TEEKAY SHIPPING (CANADA) LTD.

Moderator: Peter Evensen
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10:00 am CT

Operator: Welcome to Teekay Corporation's Second Quarter 2013 Earnings Results Conference Call. During the call all participants will be in a listen only mode. Afterwards you will be invited to participate in a question and answer session.

At that time if you have a question, participants will be asked to press star 1 to register for a question. For assistance during the call please press star 0 on your touch-tone phone. As a reminder this call is being recorded.

Now for opening remarks and introductions I would like to turn the call over to Mr. Peter Evensen, Teekay's President and Chief Executive Officer. Please go ahead.

Kent Alekson: Before Mr. Evensen begins I would like to direct all participants to our Web site at www.teekay.com, where you will find a copy of the Second Quarter 2013 Earnings presentation. Mr. Evensen and Mr. Lok will review this presentation during today's conference call.

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

Additional information concerning factors that could cause actual results to materially differ from those in the forward-looking statements is contained in the Second Quarter 2013 Earnings Release and Earnings presentation available on our Web site. I will now turn the call over to Mr. Evensen to begin.

Peter Evensen: Thank you, Kent. Good morning everyone, and thank you for joining us today for Teekay Corporation's Second Quarter of 2013 Earnings call.

I'm joined this morning by our CFO, Vince Lok. And for the Q&A session we also have our Chief Strategy Officer, Kenneth Hvid, and our Group Controller, Brian Fortier. During our call today, I'll be walking through the second quarter 2013 earnings presentation, which can be found on our Web site.

Beginning on Slide 3 of the presentation, I'll briefly review some recent highlights for Teekay Corporation and our three publicly traded daughter entities.

For the second quarter, Teekay Corporation generated $184 million of total consolidated cash flow from vessel operations, or CFVO. Teekay Corporation reported a consolidated adjusted net loss of $33 million or 47 cents per share for the second quarter, compared to a consolidated adjusted net loss of 25 cents per share reported in the second quarter of 2012.

The increase in our adjusted net loss for the quarter is mainly attributable to lower revenues in our FPSO fleet, partially offset by contributions from strategic acquisitions and organic projects that delivered throughout the past year. And savings from the re-delivery of 13 chartered-in conventional tankers since the start of 2012 and other cost reduction initiatives.

Unfortunately, we had anticipated and unanticipated operational issues in our FPSO fleet. We had anticipated the expiry of the Petrojarl I FPSO charter in April, and its subsequent off-hire for the rest of the quarter, as well as the lost cash flow of approximately $9 million per quarter due to the Banff FPSO being off-hire while it undergoes repairs following damage from a December 2011 storm event.

What we had not anticipated was the lower production on the Foinaven and the inability to book revenue on the Voyageur Spirit from first oil, both because of temporary operating issues. The operational issues on the Voyageur Spirit and Foinaven FPSO units cost us approximately 11 cents per share in net income in the second quarter. Fortunately repairs to these units are in progress, as I will discuss in more detail later in this presentation.

In May and June, Teekay Parent completed the sale of the Voyageur Spirit FPSO and its 50% interest in the Cidade de Itajai FPSO to Teekay Offshore. These transactions contributed to a reduction in Teekay Parent's net debt by approximately $334 million.

Our three publicly traded daughter entities have also been executing on their respective business plans during the quarter. For the quarter ended June 30, Teekay LNG Partners declared a cash distribution of 67-1/2 cents per unit. The cash distribution received by Teekay Parent based on its GP and LP ownership interest in Teekay LNG totaled $23 million of cash flow for the quarter.

Recently Teekay LNG Partners announced some near-term growth through an agreement to acquire up to two newbuilding LNG carriers from Norway-based Awilco LNG for a net price of $155 million each.

The first ship, which is expected to deliver from DSME shipyard in South Korea in September of this year, will be acquired by Teekay LNG and chartered back to Awilco under a fixed-rate bareboat charter for a firm period of five years, with an option for one additional year. At the end of the 5 or 6-Year charter Awilco has an obligation to purchase the vessel from Teekay LNG at a pre-determined price.

