TEEKAY SHIPPING LTD.

Moderator: Peter Evensen
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10:00 am CT

Operator: Welcome to Teekay Corporation's first quarter 2012 earnings results conference call.

During the call, all participants will be in a listen-only mode. Afterwards, you will be invited to participate in a question-and-answer session. At that time if you have a question, participants are asked to press star one 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. Peter Evensen, Teekay's President and Chief Executive Officer. Please go ahead, sir.

David Rajanayagam: Before Mr. Evensen begins, I would like to direct all participants to our website at www.teekay.com where you will find a copy of the first quarter 2012 earnings presentation. Mr. Evensen and Mr. Lok will review this presentation during today's conference call.

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

Additional information concerning factors that could cause actual results to materially differ from those in the forward-looking statements is contained in the first quarter 2012 earnings release and earnings presentation available on our website.

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

Peter Evensen: That you Dave. Good morning everyone and thank you for joining us today for Teekay Corporation's first quarter 2012 earnings call.

I'm joined this morning by our CFO, Vince Lok; and for the Q&A session we also have our Chief Strategy Officer, Kenneth Hvid, and our Group Controller, Brian Fortier.

During our call today, I will be walking through the first quarter of 2012 earnings presentation, which can be found on our website. Beginning on slide 3 of the presentation, I will briefly review some recent highlights from Teekay Corporation and our three publicly-traded daughter companies.

For the first quarter of 2012, Teekay Corporation generated total consolidated cash flow from vessel operations, or CFVO, of $203.5 million, an increase of approximately 37% from the first quarter of 2011. You will note that in this quarter's earnings release, that we have made a slight change in the format of our operating results table to show the our share of the CFVO generated from our equity accounted investment, given their increasing significance, in addition to the CFVO generated by our fully consolidated businesses.

Teekay Corporation reported a consolidated adjusted net loss of $20.8 million or $0.30 per share for the first quarter of 2012, compared to a consolidated adjusted net loss of $0.39 per share in the first quarter of 2011. The reduction in our adjusted net loss for the quarter is mainly due to the benefit of the strategic acquisitions and new building deliveries that have occurred since the first quarter of 2011, as well as the progress we have made toward improving the profitability of our existing assets.

This was partially offset by the Banff FPSO being out of service due to the storm incident in December of 2011. In April, we reached an agreement to sell 13 of our 17 conventional tankers along with the associated contracts, debt facilities, and other rights and assets to Teekay Tankers for approximately $455 million, which I will discuss in more detail in a moment. Our three publicly traded daughter companies were also active in the past quarter, growing their distributions and raising capital for new accretive growth.

As our three daughter grow, Teekay Parent is increasingly benefiting from their access to multiple forms of capital and the growing cash flows received from our daughter companies through the incentive distribution rights or IDRs, which we have as general partners of both of our MLPs.

On February 28, Teekay LNG completed it joint venture acquisition of six LNG carriers from Maersk for a total purchase price of $1.3 billion. Factoring in the increased cash flow contributions from this acquisition and from the newbuilding LNG and LPG carriers which delivered in the second half of 2011, Teekay LNG increased its quarterly distribution by 7% to $0.675 per unit.

As a result, our incentive distribution rights relating to our general partner interest in Teekay LNG have now moved into the 50% high splits, which means that a greater portion of future distributable cash flow increases will now go to Teekay Parent. In early May, Teekay LNG successfully completed a NOK700 million or $125 million equivalent five-year Norwegian bond offering, which positions the partnership for further accretive growth.

Moving on to Teekay Offshore, the partnership increased its quarterly distribution by 2.5% in the first quarter, reflecting the contribution from the Piranema Spirit FPSO unit, which was acquired as part of the Sevan transaction in November 2011. This distribution increase moves our IDRs in Teekay Offshore very close to reaching the 50% high splits level.

As a result of the distribution increases at Teekay LNG and Teekay Offshore in the first quarter of this year, Teekay Parent will receive approximately $15 million of incremental LP and GP cash flows on an annualized basis. Teekay Offshore was also active in the Norwegian bond market in the first quarter with the issuance of NOK600 million or approximately $100 million of five-year senior unsecured bonds. This is the second bond issued by Teekay Offshore in the Norwegian market and it highlights Teekay's increasing diversification of capital sources for growth. Teekay Offshore also completed a new $130 million debt facility in the first quarter, secured by the Piranema Spirit.

For the first quarter, Teekay Tankers declared a dividend of $0.16 per share, up from $0.11 per share in the fourth quarter of 2011, reflecting a stronger first quarter spot tanker market. Teekay Tankers' purchase of 13 vessels from Teekay Parent will increase Teekay Tankers' fixed rate coverage from 29% to 43% for the 12 months commencing July 1.

Turning to slide number 4 of the presentation, I will provide some details on our recent agreement to sell 13 conventional tankers to Teekay Tankers for approximately $455 million. The 13 tankers to be sold included 7 mid-size conventional oil tankers and 6 product tankers. And the transaction includes all time-charters, debt facilities, and an interest-rate swap relating to these vessels. As partial consideration, we have agreed to take back $25 million of new Teekay Tankers shares, increasing our economic ownership in Teekay Tankers from 20% to 25%. The sale is on scheduled to close in June 2012.

The transaction is important for Teekay, as it provides a number of strategic benefits. Foremost, the transaction simplifies Teekay's corporate structure, making it easier for investors to understand our cash flows and value proposition as a developer of marine midstream projects.

Upon closing, Teekay Parent's direct ownership in conventional tankers will reduce to four modern Suezmax tankers, which will continue to trade in the spot market and provide modest exposure to an eventual recovery.

