TEEKAY SHIPPING

Moderator: Peter Evensen
November 07, 2013
10:00 am CT

Operator: Welcome to Teekay Corporation's Third Quarter 2013 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 to 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.

Ryan Hamilton: Before Mr. Evensen begins I'd like to direct all participants to our website at www.teekay.com where you'll find a copy of the third quarter 2013 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 contains forward looking statements.

Actual results may differ materially from results projected by those forward looking statements. Additional information concerning factors that could cause actual results to materially differ from those in the forward looking statements is contained in the third quarter of 2013 earnings release and earnings presentation available on our website. I'll now turn the call over to Mr. Evensen to begin.

Peter Evensen: Thank you, Ryan. Good morning everyone and thank you for joining us today for Teekay Corporation's third quarter of 2013 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 we will be taking you through the third quarter of 2013 earnings presentation which can be found on our website. Beginning on slide 3 of the presentation I will briefly review some recent highlights for Teekay Corporation and our three publicly traded daughter entities.

For the third quarter of 2013 Teekay Corporation generated 195 million dollars of total consolidated cash flow from vessel operations or CFVO compared to 184 million for the second quarter of 2013. Teekay Corporation reported a consolidated adjusted net loss of 36 million dollars or 51 cents per share for the third quarter of 2013 compared to a consolidated adjusted net loss of 20 million dollars or 29 cents per share in the third quarter of 2012.

The increase in our adjusted net loss year over year is mainly attributable to lower revenues in our FPSO fleet partially offset by contributions from strategic acquisitions and organic projects that delivered throughout the past year and savings from the redelivery of 15 chartered in conventional tankers since the start of 2012 and other cost reduction initiatives.

The repairs to the Voyageur Spirit FPSO's defective gas compressor have been completed and the unit has been on hire at full rate with the charterer since August 27th. We are now awaiting formal certification of final acceptance from the charterer which I will touch on later in the presentation.

Based on the recent growth in our offshore and gas businesses both Teekay LNG partners and Teekay offshore partners intend to increase their limited partner cash distributions by 2 1/2%

commencing with the fourth quarter distributions payable in February 2014. Importantly these 2 1/2% LP distribution increases will lead to an increase in Teekay parent's annual cash flows from its LP and GP interest of approximately $12.3 million an increase of approximately 8%.

As both of our GP incentive distribution rights or IDRs are in the 50% high split. Our three publicly traded daughter entities continue to execute on their respective business plans during the quarter. For the quarter ended September 30th Teekay LNG partners declared a cash distribution of 67 1/2 cents per unit. Based on our GP and LP ownership interest the cash flows received by Teekay parent from Teekay LNG partners totaled $23 million for the quarter.

In September Teekay LNG partners secured additional near term growth by agreeing to acquire a second new building LNG carrier from Awilco LNG under similar terms as the first vessel acquired last quarter. The bare boat charter back to Awilco for the second vessel is for a firm period of four years plus a one year extension option.

The fixed price purchase obligations at the end of the initial term and the option period result in an equivalent return to Teekay LNG across both vessels. The second LNG carrier is currently completing its final trials in South Korea and Teekay LNG expects to take delivery in late November.

Teekay LNG continues to experience a strong pace of business development opportunities for both LNG transportation and floating storage and regasification or FSRU projects. The partnership is currently bidding on several projects which are expected to start up beginning in 2016 and beyond when new liquefaction facilities are scheduled to come online.

Moving to our other MLP Teekay offshore partners declared a cash distribution of 52.53 cents per unit for the third quarter. Based on our GP and LP ownership in Teekay offshore the cash flows received by Teekay parent totaled $16 million for the quarter.

In September Teekay offshore completed its accretive acquisition of a high load dynamic positioning unit from Remora. Modifications to the high load DP unit required to service the long term contract with Petrobras were recently completed and the unit is currently being transported from Norway to Brazil.

