TEEKAY CORPORATION

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

Operator: Welcome to Teekay Corporation second quarter 2008 earnings release 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. Bjorn Moller, Teekay's President and Chief Executive Officer; and Mr. Vince Lok, Teekay's Chief Financial Officer. Please go ahead.

Kent Alekson: 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 second quarter 2008 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 those 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 our earnings release and the earnings presentation available on our Web site.

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

Bjorn Moller: Thank you, Kent and good morning, ladies and gentlemen. Thank you for joining us on our second quarter earnings call. I'm speaking to you from London this quarter, and I'm joined by our CFO, Vince Lok in Vancouver. For the Q&A session, we also have our Chief Strategy Officer, Peter Evensen and our Corporate Controller, Brian Fortier on the line.

I'm pleased to report on one of the strongest second quarter operating performances in our company's history. Starting with the highlights for the quarter on slide three, we earned net income on an operating basis of $77.1 million, or $1.05 per share.

We have determined that Teekay will need to restate certain financial results to adjust its accounting for certain derivatives under hedge accounting rules, and the results presented today do not reflect these adjustments. Vince will discuss this issue in more detail later in the call, but I should note that none of these adjustments will affect our cash flows or stockholders equity.

Cash flow from vessel operations, or CFVO was $221.7 million, of which 53 percent came from our fixed rate businesses. The higher than normal percentage of CFVO generated in our spot tanker business was the result of us achieving our highest ever Q2 spot tanker rates. We acquired the remaining 35 percent of Teekay Petrojarl, taking our ownership of our FPSO business to 100 percent.

We completed follow-on equity issuances in Teekay Offshore and Teekay LNG, raising more than $300 million of new third party equity and in the process demonstrating that our unique financial structure provides us with access to reasonably priced capital, even in today's difficult financial markets.

And we remained active in the execution of our value creation strategy through accretive dropdowns from Teekay Corporation to each of our publicly listed daughter companies, which have enabled them to increase their distributions.

On the next few slides, I will briefly describe the key events for the quarter in each of our business segments and in each corresponding daughter company. I'll first look at our conventional tanker business on slide four. In what is normally a seasonally weak period for tankers, rates soared across all sectors of the crude market due to a combination of strong demand and static fleet supply. We have also witnessed very high volatility in rates, typically an indication that the world fleet is operating at or near full utilization.

Our Suezmax spot fleet earned a TCE of $73,400 a day, our highest ever quarterly result. Our Aframax spot fleet earned an average TCE of $43,600. With our usual 50/50 east-west fleet split, approximately 50 percent of our days were in the less volatile Indo-Pacific market which lagged the Atlantic in the timing of the run up in rates, and also did not reach the same peak levels. Typically, this lag effect tends to benefit us during periods of declining rates.

It should also be noted that some of our Suezmax tankers are employed on time charters under which we participate in profit sharing arrangements. However, since the profit share amounts are determined and settled annually, they are not accrued on a quarterly basis. Based on Q2 spot tanker rates, approximately $5.8 million, or $0.07 per share, of shared profit was not accrued by Teekay, but is essentially carried forward into future quarters.

Q3 is shaping up to be another very strong quarter with 50 percent of our Suezmax days fixed at an average rate of $75,000 a day, and 50 percent of our Aframax days fixed at an average rate of $48,000 per day. Rates have softened over the past week, but this is consistent with the pattern of volatility we've seen throughout 2008. And on an absolute basis, rates remain strong for this time of year.

I'll provide further comments on market fundamentals later in my presentation. We're increasing our exposure in a couple of ways to what we expect will be a strong tanker market in the second half of the year. We took delivery of the first of our 10 Suezmax newbuildings, and we expect the remaining three Samsung new buildings to deliver between August 2008 and January 2009.

We expect our four Chinese Suezmax new buildings to be somewhat delayed, the first ship by four to five months, and expect it to deliver in late 2008 or early 2009. We have stepped up our Aframax in-chartering activity in recent weeks, with in-charters of eight vessels and the extension of several existing in-charters. And this will boost our spot voyage days from August onwards before being partially offset by the redelivery of a smaller number of in-charters during November and December.

We are taking advantage of high ship values by reducing our involvement in the small to medium-sized product tanker segment. We lack scale in this tonnage segment, and don't see attractive near term opportunities to build scale. So, as mentioned on our last earnings calls, we sold four ex-OMI Handymax product tankers early in the quarter, and two of these have delivered to the new owners. A third vessel is due to deliver in September, and the fourth vessel, which is currently under construction, is due to deliver in early 2009.

In June, we agreed to sell one of our ex-OMI MR product tankers, and we also sold one of our older Aframaxes. In July, we sold our 50 percent interest in the Swift product tanker pool to our partner Merske Tankers for $49 million. Prior to the sale, our contribution to that pool consisted of ten in-chartered intermediate size vessels, and the transaction is subject to regulatory approval.

Looking at the TNK box at the bottom of this slide, during the quarter we dropped down two Suezmaxes to TNK for $187 million. We are obligated to offer TNK an additional two Suezmaxes within the next 12 months. TNK enjoyed a strong quarterly performance, and earlier this week declared a quarterly dividend of $0.90 per share. In addition to receiving dividend payments from TNK, Teekay is entitled to performance fees equal to 20 percent of annual TNK dividends in excess of $3.20 per share.

Turning to slide five, it was a fairly quiet quarter in our liquefied gas segment in terms of new business, although we did finalize a previously announced agreement to acquire the two Skaugen multi-gas carriers scheduled for 2010 delivery, and we did arrange an $840 million debt financing of the four Angola LNG carriers in which we have a one-third interest.

