TEEKAY SHIPPING (CANADA) LTD.

Moderator: Peter Evensen
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10:00am CT

Operator: Welcome to Teekay Corporation's Fourth Quarter and Fiscal 2014 Earnings Result conference call. During the call all participants will be in a listen-only mode. Afterwards you will be invited to participate in a question and answer session. At that time if you have a question, participants will be asked to press star one to register for a question. For assistance during the call please press star zero on your touch-tone phone. As a reminder this call is being recorded. Now for opening remarks and introductions, I would like to turn the call over to Mr. Peter Evensen, Teekay's president and chief executive officer. Please go ahead.

Male: Before Mr. Evensen begins, I would like to direct all participants to our Web site at www.teekay.com where you will find a copy of the fourth quarter and fiscal year 2014 earnings presentation. Mr. Evensen and (Mr. Loch) 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 year 2014 earnings release and earnings presentation available on our Web site. I will now turn the call over to Mr. Evensen to begin.

Peter Evensen: Thank you, (Scott). Good morning, everyone, and thank you for joining us today for Teekay Corporation's fourth quarter and annual 2014 earnings call. I'm joined today by our CFO, (Vince Loch), and for the Q&A session we also have our group controller, (Brian Fortier). During our call today we will be taking you through the earnings presentation which can be found on our Web site.

Beginning on slide 3 of the presentation, I will briefly review some recent highlights for Teekay Corporation. For the fourth quarter of 2014, Teekay Corporation generated $308 million of total consolidated cash flow from vessel operations, or CFBO, an increase of 25% over the same period of the prior year. For fiscal year 2014 our consolidated CFBO has now grown to over a billion dollars.

Teekay corporation reported consolidated adjusted net income of $30.7 million or 42 cents per share for the fourth quarter of 2014 compared to $1.1 million or 2 cents per share in the same period of the prior year. While I am pleased with the improvement which is mainly due to possible growth projects and stronger spot tanker rates, it would have been significantly higher if we had had higher utilization on the 100% owned Coin Haven FPSO throughout the year as well as the higher oil tariff revenue on the Hummingbird Spirit FPSO.

On a full year basis Teekay Corporation generated adjusted net income of $1.5 million, or 2 cents per share compared to a consolidated net loss of $79.9 million, or $1.12 per share for fiscal 2013. This is our first full year profit since 2008, and with Teekay at an inflexion point in its operational performance, I look forward to building on this result in future years as a result of more growth projects starting up and higher utilization on our FPSOs, including having the BAMF FPSO back and operating for a full year.

Since reporting our third quarter results in November, we've continued to make steady progress on Teekay parent's strategic transformation into a pure play general partner. In December after successfully recontracting our oldest FPSO, the 1986 Bill Petria I, the unit was sold to Teekay Offshore Partners for $57 million. Teekay Offshore will upgrade the unit, which will then commence a 5-year contract in Brazil in the first half of 2016.

In December, Teekay Offshore Partners agreed to acquire the Petria Canary FPSO from Teekay Parent for a fully built up cost of approximately $1.2 billion. We expect to complete the sale of the Canary FPSO to Teekay Offshore by the end of the first quarter, following the achievement of first oil and commencement of the unit's charter contract with DG. We remain committed to the new Teekay Parent dividend policy that we announced in late September, which we anticipate will take effect in the second quarter of 2015 following the completion of the sale of the Canary FPSO to Teekay Offshore.

Based on the dividend cash flows Teekay Parent receives from its daughter entities, we intend to increase Teekay's annualized cash dividends to between $2.20 and $2.30 per share, which represents an increase of approximately 75 to 80%. In addition with our existing project backlog of approximately $7 billion of known growth projects at our two MLPs, Teekay Corporation's dividend should continue to grow from the new higher base as our MLPs increase their distributions as those projects deliver over the next few years.

Turning to slide 4, I will review some recent highlights from our three publicly traded daughter entities. For the fourth quarter, Teekay LNG partners declared a cash distribution of $.70 per unit, an increase of 1.2% from the previous quarter. Based on our GP and LP ownership interest in TGP, the cash flows received by Teekay Parent totaled $26.3 million for the quarter.

In early December, Teekay LNG secured time charter contracts with a wholly owned subsidiary of Royal Dutch Shale for five new-billed Megi LNG carriers. The vessels will operate as part of

Shell's global LNG fleet under time charters ranging in duration from six to eight years plus extension options. Delivery of the vessels will commence in the second half of 2017 and continue into 2018.

In order to fulfill our commitment to Shell, Teekay LNG exercised its remaining options with the SME shipyard for the construction of three additional Megi LNG carrier new buildings. In February a new contract was signed with DSNE for one additional Megi LNG carrier and this order included options for four additional LNG new buildings. This contract was entered into because Teekay LNG continues to see customer requirements for Megi LNG vessels and needs ships to bid on these requirements.

Teekay LNG's total investment for the four new buildings ordered in December and February is approximately $850 million. In November Teekay LNG partners agreed to acquire a 2003 built LPG carrier from Nor-Gas Napa, from IM Scalgin, along with a five-year charter back to Scalgin at a fixed rate plus potential upside through a profit sharing component. In January Teekay LNG partners LPG joint venture with X-Mar took delivery of the fourth of its 12 mid-size LPG carrier new buildings as part of that joint venture's fleet renewal and growth strategy.