The transaction is also a significant deleveraging event for Teekay Parent, with approximately $430 million of existing debt on Teekay Parent's balance sheet transferring to Teekay Tankers, which will free up capacity. This will provide Teekay Parent with additional financial capacity to invest in new projects, which we expect will have higher and more stable returns and which are better suited to Teekay Parent's role as a project developer and owner of two GPs.

In addition, the sale completes the 5-year stage transfer of Teekay Parent's owned conventional tanker fleet to Teekay Tankers, which now inherits the size and customer presence of Teekay's strong conventional tanker franchise. In addition, as a result of the transaction, Teekay Parent's ownership in a significantly larger Teekay Tankers will increase from 20% to 25%.

Turning to slide number 5, I will briefly walk through the state of the LNG markets. Following the devastating earthquake in Japan in March of 2011, Japan's LNG imports are up 24% year-on-year in the first quarter of 2012. Currently, all of Japan's nuclear reactors are off-line, which is one of the factors driving LNG tanker ton mile demand and explains the backward-dated structure of spot LNG shipping rates. Currently, spot rates of approximately $140,000 per day are higher than the medium term charters which we estimate to be in the neighborhood of $80,000 to $90,000 per day.

We expect that the fundamental outlook for the spot LNG shipping market will remain firm in the near term, based on strong growth in LNG demand relative to the current fleet growth. While the situation in Japan may or may not be a recurring factor, we are seeing increasing signs of development in the long haul LNG trades. For example, in early April of this year, the Federal Energy Regulatory Commission, or FERC, authorized the construction and operation of a large

LNG export facility in Louisiana. The 16 million ton per annum plant, which is expected to commence operations in 2015, is the first of its size in the United States, and the majority of its exports are expected to be shipped out to long-haul Asian destinations.

Teekay gas businesses continue to be well-positioned to benefit from both the short and longer term fundamental strength in the LNG markets. In January, we took delivery of our last Angolan LNG carrier, completing our latest newbuilding program and freeing up capacity to undertake new projects as they arise. We have one LNG carrier that will be coming off charter in 2013 and we are already in active dialogue with a number of potential customers about chartering this ship next year to take advantage of the strong short to medium-term rate environment. And we continue to actively monitor the market for upcoming tender and acquisition opportunities that will allow us to develop new accretive growth projects for Teekay LNG partners. Recently, we've seeing a pickup in point-to-point tendering activity as a result of the strong fundamentals in this space.

On slide number 6, I will review the current outlook for the FPSO market. Looking at the charts at the top of the slide, the latest projections from the International Maritime Associates, or IMA, shows that the number of FPSO projects in the planning stage has doubled in the past five years from a projection of 68 units in 2006 to over 140 today.

And looking at the chart in the upper right, this outlook is consistent with what we have seen to date in 2012. Over the past four months, we have already seen 10 FPSOs ordered compared with a longer-term average of 15 per year. As a result, the IMA has updated its annual FPSO outlook from a low of 20 orders per year to a high case of almost 30 expected orders per year over the next five years. We are encouraged by this trend, and have been experiencing a high level of tendering activity in our two key markets of the North Sea and Brazil.

Teekay's FPSO business has remained active, with our three large FPSO upgrade and newbuilding projects proceeding toward first oil. The Tiro Sidon, or Cidade de Itajai, FPSO and the Voyageur FPSO are both on track to commence production on their respective fields in Brazil and the North Sea in the fourth quarter. The Knarr FPSO project, which is scheduled to begin operating under its contract to BG in the North Sea in early 2014, is proceeding on time and on budget. Our FPSO business has also been active pursuing new business and is currently involved in several front-end engineering and design studies. This type of work builds on our project capabilities and places us in a strong position to win future work when these projects go out to tender for construction.

Turning to slide number 7, in addition to our FPSO-related offshore business, we are also experiencing strong activity in our shuttle and floating storage and off take, or FSO segment. This work is mostly related to highly specialized units in the North Sea and the more harsh weather Barents Sea area.

With our experience as a top tier operator in the Norwegian and North Seas, we are perfectly situated to help our customers as they look to produce in the harsh weather Barents Sea on fields such as Statoil's Skrugard and Eni's Goliat. Getting new business is really a matter of meeting our return parameters as we have seen strong competition from competitors willing to accept low rates. And while we are encouraged by the promising developments in our North Sea shuttle business, our other core shuttle tanker market of Brazil is also expected to heat up later this year.

Looking at the graph in the upper right, with the offshore production fleet in Brazil expected to increase from less than 60 units this year to over 125 by 2018, the demand for shuttle tankers required to service these offshore production units is expected to increase as well. I'm happy to report that we have begun steel cutting on the first two of four shuttle tanker newbuildings at Samsung's shipyard that will go on contract with BG in Brazil.

These vessels are on schedule to deliver during 2013. We also continue to experience a steady stream of contract extensions in our existing shuttle business. Over the past few months, we successfully extended two contracts, one in Brazil and one in the North Sea, for 12 and 24 months, respectively. Finally, with a strong case of development in the Barents Sea, we have also seen the pace of project tendering activity for that region pick up, which we expect will lead to additional shuttle business in an area where we already have the strongest shuttle tanker operation in the region.

Turning to slide number 8, I will provide an update on the conventional tanker market. While the sector remains in a cyclical low, there have been positive developments in some of the market fundamentals during the first half of 2012, which have resulted in higher spot tanker rates for brief periods. In the first quarter of 2012, OPEC crude oil production averaged 1.3 million barrels per day higher than the first quarter of 2011.

