TEEKAY SHIPPING LTD.

Moderator: Emily Yee
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10:00 am CT

Operator: Welcome to Teekay Corporation's Fourth Quarter and Fiscal 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 will be asked to press star 1 register for a question.

For assistance during the call, please press star 0 on your touch-tone phone. As a reminder, this call is being recorded. Now, for opening remarks and introductions, I would like to turn the call over to Mr. Peter Evensen, Teekay's President and Chief Executive Officer. Please go ahead, sir.

Kent Alekson: 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 fourth quarter and fiscal 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 fourth quarter and fiscal 2012 earnings release and earnings presentation available on our website. I will now turn the call over to Mr. Evensen to begin.

Peter Evensen: Thank you, Kent. Good morning everyone, and thank you for joining us today for Teekay Corporation's fourth quarter and fiscal year 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'll be walking through the fourth quarter and fiscal year 2012 earnings presentation, which can be found on our Web site.

Beginning on slide 3 of the presentation, I'll briefly review some recent highlights for Teekay Corporation and our three publicly traded daughter companies. For the fourth quarter of 2012, Teekay Corporation generated $218 million of total consolidated cash flow from vessel operations, or CFVO, an increase of approximately 3% from the fourth quarter of 2011. On a fiscal year basis, Teekay Corporation generated $821 million of total consolidated cash flow from vessel operations in 2012, an increase of approximately 18% from 2011.

Teekay Corporation reported a consolidated adjusted net profit of $2.9 million, or 4 cents per share for the fourth quarter of 2012, a slight improvement from the 2 cents per share consolidated adjusted net profit that we reported in the fourth quarter of 2011. I should note that in our reported GAAP earnings, we incurred a large vessel impairment charge in the fourth quarter mainly relating to certain conventional tankers and Teekay Tankers, which Vince will discuss in detail later on in the call. On a full-year basis, the company's results highlight the continued progress made during the year toward improving profitability.

For fiscal 2012, Teekay Corporation reported an adjusted net loss of $54.9 million, which is almost a 50% reduction from the adjusted net loss of $103.1 million we reported in 2011. The improvement reflects a combination of profitable growth, including contributions from the strategic acquisitions and new building deliveries during 2011 and 2012, and profitability enhancement initiatives that Vince will discuss in detail later.

And this improvement comes despite the continued weak spot rates and approximately $9 million per quarter of lost cash flow due to the off-hire of the Petrojarl Banff FPSO for repairs following damage from the December 2011 storm event. Teekay continues to execute on its growth projects, and I'm pleased to report today that this past Saturday, February 16, the Cidade de Itajai FPSO achieved first oil on its field in the Campos Basin of offshore, Brazil, and commenced its nine-year time charter with Petrobras. We also continued to execute on our financial priorities.

In late December, Teekay Parent completed a $200 million three-year corporate revolving credit facility secured by a portion of its common unit holdings in Teekay LNG and Teekay Offshore. Our publicly traded daughter entities have also been active during the quarter, executing on their respective business plans. In December, 2012, Teekay LNG partners passed based on the attractive fundamentals in the LNG industry for the post-2015 period, ordered two fuel-saving 173,000 cubic meter LNG carrier new buildings from Daewoo, or DSME of South Korea.

The new buildings will be constructed with (M-type) electronically controlled gas injection, or MEGI twin engines, which are expected to be significantly more fuel-efficient, and have lower emission levels than engines currently being utilized in LNG shipping. The partnership expects to secure long-term contract employment for both vessels prior to their scheduled delivery in the first half of 2016. In early February, Teekay LNG completed its accretive acquisition of a 50% interest in Exmar LPG, a new joint venture with Belgium-based Exmar, which controls the fleet of 25 LPG carriers.

This acquisition partners Teekay LNG with what we consider to be the leading player in the attractive mid-sized LPG sector. The new joint venture is a natural extension to Teekay LNG's already sizable gas shipping business, and provides another channel for future distributable cash flow growth. For the quarter ended December 31, 2012, Teekay LNG declared a cash distribution of 67-1/2 cents per unit. The cash distribution received by Teekay Parent based on GP and LP ownership interests in Teekay LNG totaled $23 million of cash flow for the quarter.

