TEEKAY SHIPPING (CANADA) LTD.

Moderator: Peter Evensen
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10:00 am CT

Operator: Welcome to Teekay Corporation's First Quarter 2013 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 star one to register for a question. For assistance during the call, please press star zero 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. Peter Evensen, Teekay's President and Chief Executive Officer. Please go ahead sir.

(Ryan): Before Mr. Evensen begins, I'd like to direct all participants to our website at www.teekay.com where you will find a copy of the first quarter 2013 earnings presentation. Mr. Evensen 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 of 2013 earnings presentation and earnings release available on our website. I will now turn the call over to Mr. Evensen to begin.

Peter Evensen: Thank you (Ryan).

Good morning everyone and thank you for joining us today for Teekay Corporation's First Quarter of 2013 Earnings Call. I'm joined this morning by our CFO Vince Lok and for the Q&A session we also have our Chief Strategy Officer, Kenneth Hvid and our Group Controller, Brian Fortier.

During our call today I'll be walking through the first quarter of 2013 earnings presentation which can be found on our website. Beginning on slide three of the presentation, I will briefly review some recent highlights for Teekay Corporation and our three publicly traded daughter companies.

For the first quarter of 2013, Teekay Corporation generated $193 million of total consolidated cash flow from vessel operations or CFVO. Teekay Corporation reported a consolidated adjusted net loss of $12 million or 17 cents per share for the first quarter of 2013 - an improvement from the consolidated adjusted net loss of 30 cents per share that we reported in the first quarter of 2012.

The reduction in our adjusted net loss for the quarter reflects the contributions from the strategic acquisitions and organic projects that delivered over the past year, the redelivery of 12 chartered and conventional tankers since the start of 2012 and the progress we've made on our cost reduction initiatives.

These results still reflect the lost cash flow of approximately $9 million per quarter due to the vamp FPSO unit being off hire while it undergoes repairs following damage from a December 2011 storm event. In February 2013 the Cidade de Itajai FPSO achieved first oil on location offshore Brazil and commenced its nine year time charter with Petrol Boss.

As per our Omnibus agreement, Teekay Parent has subsequently offered to sell its 50% interest in this FPSO unit to Teekay Offshore. Teekay Offshore increased its quarterly cash distribution by 2 ½% to 52.53 cents per unit which moves our general partner incentive distribution rights or IDR's into the 50% high splits. This means that our GP interest for Teekay Offshore partners and Teekay LNG partners are both now in the 50% tier which means that Teekay Parent will receive 50% of future cash distribution increases from both of our MLP's going forward.

Our three publicly traded daughter entities have also been executing on their respective business plans during the quarter. In mid February Teekay LNG partners completed its accretive acquisition with about 50% interest in EXMAR LPG. A new joint venture with Belgium-based EXMAR which controls the fleet of 25 LPG carriers including eight new buildings currently under construction.

The new joint venture is a natural extension to Teekay LNG's already sizeable gas shipping business and the partnership with EXMAR whom we consider to be the leading player in the attractive midsize LPG sector provides another channel for future distributable cash flow growth.

Teekay LNG declared a cash distribution of 67 ½ cents per unit based on its GP and LP ownership interesting in Teekay LNG. Teekay Parent will receive a cash distribution of $23 million when Teekay LNG's first quarter distribution is paid on May 14th.

Teekay LNG is seeing increased new business development for both LNG transportation projects and floating storage and reclassification or FSRU project and is currently bidding on several projects that are expected to start up after 2015 when new liquefaction facilities are scheduled to come online. The opportunities Teekay LNG are looking at include securing contracts for the two fuel efficient LNG carrier new buildings ordered by Teekay LNG last December and its three new building options.

Moving to our other master limited partnership - on May 2nd, Teekay Offshore Partners completed its accretive acquisition of the Voyager Spirit FPSO from Teekay Parent for $540 million following first oil in the North Sea on April 13th. Also in April Teekay Offshore continued to diversify its sources of equity capital and completed 150 million series A perpetual preferred units offering which complimented a new $60 million common unit private placement to an institutional investor that was also completed in April.

With the completion of these offerings, the equity requirements for the Cidade de Itajai FPSO and the four BG shuttle tanker new buildings are now covered. As mentioned earlier, Teekay Offshore increased its declared cash distribution by 2 ½% to 52.53 cents per unit. Based on its GP and LP ownership interest in Teekay Offshore, Teekay Parent will receive a cash distribution of $15.4 million when Teekay Offshore's first quarter distribution is paid on May 14th.

Teekay Offshore has also seen an increase in new offshore project tenders during the past year. Teekay Offshore is currently bidding on several FPSO and FSO projects for expected field startup in 2016 and 2017.