The unit is expected to commence full operations under a ten year time charter contract with Petrobras in the second quarter of 2014 following the completion of operational testing. Teekay offshore is currently bidding directly on several new offshore project opportunities and they are involved in several customer funded front end engineering and design or feed studies which greatly improves the partner's chances of being awarded the project.

For the third quarter Teekay Tankers declared a fixed dividend of three cents per share. Based on its total ownership of class A and class B shares Teekay parent received a cash dividend of approximately 600,000 dollars. For the third quarter Teekay Tankers generated a cash available for distribution of ten cents per share up from seven cents per share in the second quarter mainly due to higher average realized spot tanker rates and lower operating costs.

To preserve Teekay Tankers' rights under the associated contract in October Teekay Tankers exercised an option to purchase four additional LR 2 new buildings under its contract with STX. However we view it as unlikely that Teekay Tankers will take delivery of any vessels from STX as the yard is in trouble financially and under the control of its creditors.

Fortunately no installment payments were made to the shipyard and Teekay Tankers is now evaluating its alternatives including taking legal action against STX for damages. Turning now to slide 4 I will provide a brief operational and commercial update on some of our FPSO units.

As mentioned in my opening remarks the Voyageur Spirit FPSO's defective gas compressor was repaired and the unit reached full production capacity on August 27th. Since that time Voyageur Spirit has been earning its full rate and we're now awaiting formal certification of final acceptance from the charterer E.ON.

We expect to receive this certificate upon successfully completing certain operational tests which have been temporarily delayed by the charterer due to a field related issue that is the responsibility of the charterer. It's important to note that while the Voyageur Spirit FPSO produced partial volumes for oil for E.ON prior to August 27th we were receiving no financial rate.

Based on this production Teekay parent and Teekay offshore continue to engage in commercial negotiations with E.ON to recoup a portion of the losses incurred on the contract. Any recouped losses will be credited back toward Teekay parent's indemnification parience to Teekay offshore which up to September 30th totaled 30 million dollars.

Note that Teekay parent sales price to Teekay offshore based on fair market value was approximately $75 million more than Teekay parent's cost to acquire and upgrade the FPSO. Also in late August the first of the Foinaven FPSO's two gas compressor trains was repaired and the FPSO is currently producing approximately 35,000 barrels of oil per day.

We expect the second gas compressor to be repaired in the fourth quarter at which point the unit is expected to be capable of achieving its targeted production rate of approximately 43,000 barrels of oil per day.

In the third quarter the charter of the Knarr FPSO new building BG group requested design modifications to the mooring system in order for the FPSO to handle additional risers which will be required to tie in oil fields adjacent to the Knarr oil and gas field in the North Sea.

As a result upon delivery from the shipyard the FPSO will immediately enter into dry dock to complete the required modifications with the cost being covered by BG. But this will delay first oil into the latter part of the fourth quarter of 2014. In September 2013 the charter contract for the Hummingbird FPSO was extended out to March 2016 including extension options with Centrica Energy.

Centrica also has another option exercisable by the end of this year to extend the contract by a further 12 months. Turning to slide 5 we continue to make progress in our existing portfolio of growth projects. I won't cover all the projects on this slide. However I would like to provide you with a brief update on a couple of the projects shown here.

During the third quarter we reviewed the repair progress on the Banff FPSO project against our original installation plan. Due to delays by the shipyard in the repair and upgrade of the Banff FPSO we determined together with the charterer that installation during the winter months would carry too much risk and potentially increase the overall costs of the installation.

As a result we've agreed to delay the installation of the FPSO to the second quarter of 2014. Early in the fourth quarter Teekay LNG's 50% liquefied petroleum gas or LPG joined venture with Belgium based Exmar exercised its options to order an additional two medium sized LPG carriers from Hanjin Heavy Industries bringing the total number of LPG new buildings ordered through this joint venture to 12 vessels.

This is quite a start for a joint venture that's less than a year old. And the contract prices of the new buildings are favorable compared to current prices being offered at the shipyards. These two latest new buildings will be constructed at Hanjin's shipyard in the Philippines and are scheduled for delivery in 2017 and 2018.