Looking at the results for our other MLP for the fourth quarter, Teekay Offshore Partners declared a cash distribution of 53.84 cents per unit. Based on our GP and LP ownership interests in TOO the cash flows received by Teekay Parent totaled $18.1 million for the quarter. During the quarter Teekay Offshore continued to secure growth in both its offshore production and offshore logistics businesses.

As I noted a moment ago, in December Teekay offshore required the Petriol I as the SO unit from Teekay Parent. The unit is currently undergoing upgrades at the Dommin shipyard in the Netherlands for a total cost of $235 million, including the $57 million cost to acquire the unit. The upgraded Petriol I FDSO will be used as an early production system on the Atlanta Field in the Santos Basin offshore Brazil for a consortium led by QGEP, commencing in the first half of 2016.

In January Teekay Offshore through its 50/50 joint venture with (Odibresh) Oil and Gas finalized a contract with Petrabras and its international partners to provide an early well test FDSO unit for the Libra pre-salt oil field in the Santos basin. The FDSO will be converted from an existing Teekay offshore shuttle tanker for fully built-up cost of approximately a billion dollars on a 100% basis.

The unit is expected to commence operations under a 12-year fixed fee base contract in early 2017. This will be the second FDSO project for Teekay Offshore Partners' joint venture with (Odibresh). Finally in November Teekay Offshore's wholly owned subsidiary ALP Maritime agreed to acquire six long distance towing and anchor handling vessels for an on-block price of approximately $220 million.

This acquisition combined with ALP's four existing new buildings is strategically important as it positions ALP as the clear leader in the long distance dynamically positioned towing segment with a fleet of ten vessels. The acquisition provides ALP with greater scale to bid on a broad range of projects and a larger presence in the growing global ocean towage and offshore installation market.

Moving on to Teekay Tankers, in the fourth quarter the company declared a fixed dividend of 3 cents per share. Based on its total ownership of class A and class B shares, Teekay Parent received a cash dividend of approximately $900,000. Teekay Tankers generated free cash flow of $.35 per share in the fourth quarter of 2014, 192% increase from the same period of the prior year, mainly due to an expanded in-charter fleet and higher average realized spot tanker rates.

In December Teekay Tankers agreed to acquire four LRQ product tankers and one Afro-Max tanker from third parties for an aggregate price of approximately $230 million. The acquired vessels, two of which have already delivered and three of which will deliver by the end of the first quarter, further increases Teekay Tankers' operating leverage to the strengthening tanker market, while the LR2 vessels also provide the flexibility to trade in crude or product tanker markets.

Teekay Tankers also continued to be commercially active during the fourth quarter, securing three additional in-charter Afro-Max tanker contracts, which brings Teekay Tankers chartered in fleet to a total of 11 vessels. The 11 charter in contracts have a low average daily rate of $16,700 and initial firm contracts of between 6 and 33 months with extension options. During the quarter crude tanker rates reached the highest level in six years, supported by a combination of seasonal factors and increased tanker demand as a result of low oil prices.

Rates have remained firm in the first quarter of 2015 as these positive demand drivers remain in place, augmented by the emergence of floating storage with more than 30 VLCCs booked on time charter with storage options since the beginning of the year. Turning to slide 5, I will take a moment to update you on the status of the remaining FPSO assets at Teekay Parent. I noticed that we had completed the drop-down sale of the Petriol I FPSO.

This transaction highlights a shift in how FPSO projects are being managed within the Teekay Group. Whereas in the past - excuse me, whereas in the past we would have warehoused this project to Teekay Corporation and dropped down just as the unit was starting under its contract, Teekay Offshore now has sufficient size and balance sheet to warehouse this type of project on its own.

We are also within a few weeks of completing the drop-down of the Canar FPSO, our largest FPSO project to date, for a fully built-up cost of approximately $1.2 billion. The Canar FPSO is in the final stages of its field installation and its drop down sales to Teekay Offshore will be completed following completion of the unit's 72-hour interim production test which is expected to be completed in March.

Following the Canar drop-down we will have three remaining legacy FPSOs which we're targeting to drop down by 2017. The Petriol BAMF FPSO returned from (All-Pire) in July 2014 and following repairs from storm damage incurred in late 2011. In January the BAMF commenced a charter rate uplift under its existing multi-year contract which makes this unit now eligible for drop-down under our omnibus agreement with Teekay Offshore.

We expect to offer the BAMF for drop-down sometime during 2015 after the Canar FPSO drop down has been completed. The Hummingbird Spirit FPSO is currently operating under a firm contract with Centrica until March of 2016 with options under the current contract which run through March of 2017. The existing charter is too short to qualify for drop-down eligibility under the omnibus agreement.

However, we're currently reviewing new contract opportunities for the Hummingbird Spirit following the expiry of the current charter. Once we've found a new long-term contract the Hummingbird will become eligible for drop-down. And finally we have the Petriol Coin Haven FPSO which is currently operating under an evergreen contract with BP. However subsidy issues on the fields are currently requiring the Coin Haven to produce below maximum capacity.

