



**TEEKAY CORPORATION**

**Moderator: Alana Duffy  
November 13, 2009  
11:00 am CT**

Operator: Welcome to Teekay Corporation's Third Quarter 2009 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 1 to register for a question.

For assistance during the call, please press star, 0 on your touchtone 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): Before Mr. Moller begins, I would like to direct all participants to our Web site at [www.teekay.com](http://www.teekay.com), where you will find a copy of the Third Quarter 2009 Earnings Presentation.

Mr. Moller and Mr. Lok will review this presentation during today's conference call.



Please allow me to remind you that our discussion today contains forward-looking statements. Actual results may differ materially from results projected by those forward-looking statements.

Additional information concerning factors that could cause actual results to materially differ from those in the forward-looking statements is contained in the Third Quarter 2009 Earnings Release and 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 everyone. Thank you very much for joining us on this morning's call.

I'm joined today by Vince Lok, as you heard and for the Q-and-A session, we also have Teekay's Chief Strategy Officer and the CEO of Teekay LNG and Teekay Offshore Peter Evensen, as well as our Corporate Controller Brian Fortier.

We are reporting today on Teekay Corporation's results for the third quarter 2009, during which we experienced the worst spot tanker market since the early 1990s.

While this has resulted in us reporting a net loss for the quarter, it highlights the value of our efforts over the last few years in growing our stable, fixed-rate businesses and reducing our exposure to the spot market.

We continue to focus on three priorities that we outlined at our June Investor Day. And I am pleased to provide you later in today's presentation with an update on the considerable progress we continue to make.



Turning to slide 3 of the presentation, which is posted on our Web site, I'll briefly review some of our recent highlights.

For the quarter, Teekay generated consolidated cash flow from vessel operations, or CFVO, of \$112 million, all of which came from our fixed-rate businesses.

With spot tanker rates averaging near or below net income breakeven for much of the quarter, the Company reported an adjusted net loss for the quarter of \$43.4 million, or 60 cents per share.

While the size of our fleet trading in the spot market has already been reduced considerably since the start of the year, we are taking steps to further limit our near-term spot tanker market exposure.

Our cost containment efforts continue to yield significant results.

At our current run rate on G&A and operating expenses, our annualized savings are now approximately \$96 million, or \$1.32 per share.

Teekay's balance sheet strength remains intact, as well. This quarter, we continued to reduce debt at the Teekay parent level through third-party vessel sales and accretive dropdowns to our daughter companies, which were financed by equity raises at each daughter company this year.

We completed the sale of the Petrojarl Varg FPSO to Teekay Offshore, and two LNG carriers to Teekay LNG. Combined, these transactions resulted in \$330 million of net debt reduction at Teekay Parent, which significantly enhances the Company's financial flexibility.

Teekay's financial strength is also supported by our sizeable liquidity position, including a new \$260-million Petrojarl Varg FPSO financing completed earlier this week. Teekay's consolidated



liquidity stands at over \$2 billion, or \$2.8 billion when including our pre-arranged new-build financing.

In October 2009, we declared and paid out regular reported dividend of 31.625 cents per share for Q3, supported by the distributions we received from our ownership in our two MLP daughter companies alone.

Turning to slide 4, a highlight of our unique business platform is the amount of cash flows we generate from our fixed-rate businesses in Offshore, LNG, and Conventional Tankers, which are insulated from the current spot tanker market volatility.

Looking at the bar chart on this slide, you can see the prospective CFBO contributions from our fixed-rate and spot businesses in each of the first three quarters of 2009.

Teekay Offshore and Teekay LNG are exclusively fixed-rate businesses, while Teekay Tankers and Teekay Parent have a mixture of fixed-rate and spot cash flows, which we have separated in this analysis.

As you can see on the right-hand side, weak tanker rates have pushed our spot CFBO into negative territory during the last couple of quarters. However, our fixed-rate businesses, on the left side of the graph, are generating large amounts of stable, positive cash flow, aggregating to over \$550 million of fixed-rate CFBO on an annualized basis.

With over \$12 billion of forward fixed-rate revenues and an average contract duration of 11 years, our fixed-rate businesses are expected to provide significant, stable cash flows well into the future.



I would also like to point out that, notwithstanding the reduction in our spot tanker fleet, we still have exposure to any upside in the spot rates. And this point provides a good segue into the next two slides, where I'll discuss factors that could influence global fleet utilization and, thereby, tanker rates next year.

On slide 5, we have shown on the far left side of the bar chart the 2009 Global Tanker Fleet Utilization, which is estimated to average 83%, assuming a modest seasonal pickup in Q4.

The second bar from the left indicates what we refer to as a base case for 2010, which shows utilization unchanged at 83%. This figure presupposes the development shown in the table below, in the base case column, namely that GDP and oil demand grow, as recently forecasted by the IMF and the IEA, respectively, leading to a 5% increase in tanker demand; and that a 45% phase-out of remaining single-hulls and a 10% cancellation of scheduled new buildings would limit net tanker supply growth, also, to 5%.

What we have tried to illustrate in the recovery case is what you might call the potential anatomy of a market recovery. We have broken down the individual effect on fleet utilization of each of the factors in our table, now referring to the right-hand column, and have shown these in the red growth bars on the right side of the chart. The figures generally speak for themselves, but I will briefly mention two of the factors.

The fleet utilization effect, should OPEC gain an additional 1 million barrels of oil per day in market share, is estimated to be a positive 1.5%. Note that we are not talking about an additional 1 million barrels a day on the market, but rather the positive (10-mile) effect of that amount of oil being switched from non-OPEC to OPEC sourcing.

If an incremental 1 million barrels of oil supply were to come on the market, this would give an even greater increase in utilization.



