TEEKAY CORPORATION

Moderator: Julie Hoflin
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10:00 a.m. CT

Operator: The conference is now being recorded. Ladies and gentlemen, thank you for standing by. Welcome to the Teekay Corporation's Second Quarter 2007 Earning Release conference call.

During the call, all participants will be in a listen-only mode. Afterwards, you will be invited to participate in the question and answer session. At that time if you have questions, participants will be asked to press star one to register. For operator 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 introduction, I would like to turn the call over to Mr. Bjorn Moller, Teekay's President and Chief Executive Officer. Please go ahead, sir.

(Dave): Before Mr. Moller begins, and before I read the forward-looking statements, I would like to direct all participants to our Web site at www.teekay.com, where you will find a copy of the second quarter 2007 earnings release presentation.

Mr. Moller and Mr. Lok will review this presentation during today's conference call. I will now read the forward-looking statement. Please allow me to remind you that various remarks we may make about the future expectations, plans and prospects for the company, and the shipping industry constitute forward-looking statements for the purpose of the safe harbor provision under the Private Securities Litigation Reform Act of 1995.

Actual results may differ materially from those indicated by these forward-looking statements as a result of various important factors including those discussed in our most recent annual report on Form 20-F, dated December 31, 2006, on file with the SEC.

I will now turn it over to Mr. Moller to begin.

Bjorn Moller: Thank you, (Dave), and good morning ladies and gentlemen. Thanks so much for joining us on today's call. As usual I'm joined this morning by our Chief Financial Officer Vince Lok, and for the Q&A session we also have our Chief Strategy Officer, Peter Evensen, with us here today.

I'm pleased to report to you on our second quarter results, beginning with the highlights shown on slide number three. It was another good quarter in each of our business segments, resulting in net income on an operating basis of $67.6 million, or 90 cents per share.

We generated strong cash flow from vessel operations of $165.2 million, with more than two-thirds coming from our fixed-rate businesses. A consortium in which we hold a one-third stake recently signed a letter of intent to build and charter four LNG carriers to Angola for 20 years.

We ordered two additional Aframax shuttle tankers in newbuildings, and we completed the acquisition of 50 percent of OMI Corporation for $1.1 billion. With our recent growth, our fleet, including $3.4 billion worth of newbuildings currently on order, increased from 160 vessels on March 31st to 182 vessels on July 31st.

Reviewing our business segments next on slide number four, we show the key developments in our offshore segment. The big story remains the huge growth taking place in the offshore industry, driven by record oil prices and increasing energy nationalism in key oil-producing nations. And this continues to create strong demand for FPSO, FSO and shuttle tanker services.

In response to these market dynamics, we exercise in-the-money options to build an additional pair of Aframax shuttle tankers at a total cost of $245 million. The ships are scheduled for delivery in 2011, and bring our shuttle tanker orderbook to four vessels.

As usual, Q2 marked the beginning of the North Sea oil field maintenance season, which traditionally leads to reduced shuttle tanker demand. This year we were able to maintain relatively high shuttle utilization in Q2 by temporary employing tonnage in the Eastern Canada shuttle trade, and by concentrating periodic drydockings during this period.

In April and July respectively, we completed the conversion of two remaining shuttle tankers for Brazil. In Q2 our latest converted floating storage vessel, or FSO, commenced its three-year fixed-rate charter in the North Sea at a daily rate of $70,000.

We recorded a $12 million gain from the sale of an older shuttle tanker, and Peter Lytzen took up his position as Teekay Petrojarl's new CEO on August 1. And with over 20 years of off-shore experience, Peter will further strengthen our FPSO team.

Turning to slide number five and our liquefied gas segment, for the past year the pace of new long-term LNG shipping contracts has been slow due to delayed development of key LNG projects. This hiatus appears to have now ended with new projects being awarded in recent months.

I'm pleased to report that last month Teekay, in partnership with NYK and Mitsui & Company, signed a letter of intent covering four 160,000 cubic meter LNG carriers for 20-year charters to the Angola LNG project, a joint venture between subsidiaries of Chevron, Sonangol, BP and Total.

This project represents Teekay's first entry into West African LNG, which is expected to be a key growth market. Final project award is subject to a number of conditions by September, and Teekay's share of this project will be offered to Teekay LNG partners. We believe that the outlook for future demand for LNG shipping remains strong.

Turning to the developments in our conventional tanker segment on slide six, we completed the OMI acquisition in June, and the integration's progressing as planned, with key OMI personnel having been signed up.

The combination of OMI's 13 Suezmax tankers, and the seven third party shifts in the Gemini pool, with Teekay's existing spot Suezmax vessels and our 10-ship orderbook creates the industry's premier Suezmax franchise. The eight medium-size OMI product tankers add further tonnage to our growing product business.

On slide number seven, spot rates for medium-size crude tankers remained firm in the second quarter, and Teekay's Aframax fleet averaged $32,000 a day. On a pure spot basis, that is excluding the effect of hedges, our Suezmax fleet earned a strong $50,000 a day.

Q3 to date tanker rates have been weaker than Q2 due to seasonal oil field maintenance, as well as Nigerian production losses. To date we have booked 45 percent of our Q3 spot voyage days at an Aframax equivalent average rate of $27,000 per day.

Besides the OMI fleet, other changes to our spot proof lead included our sale and leaseback of two first generation double haul Aframax tankers in Q2, and a similar transaction for two more ships in early Q3.