Going forward, the IEA expects the call on OPEC crude to dip seasonally in the second and third quarters, due to normal seasonal factors such as refinery maintenance, before rebounding in the fourth quarter. Higher OPEC production coupled with the longer haul oil movement, particularly from the Atlantic Basin to Asia, should continue to have a positive impact on tanker ton mile demand. We don't expect any positive effect from the sanctions on oil exports from Iran, though.

At the same time, during the first four months of 2012, approximately 31 large oil tankers of Aframax size and larger have been sold for scrap, which is the same number scrap for the entire year of 2009. Given the weak tanker market over the past few years, the trend of vessels being scrapped at a younger age has accelerated due to increasing trade discrimination for older vessels and the inability to recoup drydock cost at today's low tanker rates.

With several first-generation double hull tankers of 15 years or older still in the fleet, and scrap steel prices remaining relatively high, the recent pace of tanker scrapping may continue and provide a dampening effect on the fleet supply growth that has prevented any sustainable improvement in spot tanker rates over the past 18 months. The accelerated pace of scrapping of first-generation double hull tankers is a new positive factor and when coupled with the growth in tanker ton mile demand, is a positive sign that the tanker market is on track for a recovery during 2013.

Before I discuss Teekay's conventional tanker activity, I want to point out that Teekay's market analyst, Christian Waldegrave, provides an update video on the markets each month, which is available on both Teekay Corporation's and Teekay Tankers' websites. Christian also provides a quarterly update video on the LNG and offshore markets, which is also available on our respective websites. This allows everyone to stay up to speed on the markets even between our quarterly earnings calls and I encourage everyone to check out Christian's insightful reports. The latest tanker market update, which was filmed live from the bridge of the Nassau Spirit. Based on the improved fundamentals in the first part of this year, we realized significantly higher spot rates in the first quarter compared to Q4.

Our average spot rate for Aframaxes trading in our commercial tonnage pool was $12,600 per day, up 30% from Q4, and our realized Suezmax spot rate of $24,800 per day in the first quarter was almost double the previous quarter. The footprint of our commercial tonnage pools continues to expand, providing improved scale benefits for our spot traded fleet. So far in 2012, we have added five new third-party vessels to our pools, bringing the total size of Teekay's Aframax, Gemini Suezmax, and Taurus LR2 pools to 27, 18, and 16 vessels respectively.

Our fleet of time-chartered-in vessels also continues to naturally reduce, which will result in operating cost savings and a lower breakeven rate. In the first half of 2012, we redelivered three time-chartered-in vessels and expect to redeliver a further seven vessels before the end of the year.

I will now turn the call over to Vince to discuss the Company's financial results for the quarter.

Vince Lok: Thanks, Peter and good morning everyone. Starting with slide 9, I will review our consolidated results for the quarter. In order to present the results on a comparative basis, as we do each quarter, we have shown an adjusted income statement for the current quarter against an adjusted income statement for the previous quarter. Later on, I will also provide our outlook for the second quarter.

Net revenues decreased by $16 million, mainly due to the absence of $35 million of incremental revenue recognized in the fourth quarter relating to the Foinaven FPSO contract, whereby a portion of the Foinaven revenues, which is tied to certain annual measures is recognized typically in the fourth quarter of each year.

In addition, a full quarter of off-hire related to the Banff FPSO storm damage that occurred in last December resulted in a decrease in revenues of approximately $9 million. These decreases were partially offset by the full quarter contribution from the acquisition of the two Sevan FPSO units at the end of November and higher TCE rates from our spot conventional tankers in Q1 compared to Q4. Vessel operating expenses decreased by $2 million due to the timing of repairs and maintenance activities, partially offset by the full quarter impact of the two Sevan FPSO units.

Time charter hire expense decreased by $4 million due to the redelivery of in-chartered vessels in Q1 and Q4 and a decrease in spot-in chartering of shuttle tankers. Depreciation and amortization increased by $4 million due to the full quarter of depreciation on the two Sevan FPSO units and a decrease to the estimated useful life of certain of our older shuttle tankers, partially offset by the impact of the vessel write-downs taken in Q4.

G&A expenses were $53 million, in line with expectations. Net interest expense increased mainly due to financing related to the acquisition of the two Sevan FPSO unit and the issuance of a

Norwegian bond in Teekay Offshore in January. Equity income increased due to the acquisition of the Teekay LNG Marubeni joint venture in late February and the delivery of the final Angola LNG carrier in early January. Non-controlling interest expense increased to $38 million as a result of higher adjusted earnings in all three of our daughter entities and the impact of the February equity offering by Teekay Tankers. Looking at the bottom line, adjusted net loss per share was $0.30 in the first quarter, which is an improvement from the previous quarter's run rate earnings when normalized for the timing of the Foinaven revenues and the full quarter impact of the Banff FPSO off-hire.

Turning to slide 10, we have provided some guidance on our consolidated financial results for the second quarter of 2012. Net revenues from our fixed rate fleet in Q2 are expected to decrease compared to Q1, mainly due to the expiration of time-charter contracts in our shuttle tanker and conventional tanker fleets. Scheduled drydockings in our shuttle tanker and gas fleets for the second quarter are also expected to reduce revenues.

Net revenues from our spot fleet are expected to decrease on a net basis due to a reduction in revenue days from time-charter in redeliveries, and two of our older conventional tankers being laid up for potential FSO projects. Partially offset by vessels transferred in from our fixed rate conventional fleet. So far in Q2, we have fixed approximately half of our Aframax and Suezmax revenue days at averaged TCE rates of $9,500 per day and $19,500 per day respectively. As a rough rule of thumb, for each $1,000 per day change in spot tanker TCE rates, it results in a $2 million change in our consolidated revenues per quarter.

