TEEKAY SHIPPING (CANADA) LTD.

Moderator: Emily Yee
02-18-16/1:00 pm CT
Confirmation #6610943

Operator: Welcome to Teekay Corporation's Fourth Quarter and Fiscal 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.

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 star1 to register for a question. For assistance during the call, please press star 0 on your touch-tone phone.

As a reminder, this call is being recorded. Now, for opening remarks and introductions, I would like to turn the call over to Mr. Peter Evensen, Teekay's President and Chief Executive Officer. Please go ahead, sir.

Ryan Hamilton: Before Mr. Evensen begins, I'd like to direct all participants to our website at www.teekay.com, where you will find a copy of the fourth quarter 2015 earnings and business outlook presentation. Mr. Evensen, 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 annual 2015 earnings release, and the fourth quarter 2015 earnings and business outlook presentation available on our Web site.

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

Peter Evensen: Thank you, Ryan. Hello, everyone, and thank you for joining us today for Teekay Corporation's fourth quarter and fiscal year 2015 earnings and business outlook conference call. I'm joined this morning for our Q&A session by our CFO, Vince Lok; Chief Strategy Officer, Kenneth Hvid; and our Group Controller, Brian Fortier.

During our call today, we will be taking you through the earnings and business outlook 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.

During the fourth quarter, we generated consolidated cash flow from vessel operations or CFVO at $401.4 million, an increase of 30% over the same period of the prior year. During 2015, we generated consolidated cash flow of $1.4 billion, an increase of 35% from 2014.

For the quarter and fiscal year ended December 31, 2015, Teekay Corporation reported adjusted net income attributable to shareholders of $29.8 million or 41 cents per share, and $68.1 million or 94 cents per share respectively.

During 2015, we recorded the highest fiscal year adjusted net income since 2008. The strong cash flow growth and earnings were driven mainly by the delivery and acquisition of various growth projects during 2015, including our largest FPSO project to date, the Knarr FPSO, tanker fleet growth and the highest spot tanker rates in seven years.

The decision in December to temporarily reduce Teekay Corporation's dividend to 5-1/2 cents per share was a direct result of temporary cash distribution reductions by our two MLPs, Teekay Offshore and Teekay LNG.

We believe the reductions are in the best interest of long-term investors as the reallocation of a significant portion of our internally generated cash flows to fund our two MLPs profitable growth projects scheduled to deliver over the next several years will result in higher available distributable cash flow per unit in the future. I'll touch more on this later in the presentation.

Turning to Slide 4, I'll review some recent highlights from our three publicly-traded Daughter Entities. For the fourth quarter Teekay LNG partners generated just over a $121 million, an increase of 6% from the previous quarter.

For the fourth quarter, Teekay LNG partners declared a cash distribution of 14 cents per unit, which Teekay Parent received $3.8 million for the quarter. In December, Teekay LNG achieved a significant milestone, the partnerships first LNG regasification project, which includes an attractive 20-year charter for one of the partnership's existing MEGI LNG carrier newbuildings.

In addition, the partnership signed a 20-year contract to develop an LNG regasification project in the Kingdom of Bahrain as part of a consortium with Samsung, C&T and Gulf Investment Corporation.

The project in which Teekay LNG will have a 30% ownership stake will comprise of floating storage unit, an offshore LNG receiving jetty and breakwater, an adjacent regasification platform, subsea gas pipelines from the platform to shore, an onshore gas receiving facility and an onshore nitrogen production facility, and is expected to commence operations in July of 2018.

For the fourth quarter, Teekay offshore partners generated CFVO of $173 million, an increase of 20% from the previous quarter. For the fourth quarter, Teekay offshore partners declared a cash distribution of 11 cents per unit, representing $4.2 million received by Teekay Parent.

Since our conference call in December, Teekay offshore has nearly completed the sale of its four remaining non-core conventional tankers for $130 million, creating approximately $60 million of liquidity, of which $30 million was secured in December.

Teekay Tankers continues to generate strong free cash flow, $74 million or 48 cents per share in the quarter. This strength was driven by firm underlying fundamentals coupled with seasonal and one-off beneficial factors. The fourth quarter saw the onset of winter weather delays, including an increase in transit time through the Turkish Straits and fog in the US Gulf.

Ullage-related delays resulted in increased waiting time to discharge ports due to logistical constraints, which further added to rate volatility in the quarter. In December, Teekay tankers announced and implemented a new variable dividend policy under which Teekay Tankers intends to pay out 30% to 50% of the company's quarterly adjusted net income, while maintaining a minimum quarterly dividend of 3 cents per share.

So for the fourth quarter, Teekay Tankers declared a dividend of 12 cents per share, an increase of 300% from the previous quarter, which was paid on February 12. Based on Teekay Corporation's ownership of shares, Teekay Parent received a cash dividend of $4.8 million.

In January, Teekay Tankers completed the previously announced five-year $900 million long-term facility to refinance a majority of the company's fleet. The new facility includes a term loan and revolving credit components which were used to refinance 36 of the company's existing vessels, including 17 vessels acquired during 2015 that were financed with bridge loan facilities that matured in early 2016,.