We are currently working with BP to stabilize and increase production on the field and obtain approval to transfer ownership to Teekay Offshore. Once this has been achieved the Coin Haven FPSO will also become eligible for drop down. With Teekay Corporation's new dividend policy linked to future growth of its daughter entities, the drop down of the remaining Teekay Parent legacy FPSO assets will be an important driver of future dividend growth. And with that I'll turn the call over to (Vince) to discuss the company's financial results.

(Vince Loch): Thanks, Peter, and good morning, everyone. Starting with slide 6, this provides an overview of our consolidated results for the quarter, comparing the adjusted income statements for the fourth quarter of 2014 and the third quarter of 2014, both of which exclude the items listed in appendix A to our earnings release. The full reconciliation of adjusted net income to GAAP net income can be found in both Appendix A of our earnings release and the appendix to this presentation.

Looking at the bottom line, we had a better than expected fourth quarter, reporting a consolidated adjusted net income of 30.7 million, or 42 cents per share. Compared to Q3's adjusted net loss of 12.6 million, or 17 cents per share, fourth quarter income more than offset the losses we had in the first three quarters of the year, resulting in a positive adjusted net income of 1.5 million for fiscal year 2014.

The main factors contributing to the fourth quarter results include the incremental revenues from our Coin Haven FPSO contract related to annual recognition of operational and oil price tariff revenue typically recognized in the fourth quarter of each year. Higher average spot tanker rates earned by our conventional tanker fleet, lower repairs and maintenance costs for our FPSO fleet, and income tax recoveries recognized in Q4.

Turning to slide 7, we have provided some guidance on our consolidated financial results for the first quarter of 2015. Revenues from the fixed rate fleet are expected to increase from the following, a $20 million increase from the Canar FPSO assuming finalization of the commissioning process by March 1st; a $4 million increase from the rate reset on the BAMF FPSO effective January 1st, 2015, and a $2 million increase from the delivery of three ocean towage vessels assuming March 1st deliveries.

These increases are offset by a $20 million decrease from the annual revenue trip for the Coin Haven FPSO recognized in the fourth quarter which I mentioned earlier, a $14 million decrease from the expiration of time turnaround contracts for one shuttle tanker and five conventional tankers. The conventional tankers have been redeployed to the stock market at higher rates, which I will discuss shortly.

An $8 million decrease from the remaining FPSOs due to incentive-based revenues recognized in Q4, a $4 million decrease from CRCOA dates in the shuttle tanker fleet and a $2 million decrease from lower time charter out rates on the polar spheric and arctic spheric LNG carriers. Spot revenue days are expected to increase by 540 days due to additional in charters in T&K, and time turn around contract expirations that I mentioned earlier.

So far in Q1 we have fixed approximately 60% of our spot Afro-Max and Suez-Max revenue days at average TCE rates of $30,000 a day and $39,000 per day respectively, which are materially higher than the Q4 comparative amounts. Overall vessel operating expenses are expected to increase by approximately 7 million due to the Canar FPSO and ocean tillage vessels commencing operations and higher expected repairs and maintenance for our remaining FPSOs.

Contract higher expense is expected to increase slightly by about $1 million in Q1, reflecting the additional in-charter conventional tankers in T&K. Depreciation and amortization is expected to increase by 5 million related to the Canar FPSO, the ocean tillage vessels, and T&K's vessel acquisitions, partially offset by lower depreciation on the Petriol I FPSO. We expect GNA to increase by 4 to 5 million in the first quarter due to certain stock compensation expense that is recognized annually in the first quarter of each year.

Net interest expense for Q1 is expected to remain consistent with Q4 as increases related to the Canar FPSO and ocean tillage vessels are partially offset by lower interest costs as a result of the fourth quarter refinancing of the ((inaudible)) to LNG carriers in CGP. Equity income is expected to remain consistent with Q4. Income tax expense we expect to be - expect it to be approximately $2 million in Q1.

Non-controlling interest expense is expected to be between 71 and 73 million in Q1, primarily as a result of Q4 equity issuances in T&K and TOL, higher expected earnings in T&K from stronger spot tanker rates, partially offset by a lower expected earnings in TOL. Turning to slide 8, we have provided a comparative summary of Teekay Parent's Q4 and Q3 free cash flow. Our total free cash flow is separated into the op co cash flows of Teekay Parent's legacy operating assets and JP Co cash flows comprised of the dividend payments from our daughter entities, which provide the basis for future dividend increases under our new dividend policy.

In Q4 op co cash flow improved by over $28 million compared to Q3, primarily due to the incremental fourth quarter revenues from our Coin Haven FPSO contract mentioned earlier and improved spot tanker rates. GP Co cash flow increased due to higher GP distributions following share issuances by TOL and TGP in Q4. Higher dividends from T&K as a result of Teekay parent's acquiring 4.2 million shares as part of T&K's equity offering in Q4 and lower corporate GNA.

Our corporate GNA is currently running below the annual run rate guidance of approximately $20 million per year. As a result of the above, total parent - Teekay Parent free cash flow per share increased from 21 cents per share in Q3 to 62 cents per share in Q4, which is well above our current quarterly dividend of about 32 cents per share.

Looking ahead into 2015, we expect our GP co cash flows to increase, shortly after the drop down of the Canar FPSO to TOL. The Canar drop-down will also significantly deliver Teekay Parent's balance sheet. As a result, we remain committed to our new dividend policy that we announced last September. We are still targeting an initial dividend amount of $2.20 to $2.30 per share in the quarter following the Canar drop-down, with future increases linked to increases in distributions received from our daughter entities. With that I'll turn the call back to Peter to conclude.