Overall, vessel operating expenses in Q2 are estimated to increase by approximately $9 million to $11 million compared to Q1 due to the start of the summer maintenance season in the North Sea affecting our FPSO and shuttle tanker fleets. Also an increase in scheduled drydocking activities in Q2 and the lower maintenance activity we experienced in the first quarter. Time-charter hire expense is expected to decrease in Q2 by approximately $11 million to $12 million, reflecting our continuing redelivery of in-chartered vessels during Q2. Three in-chartered conventional tankers redelivered in Q1 and six vessels are redelivering in Q2. Depreciation and amortization is expected to remain consistent with Q1 and we expect G&A to be in the range of $53 million to $55 million.

Net interest expense is expected to remain consistent with Q1 also and equity income is expected to increase by a further $6 million to $7 million as a result of a full quarter impact of the Teekay LNG Marubeni joint venture, including an increase in revenues from one of the vessels in the JV, the Methane Spirit, which commenced a new charter in April at a rate of over $130,000 per day.

Income tax expense run rate is expected to be approximately $2 million for the quarter and non-controlling interest expense is expected to decrease to approximately $29 million to $31 million in Q2, reflecting the lower expected adjusted earnings in Teekay Offshore and Teekay Tankers, partially offset by higher adjusted earnings expected in Teekay LNG.

So in summary, the second quarter results are expected to be lower than Q1, which is mainly due to lower spot tanker rates and a busier drydocking schedule in Q2.

On slide 11, we have provided an update to our sum of the parts calculation, pro forma for the sale of the 13 conventional tankers to Teekay Tankers. Our current sum-of-the-parts calculation indicates Teekay's underlying value at approximately $47 per share, up from $44 per share when we last reported in February. This is up primarily due to the increase in the applied market value of our general partnership interests in TGP and TOO, driven by their recent distribution increases. With our two GPs now in or very close to the 50% high splits, the cash flows from our GPs should increase at a faster rate as we continue to execute on growing the MLP distributions through both drop-downs from Teekay Parent and from direct acquisitions in TGP and TOO.

A few additional points to note. As with last quarter, we have excluded both the asset value and the $220 million of Voyageur VIE debt from the sum-of-the-parts calculation, since we will not be acquiring this FPSO unit until later this year. On a similar note, other than the cash advances we have paid towards the FPSO newbuilding construction and conversions in progress, we have not yet included any intrinsic value or net present value relating to these FPSO projects. Mainly, the Knarr FPSO, our 50% interest in the Tiro Sidon FPSO, and the Voyageur FPSO. As a result, there is some built-in value that has not yet been incorporated into this valuation.

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

Peter Evensen: Thank you, Vince. Before we open up the call to questions, I would like to turn your attention to slide number 12, which provides some preliminary details on our 2012 Investor Day to be held during the afternoon of Monday, June 18, at the Waldorf Astoria in New York City. At this event, we will provide a detailed presentation of the Teekay group of companies, covering our strategies, financial position, and market outlook for Teekay Corporation and our three publicly traded daughter companies -- Teekay LNG Partners, Teekay Offshore Partners, and Teekay Tankers. The event will be web cast live for all interested current or prospective investors. While this event is still several weeks away, we encourage everyone to mark this date in their calendars and we look forward to presenting and meeting with investors.

Thank you for joining us on the call today. And we look forward to seeing you next month at our 2012 Investor Day in New York. Operator, we are now ready to take questions.

Operator: Thank you. Ladies and gentlemen, to ask a question, please press star one. We'll pause a moment to compile our Q&A roster.

The first question comes from Michael Webber of Wells Fargo. Please go ahead.

Michael Webber: Hello, good morning guys, how are you?

Peter Evensen: Fine, how are you, Mike?

Michael Webber: Good, good. I wanted to start with the offshore side of the business, and around the Knarr, specifically. BG has an extension option on that contract, which I think you guys are waiting for before you guys look to lock up long-term financing. Any indication there in terms of whether or not they will be extending that contract, and then in general, how are you guys thinking about a potential JV partner for the Knarr, just given its sheer size?

Peter Evensen: Well, to be specific, it isn't an extension option. They can choose between whether they want to pay more money over 6 years, cancellation fee, or more straight-line over 10 years.

Michael Webber: Okay.

Peter Evensen: And so they -- under the contract, they don't have to make that election yet. But the present value effect of whether they choose 6 years or 10 years isn't material, in reality.

Michael Webber: Okay.

Peter Evensen: And so we are advancing the project and I think as we derisk it through the construction phase, the value of the project rises, so we may very well look, as other FPSO companies have done on these large projects, to take in joint venture investors.

Michael Webber: Fair and is it safe to say that you guys would need to see some sort of indication from BG before you guys would look to secure a JV partner and/or long-term financing on the asset?

Peter Evensen: No, I don't think that is correct.

Michael Webber: Okay.

Peter Evensen: We can move forward but we will know that will before. They have to elect that by the end of this year.

Michael Webber: Okay, that is very helpful. And Peter, along those lines, when you guys move the Tiro Sidon to the Odebrecht JV earlier in the year, was that at $179 million, and I know it's not completed yet, was that done at cost or was there any sort of mark-to-market there? How should we think about that?

Peter Evensen: There is a sliding scale which gives us an incentive in our role as developing the project. So we haven't given the total economics of that transaction yet, under which Odebrecht will take 50%. But we are very happy with the joint venture that we have with Odebrecht. I think it sets us up very much for future growth in Brazil. So the Tiro Sidon is good because it helps with the operations that we're going to have. Odebrecht has also helped us in terms of the relationship with Petrobros, so we are very happy with that. But we haven't given specific guidance around the exact terms of that partnership.

