TEEKAY SHIPPING (CANADA) LTD.

Moderator: Peter Evensen
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10:00 am CT

Operator: Welcome to the Teekay Corporation's Second Quarter 2015 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, press - 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 conference over to Mr. Peter (Evens) 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 will find a copy of the second quarter 2015 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 second quarter 2015 earnings release and earnings presentation available on our website.

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

Peter Evensen: Thank you, Ryan. Good morning everyone and thank you for joining us today for Teekay Corporation's second quarter 2015 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 Group Controller, Brian Fortier.

During our call today, we will be taking you through the earnings presentation, which can be found on our website. Turning to Slide 3 of the presentation, I'll briefly review some recent highlights for Teekay Corporation.

Teekay Parent generated strong free cash flow of $49.5 million or 68 cents per share in the second quarter. An increase of 57% from the previous quarter supported by a full quarter contribution from the Knarr FPSO prior to its drop down sales to Teekay Offshore on July 1, which resulted in a strong coverage ratio of 1.24 times.

Since last quarter following the achievement of a pair of key milestones, we're pleased to report we have now largely completed Teekay Parent's transition into a peer play general partner and owner of two master limited partnerships.

Firstly, with the second quarter dividend, we implemented Teekay's new dividend policy providing an initial increase of 75% to 55 cents per share, which equates to an annualized dividend of $2.20 per share with future increases linked to the growing dividend cash flows we received from our daughter entities.

With a robust pipeline of over 6 billion of current known growth projects at our daughter entities and additional growth projects that our daughter entities are pursuing, we are targeting Teekay's dividend to grow further by an average of 15% to 20% per annum for at least the next 3 years.

Lastly on July 1 we completed the dropdown sale of the Knarr FPSO, our largest dropdown sale ever to Teekay Offshore for $1.26 billion.

Turning to Slide 4, I'll review some recent highlights from our three publicly traded daughter entities. For the second quarter, Teekay LNG Partners declared a cash distribution of 70 cents per unit and reported a 1.03 times coverage ratio. Based on our GP and LP ownership interest, the cash flows received by Teekay Parent from Teekay LNG totaled $26.3 million for the quarter.

Based on anticipated customer demand, Teekay LNG has now begun securing yard capacity into 2019 and beyond as we continue to see multiple new project opportunities that will require modern fuel efficient LNG tonnage.

In June, the partnership placed orders for 274,000 cubic meter MEGI LNG carriers from Hyundai shipyard in South Korea. And received an option to order one additional LNG new building.

Teekay LNG was able to concurrently secure a new 13 year time charter with BP for one of the new Hyundai new buildings with an option exercisable by BP to one additional MEGI LNG carrier under similar terms, which is exercisable by September 2015. BP will be using this tonnage primarily to service its export volumes from the Freeport LNG project on the Texas Gulf Coast.

Turning to our other MLP, Teekay Offshore Partners declared a cash distribution of 5384 cents per unit and reported a 1.06 times distribution coverage for the second quarter. Based on our GP and LP ownership interest, the cash flows received by Teekay Parent from TOO totaled $18.1 million for the quarter.

Following Teekay Offshores acquisition of the Knarr FPSO, the partnership plans to recommend a 4% cash distribution increase for the third quarter payable in November, which is expected to significantly increase the cash flows Teekay Parent receives through its GP and larger LP ownership interest in Teekay Offshore.

Teekay Offshore made significant progress on several projects during the second quarter and third quarter to date which are expected to contribute to cash flow growth in future quarters.

In early June the partnership commenced its first charter on the unit for maintenance and safety, the Arendal Spirit with Petrobras for a period of three years. And during the past six months, Teekay Offshores wholly owned subsidiary ALP Maritime completed the acquisition of all six on the water long distance towing and offshore installation vessels for $220 million that it agreed to acquire last October.

We're pleased to report that these vessel acquisitions have gotten off to a strong start with high utilization during the second quarter. We expect the ALP to build a strong contract backlog for these high quality vessels overtime.