Moving to Teekay Offshore, our other master limited partnership, during the quarter, installation for the Voyageur Spirit FPSO unit continued to progress at the (Hunting Field) in the UK sector of the North Sea. Although there have been delays due to weather conditions, the unit is now expected to achieve first oil in March 2013, at which point the unit will be acquired by Teekay Offshore. Financing for the accretive $540 million acquisition is already in place with a new $330 million debt facility secured by the unit, and equity proceeds from Teekay Offshore's September 2012 follow on equity offering, and a $40 million equity private placement to Teekay Parent making up the balance.

In January 2013, Teekay Offshore completed a new unsecured bond offering in the Norwegian bond market, raising total U.S. dollar equivalent proceeds of $233 million. This was Teekay Offshore's third bond offering in the Norwegian bond market, and approximately $66 million of the proceeds will be used to repurchase a portion of Teekay Offshore's existing Norwegian bond expiring in November of 2013. For the quarter ended December 31, Teekay Offshore declared a cash distribution of 51-1/4 cents per unit. The cash distribution received by Teekay Parent based on GP and LP ownership interests in Teekay Offshore totaled $14.6 million in cash flow for the quarter.

For the fourth quarter, Teekay Tankers generated cash available for distribution, or CAD, of 13 cents per share, up slightly from 12 cents per share in the third quarter. The increase in the fourth quarter was due to a combination of slightly-stronger spot tanker rates, and a reduced dry docking schedule, partially offset by lower time charter revenues. For the fourth quarter, Teekay Tankers declared a cash dividend of 3 cents per share.

In line with Teekay Tanker's goals of fleet renewal and growth, Teekay Tankers has elected to move to a fixed dividend policy, commencing in the first quarter of 2013, dividend payable in June of 2013. Teekay Tanker's dividend will be set at an annualized level of 12 cents per share, payable quarterly. As the tanker market recovers, Teekay Tankers will be able to retain an increasing amount of its cash flow for reinvestment in its fleet, and the company is actively reviewing future growth opportunities, including ordering new fuel-efficient tankers and the acquisition of quality on the water tonnage.

Turning to slide 4, on a consolidated basis, Teekay's fixed rate cash flows continued to grow in 2012. This was largely due to the acquisition of the Piranema Spirit FPSO and Hummingbird Spirit FPSO from Savon Marine at the end of 2011. Teekay LNG's acquisition of a 52% interest in six LNG carriers from AP Moeller-Maersk in the first quarter of 2012, as well as several LNG, LPG and shuttle tanker new buildings, which delivered during late 2011 and early 2012. During the past several years, we've made significant investments in our fixed rate businesses, mostly our offshore and gas businesses, which have resulted in a compound annual growth rate or CAGR of 21% over the last four years.

Looking ahead with a significant pipeline of growth projects, primarily in our gas and offshore businesses, delivering through to 2016, we're expecting further fixed rate cash flow growth over the next few years. Turning to slide number 5, Teekay has several growth projects currently in execution across all of our business areas. This slide provides a graphical overview of our growth projects delivering over the next few years.

With all the projects currently underway, efficient and focused project execution is a top priority. The ability to deliver these projects within our targeted time frame and at expected cost levels is critical for achieving our targeted returns. The completion of these projects will increase our consolidated fixed rate cash flows and asset sales to our daughter companies will further improve

Teekay Parent's financial strength and flexibility to increase liquidity and a de-levered balance sheet.

I won't cover all the projects on this slide. However, I'd like to take a moment to provide you with brief updates on a few of the projects shown here, which I touched on during last quarter's earnings call. As noted at the start of the call, our third Brazilian FPSO unit, the Cidade de Itajai FPSO, has now achieved first oil, and has commenced its nine year time charter contract with Petrobras.

Under the existing omnibus agreement with Teekay Offshore, Teekay Parent intends to offer its 50% interest in this FPSO to Teekay Offshore in the next 30 days. During the fourth quarter, Teekay Offshore announced the acquisition of a 2010 build high-load dynamic positioning offshore loading unit from Remora AS, and Teekay Parent announced it would acquire a 49.9% interest in Remora, both subject to finalizing a ten-year charter contract with Petrobras in Brazil. I can now report that the time charter contract is expected to be signed in the next 30 days, at which point the unit will undergo approximately $17 million of required upgrades to meet the specifications of the Petrobras contract.