Michael Webber: Okay, all right, fair enough. With staying on I guess the FPSOs for a second. I mean, you guys, one OFID study for Sevan earlier in the year with Skrugard -- Skru or Havis fields, it's just -- are you guys getting more traction up there in that area with the cylinder designs from Sevan and can you maybe talk a little bit about what you're seeing in terms of tendering activity and then fleet studies you guys are in involved in right now?

Kenneth Hvid: Hello, Mike, it's Kenneth. We are generally seeing a broad interest for the (silvers) assigned both in the North Sea but also the Barents Sea and even outside. So as you know, the business model for Sevan changed somewhat after we came in and acquired 40% of the company, so the company is primarily focused on participating in these fleet studies. They were awarded one, as you correctly point out, and they are in discussions on a couple of other ones. And what we see there is that that's just a great way for us to get into the projects early on.

Michael Webber: So it's pretty safe to say from a relative to the ship shape design you're seeing a little bit more traction with the Sevan design at this point and you guys are involved in maybe two to three more -- are talking about two to three more field studies at this point?

Kenneth Hvid: What I think is fair to say is that what we are seeing is that we are talks with everybody at the moment because we have some people that are looking for the ship shape design and we have others that prefer these cylindrical one, and that obviously is all based on what field we are discussing about. What is exciting here is that we are talks now on pretty much all of the fields, so we get a call every time that there is a requirement.

Michael Webber: Sure, okay. No, that's helpful.

Peter Evensen: We do think that the cylinder does have benefits over the ship shape as you move north.

Michael Webber: Yes.

Peter Evensen: Particularly if they're going to have onshore electricity generation going to the unit and its ice keeping capabilities.

Michael Webber: Right, right, okay, that's very helpful. Peter, I think the same day you guys actually announced the tanker drop-down, you guys also announced the kroner bond, which you mentioned in your commentary. Can you maybe talk a little bit about the rationale for entering that market from a funding perspective? And then in terms of putting that capital to use, are you looking at individual assets, could we see separate individual corporate entities being acquired? How should we think about these for that capital?

Peter Evensen: That's -- well, first of all, we thought it was a great way to access funds and I think these days when you are not quite sure about which way the financial environment will go, it's always good to diversify what you have. But for us at the Teekay LNG, we thought it was a great way to be able to have liquidity to make near-term acquisitions. And so it was a great way to boost up our liquidity and in these markets, and I would say that for all of our businesses, to have money when other people don't is really an advantage.

Michael Webber: Fair enough. No, that is helpful. One more for me and I will hop back in the queue. The tanker drop-down, when it closes, it's going to provide a pretty nice net liquidity gain and you guys should also see some cash coming in the door from the Foinaven drop-down and potentially the Voyageur later in the year. Kind of within that context, Peter, how do you guys think about restarting or potential restarting your buyback program this year? Do need to wait for the FPSO drop-down to do that, or how are you guys thinking about that internally?

Peter Evensen: Well this is really more of a debt deleveraging event. It doesn't actually increase our liquidity because we are transferring the debt facilities down.

Michael Webber: Sure.

Peter Evensen: But I think we will give more specifics at Investor Day coming up. But from our point of view, it frees up capacity. We think there's -- as I just alluded to, with my comment, I think there's going to be a lot of interesting opportunities coming forward. We want to once again reposition Teekay to be able to take advantage of acquisition environments. We liked the Sevan deal last year and I think there will be more of those kinds of deals going forward.

And then another thing that we think is, there will be there -- a lot of these new projects that you just asked about, Skrugard and other ones, those are all 2015 going forward. So I think that an important part. And as I said in my prepared remarks, it does simplify the Teekay corporate structure. so I think the simplicity in the alignment will make it easier for investors to understand the role of each company.

Michael Webber: Sure. Sure. All right guys, that's all for me. Thanks a lot, and I appreciate the time.

Peter Evensen: Thank you.

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

Josh Katzeff: Hello. Good morning, everyone. It's Josh Katzeff on for Justin. I just want to quickly follow on, I guess, Mike's last question with regard to financing and the deleveraging. There's been a structural shift in your liquidity at the parent company. And there's a lot less capacity in the revolver. So how are you looking at financing new CapEx going forward? Is it going to be more reliant on project-based debt and equity commitments from your cash?

Peter Evensen: Well I think that the -- if you looked at our earnings release, you'll see that most of the financing on our CapEx is several years out. Like out in 2014. We have financed all of our near-term 2012 CapEx that we have going forward. So in some respects, you don't want to invest or put in place CapEx on everything at the start. Although people look at that right now. We have a number of financings in place that I think we will go forward. For example, what we haven't financed yet are our four BG shuttle tankers. That's about $500 million and we expect to put in place that financing just as part of it. But we don't need that financing until mid-year 2013.

Josh Katzeff: I guess my question was more focused on future CapEx and new projects that you might be bringing more into the Company.

Peter Evensen: Well, we can either arrange financing at that time or we could always put in place a new standby revolving credit facility. We have assets which haven't been encumbered up at Teekay Corporation. I think right now, we are more concentrated on the fact that we should reduce our leverage up at Teekay, and we are not really bugged about the liquidity side of things.

Vince Lok: I think the other thing to note is that, as you have seen the growth in our daughter companies and their ability to access equity as well as now the bond markets, the daughters are able to do the direct acquisitions without any financial support from the parent. So there's probably less need for warehousing, other than very large projects like the Knarr FPSO, at the parent level, and as we continue to execute on our drop-down strategy, that will free up capital again and recycle the capital at the parent company for further investment.

Josh Katzeff: Got it. And with regard to the drop-down strategy, would you be able to provide a update on timeframes? Or maybe schedule of planned drop-downs?