Talisman, the customer on the Varg FPSO, exercised another of its three year option extending the firm period on this FPSO charter out to mid-2019. And lastly the partnership has just taken over as the sole operator of shuttle tankers for the transportation needs of oil companies operating offshore to the East Coast of Canada with the signing of new 15 year contracts.

Teekay Offshore has already taken over the shuttle tanker operations on behalf of the consortium and will utilize one of its owned vessels plus two in charted shuttle tankers to service the areas transportation requirements.

We will continue in this manner while Teekay Offshore is constructing three Suezmax size DP shuttle tanker new buildings which are scheduled to deliver in 2017 and 2018 for a fully built up cost of $365 million.

For the second quarter Teekay Tankers declared a fixed dividend of 3 cents per share. Based on our total ownership of Class A and Class B shares, Teekay Parent received a cash dividend of about $900,000.

Reflecting the counter seasonal strength in the spot tanker market, Teekay Tankers continued to generate strong free cash flow of $58 million or 50 cents per share during the second quarter. Crude spot tankerage continued to be counter seasonally strong into the third quarter which reflects the continuing positive market fundamentals of low fleet growth, growing global oil demand, and an increase in long haul tanker movements from the Atlantic to the Pacific.

Record crude oil supply from OPEC and continued stockpiling as a result of lower global oil prices have provided further support to tanker rates. And over the past few weeks Teekay Tankers has worked hard and secured two strategic acquisitions that are expected to be immediately accretive to its earnings and free cash flow.

This week Teekay Tankers agreed to acquire 12 modern Suezmax tankers from Principal Maritime for an aggregate purchase price of $662 million. These attractively priced on the water vessels are delivering at the right point in the tanker market cycle and into a strong spot tanker market. With increasing operating leverage, we believe Teekay Tankers is well positioned for future free cash flow growth.

Also in late July, Teekay Tankers completed an acquisition of a ship-to-ship transfer business, SPT Incorporated, from Teekay Corporation and I.M. Skaugen for $45.5 million. SPT provides a full suite of ship-to-ship transfer service in the oil, gas and dry bulk industries. This transaction established Teekay Tankers as a global player in the ship-to-ship transfer business.

Turning now to Slide 5, as I touched on in my opening remarks, on July 1st we completed the sale of the Knarr FPSO to Teekay Offshore for a price of $1.26 billion.

Prior to completing the sale, Teekay Offshore had arranged all of the necessary debt and equity financing that was required to purchase the unit including $300 million of common equity taken back by us as partial consideration. With the current stable cash flow and multiyear built in growth pipeline at Teekay Offshore, we believe the TOO common units represent good value and will be a good investment.

We expect the sale of Knarr FPSO to benefit Teekay Parent in two ways; first, they will allow us to reduce leverage by approximately $1 billion to under $600 million which further strengthens Teekay Parents balance sheet and increases its financial flexibility.

Second, we expect the transaction to significantly increase the cash flow we received through our GP and LP ownership positions in Teekay Offshore with the Knarr FPSO expected to generate annual distributable cash flow of approximately $80 million, which as I mentioned earlier, will support the 4% annualized distribution increase that Teekay Offshore intends to recommend to its board in the third quarter.

And with that I'll now turn the call over to Vince to discuss the company's financial results.

Vincent Lok: Thanks Peter. Turning to Slide 6, we have provided a comparative summary of Teekay Parent's Q2 and Q1 free cash flow. Our total free cash flow is separated into GP cash flows comprised of the distributions received from our Daughter Entities, net of corporate G&A, and OPCO cash flows of Teekay Parent's legacy operating assets.

As expected, GPCO cash flow from Daughter distributions in Q2 was consistent with the prior quarter. Corporate G&A was lower in Q2 compared to the prior quarter due to the timing of the recognition of certain incentive compensation expenses which are typically higher in the first quarter of each year.

Going forward we expect corporate G&A to be consistent with our annual run rate guidance of approximately $20 million per year. In Q2 OPCO cash flow increased to $8.3 million from negative $6.9 million in the prior quarter primarily due to the full quarters contribution to OPCO from the Knarr FPSO prior to its July 1 drop down to Teekay Offshore. Higher revenues from the Foinaven FPSO and higher average spot tanker rates.