And other vessels previously financed with the company's primary revolving credit facility which was scheduled to mature in 2017. So this new facility extends TNK's debt maturity profile and provides financial flexibility in the future.

Lastly, during the fourth quarter Teekay Tankers built on its recent ship-to-ship transfer acquisition of SPT and expanded its US Gulf presence through the acquisition and chartering-in of three purpose-built Lightering Aframax tankers.

In mid-December, the company acquired two Lightering Aframax tankers, the SPT Explorer and Navigator Spirit, from Teekay Offshore Partners for an aggregate purchase price of $80 million. And it chartered-in for five years another Lightering Aframax tanker, which is scheduled to deliver between February and March of 2016.

Turning to Slide 5, I'd like to take the opportunity to revisit the strategic rationale for the dividend cut we announced in December. As a flow-through dividend payer, Teekay Corporation temporarily cut its dividend by 90% in response to the temporary 80% cuts announced by Teekay Offshore and Teekay LNG. We made the difficult decision to increase reserves for the proper conduct of their businesses.

Unlike most dividend cuts that generally coincide with weak business outlooks and declining operating cash flows, the cuts announced by Teekay LNG and Teekay Offshore were in response to the disconnect we witnessed between the capital market and the relative stability of our LNG and offshore businesses.

Our bond and unit prices declined precipitously in line with the oil price declines, making external capital prohibitively expensive. The decision was made to reduce our reliance on the expensive capital markets, preferring instead to rely in our cheapest source of cash flow, i.e., the cash generated by the large portfolio fixed rate contracts at each MLP.

The distribution reductions will enable Teekay LNG and Teekay Offshore to collectively retain approximately $450 million in cash flow per annum, which will be used to fund future growth projects. By relying on our internally generated cash flow, we are able to avoid issuing equity that would have been permanently dilutive to all unitholders.

In addition, with the volatility experienced in the public markets over the past 6 to 12 months, our ability to access the capital markets was highly uncertain, whereas the internally generated cash flow can be relied upon to fund growth CAPEX and for delevering. Because we are retaining a substantial portion of our cash flow, we believe this strategy will facilitate our access to other non-equity sources of capital, including banks, bonds and preferred equity.

Another benefit of the distribution reductions is that we expect Teekay Corp. , Teekay Offshore and Teekay LNG will be better positioned when energy and capital markets improve. By not issuing units in order to grow we expect to have higher distributable cash flow per unit in both MLPs, which creates greater capacity to increase dividends in the future, and ultimately the value of Teekay Corporation's GP interests.

Turning to Slide 6, despite the challenging macro energy environment affecting our customers, the Teekay Group's cash flows are expected to remain relatively strong, supported by a diverse portfolio of fee-based contract revenues focused on the production side of the energy supply chain.

With an unrivaled backlog of over $21 billion of forward fee-based revenues, our offshore and gas businesses continue to generate relatively stable and predictable cash flows from a wide cross-section of blue-chip customers. Each of our major business lines has an average remaining contract tenure, which provides stability for many years.

Turning to Slide 7, we provided Teekay Offshore's proportionally consolidated estimate of run rate 2017 CFVO, incorporating the delivery of our growth projects over the next two years and the impact of our cost-saving initiatives, which more than offset lost cash flows from vessel sales.

And the Varg FPSO contract termination related to a termination right that is specific to the Varg FPSO contract, which I touched upon at Teekay Offshore's earning conference call earlier today.

CFVO is expected to increase from the implementation of various cost-saving initiatives that will translate into OpEx and G&A cost-savings and the delivery of TOO's portfolio growth projects, including the Petrojarl I FPSO, that is scheduled to commence its five-year contract with QGEP in the third quarter of 2016.

The delivery of four state-of-the-art long-distance towing vessels throughout 2016; the Gina Krog FSO that is scheduled to commence charter contract with Statoil in the first-half of 2017; the Libra FPSO that is scheduled to commence its 12-year contract in early 2017 in Brazil.

And the delivery of the first two newbuilding shuttle contractors - shuttle tankers, excuse me, that will operate on a 15-year contract in East Coast Canada. These increases more than offset the lost cash flows from the sale of the conventional tankers, the three older shuttle tankers and the Varg FPSO contract, which contributed annual CFVO of approximately $50 million.

The combination of these factors is expected to result in run rate 2017 CFVO of approximately $860 million on a fully delivered basis, which represents an increase of 27%. Turning to Slide 8, we provided Teekay LNG's projected run rate CFVO, including the proportionate share from its equity accounted investment.

We currently anticipate CFVO run rate of approximately $470 million, and we expect this to be relatively stable, increasing moderately as we take delivery of the Cheniere LNG carriers, and begin to take delivery of TGP's other MEGI LNG carriers in 2017.

Partially offset this year by the one year deferral of a significant portion of charter payments on our 252% owned LNG carriers on fixed-rate charter to the Yemen LNG project, related to the political unrest in Yemen. And the subsequent closing of the LNG facility, which I touched upon in more detail on Teekay LNG earnings call earlier today, and the planned sale of one of its conventional tankers next year.

