TEEKAY SHIPPING (CANADA) LTD.

Moderator: Peter Evensen
February 23, 2012
10:00 am CT

Operator: Welcome to Teekay Corporation's fourth quarter and fiscal 2011 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, one to register for a question. For assistance during the call, please press star, zero on your touch-tone phone. As a reminder, this call is being recorded.

Now, for opening remarks and introductions, I would like to turn the call over to Mr. Peter Evensen, Teekay's president and chief executive officer. Please go ahead, sir.

David Rajanayagam: Before Mr. Evensen begins, I would like to direct all participants to our website at www.teekay.com, where you will find a copy of the fourth quarter and fiscal 2011 earnings presentation. Mr. Evensen and Mr. Lok will review this presentation during today's conference call.

Please allow me to remind you that our discussion today contains forward-looking statements. Actual results may differ materially from results projected by those forward-looking statements. Additional information concerning factors that could cause actual results to materially differ from those in the forward-looking statements is contained in the fourth quarter and fiscal 2011 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, Dave.

Good morning, everyone, and thank you for joining us today for Teekay Corporation's fourth quarter and fiscal 2011 earnings call. I'm joined this morning by our CFO, Vince Lok, and for the Q&A session, we also have our group controller, Brian Fortier, and our chief strategy officer, Kenneth Hvid.

During our call today, I'll be walking through our fourth quarter and fiscal year 2011 earnings presentation, which can be found on our newly redesigned website, at www.teekay.com.

Beginning on slide three of the presentation, I will briefly review some recent highlights for Teekay Corporation and our publicly traded three daughter companies.

Our investments in fixed-rate businesses and efforts to improve profitability in our existing fleet are showing progress. For the fourth quarter of 2011, Teekay Corporation generated a consolidated $190 million of cash flow from vessel operations, or CFVO, an increase of approximately 21% from the fourth quarter of 2010.

I'm also pleased to report that after 10 consecutive quarters of reported adjusted net losses, for the fourth quarter of 2011, Teekay Corporation is reporting a profit, albeit a modest one. On a consolidated basis, we reported adjusted net income of $1.6 million, or two cents per share, compared to a consolidated net loss of 58 cents per share in the third quarter.

I caution everyone that our reported adjusted net income for the fourth quarter should not be considered a run rate as our positive contributions that we receive under fixed-rate contract in the fourth quarter that make it atypical compared to the other three quarters. A large contributor to our fourth quarter results was the $35 million of additional cash flow we received based on certain annual production and oil price revenue components of the Foinaven FPSO contract, which are recognized annually in the fourth quarter.

Although, Foinaven cash flows are expected to return to normal levels in the first quarter, we do expect our average quarterly cash flow to increase in 2012 as a result of the recent impending acquisitions that I'll talk about. Our transaction with Sevan Marine was completed on November 30th, and our fourth quarter results include one month of fixed-rate cash flows from the newly acquired Hummingbird and Piranema FPSOs. I'll talk more about the Sevan transaction in a few moments.

In the current constrained global financial environment, Teekay's daughter company structure is proving to be a source of competitive strength. During the fourth quarter and first quarter to date, we've completed equity offerings at each of our daughter companies, raising over $415 million of net equity proceeds to finance their growth.

Starting with Teekay LNG Partners, the partnership's acquisition of the Maersk LNG fleet through its joint venture with Marubeni is now fully financed by debt and equity and is expected to close on February 28th. For the fourth quarter, Teekay LNG paid a distribution of 63 cents per unit; however, as we announced on our last earnings call, management is recommending a distribution increase of 7%, commencing with the first quarter distribution payable in May to reflect the increase in cash flows resulting from the Maersk LNG acquisition and the Angola and Skaugen new buildings that delivered during the course of 2011 and early 2012.

If approved by the Teekay LNG board, this increase will move the partnership's quarterly distribution through the 50% incentive distribution right threshold or splits, making first future distribution increases even more accretive to the general partnership cash flows that Teekay Corporation receives.

In November, Teekay Offshore Partners completed the accretive acquisition of the Piranema FPSO from Sevan and raised $170 million through an equity private placement to finance the transaction. For the fourth quarter, Teekay offshore paid a distribution of 50 cents per unit. The partnership's distributable cash flow will realize the full benefit for the Piranema acquisition in the first quarter when this FPSO contributes a full quarter of cash flows.

In early February, Teekay tankers completed a public equity offering, raising $66 million, including the green shoe, which was exercised in full, which increased Teekay Tankers total liquidity to approximately $360 million. Given that 20% to 30% decline in conventional tanker asset values over the past year, Teekay Tankers is now well-positioned to make a significant investment in accretive fleet growth.

Teekay Tankers continues to tactically manage its fleet in favor of fixed cover, and with the recent time charter extension of an additional Aframax tanker, Teekay Tankers' fixed cover is estimated to be 58% for the first quarter and 47% for all of 2012. For the fourth quarter, Teekay Tankers declared a dividend of 11 cents per share.

Turning to slide four of the presentation, I will review some of our highlights for the fiscal year 2011 using the same three key strategic drivers format we introduced at our October 2010 Investor Day, which we said would guide our value creation in 2011 and beyond. These included a focus on activities that lead to growth in the value of our general partner interests in Teekay Offshore and Teekay LNG, investment in higher return fixed-rate businesses that can deliver the kind of stable returns necessary to provide accretion and support higher cash flows to the general partner as our MLPs move into the high split, and returning capital to shareholders in the form of consistent dividend payments from all of the Teekay group entities and share repurchases at the Teekay parent level.

During 2011, we successfully grew the value of our GP interests through either drop-down or direct acquisitions by our MLPs. These transactions all contributed to growth in distributable cash flows at Teekay LNG and Teekay Offshore and indirectly to our GP cash flows.

The drop-downs included Teekay Offshore's purchase of Teekay parent's remaining 49% in opco and the last two Explorer class shuttle tankers, and Teekay LNG's purchase of interests in the four Angola LNG carriers and Skaugen, Multigas and LPG carriers.

With larger balance sheets, our MLP daughter companies are now able to undertake direct acquisitions, and in 2011 we worked on transactions that will provide additional GP cash flow growth over the next few years, including the pending Teekay LNG Marubeni joint venture acquisition of the Maersk LNG fleet and Teekay Offshore's recently completed direct acquisition with the Piranema FPSO and for new building shuttle tankers charted by BG on long-term contracts.

We also made substantial investments in higher return opportunities in 2011 that we expect to result in either enhanced cash flows to Teekay Parent or completed projects that we can sell to our daughter companies to enhance our general partnership value. These included our investments for a 40% equity interest in Sevan Marine, which expands our offshore engineering and solutions offering and provides Teekay Offshore with a new source of potential FPSO growth opportunities, and our recent and pending purchases of the Hummingbird and Voyageur FPSOs, which will be available for sales to Teekay Offshore at market value under our omnibus agreement, once the units are operating under new longer term contracts. We also continue to invest in organic growth, with the notable project being the $1 billion Knarr FPSO project in the North Sea.