It was a very strong quarter for product tankers. Our large and medium sized product carrier fleet averaged $30,000 a day, mainly due to high U.S. imports. Rates are lower so far in Q3, but the product tanker fundamentals remain positive. There were a couple of off-setting changes to our product tanker fleet in the quarter shown on the slide.

Following the OMI transaction, Teekay's conventional tanker business segment, including ships owned, being chartered and on order, reached a new high of 111 ships, of which 19 are in our fixed-rate segment, and 92 ships in our spot segment. In addition, our commercial management of third party owned spot tankers grew to 15 vessels.

Turning next to the tanker market outlook starting on slide number eight, as is so often the case, it is OPEC oil production that holds the key to the market. As you can see from the red bars on this chart, during the seasonal low period in Q2, OPEC normally keeps production running at between 1.5 and two million barrels per day above demand, and this allows inventories to build during the summer months.

However, this year OPEC has kept production unusually low, barely above Q2 lows, and well below Q3 forecast demand. Yesterday's report of a large counter-seasonal draw in U.S. crude oil inventories suggests that contrary to OPEC's official position, current crude oil supply is running well below current demand, let own the significantly high demand expected later in the year.

On the chart on slide nine, the red dotted line shows that this year demand for OPEC oil in Q4 is expected to be 2.8 million barrels per day above today's production level, a far greater increase than usual.

The call on OPEC is compounded by strong Q4 year-on-year oil demand growth, and lower than expected non-OPEC production. We calculate that the increased call on OPEC oil will create incremental tanker demands of seven percent in Q4.

Summing up the tanker market fundamentals on slide 10, as we know from the stronger tanker rates seen in the first half of this year, fundamentals are finally balanced. Tanker supply growth is being dampened significantly by the growing number of vessel sales for conversion to offshore and dry bulk use plus scrapping.

The expectation of increased OPEC production in the fall, plus the additional tanker demands generated when North Sea summer maintenance is completed, sets us up for a strong winter market again this year. For 2008, the IEA is forecasting exceptionally high oil demand growth of 2.5 percent, the second-fastest growth rate since the 1970s with only 2004 showing higher growth.

In addition, we expect to see continued lengthening of the average voyage distance due to shifting trading patterns, both in crude oil and product movements. We're projecting that demand growth and ongoing tanker removals should offset new tanker supply in 2008, resulting in a tightly balanced market next year.

Slide number 11 shows that tanker values continue to rise with prices of modern tonnage rising about 15 percent in recent months. Even at these high values, there's very little tonnage available for sale.

In parallel, tanker newbuilding prices continue to rise, and lead times are getting longer due to insatiable demand for dry bulk and large container vessels absorbing most of the world's newbuilding berths. These recent development make us feel really good about the OMI deal.

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

Vince Lok: Thanks, Bjorn. Overall we had a strong second quarter. Excluding the items in Appendix A of our earnings release, net income for the second quarter increased to $67.6 million, or 90 cents per share, up 36 percent from the comparable figure of 66 cents per share in the same quarter last year.

Looking at our operating results on slide 13, we generated $165 million in cash flow from vessel operations, or CFVO, during the second quarter, which is also up 36 percent from the $120 million of CFVO generated in the second quarter of last year.

This increase was primarily the result of high spot tanker rates, the delivery of three newbuilding LNG carriers and the acquisition of Teekay Petrojarl. In the second quarter approximately 69 percent of our CFVO came from our fixed-rate businesses compared with 66 percent in the same quarter last year.

Moving into our segmented results and comparing them to the second quarter of 2006, the results for the offshore segment came in better than expected, generating CFVO of 64 million, up approximately $23 million from the same quarter last year. This increase mainly reflects the acquisition of Teekay Petrojarl in the fourth quarter of 2006, and the consolidation of five 50 percent-owned shuttle tankers effective December 1, 2006.

Also contributing to this increase was the addition of one shuttle tanker, which commenced a 13-year fixed-rate charter in April, and one FSO which commenced a three-year fixed-rate charter in May, partially offset by higher drydocking activity.

Five shuttle tankers completed drydockings in the second quarter, and four vessels are scheduled for in the third quarter. For the third quarter we expect the offshore segment CFVO to be similar to the second quarter.

There were no significant changes to the fixed-rate tanker segment during the quarter compared to the same quarter last year. For the third quarter we expect the CFVO from the segment to be roughly in line with the second quarter.

The CFVO from the liquefied gas segment increased by $11 million from the same quarter last year, as a result of the delivery of the three RasGas II LNG carriers, partially offset by 75 days of net off-hire, incurred on the LNG carrier, the Madrid Spirit during the second quarter. This vessel resumed normal operations in early July.

Looking ahead, we expect CFVO for the segment to be approximately $30 million for the third quarter, and approximately $32 million in the fourth quarter, as one of our LNG carriers is scheduled to be drydocked during the third quarter.

Excluding the four LNG vessels related to the Angola LNG project, we current have another six LNG and three LPG newbuildings under construction, which are scheduled to deliver during 2008 and 2009.

The CFVO contribution from our spot tanker segment increased by $10 million over the same quarter last year, as a result of high spot tanker rates, and an increase in the size of our spot tanker fleet, partially offset by an increase in time charter hire expense.

The increase in time charter hire expense is primarily the result of the sale/leaseback of two Aframax tankers in April 2007, and higher average in-charter rates. We sold the leaseback an additional two Aframax tankers in the third quarter of 2007. Our spot Aframax fleet earned an average TCE of $32,000 per day in the second quarter, which is up from $29, 200 per day earned in the second quarter of 2006.