The unit is expected to commence charter in early 2014, following the completion of capital modifications, delivery of the unit to offshore Brazil and operational testing. In December, the BG Group exercised its option to extend the firm period for the Petrojarl (Kanar) FPSO time charter to ten years. Construction of the Petrojarl (Kanar) FPSO is on track for delivery in the first half of 2014, and we're currently in the process of arranging long-term financing for the unit.

We also continued to add new projects. In January 2013, Teekay Offshore signed a letter of intent with Salamander Energy to supply a floating storage and off take, or FSO unit, in Asia for a firm charter period of ten years commencing in mid-2014. Teekay Offshore intends to convert one of its existing shuttle tankers, the 1993-built Navion Clipper, for an estimated cost of approximately $50 million, and it is in the process of finalizing contract terms with the charterer.

Importantly, all of these projects, whether completed directly at the daughter entities or warehoused at Teekay Parent, supports the growth and distributable cash flows at Teekay Offshore and Teekay LNG, which will translate into increased general partnership and limited partnership cash flows to Teekay Parent. I will now turn the call over to Vince to discuss the company's financial results.

Vince Lok: Thanks Peter, and good morning everyone. Turning to slide 6, before I discuss the financial results for the quarter, I would like to take a moment to highlight some of the key initiatives we have undertaken during the past two years to improve Teekay's profitability. First, we have added profitable growth, primarily in our fixed rate gas and offshore businesses. This includes the acquisition of two FPSO units from Savon in November 2011, and six LNG carriers from Maersk in February 2012.

These acquisitions, combined with the delivery of LNG, LPG and shuttle tanker new buildings during this period, have both increased our consolidated fixed rate cash flows and provided further economies of scale in our operations. Secondly, in addition to the adding profitable growth, we have - also undertaking initiatives in each of our business units to enhance the profitability of our existing assets. This includes re-chartering existing assets at higher rates in our gas and offshore business, reducing our vessel operating expenses.

An example of that is in our shuttle tanker fleet, where we reduced our vessel OpEx by more than 20% since the start of 2011. We have also reorganized our onshore operations in our conventional tanker and shuttle tanker businesses to lower the cost structure of these businesses, which will yield run rate G & A savings of over $15 million per annum, and we have realigned our internal business units with our daughter - external daughter company structure to drive greater P & L responsibility.

Finally, we have continued to redeliver out of the money conventional tanker in-charters, with 16 vessels redelivered during the past two years. As a result, our time charter in-expense has reduced by over $85 million in 2012 compared to 2011, and we expect this trend to continue in 2013, with five more vessels being redelivered, further reducing our exposure to the weak spot tanker market. I'm pleased to report that our focus on profitability is achieving tangible results.

Although we are reporting another consolidated net loss in fiscal 2012, turning to slide 7, you can see that we have made considerable progress over the past few years towards returning to run-rate profitability. For fiscal 2012, we reported an adjusted net loss of approximately $55 million down from an adjusted net loss of over $100 million in 2011, and over $120 million in 2010. The fact that we have accomplished this against the backdrop of continued weakness in spot tanker rates speaks to the success of the various profitability initiatives I discussed in the previous slide.

It's important to note also that had the Petrojarl Banff FPSO unit not been off-hire due to the December 2011 storm incident, Teekay's consolidated adjusted net loss would have been only approximately $19 million in 2012, as roughly $36 million of the company's 2012 consolidated adjusted net loss was due to the lost cash loads from the Banff FPSO. Looking ahead, we anticipate a return to a modest consolidated run-rate profit for Teekay Corporation in 2013, despite the expected continued weakness in spot tanker rates and further off-hire of the Banff FPSO until the fourth quarter.

While a return to run-rate profitability in 2013 will be contingent on achieving the full benefit of our cost-reduction initiatives and successfully executing on the multiple growth projects expected to deliver in 2013, we believe we have taken the prudent steps with our business to achieving this objective. Turning to slide 8, I will review our consolidated results for the quarter. In order to present the results on a comparative basis, we have shown an adjusted income statement for the fourth quarter against an adjusted income statement for the third quarter, which exclude the items listed in Appendix A to our release.

We have also removed the pre-delivery activity of the Voyager Spirit FPSO, which has treated it as a variable interest entity, or VIE, for accounting purposes, which is consolidated into our accounts even though we will not acquire the vessel until it commences operations. Later on, I will also provide our outlook for the first quarter of 2013.