Given the back-loaded, end-loaded nature of TGP's newbuilding delivers, Teekay LNG's run rate CFVO will begin to ramp up post 2017, when we expect to add an incremental $250 million of annual run rate CFVO by 2020. We provided a more detailed breakdown of our 2016 and 2017 run rate CFVO forecast for Teekay Offshore and Teekay LNG by segment from our consolidated and equity accounted vessels in the appendix to this presentation.

Turning to Slide 9, I wanted to provide a summary of Teekay Parent's remaining owned and chartered-in assets. Starting with Teekay Parent's owned asset. The Banff FPSO is currently operating on the Banff Field in the North Sea, is operating under our life field contract with an expected firm period out to December 2019 with C&R.

The Hummingbird Spirit is currently operating on the Chestnut field in the North Sea under a firm period contract out to March 31, 2017, unless terminated for convenience at any time with 90 days' notice from Centrica Energy.

We're currently in discussions to extend the existing contract as well as to pursue new charter contract opportunities. The Foinaven FPSO is currently operating in the North Sea under a firm period contract out to December 2021 with BP.

We're currently in discussions with BP to extend that existing contract further. The Foinaven FPSO restarted production in the third quarter of last year, following a planned shutdown and is currently ramping up to its full production rate.

The Shoshone VLCC tanker completed its scheduled dry docking in November and commenced an attractive one-year charter contract at $49,000 per day and we're currently in discussion with our banks to extend the bridge loan facility secured by this vessel beyond May 2016.

Lastly, we touched on Teekay Parent's chartered-in fleet. The Arctic Spirit and Polar Spirit LNG carriers, which are charted-in until the second quarter of 2018, are currently unchartered and are being repositioned to Asia. We're currently pursuing multiple contract opportunities for these vessels for startup as early as the third quarter of 2016.

Turning to Slide 10, we provided a comparative summary of Teekay Parent's Q4 2015 and Q3 2015 free cash flow. Our total free cash flow is separated into GPCO 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.

GPCO cash flow from daughter distributions in Q4 decreased compared to the prior quarter, primarily due to reductions in distributions from Teekay Offshore and Teekay LNG. Partially offset by an increase in cash dividends received from Teekay Tankers as a result of the implementation of its new variable dividend policy.

Corporate G&A was higher in Q4 compared to the prior quarter due to the temporary timing differences in Q3. In Q4, OPCO cash flow decreased to approximately breakeven from $6 million in the prior quarter, primarily due to the timing of dry docking expenditures for the Shoshone Spirit VLCC.

And two chartered-in shuttle tankers, the Petronordic and Petroatlantic as well as business development and other fees received in Q3, partially offset by the resumption of operations of the Foinaven FPSO after its scheduled maintenance in the previous quarter and the recognition of its operational incentive revenue in Q4.

As a result of the above, the total Teekay Parent free cash flow was approximately $9 million or 12 cents per share in Q4 compared to $59.8 million or 82 cents per share in Q3. The Q4 free cash flow was above our new quarterly dividend of 55 cents per share, resulting in a distribution coverage ratio of 2.18 times in the fourth quarter, compared to 1.49 times in the third quarter.

Looking ahead, we expect GPCO cash flows to be consistent in Q1 2016 compared to Q4. OPCO cash flows are expected to decrease in Q1 as Q4 included the Foinaven operational incentive revenue recognized annually in the fourth quarter in each year and lost revenues from the Polar and Arctic Spirit LNG carriers.

As both of these vessels recently completed their respective charters, partially offset by lower dry-docking expenses. As a result of the above we're expecting a lower dividend coverage in Q1 2016 compared to Q4. Wrapping up today's call on Slide 11, we provided our recent sum of the parts calculation, which includes the value of Teekay Parent's three owned FPSOs and one VLCC tanker and joint-venture and other investment.

And Teekay Parent's equity investments in Teekay LNG, Teekay Offshore, Teekay Tankers, Tanker Investment and Sevan Marine. Our current sum of the parts calculation indicates Teekay's underlying value at approximately $9 per share, compared to yesterday's stock price closing of $6.69 per share, representing an attractive entry point at a discounted 28%.

In addition, as I highlighted earlier, we believe the temporary dividend distribution reductions are in the best interest of long-term investors as the reallocation of a significant portion of our internally generated cash flow to fund our profitable growth projects scheduled to deliver over the next few years at our two MLPs will ultimately result in higher available distributable cash flow in the future. Which creates greater capacity to increase cash distributions in the future, which will benefit Teekay Corporation.

As a result, the inherent value of our two GP interests is not currently being reflected in either the current share price or the sum of the parts calculation. Thank you for joining us on the call today. And operator, we're ready to take questions.

Operator: Perfect. Thank you so much. If you'd like to ask a question, please signal by pressing the star key followed by the digit 1 on your touch-tone phone. If you are using a speakerphone please make sure your mute function is turned off to allow your signal to reach our equipment.

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

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

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

Peter Evensen: Great.

Michael Webber: Hey, Peter. I just had a handful of questions, and I think I'll probably stick to the, I guess, to the Parent asset and one around your leverage. But maybe just kind of walking through Parent fleet status slide, but I don't think I've seen everything else - but nine.