Turning next to slide 14 and reviewing the remaining income-statement figures in comparison to the same quarter last year, G&A expenses were $58.4 million, compared to $41.5 million in the same quarter last year. This increase was primarily due to the acquisition of Teekay Petrojarl, an increase in shore-based headcount, and the depreciation of the U.S. dollar.

In addition to the previously-mentioned Aframax tanker sale/leasebacks, we sold one of our older shuttle tankers, the Nordic Trym, and certain offshore equipment in the second quarter. These sales resulted in a gain of $11.6 million in the second quarter.

Net interest expense increased to $40.8 million in the second quarter, up from $23.1 million in the same quarter last year, mainly due to the additional interest incurred on the debt used to finance our acquisition of Teekay Petrojarl, as well as the deliveries of the three RasGas 2 LNG carriers.

There was no significant impact on our net interest expense from our investment at OMI in the second quarter. As we equity-accounted for our joint venture in OMI from June 1st, the interest expense we incurred on the financing for the investment was substantially offset by the interest income we earned from our subsequent loan to the joint venture.

As a result, the impact on net interest expense from our investment in OMI is included in the line net of equity income from joint ventures. We anticipate that most of our 50 percent share of the OMI assets will be distributed to us in early August, and as a result we will consolidate the results of those assets from that date forward.

We recognized an income tax expense of $300,000 this quarter. Excluding the effect of foreign exchange gains, we had a net income tax recovery of $3.6 million in the second quarter, and we are estimating a similar tax recovery in the third quarter.

Equity income from joint ventures with a loss of $2.1 million this quarter, compared to $900,000 in the same quarter last year. This decrease was primarily the result of an equity loss of $1.4 million from our 50 percent share of the results of OMI for the month of June.

Also contributing to this decrease in equity income was the consolidation of five 50 percent-owned shuttle tankers in December of 2006, which previously our equity accounted for, and partially offset by a reduction in the equity loss from our Skaugen Petrotrans joint venture.

Minority interest expense in the second quarter was $6.3 million, and relates primarily to the minority interest expense, and the result of Teekay offshore partners, Teekay Petrojarl and Teekay LNG partners.

Excluding the foreign exchange impact, minority interest expense in the second quarter was an expense of $7.6 million. We expect the minority interest expense to continue to be roughly $7 million to $8 million next quarter, excluding the effect of any foreign exchange. Other items, nets of $9 million is mainly comprised of income from our VOC assets, and gains on sales marketable securities.

Turning next to slide 15, we have presented our June 30th balance sheet and compared it to the March 31st balance sheet. During the second quarter we refined certain components of our Teekay Petrojarl and purchase-price allegations, which resulted in changes in certain balance sheet items.

These adjustments resulted in a decrease in net income of $4.2 million in the second quarter, but this had no impact on cash flows. Net debts including the current portion, increased by $718 million, primarily due to the debt incurred to acquire a 50 percent interest in OMI.

As of June 30th, our OMI bridge facility had an outstanding balance of $700 million, which is temporarily included in the current portion of long-term debt. We expect to refinance this facility with the long-term facility during the third quarter.

Minority interest increased by $120 million, primarily due to Teekay LNGs, follow-on offering in May, 2007, and revisions to the purchase-price allocation related to Teekay Petrojarl. Our consolidated liquidity as of June 30th was $1.9 billion, net of restricted cash, or net debt to the full capitalization was 54.5 percent at June 30th, an increase from 51.5 percent at March 31st, reflecting the increase in net debt as explained earlier.

Slide 16 shows our quarterly EPS rule of thumb. So far in the third quarter of 2007, we've booked approximately 45 percent of our spot voyage days at an average Aframax TCE rate of $27,000 per day.

The OMI assets are not expected to have a material impact to our third quarter net income. And since most of the OMI assets are in fixed-rate charters, our rule of thumb EPS guidance remains unchanged from the previous quarter, which is a quarterly EPS of six cents per share for every $1,000 in Aframax TC, above our net income breakeven of $16,000 per day.

I'll now turn over to Bjorn to conclude.

Bjorn Moller: Thank you, Vince. I'd like to conclude this morning's presentation with slide 17, where we've put the highlights for the quarter into the context of Teekay as the asset manager focused on the marine midstream.

In Q2 we changed our name from Teekay Shipping to Teekay Corporation to reflect that we have grown to be so much more than a shipping company. At the Teekay Corporation level, as shown at the top of the slide, we continue to grow our role as a successful developer of marine midstream projects through a combination of acquisitions and organic growth transactions.

In the second quarter, between our shuttle tank and newbuildings, our Angola LNG deal and our acquisition of OMI we have secured further projects for both of our MLPs and for the planned new spot tanker company, Teekay Tankers. These new transactions add to the pipeline of existing projects currently under development for future dropdown to our subsidiaries.

In return, Teekay Corporation benefits from increased distributions on it's limited partner units, and from growing incentive distribution rights, or IDRs, flowing to our two general partners, with TOO now approaching the 15 percent IDR split level, and TGP approaching the 25 percent IDR level.

The planned launch of Teekay Tankers later this year is expected to allow us to grow faster in the conventional tanker business in the same way our two MLPs have done for those businesses. Our unique corporate structure is creating a great deal of momentum for Teekay, and we believe that this will further be enhanced by the expected listing of Teekay Tankers. We are excited about the tremendous value we see this structure creating for our shareholders going forward.

Thank you for listening this morning. Vince, Peter and I are now ready to take your questions.