Peter Evensen: I think we will discuss that more at Investor Day.

Josh Katzeff: Got it and shifting to the FPSOs and the offshore market. In the presentation you mentioned that there had been a bunch of tenders already and you are expecting a lot more. Has Teekay been participating in the existing tenders? And what did it make sense for Teekay in those transactions? If you did participate?

Peter Evensen: Which market are you talking about?

Josh Katzeff: In the FPSOs?

Peter Evensen: Oh. In the FPSOs. Yes. We have looked at several of them but we are, as I've said, we are busy trying to execute the ones that we have. And so we are actually more interested in FPSOs that are going to be in 2014 and 2015 and even out into 2016. With our engineering guys very much focused in on the three that we are doing right now, we're not interested in more near-term opportunities. But I would say, we are really looking much more at newbuildings rather than conversions. We think that fits in better with what our customers require going forward. However, on the FSOs side, there we are looking much more at conversion of older tankers. So it depends on each sector very much.

Josh Katzeff: Got it. Got it. And one more question before I turn it over. There's still the four Suezmaxes at the parent level. How should we think about those as being part of the core parent fleet?

Peter Evensen: Yes. We're very happy with those tankers. Those are modern tankers. They are all sister ships. So I always say, I won't refuse any offer, but I have to say that we were very happy so we left them out of the offer that we gave to Teekay Tankers. We like them, they work really well, they are a key part of the Gemini Suezmax tanker pool. And as I said, we think we might very will hold them just for the rebound that we see coming up in the future in tankers.

Josh Katzeff: Got it, all right, well I appreciate the time, guys. Thanks.

Peter Evensen: Thank you.

Operator: Thank you. The next question comes from Brandon Oglenski of Barclays. Please go ahead.

Brandon Oglenski: Yes, good morning, everyone. I was wondering if we could just come back to the tanker market and obviously guys have provided some visibility here on rates for the second quarter, which are down a bit sequentially. I mean, I'm looking at your graphic here of scrapping increasing, I mean just where do you see this market playing out over the next two, three,, four quarters? Because I know we had gotten a little bit more of a bullish read here in the last three or four months. Maybe we are just being too optimistic, though?

Peter Evensen: Well, I think we have to look at the normal seasonal patterns, which are the fourth quarter and the first quarter are high, the second and the third quarters are generally low, as I said, because of refinery maintenance. And I think this year it was -- you saw an exaggerated effect because people were a little bit worried about Iran, so you saw almost a record amount of call on OPEC in April. And so I think that got people's juices flowing very much.

But if you -- the reason we focused in on the scrapping is that, that really reflects when a ship owner has to make a decision. In other words, am I going to spend $2 million or $3 million to go through a third special survey or fourth special survey and what we saw was that people are deciding that because of charterer discrimination and because their outlook for that type of ship, those ships are being culled from the fleet. And so when we looked -- and when you look at the sizing of the fleet, the Aframax is actually, as I like to say, the pig is through the python.

Because on the Aframax side, we have about 676 vessels. The order book on Aframax is only 50, or 7%. And whereas when we look at the amount of Aframaxes that are somewhere in 15 to 20 years old, there's about 150 or three times as many ships on the order book. So, if those older ladies either going into lay-up or get scrapped, that's a real benefit going forward. And that's why when you look at the net fleet growth that we've had so far this year, it's only 1.4%.

So that augurs pretty well. So I'm not there to say whether you can annualize the first quarter figure, but so far what we have seen is that ships are going into lay-up or ships are -- and we have three ships ourselves in lay-up in that zone, so we can talk from personal experience. So I actually think that sets up quite well for the Aframax side. Obviously for the VLs and the

Suezmax, you still have a high degree of order book so there's still a lot of deliveries to come off of that. But when you see the amount of ships being scrapped, it looks pretty good for the mid-sized tankers.

Brandon Oglenski: But I guess maybe a little bit longer to go then on the larger vessel classes?

Peter Evensen: Yes, just because on VLs, there is 18% to 19% of the order book on order and for Suezmaxes it's actually closer to 23% on order. So I think we aren't going to have a -- this time, we aren't going to see the Vs leading us up, I think you're going to see the smaller ships, the Aframaxes, leading it up and when we look at the amount of oil flow, everyone concentrates on the bigger sizes, but we're seeing more Suezmax cargoes coming out of the AG, we are also seeing more non-OPEC supply coming on as you have Brazil, and Russia, we had Libya come back, and so ultimately, you should see more West to East type of cargoes.

Brandon Oglenski: Okay. That's very helpful. Maybe if we can shift gears to the FPSO market. I mean, obviously, that's sounding pretty bullish right now. But you did highlight that orders are going up this year as well. And just given that we're seeing a little bit of contraction in the Brent-WTI spread here, and if that were to go even further, does that place any of these future projects in jeopardy? And maybe with a bit more supply growth, does that market potentially maybe not look as good as it does right now if some of those things play out?

Peter Evensen: I don't think the variation that we have seen in oil price so far changes any CapEx plans that oil companies have going forward on FPSOs. What we like about the FPSO is that it is sort of predictable. People go through a certain development phase and once they sanction or start a field, then they're going to go through and you spend enough CapEx going forward that once the unit delivers, the marginal cost isn't as high. And therefore, we don't see that whether the oil price or the Brent-WTI spread changes. You would have to see a significant downturn to like $60, $70 oil before you would see people put their plans on ice.

Brandon Oglenski: Okay, and I guess under that backdrop, then, you think even with the elevated order book, we still have ample demand relative to that supply base?