As a result of the above, total free cash flow per share was just under 50 million or 68 cents per share in Q2 compared to 32 million or 43 cents per share in Q1.

The Q2 free cash flow was above our new quarterly dividend of 55 cents per share resulting in a strong distribution coverage ratio of 1.24 times in the second quarter. Looking ahead, we expect the composition of our free cash flow to change in Q3 as a result of the dropdown sale of the Knarr FPSO on July 1.

GPCO cash flows are expected to increase in Q3 by approximately $11 million as a result of the anticipated 4% distribution increase in TOO in Q3 as well as the additional 300 million of TO units Teekay Parent took back in connection with the sale of the Knarr FPSO in July.

Correspondingly, the OPCO cash flows will decrease in Q3 by approximately $23 million as a result of the dropdown of the Knarr net off operating cash flows to TOO as well as the plant maintenance shutdown of the Foinaven FPSO in Q3.

However, Teekay Parent will be receiving approximately $14 million from TOO in Q3 for the reimbursement of business development fees in connection with the recent Knarr, Logitel, and towage transactions. As a result of the above we are expecting a slightly higher distribution coverage ratio in Q3 compared to Q2.

And for the fourth quarter, we expect another strong distribution coverage ratio as the Foinaven FPSO returns to service after its planned shutdown in Q3 and the annual Foinaven operational incentive revenue is recognized in the fourth quarter of each year.

I will now turn the call back to Peter.

Peter Evensen: Thank you Vince. Turning to Slide 7, given the volatility experienced in the energy markets in 2015, I wanted to take a moment to highlight that our Daughter Entity cash flows which underpin the GP cash flows Vince talked about and which constitute our dividend, remained stable and growing.

Similar to what we saw during the 2008, 2009 financial crisis, there currently appears to be a disconnect between the common equity yields at Teekay Corporation and our two MLPs, and the underlying stability of the cash flows generated by these businesses.

Our energy market concerns have led to the recent sell off of MLP and energy related equities. This actually has no bearing on the cash flows generated by Teekay LNG Partners and Teekay Offshore Partners.

In fact, the cash flows generated by these entities have not been impaired by the decline in oil prices and continue to grow supported by a number of key factors we've laid out on this slide.

First, the cash flows generated by Teekay LNG and Teekay Offshore are supported by among the largest and strongest medium to long-term fee based contract portfolio in their respective industries. With over $11 billion of forward fee based revenues at Teekay LNG and over 8 billion at Teekay Offshore.

Furthermore, these fixed rate contract portfolio spend a diverse group of strong counterparties and importantly do not include any to direct commodity price exposure.

Despite concerns in the offshore energy market and current weakness in the short-term LNG shipping rates, the long-term fundamentals for each of our Daughter businesses remains favorable with the current LNG fleet and existing order book well short of the tonnage required for future liquefaction projects.

Growth in offshore productions and related logistic services continuing a pace and a tanker market that is recently been void by counter seasonal strength due to the continuation of low fleet growth and growing tanker demand.

Against this backdrop, we continue to see significant growth opportunities at each of our Daughters and expect to add to an already robust pipeline of growth projects which will generate free cash flow of growth for Teekay Parent for many years.

Turning to Slide 8, I want to address investor concerns about Teekay LNG and Teekay Offshore, needing to a significant equity capital at today's depressed unit prices to support built in growth.

In fact as we said on their respective earnings calls, this is not the case. Our CAPEX financing is well on track and we are not as reliant upon raising equity capital at today's depressed unit prices then some might think.

In the table on this slide, we've laid out our remaining capital expenditure capital requirements for our existing growth projects at Teekay LNG and Teekay Offshore along with the related, committed, or anticipated debt financing.

As you can see from the table, the majority of the remaining capital expenditure is able to be funded with attractively priced debt financing. While not all of our required debt financing is currently in place, this is normal.

With our CAPEX spread out over multiple years and typically back-end weighted, such that the bulk of the capital expenditure is made just prior to delivery and we generally secured debt financing closer to vessel delivery to minimize banking fees.

In addition, a general downward trend in benchmark interest rates and healthy competition among banks and export credit agencies for financings has led to a reduction in our loan margins and the total cost of debt financing over the past couple of years, which has helped to offset the recent cost of equity capital increases at our MLPs.