We have arranged this facility on the preferential terms and conditions we receive in a tough credit market as testimony to a growing competitive advantage that Teekay has relative to many ship-owning companies. Turning to Teekay LNG, also on slide five, in Q2, we dropped down two LNG carriers on the Kenai project with TGP for $230 million. Between April and late July, TGP took delivery of the four newly constructed RasGas 3Q-Flex LNG carriers, completing the biggest single newbuilding project in Teekay history.

As a result of the Kenai LNG acquisition, TGP announced a four percent increase in its quarterly distributions in Q2, and has stated its intention to make a further increase in Q3 related to the RasGas 3 project. TGP completed a follow-on equity offering of $209 million, including $50 million taken out by Teekay. The Teekay owned General Partner is currently in the 25 percent bracket for incentive distribution rights, or IDRs.

Turning to our offshore segment on slide six, I'll come back to Teekay Petrojarl and our FPSO business on the next slide in a moment. Our shuttle tanker franchise performed strongly in the quarter. We achieved very high fleet utilization in our shuttle tanker fleet, aided by the firm spot tanker market in which we employ any surplus shuttle tanker days. We continue to see an upward rate trend for shuttle tankers, illustrated by recent renewals of certain smaller contracts.

The tight times availability and firm rates bode well for the employment prospects for the four shuttle tanker newbuildings we have on order for delivery beginning in 2010.

On the bottom of slide six, you'll see reference to the sale to TOO of an additional 25 percent of OPCO and the dropdown of two Aframax lightering vessels for a total consideration of $311 million. Following these transactions, TOO has announced an intention to increase distributions by 12 percent to 15 percent effective from Q3, and this increase will move the General Partner directly from the current two percent IDR bracket past the 15 percent bracket and directly into the 25 percent IDR split.

During the quarter, TOO completed a follow-on equity offering of $217 million, which included a $65 million investment by Teekay. Looking at Teekay Petrojarl on slide seven, since acquiring 65 percent of Teekay Petrojarl for 70 NOK per share nearly two years ago, we have been patiently awaiting an opportunity to acquire the rest of the company at a fair price. In June, we acquired the 30 percent stake held by Prosafe at 59 NOK, which enabled us to squeeze out the remaining five percent minority shareholders and delist Teekay Petrojarl. The five percent shareholders that were squeezed out have until September to challenge the fairness of the price they're being offered for their interest, but they are under any circumstance obligated to sell their shares to Teekay.

As the sole owner of Petrojarl, Teekay stands to receive more of the upside from future contract rollovers and asset redeployments in today's high offshore markets. It will now also be easier for Teekay to dropdown FPSOs to TOO, and this should accelerate the value illumination of our offshore business. We will also be able to further integrate Petrojarl into Teekay.

The renegotiation of certain Teekay Petrojarl's existing FPSO contracts are ongoing. In terms of new FPSO business, the activity level remains high in the sector led by Brazil, but also on a global basis. Industry analysts are forecasting that an average of 15 to 20 new FPSO projects will be awarded each year through 2012. Petrojarl is considering new projects on a selective basis, seeking out opportunities which play into its core strengths.

Recently, supply chain pressures in the offshore sector have caused some major FPSO companies to announce significant cost overruns on projects they have been awarded over the last 12 to 18 months based on aggressive bid tactics. We feel that these reports demonstrate the prudence of the disciplined approach to project economics adopted by Petrojarl. We expect these developments to eventually lead to more attractive pricing on future projects, especially since there should be sufficient FPSO demand to provide work for all the key players.

On slide eight, we show our updated sum-of-the-parts value, which currently stands at $60.00 per share, but this figure does not include the value upside from the TOO GP moving into the 25 percent split, nor the improved prospect of being able to dropdown FPSO assets to TOO relatively soon.

We have already made considerable progress so far this year in executing on our value creating strategy, and we believe our continued focus on this strategy will allow us to narrow the gap between the sum-of-the-parts value and Teekay share price.

Given the very strong market in Q2, I wanted to spend a few minutes discussing the latest market fundamentals. The graph on slide nine compares tanker rates to oil production, which is the most direct driver of tanker demand. Q2 was the second highest quarter ever for tanker rates, indicated by the blue line, and easily the strongest Q2 on record. For 2008 year-to-date, crude oil tanker average earnings are at record highs. We're seeing the familiar picture of tanker rates closely tracking rising Middle East OPEC oil output over the past year with Saudi Arabia leading the upward charge by raising its ton-mile intensive crude production to the highest level in 25 years.

Saudi Arabia expects to reach production capacity of 12.5 million barrels a day by the end of next year, and has announced that it is studying plans to raise its capacity to 15 million barrels a day. With non-OPEC production growth coming up short year after year, this ramp up in spare capacity by Saudi Arabia is likely to become a very significant source of future tanker demand growth.

On slide 10, we look at the impact on tanker demand created by the combination of oil demand volumes and transportation distances. In recent months, oil demand forecasts have been gradually reduced due to weakness in the OECD. However, global oil demand is still expected to grow by one percent this year and another one percent next year, driven by China, India, and other developing economies. And as is evident from tanker rates, tanker demand is very high. As we've stated in the past, China is an excellent example of how tanker demand is being created not only by increasing oil import volumes but also by the sourcing of that oil from further afield. The bar chart on slide ten presents this information visually, giving you a sense of the leverage effect on tanker demand growth when both oil volumes and transportation distances increase.

Since 2003, China's oil imports have grown by 100 percent or 1.8 million barrels a day. But, because the proportion of long haul crude, shown in red, has risen faster than other supply sources, the ton-mile effect of China's imports has grown even faster, estimated to be up by 133 percent over the same period.