The Teekay group also continues to add new projects however what's different from the past is that the new projects are being done directly at the daughter level rather than by Teekay parent the most recent example being the aforementioned acquisition by Teekay LNG of the two LNG carriers from Awilco LNG.

Turning to slide 6 with the continued growth in our offshore and gas businesses through both organic projects and direct acquisitions by our MLP daughter companies the cash flows Teekay parent receives on its LP and GP ownership have increased significantly over the past several years especially now that both Teekay offshore and Teekay LNG have achieved the 50% incentive distribution rights or high splits.

With Teekay offshore and Teekay LNG LP cash distributions expected to increase by 2 1/2% for the fourth quarter the annual cash flows Teekay parent receives on its LP and GP interests are expected to increase by approximately $12.3 dollars.

Looking ahead Teekay parent's GP cash flows are expected to increase as our two MLPs take advantage of the strong fundamentals in their respective businesses. I'll now turn the call over to Vince to discuss the company's financial results.

Vince Lok: Thanks Peter and good morning everyone. Starting with slide 7 I will review our consolidated results for the quarter. In order to present the results on a comparative basis as we do each quarter we have shown an adjusted income statement for the third quarter and against an adjusted income statement for the second quarter which exclude the items listed in appendix A to our reliefs.

Later on I will also provide our outlook for the fourth quarter. Starting at the top of the page net revenues increased by 23 million mainly due to 17 million in revenues from customer funded feed studies relating to two FPSO projects we are pursuing. In addition the revenues from the Voyageur FPSO increased as a unit condensed full hire on August 27th.

This was partially offset by a decrease in revenues from the Petrol One FPSO. I was as it was in layup for the full quarter and the Foinaven FPSO was shut down for part of the third quarter as we discussed on last quarter's earnings conference call.

That's how operating expense also increased by 23 million mainly due to 20 million relating to the two feed studies I referred to earlier. In addition cost increase from a full quarter of operations for the Voyageur Spirit FPSO and an increase in maintenance cost relating to the repair of the Foinaven FPSO compressors partially offset by a decrease in costs where the Petrol One FPSO once again was in lay up for the full quarter and decreases in operating costs in the conventional tanker fleet.

Time charter hire depreciation and amortization and GNA expenses were consistent with the prior quarter. Interest expense increased slightly due to the delivery of the BG shuttle tanker new buildings and the impact of the new Norwegian bond issued by Teekay LNG.

Equity income in Q3 decreased slightly from the prior quarter but was actually higher than what we had expected due to stronger results from the Exmar LPG joint venture in the third quarter. Income tax recovery increased by two million mainly due to adjustments to certain of our freight tax accruals.

Non controlling interest expense increased to 34 million mainly as a result of higher adjusted earnings in Teekay LNG, Teekay offshore, and Teekay Tankers compared to the second quarter. Looking at the bottom line adjusted net loss was 51 cents per share in the third quarter up slightly from the previous quarter's adjusted net loss of 47 cents.

We estimate that the operational issues relating to the voyager and Foinaven FPSOs which as Peter mentioned are now largely behind us accounted for approximately 18 cents of the third quarter's net loss.

Turning to slide 8 we have provided some guidance on our consolidated financial results for the fourth quarter of 2013. We expect revenues for the fixed rate fleet to increase in the fourth quarter as a result of 30 million of additional revenue from the Foinaven FPSO due to higher production and the recognition of the annual operational and all price tariff revenues for fiscal 2013.

Ten million from the Voyageur Spirit FPSO being on higher for the full quarter, five million from the DG shuttle tanker new building deliveries, and four million from the two Awilco LNG carriers. These revenue increases are offset by the 17 million decrease from feed study revenue recognized during the third quarter.

Spot tanker revenue days are expected to remain consistent with Q3. And so far in Q4 we have fixed approximately 40% of our Aframax and Suezmax spot revenue days at average TC rates of approximately $11,000 per day. Vessel operating expenses are expected to decrease by approximately 22 million due to the 20 million of feed study costs recognized in the third quarter and five million from lower maintenance costs expected for the FPSO fleet.