We estimate that the margin compressions add approximately 100 basis points which at a two to one debt leverage would balance out a 200 basis point increase in the dividend yield of our MLPs. In other words our overall cost of capital has not increased as significantly even though our unit prices have temporarily dropped.

As far as the equity component goes, a large portion of the equity financing is paid through installments at signing with yard and during the initial stages of construction. Meaning there is a lower equity requirement towards delivery.

In addition over the past several years we have also been strategically diversifying Teekay Group's sources of capital and we now enjoy access to multiple capital market.

In recent years we have been active in project bonds, unsecured bond markets in Norway and in the United States, and have also completed significant issuances in the private and public equity markets, in addition to implementing continuous offering programs at each of our daughter entities.

But at any given time, not all of these capital markets are open. Having a range of options to choose from has enabled us to tap into different pools of competitively priced capital to support continued growth.

With Teekay Parents new dividend linked to the growth of dividends at our underlying daughter businesses, the ability of our daughters to access competitively priced bank financing and multiple capital markets in turn supports our ability to achieve Teekay Parents targeted dividend growth of 15% to 20% per year.

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

Operator: Thank you. If you'd like to ask a question please signal by pressing star 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 signaled for a questions 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.

Our first question comes from Michael Webber from Wells Fargo. Please go ahead sir.

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

Peter Evensen: Good, thanks.

Michael Webber: Peter, I wanted to start off with one of your comments in your prepared remarks around some of the parallels we are seeing right now between now the MLP currencies are reacting today relative to the financial crisis. And if I think back to that period, coming out of it Teekay emerged with Maersk LNG and Sevan and the Knarr FPSO.

So you were able to grow pretty significantly with the prices for assets. I'm just curious, if you look at the landscape today and if I were to kind of separate out Maersk LNG and Sevan and those kind of M&A, that activity is relative to say that Libra or Knarr in terms of organic growth.

But in the last five to 10 years, how much of your growth would you guys put forwards say M&A or put it to M&A, is it single-digit, is it high single-digit? And then maybe on a dollar basis or NEB basis, where are you seeing the most significant opportunities out of balance year offshore?

Peter Evensen: So, that's a great question. I don't think we actually know the answer of how much our growth was dependent on M&A and how much it was dependent on organic growth.

What I will say is that we have the ability to supplement our organic growth with M&A and we think you can do your best kind of deals in these kind of markets. So we have our antenna up and as you saw we did two acquisitions at the tanker side of things.

And I think what I am telling people who ask is that we think we probably will look at acquisitions from our customers more than our competitors. And we think that's because we're set up right now in a time when we're working with our customers to lower our cost and Teekay can operate these marine assets in the offshore and the LNG cheaper than the oil companies can.

And so as we work with our customers to lower cost it makes sense that they would want to do more outsourcing deals with Teekay. And that's our bread and butter which stretches back to over 15 years.

And some of our best deals have been when we have bought franchises like our shuttle tanker which we bought from Statoil and when we do those then I think we're able to grow them.

So those are the kinds of transactions we're far more interested in and we think that oil companies, as they shift through and figure and prioritize their capital are going to be interested in selling more of their logistics assets.

We notice that they have been very good at US domestic infrastructure and so we are of course interested in international marine gas as well as offshore and there I think we set up well because we can operate in lots of jurisdictions around the world. And we take over assets in Brazil and Australia and we know how to operate in all those jurisdictions. So that's actually where we're planning.

And when you stop and think about the East Coast Canada project that we just did, that's a clear case where we've taken over the logistics for nine oil companies of their marine side. And the way they had organized themselves before was just with time charters.

And so the difference between the way they did it and how they are doing it now is we have become the operator. And so our hope is that we can become the operator of more long-term assets and so that's a long winded way of saying what the M&A deals are that we are looking at.

Michael Webber: Okay and maybe just coming at it from a different direction, have you ordered comp kind of the opportunities that's you see delivering - developing right now from your customers.

How would you comp that maybe on a dollar basis relative to what we saw coming out of the financial crisis, do you think there is more opportunity there, is it on par, how would you comp what you're seeing today relative to that period?

