TEEKAY SHIPPING (CANADA) LTD.

Moderator: Emily Yee
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10:00 am CT

Operator: Welcome to Teekay Corporation's Third Quarter 2014 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 today's 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.

Ryan Hamilton: Before Mr. Evensen begins, I would like to direct all participants to our Website at www.teekay.com, where you'll find a copy of the third quarter 2014 earnings presentation. Mr. Evensen and Mr. Lok will review this presentation during today's conference call.

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

Additional information concerning factors that could cause actual results to materially differ from those in the forward-looking statements is contained in the third quarter 2014 earnings release and earnings presentation available on our Website.

I'll now turn 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 2014 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 begin taking you through the 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. For the third quarter, Teekay Corporation generated $252 million of total consolidated cash flow from vessel operations or CFVO, an increase of 29% from the same period of the prior year.

Because of operational and start-up issues on three of our offshore units, we did not achieve full utilization on some of our assets and this resulted in some lost revenue and CFVO. Vince will cover this point in more detail in his remarks.

Teekay Corporation reported a consolidated adjusted net loss of $12.6 million or 17 cents per share for the third quarter compared to a consolidated adjusted net loss of $36 million or 51 cents per share in the same period of the prior year.

The improvement in our results is mainly due to contributions from several acquisitions and organic growth projects that delivered during the past year, the restart of the Banff FPSO in late July 2014 after being off-line for repairs, stronger spot tanker rates and savings resulting from the redelivery of several charter and conventional tankers since the second quarter of 2013.

In late September, we announced our new dividend policy, which represents the next step in Teekay's transformation into a pure play owner of 2 general partnerships.

Following the drop down sale of the Knarr FPSO and based on our projected cash flows from our general and limited partnership ownership interest in Teekay Offshore and Teekay gas, we intend to increase Teekay's annualized cash dividend 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 $5 billion of known growth capital expenditures at Teekay Offshore and Teekay LNG, we expect that Teekay's dividend will continue to grow by approximately 20% per annum for at least the next three years following the Knarr drop down and the initial dividend increase.

Also in September, Teekay Parent formally offered to sell the Knarr FPSO to Teekay Offshore for its fully built-up cost of approximately $1.16 billion. The offer is currently being reviewed by the conflicts committee of Teekay Offshore's Board of Directors. The Knarr FPSO is anticipated to achieve first oil in December of this year, which I will talk about more in detail later.

Turning to slide 4. I will review some recent highlights from our 3 publicly traded daughter entities, which continued to execute on their respective business plans. For the third quarter, Teekay LNG Partners declared a cash distribution of 69.18 cents per unit, based on our GP and LP ownership interest in TGP.

The cash flows received by Teekay Parent total $25.3 million for the quarter. Last week, Teekay LNG Partners agreed to acquire from IM Skaugen the Norgas Napa, a 2003-built LPG carrier, along with a 5-year charter back to Skaugen at a fixed-rate plus potential upside through a profit sharing component.

This immediately accretive on-the-water acquisition is another example of how Teekay LNG can deliver near-term growth in addition to its existing $2.5 billion of organic growth projects.

In September, Teekay LNG Partners LPG joint venture with Exmar took delivery of a third of its 12 midsized LPG carrier new buildings as part of the LPG joint venture's fleet renewal and growth strategy. Prior to this, in August, the Exmar LPG joint venture sold one of its older LPG carriers for which Teekay LNG realized an $8 million gain based on it's 50% ownership interest.

Driven by strong market fundamentals, the pace of business development opportunities for Teekay LNG continues to be strong, both in LNG transportation as well as floating storage and regasunification (sic) - gasification (sic) or FSRU. Teekay LNG is currently bidding on several projects, which are expected to start up beginning in 2017 when new liquefaction facilities are scheduled to come online.

Looking at the results for our other MLP. For the third quarter, Teekay Offshore Partners declared a cash distribution of 53.84 cents per unit. Based on our GP and LP ownership interest in TOO, the cash flows received by Teekay Parent totaled $17.7 million for the quarter. During the quarter, Teekay Offshore continued to secure growth in both its offshore production and offshore logistics businesses.

In early October, Teekay Offshore, through its 50-50 joint venture with Brazil-based Odebrecht Oil and Gas, signed a letter of intent to provide Petrobras with an early well test FPSO units for the Libra pre-sold oil field in the Santos Basin offshore Brazil.