This is partially offset by a three million dollar increase from the delivery of the BG shuttle tanker new buildings and other minor changes. Time charter higher expense is expected to decrease by approximately 3 million due to the redelivery of one shuttle tanker in Q4.

Depreciation and amortization is expected to remain consistent as increased depreciation from the BG shuttle tankers is offset by decreases due to the vessel and pyramid charges recorded in Q3. We expect GNA to be approximately 33 million in Q4 and that interest expense is expected to increase by five million due to the delivery of the BG shuttle tanker new buildings that TGP's Norwegian bond for a full quarter and the Awilco LNG carriers.

Equity income is expected to remain consistent with Q3 at about 29 million. Income tax expense we expect to be approximately 1 million and non controlling interest expense is expected to be in the range of between 49 to 51 million, primarily as a result of higher expected earnings in Teekay offshore.

So in summary the fourth quarter results are expected to be significantly stronger than the third quarter as a result of higher cash flows from the Voyageur and Foinaven FPSOs, the delivery and acquisition of new buildings, and lower vessel operating expenses. With that I'll turn the call back to Peter to conclude.

Peter Evensen: Thanks Vince. Turning to slide number 9 Teekay Corporation remains focused on the execution of the core elements of our corporate strategy which includes delevering Teekay parent's balance sheet primarily through the sale of assets from its existing portfolio of FPSO and conventional tanker assets either to one of the Teekay daughter entities or third parties.

The Knarr FPSO our largest and most significant FPSO project to date is expected to have the greatest delevering affect on Teekay parent's balance sheet when it is dropped down to Teekay offshore.

We continue to be focused on improving the profitability of our existing assets including the successful execution of our growth projects, rechartering our existing assets at higher rates, redelivering out of the money conventional tanker end charters, and managing costs across our operations and offices.

Lastly Teekay parent remains focused on taking advantage of the strong fundamentals in the offshore and LNG markets to find new opportunities that will support growth directly at Teekay LNG and Teekay offshore which in turn generate higher cash flows to our general partnership interests.

Each of these core elements underpin our corporate objective of creating value for Teekay Corporation shareholders by increasing Teekay parent's free cash flows and growing our underlying net asset value per share. Thank you for joining us on the call today. Operator we are now ready to take questions.

Operator: Okay. Ladies and gentlemen if you would like to ask a question or if you have a comment please press star 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. Once again please press star 1 to ask a question. And we have a question from Justin Yagerman from Deutsche Bank. Please go ahead.

(Taylor Mohernon): Hi, this is (Taylor Mohernon) for Justin. How are you?

Peter Evensen: All right (Taylor).

(Taylor Mohernon): So I wanted to ask you, you know, looking at the update on the FPSOs from an operational standpoint can you provide a little bit more information about how you expect that to impact your expectations for run rate profitability at Teekay parent in '14?

Vince Lok: Yes, the - obviously the delays or the issues that we've had mostly in the third quarter and partially in the second quarter have impacted our ability to reach run rate profitability in 2013. But as we mentioned most of those issues are now behind us and those units are on the way to returning to full production and in the case of Voyageur it's earning its full rate.

So I guess the run rate profitability goal has been slightly a tempered delayed and so that doesn't change I think our original plans in terms of the profitability of 2014 with the exception I guess with the delay of the Banff returning to operations now targeted for the second quarter of 2014.

Peter Evensen: Yes, so I would say the Banff and the Knarr it's a question of delay rather than having changed the strategy and that's unavoidable but that's part of our project business. So we remain confident we'll achieve the profitability and we can see it. It's just delayed as Vince said.

(Taylor Mohernon): Sure. And then when I was looking at the sum of the parts update I noticed there's a fairly large difference just in the implied value of the GP equity. Is there anything interesting going on there or any change as to how it was calculated? Anything like that?