Peter Evensen: Well, the order book on FPSOs is all custom. There aren't any speculative FPSOs that I'm aware of. They're all being built for given projects. And the point that we are making is it's fundamentally different from the tanker market. The tanker market and now a little bit on the LNG side that has 34 uncommitted LNGs, you have more of a push type strategy, where people are ordering it hoping that they will get projects for it. What we're seeing in the FPSO is fundamentally different. There it's the more built to suit. Where people are -- where you go through an engineering study, it's more of about the spoke FPSO that deals with whatever gas compression, water, and barrels per day and storage that you need, so you're building a unit that is a little bit customer bespoke and therefore, you can have more confidence that those units are going to go forward.

And so when we look at the FPSO orders that I talked about in my prepared remarks, you are looking at individual fields going forward that people are taking a decision to put them into production. And I think the overall higher rate that we have seen means that people are going to go forward. And that's as well because they have done a lot of drilling and drilling is expensive. So that is part of the field development plan.

Brandon Oglenski: All right, well listen, thank you very much for the response.

Peter Evensen: Thank you.

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

Fotis Giannakoulis: Yes, good morning and thank you. Peter, I would like to ask you, you mentioned earlier about the increasing volume of crude that is flowing from West Africa to the east, that is supporting a ton mile. There has been a discussion recently, regarding the different impact on across asset classes, and if you could comment on that, which vessels they will be benefiting? And particularly I'm asking because US imports are usually using Suezmaxes and Aframaxes and if there is going be any adverse impact for these two asset classes?

Peter Evensen: Yes, I think people were getting a little depressed about Suezmaxes when we had word of all these US refineries that were going to close. That seems to have jumped the gun a little since they're being sold and it looks like they will keep going. But I think the big news was really that you saw higher Iraqi, Nigerian, and Libyan supplies.

And it was the Nigerian and Libyan supplies, and if you put those three groups together, you lifted OPEC production by about 400,000 barrels of oil a day. And that was a big reason behind the call on OPEC. And so those were Suezmax and Aframax volumes primarily. We didn't see as many Vs coming into Nigeria. And that's why for example today you see Suezmax rate over $30,000 a day. And the Suezmax market in the Med has similarly been high and so all that is very good.

Of course, we are going to see normal North Sea maintenance, and that will take away a little bit of the volumes that we would have had on Suezmaxes. But I think that explains a lot of what is going on, on the Suezmax side. We've also seen more cargoes coming out of the AG coming up. And then finally, if you look forward into 2013, you see Kozmino coming on, that will probably take more -- that's a Russian export terminal and that will actually take V cargoes that would traditionally go long-haul and you're going to see that on Aframax today, Suezmax in 2013, and that is going to shift it back and help the mid-size tankers. But what we're really seeing is that the Vs moving long-haul to China from the Persian Gulf, it really creates an opportunity or a gap for the Suezmaxes and I think that's why we have seen greater Suezmax or higher Suezmax rates. So don't count the Suezmaxes out.

Fotis Giannakoulis: Okay. Thank you for that. I want to shift on the LNG space. You show on your slide that the rates right now for short-term are about $140,000, while for the longer-term they are close to $80,000 to $90,000. You have one vessel that is used for rechartering, and given the fact that the market is shifting towards more uncommitted cargoes, the spot and the short-term movements over LNGs, they have increased 50% from last year, is there any thinking over perhaps shifting your strategy and trying to secure a shorter-term contracts compared to the 15 or 20 year contracts that you have been active so far?

Peter Evensen: Well, a few comments on that. First of all, you have to look at what the LNG vessel is going to be used for. For the type of market we have had our LNGs on, are more long-haul project deals or what we call the LNG train where they are going on definite trade routes going forward. And that is more of a long-haul type of thing where they need a base amount of tonnage. For example our most recent deliveries there were our Angolan ships where they know they're going to need a certain amount of ships.

But what has happened in the LNG market is because of the Japanese effect in the long-haul, you saw people needed ships for trading, and obviously they are not going to take ships for longer periods on a trading type. So you have to really see that the market bifurcated into these long-haul project businesses, and that still is the 10-plus years. And then you have these trading ships, and that's where they are interested only in 1 year to 3 years.

And then you get into the negotiation between the ship owners and the charterers on whether it's good to be 1 year, 3 year, 4 years. The ship owners were trying to reach out for 3 years, 4 years, and as you heard, we fixed one of our Maersk vessels that was open for March, as Vince talked about, we fixed it for $133,000 for 3 years. That still seems to be where the market is. Some people I think have gotten a little enthusiastic. And then you see that other people like GasLog, they locked up their ships for 5 years for $80,000 a day. And so I think there is this backwardation going forward and that's being, if you will, horse traded.

So far, the charterers are now saying, well we won't take it for 3 years, we will take it for 1 year and we will pay up $140,000, $150,000. So you're clearly seeing from the charterers point-of-view that they don't want to take their ships on longer-term at these elevated rates. So I feel pretty good about it. As it comes to our open ship in '13, our business model had it at a lower rate so I think whatever we fix that, it's going to be better than the rates we had projected when we put it into our acquisition model. So I take some comfort from that.

But we will have to see what it is. We could go -- we have the ability because Teekay LNG has such a big portfolio, that we could go shorter and maximize out the revenues but take the roll-over risk or we could go longer and obviously you saw on the first one we chose $133,000 versus fixing it out on a longer period of time. So let's see where the market goes. I just had a number of colleagues out in Japan and I'm not sure that anybody really knows the status of how many nuclear power plants will ultimately come back online there. I think the jury of public opinion is out on that.

The other thing, since you started in on tankers, is you should see that the Japanese have been importing much more oil. I think closer to around 300,000 barrels of oil a day, because they have shut down the nuclear power. So everyone talks about the LNG but it has also had a beneficial effect on US oil imports -- sorry, Japanese oil imports, which have been up about 25%.