Secondly, we have addressed a factor which has not received wide coverage so far, namely the declining efficiency of the first-generation double-hull tankers; double-hulls, first, again delivering in a meaningful way in the early 1990s. And by 2010, there will be some 33 million tons of double-hull tankers 15 years or older.

At Teekay, while we have a modern fleet overall, we also have some first-generation double-hulls. And we are witnessing firsthand the charters of scrutinizing these ships to a far greater extent than just one year ago, when tonnage availability was tight. And, in most cases, charters are now giving preference to younger vessels, if available.

As a result, first-generation double-hulls are experiencing increased idle time between cargoes, and are spending much longer time in repair yards in order to meet stricter quality requirements, including substantial steel renewal. We believe this dynamic will further stratify the tanker fleet, raising the demand for modern tonnage. And in our model on this slide, we have assumed an additional 10% inefficiency in this fleet segment next year.

If all of the factors in the recovery case come to bear, we could see utilization rebound from 83% to 89%, which would be close to full fleet utilization.

Slide 6 reminds us why such an increase would be significant given the close link between utilization and tanker rates. The solid line shows the recent upward move in tanker rates, supporting the notion that we are experiencing higher utilization in Q4.

But it really gets interesting if the recovery case were to be played out. The last time, fleet utilization was in the high eighties, Suezmax's rates were over \$60,000 a day.



On this slide, we have also provided our Q4 rate guidance. We have booked 60% of our spot days at an average rate of \$10,000 for Aframax and \$17,500 for Suezmax.

Current rates have recently risen above these levels, which is consistent with the seasonality of tanker rates. With a higher demand for heating oil, with rougher weather and ice in the winter, as well as sailing restrictions in place in sensitive areas like the Bosphorus, tanker rates are generally higher in the fourth and first quarter as utilization goes up seasonally.

Turning to slide 7, with the probability and timing of a sustained recovery in spot tanker rates uncertain, we are maintaining our strategic focus on things we can control, namely realizing value for Teekay shareholders through the key paths outlined last quarter and at our June Investor Meeting. These are, actively managing our near-term conventional tanker asset portfolio during this period of continued weak rates; improving our profitability, primarily through cost reductions and improved rates on new or renewed fixed-rate charter contracts; and further delevering the balance sheet of Teekay Parent through accretive dropdowns to our daughter companies and asset sales to third parties.

Looking at these points in turn, on slide 8, we have updated a chart that many of you have seen from past presentations, showing our quarterly reduction in Teekay's spot tanker exposure. I'm not planning to walk through these charts in detail, but they serve to make the point that we continue to actively reduce the size of our spot fleet in the Aframax segment, primarily through the redelivery of in-charters, as well as in the medium-sized product tanker segment, which is not shown on this slide.

Since Q3 last year, our quarterly time-charter hire expense for in-charter conventional tankers has decreased by \$60 million per quarter, due to the delivery of 25 in-chartered vessels. We expect to make further progress by the end of the year.



In the fourth quarter, to date, we've already redelivered a further four vessels – two Aframaxes and two (MR)s – and two additional vessels are scheduled to roll off by the end of the quarter. Accordingly, we anticipate further time-charter hire expense reductions, which will further lower our cash flow for an even rate and improve the profitability of our spot business.

Our Suezmax Fleet is somewhat smaller, and we have fewer in-charters trading spot. Our net Suezmax exposure grew slightly in the quarter through the delivery of an additional Suezmax new building, plus the expiry of hedges known as synthetic time-charter contracts. And this was probably offset by the out-charter of two of our Suezmax tankers.

These charters have a fixed-rate floor with profit sharing, providing us with downside protection while maintaining exposure to the recent upside in Suezmax's rates.

Slide 9 summarizes the major cost savings we've achieved on both G&A expenses and vessel operating costs, or OPEX, over the past four to five quarters. This is the result of our corporate-wide cost management initiatives, which have been embraced across our entire organization with great effect.

In the third quarter, we were able to maintain our quarterly consolidated G&A run rate at approximately \$55 million, which is some 20% below our Q2 2008 peak of \$68 million.

And for the second quarter in a row, consolidated OPEX was down 7% over the same period one year ago.

Note that both sets of figures have been adjusted from our reported figures for realized and unrealized gains and losses on our FX forward contracts.

OPEX figures also net out the impact of fleet growth during the year.





Looking at these savings on an annualized basis, the results are material. Our annualized overhead and OPEX savings in the quarter totaled \$96 million, or \$1.32 on a per-share basis. And it goes without saying that these cost savings have been undertaken in a manner that does not impact our fleet operations or our commitment to safety.

At the base case, we expect to be able to hold the line in costs in 2010. However, we will be looking for additional efficiencies on an ongoing basis.

I'll now hand it over to Vince to discuss the significant progress we made in delevering Teekay, and also to review our financial results. Vince?

Vince Lok: Thanks, Bjorn and good morning everyone.

Turning to slide 10, I would like to update you on the third area of focus that Bjorn highlighted, that is reducing debt at the Teekay Parent Company level.

As we have mentioned previously, one of the primary ways we reduce leverage at Teekay Parent is through dropping down assets and related debt in an accretive manner to our daughter companies, as well as selling assets to third parties.

So far in 2009, we have completed six vessel sells to third parties, and three dropdowns to our daughter companies, two of which occurred in the third quarter.

In our second-quarter earnings call in early September, we discussed the sale of the two Tangguh LNG carriers to Teekay LNG Partners.



Subsequently, on September 10, we completed the sale of the Petrojarl Varg FPSO to Teekay Offshore Partners, for \$320 million. To complete the Petrojarl Varg transaction in a timely manner, Teekay provided \$220 million in vendor financing, while the details to the new debt facility were being finalized with the bank syndicate.