Looking at Teekay Tankers - for the first quarter Teekay Tankers generated cash available for distribution or CAD of 10 cents per share down from 13 cents per share in the fourth quarter of 2012 mainly due to lower time charter revenues.

As previously announced, Teekay Tankers elected to move to a fixed quarterly dividend of 3 cents per share commencing in the first quarter of 2013. Based on its total ownership of class A and class B share, Teekay Parent will receive a cash dividend of 600,000 when Teekay Tanker's first quarter dividend is paid out on May 28th.

In April Teekay Tankers ordered four fuel efficient LR2 product tanker new buildings from STX offshore of South Korea at an attractive fully built up cost of $47 million each which are scheduled to deliver in late 2015 and early 2016 to coincide with an expected improvement in refined product and crude oil shipping rates.

With new generation G type engines and updated hull design, enhanced propeller design and other design efficiencies, these new building tankers are expected to be 20 to 30% more fuel efficient and have lower emission levels than current vessels in the existing LR2 fleet. The STX order also includes a favorable four plus four plus four option strength for additional LR2 new buildings at a fixed price and they're non-contingent and can be declared at six month intervals over the next 18 months.

Turning to slide four I want to take a moment to highlight the achievement of three project milestones so far in 2013. Starting on the left of the slide, in February the Cidade de Itajai FPSO achieved first oil on its field in the Campos base in offshore Brazil and commenced its nine year time charter contact not including extension options with Petrol Boss.

As I mentioned on the previous slide, in April Teekay Parent offered its 50% interest in the FPSO to Teekay Offshore at Teekay parent's fully built up cost. The Teekay Offshore conflicts committee is currently reviewing this offer and if approved, we expect to complete this dropdown before the end of the second quarter.

In mid April the Voyager Spirit FPSO commenced its five year time charter contract with extension options with Eon following first oil on the Huntington Field in the North Sea. Teekay Parent completed the sale of the Voyager Spirit FPSO to Teekay Offshore for $540 million on May 2nd.

Finally this week Teekay Offshore took delivery of the Samba Spirit shuttle tanker shown on the right side which is the first of the four BG shuttle tanker new buildings scheduled for delivery in 2013. Constructed by Samsung heavy industries in South Korea, the Samba Spirit is currently on route from South Korea to Brazil where in June it is expected to commence its ten year time charter contract not including extension options with the BG group.

Turning to slide five. This slide provides a timeline overview of our growth projects delivering over the next few years. And as you can see, the Teekay group of companies has several growth projects currently in execution across all of our business areas. With all the projects currently underway, efficient and focused project execution remains a top priority focus area.

The ability to deliver these projects within our targeted timeframe and at expected cost levels is critical for achieving our targeted returns. The completion of these projects will contribute to growth in each of our core businesses and the sale of assets currently being warehoused by Teekay Parent to our daughter companies will further improve Teekay parent's financial strength and flexibility to increase liquidity and a deleveraged balance sheet.

I won't cover all the projects on this slide however I would like to provide you with brief updates on a few of the projects shown here which I touched on during last quarter's earnings call.

In May of 2013 Teekay Offshore finalized an agreement with Salamander Energy to provide an FSO unit under a ten year time charter contract plus options to extend for an additional five years in offshore Thailand. Teekay Offshore intends to converge 20 year old shuttle tanker - the Navion Clipper - into an FSO unit for an estimated fully built up cost of approximately $50 million.

The unit is expected to commence its contract with Salamander in the third quarter of 2014 and will provide profitable employment for this tanker well beyond its useful trading life as a tanker.

During the fourth quarter of 2012 Teekay Offshore announced the acquisition of a 2010 built high low dynamic positioning offshore loading unit from Remora AS. And Teekay Parent announced it would acquire a 49.9% ownership interest in Remora.

The acquisitions of both the high load unit which will operate under a ten year time charter contract with Petrol Boss and Brazil and Teekay Parent's 49.9% acquisition of Remora are expected to be completed by June 30th. After completion certain modifications to the unit - which are underway - the high low DP unit is expected to commence operations at its full charter rate in early 2014 following delivery to Brazil and the completion of operational testing.

In April the Petrol One FPSO completed its previous contract with Startol and has since departed the Glitina Field. We are currently evaluating several potential redeployment opportunities for this unit which has been redeployed on ten different fields in the North Sea since 1986.

The Teekay group also continues to add new projects which include Teekay Tankers, LR2 product tanker new building order in April which I touched upon earlier. Importantly all of these projects whether completed directly at the daughter entities or at Teekay Parent being warehoused for dropdown at inception of contract support the growth and distributable cash flows of Teekay Offshore and Teekay LNG which will translate into increased general partnership and limited partnership cash flows to Teekay Parent.

I'll now turn the call over to Vince to discuss the company's financial results.