Starting at the top of the page, net revenues increase by $52 million due primarily to $25 million of incremental revenues from our Foinaven FPSO contract, and the recognition of 27 million of revenues from customer-funded front-end engineering and design, or FEED studies related to FPSO and FSO projects. The amount relating to the Foinaven FPSO is recognized in the fourth quarter of each year, since it is based on various annual operational performance measures, oil production levels and average oil price for the year. The $25 million of incremental revenue for Foinaven was about $10 million lower than last year's fourth quarter amount, mainly due to both planned and unplanned maintenance shutdown during 2012.

The Foinaven does not have any scheduled maintenance shut-downs in 2013, and therefore, we expect higher revenues from Foinaven this year, assuming a similar average oil price. The FEED studies I mentioned earlier are engineering work customers contract us to perform, typically in preparation for FTSO and FSO projects, for which the revenues and costs are both recognized for accounting purposes when the studies are completed. Vessel operating expenses increased by $31 million, mainly due to $28 million of costs for the FEED studies completed in the quarter, which I just mentioned.

In addition, maintenance costs increased slightly in our shuttle and FDSO fleets, which are partially offset by decreases to operating expenses as a result of recent vessel sales and layups.

Time charter hire expense, depreciation and amortization and G & A expenses were generally consistent with the prior quarter. Interest expense decreased by approximately $3 million as a result of recent equity raises in TOO and TGP being used to repay revolvers as a result, as well as higher capitalized interest on our new buildings under construction. This is partially offset by additional interest expense related to Teekay Parent's Norwegian bond issuance in October.

Equity income decreased by approximately $4 million in Q4, due to lower equity income from our Exmar, Sevan Marine, and (Tira Sadone) joint ventures due to some higher than usual expenses in some of the JVs. Income tax recover increased by $5.7 million, due primarily to a restructuring of our Norwegian operations resulting in lower ongoing tax expenses and to reductions in certain of our freight tax accruals. Non-controlling interest expense increased to $37 million as a result of higher adjusted earnings in Teekay Offshore and the full quarter impact of the equity issuances I mentioned earlier.

Looking at the bottom line, adjusted net income was 4 cents per share in the fourth quarter, an increase from the previous quarter's adjusted net loss of 29 cents, primarily due to the incremental revenues earned from the Foinaven FPSO contract. Now turning to slide 9, during the fourth quarter we recognized a non-cash vessel impairment charge of $429 million, primarily related to certain Suezmax conventional tanker vessels owned by Teekay Tankers. Given the majority of the non-cash impairment charge is recorded in Teekay Tankers and Teekay Parent's economic interest is approximately 25% in Teekay Tankers, the overall financial impact to the shareholders to Teekay Corporation net of controlling interests, non-controlling interest, is approximately at $135 million.

The impaired Suezmax vessels were acquired by Teekay, as part of the Olmy Corporation acquisition in mid-2007, which in retrospect was at a high point in the cycle for vessel values, as you can see from the asset value graph. Early in 2012, we estimated that a recovery in the conventional tanker market could begin in the latter part of 2012 or early into 2013. Over the course of the last year the market sentiment and our views on this have changed.

And by the fourth quarter of 2012 it was apparent that such a recovery would likely not occur in this timeframe. As such, the delayed market recovery has contributed to a reduction in our estimated future cash flows from a conventional tanker fleet. As a reminder, vessel impairment analysis under US GAAP is a two-step test.

The first step is comparing estimated undiscounted future cash flows to the current vessel book values on an individual ship basis. If the estimated future cash flows on an undiscounted cash basis is less than the current book value even if by a relatively small amount, the vessel would fail step one, and therefore would be required to be written down to fair value under step two. With lower estimated future cash flows and a relatively high book value, these vessels failed the step one test in the fourth quarter, and given the large decline in vessel values as shown in the graph, the resulting impairment charges required for these vessels under the step two test were significant.

In addition, we have a number of other smaller impairment charges for the quarter primarily on older tonnage including vessels recently sold. It's important to note that the non-cash impairments reported this quarter did not impact our operations, cash flows, liquidity, or any of our loan covenants. Turning to slide 10, we have provided some guidance on the consolidated financial results for the first quarter of 2013.

After normalizing for the $27 million from feed studies in Q4, revenues from our fixed rate fleet are expected to decrease by net $32 million in the first quarter from the following - $19 million from the Foinaven FPSO revenues which are trued up and recognized in the fourth quarter net of higher expected oil production in Q1 for the Foinaven, $9 million from the shuttle tanker fleet due to lower project revenues and vessel sales and layups, $7 million from the fixed-rate conventional tanker fleet due to the expiration of contrary out contracts, and $2 million from a scheduled dry docking of one LNG carrier.