In addition, Teekay LNG has offered to acquire a second ship from Awilco under identical terms to the first vessel, which is expected to be delivered in the fourth quarter of 2013, or latest, early in 2014.

In July, Teekay LNG secured new 5-Year time charter contracts commencing in 2016 for our two fuel efficient LNG carrier newbuildings ordered in December 2012. The charters are with a subsidiary of Cheniere Energy, which will be exporting LNG from their Sabine Pass LNG export facility in Louisiana.

Based on the customer reception to our newbuilding design, and now success of its chartering efforts, Teekay LNG exercised the options to order two more fuel efficient 173,000 cubic meter LNG carrier newbuildings from DSME.

The latest two newbuildings will also be constructed with the M-Type, Electronically Controlled-Gas Injection, or ME-GI, twin engines, which are expected to be significantly more fuel efficient and have lower emission levels than engines currently being used in LNG shipping. Teekay LNG expects to secure long-term contract employment for both vessels prior to their scheduled delivery in 2016.

In connection with the exercise of these two options, Teekay LNG secured further options from DSME to order up to five additional LNG carrier newbuildings in the future. Teekay LNG needed these options, as they are experiencing a strong pace of business development opportunities for both LNG transportation and floating storage in re-gasification, or FSRU projects.

The partnership is currently bidding on several projects, which are expected to start up in the time period beginning 2016, when new liquefaction plants are scheduled to come online.

Moving to our other master limited partnership, for the quarter ended June 30, Teekay Offshore Partners declared a cash distribution of $52.53 per unit. The cash distribution received by the Teekay Parent, based on its GP and LP ownership interest in Teekay Offshore, totaled $16 million of cash flow for the quarter.

On May 2, Teekay Offshore Partners completed its accretive acquisition of the Voyageur Spirit FPSO from Teekay Parent for $540 million. On June 10, Teekay Offshore completed the accretive acquisition of a 50% interest in Cidade de Itajai FPSO from Teekay Parent for $204 million. Following first oil in February 2013, the Cidade de Itajai commenced a 9-Year time charter with Petrojarl.

In May 2013, Teekay Offshore was awarded a new project with Statoil to convert the 1995 shuttle tanker, the Randgrid, to an FSO unit which will operate on the Gina Krog oil and gas field in the North Sea under a new 3-Year charter contract, plus 12 additional 1-Year extension options commencing in the first quarter of 2017.

Teekay Offshore is also currently bidding on several new offshore project opportunities, which if awarded will contribute to future distributable cash flow growth and is also involved in several customer-funded front end engineering and design for FEED studies, which greatly improved the partnership's potential for being awarded projects to build and operate offshore units.

For the second quarter, Teekay Tankers declared a fixed dividend of 3 cents per share. Based on its total ownership of Class A and Class B shares Teekay Parent received a cash dividend of approximately $600,000.

For the second quarter, Teekay Tankers generated cash available for distribution, or CAD, of 7 cents per share, down from 10 cents per share in the first quarter of 2013, mainly due to lower time charter revenues and lower average realized spot tanker rates.

In June of 2013, Teekay Tankers took delivery of a 2013 built VLCC newbuilding to its 50/50 joint venture with China-based Wah Kwong Transport Holdings. Following delivery, the vessel commenced a 5-Year time charter contract to a major Chinese charterer at an attractive time charter rate.

Teekay Tankers has continued to tactically manage its fleet employment profile to maintain strong fixed rate coverage through this period of tanker commercial weakness. Including the recent VLCC newbuilding charter and the new 3-Year Aframax time charter, fixed coverage for the next 12 months is approximately 40%.