Earlier this week, Teekay Offshore completed the new revolving credit facility secured by the Petrojarl Varg, which was used, in part, to repay \$160 million of the vendor financing and results in further deleveraging at the Teekay parent level.

Over the past year, Teekay Parent's net debt, as seen in the gray bars, has decreased by over \$460 million, from about \$1.3 billion at September 30, 2008, to just under \$845 million currently. This represents a net debt-to-capitalization at the Teekay parent level of 28%.

Over the same period, Teekay Parent's remaining new build capital commitments, as seen in the red bars, have also been rapidly reducing as progress payments are made and new building vessels deliver.

Combined net debt and new-build capital commitments have decreased by a total of \$810 million since September 30, 2008.

A large portion of the remaining new buildings were earmarked for future dropdowns to the daughter companies, such as the new-build shuttle tankers and the Angola LNG carriers, which will provide further funds to reduce debt at the Teekay parent level.

Turning to slide 11, I would like to highlight that the capital markets remain open to Teekay.

As these tables have summarized, Teekay has been very active in the commercial debts and public equity markets in 2009, completing over a billion dollars in transactions so far this year.



On the debt side, we have completed a number of new debt facilities and have extended the debt maturity profile of existing facilities to provide further financial flexibility.

On the equity side, we have raised equity capital at each of our daughter companies this year. Proceeds have been alternately used to finance accretive dropdown transactions from Teekay Parent.

As we have seen over the past few years, our corporate structure provides us with a lot of financial flexibility to support both our growth strategy and, more recently, with our deleveraging strategy, allowing us to adapt to almost any situation.

Turning to slide 12, we continue to be well capitalized with current consolidated liquidity of over \$2 billion. We have been actively pushing out our debt maturities and have no significant balloon principal repayments until 2011.

As a result of our recent debt financings, we have reduced the 2011 balloon payments by over \$200 million compared to what we reported to you last quarter.

We have a favorable covenant package on our existing debt portfolio with less than 5% of our outstanding loans, representing only three facilities tied to hull values, which still has significant cushion available.

Finally, prearranged financing is in place for virtually all of our future capital expenditure commitments, which total \$750 million as of September 30.

Turning to slide 13, I will review our operating results for the quarter.



Again, in order to compare the results on an apples-to-apples basis, we have shown an adjusted Q3 income statement against an adjusted Q2 income statement, which excludes the items listed in Appendix A of our Earnings Release, and reallocates realized gains and losses from derivatives to the respective income statement line items.

Net revenues declined by \$42 million in the third quarter, mainly due to the lower spot tanker rates and fewer in-chartered vessels. The prior quarter also included a \$7-million profit share relating to two of our Suezmax tankers.

Vessel operating expenses increased slightly, by 1.5 million from the previous quarter, primarily as a result of higher maintenance costs relating to our FPSOs and full-quarter impact of new buildings delivered during the second quarter.

We expect operating expenses to increase in Q4 by \$3- to \$4 million, mainly due to fleet additions and the timing of certain scheduled maintenance activities.

Time-charter hire expense decreased over the previous quarter by \$21 million, mainly due to the redelivery of six in-chartered vessels during Q3. We expect time-charter hire expense to decline by a further \$15 million in Q4 due to the redelivery of another six in-charter vessels during that quarter.

Depreciation and amortization expense decreased by about \$1.1 million, mainly as a result of the classification of three vessels to help for-sale status, made at the end of the second quarter. And so no amortization was taken on these vessels during Q3.

G&A expenses remained consistent with the prior quarter, which is tracking at the lower end of our previous guidance of \$55- to \$57 million per quarter. This is in line with our efforts to reduce and manage our G&A expenses.



Net interest expense decreased over the prior quarter by \$1.4 million, mainly due to the lower average debt levels and lower LIBOR rates in Q3 compared to Q2.

Equity income in Q3 mainly reflects the equity income from our 40% interest in the four RasGas 3 LNG carriers, and our 50%-owned lightering joint venture SPT. Equity income has remained relatively consistent for the prior quarter.

Non-controlling interest expense was similar to the prior quarter. But it is expected to increase in Q4 by approximately \$3 million, mainly due to the dropdown of the Petrojarl Varg to Teekay Offshore in September.

Looking at the bottom line, adjusted net loss per share was 60 cents in the third quarter, compared to an adjusted net loss per share of 30 cents in the second quarter.

Based on where spot tanker rates have tracked so far this quarter, and the continued reduction in our in-chartered fleet, Q4 is shaping to be a better quarter than Q3.

On slide 14, we revisit the net asset value of Teekay Corporation, made up of assets residing at the Teekay parent level, and Teekay Corporation's ownership of daughter-company equity.

Reviewing changes in the assets at the Teekay parent level since we showed you this last quarter, the value of the conventional tanker fleet has increased slightly due to the delivery of one new building Suezmax tanker and the acquisition of one product tanker on charter to Caltex in the third quarter, partially offset by a decline in the vessel values.

There was a corresponding decrease in the value of new building and payments to date, as the value of our new Suezmax is now included in the conventional tanker value shown above.



The value of the FPSO assets at Teekay Parent has been reduced by the dropdown of the Petrojarl Varg FPSO to Teekay Offshore. However, this was offset by a reduction in Teekay Parent's net debt, as proceeds from the transaction were used to repay debt.

We have also seen a substantial increase in the aggregate market value of our daughter company equity ownership, due to the increase in their share prices.

The value of the assets sitting in Teekay Parent, plus the daughter company equity, without describing any franchise value or growth (premium) to Teekay, currently adds up to a net asset value of just over \$42 per share.

Based on yesterday's closing price of \$22.89 per share, we currently trade at a 46% discount to our NAV, which is an improvement of 10% since our second-quarter earnings call.