Finally, we continued to return capital to shareholders in 2011. Since November 2010, we've repurchased $5.2 million Teekay Corporation shares at a total cost of $162 million. This represents over 7% of our outstanding share count at the start of November 2010. And although we've put our recent share repurchase program on hold in October when we had to direct capital to the Sevan transaction and our organic FPSO projects, we still consider share repurchases to be an important tool in our value-creation toolbox when we have excess capital.

We also continued to return capital to shareholders in the form of dividends. During 2011, each of the Teekay Group declared our regular quarterly dividends resulting in a combined payout of approximately $440 million. Each of our MLP subsidiary entities raised their distributions by approximately 5%, reflecting the growth in their distributable cash flows as a result of acquisitions that I spoke about a moment ago.

Turning now to slide five, in addition to enhancing our cash flow growth through acquisitions and new projects, we've also made significant headway in our operational initiatives to improve the profitability of existing Teekay assets. Starting with our offshore business, due to a combination of strong production performance measures and oil price targets, we were able to realize a significant increase in year-over-year revenue on the Foinaven FPSO contract. We also were successful in negotiating improved rates for the Petrojarl I FPSO contract, commencing in 2012, which will result in approximately $8 million of additional annualized cash flows until the third quarter of 2014.

We've continued to renew contracts and improved rates in our shuttle tanker fleet, and we've also made progress toward reducing operating expenses in this business. In our liquefied gas business, the robust current demand for spot LNG assets enabled us to employ the Arctic Spirit

LNG carrier and re-charter the Polar Spirit LNG carrier in 2011 at favorable rates, which will enhance our cash flows and profitability of these assets in 2012.

In our conventional tanker business, we've been able to achieve costs savings through slow-steaming and other operational cost-saving initiatives. We've also continued to reduce our time chartered (in-tanker fleet), which resulted in savings of over $13 million, or 20% to our quarterly time charter hire expense in the fourth quarter of 2011, compared to the same quarter of 2010.

In 2010 – in 2012, excuse me, (10 time-chartered) and conventional tankers currently operating in our fleet are scheduled for redelivery, which will result in further cost savings.

Turning now to slide six, I'm pleased to announce that over the past two months we've made significant progress in integrating the Sevan transaction that we first announced in October. Teekay Offshore acquired the Piranema FPSO directly from Sevan for $165 million on November 30th, and the unit is continuing its operations in Brazil, producing oil for Petrobras. I had the pleasure of going on board the unit a few weeks ago, and it's definitely impressive, and its innovative design has many potential applications, apart from just being an FPSO. The Piranema is currently generating (CFBO) of approximately $23 million, and we hope to increase this to approximately $27 million once we complete certain upgrades to the gas compression unit in the coming months. This FPSO has now been fully financed by Teekay Offshore, as Vince will detail.

Teekay acquired the Hummingbird FPSO from Sevan for $179 million, and it's currently operating in the North Sea on a relatively short-term contract that's generating annual (CFBO) of $22 million. We're already discussing subsequent employment possibilities with clients for this unit.

The upgrade of the Voyageur FPSO, which we're financing, is now progressing and we – as expected, and we will purchase the FPSO once it begins producing oil, which is currently expected for early in the fourth quarter of 2012. We expect this – excuse me – FPSO unit to generate approximately $75 million of (CFBO) annually upon the commencement of its time charter contract in the North Sea.

And lastly, we invested $25 million in a recapitalized Sevan Marine, which trades on the Oslo stock exchange, with a new mission. We are confident that their energized staff will be successful in generating revenue through various applications of its proprietary technology.

While many investors focus on the significant financial returns from the Sevan transaction, there are also a number of strategic benefits. Teekay is now able to offer both shipshape and cylindrical FPSOs, broadening our oil production solutions that we provide to our customers. And the harsh weather FPSO market demands operational excellence with superior quality assets. And as a result, we see only a handful of competitors who are able to compete for new business in these markets.

Now, due in part to the cooperation agreement that's in place between Teekay and Sevan, we expect the number of competitors bidding on future projects in these harsh weather regions to reduce even further. Importantly, we anticipate that Sevan will serve as another source of accretive FPSO growth for Teekay offshore, increasing the value of Teekay's investments in Teekay Offshore.

And finally, Sevan Marine will continue to generate revenues through engineering and paid fleet studies and potential licensing agreements for its existing and new hauls, which should translate into a higher value for our 40% investment in Sevan.

On slide seven, we have provided illustrations of the many applications which we believe are possible using Sevan's cylindrical design, thanks in part to its high base load and storage capacity and stability in harsh weather. Sevan has had proven success with the FPSO and drilling units, and it's not hard to see how other applications on the slide could one day find similar success.

These applications will continue to be explored by Sevan Marine, and we're excited by the potential to develop new, innovative projects with Teekay in the future.

Turning to slide eight, in the fourth quarter of 2011, we also expanded our fleet of LNG carriers, with the acquisition of A.P. Moller-Maersk LNG fleet. Vince will discuss the financing of this transaction, which is expected to close on February 28, 2012. When we first presented this transaction, it was for eight ships, including two 26%-owned LNG carriers. The majority owners of these two ships had preemption rights that they have since exercised.

As a result, the transaction is now for six 100%-owned LNG carriers, and the total purchase price has been reduced to $1.33 billion, or $692 million per Teekay LNG's proportionate share. And while the acquisition is slightly smaller than originally communicated, Teekay LNG's management still intends to recommend a 7% distribution increase commencing with the first quarter of 2012 to be paid in May of this year, which would move Teekay as a general partner into the 50% split. There have also been two positive contract amendments impacting two of the vessels included in this acquisition.

The extension option on the Maersk Meridian was exercised by the charterer Total, extending the fixed-rate contract on this vessel for an additional 18 years. And the Maersk Methane that was previously on charter that was going to expire has been renewed at – for three years at a day rate of over 130,000. In summary, we anticipate the acquisition of the Maersk fleet will add approximately $40 million to Teekay LNG's 2012 distributable cash flow upon closing of this transaction next week.

Turning to slide nine, the Sevan and Maersk LNG transactions highlight the significant contribution our offshore and LNG businesses have made toward Teekay's recent fixed-rate cash flow growth, as shown in the chart on the top of the slide. During the current spot tanker market downturn, the impact of these businesses has been even more evident as a result of their stabilizing effect on Teekay's cash flows. With the completion of Sevan and Maersk LNG transactions and the future delivery of our current offshore projects over the next few years, we expect our fixed-rate cash flows to continue on a path of strong growth through 2014.

As shown in the chart at the bottom of slide nine, the Sevan and Maersk LNG transactions will also result in a meaningful boost to our large portfolio of fixed-rate revenues. Including the future revenues from the acquired Sevan and Maersk LNG assets, Teekay's total fixed rate revenues will increase to approximately $17 billion with a weighted average contract length before taking account of charter extension options of approximately nine years.