Can you remind us, you mentioned around the Hummingbird Spirit through 2017 unless terminated for convenience with 90 days' notice. Can you give us a bit of color around the technicalities around that?

Obviously, if you're negotiating to extend it, it might not be - it's certainly not a certainty, but just a little bit more color around the embedded optionality there with the charter?

Kenneth Hvid: Yes, Mike, it's Kenneth. Well, first of all the Humming Spirit, it's on a field where there's lot more oil. But at the moment the production is definitely at a level where we're close to a breakeven cost that's compared to the oil existing oil prices is very tight.

So that's the reason why we can discussions and there is three months termination, as we said, in there. And we are doing what we can to work with a charter and figure out ways, the ways we can push that decision out in time. And that's really the optionality that charter has on the field.

And that's reflective of many of discussions we are seeing on other fields also, that you're making - you're not just making a decision based on today's oil price, but it is really, of course, also given lot of optional upsides that you're saying goodbye to.

So I think there's a lot of - it's a complex discussion and it's more than just dividing the charter rate with the production and then looking at the oil price. There are associated decommissioning costs, et cetera, and so if you fundamentally have a field that can produce for longer, of course, there are various options being weighed.

Michael Webber: Yes.

Peter Evensen: And I will just add that, that's an interesting field, because that field is not been depleting according to what its schedule was. So its production profile has actually been better than what was forecasted. And therefore, there is an incentive to keep it on the field for longer. And then, of course, play for the higher oil price you talked about, Kenneth.

Michael Webber: Okay. All right. That makes sense. Around the LNG carriers that you guys have chartered, the Arctic and the Polar, are they looking for something in - as early as Q3 2016, but do you have a sense yet on whether you'll be cold or hot stacking those, when you do get them to Asia?

And then if you can give anything around where the - where we should model in from a run rate or cost on those assets through 2016, if there are going to be a stack?

Peter Evensen: Yes. Well, we are working on opportunities. But in the charter opportunities, we don't anticipate, we treat them in the spot market. Therefore, we are looking for medium-term contract opportunities, which is why we got a delay for starting up in Q3. And therefore, they will not be kept cold. They will warm up, which oddly enough makes them in cold lay-up when they warm up.

Michael Webber: Right. Or you got to switch it around. And you guys are looking at longer-term opportunities because of the spot-market now relative to maybe the reference rate we're used to looking at somewhere between 70K, 80K?

In this environment, what sort of - without nailing down a specific number what sort of haircut do you think would be appropriate in this environment for long-term contracts?

Peter Evensen: Well, those units have been for the last few years trading down to Argentina, where they've been utilizing the shallow draft. And we're working on opportunities that can utilize those vessels in shallow draft opportunities. And they've traded in places, so they have ice class, which makes them good for Kenai. And Kenai looks like it will start up again.

However, I'm not sure exports really are profitable at today's low gas prices. So we can see numerous regions and capabilities that make these units - well, that's why customers come to us and ask them for us.

But fundamentally, we believe the oil price has to increase in order to have LNG prices increase. Because lots of people are picking up LNG today and selling it spot at a loss.

Michael Webber: Fair enough. I can move up with one on that. Around - there's just one more on the fleet and I just want to touch on the leverage, but within I think it was Appendix C of the release, kind of running through the Parent level cash flows and in the other bucket, I know there are lot of things that gets tossed in there. But there are two FSOs that are chartered up to the Parent.

I think they've been there for a while. But just curious if you can break out what the rate and term on those are. They don't make the slide in terms of the owned assets, but in terms of the kind of operating or assets or sources - or potential their sources of cash. Just trying to get a sense on where the breakeven of those is.

Vincent Lok: Yes, Mike. There are few offshore assets like Peter mentioned, the Petronordic and Petroatlantic. And then there is a couple of FSOs like the Pattani and the Falcon. Basically those are structured pretty much on a flow through basis. So there is very minimal impact on the free cash flow on the parent level.

Michael Webber: And can you remind us of the term on those assets?

Vincent Lok: They vary. Kenneth...

Kenneth Hvid: Right. Petronordic, Petroatlantic are core UK shuttle tankers that are active in the shuttle fleet there, most of it working on the Foinaven contracts. So that's where they lead up to. Pattani is on an option with Chevron in Thailand. And it's a five-year option at a relatively low rate. Again, there it's an asset with more field-life. And it's a big producing field.

So in one or two years we'll probably have a discussion with Chevron around the possible expansion, because it's a good asset that has been completely written down, but has lot more field life left in it.

On Falcon Spirit, that's on charter to QP and Occidental. And there is a firm charter that expires in 2017. But also there, it's the last field and there are extensive discussions which are starting to come up over the next month or two we expect.

Michael Webber: Fair enough. Is it fair to say that that other line item in terms of gas generation at the Parent shouldn't be too much variability there in 2016 and 2017, maybe a bit beyond that makes the change? Is that fair characterization?

Peter Evensen: Other than the Arctic and Polar.