Peter Evensen: Thank you, (Vince). Turning to slide 9, with the recent decline in the oil price creating concern for investors, I wanted to take a moment to highlight Teekay's strong and diversified portfolio of fee-based contract revenues focused on the production side of the energy supply chain. With an unrivaled backlog of over $20 million of forward fee-based revenues, our offshore and gas business continues to generate stable and predictable cash flows from a wide cross-section of blue chip customers.

Each of our major business lines has an average remaining contract tenor which will provide downside cash flow protection and stability for many years. Turning to slide 10, we've provided an update of our visible growth pipeline, which is now comprised of approximately $7.2 billion of accretive projects, including approximately $2 billion of new projects secured during the fourth quarter of 2014 across our two MLPs and Teekay Tankers.

With both of our GPs in the 50% incentive distribution rights stage, this growth will be a key driver of future distribution increases at Teekay Corporation once our new dividend policy is implemented. While we have locked in growth for the next few years, we will likely see our organic project growth be lower in 2019 and beyond because of the oil price decline as our customers take a wait and see approach on many projects.

At this stage we believe most of the new projects that we are discussing with our customers and on our internal radar screen for 2019 and beyond will go ahead but be delayed as customers wait for clarity on oil prices and work with suppliers to lower costs. It should also be remembered that much of the cost of finding the oil offshore has already been incurred on these projects, so on these projects we are working on known reservoirs.

The oil price decline may be a V shape or a U shape but the depletion rate on existing productions will continue while all demand increases, so we believe any interruption in oil production growth will mean that the oil price will ultimately be higher than today. As far as our strategy is concerned, should the oil price decline turn out to be protracted and result in fewer new organic project opportunities we will probably supplement our growth with the acquisition of on the water assets with contracts as Teekay has done in the past.

But that is well in the future, and for now we will concentrate on operating efficiently and executing on our $7 billion project pipeline that will support growth in both the distributions at our MLPs and in turn drive additional dividend growth to Teekay corporation for the next few years. Thank you for joining us on the call today, and operator, we are now ready to take questions.

Operator: Thank you. Ladies and gentlemen, if you would like to ask a question, please signal by pressing star one on your telephone keypad. If you are using a speakerphone, please make sure that your mute function is turned off to allow your signal to reach our equipment. Again please press star one if you have a question. We'll pause for just a moment to allow everyone an opportunity to signal for questions. The first question is from (Michael Webber) from Wells Fargo. Please go ahead.

(Michael Webber): Hey, good morning, guys, how are you?

Peter Evensen: We're fine, thanks.

(Vince Loch): Good morning.

(Michael Webber): Good morning. I wanted to start off with the - to make sure I'm clear around the dividends and the guidance, I know you guys have mentioned and you've been mentioning it since the investor data, the bump in the dividend is tied to acceptance testing and completion of the Canar, and you're talking to the following or subsequent quarter having that dividend increase. The right way to read that would be if the acceptance testing is completed in the back half of Q1 that we'd be looking at a Q2 payable increase in the Teekay Parent distribution?

(Vince Loch): Hi, (Mike). Yes, I guess if you're - if we're looking at a March drop down into TOL the Canar then effectively you know most of the cash flows are really kicking into the second quarter which will allow TOL to increase its second quarter distribution which is paid I guess in August, so that's the effective timing.

(Michael Webber): Okay, so that...

(Vince Loch): That flows out to the parent of course of the same timing.

(Michael Webber): So it'll flow through to the parent, the parent distribution bump would then be in August.

(Vince Loch): That's correct. Well, I guess that - the parent's usually paid in July, but...

(Michael Webber): Okay, all right. Thank you, guys. Okay. So I guess move to the guidance and Peter, your remarks at the end were pretty helpful in terms of the way you think about the out years in terms of growth in the new oil environment and being able to augment organic growth with consolidation. I just for simplicity's sake, the guidance you gave in the Q3 investor day around you know, 20% CAGR for a three-year period and then kind of needing to fill up the buckets beyond that, that's still in place at this point within the current environment, correct?

Peter Evensen: That's right.

(Michael Webber): Okay, okay, that's helpful. Just a couple more and I'll stop.

Peter Evensen: And let me just add onto that, that's because we have this forward look with all the $7 billion of projects, so just to reiterate what I said, we're really thinking about what are the projects that are going to come in 2019 and beyond, and that's what we're sitting there looking at and that's the effect on Teekay of the oil price declines.

(Michael Webber): Got you, okay. You know, and along those lines, you know, you've got the Libra that you just finalized, and in one of your primary markets in Brazil and obviously Petrabras's a major counter-party and they've been in the news quite a bit with the bribery scandal as has Odabrec's who's involved with - in your JV.

One, I'm just curious what read through if any there's been to any risk actually working its way up to that JV with Odabrec, and then two, which I would imagine is a longer answer, whether or not - what's happening now in that Brazilian market. We do look at other markets, maybe the Asian market as a bigger center of forward growth.