Moving to slide 10, we turn our attention to developments in the offshore market. The North Sea is seeing a resurgence in activity, which has the potential to benefit each of our offshore franchises in the coming years. Exploration activity in the North Sea is at a record level, as shown in the chart at the top left of the slide, which shows that the number of exploration wells drilled off Norway over the past 30 years. High oil prices, as well as an industry supportive tax regime, are encouraging the development of new areas as well as the redevelopment of areas that were previously considered mature.

It was in a mature and previously well-explored area that Statoil and Lundin made the world's largest oil discovery of 2011, the 1.7 billion to 3.3 billion-barrel Johan Sverdrup field. If this discovery proves to be at the higher end of the estimate, it would be the third-largest oil field ever discovered in Norwegian waters.

Further north, in the Barents Sea, the Skrugard and Havis discoveries are expected to contain between 400 million to 600 million barrels of oil and will require high-specification harsh weather production units and shuttle tankers to develop them. These new discoveries bode well for the long-term future of the North Sea oil industry and should create demand for our harsh weather FPSOs, FSOs, and shuttle tankers, which is our area of expertise.

Looking at the more immediate future, the chart at the bottom left of the slide shows demand for FPSOs and FSOs over the next five years. The total of 15 North Sea projects are currently looking at FPSOs as a potential development solution, along with four projects that may require an FSO. Given the relatively fewer number of operators who are in a position to service these projects, we feel Teekay is well placed to take advantage of growth in the North Sea FPSO and FSO space in the coming years.

Turning to slide 11, I want to look at developments in the LNG market. LNG spot rates are currently at record highs of around $140,000 per day, which is an amazing turnaround given that rates were just $25,000 to $30,000 per day in mid-2010. The resurgence in rates is in large part due to the Fukushima nuclear crisis that was in early 2011, which led to a 12% increase in Japanese LNG imports last year of 78.5 million tons. An increase (in cross space) and arbitrage movements from the Atlantic, Pacific, strong growth in Chinese LNG import, and a lack of available vessels for short-term business has also contributed to the strengthened rate.

Looking to the longer term, demand for LNG shipping appears strong due to the rising demand in Asia coupled with significant growth in LNG liquefaction capacity, especially in Australia. The chart on the slide shows expected LNG supply growth through 2020, after taking into account project cancellations and delays. In the period through 2015, LNG supply grows at a relatively modest rate of 4% per annum, with relatively few new projects coming online.

With 63 new LNG carriers due for delivery during this time, the strength in spot rates is going to largely depend on whether or not the Fukushima effect will persist into 2013 and 2014 or whether Japan will bring its nuclear plants online and therefore reduce its LNG imports.

Looking to the period post-2015, we believe that there's going to be a requirement for far more LNG carriers that are currently on order, given the wave of new projects coming online and growing demand for LNG in Asia and, in particular, China. LNG supply is expected to grow by 7.7% per annum in the period 2015 to 2020, and there is potential upside to this number, if more U.S. LNG export projects get sanctioned. Teekay, through its starter company Teekay LNG Partners, is well-positioned to take advantage of the growth in LNG shipping demand in the coming years.

Turning to slide 12, we look at our view of the conventional tanker market. The chart on the slide outlines our case for tanker market recoveries starting for the end of 2012. On the chart, the green bars represent tanker demand growth and the orange bars represent fleet growth, while the vertical lines for the years 2012 and 2013 show the range of values which could arise, depending on various up-and-downside factors.

On the demand side, we anticipate oil demand will increase by about 1 million barrels per day in 2012, with demand in the OECD companies being the key uncertainty. This is particularly true in Europe due to uncertainty over how the debt crisis will play out, but also in the United States, where oil demand has stagnated in recent months due to high prices at the pump.

One positive development we expect to emerge in 2012 is a lengthening and average voyage distances due to a narrowing of the Brent Dubai oil price spread, which encourages Asian buyers to import more crude from the Atlantic Basin versus the Middle East. Given our oil demand growth outlook of 1 million barrels per day and our outlook for longer voyage distances, we estimate tanker demand will grow by between 4% to 5% during 2012.

Turning to supply, 2011 saw the lowest level of new tank orders since 1995, with just 7.5 million deadweight (placed). As a result, the tanker order book has shrunk considerably in recent months and currently stands at just 80 million deadweight, or 17% of the fleet. We anticipate tanker ordering will remain low during 2012 due to a lack of available financing, which will help further reduce the size of the order book in the coming months and lead to lower levels of fleet growth in future years.

In addition to a declining order book, we believe that tanker scrapping could be poised to increase in the coming months due to growing charter discrimination against older ships, which is leading to vessels being scrapped at a younger age than in the past. Given our outlook on the order and scrapping, we estimate that tanker fleet growth will decline from nearly 6% in 2011 to around 4.5% in 2012 and 3.5% or lower in 2013.

In summary, we expect that the tanker fleet growth of 4.5% in 2012 will be balanced by tanker demand growth of around by 4% to 5%, meaning that there should be little change in overall tanker fleet utilization this year.

However, we anticipate the balance will start to tip during the second half of the year, as we've said before, as fleet growth begins to slow, and this will lead to improved utilization rates by the end of 2012, strengthening further into 2013.

Looking ahead, we've summarized on slide 13 Teekay Corporation's main priorities for fiscal 2012. First and foremost, we'll continue to meet and improve upon our market-leading health, safety and environment standards and operational key performance indicators. In our pursuit of profitable growth, compromise in these areas is not an option.

Strategically, our biggest near-term priority will be to integrate the Sevan and Maersk LNG transactions. Even though we announced these transactions mid-fourth quarter, there's a lot of work that goes on behind the scenes from an operational and financing perspective. And in the case of Maersk LNG, this includes closing the transaction next week.

Another key priority for 2012 is project execution. We currently have a healthy pipeline of FPSO new building and conversion projects, as well as Teekay Offshore's shuttle tanker new buildings currently underway. And we need to ensure that these projects are delivered on time and on budget in order to successfully meet our targeted return hurdles.

While most of these projects listed in the box at the top right of the slide have been previously discussed, I will take a moment now to update you on the situation with the Petrojarl Banff FPSO.

On December 7, 2011, the Petrojarl Banff, which operates on the Banff field in the U.K. sector of the North Sea, sustained damage to its moorings, turret, and subsea equipment in a severe storm, which caused shutdown of production of the unit. On December 8th, due to the damage incurred, we declared force majeure and commenced a period (of off-hire) to undertake repairs, which are expected to be completed by the second quarter of 2013.

Following repairs, the Banff FPSO unit is expected to resume production on the Banff field, where it is expected to remain under contract until the end of 2018. The impact on our fourth quarter results was $3 million reduction in revenue. In addition, we expect to incur a loss of operating cash flow totaling approximately $35 million in 2012 and $15 million in 2013.

Importantly, we are insured against damage to the Banff FPSO and associated equipment as a result of this incident subject to a $750,000 deductible, and we expect repair costs for the Banff FPSO and related equipment and costs associated with the emergency response during the storm event to be reimbursed through our insurance coverage.