Fotis Giannakoulis: And can I ask you about your outlook beyond 2014 for LNG shipping? Seems that everything is pretty clear between now and 2015. But a lot of things remain uncertain for the longer-term. We have 70 new buildings as you mentioned, around half of them, they do not have contracts yet. What is your view about your long-term outlook and particularly about US exports, if you have a base case of potential new projects and new approvals that they will be given after the approval of the Sabine Pass terminal?

Peter Evensen: Yes, so to be more specific, there's 76 new buildings on order, of which 34 are uncommitted, meaning they don't have a charter employment right now. And from what we see, there is only 2 coming in 2012, but there is 19 coming in 2013, 35 in 2014, and 19 in 2015. And so the big question is will there be gas in order to take these uncommitted ships. Right now, it looks in the near-term, in 2013 and into 2014, there will not be enough gas for some of these ships that are uncommitted going forward. So that's what you see this backward-ation in the LNG rate.

And I think we're pretty levelheaded about that. And we are not projecting rates to the moon. But you bring up the most essential point, which is that from 2015, and we had this slide in our last earnings call, you will get to see a lot of projects coming in, especially from Australia, you mentioned the US exports, and we're just now starting to see the tenders coming in for those long-haul projects. From Australia, you'll also see people want to take ships who are going to pick up the Sabine Pass gas. And that I think goes really to the sweet spot that Teekay LNG has.

Obviously, looking a little further out, we see Russia and you saw the announcement of Statoil becoming much more involved in Stockman and then you saw the big Mozambique announcements that Anadarko came with. And so I think we take a lot of -- I think we're really excited about the post-2015 period going forward, because you're going to see actually a lot more gas going forward. What's happened up until 2015 is that we had ton mile demand going up. In other words, all the ships were trading inside the Atlantic and now they're going longer haul to the Pacific so you just saw this quick acceleration of ton mile demand and that gave us the spike that we had going forward.

But I think that we are going to see much -- I think as they say it's a golden age of gas. You're seeing the increase in gas demand, in general, but you are also seeing the switching out from coal to gas being important. People, except in China, aren't really building coal plants. So, we are very enthusiastic about the LNG market, especially in a 2015 period going forward. But we are not as involved in the trading side of things in the 2013 to 2015 side of things. So sorry for the long answer.

Fotis Giannakoulis: No, thank you very much for that. My last question is going to be very quick. I just want to ask about the GP's cash flow is growing really rapidly. Is there any plan in the future to split the GP and monetize that? And how far away we might be from such a potential plan?

Peter Evensen: No, we don't have any plan.

Fotis Giannakoulis: Okay, thank you very much for your time. Thank you.

Peter Evensen: Thank you.

Operator: Thank you. Once again, that is star one to ask a question. The next question comes from Heather Lambirth of Wells Capital Management. Please go ahead.

Steve Pfeiffer: Hello, there. This is Steve Pfeiffer from Wells Capital Management. And I was calling with questions -- normally in the past you've had them balance sheet slides and I haven't seen any of them this time. So I'm trying to reconcile some stuff off your press release. It's kind of hard with this presentation because the presentation format you've changed so every time I click off of the presentation, it all minimizes so it's hard to really read.

But let's see, I'm going through and trying to reconcile parent level debt and how that has changed over the last time. Can you just walk me through the change from year-end debt levels at the parent level to the quarter-end debt levels and reconcile that with your statement that the drop-down was a deleveraging event, please?

Vince Lok: Yes, if you look at the parent net debt, I think last quarter was a little bit over $1.3 billion, and right now, it's a little below that, so at $1.26 billion. So not a big change on the surface. We did have the Tiro Sidon FPSO debt, or conversion debt, come off balance sheet as we've sold 50% to Odebrecht so that was a slight reduction there.

And if you look at the slide 11 or a sum-of-the-parts, you'll notice our parent net debt figure is shown as a $831 million, and what that is, is essentially pro-forma being the Teekay Tankers drop-down, which reduces our net debt by $430 million. So that is the $1.26 billion minus the $430 million to get to the $831 million. And of course we have the $220 million of VIE debt related to Voyageur. So not a lot of changes overall I think between December 31 and March 31. But as we close the TNK 13 ship drop-down, the parent net debt will decrease significantly. And that's helping the parent balance sheet to strengthen.

Steve Pfeiffer: So you have on here the parent net debt reduction of $831 million on slide 11 here. That was not a change off of here; this is the talking about the absolute value, then correct?

Vince Lok: That is the balance. That's correct.

Steve Pfeiffer: That is the balance. And now for the drop-down, with the reduction of, I think you said, net debt of $450 million was the number because of the drop-down?

Vince Lok: $430 million. That is imbedded in the $831 million.

Steve Pfeiffer: $430 million. And how exactly did that reduce the debt? Was that a pay down of debt or was that just an increase of cash? How does that transaction work?

Vince Lok: Well the gross value of the sale of 13 vessels is $455 million. And Teekay Parent is taking back $25 million in shares of TNK and the rest, which is $430 million, is basically the transfer of debt from the parent to Teekay Tankers.

Steve Pfeiffer: And what specific that was that?

Vince Lok: It's a number of revolvers and term loans.

Steve Pfeiffer: And do we have associated interest expense with those?

Vince Lok: Yes, the average cost of debt including an interest rate swap that we are transferring down is about 3.5% all in.

Steve Pfeiffer: Okay. That's it. Thank you.

Peter Evensen: Thank you.

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

Peter Evensen: Okay, thank you all very much and hopefully we will see many of you at Investor Day on June 18. Thank you.

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

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