The FPSO will be converted from an existing Teekay Offshore shuttle tanker for a fully built-up cost of approximately $1 billion on 100% basis. The unit is expected to commence operations under a 12-year fixed fee-based contract with Petrobras in early 2017. This will be the second FPSO project for Teekay Offshore Partners joint venture with Odebrecht.

And just last week, Teekay Offshore's wholly owned subsidiary, ALP Maritime, agreed to acquire six long-distance towing and anchor handling vessels for an en bloc price of approximately $220 million.

This acquisition, combined with ALP's four existing state-of-the-art new buildings, is strategically important as it positions ALP as the clear leader in the long-distance dynamically positioned towage segment with a total of 10 vessels. The acquisition provides ALP with greater scale to bid on a broad range of projects and larger presence in the growing global ocean towage and offshore installation market.

In August, Teekay Offshore's new FSO, the Suksan Salamander, which was converted from the partnership's 1993-built shuttle tanker, the Navion Clipper, commenced its 10-year charter with Salamander Energy. This conversion is another example of how, for a relatively small additional investment, Teekay Offshore can extend the economic life of an older shuttle tanker.

In spite of the lower oil price, Teekay Offshore continues to see robust demand for its services, which predominantly is focused on the offshore production side of the oil and gas value chain. The partnership is presently involved in several customer-funded front-end engineering and design or FEED studies, which greatly increases the likelihood of being awarded future projects.

Looking at the Teekay Tankers column on the right. In the third 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 $756,000.

Teekay Tankers generated cash available for distribution or CAD of 19 cents per share in the third quarter, up 90% from the same period of the prior year, mainly due to higher average realized spot tanker rates. Teekay Tankers was once again commercially active during the third quarter, securing two additional in-charter Aframax tanker contracts. With the well-timed addition of these new in-charters, Teekay Tankers' total in-charter fleet has increased to 10 vessels.

During the quarter, crude tanker rates in the Suezmax and Aframax continue to improve, reaching their highest third quarter level since 2008. Rates were supported by stronger seasonal oil demand, an increase in long-haul crude tanker movements from the Atlantic to the Pacific and a contango oil price curve, which encouraged crude oil stockpiling.

Finally, in October, Teekay Tankers invested $10 million in additional shares of Tanker Investments Ltd., or TIL, increasing its ownership to over 9% as TIL shares continue to trade at a significant discount to its net asset value.

Turning to slide 5. I'll briefly update you on the Knarr FPSO project. Since arriving in Norway in September, the unit has been undergoing testing, and I am pleased to report we've now received our required Norwegian regulatory approvals and the unit is currently in transit to its field in the North Sea.

Following field installation and testing, the unit will commence a 10-year charter with BG. Although December 2014 continues to be our anticipated timeframe for commencement of the Knarr charter contract, this timing remains subject to favorable weather conditions during field installation and offshore testing.

And as I noted in my opening remarks, Teekay Parent has formally offered to sell the Knarr FPSO to Teekay Offshore for its fully built-up cost. The proposed sale of Knarr FPSO is an important milestone in Teekay's transformation into a pure-play general partner as it will both increase the GP and LP cash flows we receive from Teekay Offshore and significantly de-lever the Teekay Parent balance sheet.

And with that, I'll turn it over -- the call to Vince to discuss the company's results.

Vincent Lok: Thanks, Peter, and good morning, everyone. Starting with slide 6. I will provide an overview of our consolidated results for the quarter, comparing the adjusted income statement for the third quarter of 2014 with the adjusted income statement for the second quarter of 2014, both of which exclude the items listed in the Appendix A to our earnings release.

You would notice this quarter that we have simplified the slide by removing the reconciliations and GAAP net income. However, a full reconciliation of adjusted net income to GAAP net income can be found in both Appendix A to our earnings release and the Appendix to this presentation.

For the third quarter, our consolidated adjusted net loss was $12.6 million or 17 cents per share, of which was an improvement from the Q2 adjusted net loss of $20.1 million or 28 cents per share.

I won't go through the -- each line item in detail, but the main factors contributing to the improvement were the Banff FPSO returning to operations in late July, higher average spot tanker rates earned by our conventional tanker fleet and revenue increases in our shuttle and FSO fleets.