Today, 25 percent of China's oil imports originate from West Africa, and a growing amount of its oil comes from Venezuela. However, this effect is in no way unique to China. In fact, there are more and more examples of increasing average voyage length. Just to name a few, US imports of Venezuelan and Mexican crudes are down by 0.5 million barrels a day over the last five years, while imports from West Africa and the Mediterranean are up by 700,000 barrels per day.

U.S. West Coast refineries are replacing depleting Alaskan crude volumes with oil from West Africa, Brazil and the Middle East, and India is ramping up its imports from the Atlantic suppliers' rapidly expanding refining base.

Bottom line is that nowadays, because of the growing average transportation distances, you need more tankers than before to move the same amount of oil.

Looking at true tanker supply on slide 11, on the left half of the table we have shown that the fleet grew by only seven vessels during the first half of 2008, its slowest rate of growth since 2002. Forty-five ships delivered, while 38 vessels were scrapped or converted for dry cargo offshore use.

On the right-hand side of the table, we have projected these figures out to the end of the year using conservative assumptions. Consistent with the format we used last quarter, we've assumed that 50 percent of new buildings due for delivery from China in the second half of this year will be delayed into 2009. Based on our firsthand experience in China, that number could easily be even higher.

We've assumed that only a few IMO mandated scrappings will take place, despite the temptation of today's record high scrap prices. And we've assumed that only 75 percent of the ships already sold for conversion earlier this but not yet converted will leave the fleet by year end, and also that no additional vessels will be sold for conversion in time to leave the fleet this year.

On this basis, our projections suggest the tanker supply should grow only marginally for the rest of the year. On top of this, a variety of factors contribute to growing inefficiency in the world fleet, and we've talked about these before. They include the growing discrimination against single hull tankers which still make up 20 percent of the world fleet. For example, so far this year, single hull fixtures to South Korea are down by 25 percent compared to last year. Another factor that's beginning to add up, and which we are also seeing in our fleet, is the longer duration of dry dockings and repairs due to bottlenecking at repair yards. Seal renewals on 15-year-old ships that used to take 30 or 40 days are now routinely taking 60 to 80 days or more.

And thirdly, higher bunker prices are expected to lead to more slow steaming, even in relatively strong tanker markets. Our estimates show that at bunker prices of $700 a ton, the approximately threshold TCE rates below which voyage economics would improve for a modern tanker to slow down, are $110,000 a day for a VLCC, $60,000 for a Suezmax and $50,000 for an Aframax.

Finally, adding it all up on slide 12, we have updated our chart measuring tanker rates, shown by the red line, in relation to tanker fleet utilization shown by the green area. According to Platou, world fleet utilization in Q2 was extremely high at 92.6 percent, levels not seen since the record year of 2004. Underscoring the cumulative effect of changes in transportation distances, Platou calculates that average tanker ton-mile demand in the first half of 2008 was 6.8 percent higher than the average for all of 2007, while tanker supply, according to Platou, only rose 2.1 percent.

What this tell us is that the world fleet is fully stretched, explaining the high volatility and the spikes in tanker rates to new highs. The dynamics I have just described give us reason to be excited about the outlook for tanker rates in the second half of the year and through the winter. I'll now hand it over to Vince to discuss our financial results. Vince?

Vincent Lok: Thanks, Bjorn, and good morning, everyone. Before reviewing the preliminary second quarter results, I will discuss our plans to restate our financial statements from 2003 through to the end of the second quarter of 2008.

During the process of finalizing our second quarter results, it was determined that certain of our derivative instruments did not technically qualify for hedge accounting treatment under FAS 133, the accounting standard for derivative instruments and hedging activities.

These derivative instruments were used to hedge our interest rate, foreign currency, and tanker freight risk, and to date had been accounted for as hedges. Accounting for hedging activities is an extremely complex area. In excess of 100 implementation guidelines have been issued in addition to the FAS 133 standard.

We recently discovered that the hedge documentation we prepared relating to certain of our derivatives did not meet all of the strict technical requirements of FAS 133. Accordingly, we will have to restate our financial results to recognize the change in fair value of such derivatives through the income statement rather than as a component of accumulated other comprehensive income, which is part of stockholders' equity on the balance sheet.

As a result, the restatement will result in greater fluctuations in reported net income but will not have an impact on our cash flows, liquidity, total stockholders equity, or adjusted EPS as a reported by equity analysts. Also, there will be no impact on any of our financial covenants.

It is important to note that this is a strictly a change in accounting treatment for such derivatives. The derivative instruments that are the subject of this restatement have provided and continue to provide effective economic hedges, even though they don't technically quality as hedges for accounting purposes.

As the necessity for a restatement was recently discovered, we and our auditors are currently reviewing all of our hedge documentation, and we will finalize the restatement amounts for the current period and applicable previous periods as soon as possible. We will release restated results and file amendments to our previous filings with the SEC as required.

Again, the results included in our second quarter earnings release and presentation do not include these restatements, and therefore should be considered preliminary.

Turning to the results for the quarter, net income in the second quarter was $77.1 million, or $1.05 per share, when excluding the items listed in Appendix A of our earnings release, which relate mainly to unrealized gains from foreign exchange translation and interest rate swaps. This compares to $67.7 million, or $0.90 per share, in the second quarter of 2007.

As I noted earlier, the restatements will not affect the earnings per share amounts excluding the Appendix A items for any of the current or prior periods, as any unrealized gains and losses relating to our derivatives, which will be reflected in the P&L upon restatement, will be then included as items to Appendix A.