These decreases are expected to be partially offset by a $5 million revenue increase from the Voyager Spirit FPSO receiving first oil, which we're assuming to be mid-March for this purpose. Spot revenue days are expected to decrease by 80 days in the first quarter due to the vessel sales and re-deliveries I mentioned earlier. So far in Q1 we have fixed approximately 60% of our spot Aframax and Suezmax revenue days at average TCE rates of $10,800.00 per day and $13,300.00 per day respectively.

As a rough rule of thumb, for each $1,000.00 per day change in spot tanker TCE rates that results in a $2 million change in our consolidated revenues per quarter. Overall vessel operating expenses are expected to remain consistent after adjusting OpEx in Q4 related to the feed studies, as increases from the delivery of the Voyager Spirit FPSO are offset by reductions in our existing fleet. Time charter higher expense is expected to decrease further in Q1 by approximately $2 million, reflecting lower spot in chartering in our shuttle fleet.

Depreciation and amortization is expected to decrease by $9 million related to the effect of the vessel impairment charges taken in Q4 as well as from vessel sales, partially offset by the Voyager Spirit FPSO addition. We expect G & A to be about $51 million in Q1, net interest expense for Q1 is expected to be about $2 million higher due to the impact of the new Norwegian Bond issued in Teekay Offshore in January.

Equity income is expected to increase by $4 million, reflecting the recently completed LPG joint venture with Exmar, and the first oil being retrieved for the ((inaudible)) FPSO in Brazil. Income tax expense is expected to be approximately $2 million in Q1 and non-controlling interest expense is expected to be approximately $34 million to $36 million in Q1 as a result of higher expected earnings for TGP. With that I'll turn the call back to Peter to conclude.

Peter Evensen: Thank you Vince. Turning to slide 11, I would like to conclude today's call by highlighting the key priorities at each of our businesses for 2013. For Teekay Parent, 2013 will be another year of execution with a primary focus on the FPSO new building and conversion projects delivering this year, completing repairs for the Banff FPSO for restart in the fourth quarter and making progress on future redeployments for some of our existing FPSO units. Through the sale of eligible FPSO units to Teekay Offshore and the support of Teekay LNG growth initiatives, Teekay parent will continue to focus on growing its two MOP daughters to enhance its GP cash flows.

We will also continue to execute on the cost-saving initiatives Vince discussed in today's call and complete our current and upcoming asset financings and refinancing. Importantly Teekay Parent will always focus on maintaining the high standards for health, safety, environment and quality, as well as operational key performance indicators across all of our fleets. For Teekay LNG the focus in 2013 will be on growth, with a primary focus on new point-to-point LNG and floating storage re-gas supplication units or FSRU projects. Teekay LNG will also consider accretive on the water acquisitions with contracts.

Growth will also be a priority for Teekay Offshore in 2013, with a focus on delivering the partnerships for shuttle tanker new buildings and the commencements of their charters with BG in Brazil, completing the high load DP unit from Ramora, and completing the required capital modifications for its contract with Petrobras. As well as bidding on new FPSO and FSO projects with post 2015 deliveries. Teekay Tankers will focus on strategically positioning for an eventual market recovery, and will consider investments in fuel-efficient tanker new buildings, or acquire quality on the water tonnage to meet its fleet renewal and growth goals.

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

Operator: Thank you. If you would like to ask a question please signal by pressing the star key followed by the digit 1 on your telephone keypad. If you are using a speakerphone please make sure your mute function is turned off to allow your signal to reach our equipment.

If you have signaled for a question prior to hearing these instructions on today's call please repeat the process now by pressing star 1 again to ensure our equipment has captured your signal. We will pause for a moment to allow everyone the opportunity to signal for questions. Thank you the first question comes from Justin Yagerman of Deutsche Bank. Please go ahead.

Justin Yagerman: Hey good morning or I think it's good morning how are you doing?

Peter Evensen: Fine Justin.

Justin Yagerman: Good, so I guess the first question's on the dividend here at Teekay Tankers, and, you know, a bit of a departure from what you guys were thinking prior and how you've been proceeding. I guess from my standpoint the question is why not just set a floor and allow it to float upwards if the market were to recover.