By continuing to focus on the actions that further insulate our business from the negative returns we are experiencing in the spot markets, by improving the dividend prospects of our daughter companies through accretive transactions, by improving the quality and quantity of our cash flows by effectively managing costs, and, finally, by enhancing the financial position and strength of Teekay Parent, we continue to believe that we can narrow this valuation gap meaningfully.

With that, I'll turn the call back Bjorn to conclude.

Bjorn Moller: Thank you, Vince.

Summing up, on slide 15, with all three major public shipping segments – container, dry bulk, and tankers – being relatively depressed, with revenue losses resulting from shipping's exposure to



worldwide trade and GDP, we have highlighted five of the key benefits of Teekay's Business Model, that we believe separate us from other shipping companies.

Firstly, while most tanker companies operate in the conventional spot tanker market, and are exposed to the full brunt of the current tanker market volatility, Teekay benefits from its diversified fixed-rate business mix of FPSOs, FSOs, shuttle tankers, LNG carriers, and conventional tankers that provide substantial cash flow stability.

Our forward fixed-rate revenues of over \$12 billion provided long-term stability.

Spot rate conventional tankers comprised only 20% of our current invested capital. All of our assets are operating (non on-layer), and we generally enjoy preference from our customers.

Secondly, the continued weakness in spot tanker rates has caused investor concerns about the ability of tanker companies to generate sufficient cash flows to service debt obligations. Teekay's consolidated debt, on the other hand, is well matched to its assets, with the majority of our debt associated with assets operating under stable, long-term contracts.

Approximately 80% of our consolidated debt is secured against assets at the daughter company level, and is (non-recourse) to Teekay Parent. In addition, our fixed-rate businesses generate over \$550 million of cash flows annually.

Many tanker companies have debt covenants linked to vessel hull values, and there have been several recent well-noted cases of debt covenants being tripped, as vessel values slipped below hull-valued thresholds.



As a market leader involved in industrial shipping, Teekay enjoys a covenant-light debt structure. Our primary covenant is linked to a minimum liquidity, which we easily meet. Less than 5% of Teekay's consolidated debt is linked to vessel values, and these are all comfortably on side.

The fourth point is that some tanker companies face large near-term balloon payments at a time when tanker markets and the recovery in the economy have resulted in limited available credit combined with reduced cash generated from vessel operations. Many have lodged new building order books that have yet to be financed.

Teekay has no significant near-term balloon payments due until 2011. And we have fully financed our remaining capital expenditures.

Finally, the state of the bank market and weak demand from institutional investors are limiting access to capital for many companies. In contrast to this, the capital markets have remained open for Teekay throughout 2009. And, to date, we have raised over a billion dollars of debt and equity financings.

In summary, I believe that we are entering a time when Teekay will begin to meaningfully differentiate itself from other tanker companies. We have built Teekay to not only survive but also thrive through the (cyclicality) of the tanker market. And we remain focused on executing on our strategy of building flexibility for the future.

Operator, I am now available to take questions.

Operator: Thank you. Ladies and gentlemen, if you would like to ask a question, press star, 1 on your touchtone phone. To withdraw your question, press the pound sign. If you use a speakerphone, lift your handset before your entering your request. Please stand by for your first question.





Your first question comes from Jon Chapell of JP Morgan. Please go ahead.

Jon Chapell: Thanks. Good morning, guys.

Bjorn Moller: Hi, Jon.

Vince Lok: Good morning.

Jon Chapell: I want to ask a couple of questions on Teekay Tankers, specifically. In the dividend commentary last night, it seemed you were a little bit cautious about 2010. And, assuming you're using your base case that you laid out on Page Five of this presentation, you're 50% time-chartered for next year. What's your ultimate strategy for chartering the rest of that fleet? Do you think that 50% is the right number given the uncertainty in the market, or would you like to have a little bit more coverage?

Bjorn Moller: I think we would probably be opportunistic. I think we generally would – we're a little more positive on spot exposure in the Suezmax sector. And so, if we were to have a choice of putting ships away, it would probably be looking to put more tonnage away in the Aframax side.

However, I think rates are at a level now where it's becoming a bit marginal. So, for that reason, we were, instead, able to recently put away a Suezmax in TNK, which involves profit sharing if (floor would) profit-share. So that means that we will have two Suezmax vessels exposed to the upside in the market, but having a fixed floor. So I think we will probably see that percentage stay relatively constant next ...

Jon Chapell: OK and I've noticed the reserves in the dividend calculation have been moving up a little bit, almost \$3 million in the third quarter, and then in your forecast for 4Q table, you're talking about \$3 million. What type of run rate should we be using for this reserve when we think about the



2010 dividend? Is it closer to \$3 million for the fourth quarter or the \$2 million that you had in the first half of the year?

And then, also, what's the dry-docking schedule for the TNK Fleet in 2010?

Vince Lok: Hi, Jon. Yes, the \$3 million includes some other capital expenditures related to regulatory requirements. Based on the dry-dock budget for next year, it is a relatively heavy dry-dock schedule for next year, but it's similar to 2009. So, combined with the regulatory costs, we think \$3 million per quarter is a good run rate to use for next year, as well. However, 2011 is a very light dry-dock year. There are no scheduled dry-docks for TNK based on its current fleet at this time.

Jon Chapell: OK, so near the end of the year, that reserve will probably come down as you look to 2011?

Vince Lok: Starting in 2011 (noodle), I guess we don't have any scheduled dry-docks right now. But, for 2010, three mil and a quarter is a good run rate to use.

Jon Chapell: OK, and, Vince, forgive me, but I don't remember how many were dry-docked in 2009.

Could you just give me the number of ships? It doesn't have to be on a ship-by-ship basis, but ...

Vince Lok: There were four vessels in 2009 and four in 2010.