Given the positive feedback we received after the first quarter on the presentation of our disaggregated financial statements where we separate each of Teekay's publicly listed subsidiaries and Teekay's Standalone, this quarter I will discuss the operating results on this basis rather than by business segment.

Looking at the income statement on slide 14, Teekay generated $222 million in cash flow from vessel operations, or CFVO, during the second quarter, up from $185 million in the previous quarter.

Teekay Offshore had a strong second quarter, with CFVO up by $7 million from the first quarter of 2008, primarily due to higher shuttle tanker utilization, a decrease in the number of drydocking days during the second quarter, and the acquisition of two lightering tankers from Teekay Corporation in June, 2008.

These increases were partially offset by an increase in vessel operating expenses due to the timing of repairs and maintenance expenditures scheduled to coincide with expected seasonal maintenance of offshore oil facilities in the North Sea.

Teekay LNG's CFVO decreased by $2 million from the previous quarter, mainly due to the timing of drydockings. Teekay LNG had an unusually large number of drydockings in the second quarter, totaling five vessels compared to none in the first quarter. The reduction in cash flow from the drydockings was partially offset by the acquisition of the two Kenai LNG carriers from Teekay Corporation in April.

With no drydockings scheduled for the third quarter, we expect Teekay LNG's CFVO to increase by approximately $7 million next quarter.

As a reminder, our 40 percent interest in the RasGas 3 LNG carriers are accounted for as equity investments, and therefore the cash flows from these vessels are not included in CFVO.

Teekay Tankers also had a strong second quarter with CFVO increasing by $6 million from the first quarter, primarily due to an increase in spot tanker rates and the acquisition of two Suezmax tankers from Teekay Corporation in April. As Bjorn mentioned, spot tanker rates in the third quarter have so far averaged higher than in the second quarter.

Teekay Petrojarl's CFVO decreased by $1 million from the previous quarter of 2008 due to an increase in vessel operating expenses, partially offset by the addition of the Siri FPSO unit, which commenced its full charter hire rates in mid-April 2008.

Teekay Petrojarl's operating results reflect their existing FPSO contracts being significantly out of the money. However, contract renewal discussions are progressing on some of the units.

The CFVO contribution from Teekay Corp. Standalone increased by $27 million compared to the prior quarter, primarily due to the significant increase in spot tanker rates. Again, spot tanker rates in the third quarter have so far averaged even higher than in the second quarter.

It should also be noted that the revenues of Teekay Corp. Standalone include an $11.8 million unrealized mark-to-market loss from synthetic time charters which were acquired as part of the OMI acquisition. This was not included in Appendix A of our earnings release and thus reduced our adjusted EPS by $0.16 this quarter.

Looking at the rest of the income statement in comparison to the prior quarter, G&A expenses were $69 million in the second quarter, up by approximately $2 million from the prior quarter, mainly due to additional bonus accruals which is in line with the stronger operating results and higher business development cost. We expect G&A expenses in the third quarter to be roughly in line with the second quarter.

We incurred $4.6 million in restructuring charges during the second quarter. These costs were primarily related to the reorganization of certain of our operations, including the amalgamation of our two Norwegian offices supporting our shuttle tanker operations. This restructuring is scheduled to be substantially completed by the fourth quarter of 2008, and thus we expect to incur additional restructuring costs during the second half of 2008.

Net interest expense in the second quarter includes an unrealized gain of $48 million from interest rate swaps. Excluding this, net interest expense would have been $57 million, which is similar to the comparable figure last quarter, which included unrealized losses on interest rate swaps of $12 million.

We expect net interest expense to increase in the third quarter as a result of the financing of the purchase of the remaining 35 percent of Teekay Petrojarl.

The income tax expense in the second quarter of 2008 was in line with expectations and included a five million one-time cash tax recovery. Excluding the effect of changes to foreign exchange rates, we expect our tax recovery in the third quarter to be approximately three to five million.

Excluding the minority interest portion of the items in Appendix A, minority interest expense in the second quarter would have been roughly $15.1 million, which has increase from the comparable figure last quarter of $12.6 million due to the impact of the public offerings of Teekay LNG and Teekay Offshore during the quarter, as well as the strong results from Teekay Tankers.

Going forward, minority interest expense will of course vary, depending on the results of Teekay Tankers, Teekay LNG, and Teekay Offshore.

Turning to slide 15, the main changes to our June consolidated balance sheet compared to the March consolidated balance sheet are the results of the acquisition of the remaining interest in Petrojarl late in the second quarter.

As we had previously consolidated results of Teekay Petrojarl, the increases in vessels and equipment, goodwill, and other long-term liabilities relate to the fair value adjustments of these items for the percentage interest we acquired in June. Our purchase price allocation for the recently acquired 35 percent of Teekay Petrojarl is preliminary and is subject to adjustments.

Teekay Corp. Standalone net debt declined by $400 million during the second quarter. This reflects the execution of our dropdown strategy and the related equity capital we have raised at the subsidiary level, partially offset by the $250 million relating to the purchase of the Teekay Petrojarl shares.

As we continue to execute on our plans to dropdown more assets into our daughter companies, Teekay Standalone's balance sheet should continue to deliver which will provide us with further financial strength and flexibility going forward.

Overall, we had a strong second quarter and we are off to a good start in the third quarter.

I will now turn it over to Bjorn to conclude.

Bjorn Moller: Thank you, Vince. I just want to amplify the comments we made about the financial restatement issue. Obviously, it's very unfortunate. We're taking it very seriously and addressing it as a high priority. But, it surrounds a very technical issue around the interpretation of accounting rules, and it does not affect our cash flows, our liquidity, and our shareholder equity, and it does not affect the fundamental soundness of our business, which is very strong. With that, I would like to take it over to the operator to invite your questions. Thank you.