Vince Lok: Well just that when we look at our competitors as we say in the box on the right on slide 13 for everyone else we can see that the value of the GPs has been going up so it attracts a different multiple.

(Taylor Mohernon): Okay, so it's just the multiple.

Vince Lok: And we're also of course seeing that as we say in the other box there that we will get an uplift.

Peter Evensen: Yes, you noticed that we've applied the average of these four publicly traded GPs which is about 34 times which is closer to where TGP and TOO are in the high splits so we think that that's probably a better comparable to where we are in the high splits. As noted on slide 13 this also does not include the intended Q4 distribution increase which will further increase the sum of the parts value.

(Taylor Mohernon): Okay great, thanks for your time.

Peter Evensen: Thank you.

Operator: Thank you. We have a question from Brandon Oglenski from Barclays. Please go ahead.

Brandon Oglenski: Yes, good morning everyone. And thanks for the updates on the FPSOs that's quite helpful. But I guess, you know, when you look at the improvement here or, you know, getting back to run rate profitability on some of these projects what's the outlook now for dropping down let's say the Foinaven and the Banff? You know, is there a set time schedule on that where TOO is going to be looking at this pretty aggressively?

Vince Lok: We - those are eligible to be dropped down but we haven't given an exact time table on when the Foinaven and the Banff will come back on contract. So as we've talked about the Banff gets an uplift starting in 2015 so then it gets a better - it is more - it's better to drop the Banff down after it gets its uplift in its contract which will occur at the beginning of 2015.

And we continue to work with the charterer on the Foinaven in order to get their permission in order to drop it down. And so the good news is we have a very good dialog with the charterer on the Foinaven now that we've been working on the technical side. They've had some subsea issues that we had some issues with our compressors and so we have a much more active dialog with them. So hopefully that'll result in us getting permission.

Brandon Oglenski: Okay, and can we go back over some of the project pipeline both at offshore and for the LNG? I think in the past, you know, you've mentioned the number of projects that are there and the ones that could be competitive. Are you seeing an expansion in the opportunities looking forward?

Peter Evensen: Yes, well each is a little different. So if we look at the LNG side we're seeing more tenders as the - for 2016, 2017 startup. And as we've mentioned it'll be - we see a surplus of LNG ships in the run up to 2016. That's okay for us at Teekay LNG because we're sold out, we've chartered all of our ships.

So we're okay with that. But we do note that there are certain ships that don't have employment right now or basically are waiting around. That costs money but it doesn't cost us anything because we've chartered everything at Teekay LNG.

But so we're competing on a bunch of tenders coming out. I won't mention them exactly by name for competitive reasons but we're pleased with the flow that we see there. On the FPSO side we get a little bit more of a look at new projects. And so because we're doing these frontend engineering studies that takes a lot of time. And as Vince said we had a lot of those that we expensed through the PNL this quarter.

So we're concentrating on our two basins which are in Brazil as well as in the North Sea and there's been a lot of - that's a lot of oil that's been found in the North Sea. So I can see for the next several years there will be a requirement for FPSOs. We also have marginal oil fields especially in the UK sector which are coming on.

And so both for FSOs where we're building two of them which you saw the Salamander and the Gina Krog those are new projects this year. So we're hitting on some. We're not hitting on all of them but we're actually holding to our profitability targets. It's easy to win projects if you bid low but we've been holding to our profitability targets which is why I really like the MLPs because you have to do creative deals.

Brandon Oglenski: Right and these forward projects would be growth at the daughter companies right not Teekay parent?

Peter Evensen: That is correct. We don't with the exception of the Knarr we don't have any units up at Teekay Corporation that are being so called warehoused for a drop down. We do have some legacy assets which we talked about. And which was mentioned by you and the previous question about when those will get dropped down.

But it is not our intention to add new projects up at Teekay Corporation. Rather as I said the daughter companies will do those contracts directly. And that allows us to delever the balance sheet and rely upon the growth in the MLPs.

Brandon Oglenski: Okay and, you know, the last one from me with the increase in free cash that you're going to get from the increased distributions what's the priorities right now at Teekay parent?