Peter Evensen: Sure, so we have a joint venture with Odabrech Oil and Gas. Odabrech Oil and Gas is a division of Odabrech and it's a separate division from Odabrech that has been implicated in the Petrabras car wash scandal, so we have checked in our joint venture, we can continue to bid but Teekay would front the bid if you will. So we've checked out with Petrabras and we're able to bid on those - on new projects.

We're not locked out as some of our competitors are. So in terms of Brazil overall, we think that they have an active pace. We - they are some of the customers we have forward look on what kind of projects are coming. What I like about our position in Brazil is we're not bidding on the really big pre-sold fields. We're bidding on a lot of the smaller fields where they know the reservoirs are there and the breakeven price of putting those fields into production is far less than what you have on the pre-sold.

So we think a lot of those projects will go ahead, but not in the same time frame that Petrabras had going forward. So we anticipate bidding on Petrabras projects but there won't be as many of those projects. But I think the way we like it with smaller Afro-Max and Suez-Max conversions of projects which set up well like the Libra, we think that there will still be projects there.

As far as moving to other places, that isn't on our radar screen right now. We have a good market in the North Sea. We have a good market in Brazil and what I'm watching in the North Sea is our customers figuring out how can we do things cheaper, and that actually sets up quite well for some of our existing FPSO units like the Hummingbird coming off contract, because those are the kinds of projects where they can use a cheaper unit rather than a new build. So there is some light here in - at the end of this oil price decline tunnel.

(Michael Webber): Okay. So I'll just - one more for me and I'll turn it over, I'll save high load for the TOL call tomorrow, but all right, you mentioned as I said just now in the prepared remarks around opportunities and consolidation playing potentially a bigger role in kind of turning that three-year CAGR into a five or a six year CAGR.

I'm just curious when you look at around you know, the offshore space, you mentioned some of your competitors getting locked out of bids now, or in the LNG space there was you know, larger scale of SRU or LNG carrier businesses. Where do you see the most opportunity from a consolidation standpoint, and then do you think that's more of a 2015 event or is - or are we going to see more of an opportunity a bit later on and up for offer on 2016, 2017 when the balance sheet aspects start to shake out?

Peter Evensen: The latter. I see the good opportunities coming in 2016, 2017, and that sets up quite well with our project pipeline. I think everything has happened so fast in the last call it four or five months, so I think there really isn't the opportunity to do what I would call good MNA from our point of view, so we're going to just execute on our existing pipeline and I don't expect you'll see much MNA. We get asked on a lot of projects but I think the consolidation, which will happen, will take longer than everyone envisions.

(Michael Webber): Got you. Great, I'll stop there and turn it over. Thanks, guys.

Peter Evensen: Thank you.

Operator: Thank you, and the next question is from (Gregory Lewis) of Credit Suisse. Please go ahead.

(Gregory Lewis): Thank you and good morning, gentlemen.

Peter Evensen: Hi, (Greg).

(Vince Loch): Morning.

(Gregory Lewis): Peter, you touched on, you know, the issues that in Brazil, I guess just more of a bigger picture question as it pertains across you know, all the assets that are on fixed rate fee business, have customers started to approach you about potential price concessions or discounts, you know, in the near or medium term for some of these long and dated contracts? And then on the flip side of that, as you're building out some of this equipment, have you then in turn gone to any of your equipment providers and started to look for discounts from them?

Peter Evensen: Sure. I think there's going to be continued pressure on the supply chain going forward. What I like about Teekay is that we're in the production side of things, so Teekay has always had long term contracts. We never had the huge upswings that came on the drilling side, and now of course the huge downswings. We're more of a steady Eddie, so we are always in conversations with our customers.

And they are going around to all their suppliers and saying what can you do to lower our costs, so we're working with our customers in - to try to work together to lower their costs, and then be able to pass that on, but we're not in active discussions as you've seen on the drilling side to just cut by 20%, that isn't how oil companies work with people who are inside their logistics chain, especially on the production end.

And the kind of cash flow we put together, they need our assets in order to be able to produce oil and get cash flow, so that puts us in a different position than say a drilling rate contractor.

(Gregory Lewis): Okay, great, and then just in thinking about you know, the drop downs from Teekay to TOL, what types of financing should we be thinking about to get these done, just I mean as we look at TOL right now, the yield's a little bit high. You know, arguably too high at 10%, but what types of alternatives does Teekay have to execute these drop downs in 2015 in the event that you know, TOL's yield stays in the 10% range?

Peter Evensen: Hi, (Greg). As you know with the Petriol Canar Teekay Corp has agreed to provide vendor financing given that that asset is fully financed, so we have the flexibility to offer that to TOL, so we don't need to issue any equity in the near term for the Canar. Of course we'll monitor the markets as - over the course of the year. Teekay Corp has also agreed to take back up to $200 million of TOL units as part of that drop-down, so that certainly facilitates that drop-down.

In terms of the other assets you know, the BAMF I guess is sort of next on the lineup. That's a relatively small asset, so we don't see that as a big financing requirement. It has you know, dedicated debt facilities as well that would go with the drop-down, so you're looking at a relatively small equity select for that. So I think you know, we think...

(Gregory Lewis): And that sounds like something where if push came to shove Teekay could just provide that capital.