Operator: Thank you. Ladies and gentleman if you wish to ask a question please press star one on your touch-tone phone, to withdraw your request please press the pound sign. If you are using a speaker phone please lift your headset ((inaudible)) request. Please standby for your first question. So, our first question today comes from Jonathan Chappell of JPMorgan. Please go ahead.

Jonathan Chappell: Thank you. Good morning, and good afternoon, Bjorn. Thanks for the detail on the restatements from the financial side. Just a quick question. Strategically, does this restatement or the work you're doing on it have any impact whatsoever on the execution of dropdowns or your strategic initiatives?

Bjorn Moller: Peter, would you care to take that?

Peter Evensen: Hi, Jonathan. No, it doesn't. As was pointed out, it doesn't affect the cash flows going forward. So, the FAS 133 doesn't affect that.

Jonathan Chappell: OK. Regarding share buyback, you have a strengthening balance sheet as you do some of these dropdowns and then you raise some equity in the first half of the year. You've got a sum-of-the-parts that was about 38 percent higher, or just drops straight right now to a 38 percent discount to your sum-of-the-parts. I know you've, in the past, had a systematic buyback program. What's your flexibility to get more aggressive on buybacks at times where you think that the market's not really giving you value for the strategy and the execution?

Bjorn Moller: Right. Well, obviously we've taken note of where the share price is trading today. And given the focus that I gave in my prepared remarks to the significant discount that we're trading to, as you mentioned, relative to the sum-of-the-parts, that's only widened as a result of the trading today. And when you couple that with the significant cash flows that Teekay's beginning to generate from its subsidiaries, a new share buyback program is something we will give careful consideration to now that we've made good progress this year on our value creation strategy. And I would also say that the risk return on any major project in our pipeline has to be fairly compelling when measured against the value creation of a share buyback. So, it's certainly on our radar screen and all the more so at the moment.

Jonathan Chappell: OK. And a couple of years ago, maybe a year and a half ago, there was comments about potentially increasing the dividend more frequently that once a year as you raised up the splits on some of these spin-offs or daughter companies. Now that TOO and TGP have moved up the split and the cash is accelerating to the Teekay parent, do you see more frequent dividend increases in the near future?

Bjorn Moller: Well, that's a technical issue because the overriding point is what do you want to return to shareholders as opposed to where can you invest it profitability and whether you do it more frequently or once a year, as we've done in the last four or five years, is something we'll discuss internally. I don't have any guidance on that at the moment. I think the major issue for us is what do we do with the surplus capital at all, as to dividends and share buybacks.

Jonathan Chappell: OK. And last one, and then I'll turn it over. Vince mentioned $0.07 a share of profit sharing that you actually generated but weren't allowed to account for in the second quarter. What's the – was it a first quarter profit share that you accrued but didn't account? And is this all going to be accounted for in the fourth quarter? So, are we going to see basically four quarters worth of positive profit share all falling into that fourth quarter number?

Vince Lok: Yes, as it relates to the $5.8 million, most of that will be recognized in the fourth quarter. Of course, that carries over and it's based on the results for the full calendar year. The $5.8 million relates to the portion accruing in the second quarter. In terms of the first quarter, there was no profit share accrued in the first quarter.

Jonathan Chappell: OK. All right, thank, Bjorn, Vince, and Peter.

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

Greg Lewis: Yes. Good day, gentlemen. I guess, Vince, just to follow up quickly, just going forward on that profit sharing, just to model it out. What's sort of the split that those profit shares are at?

Vince Lok: We have – they're basically four Suezmaxes and I think we disclosed some of the terms relating to those. One of them is sitting in Teekay Tankers, where we share 50/50 above $33,500 a day. And as you can see where Suezmax spot rates are, that's a pretty significant amount. So, that's sort of the rough quantum of the terms of those – the profit.

Greg Lewis: OK, great. And then also, just a really quick modeling question. When did the ten unchartered small product tankers leave the fleet?

Vince Lok: It was in Q – it was in July.

Greg Lewis: Roughly – I mean, so how about this? How many operating days did the in-chartered small product tankers have in Q3?

Vince Lok: Are you referring to the Swift tankers?

Greg Lewis: Yes.

Vince Lok: Yes, that's roughly ten equivalent in charters. So, it's effectively July 1st when they ...

Greg Lewis: OK, so basically zero days?

Vince Lok: That's right.

Greg Lewis: OK, great. And then, just shifting gears a little bit, you mentioned that you're going to move on, move forward with the dropdown of assets. I mean, when you look at the daughter companies, TOO and TGP, at these levels, and I'm talking about trading levels, does that sort of put the brakes on the dropdowns program going forward?

Peter Evensen: Well, we have achieved the dropdowns that we wanted in all three for this year. That enables us to increase the distributions. I think we're going to have to wait and see when the market really sees the distribution increases in Teekay LNG and Teekay Offshore. Obviously, the deal is not as accretive at these stock prices, a further dropdown that what it would have been. But, as Bjorn pointed out, we're selling at a greater discount up at Teekay than what we were before. So, the whole raison d'etre, which is to use the competitively priced capital at the subsidiaries, is even more so than it was last week.

Greg Lewis: OK, so in other words it's going to be more driven by the parent company, so even – so, in other words, even if the MLP market continues to remain challenged in a potentially a rising interest rate environment, whether that be in '09 or whenever that happens, we should consider that the dropdown schedule will – dropdowns will proceed in 2009?