Peter Evensen: Well we've eliminated the capital investment as we just said. So ultimately as we finish the delevering of the balance sheet then that is cash that'll be available for distribution to shareholders.

Brandon Oglenski: Okay, thanks Peter.

Peter Evensen: Thank you.

Operator: Thank you. We have a question from Michael Webber from Wells Fargo. Please go ahead.

Michael Webber: Hey good morning guys. How are you?

Vince Lok: Fine, how are you?

Michael Webber: Good. I'm actually out of pocket so my apologies if I drop off. I wanted to jump in and talk about the Knarr just a bit. And Peter you mentioned in your prepared remarks that First Oil is likely in the back end of Q4 and we're still a year away.

But have you guys thought about how that impacts the drop down timing whether you need First Oil to drop that down or whether you could drop it down while it's in dry dock? And if you haven't thought about it that could very well be the case. I'm just curious as to how that kind of impacts that liquidity inflation point.

Peter Evensen: Well it's sort of new to us that the timing was delayed back out by approximately six months in total now. So we also have to get the unit around from Korea to Norway. And we haven't figured out if that'll be a dry tow or a wet tow. So we don't have a timing yet on when it'll get dropped. But the good news which we didn't talk about is that we're well along the way to getting the debt facility in place on Knarr which is another important step.

Vince Lok: That's right. Yes, we're making - we're very close to finalizing the long term financing for the Knarr which is an important part of being able to drop that down to Teekay offshore.

Michael Webber: Right, my next question is any specific timeframe there or you guys are closer than you were last quarter?

Peter Evensen: We were targeting to get all the commitments in by the end of the year this year.

Michael Webber: Got you. In terms of what's actually delaying the Knarr and it seems like longer-term it might actually be a positive.

I mean one of the longer-term risks around that PSO is that we've burdened through the talking to channels, you know, the risk that they have to change fields which can require, you know, CAPEX upgrades and off hire and kind of erode those returns. The additional risers, the additional field service seems like it might be a long-term positive.

Can you guys kind of quantify maybe the bumps in the side of the field, the useful life of the fields that the Knarr will now be servicing? And does that kind of take some of the risk out of the back-end of that project?

Peter Evensen: Well that's a really good point. The fact is, is that we've chartered it for a minimum of six years. But when we look at the fields and the associated fields around it, we can see that'll it'll probably stay on the field much longer. So we have our own internal estimates which we don't generally share. But I - it is a good positive that there's already looking at tying in associated fields around the Knarr field, or as we used to call it the Jordbaer field.

And so we actually see that it'll - when a oil company is willing to invest more money up front, then obviously they want to amortize it over a longer period of time. So in our projections, that means the Knarr will stay on longer than its minimum period which is good news for our unit holders, ultimately.

Michael Webber: Good to know. That's helpful. One more from me, I'll turn it over and Peter already had touched on this in terms of some of the few studies that are ongoing right now around the FPSO and the FSO space.

And - just curious, you know, earlier in the year that you guessed 2 out of $3 billion number, your (kit) on one of those FSOs. So the implication is that it's about $2.7 billion worth of potential offshore projects that you're looking at, at TOO.

Any material update there specifically around those three FPSOs that you guys are looking at? And, you know, it’s certainly a pretty big catalyst for post Knarr kind of GP cash flows, but any color there would be helpful. And whether that $2.7 million dollars is still applicable, maybe it could be bigger or smaller.

Peter Evensen: You know we've actually seen some new projects for further periods start to come on to the radar screen. So yes we won one out of the two floating storage projects. We lost the second one. Well actually we won - those were in the UK sector, and we won one other one in the Asia time frame or Asia geography.

And then on the FPSO side, we've also of course been focused in on the Petrol One came off, so we're focusing in on the redeployment there. We've had a lot of reverse inquiry with people coming in and saying is that unit available? So we have to get our technical guys figuring out if that unit is suitable and what kind of upgrades it would require.