Peter Evensen: I think it's too early to say because we don't know whether oil prices will quickly rebound as they were in the financial crisis or whether we are into new normal of lower prices.

If we end up with a lower range of oil prices which I believe we will to that's my plan going forward then I think it probably supports more opportunities going forward. But it takes a while for this to happen and so that's what's going to play out over the next couple of years.

Vincent Lok: I just want to make one point which is that the M&A that we're looking at is not at Teekay Corporation. Teekay Corporation isn't planning to buy opportunities. When we talk about M&A we're only talking about the Daughter companies.

Michael Webber: Got you, okay, that's helpful. Just a couple more from me and I'll turn it over. Last night I had kind of taken a stake in LNG engineer, just curious what period will you think that says about the state of the market and the value propositions out there right now among some of the larger players and either midstream or further upstream?

And curious what parallels you would draw if any to the value props and/or the kind of the organizational structure at Teekay given where you guys are creating and where your MLP is trading and taking that stake is that say anything to you about the stay to the market, how you think of that?

Peter Evensen: I would just say that I think the disconnect I talked about in my remarks, you are starting to see the value players come in and that's a good thing.

Michael Webber: Okay. Great and just one more, and I ask you about this on the TO call it is probably better serve for Teekay but around the Sevan sale, had advised to look at alternatives.

Obviously you all think Sevan is worth more than you paid for which is why you are in it and you are benefiting from that, that licensing agreement at the OL. I am just curious, what insight you could give us into that process if you have any and if not can you talk to how meaningful a cash generating event that could potentially be at Teekay?

Kenneth Hvid: Hi Mike its Kenneth. Well we can't give you any guidance on your last question. On the first question, can't actually give you a lot of insight either. Because what we have is basically the announcement from Sevan that the strategic process that is being undertaken obviously we are a big shareholder in Sevan and we are supportive of that review.

We are not at a point where that has been completed yet and therefore it is still open in terms of what - where we are going to go. But it is a company that we have had in fold for four years now and I think we are very excited; continue to be very excited about the technology.

And we think we have reached a critical mass now where we have proven the technology in multiple segments and we really think that there is an opportunity to just spread it out and we are thinking about how we best do that and support the continued growth of Sevan's success up to now.

Michael Webber: Okay.

Peter Evensen: And whatever happens I think we will retain our ability to use the Sevan hold but we don't necessarily have to own Sevan in order to have that access.

Michael Webber: Okay, that is an important point. Great, well worth a shot and guys thank you very much for the time. I will turn it over.

Peter Evensen: Thank you.

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

Amit Mehrotra: Yeah, thank you very much. Peter there has been some chatter over the last couple of months that Petrobras was conducting commercial negotiations, I guess to restructure some of their offshore platform support vessels.

I know that Teekay doesn't own any of these types of assets but obviously given their position as a large customer if you could just give us some color on your conversations you may or may not have had with them and how you think about the exposure in light of some of the issues they are having, thanks?

Peter Evensen: Petrobras is the largest customer at Teekay Offshore and we are quite comfortable with Petrobras and our position in the production chain because we are - we in the case of one of our FPSO's we are about - our cost is about $3 a barrel.

So, Petrobras makes a lot of money off of our FPSOs. So, it is a good relationship but it is underpinned by being - by our - the strategic nature of our helping them get positive cash flow.

I think the difference between what is happening at oil companies now is they are cutting incremental CAPEX on the exploration side but on the production side they are actually prioritizing it.

And we certainly thought that when we sent the Arendal Spirit down to Petrobras they were very, very interested in having that unit as fast as they can because they are prioritizing maintenance.

And if you have an existing field you want to maximize their production because it is profitable and the marginal cost are so far below the incremental revenue you will get on a per barrel basis that they want to maintain that production.

And that ((inaudible)) what I see as the opportunity. And Petrobras is a great operating company with strong reserves. It is only a question of how fast they will develop those reserves.