You know, I mean am I to take this as a signal that you're looking at accumulate cash for buying or you need more cash on your books to act as an operator if you want a charter in a lot of tonnage, or you're just pretty pessimistic about the market?

Peter Evensen: Wow that's a whole bunch of choices. I would actually it's the first one, which is that we're going to accumulate cash in order to reinvest in either new buildings or buy assets. Our traditional way of financing growth has been to issue equity in follow-on offerings. But given where the share price is and given our prospects that and our confidence in regressing back to the mean, we don't think that follow-on equity issuances at today's low share price is the right thing to do.

Instead, what we think is the best is to fix the dividend and use the extra cash in order to invest in future growth. Because we remain confident that the tanker market will recover but now is not the time to issue equity.

Justin Yagerman: Okay, so I guess, given the write-downs and where we are from an asset value standpoint do you think now is an attractive point or do you think that you need to see more asset value downside as, you know, we continue see weakness at least on a crude side. How do you think about what type of assets you're looking to buy, crude or product, you know, what are you going to do with the cash?

Peter Evensen: Well Bruce will talk more about it in about an hour. But I would say from our viewpoint as well as from my membership on the Board of Directors at Teekay Tankers, that we actually see things as bumping along the bottom here. We can't see that things are going to go down much more and so we're looking at a lot of opportunities. I would say we have looked at a lot of opportunities over the last two years and we actually haven't done much.

Instead what we've done is fixed out more of our tonnage longer-term and that's turned out to be the right move. And so, I would love to say that we think the market will immediately recover but we don't see that, as Vince said that led to vessel impairment charge and so, but we do see that we're moving into an interesting time in order to be able to acquire assets counter cyclically. And I guess I would just add back that Teekay Tankers was set up as a cash flow vehicle but it isn't very good at countercyclical investing.

And what you have to do now is counter cyclically invest. And so to raise money down at the bottom isn't the right thing. Instead our shareholders need to be able to have the leverage that will come when the tanker market returns, and in the meantime we will position the company in order to get future growth.

Justin Yagerman: Fair enough, and congrats on the contract on Knarr. Wanted to see now that we know that it's a 10 year contract if we could get any, you know, returns EBIDA, more color in terms of how we should think about modeling out this contract and how it will impact the P&L.

Vincent Lok: Yes I think we've given previous guidance Justin on the Knarr, the rough average EBIDA ((inaudible)) about, or actually it's over $140, $130, $140 million per year. On 100% basis and it is scheduled for delivering in the first half of 2014. So yes, we're excited about the 10 year contract that allows us to move forward with the long-term financing.

Justin Yagerman: Great and the last question, I'll turn it over to someone else, $200 million revolvers secured by equity at (daughters). Did you look at unsecured what was the difference between the costs and what are you paying on the revolver?

Peter Evensen: Well, first of all it isn't our plan to utilize this revolver it's just to get some extra insurance. So we planned it just to increase our liquidity. And no we didn't look at and unsecured. I think given what's happened in the financial markets with other competitors that's really not something that we would look at.

Vincent Lok: It's part of our strategy to diversify our sources of capital if you look back when we did the Norwegian bond on an unsecured basis in October and we felt that using our LP units which are, if you look at TGP and TOO, they're valued over $1.6 billion right now so it's a valuable asset and this corporate rollover just gives us a lot more financial flexibility.

Justin Yagerman: Hey great thanks Vince. What's the rate on the $200 million?

Vincent Lok: I prefer not to disclose that at this time.

Justin Yagerman: Fair enough, all right guys, thanks appreciate the time as always.

Peter Evensen: Thank you.

Operator: Thank you. The next question comes from Michael Webber of Wells Fargo. Please go ahead.

Michael Webber: Hey good morning guys how are you?

Vincent Lok: Fine.

Michael Webber: Hey, good. I'll save the impairment and dividend questions for the TNK call, but Peter, I want to talk a little bit about the Knarr, obviously it's the biggest variable that's moving through your balance sheet. I'd like to get a sense on how close you guys are to finding a JV partner for that project and maybe within the context of what's happening with ((inaudible)) I mean that's going to be offline for two years.

If you had to pay ((inaudible)) but when you think about an asset the size of the Knarr, you know, it certainly colors the operational risk in a different light. So maybe, you know, maybe a little bit of color in terms of how you think about the operational risk associated with the Knarr and then where you guys are at in terms of finding a JV partner.