Peter Evensen: Yes, and I think one of the benefits is that a lot of the earmarked assets already have debt financing attached to them, and the – we have pre-agreement from our banks to be able to convey or sell those assets to the MLPs, and the debt will automatically follow. So, if you will, even if there is an increase in the overall debt financing rates, it will not take place on the assets that are dropped down because we've already prearranged financing on them. So, that's a real benefit given the amount of debt component in that part of those dropdowns.

Greg Lewis: OK, great. And you mentioned – I mean, revenues were down in the LNG fleet in Q2, and that was related to the five drydockings. What – was that on point? Were all of those – how many of those were planned and what was the rationale for doing all five of them in the same quarter?

Peter Evensen: Well, we have to respond to customers, and we had some customers who wanted us to move up some drydockings, particularly on some Suezmax tankers. And so, that's what caused the bunching. Obviously, we would have wanted to space it out, but we moved, for example, one drydock from the fourth quarter to the second quarter because a customer asked us to do that.

Bjorn Moller: But, some of the tankers in Teekay Offshore, for example, are – sorry, in TGP are delivered in very short order back in 2003, and they're up for their five year surveys. So, they come into some bunching going on there in the in the yard.

Greg Lewis: OK, great. And then just lastly, I just wanted to touch on TOO. You mentioned that having acquired Petrojarl, and congratulations on that, that that would enable you to accelerate the dropdowns in the FPSO. I mean, weren't you majority owner anyway?

Peter Evensen: Yes, we were majority owner, but we have to go through the same – it is easier when you're 100 percent rather than have to make public all of those things, up at the Teekay Petrojarl level, we were selling from one subsidiary to another. Now that we own 100 percent of the Teekay, it's easier to affect those dropdowns.

Greg Lewis: OK, great. And then, just to really touch on the emphasis. I mean, you mentioned that there's the renegotiations for many of the FPSO are either happening or beginning to happen. When should we sort of see those re-chartering of those FPSOs, and at this point, like what sort of increases do you think that you potentially could get on the FPSOs on average?

Bjorn Moller: I don't think we want to get drawn down that while we're negotiating, but I think it varies. I mean, some of the contracts are further out of the money than others, and of course you would expect greater adjustments on those contracts. I think we've previously guided that the contracts were running through to 2009, 2010, and that we would enter the window of renewals some 18 months before.

Greg Lewis: OK, so guidance from, I guess – I think it was about a year ago is still the same guidance we should be looking at, thinking about?

Bjorn Moller: That's right. Obviously, we're a year closer and we're getting more visibility and talks are underway. But, I can't really guide you too much.

Greg Lewis: OK. Thank you very much.

Bjorn Moller: But, we're optimistic.

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

Justine Fisher: Good morning.

Bjorn Moller: Morning.

Peter Evensen: Hey, Justine.

Justine Fisher: The first question is why the vessels in China are delayed exactly? Is that because of – I don't know, credit issues at the yard? Why exactly are your ships on order being delayed?

Bjorn Moller: It's two – it's a combination of the yards general productivity and then the fact that we are holding their feet to the fire on our exacting standards, so when it comes to welding and quality of materials being presented for our supervision team. They will readily reject something which is not to our standards. And so, the yard is very good because I think they are seeing Teekay as a great marquee name that can help them gain international recognition for their capability. So, there's an education process that we are helping them with, but we also – it's causing some delay in the construction. So, when we ...

Justine Fisher: Do you think – sorry. Go ahead. Go ahead.

Bjorn Moller: Oh, that's fine.

Justine Fisher: Do you think Teekay's unique in holding their feet to the fire on these sorts of things?

Bjorn Moller: Probably not unique, but I think we are probably – this is a yard that has built tankers before but not for export. So, I think we have caught them at a time when they were on the learning curve and that's helpful in the sense that we've built a very strong relationship with the yard. And it's helpful to them because they can gain from our international experience. So, it's working out very well.

Justine Fisher: And do you think that you would order vessels again either at this yard or other yards that I guess are on the same point in the learning curve? Again, I mean, in hindsight, would you go ...

Bjorn Moller: With this yard, I mean, this is – they are – China's going to be a big shipbuilding nation and it's an important bridgehead for us to be there. And so, OK, at various points in their learning curve, you may kind of put a little bit of an extra cost in there for extra supervision and things like that when you compare the pricing between Korea and China. But, it's going to be not that long before they'll be right up there.

Justine Fisher: So, you guys would do it again with a yard in a similar position, maybe not even this yard?

Bjorn Moller: Yes. No, I think China is a place that Teekay will build a lot of ships in the future.

Justine Fisher: You haven't disclosed the name of the yard, have you?

Bjorn Moller: It's at Bohai. I don't think it's secret.

Justine Fisher: OK.

Bjorn Moller: It's a state-owned yard, so it's not – the private yards, I think, are some of the yards that are having the financial difficulties. The state-owned yards are doing well, they're just – they're coming up the learning curve.

Justine Fisher: OK. And then, about the – just with respect to the debt issuance and the unit issuance with the daughter companies, just so that I can clarify. So, what you were saying earlier about the debt, it is attached to the assets that you may dropdown, that you can drop basically the debt with the assets so you could obviously issue units again but there's no requirement to, which is the same as it was before, right?

Vince Lok: That's right.

Justine Fisher: OK. And then, as far as the debt that was drawn to finance the Petrojarl transaction, is there – are you guys going to look to repay that with cash flows, or is that sort of just going to remain outstanding? Because that can't – that's just – that's separate from any assets that are dropped down, right?

Vince Lok: That's right. We just drew on our corporate revolvers to finance that share acquisition.