Returning to our 2012 priorities, we will continue to improve the profitability of our existing assets this year, which includes securing new long-term charters for some of our offshore and LNG assets, re-chartering certain of our offshore assets under older contracts at improved rates, and continuing to charter out conventional tanker assets at fixed rates to avoid minimized – the downside from the weak spot tanker market.

We will continue to focus on growing the value of our GP interests in 2012 through a combination of drop-downs from Teekay parent and direct asset acquisitions from our two MLPs. And lastly, we will continue to drive the profitability of our existing operations through various efficiency initiatives and through the (greater scale economies) as we grow our fleet.

With that, I'll turn the call over to Vince to discuss the company's financial results for the quarter.

Vince Lok: Thanks, Peter, and good morning, everyone.

Starting with slide 14, I will review our consolidated results for the quarter. As we do each quarter, in order to present the results on a comparative basis, we have shown an adjusted Q4 income statement against an adjusted Q3 income statement. Later on, I will also provide our outlook for the first quarter.

Net revenues increased by $44 million, mainly due to a $35 million incremental cash flow relating to the Foinaven FPSO contract. As previously noted in our third quarter conference call, this amount is recognized typically in the fourth quarter of each year, since it is based on various annual operational measures, oil production levels, and the average oil price for the year.

In addition, the acquisition of the two Sevan FPSO units at the end of November increased revenues by approximately $13 million. These increases were partially offset by a reduction in revenues from our fixed-rate conventional tanker upon the expiration of (in-the-money time charters) and 23 off-hire days on the Banff FPSO unit.

Vessel operating expenses were consistent with the prior quarter, as the increases associated with the acquisition of the two Sevan FPSO units were offset by net reductions in costs associated with the rest of our fleet. Time charter hire expense was consistent with Q3 as the redelivery of in-chartered vessels in Q3 and Q4 were offset by an overall increase in spot in-chartering of shuttle tankers.

Depreciation and amortization increased by $3 million due to the acquisition of the Sevan FPSO units, and the recent delivery of two LPG vessels, partially offset by the impact of vessel write-downs incurred in Q3. G&A expenses were $51 million, which was in line with our expectations for the quarter.

While not included in the adjusted income statement column, we recorded non-cash impairment charges of approximately $50 million in Q4, mainly related to certain of our older shuttle tankers and conventional tankers. The impairment charges largely reflect the continued weakness in spot tanker rates and the decline in asset values in the (good spot) conventional tanker segment, as well as our decision to sell and/or change the intended usage of these older vessels during the next year.

It's important to note that these non-cash charges do not affect our operations, cash flow, liquidity, or any of our loan covenants, but they do reflect the fact that tanker asset values have fallen, which I will discuss when we review our sum of the parts slide.

We also recognized a bargain purchase gain of approximately $58 million in Q4 related to our acquisition of the Sevan FPSO units and our 40% equity interest in Sevan Marine. The bargain purchase gain essentially represents the amount we take below the estimated fair market value of these assets that we purchased from Sevan, which for accounting purposes is recognized into income upfront. This is based on our preliminary purchase price allocation, which we will be finalizing over the next few quarters.

Continuing down the income statement, net interest expense increased mainly due to the delivery of new buildings in Q3 and the acquisition of the two Sevan FPSO units. Equity income increased due to a full quarter impact of two Angola LNG carriers, which delivered in Q3, and the improved results from our Skaugen PetroTrans joint venture.

Income tax expense decreased by approximately $1 million from Q3 due to tax recoveries recognized relating to timing differences. Non-controlling interest expense decreased to $31 million as a result of lower adjusted earnings in our daughter entities, Teekay Offshore and Teekay Tankers, partially offset by the impact of the Q4 equity offerings in Teekay LNG and Teekay Offshore.

Looking at the bottom line, adjusted net income per share was two cents for the fourth quarter compared to an adjusted net loss of 58 cents in the third quarter.

Turning to slide 15, we have provided some guidance on our consolidated financial results for the first quarter of 2012. Due mainly to the Foinaven annual revenue true-up recognizing the fourth quarter, net revenues from our fixed rate fleet in Q1 are expected to decrease compared to Q4. As well, Q1 revenues are expected to decline by approximately $10 million as a result of the off-hire of the Banff FPSO unit.

These decreases are expected to be partially offset by a full quarter contribution from the two Sevan FPSO units acquired at the end of November and the completion of the Polar Spirit dry-docking in Q4. Net revenues from our spot fleet are expected to increase in Q1. So far in Q1, we have fixed approximately two-thirds of our spot Aframax and Suezmax revenue days at average

TCE rates of $10,000 a day and $21,000 per day respectively, which are both higher than our Q4 average TCE rates.

As a rough rule of thumb, for each $1,000 per day change in spot TCE rates, it results in a $2.5 million change in consolidated revenues per quarter. Vessel operating expenses in Q1 are estimated to increase by $8 million to $10 million compared to Q4, as a result of the full-quarter impact of the two Sevan FPSO units, partially offset by expected OPEX savings on the Banff FPSO unit during its shutdown.

Time charter hire expense is expected to decrease in Q1 by approximately $7 million to $9 million, reflecting the redelivery of in-charter vessels during Q4 and Q1 and lower expected spot in-chartering activity in our shuttle tanker fleet.

Depreciation and amortization is expected to increase by $2 million due to a full-quarter impact from the Sevan FPSO units, partially offset by the impact of the vessel write-downs incurred in Q4 as previously mentioned. We expect G&A to be in the range of $52 million to $54 million, which includes incremental overhead relating to the Sevan FPSOs.

Net interest expense is expected to increase by $2 million to $3 million due to the recent Norwegian bond offering in Teekay Offshore and the full-quarter impact of the Sevan FPSO units. Equity income is expected to increase by $3 million to $4 million as a result of the Maersk LNG transaction, which we expect to close next week, and the full-quarter impact of the Angola LNG carriers. In Q2, we expect the equity income will increase by a further $5 million from Q1 as a result of a full-quarter contribution from the Maersk LNG transaction compared to only one month in Q1.

Income taxes expense run rate is expected to be approximately $2 million. Non-controlling interest expense is expected to be approximately $37 million to $39 million in Q1, reflecting higher expected adjusted earnings for all of our daughter companies, as well as the Q1 equity offerings completed in Teekay Tankers and the full-quarter impact in Q1 of the November equity offerings in Teekay LNG and Teekay Offshore.

So, in summary, although we anticipate reporting a net loss in Q1, we are making progress towards achieving profitability on a run rate basis by the end of the year.

Turning to slide 16, Teekay parent and all of the Teekay daughter entities continue to be well-positioned financially. Due to the timing of the Sevan transaction and shipyard payments for the Tiro-Sidon FPSO conversion and the Knarr FPSO new building projects, Teekay parent's net debt increased by approximately $450 million during the quarter to $1.3 billion at the end of December.

