship owners selling scrap. There's some pull effect from dry bulk wanting to acquire all of the LCCs.

Justine Fisher: Oh, to convert to the LOCs, you mean?

Bjorn Moller: Yes, it's a large – well in fact, across all segments, it's Aframax, Suezmax and VLCCs, a number of vessels are being sold for dry bulk conversion. And once they go there, they never come back.

Justine Fisher: How much does one of those conversions cost your guys? Now, I mean I know you're not doing them, so it's hard to say, but do you know how much it costs to convert a tanker to dry bulk?

Bjorn Moller: I've seen numbers of 25 to $50 million for large dry bulk carriers.

Justine Fisher: Wow and then another question is I know that you guys mentioned you're pretty strong cash balance and if I look at the – at the cash flow statement, I mean, it just seems as though CapEx is pretty low during the quarter. Can you just talk about the other drivers of that balance? I mean, it looks like you issued more debt than you repaid and I know that that happens with just timing of percentage of completion payments. But can you talk about the key drivers of the higher cash balance 4Q to 1Q?

Vince Lok: Well, a lot of that is driven by the dropdowns that we've made to the daughter companies as well as the bond issuance in January. I think we've laid out the CapEx. There was very little in the first quarter. There was only about $35 billion in new building installments.

And the next set of new building installments are really related to the shuttle tanker new buildings in the – in the third quarter and a little bit in the fourth quarter. So we don't have a lot of outflows the changes in the debt that you see in the cash flow statement, a lot of that is repayment in draws on revolvers.

Justine Fisher: OK, so right, but it – but it looks as though it was a net – the net number was a higher – was a higher debt number which seems to have been the biggest driver of the you know almost $200 million quarter-over-quarter cash increase.

Vince Lok: Yes, I think that that does include the issuance of a $450 million bond.

Justine Fisher: Right, OK and so only a portion of that was used to repay bank debt.

Vince Lok: Yes, we purchased about 170 of that of – applied that to repurchase the old bonds. And we repaid – used the rest pretty much to reduce term debt and revolvers.

Justine Fisher: OK.

Vince Lok: You know a lot of in and outs there.

Justine Fisher: And then just from the bond perspective, have you guys put out a number on parent company EBITDA? If bondholders want to get an idea of the EBITDA generation from the vessels that are accounted for at the parent and then you know I guess if they want to – well I guess, I don't know, depends of people want to include GP interest in EBITDA.

But is this a number that you guys have calculated and if so, could you give it and if not, is this something that you would look to give out going forward for the purpose of bondholders?

Vince Lok: Yes, absolutely. I think that's the – that was the intention of the appendix C and appendix D to the earnings release.

As was shown in slide 16 of the presentation, the direct EBITDA earned by the vessels owned and in charter by the parent is $36 million in the quarter. And the total distributions from the daughter companies is about $52 million. And then I guess you could deduct the interest expense and dry-docking. So we get a total net cash flow of $64 million at the parent, so that was the intention of appendix D.

Justine Fisher: I'll look back at it. I must have missed it. That's in the presentation or press release.

Vince Lok: It's in both of them.

Justine Fisher: Yes, OK, I'll look for it, thanks.

Vince Lok: Thank you.

Operator: Thank you. Once again, ladies and gentlemen, as a reminder to press star 1 if you do have a question. Our next comes from Jon Chappell of JP Morgan please go ahead.

Jon Chappell: Thanks, good morning guys.

Vince Lok: Morning.

Jon Chappell: Bjorn, after the Foinaven and the success that that had as far as adding cash is concerned, what – can you just give us update on the schedule for the remaining three, when they'll be undergoing their negotiations. I know it's a – it's a moving target, but just your best guess right now.

And then also, where do they stand relative to current market rates compared to where the Foinaven was I mean looking at a big retroactive $60 million cash payment for these other three, 30 to $40 million step up in EBITDA. How do those compare?

Bjorn Moller: Well, the remaining three assets we have one unit which is likely to come up for renewal in the next 2 quarters I would say. And that unit is earning reasonably good cash flow. We might be able to improve it slightly, but I think above all we'll buy longevity, maybe 5 to 7 years.

Then we have a unit that may be up for renewal somewhere in 2012, 2013. And we have another unit that's due for renewal in 2015. The 2012, 2013 unit is probably going to see improved cash flow. It's earning some reasonable cash flow now, but not very strong. But that will be hopefully improved when we renew this unit.

Whereas the 2105 unit is not a very attractive contract but we are hoping to improve through some mutual benefit negotiations with customers, but that will be – so it'll be sort of staggered over the next – next 5 years.

Jon Chappell: Right.

Bjorn Moller: But of course, the new project pipeline is also very active, so we're hoping that we can squeeze in a new project or two along the way.

Jon Chappell: And if you drop one more FPSO down, whether it's the Foinaven or this next one in a couple of quarters to TOO, assuming the financing and the equity markets are available to do that – you're going to be a lot closer to your net debt free you know a lot sooner than what you had hoped for at the end of 2011.

This kind of follows on a little bit of an earlier question, but if you're getting twice as much dividend distribution from the daughters than you're paying out at Teekay and if your stock's trading at half of what the sum of parts is, I guess talk about the acquisition opportunities right now.

And you know how they compare to your hull rates and then also I would just, if you can add a little bit more commentary on you know profitability probably will help narrow that gap. But I think maybe the return of cash to shareholders ahead of maybe acquisitions or debt pay down might also narrow that gap a little bit.