Turning to Slide 4, I want to take a moment to update you on the operational start-up issue we experienced with Voyageur Spirit FPSO unit in the second quarter. On April 13, the Voyageur Spirit achieved first oil and commenced production on the Huntington Field in the North Sea. And following this on May 2, Teekay Offshore acquired the FPSO unit from Teekay Parent.

Under its time charter contract the unit has a specified period from first oil to achieve full production and receive its certificate of final acceptance from the charterer, E.ON.

However, due mainly to a defect in one of the FPSO's two gas compressors, the unit was unable to reach full production levels within the allowable timeframe under the contract. And subsequently, E.ON declared the Voyageur Spirit off-hire retroactive to first oil.

Because the Voyageur Spirit did not achieve final acceptance from E.ON as of the date of Teekay Offshore's acquisition, which was a condition of the sale contract, Teekay Parent, as the seller, has agreed to indemnify Teekay Offshore for revenue it would have otherwise earned had the unit not been declared off-hire, up to 10% of the initial purchase price, or $54 million.

Teekay Parent's indemnification will be effectively treated as a reduction in the $540 million purchase price that Teekay Offshore paid to Teekay Parent to acquire the unit. As a result, the Voyageur Spirit indemnification will not impact Teekay Parent's operating cash flows or earnings.

For the second quarter of 2013, the amount of the purchase price adjustment was approximately $12.5 million from the date of acquisition to the end of the quarter. And we expect there will be another adjustment in the third quarter as well.

Note that Teekay Parent sales price to Teekay Offshore, based on discounted cash flows, was approximately $75 million more than Teekay Parent's cost to acquire and upgrade the FPSO unit.

Following the completion of repairs and testing the unit is expected to ramp up to full production by the end of August, which would result in a total indemnification amount well below the $54 million cap.

It's important to note that the Voyageur Spirit FPSO has actually been producing, albeit at partial capacity, since April. And did produce volumes for oil for E.ON during the second and third quarters.

Accordingly, Teekay Parent and Teekay Offshore intend to enter into commercial negotiations with E.ON to recoup a portion of losses on the contract. Any recouped losses will be credited towards the Teekay Parent indemnification payments paid to Teekay Offshore.

Turning to Slide 5, I'll discuss a separate operational issue related to the Foinaven FPSO. Under the Foinaven FPSO charter contract a portion of the revenues are based on certain operational performance measures, oil production levels and average oil prices.

Unfortunately, between the fourth quarter of 2012 and the second quarter of 2013, the Foinaven FPSO experienced some equipment related operating issues, which led to production being reduced to less than budgeted quarterly production levels.

In mid-July Teekay Parent and the charterer mutually agreed to shut down the unit to repair the FPSO unit's gas compression trains and the subsea systems. The latter of which is the responsibility of the charterer.

Currently we expect Compressor Train A to be repaired by mid-August, allowing the Foinaven FPSO to re-commence operations under the charter contract and producing up to 30,000 barrels of oil per day. Once Compression Train B is expected to be repaired in November, at which point the unit is expected to return to full production of over 40,000 barrels of oil per day.

Given lower production levels in the first and second quarter and the shut down in the third quarter to fully repair the two gas compressor trains and the subsea system, Teekay Parent is expected to generate lower quarterly charter revenue and reduced annual production tariff income, which is typically recognized in the fourth quarter of each year.

For the second quarter, the Foinaven FPSO's revenue contribution was approximately $4 million less than expected due to lower production, or approximately 6 cents per share. Vince will later discuss the expected impact on the third and fourth quarter revenues.

I want to point out that these financial results for the Foinaven FPSO in the second and third quarters are based on a conservative assumption that we will receive no recovery amounts from the charterer for the lower production levels.

Along with the Voyageur Spirit FPSO operational start-up issues resolving the Foinaven FPSO production issues and re-commencing operations at full capacity is a top priority, and our FPSO operation teams have been working diligently to get the unit back into full production as soon as possible.

Turning to Slide 6, we continue to make progress on our existing portfolio of growth projects. I won't cover all the projects on this slide, however, I'd like to provide you with brief updates on a few of the projects shown here.