Justine Fisher: And in terms of cash flow use, I mean, because that's different than that that you've issued previously in that a lot of the debt that's been issued has been secured over the last few quarters and associated with the assets. So, is there a notion to potentially use some cash flow to pay that down, too?

Vince Lok: Yes, over time with cash flow generated from our Standalone operations as well as from dividends from subsidiaries. We manage our revolvers on a portfolio basis, as you know, so these revolvers with the – would be paid down over – in due course.

Justine Fisher: OK. Thanks a lot.

Bjorn Moller: Thank you.

Operator: Thank you. Our next question comes from Stephen Errico of Locustwood Capital. Please go ahead.

Stephen Errico: Hi. Thank you very much. Three questions for you. Number one, can you give me an idea of the timing on when you expect to get this restatement finished? Is this a 12-month period of time, or is this something we could probably get complete in one to two months?

Vince Lok: No, it won't take that long. We are making sure that we're going a thorough review of all of our derivatives and all the documentation. We're going through all that along with the auditors reviewing and auditing that. So, we expect to be able to refile our financials sometime in September this year.

Stephen Errico: OK, that's great. Secondly, on the $76 million of operating cash flow at Teekay Standalone, can you tell me how much of that was just from your GP incentive or your total GP interest?

Vince Lok: Well, the – that number right now is not a very significant number. On an annualized basis, it's about $6 million or $7 million. However, as we mentioned, Teekay Offshore is expected to increase its third quarter distribution by 12 percent to 15 percent as a result of the recent dropdown in June, and that actually moves the GP from two percent currently all the way through to 25 percent. And we actually surpassed the 15 percent GP split. So, that GP number is moving up very quickly.

Stephen Errico) Yes, I know. In the past at one of your investment presentations, you guys gave a schedule on how quickly you thought that GP income could grow. Is that something that you guys would – could update for us, or put that schedule out again? Or, specifically based on the TOO dividend increase that you just talked about and what's looking forward for the TGP dividend increase in the next quarter, what does this current $6 million to $7 million quarterly run rate grow to?

Vince Lok: I don't have a specific figure. I think you can refer back to the table that we provided, which is assuming that we increase the distributions in TGP by 10 percent per annum and Teekay Offshore by 15 percent per annum. So, in terms of where we are in 2008, we're reaching those targets. So, we're pretty much on target in terms of those forecasts.

Stephen Errico: OK. Thank you very much.

Bjorn Moller: Thank you.

Operator: Thank you. Our next question comes from Alex Mottershead of Cobalt Capital. Please go ahead.

Alex Mottershead: Oh, hi there. I just had a question about the operating costs. I just wanted – you mentioned that there were some one-offs during the quarter in terms of repair and maintenance and dry dockings. And wanted to hopefully get some quantification about how much those one-offs were versus how much of the increase in operating costs was just general inflation.

Vince Lok: Yes, in terms of the – on the LNG side in terms of timing differences, there are roughly about, I would say, $2 million of non-recurring. In terms of the shuttle tanker, as you know, we do a lot of the maintenance work during the summer months, so I wouldn't – that's more of a seasonal factor as opposed to non-recurring.

Alex Mottershead: OK. And then, I just hope you can just walk me through this. I'm having a little bit of trouble each quarter, it seems, translating the spot prices, the one season industry data, into what you guys actually realized. I was hoping I could get some guidance on how long the time lag is between the spot prices that we're all seeing now being realized in your results? And you mentioned that issue with the four Suezmax tankers and the lag in the profit share on the time charter. Is that all of the kind of spot sensitivity that one gets in the time charter rates, or is that anything else to come through?

Bjorn Moller: Yes, it's a complex question you ask. I'll try and address the way I understand it. First of all, I guess, the publicly available information, say from Clarkson's, those rates that they publicize are intentionally disclaimed by Clarkson to not necessarily be attempting to be realistic anchor rates. They're more – it's more about the direction of the market. It's a very good indicator of direction and you can correlate very closely with Clarkson tanker rates, but they're not actually absolute numbers that should be compared to what a real tanker will earn in the real world. As far as when you have the volatility we've had in the last quarter, clearly you're going to be – it's a little bit of a lottery if you have ships showing after one week versus another week in a particular market, you can get quite big differences. But essentially, it's a pretty transparent market and we track ourselves against the indices in how we're doing. And I guess our spot performance is generally strong. I'm not sure if I answered your question.

Alex Mottershead: Yes, I guess the other thing is, do you have any view on just the time lag issue as to how long it takes to get to be realized in your own results? Is that product contemporaneous or…?

Bjorn Moller: Yes, I think if – the smaller the ship, the shorter the voyage and the more frequent you have re-chartering of vessels. And so, typically on Aframaxes, if the day rates go up, then you pretty much would have a three to four week lag. And on larger vessels, you might have a slightly bigger lag.

Alex Mottershead: OK, great. Thanks.

Operator: Thank you. Ladies and gentlemen, as a reminder, if you wish to ask a question, please press star one on your touch-tone phone. So our next question comes from Urs Dur of Lazard Capital Markets. Please go ahead.

Urs Dur: Hello, gentlemen. Can you hear me?

Bjorn Moller: Yes, we can, Urs.

Urs Dur: Great. Good morning, good afternoon. I guess immediately a technical question, a lot of the standard stuff has been asked and it's good to see that the overall outlook is intact. But the question, I just heard mentioned by Vince in regards to the unrealized losses from the OMI FFAs, did you mention that's in this quarter?

Vince Lok: That's right. There was $11.8 million of unrealized loss this quarter.

Urs Dur: Yes. And why was that not included in the Appendix A as a pullout?