Vince Lok: Thanks Peter and god morning everyone. Starting with slide six I will review our consolidated results for the quarter. In order to present the results on a comparative basis as we do each quarter, we have shown an adjusted income statement for the first quarter against an adjusted income statement for the fourth quarter which excludes the items listed in appendix A to our release.

As we did in the fourth quarter, we have removed the pre-delivery activity of the Voyager Spirit FPSO which is treated as a variable interest entity for accounting purposes which is consolidated into our accounts even though we did not acquire the unit until May 2nd. Later on I will also provide our outlook for the second quarter.

First of all commencing this quarter we have included the cost of ship management activities and vessel operating expenses and revenues from providing ship management services to third parties had been included in revenues. We had previously included these items in general and administrative expenses. This new presentation is more consistent with the presentation utilized by many other shipping companies and peers.

We have reclassified such costs and revenues in comparative periods to be consistent with this new presentation. Starting at the top of the page net revenue decreased by 59 million due primarily to a 24 million decrease in revenues from customer funded front end engineering and design or feed studies relating to FPSO and FSO projects we are pursuing and 15 million lower revenues from the Foinaven FPSO contract.

The additional revenue relating to the Foinaven FPSO is recognized typically in the fourth quarter of each year. It is based on various annual operational performance measures, oil production levels and the average oil price for the year. In addition revenues decreased in the first quarter due to lower revenue days in the shuttle tanker fleet, the expiration of certain time charter contracts in the conventional tanker fleet as well as from vessel sales and layups.

Vessel operating expenses decreased by 35 million due mainly to a reduction in cost for the fee studies completed in Q1 compared to Q4 which I just mentioned. In addition there were decreases in service cost and other operating expenses as a result of timing differences and from vessel sales and layups during Q4 and Q1.

As a reminder, the feed studies I just mentioned relate to the engineering work typically done in preparation for FSO or FPSO tenders for which the revenues and cost are both recognized for accounting purposes when the studies are completed. Time charter hire expense was consistent with the prior quarter. Depreciation and amortization decreased by 11 million due mainly to the vessel and pyramid charges that were recognized in Q4.

GNA expenses increased by approximately 3 million due to the timing and recognition of short term and long term incentive compensation expenses which are typically higher in the first quarter of each year. Interest expense increased by approximately 700,000 in Q1 as a result of the issuance of the no-region bonds in January by Teekay Offshore.

Equity income increased by approximately 4 million in Q1 due to the income from a 50% owned LPG joint venture with EXMAR which was acquired in mid February and higher equity income from our EXMAR LNG joint venture. Income tax expense increased by approximately 4 million primarily due to reductions in Q4 and certain freight tax accruals and tax recoveries from the restructuring of our Norwegian operations.

Non-controlling interest expense decreased to 34 million mainly as a result of lower adjusted earnings in Teekay Offshore. Looking at the bottom line, adjusted net loss was 17 cents per share in the first quarter - a decrease from the previous quarter's adjusted net income of 4 cents primarily due to the incremental revenues recognized from the Foinaven FPSO contract in Q4. Turning to slide seven, we have provided some guidance on our consolidated financial results for the second quarter of 2013.

After normalizing for the 3 million of revenue recognized from fee studies in the first quarter, revenues from the fixed rate fleet are expected to remain roughly flat in the second quarter as the 18 million increase from two months of the Voyager Spirit FPSO is offset by an expected 10 million decrease from a Petrol One FPSO leaving the Glitina field upon the completion of its contract in April, a reduction of 5 million from the Hummingbird Spirit and the Foinaven FPSO's due to reduced amortization of noncash revenues and timing differences and 4 million lower fixed rate conventional tanker revenues expected as a result of dry dockings and the expiration of time charter out contracts.

Spot revenue days are expected to increase by 65 days in the second quarter due to vessels dry docking in the first quarter and vessels coming off time charter out contracts partially offset by spot vessel sales and one time charter entry delivery.

So far in Q2 we have fixed approximately 45% and 35% of our after max and sues max spot revenue days at average TC rates of $13,100 per day and $12,200 per day respectively which is on average comparable to the first quarter levels.

Vessel operating expenses are expected to increase by 6 million as a result of the delivery of the Voyager Spirit FPSO and the first two BG shuttle tankers during Q2. We are also expecting an increase in repairs and maintenance cost of approximately 10 million as we enter into the North Sea maintenance season for the FPSO and shuttle tanker fleets partially offset by reduced speed study costs of 2 million.

In the third quarter we are expecting a reduction in the OPEX of the Petrol One as the unit will be in layup awaiting redeployment. Time charter hire expense is expected to decrease by approximately 1 million in Q2 reflecting lower spot in chartering in the shuttle tanker fleet and the Q1 redelivery of one conventional tanker.