Jon Chapell: OK, and then, finally, Bjorn, a bigger-picture question – you had some new builds in the yards, obviously. And there has been a lot of talk about how legitimate is the order block, and are there going to be a lot of cancellations or slippage. So you're probably seeing it firsthand, and I'm sure your ships are at more established shipyards.



But how realistic is it that there could be cancellations – significant cancellations in the tanker order book next year, given where the orders are placed, and also given some talk out of the South Korean and Chinese governments that they may lend some subsidies or support to their shipyards?

Bjorn Moller: Right. We've used a 10% cancellation in our model, in the slides you saw. And that's over (proxy) for delays and cancellations. But, of course, there are delays from 2009 into 2010. So, in that sense, if there is a similar amount of delays in 2010, then you're treading water.

I would say that it's not – there are not going to be a lot of cancellations in 2010, in our view. I think we're too far down the road. The ships will end up in somebody's hands. The issue, to me, is more the fact that there is going to be a slowdown in the productivity of shipyards. You're seeing that they are essentially looking to reduce the shift, and they're throttling back.

So ships will come later, or I think the existing order book will be spread out over an additional 12 to 18 months. And there is very little new ordering going on, so they're not able to fill the slots that would otherwise be available if they kept their productivity. So they're saving costs like everybody else, and they're reducing productivity.

So I think you'll see fewer deliveries than (plotson) is modeling. But I don't think you'll see a lot of cancellations. They will be delayed, mainly.

Jon Chapell: OK.

Bjorn Moller: And that's in 2010. 2011, I think, is much more open. They are the banks. And I think I share the view of many commentators that the while bank market will be very pivotal to whether ships do get delivered or not.



Jon Chapell: Right. OK, thanks a lot, Bjorn and Vince.

Vince Lok: Thanks.

Operator: Thank you. Your next question comes from Doug Mavrincac of Jefferies and Company. Please go ahead.

Doug Mavrincac: Thank you, Operator. Good morning, all.

Bjorn Moller: Hi.

Doug Mavrincac: Hi, I just had a few follow-up questions this morning. First, as it relates to your presentation – which is excellent, by the way – on the slide that discusses your base case and recovery case expectations for 2010, your base case estimate is that OPEC production growth is zero next year, but tanker demand growth is 5%.

Just for clarification, is that primarily – is the 5% growth primarily due to non-OPEC production growth or (10-mile) expansion, some combination of the two, or is it coming from something else?

Bjorn Moller: Maybe we were – maybe we confused you. I guess that what we meant to say is that market share remains constant for all players in 2010, in the base case. So that means OPEC will come out with its proportion of the increased oil that is needed to meet the 1.6 demand growth.

Doug Mavrincac: Gotcha, gotcha.



Bjorn Moller: But next – but the alternative might be that there are some shortfalls in non-OPEC production, which is typically what happens. And you might see a switch of Middle East OPEC, in particular, stepping into the void and taking the market share.

Doug Mavrinac: Perfect. Actually, that closed up very much. Thank you, Bjorn.

And so with that, kind of switching gears a little bit, I guess the hot topic over the past couple of days has been the news out of (Fujirah) that they were banning single-hull tankers from the beginning of the year. Can you please comment on how that could impact the trading of single-hull vessels in that particular region, and then just in general?

Bjorn Moller: Well, it's undoubtedly going to disrupt and make it more difficult for vessels to operate. And I guess, certainly, some of the Middle East countries were clearly one of the loopholes for single-hull tankers. And I suspect that there are ways to work around it. But I think it's going to be an additional complexity for single-hulls.

Also, it's going to make charters who are debating whether to take a single-hull versus paying a little more for a double-hull. It's going to make it more difficult. Ships are going to be facing scheduling disruptions. Older ships need a lot of repair and care; you know they need a lot of love.

Doug Mavrinac: Right.

Bjorn Moller: And (Fujirah) is one of the key locations where that occurs. So it's certainly – it's going to add to the pressure, let me put it that way.

Doug Mavrinac: OK, it makes sense. And then, as it relates to that announcement and maybe potential similar announcements, does that change your expectations, meaning is that already kind of



included in your base case or recovery case scenarios, and that's just a concrete example of that? Or, I guess, should these things be viewed as surprises or just more evidence of what is expected?

Bjorn Moller: I guess that base case is that they're going to clamp down on single-hull ships. Then there are a couple of little pockets where the governments – like Singapore, which is a country that relies heavily on repairs and maintenance, and traffic and (channeling), and bunkering and so on – they've opened up a loophole.

Japan has opened up a loophole, but that will really only, in my view, affect Japanese ships. So it's really countries like Thailand, India that are left for these ships to trade in. Notably, China, Korea, other big importers in the region have expressed their intent to block single-hulls in 2010.

So I think the base case is that ships are going to go out of a combination of restrictive trading, huge repair bills, and just negative cash flow.

Doug Mavrincac: OK, great. Thank you. And then, just finally, last quarter, you had commented on how we were seeing oil demand beginning to finally improve; and, sure enough, we've seen that taking place over the last few months.

As it relates to asset values, have we begun to finally asset values stabilize? Or do you think there is potentially some more downward pricing pressure as it relates to those things, be it in the form of maybe current returns are still a little bit too low or be it that charter rates remain very weak, and you see more non-performing loans coming down the pipe, and then you have some lending institutions that have to deal with those?

What is your feel on asset values? Have we seen that stabilization, or is it still a fluid picture?



Bjorn Moller: I think we've seen some stabilization in modern ship values. Older vessels might experience continued down-drops. But it's going to be very sensitive, I believe, to what happens in oil demand and in freight rates.

I suspect, if we see a good winter rally, we might begin to see sales flatten out in terms of price. You know the distressed sales that may occur could be the outliers. But if you are looking to build a position in this market, there are not that many distressed sales, at least not yet. And it's difficult to build a meaningful position.