Despite the reduction in our net loss compared to Q2, our Q3 results were lower than we had previously expected, mainly due to lower income from three of our offshore assets: The Foinaven FPSO, the Banff FPSO, and the Hi-Load DP unit.

Firstly, the compressors on the Foinaven FPSO were repaired in July, and since then, the unit has been capable of producing at maximum capacity. However, due to issues with the subsea flow lines, which are the responsibility of the charterer, the Foinaven field was not able to produce at maximum capacity. As a result, the Foinaven FPSO generated lower-than-expected revenues during the third quarter.

Secondly, the Banff FPSO experienced a slight delay in the start-up in July and incurred higher-than-expected start-up costs and depreciation expense in the third quarter.

And lastly, the Hi-Load DP unit operational testing period has been extended, which resulted in no revenue being recognized for the unit in Q3. In addition, given the extended testing period, we do not expect to recognize any revenues from the Hi-Load unit in Q4.

In aggregate, these three items negatively impacted our consolidated Q3 net income by about $12 million or 17 cents per share, which is equivalent to our entire adjusted net loss in Q3.

Given that both the Foinaven and Banff FPSOs are currently owned at that Teekay Parent level, any variances relating to these assets have an exaggerated impact on Teekay's consolidated earnings.

Looking ahead to the fourth quarter on slide 7. We have provided some guidance on our consolidated financial results for the fourth quarter of 2014. Revenues from our fixed-rate fleet are expected to increase as a result of the following, additional revenue of $20 million to $23 million from the Foinaven FPSO, due to the fourth quarter recognition of the annual operational and oil price tariff revenues for 2014; a $9 million increase from the Knarr FPSO, assuming first all is achieved on December 15 and the $2 million increase is related to a full quarter of operations of the Banff FPSO.

These increases are partially offset by a $4 million expected decrease in revenue from the conventional tanker fleet from vessel sales and out-charter redeliveries and a $2 million decrease from the Hummingbird FPSO due to lower expected oil price tariff revenue for the fourth quarter.

Spot revenue days are expected to increase by approximately 560 days as a result of new TNK in-charters and out-charters redelivering to us at the end of their contracts.

So far in Q4, we have fixed approximately 42% and 49% of our spot Aframax and Suezmax revenue days at average TCE rates of $18,000 per day and $17,200 per day, respectively. Current spot tanker rates are averaging in the low to mid-30,000s for both Aframax's and Suezmax's. And if would continue at these levels, we would expect that rates in Q4 to average higher than in Q3.

Overall, vessel operating expenses are expected to remain consistent with the third quarter as increases, from the Knarr FPSO commencing its operations are offset by expected decrease in operating costs for the Foinaven FPSO and the Banff FPSO.

Time-charter hire expense is expected to increase by $6 million as a result of the additional in-charter conventional tankers being added to the TNK fleet during both Q3 and Q4, and these vessels are earning a significant positive spread at current spot market rate levels.

Depreciation and amortization is expected to increase by $4 million related to depreciation on the Knarr FPSO and the amortization of additional dry-docking costs incurred in Q3. We expect G&A to be approximately $33 million to $34 million in Q4. Net interest expense in Q4 is expected to increase by $4 million, primarily due to the Knarr FPSO and the impact of TIL revolving refinancings recently completed. Equity income is expected to increase by $2 million compared to Q3.

Noncontrolling interest expense is expected to range from $55 million to $57 million in Q4, which is higher than Q3, primarily as a result of higher expected earnings in Teekay Tankers.

So in summary, we are expecting a stronger Q4 compared to Q3, mainly as a result of the additional revenues expected from the Foinaven FPSO, higher expected spot tanker rates, the Knarr FPSO and a full quarter of operations for the Banff FPSO.

Turning to slide 8. We have provided a comparative summary of Teekay Parent's Q3 and Q2 free cash flow. You would notice the format is very similar to what we had presented at our September Investor Day, with our total free cash flow separated into the OPCO cash flows of Teekay Parent's legacy operating assets and the GPCO of cash flows comprised of the dividend payments from our daughter entities, which we'll provide with a basis for future Teekay dividend payments under our new dividend policy.