Depreciation and amortization is expected to increase by 6 million due primarily to the Voyager Spirit and the shuttle tanker deliveries and the amortization of additional dry docking costs. We expect GNA to decline to approximately 35 million in Q2. Net interest expense for Q2 is expected to increase by 3 million due to the Voyager Spirit FPSO and the shuttle tanker deliveries.

Equity income is expected to increase by 3 million reflecting a full quarter earnings from the EXMAR LPG joint venture and the Itagui FPSO. Income tax expense - we expect it to be approximately 2 ½ million in Q2. Non controlling expense - non controlling interest expense is expected to be between 30 to 32 million in Q2 primarily as a result of lower expected earnings in Teekay Offshore as well as the equity offerings completed by Teekay Offshore in April.

Turning to the next slide with the drop down of remaining projects and assets from Teekay Parent to the daughter entities, Teekay Parent will continue to de-lever its balance sheet and build liquidity which will further improve its financial flexibility. Pro-forma for the sale of the Voyager Spirit FPSO from Teekay Parent to Teekay Offshore on May 2nd - Teekay Parent's March 31st 2013 net debt decreased by approximately 350 million to approximately 1 billion and its liquidity increased by approximately 120 million.

Of the remaining net debt at Teekay Parent, just over half is attributed to the Knarr FPSO new building which is expected to be available for sale to Teekay Offshore commencing in the second quarter of 2014. And the balance primarily relates to five existing FPSO units with four directly owned conventional tankers remaining at Teekay Parent.

With the dropdown of further FPSO units with the Knarr FPSO being the most significant in size, Teekay Parent is on track to becoming net debt free. With that I'll turn the call back to Peter to conclude.

Peter Evensen: Thank you Vince.

Turning to slide nine. On today's call we've highlighted Teekay's focus on project execution which is increasingly taking place of the daughter entities as they are now able to initiate their own projects rather than rely upon Teekay Parent to use its balance sheet to warehouse the units during construction.

Growth of our daughters through both organic projects and acquisitions - especially Teekay LNG and Teekay Offshore is beneficial for Teekay Parent in the form of increasing cash flows resulting from its LP and GP ownership. In addition to the visible offshore and gas projects that we highlighted on slide five, we're confident that the increase in tendering activity for new offshore and gas projects will lead to new growth opportunities for Teekay LNG and Teekay Offshore.

With the IDR's of our two GP's now both in the 50% high splits, we expect the growth and cash flows from the two GP's to accelerate and become a proportionately greater and more important component of Teekay Parent's cash flows.

Thank you for joining us on the call today and operator, we're now ready to take questions.

Operator: Thank you. If you would like to ask a question, please signal by pressing the star key followed by the digit one on your telephone keypad. If you are using a speakerphone, please make sure your mute function is turned off to allow your signal to reach our equipment. If you have signaled for a question prior to hearing these instructions on today's call, please repeat the process now by pressing star one again to insure our equipment has captured your signal.

We'll pause for just a moment to allow everyone the opportunity to signal for questions. The first question comes from Mike Webber of Wells Fargo. Please go ahead.

Mike Webber: Thank you. Good morning guys. How are you?

Male: Fine.

Male: Good morning.

Mike Webber: I just wanted to start with the offshore side first. Last quarter you guys gave a little color around the new FPSO and FSO projects you guys were looking at in the North Sea. I'm just curious as to kind of, you know, if there's any update there in terms of five projects spreading out along the FSO and FPSO space - maybe where you guys stand there and what sort of timeframe you're looking at before you would find out about those.

Peter Evensen: Well we're continuing to do the front end engineering studies on them and we - we're putting in our bids and we haven't heard a result yet. So we're still in the running for five of them.

Mike Webber: Got you. That nominal value's still right around where it was last quarter?

Peter Evensen: What nominal amount?

Mike Webber: I think around 3 billion.

Peter Evensen: Yes.

Mike Webber: Okay. And then maybe I guess you guys talked a bit about cleaning up liquidity and getting kind of, you know, back towards a net cash position. Can you talk about maybe kind of theoretically how those new projects kind of fit in to that drive to kind of get back to neutrality from a liquidity perspective and how you think about that in the context of kind of isolating and amplifying your GP value?

Peter Evensen: Well what we're talking about, about de-levering is up at the Teekay Parent. So our plan is not to add new projects up at Teekay Parent rather than - rather it is to have the Teekay LNG and Teekay Offshore do the projects themselves. So that's a departure from how we've done it in the past. We think they're big enough that they can do the warehousing themselves and therefore we hopefully don't have to help our daughters with the warehousing.

And therefore what Vince was pointing out on his slide about Teekay Parent's net dropping means that we continue to be on our path to moving net debt free which will give us a lot of better free cash flow generation up at Teekay Parent.