Michael Webber: Right, right. Okay, perfect. And then, one more for me and I'll turn it over. And Vince's legacy or Peter, but just around the facility at the Parent level, can you give us a sense on where the LTV covenant is on that facility.

The one that's underpinned by the equity stakes in the Daughters and whether there has been any sort of reduction in availability just given the fact that the Daughter equity value dependent so much?

Peter Evensen: Yes. We have a corporate revolver at the Parent that is secured by the Daughter shares. And with the sharp drop in the share prices late last year, it's a fairly low LTV. It's less than 10% right now.

So we are not getting very much availability under that revolver, right now. We are in discussions with the banks to amend that facility going forward.

Michael Webber: Do you have a timetable around the conversations at all?

Peter Evensen: I would say probably in the next couple of months or so.

Michael Webber: Great. All right, great. Thanks for the time, guys. I'll turn it over.

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

Amit Mehrotra: Yes, thank you, operator. Good afternoon, good morning, guys. I appreciate all the details in the slides. Vince, on the Parent company cash flow - sorry, the operating cash flows, I guess, Peter mentioned some of the puts and takes in the first quarter.

But if you can just extrapolate a little bit and tell us what the puts and takes are for, so we can get a sense of maybe what the full year looks like? I appreciate it.

Vincent Lok: Yes. We did provide some guidance for Q1 in the appendix of the presentation on Slide 14. So the biggest changes in Q1 compared to Q4, would be the reduction in the Foinaven revenues, given that we receive an extra $15 million in the fourth quarter, so that will be a minus. And then the Arctic and Polar, should they continue to stay up higher then that's a $6 million reduction in the first quarter.

So those are couple of the reductions. The increases, we've highlighted some decreases in OpEx there for the FPSO fleets. The dry-docking expense that we incurred, $5 million in the fourth quarter would not be there in the first quarter.

And then, the other parts of it would be smaller items, like tanker rates are probably going to be a little bit stronger in the first quarter, and the dividend might be a little bit higher from TNK. And I think net interest expense probably should drop a little bit in the first quarter. So there are some pluses and minuses.

Amit Mehrotra: Okay. And then the $850 million, I guess, in gross debt, of which $245 million is short-term - characterized as short-term. Can you just sort of walk through how that will be addressed with the cash balance in the free cash flow, I guess, some of that will be extended with the VLCC facility?

But if you could also help us with sort of how you address that with the current existing liquidity. And also just related to that if you can just help us with the minimum liquidity requirements with respect to any covenants or even inter-quarter working capital swings?

Vincent Lok: Sure. Yes, our net debt, net of cash at end of December was $630 million. The two facilities you are referring to, one is - that's up for maturity in 2016. The first one is the one that's secured by the Shoshone Spirit VLCC. So we are in the process of extending that out.

That one should be relatively straightforward. The other one is the FPSO facility that expires in September. That's secured by the other FPSO units at the parent company level. That one, we are also in discussions already with the banks on extending goes out. So I expect both facilities to be rolled.

In terms of the - just going back to the earlier discussion about the equity margin, corporate revolver, as I said we are in the process of talking with the banks to amending that. And the goal there is to get a higher loan-to-value percentage and if we're successful on that then our liquidity would increase in the current levels.

Amit Mehrotra: All right. Okay, that's great. Just one sort of bigger picture question for, Peter, if I may, the story for long-time, it had been sort of the resilient nature of the cash flows and basically how you then ask your customers for true-ups when oil prices are high.

So it's tough to give concessions when oil prices are low. But obviously, I guess, in the current environment, customers are looking everywhere to cut costs and some are in survival mode.

Knowing for well sort of where you are in the supply chain and where you guys sit in the supply chain and I guess the blue-chip nature of your customers.

Can you just sort of give some color in terms of how commercial negotiations or discussions with existing customers gotten more difficult or is it sort of the same status quo and really is just a reflection of how the public markets are treating the business model? If you can just offer us any updates on that, that'd be great.

Peter Evensen: Sure. Well, it always starts with your customers. And when your customers are hurting you as a supplier are always hurting as well. So I think it's true that we're not immune to that.

What is different I think following the distribution cuts and the fact that we have to finance the growth projects that are coming up, is that it's sometimes in our interest in order to amend the contracts to get them longer.

So we're going to our customers and saying is there a possibility of buying more duration because we've observed especially at Teekay Offshore that the duration of our contracts is so low that our banks are forcing us to repay debt so much. So if we can term out our contracts by giving a little bit.

Then I think that's a win-win for both parties. At the same time we got to work with them in order to lower the costs. And that's something that we're more than happy to give the bulk of that to our customers and give value.

Amit Mehrotra: Is there a way to think about that trade-off and how you think about the value proposition, I guess, on an NPV basis in terms of trading off a little bit of a higher rate or cash flows right now for little bit longer durations? Can you just help us with that?

Kenneth Hvid: Maybe I should just add - it's Kenneth here - that there are really three things that I think need to be considered when we're looking at the discussions with customers. The first one is as you correctly pointed out where did we sit in the value chain, and what are the supply-and-demand dynamics in each of those segments.