Operator: Thank you, sir. Ladies and gentlemen, if you would like to ask a question, please press star one on your touch-tone phone. But remember if you're using a speakerphone, you will need to lift your handset and then press the star key. And to withdraw your question, please press the pound sign. Please press star one now if you do have a question.

And our first question will now come from Jon Chappelle of JP Morgan. Please go ahead.

Jon Chappelle: Thank you. Good morning, guys.

Bjorn Moller: Hi, Jon.

Jon Chappelle: On your last slide with the Teekay LNG and TOO approaching higher IDR splits, how is that going to translate into cash flow directly to the Teekay shareholders? And what I mean by that is, can we expect to see more frequent dividend increases or more aggressive share buybacks at Teekay Corp. as the cash flow from the two MLPs starts to accelerate?

Vince Lok: Hi, John, this if Vince. As you've seen in the past four years we've increased our dividend each year, and the double-digit per year. And so that's something that we will be looking at again, of course.

In terms of our share buyback program, we do have $97 million remaining under the existing authorization. We made mention last quarter, since we acquired Petrojarl and OMI, that we were putting the buyback program on hold temporarily. But we do intend to finish the $97 million at some point.

Jon Chappelle: OK. A question for Peter really quickly on the LNG side. Is this West African tender the beginning, in your opinion, of kind of finally catching with the tenders that were expected in 2006 and earlier this year?

Peter Evensen: Yes. Hi, Jon.

Jon Chappelle: Hi.

Peter Evensen: There was a delay in these projects owing to the need to build out, as well a shortage of supplies and workers. And now they're starting to all get decided. And as Bjorn was saying, some of these berths had to be freed up. So now when they re-contract, you're seeing projects into 2010, 2011.

So we have a number of other projects that we're bidding on, so we're very much encouraged by this award which we're spending time on trying to finish and get it fully contacted by the end of the September.

Jon Chappelle: OK. Are there more awards expected by the end of this year, or are delays going now into 2008?

Peter Evensen: No, we have some outstanding tenders going on. I can't tell you exactly when they will be awarded, but we're hopeful.

Jon Chappelle: OK. And then finally, maybe this one's for Bjorn. Can you talk a little bit about the thought process behind the sale and leaseback of the Aframaxes? I did catch that you said they first generation, so I assume they were a little bit older relative to the rest of your fleet.

But if you are still pretty optimistic about the market through the back half of '07 and '08, why the decision to sell some what are still considered moderate assets?

Bjorn Moller: Yes, well the ships were between 14 and 15 -- or 13 and 15 years old, and we had them chartered back for about four years. So that brings them close to 20 years of age. And we got a price for them, and the relationship between the price and the charter-back indicates that there's a significant transfer of residual risk to the buyer.

So to make sure we control all those ships, we do have purchase options at the end of the charter.

Jon Chappelle: Oh, OK and actually if I can just ask one more quick one, status on the people situation with OMI. Obviously they're chartering desk had always produced or frequently produced above-average results for the Suezmaxes. Have you capped those Suezmax chartering guys, and how do you plan to incorporate them into the rest of your group fleet?

Bjorn Moller: Peter, why don't you answer that? You've been spending in the Stamford office filling in as our coordinator there.

Peter Evensen: Yes, John, I'm pleased to say that we have put the chartering guys and the key other personnel under contract. So they have decided to join Teekay. And Teekay has decided to put its Suezmax operations located in Stamford.

So when you put together Teekay Suezmax operations with OMI's existing operations and the Gemini pool, which had third party owners, we think we have the premier leading franchise in Suezmaxes, which goes very well with our Aframax franchise.

Jon Chappelle: OK, that's great. Thanks Bjorn, Vince and Peter.

Bjorn Moller: Sure.

Operator: Thank you and our next question will come from Urs Dur of Lazard Capital. Please go ahead.

Urs Dur: Hi, guys.

Bjorn Moller: Hi, Urs.

Urs Dur: Hey, solid quarter. Congrats. Actually Jon asked all the questions I wanted to ask. I had a specific question on the depreciation line, which I guess I'll go to Vince. But maybe you guys could discuss further your feelings on OPEC and why you think they will simply increase production vis a vis demand, do you really think they're going to open up the taps, and more thinking behind that?

Bjorn Moller: I think the math just speaks for itself. Look at how much the summer inventory build you've had the last several years. I mean, if all inventories continue to fall for the next few weeks you're going to get prices north of 80 bucks a barrel. And I just feel the math is compelling.

And in a way the longer they wait, the more powerful it will be for lifting the winter market, because you're going to have sort of a run on the bank, if you will, of everybody trying to get tankers at the same time.

So in a strange way, we actually don't mind the soft spell that we're having right now, because it's setting us up for a stronger peak in the winter.

Vince Lok: And I also think that OPEC was saying that the problem wasn't them, the problem was the refinery utilization. And the refinery utilization is starting to increase now, so you're seeing a lot more true (fitter) on refineries. So that will give an increased demand for crude.

Urs Dur: Yes, the U.S. data seems to be moving in the direction that we'd like to see as well, so I see what you're saying there. How about this quarter? You mentioned it, it's been relatively weak so far this quarter.

On what you have exposed what's not on contract in this quarter, how much of this quarter is left? I think we can all estimate that, but if you have any color on that and where we on in the cycle of chartering.

Bjorn Moller: Yes, we mentioned that 45 percent of the days have been locked in at an average rate.

Urs Dur: Right.