Mike Webber: Got you. That makes sense and it's good to hear. Just a couple more and I'll turn it over

Around the Knarr you guys have been talking for a while about adding a JV partner or revenue insurance there. I'm just curious as to whether there's any progress around that and then maybe from a return perspective can you talk a bit about how the Knarr compares to, you know, some of the newer FPSO and FSO projects you're looking at maybe just kind of from an allocation to capital perspective?

Peter Evensen: Well I was out last month looking at the Knarr and it's on time and it's on budget and so that - so we're very pleased with that unit. We are - we may evaluate selling part of the unit prior to delivery but I have to say I really liked the unit when I was out there. And whether it all ends up in Teekay Offshore or whether we sell part of it, it'll be an accretive transaction.

Mike Webber: Got you. And that may be relative to some of the returns you're seeing - you may be seeing on new FSO and FPSO projects. How does the Knarr compare?

Peter Evensen: I would say it's the same. The really good news that we have is that the knowledge that we've gained in building the Knarr FPSO can be replicated on some of these other projects. But in general the FPSO's with their more engineering value gives a higher return than our FSO conversions.

Mike Webber: Got you. Alright, that's helpful. I will - I'll turn it over. Thanks for the time guys.

Peter Evensen: Thank you.

Operator: Thank you. The next question comes from Greg Lewis of Credit Suisse. Please go ahead.

Greg Lewis: Yes, thank you and good morning.

Peter Evensen: Good morning.

Greg Lewis: So Peter, when we think about Teekay three to five years from now - I mean clearly by then it will be net debt negative. And it doesn't sound like it's going to be used as a warehouse vehicle anymore. What should we think over time that we're just going to see increased buy backs and increased dividends at a certain point?

Peter Evensen: Well I think that if Teekay Parent continues to - we have two main goals. They are to increase the net asset value per share and we're able to do that through adding new projects and therefore receiving more cash flows up from our GT and LP interests. And the second is to close some of the parts gap. And therefore if the share price doesn't sell at what we consider its net asset value then we have to use our liquidity not to buy more assets but to close that gap.

Greg Lewis: Okay. And so just to follow-up on that - I mean because, you know, previously, you know, I thought Teekay was going to be, you know, beyond just warehousing assets as well. Is it just in a function that PLO's been able to grow at such a nice pace that now it has the ability to sort of warehouse a billion dollar project?

Peter Evensen: Yes. The market caps of those companies are, you know, 2 to $3 billion and therefore they have a warehouse capacity themselves. And I think Vince and his finance group have been able to come up with ways to do the pre-delivery financing which also gives us a view that Teekay

Parent - that we can change the way we've taken on projects rather than have Teekay Parent buy them and then drop them down. We want them to do that directly.

Greg Lewis: And then you mentioned I believe briefly that you potentially could sell off a part or a portion of, you know, FPSO projects upon their delivery. Who would be the type of buyer for those types of, you know, I guess basically what you're talking about is creating additional joint ventures. Would those just be more regional based on where the project is located?

Peter Evensen: Well that's right. I mean you can have too few projects and you can also have too many projects. And so when we think about what we have, we're always looking at how much human resources we have as well as financial resources. So we have a plan for which projects work out for what we have but we don't want to add too many projects that we're financially responsible for.

We're lucky that as a project developer we get various investor groups that approach us about wanting to be part of our projects. And so what we're saying to people is that if we do get - have an abundance of projects then we'll take in joint venture partners.

I think Teekay has a system set up and a good corporate governance that we are a good joint venture partner. We can produce good corporate reporting. We have good corporate governance principals and that's what lends investors who want to co-invest with Teekay to approach us.

Greg Lewis: Okay and then just one final question for me on the LPG new builds. You know, just given the nature of the LPG market and as that evolves, should we expect those types of assets, you know, as you - whether it's the existing LPG new builds or going forward - what type of contract coverage should we expect to see on those vessels and is it just a function of, you know, hey Teekay LNG on its own is big enough that we can maybe have a little bit more volatility from those assets than sort of the traditional LNG ultra long term contracts?

Peter Evensen: Yes, well that's a very good question because the LPG market has traditionally been contracts of freighters. And what we liked about EXMAR is they have a very strong position in the ammonia trades as well as the LPG trades in the mid sized LPG.

What we've seen is that just as everyone's talking about all the shale gas, that's going to lead to increased gas exports and we're going to see new trade routes opening up. So we actually think there'll be more LPG exports and more specifically ethane exports coming out of the US. And so when we see various places that have associated gas, we should see an increased export. And the LPG market has traditionally been looked at as an arbitrage market.

And so some of the various petrol chemicals as well as ammonia and the gases - we think you'll see an increased activity level. So the new buildings that we have here we think are going to deliver into a better rate. And the way EXMAR runs their business is less volatile. So they can both time charter out as well as take their contracts on COA's but it's not a spot trade. But they have the ability with their customer base to move back and forth between time charters plus minimum maximum charters. But as you hear, we're positive on the LPG market.