And there are going to be other people looking to bottom-fish. So you might, sort of in the charts that reflect (last-on), see some volatility. But I don't think you're going to see a lot of ships trade hands at much below these values that we see now.

Doug Mavrincac: OK, great. Thank you very much. You're always helpful.

Bjorn Moller: Thank you.

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

Gregory Lewis: Thank you, and good morning. Just to follow up on Doug's question, Teekay's been in a deleveraging mode over the last year. Given the slides Five and Six, where you show improving utilization, how do you balance Teekay's one-up deleveraging and growth opportunities? And when do you think the deleveraging reverses, and you start going after assets?

Bjorn Moller: Well, it's a deep question and one that we think about all the time. But I think it's important to say that we're not necessarily saying that there will be a recovery. We're saying that there are two – there are several outcomes. And the base case, which is really linked to the economic



forecasts and oil demand growth that people are talking about, would suggest a flat utilization for next year. And we know how bad rates have been in the second half of this year.

So I don't think we are out of the woods. But I think that there are – mainly, there's very little downside in the sense that, if utilization went down to 80%, rates are not going to get any lower. They are already, in some instances, bumping along the bottom. So there is mainly upside here.

On the other hand, I don't think – we certainly don't subscribe to the view that tanker values are going to get away from us if we waited six, 12 months. I think the issues are, "Are they stabilized where they are," and, "Might they bounce around a bit?" Yes. But I don't believe that you're about to see a spaceship take off on values here. And so we can afford to be conservative.

In the meantime, we're able to allocate our capital to profitable long-term projects, which is one of the things that makes us very different. We're not having to bet on the roulette table here. We can play the industrial game and invest in profitable long-term business, even as we wait for a turnaround.

Gregory Lewis: OK, great. And then, just lastly, in the (POL) press release, you mentioned the conversion of a shuttle tanker to an FSO. Could you talk a little bit more about that in regard to the conversion costs of that asset, sort of what the expect IR is you know the day rate? And, potentially, why was that specific vessel chosen?

Bjorn Moller: Yes, I ((inaudible)) that. So the – we briefly mentioned it in past quarters. It's a 23-year-old shuttle tanker that was on its last legs. In the current trade, it had features, including helicopter deck and some other equipment, that would make it more readily convertible to floating storage compared to a conventional vessel.





And so, because of the very good condition of the vessel, we were able to secure a nine-year contract, which will have an IR of somewhere in the low- to mid-teens on level. And the conversion cost is about \$30 million. The vessel value was about \$15 million. The ship is due to deliver and start service in December.

So that's an example, I guess of basically making lemonade out of a lemon.

Gregory Lewis: OK, thank you very much for the time, Bjorn.

Bjorn Moller: Thanks.

Operator: Thank you. Your next question comes from Urs Dur of Lazard Capital Markets. Please go ahead.

Urs Dur: Good morning.

Bjorn Moller: Good morning, (Caleb).

Urs Dur: I was wondering – you mentioned in the discussion – and if you could give us some more color on first-generation double-hulls – are you hearing significant reports of first-generation double-hulls losing vettings? Or are they simply waiting a bit longer because the younger tonnage is all so cheap, and you might as well take the newest?

Bjorn Moller: So only the latter is true. Generally, as far as vettings getting lost, I mean, we pride ourselves for having extremely close relationships with all the vetting groups and the major oil companies.

Our vessels are well maintained.



Urs Dur: Sure.

Bjorn Moller: We look after them. But I can tell you these guys are, like, going through stuff with a fine-tooth comb. And so we know, anecdotally, that other people are facing vetting difficulties. And of course, once you get one oil company to go onboard, make any kind of deficiency comments, and entered into the centralized (sire) system that all the oil companies ...

Urs Dur: Oh, yes, absolutely.

Vince Lok: Yes.

Urs Dur: Yes, so your – but you feel confident – and what is your exposure? And I know you just mentioned that you feel confident with your vetting, so it's not a comment on your vetting to yourself. But what is your exposure to earlier-generation single-hulls at this time?

Bjorn Moller: Well, we have a number of vessels. But we have, essentially, a very modern fleet, an average age of six years. And if you look at the invested capital on an age-weighted, evaluated basis, a very small portion of our fleet is in that segment. There are probably about a dozen vessels, I would say.

Urs Dur: OK. No, great. Just on your base case – and I think you mentioned this – have you removed the entirety of single-hulls from your base case fleet growth/net growth model for next year?

Bjorn Moller: The base case talks about 45% single-hulls phased out next year. And the ...

Urs Dur: OK.



Bjorn Moller: ... and the (retired base) – 65%.

Urs Dur: All right, good.

Bjorn Moller: ... now, obviously, if some of these people got really busy scrubbing.

Urs Dur: Yes. OK, no, very good. And just to reconfirm, it's been a long time since most oil majors will even take a single, right? So in many respects, especially in this weak market, they've been out of it for a while, right?

Bjorn Moller: Yes, I think the oil companies are pretty reluctant to take single-hulls. So it's definitely finding – they're operating in niche trades.

Urs Dur: Yes, you mentioned, also, Singapore and Japan with some exception for single-hulls. Is there anybody else on the list that you think may make go exempt for another five years on use of singles?

Bjorn Moller: Definitely, India is still in the mix, whether that's for five years or on a case-by-case or a year-to-year basis. Thailand, Italy, Middle East countries like Iran, Iraq – so there are a few countries that still will take a pragmatic view.

Urs Dur: China?

Bjorn Moller: No, China has said no.

Urs Dur: OK, that's right. Cool. Informative presentation. Thank you.

Bjorn Moller: Thanks, (Lewis).