However, $462 million of this balance relates to construction installments associated with the Tiro-Sidon and Knarr FPSO projects, which are being warehoused for Teekay Offshore and is therefore temporary in nature.

Secondly, $220 million of the net debt amount is associated with the Voyageur FPSO, which is treated as a variable interest entity, or VIE, for accounting purposes and therefore is consolidated into our financial statements now, even though Teekay will not be acquiring the Voyageur, until it begins operating under its time charter contract in the fourth quarter of 2012.

Thirdly, $180 million of the increase in net debt was associated with the purchase of the Hummingbird FPSO in November, which again will eventually be offered for sale to Teekay Offshore.

Focusing now on liquidity, on a consolidated basis, Teekay's total liquidity balance as of the end of the year was approximately $1.5 billion, down from $1.8 billion at the end of the third quarter, as we use some of our existing undrawn revolvers to temporarily finance acquisition in shipyard payments during Q4.

Subsequent to December 31st, we have completed several debt financings, which I will walk through in a minute, that have increased our total consolidated liquidity to approximately $1.9 billion, including $620 million at the Teekay parent level, which is more or less where our liquidity totals were at the end of the third quarter.

Similarly, recent debt and equity financings have allowed us to maintain comfortable liquidity levels at each of our daughter entities. Our daughter company structure continues to provide us with the access to equity capital to finance growth. Since November 2011, we have raised third-party equity at each of our daughter companies for a total combined proceeds of $415 million.

In addition, we further diversified our sources of capital for our offshore businesses through Teekay Offshore's 600 million Norwegian krone unsecured bond issuance in January. At each of our daughter entities, we continue to target and maintain a level of leverage that is appropriate for the length and stability of the contract portfolio in each business.

Turning to slide 17, we highlight the significant amount of debt financings we've completed since our last earnings call. As shown in this slide, since November 2011, we've completed a total of $1.6 billion of debt financings relating to our various projects and acquisitions.

As of today, we have prearranged financing in place for $1.2 billion, or just over half of our remaining $2.3 billion of capital expenditure commitments. We are now turning our focus on completing the remaining financing amount, which is related to our two projects, the Knarr FPSO new building and Teekay Offshore's four shuttle tanker new buildings. These projects have (tail heavy) shipyard payments and are scheduled to deliver in mid- to late 2013.

On slide 18, we have provided an update to our sum of our parts calculation, which indicates Teekay's underlying value at approximately $44 per share, an increase from $39 per share when we last reported in November. The increase is primarily due to the overall increase in the value of our daughter company equity interests, partially offset by a further decline in the value of our conventional tanker assets. As a result, Teekay's share price is currently trading at a 37% discount due sum of the parts value.

A few additional points to note on the slide. First, we've added back the $220 million of Voyageur VIE bid, since we have not yet included the value of the Voyageur FPSO asset in this calculation, as it will be required later this year.

Second, the sum of the parts value presented here does not reflect the expected future increase in Teekay Parent's GP cash flows, which will result from the Piranema FPSO and the Maersk LNG transactions in TLO and TGP. We believe Teekay's share price continues to be dragged down by the parent company's spot tanker exposure, which continued to generate negative cash flow in the fourth quarter.

With a significant amount of our (time-chartered-in conventional) fleet redelivering to their owners in 2012 and Teekay parent's cash flows from its GP interest in Teekay Offshore and Teekay LNG expected to grow, we believe that Teekay's shares represent compelling long-term value.

With that, I'll turn the call back to Peter to conclude.

Peter Evensen: Thank you, Vince. Your finance and accounting teams have certainly been busy.

To conclude, while we're pleased to report a modest net profit for the fourth quarter, we still have more work ahead to achieve our objective of returning to profitability on a run-rate basis without being helped by the tanker markets.

In 2011, we made good progress toward this goal toward our – with our substantial investments in our fixed-rate businesses, which enhanced the profitability of our existing asset base. However, we're not out of the woods yet, with respect to weak conventional tanker rates, which we expect to continue to be a drag on our profitability through much of 2012 and possibly into 2013, and our focus on the current fiscal year will be to integrate our recent Sevan and Maersk transactions and successfully execute on our existing offshore projects and profitability initiatives and rebuild our balance sheet and liquidity for future growth.

Operator, we're now ready to take questions.

Operator: Thank you. Ladies and gentlemen, if you'd like to ask a question, press star, one on your touch-tone phone. To withdraw your question, press the pound sign. If you use a speakerphone, lift your handset before entering your request. We'll pause for a moment to assemble the queue.

Your first question comes from Justin Yagerman of Deutsche Bank. Please go ahead.

Justin Yagerman: Hey, thanks, guys. I guess my first question is on dividends and how you're thinking about cash flow distribution here. And obviously, a decent amount of project cash that should start flowing through, both at the parent and at the daughter level. And I wanted to see how we should think about that progression as we move through the year. We've potentially expected something on the dividend this quarter and, you know, want to understand the thought processes as all of this comes on.

Peter Evensen: Well, up at Teekay Corporation, we've had a stable dividend. But as I said, we've been reporting net losses over the last 10 quarters. So we've elected, as we'd done during the past downturns, to just maintain our stable dividend. And it's up to the board to look at it at each quarter, but I don't anticipate we would adjust that upward until we return to a run rate profitability. So I see that as being stable. And we don't have excess capital right now.

In terms of the daughter companies, we're very transparent in how we look at it. As we make acquisitions, we always look at what its effect is on the dividend side of things. So in offshore and the gas side, we continue, as we make more acquisitions, we pass the – we always want to increase the distribution or dividends at the MLPs, and we expect to continue to raise them this year, as we've talked about, because we have a lot of growth coming into the MLPs in 2013. And certainly, there's a lot more visible growth on the offshore side than there is on the LNG side.

On the tanker side, I think it's wonderful that Teekay Tankers have been able to pay a dividend throughout this whole downturn, which is pretty amazing when you've seen other tanker competitors having to cut or have negative cash flow. But again, it's a transparent dividend policy. We have to earn our dividend. And what is great is that Teekay Tankers has been earning its dividend, i.e. with its tactical strategy, it's been able to maintain positive cash flow. So now it has capital to grow.

Justin Yagerman: And that's all fair. I guess maybe my thought process was more along the lines of as the daughters, you know, see – at least the MLP daughters see the long-contracted cash flow and that comes up to the parent level, that some of that would have more of an impact on distributions at the parent level.

Peter Evensen: Well, I think ultimately that it will, but we have to get through that. Our in-charter fleet at Teekay Corporation has been generating negative cash flow, which – so we've had that as a headwind compared to the tailwind, which has been the positive increase in distributions that we get from our daughter companies.

To balance that out, we haven't had enough surplus cash flow, which we have in Appendix D of our earnings statement. So I haven't seen enough positive cash flow in order to be able to change the dividend.

Justin Yagerman: Okay, that's fair. Curious on the LNG projects. Obviously, that's become, you know, a hotter sector over the last several quarters. Are the return characteristics changing at all as you look there? And maybe you could remind us where they've been as you've been doing projects and how you think about that on the LNG side.