Amit Mehrotra: Right, okay, that makes sense. Can I just ask one follow-up for Vince I guess with respect to the distribution growth target of 50% to 20% per year. I just want to hone I guess on the nuance that, that will be sort of an average or CAGR growth rate which I am assuming maybe we can imply maybe a little bit back end loaded within that time frame.

Can you just provide some color on that and maybe how dramatic the inflection is and it will be and what the sort of new cadence or the cadence over the next three years sort of implies for the underlying growth rate assumptions for the daughter companies?

Vincent Lok: Yes, our CAGR guidance - our target is 15% to 20% and it has always been intended to be an average over this period. So, I think we are really looking at over the next at least for like next three years as that average. So, it won't be exactly the same in each year.

And as Peter mentioned it will depend on for example the timing of any M&A or acquisitions that we do during this period. So the other thing to point out of course is that we're starting off even with the 75% increase to our dividend. We have a very strong coverage ratio and that's expected to be maintained over the next few quarters as well. So that's another positive.

Amit Mehrotra: Okay and just one last one, just as a segue to the acquisition line of questioning. You know, the debt capacity at the Parent level has certainly been, you know, expanded with the Knarr dropdown. And, you know, just thinking about using that from a value creation standpoint, you talked about sort of now investing and making acquisitions at the parent level.

But, I mean, given the performance of the overall sort of GP or MLP sector and sort of the unrelated impact on the cash flows of the company, the dislocation is clearly expanded so does that open up any sort of financial engineering opportunities to use the balance sheet to maybe capture some of that dislocation?

Peter Evensen: No, I don’t think so. I think our responsibility is to wait for the Daughter company share prices to reflect the stability of the cash flows. And I am not up for sort of the financial engineering side of things. If Teekay Parents cash flows or stock price doesn’t recover then we could consider possibly share buybacks and things like that.

But right now we are committed to - we just started the dividend policy, we don’t think we’ve gotten the valuation uptick for the dividend, and so I am going to wait and see how that plays out. And otherwise we can use some of the excess cash that we have to look at buying back our shares.

But we’re sitting here and looking and as Vince says we haven’t even the paid the first. I mean we haven’t - people haven’t seen the uptick of the 15% to 20% after the initial bump and I think people are waiting to see that and then I think we’ll start to get the credit. But we are patient people.

Amit Mehrotra: Okay, very good. Thanks for taking my questions. Appreciate it.

Peter Evensen: Thank you.

Operator: Our next question comes from Sunil Sibal at Global Hunter Securities. Please go ahead.

Sunil Sibal: Hi, good morning guys, and thanks for the clarity on the dividend policy. I just had a quick follow up on that and this is not primarily related to what some of the GPs too in terms of managing the profile of the distribution increases. I was just wondering how should we think about coverage and sequential distribution increases at Teekay from here onwards?

Peter Evensen: Yes, the coverage ratio as you know right now is very strong. When we launched the initial new dividend policy in Investor Day last September, I think we got it at a targeted range based on the GP cash flows of about 1.15 to 1.2. But that gives us also room to lower that target coverage overtime as our OPCO legacy assets are dropped down to TOO.

So that's potential upside that we presented at Investor Day. So that is sort of the coverage. The other question about sequential I believe.

Sunil Sibal: Yes.

Peter Evensen: I think it will depend of course on the cash flows through service similar to what we do obviously is the MLP distribution increases it will flow up to the parent probably simultaneously.

Sunil Sibal: Okay, well that's all I had thank you.

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

Fotis Giannakoulis: Yes, good morning and thank you. Peter I want to ask you also about the oil market and how it has affected residual risk of the offshore assets and the chartering risk of a some of the shuttle tankers and the FPSOs.

If you can, I understand you generated something like $220 million of distributable cash flow at TOO, how much these number of the existing assets is going forward and how much of the growth will have to - of the growing cash flow from the new deals will have to go to replace some depletion of the existing assets?

Kenneth Hvid: Hi, Fotis it is Ken again. Let me take the first part of your question on residual value. As you know and I think it was mostly related through the offshore fleet, so as you know predominantly we have shuttle tankers and we have FPSOs in the fleet.