Peter Evensen: Sure, well first of all the Knarr is proceeding well. We've had a timeline of having BG select what the term of what the contract would be now that they've selected then years we can move ahead with the debt financing side of it. And as we get closer to first oil we actually de-risk the project. So we're going to put in place the debt financing and as we de-risk the project and get to first oil we can either drop the whole project down to Teekay Offshore, or we could look for joint venture partners as other people have.

We haven't decided which is the best. It would bring a lot of degree of growth to Teekay Offshore and therefore help the GP cash flows. But as you point out and as Vince talked about with $130, $140 million EBIDA, it does represent some concentration risk.

So we're open to looking at things, but whether we drop the whole vessel down to TOO, or bring in some partners, in either case it will de-lever Teekay Parent and make Teekay Parent debt-free. In terms of concentration risk there's, there are other ways besides selling part of it to achieve that. We could, for example put in place loss of higher insurance or business interruption insurance. And that's something we would look at naturally if we retain 100% of that project.

Michael Webber: Got you, all right now that sounds like even a fair amount of options there. I'm really just kind of sticking with kind of the large FPSO segment for a second, I mean given that kind of backdrop in terms, you know, of what you laid out and now you're thinking about the Knarr moving through your balance sheet, what else is out there from a large FPSO perspective that could potentially be a warehouse of the Parent.

What do you think you could bite off right now in 2013 without a JV partner for the Knarr? Just kind of lay out potential new projects at the Parent level, for 2013, or what the reasonable assumption for kind of new CAPEX there in 2013?

Peter Evensen: Well, we have several FEED studies already underway on FPSOs that would deliver into 2016, 2017. If those ultimately culminate in contracts then those - then we would, they would result in new projects. We're very careful about which projects we go after. We want projects that either fit into the Sevan design or basically fit into the Knarr design, rather than do one-off type projects.

So we're restricting our marketing, if you will, to Brazil in the North Sea and projects which fit into those designs. So if you will, we're kind of going with a sister vessel concept.

Michael Webber: Sure that makes sense. In terms of those FEED studies that you're involved with right now are any of them large enough that they couldn't fit directly down to TOO?

Peter Evensen: Well, our preference would be for TOO to do them direct. If we're lucky enough and we get a lot of contracts then maybe we would have to have Teekay help, but that's not our priority game plan. Our game plan is to have TOO which now is starting to get a market cap and a liquidity basis that it's able to do more warehousing itself.

So for example, they ordered -they have before BG, before BG shuttle tankers, they're doing the Ramora, they're doing the Salamander deal and if we do some of these new FSOs, which we're also bidding on, those will be done directly at Teekay Offshore.

Michael Webber: Got you, are you guys in a position to give a timetable around those FEED studies and bids on new FPSO projects?

Peter Evensen: No.

Michael Webber: Okay, all right, just one more for me and I'll turn it over. You mentioned the Foinaven and that tariff earlier in your remarks. And I may have missed it, but have you guys given an update in terms of where that contract negotiation stands around - I believe it's around Novation and where the Foinaven specifically fits within your drop-down pipeline now?

Peter Evensen: No, we're continuing to discuss with the charterer the successful transfer of it to - from Teekay to Teekay Offshore Partners, so we don't have an update on that. But we need the approval of the charterer, and frankly, we've - they and we have been more concerned with these unplanned shutdowns.

Michael Webber: Fair enough. And I would assume that that annual deadline that got kicked out in the middle of 2012 could be extended again in 2013 without much of an issue.

Peter Evensen: I think that's right.

Michael Webber: Okay. All right. Thanks for the time, guys.

Peter Evensen: Thank you.

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

Fotis Giannakoulis: Yes, good morning guys. I want ask about your tanker operation. It seems that at the parent level it has been reduced significantly. Is there a plan to close it down, at least at the parent level, and just to operate through your daughter company? And particularly, I want to ask about the chartering in tonnage, provided that you think that the market will start moving higher.

Peter Evensen: Well, we have said when we dropped down the 13 vessels from Teekay Corporation to Teekay Tankers that Teekay Tankers was going to be the growth vehicle for our tanker business, and none of that has changed. And therefore, what Vince was talking about is actually just leaving the existing tanker operations to roll off, which are mostly in-charters. But we do have four Suezmax tankers still upstairs at Teekay Parent, but we're not planning on adding more assets long term up at Teekay Corporation on the tanker side.