Greg Lewis: Okay guys. Hey, thank you very much for the time.

Peter Evensen: Thank you.

Operator: Thank you. The next question comes from TJ Schultz of RBC Capital Markets. Please go ahead.

TJ Schultz: Hi, good morning. I think you just said you have a sense of the warehouse capacity at the MLP's. Just if you could provide a little more color here. I understand that at the Teekay level you do not want to warehouse projects but if you could provide any framework or at least since you do have the, you know, the support of sponsor relationship that you would sense Teekay still needs to be involved to help out the MLP's?

Peter Evensen: Well that's simply a question of size. When your market cap gets up to be a bigger amount, we can issue - we've been able - for example if you look at the BG shuttle tanker new buildings, we ordered those directly at Teekay Offshore last year. And we were able to issue equity and capitalize both those projects down at the daughters.

And part of that is that we are able to negotiate with the ship yards on having most of the ship yard or most of the ship contract price be paid at delivery. And therefore there isn't as much of a warehousing component required as we have in the past.

In the past you've seen things like five times 20% spread over two years. Now we're looking at more like 70% at delivery. So we've been able to change around the cash flows that we're responsible for which reduces the warehouse requirements at the same time as the daughters have become bigger and have a better capacity to do that. I'm not saying that Teekay won't always lend a hand. That could be in its interest but that isn't our plan A.

TJ Schultz: Okay, thanks. I guess secondly I want to ask about the Teekay dividend. Certainly, you know, when we look at other public MLP general partners, there's a pretty clear linkage or, you know, at least an outlook for the linkage to the underlying MLP growth translating to, you know, dividend growth at the GP level. So I understand you have a few transactions to get done first but when do you expect enough free cash flow visibility to discuss the potential for linking the dividend and distribution between Teekay and the MLP's?

Peter Evensen: Sure. I think that ultimately linking the dividend is an important part of closing some of the parts gap but also an important part has been to move enough of the assets that we have upstairs downstairs and thereby become net debt free. So therefore then the cost that we have on debt upstairs isn't a drag. And so that's what we've been doing - heavily selling assets down. It's taken us a little bit longer but we're well on the path to doing that.

TJ Schultz: Okay, thanks.

Operator: Thank you. The next question comes from Fotis Ginnakoulis of Morgan Stanley. Please go ahead.

Fotis Ginnakoulis: Yes, hi Peter and thank you. I want to ask about the Petrol One FPSO and how sort of we think of earning capacity of this asset and also how so we think the useful life. Are there any specific regions that you think that are more transmissible to be deployed and what do you think this will be able to earn?

Peter Evensen: Well it all - thanks Fotis. So the Petrol One has come off of its field in the Norwegian sector. It is Norwegian sector compliant and therefore it can operate in the Norwegian sector.

So we're - we have opportunities both in the North Sea as well as moving it to a more benign region - places like Brazil or Africa - where it can act like more of an early well test ship and bring fields into production sooner. So we actually have an abundance of opportunities and we're just gauging up which one is best. But we've decided that with the amount of opportunities that we have we would - we're taking our time.

If we move it to a more benign place, it doesn't need as much of an upgrade whereas if we moved it and re-employed it in the Norwegian sector we'd have to do more upgrading of it. So that's something we're taking into account. Should we try to re-employ it earlier and not upgrade it but in that case it won't make as much money. Or should we upgrade it and have it live a longer life?

Fotis Ginnakoulis: And can you give us a sense over the numbers of this potential upgrade could be and what would be the difference in the EBITDA in each of these cases?

Peter Evensen: Well we were actually happy that it came off of the Glitina Field because the Glitina Field was producing 5 or 6000 barrels of oil a day. We had an oil barrel tear up on that and we weren't making any money. So for us the good news is while you have a short term dip in cash flow, it gives us the chance to redeploy the vessel and earn higher returns.

So I can't be more specific on exactly what the EBITDA multiple would be but I can tell you that we're having various conversations. We might also sell the vessel if we get a lot of these other new offshore tenders coming up. As I said earlier, I think a lot about how much human resources I have at Petrol and if I - if we needed to upgrade the unit, I might just go ahead and sell the unit and take those people - those good engineers that we have - and put them on a new FPSO opportunity where we'd make more money.

Fotis Ginnakoulis: Can you also give us a little bit more of an overview of what are the opportunities in the FPSO sector? Are there any potential projects that you might be looking for next year that you are in discussions right now?

Peter Evensen: We are - as we said earlier - we're looking at five FPSO and FSO projects that we're doing front end engineering studies. Those are paid studies that people pay us to see whether our unit will be acceptable on their fields and there's a lot of engineering work being done on those. Those actually come in from 2015 onward.