Peter Evensen: We could provide that capital or we could also take some units back as well, similar to the Canar drop-down, but I guess if you look more longer term out, you know, we really believe that the TOL units will normalize at some point, given where they were at trading, and as well as the fact that the distribution increases will be coming shortly after the Canar drop-down.

(Gregory Lewis): Perfect, guys. Hey, thank you very much for the time.

Peter Evensen: Thank you.

Operator: Thank you, and the next question is from (Amit Meruchra) from Deutsche Bank. Please go ahead.

(Amit Meruchra): Yes, thank you very much. Just had a question on the longer term outlook, you know, you mentioned how your contracts, much of the upfront costs had already been incurred and basically effectively sunk, and that makes sense given the longer lead times but can you just help us with respect to you know, what percentage of future products have - projects have already incurred significant costs, you know, whereby the cash on cash return analysis sort of still makes sense in the current oil price environment, and just help us better understand sort of you know, the sustainability of the cash flow streams beyond the existing contract duration.

Peter Evensen: Do you mean on existing contracts, or do you mean on new projects?

(Amit Meruchra): On new projects.

Peter Evensen: Yes, I wish I could give you a marker on it, but the reality is that each oil field is different, and so what we're seeing is that the - well, let's take the Petriol I FPSO. So that was a project where our unit was the best unit that could come online. They could - the QGEP could have used a new build, and we were competing up against new builds, but the Petriol I could come in at a much lower breakeven price, maybe closer to like $30.

And so therefore it was a very easy decision as far as we saw it because that was a chance for them to get cash flow much faster, and it would ultimately enhance the value of that oil field, so these early well test ships I think sets us up quite well for the replacement value of our existing assets. And so but I would stress that beyond all of the new projects, irregardless of whether they have low break-even, people are looking for how they can become more efficient.

And I think that's where - what we as suppliers have to do in order to get more projects and enhance assets. Obviously the easiest way is that we have cheaper assets that we can reemploy and use the whole production. On our existing contracts they have low break-even, especially on a marginal cost basis, so we don't see them terminating early on a lot of those fields because as you pointed out a lot of money has been spent upfront, and then they have lower marginal costs.

So what we see playing out is actually an opportunity for Teekay, especially with our existing assets, but if we with our for example Sevan unit on the new building side can deliver cheaper capital costs then I think we'll get an advantage in new projects going forward. And that's why we're exploiting some of the intellectual property we have like the Sevan site.

(Amit Meruchra): Okay, that's really helpful, but if I can just sort of follow up on that, you know, if we were to fast forward say four, five, six years, you know, maybe the deal price, whether it's a U or a V, but let's assume it's a U for now, you might see sort of that come into you know, the cash flows of the business, four, five, six years from now, and then you might be able to back-fill with acquisitions like you said earlier.

I mean, is that sort of the thinking where you think, you know, beyond the existing contract duration you'd still given the balance sheet, given the existing duration of the contracts, you'd still be able to maintain you know, the distribution even beyond sort of the existing duration?

Peter Evensen: Well, okay, so now you're asking for a crystal ball going forward five or six years. I think that's a pretty hard stretch. Here's what I think will happen. You know, Teekay will be able to adapt to the environment that we have, and we have shown that, and so we're not reliant exclusively on FPSOs. We're not - we have moved ourselves into various places of the offshore chain.

There's still going to be billions of dollars spent, so those billions are going to go to the suppliers who have the best service offering, and that's what we're stressing in a longer term timeframe, so that has to do with our units. It has to do with our operations, and that's why we're not looking - we are looking to become much more efficient as we have going forward. I think oil demand, everyone always forgets that oil demand is going to continue to increase.

This is - this point just seems to be lost on people, and even the new BP outlook that came out last week points that out, and so as I was trying to say in my prepared remarks, we have to replace a lot of oil that's going to deplete going forward, and that is basically involved in being able to produce oil at a competitive price. Our FPSOs on a per barrel basis are the solution that can make that happen. And obviously the rest of the supplier network will also look to how it can become more efficient.

(Amit Meruchra): Got it. Okay, thanks, that's great color. Just one last sort of housekeeping question with respect to the deleveraging of Teekay Parent following the Canar drop-down, just trying to get a little bit more clearer on the magnitude of the deleveraging, because I guess the 850 million facility will drop down with it, and so you're left with you know, 400 to 350, 400 million. I mean, is -

I would say the majority of the sales price, the 1.2 billion, would be reflected in the deleveraging, and is that safe to say?

Peter Evensen: That's correct, except for the portion that the parent takes back in TOL units, which is about 200 million. The rest would be delivering the parent balance sheet.

(Amit Meruchra): Right. Great, thanks very much, guys.

(Vince Loch): I would just add that I think it's great that Teekay as a sponsor can help TOL with its drop-down financing.

(Amit Meruchra): Yes, agreed, thank you.

Operator: Thank you, and the next question is from (Darren Horowitz) from Raymond James. Please go ahead.

(Darren Horowitz): Hey, Peter, a couple quick questions, the first one actually dovetails with what we were just talking about with regard to financing structure. I want to make sure I'm thinking about this the right way. I think at the analysts' day you had laid out that from an annual investment capacity, the daughter MLPs, TGP, and TOO respectively you know, could have anywhere around 60 or 65% debt capacity, and let's just say we assume per (Vince)'s comments that the $400 million of short term vendor financing reflects a 6 or 6 ½% yield.