Fotis Giannakoulis: Does this mean that Teekay Tankers will be involved at some point at chartering in tonnage?

Peter Evensen: They are already chartering in tonnage on a short-term basis selectively, and Vince will talk about that in about an hour. So the good news about Teekay Tankers is it's able to charter out at higher levels than it in charters, so it's successfully making a spread. But given the size of Teekay Tankers, I don't think it would ever be in - do things on the scale that Teekay Corporation did.

Fotis Giannakoulis: Okay. Thank you for that. And can you give us a little bit more details about the impairment charge that you took? Is this something that you decided or it was something that your auditors asked you to do? And what was the mechanism out there that you decided took the amount of the impairment?

Vince Lok: Fotis, no, it's not something our auditors asked us to do. It's one of these things - it's an ongoing assessment that management does every quarter, and you have to really look at what your future estimated cash flows are, based on what market information you have. And in terms of the size of the write-down, it really is mainly related to seven Suezmaxes, which have very high book values as a result of when we acquired them in 2007, and current fair market values. So even though the cash flow tests failed by just a small amount, you do have to actually write down to estimated fair market values based on today's low values. So that's, in summary, the investment - or the impairment charge.

Fotis Giannakoulis: Thank you for that. And my last question is I just want to go back a little bit about your new facility and the fact that it's been backed by assets from different daughter companies. What was the rationale? Was it pricing, the rationale that you decided to use different assets from different companies to secure this facility? And why the daughter companies did not issue a facility at their level?

Vince Lok: Well, again, this is obviously a very valuable part of Teekay Parent’s investment portfolio, and we decided to use these assets as collateral to secure the revolvers. And I think giving that security, yes, probably it gave us some better terms on the revolver. And as Peter said, it isn't something we've drawn on, but it does give us a lot more financial flexibility going forward.

Peter Evensen: I think the main point is that if we had needed the money, we probably would have done an unsecured bond. But we don't need the money and we plan on it being undrawn, and therefore, it's just basically insurance that we're buying.

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

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

Keith Mori: Hi. Good afternoon gentlemen. It's Keith Mori on for Brandon.

Male: Hi.

Keith Mori: Just wanted to kind of touch on the cost initiatives here. Are you thinking that that's more of a back-ended towards 2013 or do you see that kind of being a smooth progression?

Peter Evensen: Sorry, I couldn't hear the question. Hello?

Keith Mori: Do you believe that on the cost initiative side, that it will come more in the back end of the year or is it going to be a smooth transition throughout the year?

Vince Lok: Well, some of the cost initiatives have already occurred. For example, the reorganization of our conventional tanker shore-based operations was completed in the fourth quarter in 2012. Our shuttle tanker reorganization is sort of during the first half of 2013, so it should be fully in place by midyear.

And in terms of the vessel operating expenses, we've already achieved significant savings on the shuttle tanker side. So I guess, it depends on which initiatives you're referring to. But I would say in terms of the remaining cost initiatives, most of them should be completed by the middle of 2013.

Keith Mori: Okay, that's helpful. And then, Peter, I know in the past you had mentioned that the tanker market, you know, the Aframax, the smaller-sized vessels, maybe looked a little bit like they could recover first. Do you guys still see that occurring? Or do you see it kind of - a different view now?

Peter Evensen: Actually, we do. As I'm fond of saying, we think the pig is through the python on Aframax. In other words, the vessels that are being delivered are equaling out to the vessels that are being scrapped. And so the charter discrimination that you're seeing on older tonnage is leading vessels to be scrapped earlier.

And so basically, we see flat fleet growth on the Aframax side in the coming years. If you contrast that with Suezmax and VLCCs, those will still grow by mid-single digit numbers, 5% or 6%. And so that leads us to believe that our Aframax franchises, as well as our LR2 franchises, which is coated Aframax tankers, actually will see good incremental growth demand, particularly LR2 tankers where you're seeing greater Naphtha runs and greater, longer run - or longer haul refined products, they will move into more of the LR2 tonnage, which is why we're excited about that. And I encourage you to tune into Teekay Tankers, where Bruce will talk more about that.

Keith Mori: Absolutely. Thank you guys for the call.

Peter Evensen: Thank you.

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

Peter Evensen: Thank you, all, very much. So you've seen our 2013 roadmaps, and we look forward to reporting on it next quarter. 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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