So there isn't - given the timeline that's involved in the development, there isn't anything near term that we would add beyond what we already have which is the Knarr which is the single biggest investment that we have. So that's going to power a lot of distributions in 2014.

I think if you're asking me would we acquire something, our focus right now is on organic projects because we can make more money.

Fotis Ginnakoulis: And last on the FPSO - just to be clear - a portion of your profitability from that FPSO from the performance bonus at the end of the year. I know that it's still very early but is there a way that you can give us some expected range for this performance bonuses on the existing FPSO's?

Peter Evensen: Well it's very difficult because it's based on volume and it's based on what the oil price is going to be. So I would - so I'm not going to give you that figure but I will tell you that we expect the volume that's produced on the field to be higher than what it was last year.

Fotis Ginnakoulis: Okay, thank you. And my last question - obviously you mentioned that your goal is to be the owner of the GP and not warehouse projects anymore. But are there any thoughts that potentially very large projects that the daughter companies still cannot warehouse and fund might be warehoused by the ((inaudible))? And I want to ask more specifically are there any thoughts over expanding into new areas of the offshore or the LNG sector - naming one like FLNG project that could be warehoused by the parent?

Peter Evensen: Yes. So of course I will never say never but I'm quite clear as I said in my prepared remarks that our plan A is not to warehouse assets at the parent. That's not our plan. So then we would have to have an abundance of really great projects and therefore they would have to have a higher return than what we would normally associate. So what - and that's what I have agreed is the strategy which is that for that - for us to change off of plan A it would really have to be a good project.

For FLNG I have to say we're in the conservative camp. As I said, I think the third mouse gets the cheese. I was out in Korea. I saw where they laid the keel on the prelude FLNG project. These

FLNG projects are just massive. They're beyond Teekay's financial capacity. You're talking about $6 billion of projects. And so we actually think that that industry is changing a lot and we're not convinced that the small projects will be as economically viable as the large projects.

I certainly see why you're seeing companies move to the FLNG market given that its comparison is to land cost. And the land cost we're seeing in places like Australia and other places and particularly labor is leading to these huge cost overruns which means the projects aren't economic.

But the reality of LNG liquefaction is that people are building bigger plants in order to get economies of scale in order to get lower costs. And those smaller FLNG units that we have seen don't bring that average cost down. So in the longer term the benefit is that you will get faster to market but when these big projects like we have in BC with ((inaudible)) come on then as in most markets, he with the lowest cost is going to win. So that's a long explanation to say that's not a focus area of ours.

Fotis Ginnakoulis: That was very clear. Thank you Peter and just to end up in other sectors - are you potentially open for a new offshore sector like OSB or ((inaudible)) other sectors like that they could compliment with your strategy?

Peter Evensen: We look at some new things but we are not going to move into the drilling sector. There's a lot of good companies in there so we're not going to move into the drilling sector. We're more into the production type of sector but I have to reiterate that for us to get involved with something we have to see that we have a competitive advantage.

But I just think the growth opportunities that we have in our existing offshore and our existing LNG - including FSRU opportunities - is so good that we shouldn't really stray from what we are doing.

Fotis Ginnakoulis: Thank you very much Peter.

Peter Evensen: Thank you.

Operator: Thank you. The next question comes from Justin Yagerman of Deutsche Bank. Please go ahead.

(Josh): Good morning. It's (Josh) ((inaudible)) for Justin.

Peter Evensen: Hi (Josh).

(Josh): You know, I guess this is the first time in a couple of years where we're seeing kind of new buildings in growth across all three of your daughters and all your major segments. Can you maybe talk about how you rank the opportunities on maybe risk adjusted basis across maybe offshore, LNG, LPG and Tankers?

Peter Evensen: Sure but we have an investment committee which Vince chairs up. So every investment gets looked at by the same people and we have a chance to look at it on a risk adjusted return basis. But every company - but we have four companies. They have four pools of capital. So they have different costs of capital but I would have to say that the FPSO's generate and the FSO's - they will generate the highest returns that we have mostly because they're more engineering focused and they're not as commodity type of driven.

Then we have the LNG's and depending on how much risk you take, that'll change your IRR. Where we have observed that the 20 year contracts are being reduced down to more 5 to 10, we have a portfolio approach that can handle that.

And then the tankers - as (Bruce) will talk about in about an hour when he does the Teekay Tankers call - there you can make a lot of money or lose a lot of money. So that's a cyclical business - a commodity business. What was important for us is we hadn't ordered really any new buildings on the tanker side really since 2006. So we did a lot of work over the last two years - spoke with customers, spoke with ship yards - really worked on the design. And so we think that now is the chance to move in.