In July 2013, Teekay LNG's 50/50 LPG joint venture with Belgian-based EXMAR exercised options to order an additional two medium-sized LPG carriers, bringing the total number of LPG newbuildings ordered through this joint venture to ten vessels. This is quite a start for a joint venture that's less than a year old. These two latest newbuildings will be constructed by Hanjin Heavy Industries at their shipyard in the Philippines and are scheduled for delivery in 2017.

Construction on the Petrojarl Knarr FPSO continues to progress and the project is on time for expected delivery in field start-up in mid-2014. Our Finance Team is currently working to secure long-term debt financing, which is progressing well and is expected to be finalized by the fourth quarter of this year.

As previously highlighted, in April the Petrojarl I FPSO completed its previous contract with Statoil, and it since departed the Glitne Field and is currently in lay-up. We continue to evaluate several potential redeployment opportunities for this unit, which has been redeployed on ten different fields in the North Sea since 1986.

The Teekay Group also continues to add new projects with the recently announced projects done directly at the daughter level, including the previously mentioned purchase and lease transaction with Awilco LNG, and the order for the two additional ME-GI LNG carrier newbuildings, as well as Teekay Offshore's Gina Krog FSO conversion projects for Statoil.

Importantly, all of these projects, whether completed directly at the daughter entities or at Teekay Parent being warehoused for drop-down at inception of the contracts, support the growth in distributable cash flows at Teekay Offshore and at Teekay LNG, which will translate into increased general partnership and limited partnership cash flows to Teekay Parent.

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

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

As we did in the first quarter, we have removed the pre-ownership activity of the Voyageur Spirit FPSO, which is treated as a variable interest entity for accounting purposes until the unit was acquired from Sevan on May 2. Later on I will also provide our outlook for the third quarter.

Starting at the top of the page, net revenues decreased by $21 million, most of which related to the FPSO fleet, $10 million of this decrease was from the Petrojarl I FPSO since its charter contract expired in April of 2013.

Revenues from the Foinaven FPSO declined due to the lower oil production, as discussed earlier, and due to other revenue adjustments. The Hummingbird FPSO reviews declined due to FEED study revenues included in the first quarter, as well as a reduction in the amortization of non-cash revenues.

These decreases were partially offset by OpEx recovery revenue from the Voyageur Spirit FPSO, which we will continue to receive even during the period when the unit is considered off-hire.

As Peter mentioned, the indemnification to Teekay Offshore for the loss of Voyageur Spirit revenues did not have any effect on our consolidated income or operating cash flows. However, the off-hire of the Voyageur Spirit did result in a $12.5 million reduction of external revenues during the second quarter.

We are in negotiations with the charterer to recover some of the lost revenue in respect of the production that was achieved, which if recovered, will be reflected as revenue in the period an agreement is reached for the charterer. And this is the same with the Foinaven FPSO.

Vessel operating expenses increased by $8 million, primarily from the Voyageur Spirit FPSO during its operating period and increased maintenance activities on various vessels. Time charter higher expense was consistent with the prior quarter. Depreciation and amortization increased by $6 million, due mainly to the Voyageur FPSO and the delivery of the two BG shuttle tanker newbuildings.

G&A expenses decreased by approximately $5 million, mainly due to the timing of recognition of short-term and long-term incentive compensation expenses, which are typically higher in the first quarter of each year. The lower G&A figure also reflects the cost reduction initiatives we have implemented over the past year.

Interest expense increased by approximately $5 million, mainly due to new debt facilities relating to the Voyageur Spirit and the two BG shuttle tanker newbuildings.

Equity income increased by approximately $8 million due to a full quarter's income from the EXMAR LPG joint venture, which was acquired in mid-February and higher equity income from the Itajai FPSO, which commenced operation also in February of this year.

Income tax expense was consistent with the prior quarter. Non-controlling interest expense decreased to $30 million, mainly as a result of lower adjusted earnings in Teekay Offshore and Teekay Tankers.