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

Justin Yagermn: Hey, good morning, guys. I wanted to dig in a little bit. Do you guys have a sense – and I'm – in your model, do you break it down a little bit further in terms of utilization rates between what you think single-hulls, first-gen double-hulls, and modern double-hulls are doing in the market right now, and maybe as you look out to 2010?

Bjorn Moller: We don't have that granularity. I mean, we have a sense of where it lies. So I think the single-hulls are probably sitting around a lot. But they are also in trades where they may spend a lot of port time carrying cargo, sitting around, waiting because they're low-cost to the charterer.

I mean, I don't think I have a good number to give you on the utilization of the single-hull, but it's probably well below 75%.

Justin Yagermn: Do you think it's below 50% right now?

Bjorn Moller: It's difficult to know. I mean, there's a lot of storage going on. I know that a lot of the storage is on modern tonnage, but there is undoubtedly some play on storage elsewhere, as well. In the Middle East, for example, I wouldn't be surprised if there's a lot of storage there.

I don't know. It could be that low, especially when rates are – and net income you know operating costs break even.

Justin Yagermn: So is there a chance of double-counting those when thinking about that and looking at next year? I mean, in that they probably have a utilization rate that's quite low right now. They're



counted in current fleet. And then, when you're taking them out, it's almost a double effect in terms of thinking about how that affects capacity in 2010.

Bjorn Moller: I think that is a risk. You shouldn't count them pound for pound, probably.

Justin Yagermn: OK.

Bjorn Moller: On the other hand, that's why we are introducing the notion of the first-generation single-hulls, which is a factor that I think people are not yet talking about.

The other thing to think about is other factors like the Contango play with — I just did some math yesterday on it, and I guess you could still justify paying well over \$20,000 a day for Aframax's, and you could still pay over \$30,000, \$35,000 a day for VLCC's.

Justin Yagermn: Where are we right now with tonnage storing crude and product on the water, as far as you guys can tell?

Bjorn Moller: Well, what we're reading in all publications is about 50 million of crude — 50 million barrels of crude oil; storage — about 100 million barrels of middle distillates, which is approximately 4% of the world tanker fleet, in total.

Justin Yagermn: Wow, so the middle distillates' number is growing significantly since the summer.

Bjorn Moller: That's correct.

Justin Yagermn: OK.

Bjorn Moller: That's because (Contango) is still steep.



Justin Yagermn: Yep. Nope, that's fair. When looking at just the corporate structure and how it plays out over the next couple of years, how are you guys thinking about segmentation of assets to the daughters? Obviously, you've done a lot of work in terms of taking debt off of the Parent and putting it onto the daughters.

As you drop vessels down, are we going to see it truing up in terms of crossing assets between daughters?

And in terms of catalysts for the actual dropdowns from the Parent, are there other catalysts besides just financing becoming a little bit more available?

Obviously, you've done some of this this year, but it's at a high cost when you think about equity or debt. Are you waiting for more of that to see if the market has normalized? How should we be thinking about that and expecting it, going forward?

Bjorn Moller: Peter Evensen, I think you should answer that.

Peter Evensen: Sure. Well, the first thing is that, although the debt goes down with the asset, and we have pre-agreements with banks, we have to also remember that the asset goes down, and the cash flow goes down.

So, in each case, it's going down in an accretive transaction. And we are able to increase the distribution power of the daughters, which is what our investors down at the daughter companies are interested in.



As it relates over time, we actually have one sector – the conventional tankers that are on fixed-rate charter – where it doesn't have a natural home for the daughters. So that's why you find some of that in each one of the daughter companies.

But I would suspect that, over time, what we're seeing from our investors is that they're interested in us – if you take Teekay LNG, they're interested in our acquiring gas tankers. But if we find other assets that have the same characteristics as our gas tankers, such as contracts over 10 years, then they're also interested in acquiring those assets.

So our primary mission is to be involved in gas and offshore. But if we find an asset that has the similar characteristics, then we wouldn't be afraid to purchase that asset.

Justin Yagermn: Got it. And then, in terms of catalysts for further drop-downs?

Peter Evensen: Well, I want to stress that, although it's been very fortuitous that Teekay Corporation, as a sponsor, has been willing to sell us assets, and they come with preferential financing, that isn't the only place we're looking for assets down at the daughters.

We're looking at third-party acquisitions, as well. It's just that the acquisitions that we could have done from third parties were not as favorable as the ones we could look at from Teekay Corporation.

Justin Yagermn: Got it. And given the market enforces a relative attractiveness of assets right now, as you look across the classes.

Peter Evensen: In terms of different kinds of assets?



Justin Yagermn: Well, I mean just the fact that we're probably at a decade low for tanker rates right now, that's informing us of prices and what have you. I mean, how do you think about that relative to third-party opportunities?

Peter Evensen: Well, I guess what we look at is – or let me go back and say that Teekay has been the place that we've been looking for the daughter companies to acquire because they've had preferential financings that the financings have been able to be put in place more cheaply than if we had bought from the third party.

On the other hand, Teekay is a willing – (buyer-willing-seller) basis. So if we could find some distressed opportunities down for the daughters, where we could get a really good asset price, then we would, of course, look at that. So we have to play one off against the other.

But as Bjorn said earlier, there aren't that many distressed opportunities in the markets that we've been looking at, so far. So maybe that's a focus of things to come. But, right now, we haven't found that, so we've been looking more at purchasing assets from Teekay, which are assets that we know have good vetting records and have good financings.

Justin Yagermn: Fair enough.

Hey, Peter, just one more along those lines – how do you think about cross-obligations between the Parent and daughters? I mean, obviously, in this type of market, you may be offsetting risks at one and adding risks to another. Do you think that, on a go-forward basis, you would be more inclined to try to find third-party counterparties for assets, whether it be chartering in or out?

Peter Evensen: Well, I want to emphasize that we have not been doing deals in which we generally charter back to Teekay. We did that in the case of two LNG carriers. But that was extraordinary.