In Q3, OPCO cash flows improved by $10.5 million compared to Q2, primarily due to the Banff FPSO returning to operations in July and lower repairs and maintenance on the Foinaven's compressors. We expect further improvements in OPCO cash flows in the fourth quarter due to the additional revenue of $20 million to $23 million from the Foinaven FPSO as well as having the Banff FPSO operational for a full quarter.

GPCO cash flows declined slightly due to the higher corporate G&A expenses as a result of timing differences, partially offset by higher dividends from TNK as a result of the additional shares that Teekay Parent received as part of its sale of the 50% interest in this conventional tanker operations to TNK.

Corporate G&A is currently running below our annual run rate guidance of approximately $20 million per year. We expect GPCO cash flows to increase once the drop down of the Knarr FPSO is completed.

As a result of the above, total Teekay Parent free cash flow per share increased from 7 cents per share in Q2 to 21 cents per share in Q3 and is expected to increase further in Q4.

I will now turn the call back to Peter to conclude.

Peter Evensen: Thank you, Vince. Turning to slide 9. We've updated the slide we presented at our Investor Day in September. Since that time, our two MLPs have both secured new accretive on-the-water growth projects, the six long distance towing and anchor-handling vessels in Teekay Offshore, and the purchase and charter back of 1 LPG carrier by Teekay LNG, which adds approximately $250 million of committed growth CAPEX to the existing pipeline of accretive growth projects.

With these new acquisitions, our combined CAPEX commitment to Teekay Offshore and Teekay LNG increased over $6 billion. With both of our MLPs in the early stages of the 50% incentive distribution rights, this growth is going to be a key driver of future distribution increases at Teekay Corporation once our new dividend policy is implemented.

Moreover, our ability to secure additional on-the-water acquisitions will provide near-term accretion that will enable us to exceed the illustrative growth targets we outlined at our Investor Day.

Thank you for joining us on the call today. And operator, we're now ready to take questions.

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

If you have signaled for a question prior to hearing these instructions on today's call please repeat the process now by pressing star 1 again to ensure our equipment has captured your signal. We'll pause for just a moment to allow everyone an opportunity to signal for questions.

And our first question comes from Michael Webber from Wells Fargo. Please go ahead.

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

Peter Evensen: We're fine. Thanks, Mike.

Michael Webber: Morning. Peter, I just wanted to first touch based on the Knarr. I mean, there's not too much that's new here from the Investor Day, which was just about a month ago but -- or about six weeks ago, but it seems like it's night and day in terms of the environment, both in the LNG complex and the MLP kind of sphere.

Can you talk to -- I guess, the timeline for the Knarr, any impact? What impact, if any, the drop down would see from the choppier equity markets and the softer energy environment? And then maybe kind of run through what tools you have at the TOO and Teekay levels to facilitate that drop down with a softer currency?

Peter Evensen: Sure. Well, obviously, we're watching what's going on in the equity markets and the softening on the MLP side. But actually, when you put everything together, we're seeing that debt rates remain low. And the fact that we finance this unit with mostly debt means that we have lower average cost to capital.

So while our equity cost to capital may be a little bit higher, when we put it together, we haven't changed our weighted average cost to capital that we see for the Knarr. In terms of the Knarr, we can only control what we can control, and we're focused in on executing on the Knarr and we carry enough liquidity both at TOO and at Teekay that we can time when's the best time to raise the equity for the Knarr.

So we haven't changed our view on dropping it down, but we're obviously looking at the equity markets. But I think when the things we can't control, oil price and other things, get through, people will see that our growth pipelines still gives us good accretive projects and that's what our investors want, which is a steady increase in the dividends going forward and, obviously, the Knarr is a central part of that.

Michael Webber: Got you. And not to put words in your mouth, but is it fair to assume that the rough timeline laid out at the Investor Day, that there's been no change there even with the volatility you've seen recently?

Peter Evensen: Well, I have to say which timeline? But we -- as I said in the slide, we're weather dependent, the unit is out being towed now. And so soon as we get the right weather window, we'll more it up, pull the risers and then we'll be in...

(Crosstalk)

Michael Webber: Right. Now I said talking nonoperational but I think you answered your question in the first...

(Crosstalk)

Peter Evensen: Nonoperational, in terms of the equity markets?

Michael Webber: Yeah. Okay.

Peter Evensen: Yes. I would refer to my earlier comments.