You know, that's - it's meaningfully inside of the existing equity yields, and I'm wondering, going forward, beyond the BAMF, has there been a shift from a financing structure perspective where you think maybe vendor financing if you will, corporate vendor driven financing becomes more of an integral part of the overall financing mix so that that way on a levered basis you achieve the types of returns that you need in order to get that Teekay dividend growth on a multi-year period.

Peter Evensen: I would say that the vendor financing is a short term fix. Ultimately we will do better if TOO issues units. Obviously at the - as (Vince) was saying in the Q&A, we think the TOO price will normalize as it's yielding - call it around 10% now and we're going to increase the distribution as it relates to the Canar, but from Teekay's point of view, we think Teekay Offshore is a good investment.

So that's something that we take into account when we're looking at it. But I think that we will find our way through this in the same way that it was in '09. I always like to tell the story how I saw our two MLPs go from the low 30s down to 10 or 11 in the financial crisis, and our EBITDA didn't change by a dollar. Ultimately they recovered as people saw the stability of our fixed rates cash flows and I think the same thing will happen here, albeit that we don't have a financial crisis.

But we do have the energy industry which is going into recession, so I think the ability of the sponsor to be able to do the right thing as it relates to the long term capital structure of our two MLPs is a real competitive advantage.

(Darren Horowitz): Got you. In order for you guys to hit that 20% compound growth rate through 2017 in the Teekay Corp dividend. Has there been any shift to the associated coverage that you want to run at Teekay? I think when you had laid out the guidance, it was a 1175 type coverage plus or minus and you had run through an upside case where you could minimize that coverage in order to achieve greater dividend growth, but obviously in today's market based on where your cost of capital is in the financing mix, it's a little bit different.

So I'm just wondering is that still the target in terms of coverage? Might you run a little bit lower on the coverage side since you have visibility on those associated FPSO cash flows? Any additional color there would be helpful.

Peter Evensen: Yes, (Darren), I think as of now we're still targeting that range of 115 to 120. I think you know, if you look over the near term and the medium term that certainly is our target. I think when you look at the fact that our cash flows are going to continue to grow based on the committed projects we have over the next few years. That gives us good visibility. The only thing would be perhaps with the low oil price, you know, obviously the Coin Haven cash flows are lower because of the oil price tariff in the near term, but of course as the oil price recovers we expect that to normalize over time as well.

(Darren Horowitz): Okay, and then - I appreciate that. Last question for me, just from a growth perspective, when we start thinking about you know, floating re-gas and incremental demand for FSRU projects, and also you know, point to point long haul essaying exports out of the Gulf Coast, obviously again the commodity markets changed. I think with regard to FSRUs, you had speculated that they were somewhere around 3 to $5 billion in projects over the next five years.

Number one, I'm wondering if that's still the case or how that market has changed with regard to supply demand dynamics. Second from an essaying export perspective, if we're in a period of lower crude oil prices for longer, and the heavier ends of the NGO barrel get more competitive from a margin ((inaudible)) production perspective or even ((inaudible)) get more competitive, how does that change the market for VLECs, or mid-size carriers over the next few years to move ethane?

Peter Evensen: So a lot of questions there, let me look at - talk about LNG before I talk about the sub-market. I've actually been really happily surprised that the LNG market has stayed so strong, and when we look at - and that's based on what our customers need for existing LNG liquefaction projects out through 2019, and that's what got us excited about ordering one more LNG carrier and needing more, four more for the point to point traffic, because we're going to need those ships for the tenders that are coming up.

We can see at least 20 - the requirement for at least 20 ships in 2018, 2019 time frame. So the Shell deal basically got us sold out, and we needed some more inventory in order to be able to bid on projects. I think it's been a key advantage that we had existing vessels that we could show people, especially obviously the Megi technology which is really kind of becoming the de facto standard. As it relates to the ethane markets which we're working on in our LPG joint venture with X-Mar, I think the - I think that has slowed down.

The amount of requirements that we see there is quite clearly that people are reevaluating what the feed stock prices are. Obviously that would help us in our tanker side if we had more NAPF moving rather than ethane, but I can immediately see that with the lower prices going down, people aren't immediately going to ethane. They're looking at LNG, which is more oil price linked. They're looking at staying with fuel oil.

There are certainly pockets that we see particularly in Asia, in places like China, India, Indonesia, where they are quickly moving over to being more gas-centric for their electricity generation, and that's where a lot of the different opportunities that we see on regas are going to be coming in. So the - if you will the pricing power is - has moved over to the buyers of LNG and other gas projects rather than the sellers.

So everyone sits and talks about well, will this liquefaction project go up, but ultimately we are seeing in terms of our customers a lot of need for regas projects, because suddenly if you're in a foreign country you can afford LNG whereas before it was a little problematic whether you could afford it. So that - so I'm much more optimistic about our ability on the LPG and the LNG to find good long-term projects.

(Darren Horowitz): Thank you.

Operator: Thank you. And the next question is from (Flores Dianacoles) from Morgan Stanley. Please go ahead.