In most cases, we always have third-party contracts going forward. And that has been the case that you see with TNK.

So we are not unlike other companies, where it's to (sell leasebacks). That isn't what we're doing with the daughter companies. What we are doing is selling assets on a willing buyer-willing seller basis with conflicts committees that go down to the daughters. And those, in turn, have contracts that go out to third parties.

Justin Yagermn: Sure, OK, that's helpful. And then, I guess, lastly, I'll turn it over to someone else.

Thanks for ...

Peter Evensen: Yes, and I would just say that the investor base down at the daughters – they're interested in long-term contract that has stable dividends; whereas, Teekay Corporation, as Bjorn has mentioned, was interested in reducing its debt as it tries to close the gap between the sum of the parts.

Justin Yagermn: Oh, yes, it's very fair. Bjorn, given the market and you guys' experience, how long do you think that current owners can hold out? You said that you haven't seen much distressed opportunity, and that you're not sure that you'll see too many vessels trade hands even at lower levels.

But back in the '90s, when we were at these type of tanker rate levels, at what point did you start seeing distressed deals come to market? And what are the signs that one should be looking for, that that's kind of on the cusp of what's happening?

Bjorn Moller: My sense, based on talking to people in the industry, is that there are a number of companies that are very close to the edge. But we're also seeing a little bit of rebounding in freight rates.



And I believe that the dry bulk market rebounding so dramatically has probably inspired some people to think, "Well, the same could happen in tankers." So my sense is the banks are kind of trying to help out right now to some of the companies that might be feeling the rope around their necks.

But I know that, if things continue at the low level that the rates were at in the third quarter, should that continue for another quarter or two, I think you're going to see some casualties.

Justin Yagermn: Thanks for your time, guys. I really appreciate it.

Bjorn Moller: Yes.

Peter Evensen: Thanks.

Operator: Thank you. Your next question comes from Ronald Londe of Wells Fargo. Please go ahead.

Ronald Londe: Thank you. Looking at Teekay Offshore, can you give us an idea of what the dry-docking budget is for the next quarter and next year?

Vince Lok: I think the dry-docking schedule for 2010 is a little bit lighter than in 2009. We have fewer shuttle tankers dry-docking. I think, for the fourth quarter, we have – let me just go through the list here – one – it looks like we have two shuttle tankers scheduled for dry-docking in the fourth quarter.

Ronald Londe: Also, you commented earlier about unit holders of the daughters being interested in the income from stable assets.



It looked to us like the (cards) of the distribution on (TOL) was less than one again this quarter. In viewing that the Varg is going to help out on that going forward, you earlier indicated in the past that you could potentially have a distribution increase with the February distribution. Do you still feel like you're on track for that? What is your confidence level there?

Vince Lok: Well, that's a decision that the Teekay Offshore Board will take in February. But we have always said that we had to do two things with that acquisition.

One was that we had to make sure that the coverage ratio would be comfortably over one, which I think it is now that we have the cost-savings coming through on the shuttle tankers, as well as the accretion from the Varg. And then we expect to make some – recommend some distribution increase that the Board will consider.

Ronald Londe: OK, thank you.

Operator: Thank you. Your next question comes from Stephen Williams of Simmons. Please go ahead.

Stephen Williams: Yes, hi, guys. A quick question on the FPSO business. I wonder if you could comment on your decision not to eventually bid on the Petrobras presalt pilots. I believe press reports suggested that it might be due to a financing hurdle? Any truth in that?

Bjorn Moller: Well, we don't really comment on specific transactions. But to put it this way, I think we are following the Brazilian FPSO scene very closely. We have established some good local partnerships, which are necessary in order to have the Brazilian content that Petrobras is now requiring. And so I would say that, if the future projects are likely to return the kind of capital returns that we are looking for, then I think that we can overcome any finance hurdles that might exist.



It's very recent that we've sought Brazilian partners, so I guess some of these relationships are just being formed and are maturing. And, of course, during that phase, it can be a little bit complex to get all the pieces together for complex transactions.

So I'd say we believe we're one of the players that could be in the mix, in that significant growth market. And we are very – we're prepared to be patient as we have been up to now, having resisted bidding on contracts that subsequently proved to the winners to be – that had winner's remorse, I think, after that.

Stephen Williams: Absolutely. And, outside of Brazil, are there any other obvious areas where you feel you're well placed to target in the U.S. FPSO business?

Bjorn Moller: I think we have a niche position in the harsh-weather FPSO business. And I think that, over time, that will be an asset for us.

There are a lot of (ENP) discussions going on in the Norwegian sector, in the North Sea. And I think that's a scenario where we are the leader. So that will clearly be the primary area. Brazil would be the second area.

But we have a number of assets. In our fleet, we have potential for redeployment of one or two assets in the next couple of years, so we will be opportunistic. But I think we have the biggest competitive advantage in the harsh weather.

Stephen Williams: OK, great and just one more question following up from that. With your existing assets that you've talked about, I guess, getting greater returns from – as the contracts roll off. Are they more likely just to be renegotiated where they are with a higher day rate, or are you looking at taking them in, spending some money on them, and redeployment somewhere else as an upgraded unit?



Bjorn Moller: I think it will be a combination. But I also believe that, if there are any units that would require major refurbishment, then it would be in connection with a new contract. And we would expect the new customer to fund that kind of overhaul.

Stephen Williams: OK, that was helpful. Thank you.

Bjorn Moller: Thanks a lot.

Operator: Thank you. Ladies and gentlemen, if there are any additional questions, please press star 1 at this time. There are no further questions at this time.

Bjorn Moller: Great. Well, thank you so much for joining us. We appreciate the active Q-and-A session. Have a great day. Bye-bye.

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

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