And I would say that, they're fairly poorly understood across the board in the offshore service sector, because they're obviously vastly different between a shuttle tanker and a PSV and an anchor handler today.

In the same way as we're seeing conventional tanker rates shooting up to the same customers and which is a function of a lot of oil suppliers and relatively fewer tankers than what we had a couple of years ago.

So I think it is important to understand the supply-and-demand fundamentals in each of these sectors which is there. The second part is, of course, we're interested in going into a dialogue about extending and amending and getting more certainty, more duration on.

And the underlying criteria there is, obviously, what is the fundamental field life, which we spoke to earlier, and why it makes sense to stretch out. It's in our interest to stretch our loans to match a longer profile and getting more certainty on those profiles. So that's an active discussion, which is around the NPV calculation, getting certainty on the financing and I'm stretching that out.

And there is a third element, which is really the important one, which is different where we can definitely see those completely different change dialogue in the industry today, where customers and suppliers are just having different conversations.

It's about how do we collectively take out cost of the supply chain. It's about how do we bring down the production cost per barrel. And the only way that you're going to effectively do that, there is only so long you can keep beating each other up.

What you really need to do is to look at how you can work smarter. And it's about shifting around some roles and responsibilities and how you actually develop and run a field. And so there is a lot of duplication out there. And those are the discussions which are actually more interesting to us, because that is fundamentally how we become more relevant to our customers and how we help lower the cost.

And out of that equation, obviously, comes a benefit to all of us, because we make the industry more sustainable.

Peter Evensen: And I would just add, when you think about the Varg FPSO that sat on the same field for close to 18 years. And there was lot of extra drilling that went on and they developed other parts. And so we - they paid us to put on, for example, gas injection in order to keep the pressure up on that field. And so, we continue to work with our customers on that.

But the great part - a lot of people have been asking about, well, why do you have so much growth. But the great news is that our oil company customers are really keen to get our new projects on. If you think about Libra, if you think about Atlanta, if you think about Yamal LNGs.

Kenneth Hvid: And Gina Krog.

Peter Evensen: Yes. And Gina Krog in the North Sea, they all want - they are keen for us to complete our share of it, because they want to start cash flowing those assets, which are incredibly important for them to keep up their reserves. And so, that's what we're continuing to see, whereas, most of the focus is on, will people shutdown production.

But actually the oil companies and - obviously BG being sold to shell, that was shell replacing reserves in a big way. But what is important is that the keenness, I guess you would say, of our customers in order to have our new projects come on.

And that is, of course, taken off with the idea that some of these units that are on matured fields will go off. But then again, as Kenneth was saying, some of our mature assets are great assets in order to have cost-effective solutions on fields that will be developed in the future.

Amit Mehrotra: Right.

Peter Evensen: So it isn't just one way. Everyone thinks there's this correlation coefficient that oil production is going to go down, but actually, I can see that oil price - our customers as you were saying, Kenneth, are actually thinking more strategically than that.

Amit Mehrotra: Okay, great. Thanks, guys. I appreciate the time.

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

Fotis Giannakoulis: Yes. Hi, guys. I want to ask about the debt at the Parent level. And you have the bones, and you have the facility that you mentioned earlier. Based on the cash flows and now with the reduced dividend, what is the plan of the repayment of this loan? How do you view long-term this loan being repaid?

Peter Evensen: Sure. Well, we haven't actually changed it, which is that we plan to sell the fixed assets that we have upstairs, which total as we said approximately $635 million. That's how we plan to repay the bulk of the net debt that we have. That's a good offset.

And then, of course the value of our Daughter companies has been severely impacted by the distribution cuts. But we know that inherent value will increase along with the GP value and that will defray any extra amount that has to be refinanced in the future years.

Fotis Giannakoulis: Can you explain this last comment about the stock of the Daughter companies? Are there any thoughts of potentially selling the Daughter company stock in order to repay the loan at the parent level?

Peter Evensen: No. The idea is not to buy high, sell low. The idea is that we can - we have lots of levers in order to enhance that. Obviously, we've taken it on the chin with cutting the distributions. But the ultimate value of the Daughter companies is a fraction of what they're worth, when we turn back on the distributions and fix the financing shortfalls that we have.

That's the essence of what we've been trying to convey today in our call. So, yes, take a picture and say that some of the parts today is $9. But let's take a picture when things get restored, and then, I think the $9 looks just a fraction of what the inherent value is, which by the way was what it was a year ago, right?

Fotis Giannakoulis: No, no, let us...

Peter Evensen: And so, there isn't an essence for what it is. We also have the ability, as Vince was saying that if we have any liquidity shortfalls we can borrow more against our Daughter company entities rather than sell them, because as you pointed out, Vince, the loan-to-value on that equity margin revolver is less than 10%.

And so, we have levers that we can play there, but the fire-sale part of assets, don't even bring it up.

Fotis Giannakoulis: Yes. But I just wanted to make it clear, that there are no plans for selling any of the shares. It's clearly a lot of value in the stocks of the Daughter company.

When you mentioned about potentially selling the assets at the parent level, are you referring to selling down to the daughter companies, or even selling to the market given that some of these assets they have long-term cash flows and there would be buyers probably based of this cash flows?