Bjorn Moller: So $20,000 I'll say for Aframax, which actually is a pretty good number, in my view.

Urs Dur: Yes, historically, sure.

Bjorn Moller: I mean not only historically, but I mean you look at some of the actual blocks of numbers in third quarter.

Urs Dur: Yes.

Bjorn Moller: I think 27,000 is a real solid number. I think current new voyages are probably a bit weaker than that, but we also all know how quickly rates rebound in the Atlantic when the North Sea maintenance kind of slows down.

So, you know, we think this is certainly a respectable summer market, and we're optimistic for the winter.

Urs Dur: And finally I guess, we had mentioned it before, and you've talked about it. But Teekay Tankers, any particular, you know, more color you can give on timing on that, October, or...

Peter Evensen: Hi, Urs, it's Peter.

Urs Dur: Hi.

Peter Evensen: We're not saying exactly what date it is. But one thing that I would tell everyone is that as a foreign filer, we file confidentially with the SEC, so when we do come out you'll only see it about one week before we start the road show.

So don't think the fact that you're not seeing a public filing means we're not working very hard on it.

Urs Dur: No, that's a very good point. It's just exciting. I was wondering if we could get some color there. And finally, thank you very much. Solid quarter. Thanks.

Bjorn Moller: Yes.

Operator: Thank you. And our next question will now come from Tom Rinaldi of Brencourt. Please go ahead.

Tom Rinaldi: Good morning. I was at the Marine Money conference when you presented. And I think you're very articulate about how assets get valued in MLPs vis a vis what investors appreciate and pay for in terms of yield.

And I was just wondering how much -- and maybe this is related to Chappelle's question. But when you present here some of the parts and the trading values of the MLPs, have you considered that you might have to pass through the dividend to get the same valuation inside Teekay parent, because for as long as you retain that cash you're sort of not actually capitalizing on the investor appetite?

Vince Lok: Yes, we actually have looked at the whole structure. Teekay is going through this transformation. As Bjorn said, we launched the LNG in 2005, we launched Offshore in 2006 and now it's Teekay Tankers in 2007.

And we also have a few billion dollars of assets that would have a greater valuation when they are eventually bought by the various subsidiary companies. So you actually have to go through the transformation in order to get the cash flow yield up. But then it would be natural to revisit the cash flow generation of the Teekay parent, because the Teekay parent will look materially different.

Tom Rinaldi: Well, I mean if we look ahead, I mean, what would be ideal, a big fixed dividend from Teekay structured around higher cash flows from more mature MLPs?

Bjorn Moller: I think it depends also on the kind of business momentum. If we keep growing the snowball that we're rolling here, then, you know, you're going to need a growing amount of capital at the parent level, sort of virtual circle.

But ultimately you're right, Tom. I mean, the cash is going to flow and it's going to increase flowing. So, you know, I think it's a high-class problem, but we think we have -- we're finding great investment opportunities at the moment, on top of which we are contemplating out stock buyback. And we're talking about, you know, reviewing the dividend which admittedly is an annual incremental basis.

But in terms of rethinking it, that's something we will continue to do and ...

Tom Rinaldi: OK. Well I would ...

Peter Evensen: But if you look at the last four years, a critical piece was the buyback of almost 25 percent of the share capital through the share buyback program at very good share price, both reflecting absolutely, and compared to some of the parts.

And through that buyback we increase the value by $5. And so what will happen steadily, as Vince was pointing out, the net debt-to-cap is over 50 percent. But what will happen up at the senior parent company is that we will start to become debt-free, and then the situation or scenario that you're talking about, which is that you're getting cash generating up at Teekay parent, becomes a high-class problem.

But obviously keeping cash up at Teekay Corporation above what we need for investment is not a good use of cash.

Tom Rinaldi: Well, I mean that yes, there's two ways to go, right. The buyback or the virtuous cycle of MLPs, which is everything you want to buy you issue equity -- do part equity part debt and you're issuing equity at a much higher level rather than retaining the cash flow from the MLPs for acquisitions.

Vince Lok: That's right. And the only new thing, if you will, is that sometimes we have a long lead time before those assets generate cash. And that's when it isn't just enough to create an MLP, you also need a very financially-strong parent that can warehouse those projects, as well as develop those projects.

And one thing to look at the last slide is, we get a lot of synergies by having one company that can develop both LNG projects, offshore projects and tankers, because those have common customers. But they also have a lot of common engineerings, and of course everything is built in a shipyard or converted there.

Tom Rinaldi: All right, great. Thanks.

Bjorn Moller: Thanks, Tom.

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

Justine Fisher: Good morning.

Bjorn Moller: Hi, Justine.

Justine Fisher: The first question that I have is about the dead-weight tonnage that could be taken out of the tanker market for conversions to FPSOs as well as in dry bulk. Do you guys, I know -- and I know it's tough to put a number around this. But do you guys have estimates on how many dead-weight tons you estimate will be taken out either for FPSOs and for dry bulk, or just for both?

Bjorn Moller: Well when you -- if you look at ships that have left the fleet this year and have been sold for conversion purposes, so around nine million tons and we have about 2.3 million tons of scrapping.

So we're seeing more than three percent of the fleet deleted year-to-date, although some of those conversions are going to take place later, but the commitments have been made. And we're seeing announcements now coming that suggest the momentum of some these conversions is growing, lock deals being made at shipyards, and so on.

So as long as you're seeing the kinds of rates you are for dry bulk, there's really no limit. I mean the limit is really the conversion capacity. So that could go bigger. So it's hard to say how far it could go.