Peter Evensen: Well, the whole question has been the – what we call the curve of LNG rates when you compare it out spot to time charter. So it's been a huge backwardation. In other words, we have 130,000, 140,000 at three years. Some people have been able to do short-term charters above 150,000. But then when it moves into the 15-year level, it hasn't really changed that much.

And that's because people are looking at long-term outsourcing deals, so then you move yourself back down into an $80,000 a day environment, so the question is, are you going to take more risks by chartering your ships short term and then incurring that rollover risk or not?

The good news – and this is true for our offshore units, as well as our LNG units, is we're able to re-charter the ships much higher today than what we were able to do in the past, so we're actually looking for opportunities to roll over our units.

So for example, the Arctic and Polar and the Maersk Methane we were able to get much higher rates. But the market is staying with its backwardation curve that that won't last forever.

Justin Yagerman: And some of that's supply and some of that's questions over demand, I would assume.

Peter Evensen: Yes, but there was just a – because of the distance – because all the gas suddenly had to go to a much longer distance, it was all coming into the U.S. or into Europe, but when the arbitrage opened up with Asia being much higher than any spare gas went on the longer distances, we suddenly needed to double the amount of vessels that you would need if you were going to move gas to Asia, so that quickly resulted in rate.

So people were willing to pay $150,000, because they were getting as much as a $10 change in the price of the cargo, so – on a cubic foot basis. So they were willing to pay whatever it took in order to get gas. The market seems to have softened in the last few weeks. Some vessels that were put on subjects haven't – the charters didn't ultimately take those ships. So it's an evolving area.

We're comfortable with our more stable, I would call it low volatility, low beta business that we have on the LNG side. It ticks along. We're able to make acquisitions. And we expect we'll get more organic projects as this whole liquefaction moves up.

But the problem right now is there just isn't enough gas, and so the arbitrage opens up – I mean, so the arbitrage remains there. And we have to remember that the oil market is a global market, whereas the gas market is very regionalized.

Justin Yagerman: That's fair. And that's good color. Thanks. Last question and I'll turn it over to someone else. On the Banff, obviously, post, you know, the reconstruction or the repairs that are being done, you said that you expected to go back on contract, I think, in 2013.

Is there any way, shape, or form that the charter would be able to neg on that contract and get out of it in the meantime? Or is that, you know, kind of a rock-solid contract where, because this is force majeure, you'd expect it just to resume? And I guess not even just expected, is there a way for them to get out of the contract? We've seen in the past with other assets.

Peter Evensen: Well, we've spoken about – well, the good news is, is that contract was our least profitable contract. So if we were – if it was not to returned to the Banff field, which I don't see happening, then we could reemploy it and it would be more profitable to us. But the charterer has said that they want to resume production on the Banff oilfield, and so we have to put in place repairs to the subsea. And so basically what happens, because it's the North Sea, is you lose a season. So that's why we have to wait until the weather window opens in the beginning of '13 before we reattach.

Justin Yagerman: That's fair. Thanks so much for the color. Appreciate the time, as always.

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

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

Peter Evensen: Fine. How are you?

Michael Webber: Good, good. A number of questions for you. First, I wanted to start with your tanker fleet and the potential for a drop-down there to TNK. Obviously, you know, a lot of liquidity at TNK; they just did equity raise. And I know there are multiple parties involved here. But if you could maybe give a little bit of color about how you think about that. I think Vince mentioned the headwind that those assets, you know, cause you – or put on some of the (port's valuations). If you could talk a little bit about the timing and the scale of potential drop-down, I think it would be helpful.

Peter Evensen: Well, Teekay has been very transparent over the fact that we've been dropping down all of our assets on an – upstairs at Teekay parent, because we think that is detracting from the – or adding to the discount we have between our sum of the parts value in our stock price. So as we move assets down, we think that we will reduce that discount.

So the good news is TNK has now raised money and is in a position to make an acquisition. Teekay has to make its decision on whether it wants to sell right now in the trough of the market or not, so we need – we have a willing buyer, and we have a willing seller. We'll have to see if there's a price that works.

But I want to emphasize that there's a very independent system going on here. In other words, Teekay Tankers has to decide where it wants to invest, and Teekay Corporation has to sell and maximize all of the values that it has.

Michael Webber: Sure, sure. That takes a lot of sense. I guess, moving to the offshore side, and you just talked a little bit about the Banff, can you quantify what those repair costs would be? I know they're covered by insurance. And maybe there's a historical precedent in terms of, I guess, lag, in terms of recognition there?

Peter Evensen: We're still doing the survey work and the amount of repairs is going to depend upon what – how the field gets put back online. So we're not in a position to tell you exactly what the total bill is going to be.

Michael Webber: Fair enough. And if memory serves, I think that the Banff – I know you talked about potentially renegotiating that below-market rate, I believe in 2014, and in your release you through out, I think, a 2018 termination period for that contract. Is this – it was always towards the back end of your drop-down schedule, but does this change the way that that kind of fits in? And would you guys still look to resign that and to negotiate that rate in 2014? Maybe just a little bit of color about how that – maybe how that contract's structured and how that now changes.

Peter Evensen: Well, it's actually an existing contract, so it isn't a renegotiation. It's actually the fact that it's – we get a pickup in rates after the end of 2014.

Michael Webber: Oh, okay.

Peter Evensen: So the – I guess the right question, which you were going to ask next is, has losing one year, does the whole end of 2014 move? And the answer is no.

Michael Webber: Exactly.

Peter Evensen: We'll get the tick-up at the end of 2014. So in a way, I guess you could say, we'll get the extra cash flow from – the year we lose in 2012, we'll get at 2018 at higher rates.

Michael Webber: Okay. All right. So you're going to make a little money on that. That's helpful.

Peter Evensen: Change the fact that – it doesn't change the fact that we're going to lose some cash flow this year.

Michael Webber: Right, right. Fair enough. And you mentioned in your deck that you guys had renegotiated the rate with – for the Petrojarl I that was kind of in the same kind of time slot as the Banff in terms of drop-down. Does that change where that falls war of ideas your drop-down schedule? And maybe if you could give a little bit of color in terms of how those renegotiations went and where that rate is.

Peter Evensen: Yes, well, we had – this was on an evergreen contract, so we were actually – as I said a few minutes ago, it's actually worthwhile for us to get our existing FPSO units back, because we can re-contract them at higher rates.

Michael Webber: Sure.

Peter Evensen: So although we got – so what – so we got two things out of the renegotiation. We got higher rate, which is the $8 million we talked about, but we also got a definite time limit that the unit's going to be on station, which will be about 2014.

And, therefore, we're now in the position we can go get new employment for it at higher rates. So we're actually more excited about the fact that we have the chance to re-employ it at higher rates. And this is a Norwegian offshore compliant unit, and it's one of the few that is existing.