Looking at the bottom line, adjusted net loss was 40 cents - 47 cents per share in the second quarter, down from the previous quarters adjusted net loss of 17 cents per share, primarily due to the lower revenues and higher operating expenses in our FPSO segment.

We estimate that the operational issues relating to the Voyageur and Foinaven FPSO resulted in a net loss of approximately 11 cents per share in the second quarter, which if excluded, would have resulted in an adjusted net loss of 36 cents per share in Q2.

Turning to Slide 8, we have provided some guidance on our consolidated financial results for the third quarter of 2013. We expect revenues from the fixed rate fleet to increase in the third quarter as a result of the following, $8 million from the Voyageur Spirit assuming it achieves final acceptance by the end of August, $8 million from the BG shuttle tanker newbuilding deliveries and $4 million from fewer dry-docking days in the gas fleet in Q3.

These increases are offset by the following expected decreases, $9 million from the Petrojarl 1 FPSO completing its charter during middle of Q2, $8 million from the shuttle tanker charter expirations and dry dockings, $3 million from fixed rate conventional tanker charter expirations and dry-dockings and $3 million from lower interest income on the VLCC term loans.

We expect revenue from the Foinaven FPSO to remain consistent with Q2 as a reduction in the production during the early Q3 shutdown is expected to be offset by higher production during the post-shutdown period later in Q3.

Spot revenue days are expected to remain consistent with Q2 as vessels redelivering from our fixed-rate fleet are offset by increased dry-docking activity in our spot fleet and redeliveries of chartered-in vessels.

So far in Q3, we have fixed approximately 45% of our Aframax and Suezmax spot revenue days at average TCE rates of $14,000 per day and $10,600 per day, respectively.

Vessel operating expenses are expected to increase by approximately $4-1/2 million due to repairs on the gas compressor and other maintenance on the Foinaven FPSO, $4 million for increased maintenance activities in the rest of the offshore fleets, and $1-1/2 million as a result of the BG shuttle tanker newbuilding deliveries. These increases are expected to be partially offset by a reduction of approximately $3-1/2 million from the Petrojarl 1 FPSO.

Time charter hire expense is expected to decrease by approximately $1 million, reflecting lower spot in-chartering in the shuttle fleet and the redelivery of one conventional tanker in Q3. Depreciation and amortization is expected to increase by $2 million, due primarily to the Voyageur Spirit and the BG shuttle tanker deliveries.

We expect G&A to be approximately $34 million in Q3, which is similar to Q2. Net interest expense is expected to increase by $1 million due to the BG shuttle tanker deliveries.

Equity income is expected to be approximately $27 million in 20 - in Q3. Income tax expense remains at approximately $2 million. Non-controlling interest expense is expected to be in the range of $27 million to $29 million, primarily as a result of lower expected earnings from Teekay Offshore and Teekay Tankers.

So in summary, the third quarter results are expected to be weaker in the second quarter for the reasons discussed above. However, we are anticipating a much stronger fourth quarter due to an expected full quarter of revenue from the forward Voyageur Spirit FPSO, higher expected production on the Foinaven FPSO, including the recognition of annual production incentives, additional contribution from the BG shuttle tanker newbuildings and a lighter dry-docking schedule in the fourth quarter.

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

Peter Evensen: Thank you Vince. Turning to Slide 9. Despite the temporary FPSO operational issues experienced in the second and third quarter to date, Teekay Corporation's strategy remains on course.

Our FPSO operation teams continue to work diligently to bring the Voyageur Spirit and Foinaven FPSO units back to full production levels and re-commence operations under their respective contracts. And the current operational issues are expected to be resolved fully during the second half of 2013. We're also still on track for the Banff FPSO to return to the Banff Field and restart production later in the fourth quarter.