Bjorn Moller: Yes, that's a good point, John and we certainly are looking very closely at that equation. We are intending – we are turning down business that is not meeting the hurdles that we think would make the investment justified compared to the alternative, so we're being very disciplined.

We're not out buying in, in the rally in conventional tankers. In fact you know we are even looking to see if we can unload certain assets into that rally with the aim of creating the financial flexibility that will allow us to pursue profitable projects or (to) other uses for the cash. So I mean, basically, we'll return capital if it's excess.

Jon Chappell: Without giving any numbers, how close are you now to the hurdles based on the current time charter and asset price environment. Are we talking a couple percent or is it still pretty far away?

Bjorn Moller: Maybe in the offshore sector, so I guess I would say in the – in the conventional business, I think the equation – you'd have to be willing to look at the last 10 years and say we can repeat. The next 10 years would look like the last 10 years in order to justify investing in the spot tanker business right now. And that's why you're not seeing us being active there. It could happen, but we're not convinced that this is the time to make that investment.

I think in the offshore, if we could get unlevered ROIs in the – in the low teens, then I think that that would be potentially interesting, but we may have enough capital to do both some growth and some returning.

Jon Chappell: OK. Thanks, Bjorn.

Bjorn Moller: Thank you.

Operator: Thank you. And our next question comes from Sandy Goldman of Front Barnett.

Sandy Goldman: In reference to your building your war chest, your balance sheet, some of your competitors are doing the same thing. A lot of other competitors are going into the market to finance. What do you expect to happen whereby you can get bargains?

Bjorn Moller: Well, I guess we are not necessarily convinced there will be bargains, but we are saying that the value equation between what you can purchase conventional assets at today versus the potential outlook if you look at global ship building capacity going forward.

We think there will be volatility and there will be pockets of value and if there are not, then we will invest in our other businesses. That's the beauty of the Teekay business model. We have several areas in the value chain, offshore, shuttle, gas and so on. And we see lots of opportunity for investing outside of the more cyclical business. But we have made a lot of good money in the cyclical business historically. Some of our business …

Sandy Goldman: Well, you've done – yes, you've been very, very aggressive at the right time, historically.

Bjorn Moller: So we are not ruling that out but then we would be on the sidelines most of the time if we only had the conventional cyclical business but that's why we built a different business model one that we think will sustain us through the cycles.

Sandy Goldman: So really, given your outlook you think it'll be those alternative investments that most probably will come to fruition because you would have a lot of competition in this basic cyclical business from all of the people that are raising money or cleaning up balance sheets?

Bjorn Moller: Well, that's right. I think we can be patient and we have we can look for the devalue play if it doesn't show up we'll invest in our stable growth businesses. So we are fortunate to have those choices.

Sandy Goldman: OK, but obviously too the degree you think your base businesses will move up it has to be in an environment where value shouldn't collapse.

Bjorn Moller: Well, I mean you could have the offshore business is quite different in its cycles from the conventional tanker business.

Sandy Goldman: Right.

Bjorn Moller: They don't have any speculative capacity in the floating production business for example. And you have very limited speculative capacity in the shuttle tanker market.

Sandy Goldman: Right.

Bjorn Moller: So I think that's about franchise, about no how, customer relationship and (niche) skills. That's very different from the conventional business.

Sandy Goldman: Yes thank you very much.

Bjorn Moller: Great thank you.

Operator: Thank you and our next question comes from once again Justine Fisher of Goldman Sachs please go ahead.

Justine Fisher: Hey just a follow up to the last discussion about your approach the tanker market, so it seems – if you guys are willing to offload vessels into this – into the improved sentiment in the tanker market I mean are you guys looking to kind of rotate away from activity in the tanker business over the next couple of years?

It seems like a pretty – a pretty trepidations approach to the tanker market over the longer term. I mean it may be that rates over the last few – over the last 10 years were – won't be seen again for the next 30 years just because they happen to come at a time where ship yard capacity was severely restrictive and Chinese demand increased significantly.

So you know I mean does if we're not going to see those rates in the next couple of – the next decade you know does that mean that Teekay kind of continues to shrink more in the conventional tanker business?

Bjorn Moller: No that wouldn't be true I – maybe I should've been more clear. At the Teekay Corporation level the – we have a strategy of being a project manager and a project developer. We've created Teekay tankers to be a play on the conventional tanker market and the cycle in particular it – with a 0 to 3 year employment profile.

Teekay tankers has grown and it's done so in large part due to sales of assets by the parent but that is by no means the only growth track for Teekay tankers. And of course, Teekay Corporation is a major investment in Teekay tankers so we expect to continue to have exposure. But we are doing so in a pure play vehicle where that particular type of exposure is going to be valued more highly.

Justine Fisher: But you did talk about off loading vessels into the current market?

Bjorn Moller: Well, opportunistically, I mean we're not exiting, we're just saying we may sell some assets opportunistically.

Justine Fisher: OK, OK great thanks.

Bjorn Moller: Thank you.

Operator: Thank you and at this time there are no further questions in queue, please continue.

Bjorn Moller: Well, thank you very much for joining us this morning and we look forward to reporting to you next quarter. Have a great day.

Operator: Thank you, ladies and gentlemen; this now concludes your conference for today. We appreciate your participation. You may now disconnect your lines and have a great rest of the day.

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