Peter Evensen: Well, each asset is a little different. Obviously, the FPSO assets are earmarked for TOO, whereas the VLCC is earmarked for third-party sale. And TIL is, they talk about is also a - TIL is also on its way to being sold and they have their own strategy that they have going forward on that which they're successfully executing.

So Teekay strategy, which is to become net debt free, hasn't changed one bit from that. Obviously, it's been delayed. And we've had to take a little bit of a change in financial strategy. But we have not changed that inherent strategy, and that's why we think we will be back there in order to repay the bonds by 2020.

Fotis Giannakoulis: And, Peter, I understand that part of the operations of the - that they're related to assets of the daughter companies are performed by the Parent as a service to its daughter companies. Is that correct?

And out of the G&A that corresponds to the Parent MPP, is there any G&A that would be more related to the daughter company that could be potentially being undertaken by the daughter company?

Peter Evensen: Now, we've already made those allocations which depend upon that. Yes. Teekay, all the employees are basically up at Teekay Corporation. They provide services and they do that on a basis that is checked by the independent directors annually at each Daughter company to make sure that the services they are getting are cost-effective and there isn't any splitting up of that.

Fotis Giannakoulis: Okay. Thank you very much, Peter.

Peter Evensen: Thank you. And you can find more of those details in the breakout of our earnings release.

Operator: The next question comes from Sunil Sibal from Seaport Global Securities. Please go ahead.

Sunil Sibal: Hi, good morning, good afternoon, guys. Just a couple for me, in terms of FPSOs for those units for which you might have to wait, so they come off a field and they are waiting for a new contract, what is a typical op-cost during that time?

Kenneth Hvid: Well, it varies based on the unit and the context. But Petrojarl I we just had in lay off and Hummingbird which are relatively simple systems would be $5,000, $10,000 a day. I think without being drawn on the exact number, it's probably in that region.

But it all depends in, in terms of when we would prepare for the next job, does it lay-up, and where we are expecting a job shortly or is it a little bit of a longer period. So it really is on a unit by unit basis, so we could give more information on that as it comes relevant.

Sunil Sibal: Okay. Got it. So the cold lay-up will be even lower than that, that's what you're saying that $5,000 number that you said?

Peter Evensen: I would call it closer to $10,000 today.

Sunil Sibal: Okay. Got it. Then on the LNG carriers, so you have a few at the Parent and a couple at the TGP level too. I was kind of curious, I think, some of the players in the industry have come together for the cool pool kind of concept.

With regard to your vessels was that just not kind of the contracting strategy you are looking for or the vessels were different in terms of your decision not to go that route?

Peter Evensen: Yes. We think we have the customer contacts and in order that we don't need to be part of a pool that will outperform the pool, because our assets are more specific. And that was proven particularly by the Maersk in the methane, getting the employment on the new Australia contracts through mid-2016.

And so we think we actually benefit by doing it ourselves rather than being part of a pool. The Arctic and Polar as I talked about at an earlier question are little more specific. And so, we're having direct contacts there rather than treating them as commodities.

Sunil Sibal: Okay. Got it. And then just one housekeeping for me. In the Appendix C, in which you provide reconciliations for cash flows and as part of the earnings release for the vessels at the Parent, so seems like the line item on that amortization of in-process revenue contracts.

So normally, it's a deduct for calculating the cash flows and seems like this quarter it was add back. And I was kind of curious if there was anything specific going on there and I can take it offline even you know if that's better?

Vincent Lok: Yes. We can take that offline with you.

Sunil Sibal: Okay. That's all I had. Thanks, guys.

Peter Evensen: Thank you.

Operator: The next question comes from Jerry ((inaudible)) from WGI. Please go ahead.

Male: Hi, thank you so much for your time. I just wanted to follow up on the previous customer negotiation question. I understand your position of one greater duration on the offshore contracts.

And I'm just curious, if oil prices deteriorate further and the profitability of some of the fields becomes more in questionnaire, delays and deliveries in exchange for longer duration also possible.

Peter Evensen: I don't think so. I think what we're talking about when we talk about this, extending the duration is on more mature oilfields where you have low production. Where you have new fields coming on, you have high barrels per day production. And they spend so much money that they're actually keen to start up on time.

Male: Okay. Okay. And is there a way to possibly get some understanding for the scale of rate reductions of matured fields are possible in exchange for duration?

Peter Evensen: No, it's actually a whole bunch of one-offs. There isn't an algorithm or a formula that you can put to that. And as I said maybe earlier on the TOO call, a lot of it depends upon what they see as the ultimate value of getting out.

And oddly enough, if you close down a field in some ways it can be hugely cash flow negative, because you accelerate what we call plug and abandon cost. You have to start to take things off of the field.

And so the weird thing is by shutting down production, you actually could cause yourself to have much more negative cash flow.

Male: Okay. Great. Thank you so much.

Peter Evensen: Thank you.

Operator: The next question comes from George Berman of IFS Securities, Raymond James. Please go ahead.

George Berman: Good afternoon. And thanks for taking my call.

Peter Evensen: Hi, George.