Vince Lok: Yes, we – this is just to be consistent with what we've done in the previous quarters.

Urs Dur: Yes.

Vince Lok: We didn't include it in the previous quarters because it was not material. But this quarter it became a material amount given where spot rates are, so we were just trying to be consistent with how we treat the Appendix A items. So you could choose to include or exclude it, I guess, when you do your numbers.

Urs Dur: No, no, I appreciate that in that regard, in that it was non-material before. I mean, I guess, I'm commenting here. But it was non-material before and I think it's great that you're being consistent, so all compliments. But since it's now material, I think it was interesting to find out about that, and softens a little bit of the $1.05 that we see as a clean number, just my opinion. Sorry for all the comment. And other than that, in regards to outlook, if we could talk a little bit about where you see the tanker market going in the next three months towards the end of the year a little bit. Again, just on the pure spot tanker side, particularly Aframaxes and outlook for next year. It's still a lot of the icing on the cake of the overall cash flows, if you could comment a little bit further on the market.

Bjorn Moller: Yes, I guess we are certainly seeing volatility. But as I pointed out, when you have the fleet being flat out, it's not going to take much. Just this week, we saw an explosion on the DCC pipeline, which has caused a suspension of 700,000 barrels a day of export from the Eastern Mediterranean and then that's going to give some dislocation to our ships that were chartered to load out of there. They are now going to be diverted to find other cargo by the oil companies who have them on charter. And if that goes on for about a month, as we hear it might be, it's possible that oil will be diverted into Black Sea ports causing extra ton miles and extra delays through the Bosporus and so on. That's an example. You have the hurricane season now with a couple disruptions we've already seen. So I think when you have full capacity utilization, disruptions in all of the trading patterns tend to be very stimulative to tanker rates. And in addition, we have very high oil production out of Middle East. So I'm not concerned about the volatility we're seeing. I just think it's still extremely good markets at today's level and there's every opportunity for upside, but we are very positive.

Urs Dur: OK. So in this regard, we get a lot of questions from investors, just the decline in oil prices. While we've had a bit of a decline, obviously, in the West and in Europe on overall transportation demand, the global decline has been relatively small compared to going from $150 to $120 on oil. In your opinion, just more as a side comment, but in our opinion do you feel that a lower oil price could indeed enhance demand for spot Aframaxes globally?

Bjorn Moller: Yes. Well, I think if pricing as it seems to be now is moving into contango, then you could get all stocks – crude oil inventories are relatively low.

Urs Dur: Yes. And they're on a LIFO basis. Right. So then incentivize…

Bjorn Moller: You get some restocking going on as soon as you see it flipping into contango, so you could actually get quite a kick upwards in activity.

Urs Dur: OK. Well, thank you very much and thank you for the clarification there. I appreciate it.

Bjorn Moller: Thank you.

Operator: Thank you. Our next question comes from Daniel Burke of Johnson Rice. Please go ahead.

Daniel Burke: Good day, all.

Bjorn Moller: Hi, Dan.

Daniel Burke: First, a real simple one, the eight Aframaxes you mentioned recently in chartering, can you give us an average rate at which those vessels were taken into the fleet?

Bjorn Moller: I can give you kind of a talk about what the open market is doing. It's moved up in the last two weeks, but since we started I guess it started – when we started our in-charter activity, the open market was in the low to mid-30s a day and it's moved up to the high 30s, and it's subsequently moved into the low 40s. But we have done most of our shopping before the rates went as high as they are now. So it starts with a three and you could probably use upper mid-30s as a guideline.

Daniel Burke: OK, great. That's useful. And then the second and final question I had was just looking at the Teekay Corp. net debt level and the expectation that will continue to trend downwards, I'm just looking through the second half of the year and trying to understand what asset sale proceeds Teekay may realize as well as – and to that end, I guess you got Swift tankers that closed. Potentially, you could have the sale of the Suezmaxes over to Teekay Tankers. It's unlikely, if I heard correctly earlier, that additional dropdowns will occur to the MLPs over the second half of the year. Are there any other assets sales of any materiality that we're currently aware of?

Bjorn Moller: I think we've indicated our intention to exit the small to medium product tanker market, so there's a possibility of one or two more ships there. We've sold one older Aframax at what we thought was a very attractive price and we have a number of vessels in that age bracket. But we are not – we're opportunistic, so we will play it by ear. We're also, of course, enjoying very good earnings on those vessels. So that's a – it's going to be – there's no large-scale sale effort, but there is an opportunistic approach to high ship values.

Daniel Burke: And I guess the second piece to that question then would be just if you could refresh me on what the second half of the year CAPEX looks like that's going to be funded through the Teekay Corp. balance sheet and cash flow?

Vince Lok: Yes. If you look at our CAPEX table on the earnings release, in the spot tanker segment we have about – a little bit over $200 million relating to the spot tanker segment. And so those would be in the Teekay Corp. standalone. The LNG piece is Teekay LNG Partners. That's mainly due to the Tangguh vessels.

Daniel Burke: OK, great. So just what we know now, kind of balancing out all operating cash flow looks like it should flow to the bottom line of the Teekay Corp. parent. I guess I can't generalize, but I could anticipate that. I know you can't comment on that one. OK, guys. Thanks.

Bjorn Moller: Thank you, Daniel.

Operator: Thank you. And there are no further questions. Please continue, sir.

Bjorn Moller: OK. Well, we'd like to thank you very much for joining us today. Certainly, we have enjoyed the interaction and look forward to talking to you next quarter. Thank you very much.

Operator: Ladies and gentlemen, this does conclude your conference call for today. We thank you for your participation. You may now disconnect your lines and have a great rest of the day.

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