With the drop-down of the Voyageur Spirit FPSO and the Cidade de Itajai FPSO to Teekay Offshore completed and the continuing progress on the construction of the Petrojarl Knarr FPSO, Teekay Parent remains on track to further de-leverage its balance sheet in the coming quarters.

Finally, we continue to bid for and secure accretive acquisitions and organic growth opportunities directly at the daughter level without the need for Teekay Parent's balance sheet.

Successful projects at our daughter entities will contribute to future growth in Teekay Parent's cash flows as a result of its general partner and limited partnership and interests in these entities, especially with the incentive distribution rights of our GP interest in Teekay Offshore and Teekay LNG, both now in the 50% high splits.

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

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

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

Michael Webber: Hey good morning guys, how are you?

Peter Evensen: Fine.

Vincent Lok: Fine.

Michael Webber: Hey you did a pretty thorough job in covering the downtime for the FPSOs, but, you know, and it seems like they're a bit compounded by the fact that it happened on top of the drop-down. But I'm just curious Peter, as to maybe the thought process and the structure around disclosing the downtime on the Voyageur considering that it was down prior to the sale to TOO. Maybe just some conversation there.

Peter Evensen: Well it actually it wasn't down previous to its dropdown to TOO. As I said a moment prepared remarks, "It commenced first oil in April, it was dropped down in May, and we only received the notice from E.ON in - at the beginning of July."

Michael Webber: Beginning of July, okay. ((inaudible)).

Peter Evensen: So unfortunately, if not reduced in commercial negotiations, it goes back retroactively to April. So that's the timing.

Michael Webber: No, I must have just missed this, it's just the dates that overlap, but your notification was post drop, okay.

Peter Evensen: That's right.

Michael Webber: Just kind of along those lines, you've got, I guess, four FPSOs now that are either down or not at full strength, and they all seem to be kind of shorter term issues. But does that color your view in terms of the kind of EBITDA concentration that you've got at the Knarr and at the Voyageur in terms of the JV partners or revenue insurance? And maybe just some conversation there.

Peter Evensen: Well we'd probably, given the size of Petrojarl Knarr, we probably will take out lots of higher insurance. That's a decision we had already made. But I think we're - what we found is that it's easier to be with a contract that you've started from inception.

And so when you take over FPSO midway that always has certain issues that come up. We haven't got a full root cause analysis, but I would say that has complicated things.

Michael Webber: Got you. All right, that's helpful. And just one more thing, and I'll turn it over.

You kind of mentioned at the end of your prepared remarks, talking around new business and doing them indirectly at the daughters, you know, I think as of the last quarter, there's about, I guess, $2.7 billion in new offshore projects you guys were looking at to some degree. Can you maybe talk to where that figure is? And then just maybe kind of reiterate your conviction level around those being done directly at the daughter and not at the parent?

Peter Evensen: Yes, our plan is for all the projects to be done down at the daughter level, and that remains what we're doing. I think the best indication is the three FPSO FEED studies that were doing, as well as the new FEED study we're doing for the Remora unit technology that we're doing.

That - it's always hard to gauge the timing of when the awards get put together, but with the exception of losing one FSO unit, we haven't so far lost on any of our FPSO opportunities. So those are still in process.

Michael Webber: Got you. And then I think the timing on those was for, you know, sometime kind of mid to late 2013 in terms of some sort of resolution. Is that still the case or are they dragging on?

Peter Evensen: No that is still the case. So we were bidding on two FSO projects, we won one of them. Actually, sorry, we bid on three FSO projects, and we won two of them. I was only thinking of the North Sea ones.

Michael Webber: Right.

Peter Evensen: I'm looking at our head of FSOs here, so he reminded me that. And the - but so I feel good about our hit rate or win rate, whatever you want to talk about, as it relates to that. And so I'm feeling good about that.

Michael Webber: Okay, good. Thanks for the time, I appreciate it Peter.

Peter Evensen: Thank you.

Operator: Thank you. Our next question comes from Justin Yagerman with Deutsche Bank. Please go ahead.