So your alternative, as I talked about the FPSO contracts, is to employ a new building. So it compares very favorably in the 2014 window, in order to get new employment at higher rates.

Michael Webber: Okay, that's very helpful. On the Voyageur – and I know you guys gave a lot of information on this in your deck on your entire fleet – but can you give an update or touch on, I guess, how those upgrades are going and whether or not they're on schedule? It actually looks like they're still – they've been moving actually ahead of schedule. And whether or not – in terms of how we should think about that in terms of drop-downs, whether or not that's a Q4 drop-down or whether that could kind of bleed into early Q1? Obviously, it's a little bit early, but any color there would be helpful.

Kenneth Hvid: Yes, it's Kenneth here. Essentially what we've done after we stepped in to Sevan here is that we put in an oversight team for the execution project team of Sevan, and we have already started some of the commissioning work and we're on schedule, basically, to sail away sometime in July. So we're firmly on schedule, and we're very comfortable with the budget we put out. So that means that the sail away in July will bring us in Q3, early Q4, when we have first oil and potential drop-down.

Michael Webber: Okay, all right. That's very helpful. You know, I think the last question is – it's kind of tied to – you mentioned this earlier on the dividends. But, you know, you guys have kind of always tied – in some ways kind of tied your dividends to the fact that, you know, you were generating losses to the parent and that you wanted to see that business turned around before you would start hiking the dividends.

You know, with the potential for, you know, a large-scale tanker drop-down at least some time over the near to intermediate term, you know, how should we think about that dividend going forward, I guess, kind of in a post-tanker environment, whereas, you know, some of those headwinds have been wiped away and you're now more clearly tied to your other cash flows?

Peter Evensen: Well, when we have excess capital, there's two ways to deal with it. One is to do share repurchases, and that's something we look at and have used when we're at a discount – a meaningful discount to our sum of the parts. And that, in a way, is what we see as a real value creation.

And the dividend is something we see based on a consistency. We're the type of company that when we increase our dividend we don't intend to reduce it. And so we have to be sure that we have enough stable cash flows, which I think we will going forward, but we still have to get through this deleveraging that Vince talked about, and we have to realize on all of these projects before we're going to reconsider that. And that involves getting Teekay back to run rate profitability and then the cash flow and the dividends will take care of themselves.

Michael Webber: Fair enough. Fair enough. Actually, just one more question for me, on the Knarr. Obviously, it's a big project for you guys just a little bit on down the road. And I know you guys have talked in the past about securing a JV partner for that project. Any update on timing there? Or should we expect something sometime later on?

Vince Lok: You should expect something later on.

Michael Webber: Okay, great. All right, that's all I've got. Thanks for the time, guys.

Peter Evensen: Thank you.

Operator: Thank you. The next question comes from Gregory Lewis of Credit Suisse. Please go ahead.

Gregory Lewis: Yes. Thank you, and good morning.

Peter Evensen: Hey, Greg.

Gregory Lewis: Hi. I guess, my first question is, it looks like net revenues in the offshore segment, it looks like they ticked down in the fourth quarter. And I was just trying to, you know, sort of back into why that was happening. I mean, my understanding was that typically the shuttle business tends to get a little bit better in the fourth quarter versus the third quarter. Was that decline solely from the loss of the Banff in December?

Vince Lok: I think if you're looking at the shuttle revenues, you might recall that in the third quarter we had a very strong shuttle third quarter. We had a lot of special projects. So it was unusually strong for the shuttle tanker fleet in the third quarter, so I guess when you're comparing Q3 to Q4, you do see a slight reduction in the shuttle tanker revenues. But of course we've had higher revenues in the FPSO sector in Q4 mainly due to Foinaven revenue.

Gregory Lewis: Okay. And then another operational question. You know, when I look at time-charter expense, I mean, you guys have been pretty adamant that you expect – I mean, and you can see in the fleet that the number of vessels on charter are actually going down, but I guess I want to know why in the fourth quarter versus the third quarter charter hire expense went up. Is that just more of a timing and accounting issue?

Vince Lok: Yes, if you look at our adjusted income statement, it's actually flat.

Gregory Lewis: I mean, shouldn't it be going down there?

Vince Lok: Yes, we had – we had a $2.7 million early termination fee that we paid in the fourth quarter, and that was to terminate one of the in-charters to the third party early so that there was a present value savings there. And we also had to in-charter some additional shuttle tankers in the fourth quarter just due to the high utilization of the shuttle fleet and the few dry dockings, as well.

So that's sort of a temporary thing for the shuttle fleet. In the first quarter, as I mentioned, we're expecting that in-charter expense to come down about $7 million to $9 million as we continue to redeliver the conventional fleet. And we're not expecting to need to spot in-charter any shuttle tankers in the first quarter.

Gregory Lewis: Okay, perfect. And then just one last question, and you guys kind of briefly touched on what's going on in the LNG market. I mean, just when we think about Teekay's position, I mean, you guys are project manager. You want long-term contracts. Are you getting inquiries now from customers that are actually – you know, I mean, they're looking at the high LNG market rate. Are you sort of starting to see projects for 7-, 10-, 12-, 15-year LNG long-term contracts? Is that something that, you know, Teekay is sort of actively pursuing at this point?

Peter Evensen: Yes, we are seeing more activity. But as I said, the – we think that right now there's a lot of people ordering spot LNGs with the prospect of getting them. We're in more of the (build to suit camp), but we're competing on FSRU projects, and we're competing on some conventional tenders that are out there. But we think that long term the market probably is moving towards shorter duration contracts.

So I would say our contracts that we had 20, 25 years, the market's probably moving down into a 5- to 15-year window, as you're looking at it. And the market has to digest what the effect is of some of these spot ships. The last time this happened, the spot ships were basically either in lay-up or they were making $20,000 a day.

So I think our – if you will, our (tortoise, just pick along), build project by project. We're very comfortable with that low beta strategy. But we did elect on the Maersk Methane to charter it out at $130,000 a day rather than charter it out longer term at $80,000 to $90,000, because the rates were just so good. And it was a good quality charter, and so we're very happy with that.

But I think that we'll have to see. There's a lot of different moving parts right now. And it really has to come down to this Fukushima effect going forward.

I was in Norway about two weeks ago, and they're really excited about what's going on there. The equity analysts had put up numbers to what I think are pretty extraordinary. They're assuming the market is going to be 180,000 for the next three years. We are definitely not in that camp.

Gregory Lewis: And just to that point, Peter, I mean, you mentioned that you were looking at a contract rate of about $80,000. Is the duration on that, is that, what, 7, 8, 9, 10 years?

Peter Evensen: Yes, for 10 to 15 years.

Gregory Lewis: Okay, perfect.

Peter Evensen: and so the market actually is heavily backward-dated. And so you have to look and see demand-supply. But as I said, the charters are making so much money on their arbitrage now that they'll pay basically whatever money it takes in order to charter a ship. But if that arb closes a little and/or more ships come, then you'll quickly see that backwardation change.

Gregory Lewis: Okay, sounds good. Thank you very much.