And we continue to bid with both ship shape design as well as the (Sivan) design. I would say more of our opportunities were focusing on using the (Sivan) design because we think it's a cheaper way of bringing in the oil. So we can offer a more competitive rate than some of our competitors. And that's what we're looking at.

I would say we're spending less time on conversions. We prefer the new buildings. That gives us great redeployment opportunities. And so - we've downplayed or not gone after some of the conversion opportunities that have been out there. And we haven't bid on some of the (pre-sold), but I'm starting to see many more opportunities coming out of the Brazil sector for conventional oil fields.

Michael Webber: Gotcha. Can you guys put on a number on what you guys are involved in now from a fee perspective on the offshore site?

(Crosstalk)

Michael Webber: The cumulative opportunities that...

Peter Evensen: About 3 billion.

Michael Weber: About 3 billion, okay.

Vince Lok: Yes.

Michael Weber: That's helpful. All right guys thank you very much for the time.

Peter Evensen: Thank you.

Operator: Thank you. We have a question from TJ Schultz from RBC Capital Markets. Please go ahead.

TJ Schultz: Hey guys. Good morning. What's your outlook on timing to consider the potential for Teekay dividend growth as you move through the delevering process? Obviously the Knarr drop is a major impact.

But, would you think that ahead of that you would at least have a view to share on how you would possibly handle a reset or other growth progression that you feel you can support into '15 and '16 given the growing GPIDR cash flows?

Peter Evensen: Yes. Hi TJ. We, as we've said, the big condition precedent or big event for us is that we complete the Knarr and drop it down. Then we will have delevered Teekay Corporation, and then we'll be in a position to return more cash to the shareholders.

So I would say that that probably has been pushed a little bit out by the delay that we talked about in the Knarr to Q4 '14, but the big thing is to get it financed. That way we know we have the debt financing, and then I think the dropdown will happen in the second half of 2014 which is the other condition precedent.

TJ Schultz: Okay thanks and the Hummingbird. Is the drop down dependent on Centrica extending the additional 12 months, or is the existing contract sufficient in your view for the FPSO to reside in offshore.

Peter Evensen: I think from our point of view, we would like to know what the employment is beyond March 2016 before we drop it. So, Centrica has a option to extend it. But we also have some other alternatives or plan Bs for where we could put the unit should they not declare the option. And as that becomes clarified, then we will - then it'll become eligible for dropdown.

TJ Shultz: Okay. Thanks Peter.

Operator: Thank you. We have a question from Lin Shen from Hite Hedge Asset Management. Please go ahead.

Lin Shen: Okay thank you. You just mentioned that you saw some surplus in LNG results to 2016, but all US has been fully contracted. So I'm just wondering when will be your next time you need to re-contract your results for LNG.

Peter Evensen: So Teekay LNG has one ship coming open in 2015. One ship coming open in 2016. But we're - we have some ships on order that we're looking at contracting. As we said in the slide, we have four firm orders.

Two of those have already been chartered. So that's great when you can charter a ship three years out in front of it. And we're already working on the employment for the other two. And we're confident we'll get those chartered before they're delivered.

Lin Shen: Can you talk about, I mean, like there - why the other LNG firms do, you know, doing their results without a firm contact? I mean what's dynamic for their luck you think?

Peter Evensen: Well I think it goes to people's business models. Our business model at Teekay LNG is more built to suit. We get a contract. We build against it. Other people have taken the view that if we build it, they will come. And that - lots of people see, you know, opportunity.

But we know that our ships that we have are preferred because they are this (Megee) design which is a simpler design. It saves money on fuel, and they're also sized up to be the maximum that can go through the Panama Canal. So, it's a higher-risk, higher-return model to build it without contract.

And we've been more of a build to suit which I think satisfies our shareholders that we have at Teekay LNG partners. They want more stable cash flows rather than more feast and famine. So it's just a different kind of business model that we had. There is the spot market for LNG and some people are in it, but that's not really our market. Because that one, you have to wait around, get a contract.