Justine Fisher: And that nine million tons is for both offshore and dry bulk?

Bjorn Moller: That's right.

Justine Fisher: OK. And then my question is just about the outlook for the fourth quarter again. I mean obviously if the demand estimates are correct, then it would seem that OPEC production is significantly below where it needs to be.

But what would you guys say is the handicap for demand estimates for the second half of the year in light of some of the economic data that is coming out recently.

Bjorn Moller: I think we have to consider that last year's winter market was extremely poor because of a mild winter. So, I mean, you can start by assuming that if we have a normal winter you're going to get three percent year in the all-demand growth in the fourth quarter, which is a pretty good number.

Other than that, I mean, you're seeing not just the volumes, but you're also seeing the transportation routes. And, I mean, certainly we have no question that, you know, the oil will flow, and prices are not going to be allowed to, I think, skyrocket forever.

Justine Fisher: But there must be a limit to how much more OPEC can produce in the second half anyway, right? Even if they're under-producing now, there's a limit to that capacity. And so maybe -- what's the potential for supply to limit tanker demand anyway?

Bjorn Moller: Yes, I think that, you know, they've been spending a lot of time adding capacity in the Middle East in the last couple of years, and we haven't really seen them use it because of the OPEC environment -- I'm sorry, the demand environment.

But I think we certainly expect -- there's like five million barrels of spare capacity in the Middle East. And the numbers we're talking about here of 2.8 million barrels a day in pick up in call in OPEC, that is only the call in OPEC.

The step-up in demand for oil from second quarter to fourth quarter that give 3.6 million barrels a day, and the remaining -- the difference is going to be made up of non-OPEC oil coming back on stream in time for the end of the North Sea maintenance season.

So you're going to get, you know, lots of new oil in the market if they're going to meet demand, if they're not going to allow some sort of draw-down in inventories, which I think would be unexpected.

Justine Fisher: OK. And then my last question is one about liquidity. And it's related to the access that shipping companies have to liquidity in order to finance fleet expansion. And I think you guys are a pretty good company to ask this question to, because you access the secure capital markets consistently in order to finance growth.

And I suspect the answer is no, but I'm checking because of what's going on in the credit markets right now. But we've seen access to liquidity for large projects and for large financial projects shrink significantly over the last couple of weeks just because, again, of what's going on in credit.

But it seems to me that for shipping companies not only is a lot of your debt secured debt, but it also is financed on a relative basis more largely from European banks versus just U.S. banks. So I'm wondering if you guys are seeing any diminished access to liquidity because of what's going on in credit more broadly, or if you're seeing rates for that type of financing increase.

And that's particularly in light of what you're planning to do to refinance the OMI facility. Are you guys seeing access to liquidity shrink at all, or not so much? Again, I suspect the answer's no, but I have to check.

Vince Lok: Hi, Justine. No, we're not seeing that. And as you know, we're in the process of refinancing the OMI debts, and we're getting a lot of interest from banks. So we're not seeing that.

Justine Fisher: And then even if not for Teekay in particular, and maybe it's difficult to comment. Some of the easier bank financing that has been available to shipment companies more broadly over the last year, that's allowed them to expand their fleets and to make acquisitions.

I mean, do you guys suspect that some of the smaller shipping companies, or ones that aren't as well-established as Teekay, would see less easy access to that liquidity? Because that's certainly something that's happening in the rest of the credit markets, that the less established companies are seeing poorer access to liquidity. Do you guys suspect that's the case in shipping?

Peter Evensen: I don't think we have -- I mean we don't have any special insight on what other companies are doing. But certainly as Vince says, we haven't seen it.

Justine Fisher: OK, thanks.

Operator: Thank you. And our next question will now come from Scott Burke of Bear Stearns. Please go ahead.

Scott Burke: Hi. Good morning, guys.

Bjorn Moller: Hey, Scott.

Scott Burke: Listen, now that you've kind of got the premier Suezmax franchise, just wondering what your appetite is for additional Suezmax acquisitions, especially at, you know, current asset prices. You know, are you guys out looking for more vessels?

Bjorn Moller: We are not actively in the market at the moment, but we're certainly following opportunities. We have an orderbook of ten ships, which, of course, is feeling nice and fuzzy now being in the money by about $250 million.

So we have, you know, the growth built in. And so we're watching it. I think, you know, newbuilding prices are probably going to go up further from where they are. They haven't yet reacted completely to the latest asset transactions, so I can't really give you too much guidance. But we certainly are investing in our business, so we'll do that where we can.

Scott Burke: OK, interesting. And kind of going back to the point you made on OPEC probably increasing production in the fourth quarter. You know, the FFA market right now does have -- it does show there it's increasing pretty significantly for the next six months, and even into next year.

And just wondering, you know, how much credence you guys put on the levels you can see in the FFA market, and then if that translates into any FFA activity, you know, for Teekay in terms of hedging.

Bjorn Moller: Right. The FFA markets, unfortunately, still are relatively liquid, but they are becoming a more reliable predictor, and I think it's important to note that the major oil companies use the derivatives market probably as much as anybody. And they have, I think, the insight into what's going to happen on the oil front more than, I think, the ship owners.

So I think that curve you're talking about should certainly support what we're saying, and I think that's good. We are looking -- we are more active in the derivatives market these days than we've been in the past, so we are hoping to contribute to that liquidity. So we are active in that market.