So we moved with the Afromac size and as (Bruce) will say, the Afromac size we think gives us optionality to trade clean as well as dirty. And we think that ultimately that will be a good size going forward. So that fits in with our customer base and it fits in with our size. And we also had a pretty good LR2 franchise that we run through our tourist tankers pool.

So it took us a while but that's the way Teekay operates. We test out designs with customers and so I'm pleased that we have good capital projects in all four of our verticals.

(Josh): Got it. And then kind of maybe with regard to reclassification - I guess that's more kind of engineering heavy. So are those returns going to be similar to the FPSO's if you move into that space?

Peter Evensen: On the FSRU's I think it depends on project by project. They're better than conventional LNG but I'm pretty sure that market will get commoditized.

(Josh): Got it.

Peter Evensen: So, you know, the other thing is that that market has changed. When it was a question of conversions then you were getting returns that were more spread out but now everyone's really ordering the same kind of FSRU. So it's gotten back to this game Teekay's good at. Operating, cost of capital - those are things that play really to our strengths.

(Josh): Got it. And then kind of looking at your fleet - your FPSO's - the ((inaudible)) that was offered down at cost. Can you maybe talk about rational and pricing? I mean if it was taken down at the fully built out cost then I guess you're not getting any sort of spread for the risk you might have taken on that project.

Peter Evensen: That's right and that's a key part of being the general partner. We have two - we have one agreement with Teekay LNG and another agreement with Teekay Offshore that any asset that we create of the Teekay parent must be dropped down or offered to the daughter at our fully built up cost. So we don't take any spread on assets or projects that we create at the Teekay parent, in offshore and LNG. And I think that's a good thing because that aligns us with the investors down at the daughters and that makes it an accretive deal and we make our money back through our general partnership interest.

Vince Lok: Just to add to that - our fully built up cost does include our cost of capital so that we do get a return during the construction period.

(Josh): Oh, okay. Great. And then I guess the difference with the Spirit was you acquired that unit. So you were able to charge a premium on the dropdown.

Vince Lok: That's right.

(Josh): And I guess with the Petrol One - now that that's coming off higher - can you talk about maybe I guess expected operating expenses on that ship while it's not earning revenue to be able to reduce the crew and kind of minimize some of the outback?

Peter Evensen: Yes. So it takes us a while to re - to move the crew to other units. The good news is we have new units coming on like the Knarr. So it takes us about a quarter to reduce our expenses down on that.

Vince Lok: That's right. We're reducing the crews gradually and redeploying some of the crews on other units. So I think in the third quarter we should expect some reduction in the OPEX or Petrol One.

(Josh): ((inaudible)).

Peter Evensen: Yes, I would say that the second quarter we have to sort of incur those operating costs which is what Vince said.

(Josh): And then just one more before I turn it over - GNA - I guess just look at the breakout of GNA between Teekay Parent and the daughters. It's still really high - the parent company. And I guess the daughters have grown significantly. Is there any way to maybe kind of shift some of those costs more down to the daughter levels especially as their kind of project base and asset bases increase?

Peter Evensen: Yes, the GNA of the parent is gradually decreasing as we drop down more assets. And there is quite a bit of operating sort of GNA related to the FPSO's. So as we drop down more FPSO's, more of that will go down to Teekay Offshore.

There is a component of business development cost sitting at the parent as well and you'll notice that at certain times we also charge success fees to the daughter companies as we drop down assets or make acquisitions. So some of that recovery is a little bit lumpy in terms of timing.

(Josh): Well I appreciate the time. Thanks guys.

Operator: Thank you. Ladies and gentlemen, if there are any additional questions please press star one at this time. The next question comes from Urs Dur of Clarkson Capital Markets. Please go ahead.

Urs Dur: Good morning everybody.

Peter Evensen: Good morning.

Urs Dur: Hey. Most has been answered towards the end here but I was wondering if Vince can take us through - I guess you've got it on equity income but if you can give us a little bit more color on the drivers of that line item expected more for later in the year.

Vince Lok: Yes. We've - as we indicated on slide seven - we are expecting equity income to increase in the second quarter. And that gives you the full effect of the EXMAR LPG joint venture as well as the Cidade de Itajai FPSO.

Urs Dur: Great. No, yes I noticed that in the guidance. I was wondering if there are any other drivers that we should consider going forward or just take that guidance for the face value.

Vince Lok: I think that's probably a good run rate for the time being. I mean there are some new buildings being delivered in 2014 onwards in the EXMAR LPG. So that'll increase. So unless we enter into additional joint ventures, that's probably a good run rate for the time being.

Urs Dur: Okay. Thank you very much. Everything else has been answered. Thanks guys.

Operator: Thank you. There are no further questions at this time.

Peter Evensen: Alright, thank you all very much. We look forward to reporting back to you next quarter.

Operator: Ladies and gentlemen, this does conclude the conference call for today. You may now disconnect your line and have a great day.

END