Peter Evensen: Thank you.

Operator: Thank you. The next question comes from Justine Fisher of Goldman Sachs. Please go ahead.

Justine Fisher: Good morning.

Peter Evensen: Hey, Justine.

Justine Fisher: So just a question on the drop-down of remaining assets to the daughter companies. Is the argument that the value for unsecured bonds in that case is just I guess the value of the combined GP interest and equity interest in the daughters?

Peter Evensen: That's right, but we anticipate we can replace the assets that we have upstairs with new assets that we're looking at that are not LNG or offshore or tankers.

Justine Fisher: What would be not – what kind of assets would be not LNG or not offshore or not tankers?

Peter Evensen: For example, we've been public about the fact that we're looking at some wind farm installation vessels that would generate longer-term higher IRRs than some of these existing assets.

Justine Fisher: So the bondholders at Teekay Corp. should be aware, I guess, that maybe the assets that they are the closest to would be sort of not necessarily the traditional shipping assets that they're used to – they'd probably still be waterborne assets, because that Teekay's specialty – but maybe not the traditional shipping assets?

Peter Evensen: That's true, although – yes, that is true, but we also have FPSOs like the Knarr. And so I anticipate that we'll continue to own some fixed asset up at Teekay. However, they won't be as much exposed to market cycles, and they will also be higher return than some of our other existing assets.

As Teekay moves, you know, we showed a slide about different things that Sevan can move to. So we get a lot of requests for other types of projects. And I see a lot of scope for Teekay to move into some of these higher margin, higher growth areas. And so those don't fall specifically within the FPSO shuttle tanker, LNG, and tanker realm. So I won't be drawn on exactly what those are, Justine, but I think that the bondholders will be pleased with how we're moving to higher margin assets.

Justine Fisher: Okay. And then the last question on that front is that I suspect that I guess the parent company would issue an order to pursue those transactions would probably on a secured basis, not on an unsecured basis.

Peter Evensen: That all depends. That all depends.

Justine Fisher: Okay. And I also have a question on the impairment charge that you guys took, and I think that that – from my perspective, not enough companies have taken those sorts of charges, just given the decline in asset values that we've seen, and if anything the decline in asset lives that should affect depreciation rates.

So, Vince, can you talk a bit more about the motivations behind that impairment charge? Was it that your accountant saying, look, we know that spot asset values are down and we think that people will scrap their vessels earlier, so you've got to reduce the useful life? Or, you know, what were some of the conversations behind that? Because I think it's – actually, I applaud it, and I think that it should be taken by more companies?

Vince Lok: Yes, the write-downs in the fourth quarter are all pretty much related to our older vessels, and that's in our shuttle fleet and our conventional fleet. And so a few of those write-downs relate to our decision recently to sell a couple of those vessels.

So, therefore, you have to then mark to market those vessels and sell for sale. In the shuttle cases, there's an intended change in use as, for example, we're holding onto some of the older shuttle tankers for FSO projects.

And even though there's going to be long-term value created as part of using those assets in FSO projects, whenever you have a change in use from a shuttle tanker to an FSO, as an example, you still need to mark to market that asset because of its change in use.

So it's some particular circumstances that gave rise to those impairments. And it's really related to the older ships and the intended use. And when you look at the modern fleets, under U.S. GAAP, it's an undiscounted cash flow test. So if you look at, for example, you know, a five-year-old ship, obviously it has, you know, 20 years of remaining life. And usually that passes the test under U.S. GAAP for impairment purposes. So – because you have enough remaining life. And you don't have that on an older ship, especially if you intend to sell that over the next year.

Justine Fisher: Okay. So it was more the use of the vessels and not necessarily the argument that high supply is leading industry participants to scrap vessels at 18, 19 years as opposed to 24, 25 years? And so that's kind of changing what one would expect the life of one's tanker to be?

Vince Lok: No, but, obviously, the impairments are impacted by the drop in the asset values.

Justine Fisher: Okay. Great. Thank you guys so much for the color.

Vince Lok: Thank you.

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

Michael Webber: Hey, guys. Sorry. It's been a long call, but I wanted to jump on with a follow-up on the tanker drop-downs, actually. You know, Peter, you mentioned in your answer that, you know, you've got a willing buyer that you guys just need to determine whether or not you guys are a willing seller in this market on your own tanker fleet. You know, as a company, you know, when do you guys anticipate coming to that decision? Tanker assets have been moving (over for) quite a while. I guess how do you guys think about it internally? And when do you guys think you'll come to some sort of decision?

Peter Evensen: I don't think I'll be drawing on a timetable for that, but as I said earlier, Teekay will maximize its values in terms of selling it. And Teekay doesn't have to sell. It's an aspiration, but if Teekay believes that the market's going to improve – and as we've said, we think it's a softer market in 2012, and then we'll start to get a tick-up. So Teekay will do what we always do, whether we're buying or selling. We run our cash flows and figure out whether we want to sell.

And then, of course, you have to say, what are you going to do with the money? So that's – so we always look at what the opportunity cost is of that. But if you tune in, in 45 minutes, you'll hear Bruce Chan talk about what Teekay Tankers plans to do with the money.

Michael Webber: I think Bruce will probably get some similar questions. But I appreciate it. Thanks, Peter.

Peter Evensen: I do, too.

Michael Webber: Thank you.

Peter Evensen: Thank you.

Operator: Thank you. Ladies and gentlemen, if there are any additional questions, please press star, one at this time. The next question comes from John Fusek of GCA. Please go ahead.

John Fusek: Yes, just a question on upcoming financing on – there's a slide, I can't find the page, but there's $300 million and then $300 million, and $350 million. How much more than that, if any, do you have to do this year?

Vince Lok: Those are the remaining unfinanced projects. And, again, these are tail-heavy shipyard payments, so we have time to get these in process. As I said, we've completed pretty much all of the financings we need for our commitments, and that's shown in the $1.6 billion of financings we completed.

And so really – it's really the remaining ones are Knarr FPSO and the BG shuttle tankers, which are in Teekay Offshore. So that's the remaining amount for our committed CAPEX at this point in time.

Peter Evensen: Just the BG shuttle tankers in Teekay Offshore ((inaudible)) Teekay Corp.

Vince Lok: That's right.

John Fusek: And those would be secured financings, presumably?

Vince Lok: That's right.

John Fusek: Okay, thank you.

Peter Evensen: They all have long-term contracts, so we're confident we'll be able to finance them.

John Fusek: Sure, okay.

Operator: Thank you. Ladies and gentlemen, if there are any additional questions, please press star, one at this time. There are no further questions at this time.

Peter Evensen: Okay. Well, I apologize for the length of the call, but I think that's reflective of the high amount of activity that we have, both – and I thought it was good that we could talk about 2011, what we've invested in, but also how we've financed it. And we look forward to reporting to you next quarter.

Thank you very much.

Operator: Ladies and gentlemen, this does conclude the conference call for today. You may now disconnect your line, and have a great day.

END