Justin Yagerman: Hey, good morning guys.

Peter Evensen: Good morning.

Justin Yagerman: Wanted to just touch on the VLCC loans for a second here. It looks like there was a small write-down on those values. Was that just asset-value driven or is there anything going on with second lien, you know, lenders complicated issues or anything else going on there?

Vincent Lok: Hi Justin. Yes the total loss provision on the VLCC loans was about $7 million for the second quarter. About $4-1/2 million of that is in Teekay Tankers, and the rest is at the parent. And it's basically an accounting loss provision based on our expected cash flows and recovery from the security of those loans, which are the three VLCCs.

So that provision could actually move up and down depending on any changes to our expected cash flows. I just also wanted to point out that that provision was taken after we had accrued the second quarter interest income for the Teekay Tankers loans, so our principal remains intact. So the provision effectively is taking a provision on the accrued interest not received to date.

Justin Yagerman: Okay, that makes sense. I guess moving on to the various different LNG projects that are out there, was curious, it looks like Golar recently won an FSRU project. And I just wanted to get a little bit of color on what the competitive nature of that environment is like right now?

I know that there aren't too many projects, but there also aren't too many folks out there who are bidding on those projects. So I wanted to get a sense of how you guys feel those tenders or bids are going.

Peter Evensen: Well first of all, we always look and see which projects meet our requirements. So for example, I think it's good Golar won Jordan and Kuwait, but we didn't bid on them. And so the - we are bidding, as I said in my prepared remarks, on FSRU projects and we encounter some of the usual suspects, but not everybody bids on all the projects.

And once again, having an early time or being part of the engineering and realizing what advantage you have comes in - gives you an advantage and makes you go toward some projects and not toward other projects.

We haven't won one yet, and we've possibly been more conservative, I would definitely say we've been more conservative than other people, but again I'm fully convinced that we will get some FSRUs.

Part of our conservatism was that we didn't jump in with both feet. We waited for the design unit that we think is going to stabilize, and that's the 170,000 Class, and so we're quite comfortable having those units be FSRUs.

And that's what we've seen in the FSRUs as well as the LNGs, which is as the size component went up and people are asking for this cubic that can go through the Panama Canal. And that's true with FSRUs because if you have an undersized FSRU and you're coming with 170,000 cubic, you'll have to stay on station a little longer, and time is money. So that's a little bit more color on how we see the market.

Justin Yagerman: That's really helpful. Thanks. Moving on to something a little more conceptual and maybe just using the Cheniere LNGs as an example. With these projects, as all, you know, the different pieces actually come together, the asset, the contracts and the project itself, how does it work if, say, Cheniere isn't able to produce on time yet you guys take delivery of the asset?

Is there anything from a contingency standpoint that can disrupt how that contract comes on to cover you guys from an asset return standpoint?

Peter Evensen: I think it all depends on the nature of why you have an interruption. We have seen, for example, with our Angola LNG that we delivered the vessels, and it's taken over two years for the Angola LNG transportation - or the Angola LNG liquefaction to come online.

We've continued to be paid during those two years and Angola LNG, who didn't need the vessels, sub-chartered them to other operators. And I would expect the same thing to happen. In fact, for the 10 years we've been in the LNG market, every single liquefaction project has been on time.

What I think is great about the Cheniere Project is it's actually coming in ahead of schedule, and that's been confirmed by other people who have volumes there. So they're actually showing an earlier start-up, and maybe that's because of where they're building it and the fact that it's a brownfield start rather than a greenfield start.

Justin Yagerman: Okay. And I guess lastly -- I'll turn it over to somebody else -- just another kind of conceptual question. When you guys look out over the next couple of years, do you have a soft deadline for having everything dropped out of Teekay Parent and down to the daughters?

And then as a kind of tag on to that, you know, is there - I know you just said to (Mike) that there basically is any project you're looking to do it, is to do it at the daughter level, but is there a price tag at which you guys feel like, "Well, Teekay Parent is going to have to step in."