(Flores Dianacoles): Yes, hi, Peter, thank you. I want to ask you about your dividend forecast and what are the risks on this dividend forecast and ((inaudible)) target, the growth target you set up back in September given the difference in prices of the MLPs, how much is dependent on the ability of the MLPs to raise the equity up a certain price, and how much can be funded? And if you can give us an estimate of what is the capital that these MLPs, they need to raise in order to allow you to do - increase those dividends at your target level?

Peter Evensen: Hi, (Flores). Yes, this I guess you're referring back to our investor day material, which was an illustrative case that we provided. If you look at again, if you look at the projects that we have that are already committed on slide 10 of our presentation, those of course are built - that's built-in growth for us. In terms of the unit prices, of course the - having a lower unit price in TOO right now hurts the accretion of some of those projects for TOO.

It's not so much for TGP at this point, and that's for - that's part of the reason why we're - you know, we've been holding off issuing equity in TOO and financing the Canar with vendor financing until things normalize a bit. I guess when you look at from the Teekay Parent perspective, if you look at the Canar for example, even though the accretion may be a little bit lower, so the Parent is partially offset by the fact that we're taking back units, perhaps at a lower unit price than we would have.

So we're getting actually more LP units and more GP units which offsets that accretion, so from a Parent's perspective, there is a mitigant there. Again we think that the unit price for TOO will normalize over time, and especially given the accretive nature of these projects. They will add to the distributable cash flow of TOO over the next few years.

(Flores Dianacoles): And may I follow up on that, and let's assume that the price of TOO stays the same, is there a possibility or a thought of potentially some of the projects they are destined for TOO to be funded directly by Teekay, and would a scenario like that allow the dividend to grow to 20 to 30%?

(Vince Loch): No, that's not our plan. These projects are done directly at the daughter company level. There's no plans for the parent to do any of the warehousing. You know, a lot of these projects, especially during the construction phase, we have very tail-heavy payments with the shipyards. We have a lot of time to finance the construction payments.

There's a good portion of those that are financed actually with debt facilities and with low interest rates and you know, debt margins coming down. That's also an offset to the higher equity costs, so we layer in the equity costs over time and so it's sort of an averaging in, so I think in the grand scheme of things it doesn't have a huge impact in the long term.

Peter Evensen: I actually think that's a great point, (Vince). The cost of our debt financing has actually been dropping, and that has made up for if you will the higher cost of the equity side, so when you balance it out actually our cost of capital has been dropping. We just went around with our bankers, and I would say our bankers really like our fixed rate contract cash flow, and so we're quite optimistic about that.

(Flores Dianacoles): Thank you, that's very helpful. And then one last question about the TAL, are there any different thoughts about the future of this investment and the ((inaudible)) of the TAL, and I'm talking about potential floating to the US or merger with TAK?

Peter Evensen: Well, I think you have to really ask the management of TIL. We're just shareholder in TIL, so I'm going to defer that question. You can call up (Will Hung) and (Scott Katen) and ask that. We're just a shareholder.

(Flores Dianacoles): Okay, thank you very much.

Operator: Thank you. Ladies and gentlemen, as a reminder if you would like to ask a question, please press star one on your telephone keypad at this time, and the next question is from (CJ Schultz) from RBC Capital. Please go ahead.

(CJ Schultz): Hey, guys. Thanks for all the time this morning. Most everything I had was answered. Just I guess one thing, if you can just give or give a rationale to keep close to one to times coverage at the GP or is it fair to assume that this comes down over time? And then if this is a function of getting the rest of the FPSOs into the MLP, I noticed you pushed the kind of FPSO drop down window into 2017, which really deals with the Coin Haven and ((inaudible)), I assume, so if you could just give any more color on those discussions to get those into the MLP.

Peter Evensen: I'll take the first - or I'll take the second part and then I'll give it over to (Vince). I think we wanted to give people, or we wanted to give ourselves a little bit more runway room in order to make sure we get the best contact on the Hummingbird, and that's why we moved it more to 2017, but I mean, the good news from investor day is that we got a contract from the Petriol I, so that one dropped down earlier than what people said.

We - I intend to recommend to the board that we drop down these units as quickly as possible, and I think the faster we can become a pure play GP, the better it'll be for our investors going forward, and of course when we drop it down we get the accretion which helps the dividend going forward, so it was just really trying to give ourselves a little bit more runway. I don't think we've actually changed our plans. It just gives people - well, it just gives us more runway, and then I'll give it over to (Vince).

(Vince Loch): In terms of the coverage ratio, just as a reminder, the coverage ratio that we apply which is 1.15 to 1.2 is on the JP cash flows, and so that is intended to act as a buffer against any variability in the op co cash flows, and so I guess you know, the coverage ratio is meant to cover things like the variability on the Coin Haven oil price revenues. That's something we'll have to monitor over the next several quarters.

And the good thing there is that that's partially offset by the higher spot tanker rates that we're experiencing given that we still do have spot assets at the parent company that's acting as an offset, but over time you're right. As we drop down the remaining assets of the parent, as Peter laid out, that will allow us to lower that target coverage ratio over time as we reduce the op co assets.

(CJ Schultz): Okay, thanks. Good luck.

Peter Evensen: Thank you.

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

Peter Evensen: All right, thank you all very much. We look forward to reporting back to you next quarter on our progress.

Operator: Thank you, ladies and gentlemen, this concludes the conference call for today. We thank you for your participation. You may now disconnect your lines and have a great day.

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