George Berman: Congratulations on the nice contract on the Shoshone Spirit. Adding to your earlier comments that you are looking to now, I guess, change for the better to buy low and sell high, in the current environment wouldn't it make sense to liquefy that VLCC with the charter on it and either we purchase your own or your Daughter company's shares and add to your positions?

Peter Evensen: Yes, that's an idea. Yes.

George Berman: Okay. Next question, your investors in Tanker Investments, if I look at the company reported great numbers this morning and they're showing as shareholders, they bought a bunch of their own stock back, and then second about the largest individual shareholders would be Teekay Tankers along with you, Teekay holdings.

Would it make sense to move that company along with Teekay Corporation or sell the shares? I understand, they announced another 60 million share stock buyback program or $60 million stock buyback program this morning. What are your plans for this division? I think you managed that as well, right?

Peter Evensen: Yes. That is managed. The CEO is a Teekay person and it's a Teekay managed entity. So, yeah, they're executing very smartly. They're taking advantage of the fact that they can sell assets at full value and they're buying back their shares at a 30% discount, and in doing that every remaining share becomes worth more.

So, obviously, we've taken note of that. Right now at our some of our other daughter companies we have some funding shortfalls. But believe me, that is something that Teekay Corp. has done in the past. From 2005 to 2007, we bought back 25% of our shares.

So it's a strategy we're familiar with and you are quite right to point out that Tanker Investments is executing on that. And given where all the Teekay entities are trading post this distribution cuts, that's a viable strategy to sell...

George Berman: Okay.

Peter Evensen: ...assets and buyback loans or shares at a discount, creating more net asset value per share. And we brought back some of the parts, but the other thing that we think about is the fact that, we are as TIL selling at significant discount to its - some of the parts. The only thing...

George Berman: That's the problem at the moment - that's the problem at the moment with all tanker companies, despite record high wage, the valuations given in - of tanker companies at the moment in the market, almost ridiculous, as ridiculous as your own stock price?

Peter Evensen: Yes. But that's what happened in world, is that everything is trading correlated to oil prices. And you're right to point that out. Tankers are benefiting from low oil prices in general. But the whole sector as everybody likes to say, the baby is thrown out with the bathwater. So it's incumbent upon us to take advantage of that as we increase our financial strength.

George Berman: Right. One last question, could you give us the rates that you are currently paying, the chartered in rates for the Arctic Spirit, the Polar Spirit?

Brian Fortier: That's roughly $50,000 per day per ship.

George Berman: Okay. And they are currently laid up, but looking for work. So if you can secure longer-term contracts above those rates, obviously they would be a profit center for Teekay Parent as well, correct?

Brian Fortier: Yes.

George Berman: Okay. And, with a number of LNG projects coming online over the next 12 to 18 months, you feel the chances are pretty good then at this point in time?

Brian Fortier: Yes. What we said on the Teekay LNG call is - our customers used to want to order new buildings. Now, with the rates being low, they are looking at chartering existing stuff and waiting not to have new buildings. And that's really what happening across the whole energy universe.

At high oil and LNG prices everyone wanted something new. Now, they're much more content to have cheap but nice, as long as it's safely operated by an operator like Teekay.

George Berman: Right. And there are not that many LNG carriers laid up at this point are there?

Brian Fortier: No, there aren't. And you will ultimately need more as all the Sabine Pass and other projects come online.

George Berman: Right. Is that the - Sabine Pass, you mentioned that, that was supposed to happen here late January. I guess, it's been pushed out to early March now. But we are pretty comfortable that that will start come to pass?

Brian Fortier: Yes. We have two vessels that are going to lift volumes there and one just got delivered earlier today. And that will go on charter to Cheniere by the end of this month. And...

George Berman: Okay, great. Good luck for the future.

Peter Evensen: Thank you very much.

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

Gregory Lewis: Hey, good afternoon, guys. And thanks for squeezing me in here, I guess, for now up on an hour. I mean, I have lots - I'll just mention one question that they kind of - you guys sort of led me to thinking about. You mentioned that the assets at Teekay Parent are around $635 million.

It's pretty easy for me to back into the value of the VLCC. I guess, what I am wondering is, for the value we're putting on, the FPSOs, is that more of third-party broker analysis or is that more of a applying a multiple of cash flow to come up with those valuations?

Peter Evensen: It's more of a discounting of the existing contracts that they're on and taking into account of residual value.

Gregory Lewis: Okay. Thank you for the...

(Crosstalk)

Peter Evensen: We're putting no more - like, for example, the Foinaven where we're negotiating to extend the contract, we are attributing no value to that contract extension until it's actually realized.

Gregory Lewis: Okay. So it's just really just the DCF?

Peter Evensen: Yes.

Gregory Lewis: Okay. Perfect, guys. And thank you very much.

Peter Evensen: Thank you, Greg.

Peter Evensen: All right. Thank you all very much. As Greg pointed out, we're right up on an hour, so thank you very much. And as you hear, we are still busy. There's a lot going on around Teekay Corporation. But our biggest focus right now is on the financial aspects going forward. Thank you all very much for listening.

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