Michael Webber: Okay, good. You know, I wanted to touch on the, you know, that growth pipeline. And you guys did a good job of weighing that out in the Investor Day and kind of talking to the committee that CAPEX applied to the first three years of your growth ramp and then beyond.

And it might be a bit early, but can you maybe talk to what you're seeing in terms of the North Sea and Brazil? And any change you've seen in the past in months that has -- specifically, there's been a bit of weakness in the North Sea. But you guys are a bit further down that chain and could be relatively well insulated.

Peter Evensen: Yes. I think that's the key point. Obviously, we've seen people talk about ENP spending as a whole us. But the drop has come on the exploration side. But because of all the drilling that's taking place over the last 5 years, we haven't seen any drop in our pipeline.

I've been around the world in the last few weeks, speaking with our customers, and they're still committed to putting into production. In particular, down in Brazil, we've got a pretty good pipeline on what projects Petrobras is going to put in place going forward, and they haven't changed what they have going forward.

We bid on two projects. We only wanted one project, so we haven't been able to -- or we haven't missed anything that we didn't want. And as I said my in my comments, we're doing some front-end engineering studies, both in North Sea as well as focusing in on some new fields that will come on -- that will come up for bid in Brazil in 2015. And I think we feel good about our chances.

Michael Webber: Got you. And kind of the flip side to that coin, and just this last time and then I'll turn it over. Yes, the entire kind of group of competitors, that you guys typically run into, seems like -- it seems like just about everybody's under a degree of pressure. And you guys are probably in the firmest position.

I'm just curious, if you look at over the last next couple of quarters, can you talk to the likelihood or feasibility of large scale M&A? Or were there people you guys run up against for FPSO, FSRUs, carriers that are under the same amount of pressure but don't have the same footing that you do, whether there's an opportunity there?

Peter Evensen: Obviously, we've employed M&A in that past, but I don't see that, that's going to be a big driver of what we're doing. What we really like about our franchises is they're well-positioned for growth projects.

In particular, if you look on the gas side, we have our MEGI LNGs, which we're seeing greater customer adoption there. So we're seeing that the MEGI people are seeing saves fuel compared to the DFDE, which, of course, saves fuel over the steam. So we think we have the sweet spot. So if I have to choose between ordering a MEGI and buying on-the-water DFDE, I'm going to order the MEGI because that's what our customer are saying to us.

And on the FPSO side, we really like our Sevan technology. The Sevan technology, with the cylinder, is very good in terms of its weather-keeping characteristics, which customers are appreciating as well as the fact that because it doesn't have a turret, it sets up well. And we're bidding that both on FPSOs as well as in floating accommodation.

So it would have -- I guess that's a long-winded way of saying it would have to be a good deal for us to buy from our competitors. Something more interesting on the M&A side is that we think we'll get opportunities to buy on-the-water assets from oil companies, from our customers, and so that's a much greater focus for us.

And I think that because of the pressures that we're seeing on customers, with return on invested capital becoming more important, we might very well be able to use our operating excellence in order to buy assets and gas and offshore from our customers. And that is preferred by us.

Michael Webber: Got you. That's very helpful. All right, guys, that's all I've got. Thanks for he time.

Peter Evensen: Thank you, Mike.

Operator: Our next question comes from Amit Mehrotra from Deutsche Bank. Please go ahead.

Amit Mehrotra: Great. It's actually Amit Mehrotra from Deutshe Bank. Thanks very much for taking my questions. I just want to first asked about some of the operating issues and delays that came up in the quarter. Fully understand that some of this is out of your control and some of this is new technology, but maybe you can just give us some color on when you first came to know about these issues.

And then really in just a broader context, talk about the operating risks of the company's sort of highly technical assets vis-à-vis the pretty bullish dividend growth outlook.

Peter Evensen: Sure. Well, I think it starts with the fact that we have wide-ranging portfolio in both the LNG side as well as in the FPSOs side. The LNG side has been doing extremely well, both on the safety as well as an operating side where we have close to 100% utilization. So it's much more focused in on the offshore side.

And you're right, there are things we can control and things we can't control. So as fields get older, you have to work -- we have to work the assets harder, and that's been reflected in what we've seen on the Foinaven. But we worked very hard with our customers and we get back. The whole idea is that are you going to get some short-term pain for some long-term increased production.