As it relates to the shuttle tankers, what we’ve seen is that the new building constructions prices have been pretty stable for shuttle tankers over the past years. We don’t really see prices coming down. We see the big shipyards in Korea are reporting losses. So nothing really indicating that replacement prices are coming down.

And as you know, we’ve seen a big reset of tanker values over the past 12 months where our tanker values have gone up by more than 50% of the second hand value. That’s really the underlying support also for the shuttle tankers here.

So if anything I would say the lower oil price has not at all affected our shuttle tankers. It's much more related to the construction cost of tankers as well as residual value of conventional tankers which have only gone up.

On the FPSO side, our FPSOs are built for the various fields that we go on and our strategy for all FPSOs is that we tend to go out and probably build an FPSO and write down a very significant part of it during its initial contract on the first field.

And that puts those FPSOs in a very effective position where they still can produce for say another 10 or 20 years. And makes them some competitive to instead of building new FPSOs.

So if you look at our FPSOs today and when they are coming off contracts for example the Varg FPSO which at some point will stop producing although it's just been extended for another three years which at some point will stop producing at the Varg field.

That is a unit that has a lot more life in it. It is built for Norwegian standards and it's been significantly written down compared to what the replacement cost would be for that unit. So we feel very good about the - or the residual value on our FPSOs.

Fotis Giannakoulis: And can you remind us the Varg, was it that were the extension at similar levels as it was before if I am not mistaken it was around $300,000 day rate and also if you can also comment about the Petrojarl Cidade which should be coming out of contact in 2017, what are expectations for extending this contract?

Peter Evensen: Basically in a low oil price environment the value of our legacy FPSOs increases because they have a lower breakeven than the new buildings. So as we saw with our oldest FPSO, in a high oil price environment they didn't want it.

In a lower oil price environment it suddenly gets a five year contract and it beats out the competition for a new building because it's a lower charter rate. And that's what we're seeing. As far the Cidade that's coming on the Libra field in 2017 it has a 13 year contract. So there is no discussion on it.

So we actually think our FPSOs will have a much longer life in the low oil price environment and that's how we see it. As far as other legacy assets, we're very conscious of the technology change as it relates to LNGs.

Obviously we were a pioneer on the MEGI side of things and we are very pleased that we have a long contract duration so that we don't have any issues as on a portfolio basis on our LNG side.

Fotis Giannakoulis: Thank you Peter, shall we assume that asset base of these legacy assets declines and there is more free operating cash flow available, the free cash flow should remain stable as the time goes by?

Peter Evensen: Yes, I mean stable cash flow coming out and we reduce the debt that we have outstanding on each particular asset. But we run it all as a portfolio.

Fotis Giannakoulis: Okay, thank you very much.

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

TJ Schultz: Hi, great, Peter just a follow up I guess to one of your responses about share buybacks and appreciate the emphasis on the dividend and you are just getting started there. But you may have seen G LNGs unit purchase agreement for GM LP.

So, you know, just seeing if you would consider the same for TOO possibly or just if you could expand on how you think about using some of the excess coverage at Teekay to do buy backs or unit purchases instead of paying back debt and then balancing that with where you plan to be with the dividend?

Peter Evensen: Okay, so for the benefit of everyone on the call, that was one of our competitors at the parent company level announcing they were going to make an extremely small purchase of their MLP stock.

So, I didn't think it was a lot and as I said in my prepared remarks, we - if Teekay has excess cash we are either going to buy our own stock probably rather than look at purchasing a small amount of our daughter companies.

But I would just point out that we are making investments in our daughter companies both in Teekay Tankers when we dropped down the sale, we invested in them because we thought it was a good investment. And of course the biggest recent investment was we invested $300 million in Teekay Offshore in connection with the drop down of the Knarr.

So, we actually think our MLPs and Tankers are good investments right here. And that's what we have done and I would say we have never actually sold a share out of our daughter companies unlike some of our competitors. So we think they're good investments and we can take advantage of dislocations and we like the dividend flow that is going to come out of all of our daughter companies. So that's how we look upon it.

TJ Schultz: Okay, great. Thanks Peter.

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

Peter Evensen: Alright, thank you all for listening today. Continue to have a good summer and we'll continue to execute on our growth plan. 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 lines and have a great day.

END