And our unit holders and our business model, is to have more stable long-term contracts. We have grown to be the second largest independent LNG carrier on the back of doing business on these long-term stable cash flows.

And so it's just a change in business models. Sometimes you make a lot of money, and sometimes you don't make a lot of money. And what we've been indicating to people is that we have a lot of stability so you shouldn't look at the short-term market. You should look at more of what our portfolio is and what our stability is. So that's what I was trying to say in my prepared remarks.

Lin Shen: Yes. That’s - thank you. Great. Another question is the, you know, we are very happy to see you announce increased distribution like 2-1/2% in Q4. Given your strong balance for TGP, you know, and also coverage. Do you think you can continue to grow your distribution like the same speed like we'll see next couple years?

Peter Evensen: Yes. We're confident we can grow the Teekay LNG distribution by mid-single digits. Please tune in tomorrow when I talk about Teekay LNG. And please ask the same question. But as it relates to it from Teekay's Corporation's point of view, yes we are. We have a combination of doing organic projects as well as being able to make acquisitions like we did last quarter.

And, so have a lot of different ways to grow that. We can grow it through the LNG point-to-point transportation. We have these FSRUs which we're working on as well as on the LPG side.

So - but it all underpins whether you have an industry that's growing. And what we see all around the world is that the demand for gas continues to grow both. And now we're starting to see it of course as a transportation fuel. You see it even more in China.

So we're confident that the demand for gas will continue to grow, and there aren't pipelines everywhere like there are in the United States. Therefore the way you get that gas in is through LNG. So we're pretty pleased at that. And when we go out and talk with customers, people are building huge networks to be able to supply that LNG.

On the LPG side, that's propane. That's probably about a 60% retail market around the world. A lot of people use of course LPG as propane in their grills and in the North America. But it is used around the world because it's a great way to have energy.

And so we continue to see as the more people want to move into the middle classes, more people want to - as their incomes rise that the demand for LPG will come on. But, so the big news is that the infrastructure is being built. And we're part of that infrastructure. So that's why we've been more aggressive on the LPG side going forward. And that's underpinned by base contracts that we have for LPG as well as ammonia.

Lin Shen: Okay. Thank you very much. Appreciate it.

Peter Evensen: Thank you.

Operator: Thank you. Ladies and gentlemen as a reminder, if you would like to ask a question or if you have a comment, please press star 1 on your touch-tone phone. And we have a question from Michael Webber from Wells Fargo. Please go ahead.

Michael Webber: Hey guys just one follow-up question on the Hummingbird, in terms of the option with Centrica and/or putting on a new employment. When you guys look at that from a budgeting perspective, do you think that now falls pre- or post-Knarr? And after we think about it?

Peter Evensen: I think that depends on what we get out of Centrica. If they extend it, then - or we find another employment beyond it, then we'll be satisfied that it has enough of a stable cash flow that it becomes eligible for dropdown.

(Crosstalk)

But we do have other growth coming in 2014. As we said, we have the BG. We have the Remora and toward the back-half of the year we have an FSO project. So...

(Crosstalk)

Peter Evensen: Mike we're lacking at that. And while the Hummingbird it stays upstairs. It helps us to get back to run-rate profitability.

Michael Webber: No that makes sense. I'm just thinking about it from a capital perspective because the Knarr is it's such a big drop. Just thinking about whether or not that fits before or after. But it seems like it still continued on the contract.

Peter Evensen: I see them as totally independent. One doesn't depend on the other. It's just if we get the right kind of contract on the Hummingbird. Whenever we get any of the legacy assets upstairs in the position where they have the right characteristics, then we're going to drop them.

Michael Webber: That's good to hear. Thank you Peter.

Peter Evensen: Thank you.

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

Vince Lok: All right. Thank you all very much. We look forward to reporting back with you on the quarter in February. And I just want to say that it's - I've been really pleased with how the whole Teekay team has tackled our operational issues that we talked about and quickly righted the ship. So I want to give a big shout out to the whole Teekay team. Thank you.

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

END