And what's happening on the Foinaven is people have stopped production and taken some short-term loss in revenues, but in doing that, we'll a much longer production profile. So call it an investment, if you will, in time and of course money, but that's what we are trading off.

So we may not make -- lose some revenues as Vince said about $12 million in the quarter, but at the end result, you end up taking that oil a little bit later and we think that the offshore production chains become better as a result of that. Obviously, we don't want to have some operating snafus but that's the way it is. In terms of the Hi-Load, that is a new technology.

And so it's a matter of working with our customer in order to get that integrated into their logistics chain. And that's taken a little bit longer than both ourselves and Petrobras had thought.

(Crosstalk)

Vincent Lok: And you have to look at from a portfolio perspective. I would say the Foinaven contract is quite unique compared to the other contracts we have in our FPSO fleet. Our other FPSO contracts are pretty much fee-based so the Foinaven is unique and that it has their oil price tariff as well as a production tariff.

And so -- and on top of that, it is owned at the parent company levels, that has an exaggerated impact on the consolidated results. The Hi-Load, I guess on a -- to put it in context, it's a relatively small investment. It's about $60 million. But that, again, that sort of the timing delay.

Amit Mehrotra: Okay, that's helpful. Just a couple of follow-ups here. I just had a question on the company's sort of trading level. I mean, since your very successful Analyst Meeting, the market value of the company has declined by almost $1 billion, and I think the value has been hit somewhat unfairly in my view by concerns over the decline in oil prices. Can you just sort of address those concerns?

The business has been removed from near-term fluctuations in oil, but if you could just sort of address those concerns, I think it would be helpful. And then I have a follow-up to that.

Peter Evensen: Sure. Well as I said earlier, there's things that I can control and things that I can't control. And I can't control the share price or whether money is moving in and out of energy. But we have noticed that the Alerian MLP Index has been declining.

And even though, as Vince said, there's a lot of fee-based revenue when you have a good pipeline. I think that will -- I was pretty amazed at the snapback. I think people have to get used to some volatility and people haven't seen that volatility in the MLPs in quite a while.

So they're -- I think that at the end of the day, as people execute on their plans, increase their distributions, then investors will come back to us because the MLP market still represents a great way to get superior dividend in a pretty much a low growth world.

So I actually think there will be more people gravitating to the MLP market, and that's what I heard going around and seeing investors post-Investor Day. And so I think that's what people see.

What I think is probably also taking place is a fight to quality among the MLPs. The MLPS were moving up as an index and we certainly saw that with some of the shipping MLPs and our competitors. And now we're seeing people that are going to people who are more quality, and we certainly see ourselves as being that in the offshore in the marine sectors.

Amit Mehrotra: Okay. And just one last one. Just given the expected improvement in the parent company's balance sheet over the next few quarters, I mean, could that sort of open up the potential to use some low cost of debt financing for something like a smaller or a medium-sized share buyback. Given kind of like the current pro forma dividend yields for the parent company is actually higher than any potential cost of debt financing?

Peter Evensen: Yes, we're aware of that, but we're not really executing on financial engineering that way. As I said, I actually think things will bounce back and people will see it as the distribution increases go forward. So that isn't part of our playbook right now.

Amit Mehrotra: Okay. Okay, thanks very much.

Operator: Thank you. Our next question comes from Sunil Sibal from Seaport Global Securities. Please go ahead.

Sunil Sibal: Hi, good morning, guys.

Peter Evensen: Good morning.

Sunil Sibal: Many of my questions have been already addressed, a couple of ones when we look at the FPSO Foinaven in the second -- or the fourth quarter, for the $23 million increase. I was wondering, you know, if you could break it down into the seasonal increase you typically see in the fourth quarter versus any impact of, you know, better production profile going forward. Or in other words, you know, if you could give us a sense of what's a good run rate for that going forward, say in '15?

Vincent Lok: Yeah. The $20 million to $23 million that we guided for this year is quite similar to what we had last year because last year's production was also negatively impacted. And I guess for this year, in the latter part of 2014, we're also negatively impacted by the lower Brent oil price.

On a run-rate basis, I think you would expect that fourth quarter number be closer to about $30 million. Of course, that depends on what the Brent oil price would be in 2015, but that would be a better run rate figure, I would say -- or normalized figure, I should say.