Scott Burke: When you say you're active, does that show up anywhere in your financial statements at this point, or is it just kind of too small of an impact to ...

Bjorn Moller: It's too small right now.

Scott Burke: OK. OK, well thanks.

Operator: Thank you and our next question will now come from Craig Lewis of Credit Suisse. Please go ahead.

Craig Lewis: Good morning. I guess first I want to expand on what Justine was talking about, you know, regarding asset prices. And when you look at slide 11, you see when OMI put itself up for sale. You know, that was kind of the beginning when asset prices really took off.

And then, you know, I mean there was a lot of -- I mean obviously some private equity firms, you know, started, you know, looking at the space. And it looks like those four sale/leaseback transactions you entered into were with a private equity firm.

And, you know, given what's happening in the credit markets with private equity financing, I mean, do you think that this is the peak and that, you know, second hand asset prices are probably going to start coming down being as, you know, a lot of these non-traditional investors will now start to leave the space?

Bjorn Moller: That's a deep question. We don't think this is the peak in values. We think that, I guess, the values -- you look at what drives values, certainly for modern tonnage, you can have a big influence in what happens in the newbuilding market.

And there's no sign of any slowdown in the newbuilding ordering for dry bulk vessels and large container vessels. And in fact it's quite difficult to find tanker berths, even, you know, in the early part of 2011.

Craig Lewis: So, I mean, and I guess this is a simpler way to ask the question. You know, with those four sale/leaseback transactions, has your phone still been ringing by private equity investors looking to do some more type deals?

Vince Lok: Well, I would say that not those in particular, those are more financing deals. But what you have found is that the shipping sector has been steadily re-rated as people have gotten used to the idea that this cycle is going to last a lot longer.

And so what happened post OMI is people suddenly understood that there's going to be a re-rating of the sector. What the slide shows is that the asset price market reacts much quicker to the shipping fundamentals. And we believe there is a lag effect with the stock investors, because they're not as familiar with it as the players. So it takes them a while to get use to it.

But just as we've seen, for example, in the dry bulk side where there was a tremendous increase in values but it took a while for the stock prices to catch on to that. And that's the same thing that we've seen in the tanker market, a steady re-rating.

So sometimes the stock investor -- the analysts say oh, 2004 was the high, and year-on-year it has dropped. But they missed the point which is that we have stayed up at this high plateau.

And so there's a steady re-rating as people understand that this thing's going to last a lot longer as we've been saying, and that's what people are looking at.

Now the private equity, which we noticed were competing with us on OMI, they quickly saw that the enterprise value to EBITDA here makes it a financeable type of acquisition. So it's quite easy to finance.

But the way we look at it is we are buying a business rather than we are doing a quick financing the way somebody would buy a building.

Craig Lewis: OK, great. And then a lot easier question to answer. What sort of maintenance in the North Sea should we expect to spill over into Q3?

Bjorn Moller: I think this is about a kind of year where you have an even activity, but you typically have a peak in August. So I think maybe on the whole you have, you know, probably about 40 percent in the second quarter and 60 percent in the third quarter.

Craig Lewis: OK, thank you.

Operator: Thank you. And our next question will now come from John Kartsonas of CitiGroup. Please go ahead.

John Kartsonas : And good morning. Vince, can you talk a little bit about depreciation for the second quarter? I guess this question was asked before, but you didn't answer it. It seems it was quite lower than the last few quarters. Was something special there?

Vince Lok: Yes, that was related to the changes to the purchase price allocation for Teekay Petrojarl that I mentioned earlier. So that which resulted in a reduction in vessels and equipment, and therefore depreciation. That's the majority of the reduction and depreciation in this quarter.

John Kartsonas: Is that a one -off item? Or...

Vince Lok: Well, there is, in that figure for the second quarter is a catch-up going back to the fourth quarter of 2006. So approximately one-third of that in fact would be permanent going forward.

John Kartsonas: OK. And also given that obviously your financials are going to change, are you able to provide some guidance in terms of your expenses for the rest of the year?

Vince Lok: We've given guidance, I guess, on the cash flows overall for each segment. Expenses, I guess, both on the line-by-line items will increase in terms of all items as we consolidate the OMI assets. So that will be reflected in the third quarter going forward.

John Kartsonas: OK. And finally, Bjorn, you said that you ordered the Aframaxes at $245 million combined. That's significantly higher where prices are. Can you talk a little bit about that what the difference there and why so high?

Bjorn Moller: Yes. These are shuttle tankers. These are, you know, very sophisticated shuttle tankers with winterization and so on. So that's a -- I mean the price for a newbuilding Aframax is probably $70 million, $75 million right now, and so a spread of $35 million to 40 million for, you know, some of the most sophisticated shuttle tankers ever constructed is in light of the high price of equipment these days, that's a natural price differential.

John Kartsonas: OK, and that's in Japan, or ...

Bjorn Moller: That's in Korea.

John Kartsonas: OK, thank you very much.

Operator: Thank you. And our next question will now come from (Daniel Burke) of Johnson Rice.

Daniel Burke: Good morning, all.

Bjorn Moller: Hi, Dan.

Daniel Burke: Question on the shuttle tankers used offshore Canada. How many were you operating over there? How does that market typically function, Bjorn, and are you opening up a new market for yourself as you look forward?

Bjorn Moller: We are currently -- we have one Suezmax, modern Suezmax tanker operating there for a six-month period. It's a niche market that involves ownership of some vessels by major oil companies, and ownership of a couple of other vessels by independent owners on long-term charter to oil companies. And so that is, you know, it's a niche, as I said.