Sunil Sibal: Okay. And then similarly on FPSO Banff. The $2 million increase that you see this quarter and how much of that is -- can really be carried forward on a run rate basis into, you know, 2015?

Vincent Lok: Are you referring to the Banff FPSO?

Sunil Sibal: Yes.

Vincent Lok: Yeah, that's probably a good run rate because we started a little bit late in July in the Banff so the full quarter revenue would add another about $2 million, which is what we're expecting in the fourth quarter.

However, as a reminder, the Banff contract does have a rate reset effective January 1, 2015. So we would expect the Banff FPSO revenues to increase starting in 2015 quite meaningfully.

Sunil Sibal: Okay. Got it. And just one clarification from a previous question with regard to the Knarr drop down. So, you know, I guess the drop down timing as you said on the slide deck is dependent on weather than -- in addition to the weather, any, you know, timing changes with regard to what happens on the MLP equity market, if you see the market most stressed-out, you know, even from current levels?

Peter Evensen: Well, we actually can -- as we did with the Voyageur previously, we can actually raise the money ahead of -- when the unit comes into production, or we have a year until after the unit comes into production. In which case, we just generate the cash flow upstairs instead of getting it through VP and LP. We'll just take the EBITDA upstairs.

So we feel pretty confident about that, and we don't feel like we're in a position where we have to raise the equity. But as I said earlier, the cost to debt is low so if our cost of capital go high, then we may defer that or we drop it down with seller financing.

Sunil Sibal: Okay very helpful. Thanks, guys.

Peter Evensen: Thank you.

Operator: Our next question comes from Fotis Giannakoulis from Morgan Stanley. Please go ahead.

Fotis Giannakoulis: Yes, hi, guys. My questions have been answered. Thank you very much.

Peter Evensen: Thank you, Fotis.

Operator: Our next question comes from TJ Schultz from RBC Capital Markets. Please go ahead.

TJ Schultz: Hey, guys. Good morning. Just to stay on Knarr, just one thing. There's one thing you could control is to maybe drop it in two tranches rather than one to make it more manageable from the MLP. Is that potentially back on the table? Or is it still right now the plan to do it all at once and have Teekay Parent take back some form of TOO units?

Peter Evensen: Our preference would be to do it all as one. But if the equity markets continue to be volatile to the downside, then we might have to reappraise that. But as I just said, we could always just do it with seller financing and raise the money later.

It doesn't really matter to us up at Teekay, whether we get the money in seller financing or whether we get it in GP and MLP. It's still an abundance of cash flow and in fact, we'll generate more CFVO if we retain the Knarr or 50% of the Knarr upstairs rather than downstairs.

So it doesn't change our view on the dividend. And -- but we -- as I said earlier, we saw the bounce back on the Alerian and we know that equity prices in the rest of the market measured by the S&P 500 are close to all-time highs. So I don't think anything has changed as it relates to the attractiveness of dividends.

TJ Schultz: Okay, good, understood. Just any quick update on the FPSOs beyond the Knarr? I guess with the Banff reset, is the expectation a drop down, you know, first half of this year? And then any color on BP's consent for the Foinaven just given the issues there? Thanks.

Peter Evensen: Yes. So it remains our plan to drop down all the rest of the FPSOs completing them in end 2016. We haven't given a specific road map when they would be dropped down, but that remains our plan. And I think the upside of having had the issues on Foinaven is we have a much closer dialogue with BP and that will enable us to drop down the unit.

TJ Schultz: Okay. Thank you.

Peter Evensen: Thank you, TJ.

Operator: Our next question comes from Keith Mori from Barclays. Please go ahead.

Keith Mori: Thank you, gentlemen, for taking my call. Quick question around the Foinaven, you know, the operational issues, will that be covered under the contract with the charter? Or would that be kind of an additional expense that we should expect for the fourth quarter?

Peter Evensen: Those contact issues that we had have already been expensed through our P&L. The contract issues that are on the Foinaven are not our responsibility, so it will not incur any extra cost to us.

Keith Mori: Okay. And then I guess, you know, a little bit around the softer markets and capital raising here. You know, when I look at 2015 on your slide 11, you show about $949 million worth of committed growth CAPEX here. You know, maybe you -- could you maybe give us an idea of how much of that already capital has been raised, and, you know, how much still needs to be financed through the capital markets?

Vincent Lok: Yes, I mean, as usual, we would secure debt financing on these assets prior to their delivery. If you look at what's there, the Hi-Load already has a committed debt facility in place that we can draw once the contract starts. The new item is the $220 million acquisition of the on-the-water tugs, and we already have a term sheet in place to finance a big part of that.

And in terms of the FAUs, we have commitments already on the first unit for debt financing and the second unit doesn't deliver until the end of '15 and we're working on that as well. So we're in good shape in terms of the debt financing side. And as Peter alluded to, we'll monitor the equity markets very closely.

Keith Mori: All right well all my other questions have been answered so I'll let the call wrap up. Thank you.

Operator: Our next question comes from Matt Niblack from HITE Hedge Asset Management. Please go ahead.

Matt Niblack: Thank you. Turning back to the LNG shipping market what's your view long-term on whether many of these projects in Australia are likely to get canceled given what might be a lower crude environment for some period of time? And, you know, when exactly you think given what the ((inaudible)) are with the macro-environment in the last month or two be the shipping market might come back in the balance?

Peter Evensen: Well those are two unrelated question so let me take them first. On the Australian side, obviously, everyone knows about the cost overruns that have been incurred on those, so what we are watching our customers do is actually switch over from on-land to floating LNGs similar to what you saw Shell do on Prelude and now you see Browse FLNG.

But as far as we see it from our discussions with customers from a shipping point of view, we don't see any change in a lot of those projects that are already on the map. Looking further out, then you might defer some FID. But actually, the Australian gas is looking pretty good with their crude cocktail.

And let's not forget it's very close to the import centers of China and Japan and Korea. So I think that's what we see. In terms of the -- what we're seeing on the LNG side. There is short-term pain out there. It doesn't affect us because we're sold out. But there are 370 vessels in the fleet and there's 123 on our order.

Of the 123 on order, all of our ships that we have were we can see delivering into that favorable window. But if you have a ship open now and there's 31 of the 123 ships that don't have employment. So if your ships are coming in '14, '15 or even into '16, I think you have an issue.

And also it's kind of ship, as I said earlier. So we think the market is standardizing down on 174,000 cubic rather than the 155,000, 160,000 units that were previously ordered. Why is it standardizing there? Because that's the biggest that can go through the Panama Canal.

I think you may see some deferral of some of the projects beyond what is already been announced in the US Gulf. We have always been of the view that the brown water sites, the ones where they already had the terminals, the tanks that were built for what they thought was regasification, they would be flipped as you're watching (Shaneer) do and they would become export terminals.

I think that still will happen. The jury's out on whether some of the Greenfield sites, where they don't have all of that logistic infrastructure, will go forward. Obviously, that's a function of gas prices and tolling.

Matt Niblack: But then...

Peter Evensen: So I think that -- so I think that if you have the right kind of ships, you will find employment. And what something we're finding on these tenders that we're bidding on for 2017 and 2018 is they're specifying the MEGI design over the DFDE design. And so even if you have a shipment that's open, it isn't the preferred ship.

Matt Niblack: Right. And so do you still think that the market comes into balance and it stays in balance are short in the 2017, '18, '19 and that those some of the announcements on project delays and projects that are at risk?

Peter Evensen: We haven't seen out of what we see in 2017 and 2018 already has FID. So they're already building those. So 2017, 2018 is not in doubt. Those are already going forward. The big question is 2019, 2020. Obviously, we announced our big deal in Russia. That deal is going forward despite the negative financing environment in Russia.

And so -- and because it's low-cost gas, and so you're right that the cost of gas will dictate new projects going forward but there still is a healthy demand out there. As far as the market going to balance, my view is that the 174,000 will be eligible for the long-term charter market.

And if you're in some of the smaller ships or -- those will become what we call trading ships. And that's the same thing we've seen in other markets. So our MLP is focused on long-term projects, and we think we have the right ships for that.

Matt Niblack: Great. Thank you very much.

Peter Evensen: Thank you.

Operator: Ladies and gentlemen, as a reminder if you'd like to ask a question please press star 1 on your touch-tone phone. There are no further questions at this time. Please continue.

Peter Evensen: All right. Thank you very much for all the good questions. And as I said, we can control what we can control, and Teekay's executing on its plan and our customers still are very much interested in our gas and offshore projects in the Teekay operations. So thank you very much.

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