We think there can be some rationalization done there by going into the contract of afreightment process or setup that we have in the North Sea and Teekay would be well-positioned to offer support there.

So this is our first activity in eastern Canada in a long time, and so I think it reintroduces the Teekay name, Teekay area name, so we will explore what else can be done there. But it's not a huge growth market, but it is a growth market in the long-term, and very quality-conscious, similar weather characteristics to the North Sea. So I think that plays to our strength.

Daniel Burke: OK, great and then a question. Obviously you feel pretty comfortable with the Angola LNG deal, is still technically an LOI. What contingencies are there other than I guess financing contingencies at this point?

Bjorn Moller: Those are various, I think, formalities. We would view it as formalities. We think that's a final investment decision, but, you know, there's a lot of ground work having already been done here, and this is, of course, a very important project for Angola.

So in our conversations with the parties involved we certainly get encouragement that this is a very high probability.

Vince Lok: And there aren't any financing contingencies on our side.

Daniel Burk: OK. Thanks for that clarification, and thanks for the answers.

Bjorn Moller: Thank you.

Operator: Thank you. Our next question will come from Martin Roher, of MSR Capital Management. Please go ahead.

Martin Roher: Thank you. I read, Bjorn, in the speech that you gave at the annual meeting of the continued work that your joint venture's doing on the new way to transport compressed natural gas. Do you think that has the potential to be commercialized, and if so, what time frame?

Bjorn Moller: Hi, Marty. I think that the CNG, compressed natural gas transportation business is a little bit like the fresh water transportation business. It's something that everybody can see making sense, but the commercialization of it has been elusive.

We are optimistic that in the foreseeable future, maybe in the next couple of years, that you're going to see projects actually undertaken in the CNG sector. There are -- we are involved in two projects.

One is a joint venture with the Coselle Technology in (Marubeni), which we believe is probably in the strongest position. It is the first to have full classification approval, and we know that there are a number of discussions underway.

But again, there are a lot of moving parts. You're going have the buyer, you've got to have the suppliers of the gas, you've got to organize the terminal facilities. So this will take time. But I'd say, I'd be very surprised if in three to five years we're not seeing real project underway there.

Martin Roher: Thanks very much, and thanks again for the very informative conference call.

Bjorn Miller: Thank you, Marty.

Operator: Thank you. Ladies and gentlemen, if there are any additional questions, please press star one on your touch-tone phone and remember to lift your handsets first if you're using a speakerphone. If there are any additional questions please press star one.

And our next question will now come from Stephen Williams of Simmons. Please go ahead.

Stephen Williams: Yes, hi, just to check something. I think you actually stated earlier that certain assets are effectively worth more within the MLPs than within the Teekay parent, right?

Vince Lok: That's right.

Stephen Williams: And so as a rule I can presume ...

Vince Lok: But cash flow is valued differently.

Stephen Williams: Yes, OK. So as a rule I can assume that some more of the Teekay directly of industrial business is going to end up within TOO, for example.

Bjorn Moller: Yes, we have given directional guidance that we have a variety of assets to drop in. The intention is to grow the distributions of Teekay offshore by 10 to 15 percent annually and of course so that means bringing in new business.

And there's a lot of offshore business still held at the Teekay corporate level, both through OPCO and the new shuttle tanker projects, our FPSO business. So there really are quite a few opportunities for that.

Steve Williams: OK. So when that transaction takes place, effectively a sale from Teekay into Teekay offshore, would I expect that to be priced at the value that the assets are worth to the MLP, or the value the assets are worth to the Teekay parent?

Vince Lok: That's governed by an omnibus agreement that generally any assets that Teekay purchases has to be sold at cost to the MLPs.

Stephen Williams: OK, I'm thinking more about, like, the interest in the OPCO business.

Vince Lok: But the OPCO business is up to Teekay to offer, and Teekay, of course, has an incentive to make sure it's an accretive transaction. And the MLP also has a fiduciary responsibility to make sure that if they bought it they would do it in an accretive way.

Stephen Williams: So effectively somewhere in between the two values, I guess.

Vince Lok: Yes, I guess you would say that. But it's in Teekay's interest to have it as an accretive transaction.

Stephen Williams: Right. OK. But if I was valuing your offshore business and a kind of sum of the parts, why isn't it used to present -- it's been not really right to use the kind of TOO traded price as a kind of indication of what the offshore business is worth to Teekay, because you actually have to sell it a little cheaper.

Vince Lok: No, I'm not sure that's right, because if you look at financial effect to Teekay of putting parts of OPCO, or increasing the ownership of -- TOO's ownership of OPCO, the general partner becomes worth a lot more, which would make up for any discounts that it would sell, they always put in.

Stephen Williams: Yes, OK. OK.

Vince Lok: So there's a balancing. And in fact it'd maybe work better for Teekay in terms of its general partner being worth more,

Peter Evensen: As well as the limited partner interest that we have.

Vince Lok: Right. So every time Teekay sells something, its existing LP units go up in value, and the general partner goes up in value.

Stephen Williams: OK, I understand. Thank you.

Bjorn Moller: Thank you very much.

Operator: And at this time, sir, we have no other questions. I'd like to turn everything back over to you.

Bjorn Moller: Thank you very much for interrupting your summer vacations, and we look forward to talking to you next quarter. Have a great day.

Operator: Thank you. Ladies and gentlemen, this does the conference call for today. Once again, thank you for participating. And at this time we ask that you please disconnect your lines.

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