So you know, you get three FSRUs at once, and all of a sudden it's too much for one day. I know that's arbitrary number, but you know, is there a price tag that the parent needs to step in and help out the daughters?

Peter Evensen: So you're talking conceptually. So on the one hand, you worry about the fact that you won't get projects, and then you're saying what happens if you get too many projects?

Justin Yagerman: Of course.

Peter Evensen: And so, you know, you can either be too fat or too thin. But the fact of the matter is that we actually have another way that we go when we have too many projects is we usually invite in other joint venture partners. And we did that when we were acquiring Sevan and Maersk LNG.

We sold half of it or invited Marubeni to take half of that. And I think we would do the same thing if we had too many projects that were at the daughter company level. Rather than have them up at Teekay Corporation, we would invite in other partners who, by the way, we get a lot of reverse inquiry from. And so that's our plan, but I want to emphasize, we don't feel that we have too many.

Justin Yagerman: Okay. And then a soft deadline for Teekay Parent to be clean from a project standpoint?

Peter Evensen: Sure. The - we look at each asset and one - and at Teekay Corporation we will sell the assets for what it's worth. So we're optimizing each one of these assets. For example, the Petrojarl I, we want to get a contract for. The Petrojarl Banff will turn on a better contract in 2015. And the Hummingbird Spirit, as we get a longer contract, then we think it will fit better inside of Teekay Offshore.

So we're optimizing the asset so that the value that we create up in Teekay Corporation is the maximum. Rather than just saying, "Here's an arbitrary timeline and cost, and as I like to tell everybody a dollar is a dollar is a dollar."

Justin Yagerman: Fair enough. Hey thanks for the time, we really appreciate it.

Peter Evensen: Thank you.

Operator: Thank you. Our next question comes from Brandon Oglenski with Barclays.

Keith Mori: Hey good morning, this is Keith Mori on for Brandon.

Peter Evensen: Good morning.

Keith Mori: Just want to kind of follow up on the operational issues that have been going in the past two quarters with the two FPSOs. Are you guys are putting any risk mitigants in place on the operations side to kind of, I guess, address these types of events earlier?

Peter Evensen: Ultimately we will, of course, conduct an investigation, so that we can make sure our processes are better going forward. As I said in my remarks, "We - unfortunately, there isn't like one cause, and the causes we've had in the Foinaven are different from the causes that we've had on the Voyageur. But near-term our focus is on getting things back to production.

But certainly, medium-term, we will be looking at are the things we can do better. That's just a natural course of our continuous self-improvement.

Keith Mori: Okay, that's helpful. I guess, kind of going back to Justin's questions around the dropdown schedule. Understand that you don't want to maybe commit to a pipeline per se, but going back to your Analyst Day and prior quarters, you had mentioned that you'd like to be run rate profitable at the parent level sometime this year, I believe.

How do these two FPSO being impacted in the Foinaven for the fourth quarter, the tariff not being as high, kind of impacting your outlook on that end? And can you maybe give us some time period of what you think?

Peter Evensen: Well first of all, the dropdowns are not affecting our ability to get run rate profitable by this year. But I would have to say that, excuse me, I would have to say that, "The revenue shortfalls we've experienced on the Voyageur Spirit and the Foinaven, as well as the premature termination of the Petrojarl I, is going to mean that we will have to delay the run rate profitability into 2014."

Keith Mori: Okay, that's helpful. And I guess, one last one from me. You know I'm looking at the sum of the parts evaluation in your appendix, and you know, about $45 a share, and that's relatively similar to what was presented at the Analyst Day about 12 months ago.

You know, when you look across your business segments, is there any particular ones that you think can kind of - you derive extra value from and derive maybe a higher sum of the parts value from your end or - maybe if you could just speak to that.

Peter Evensen: Well, I would - once - I think you hit the nail on the head, we have to execute better. We didn't execute well in our FPSO operations, and that's cost us money.

So my focus actually isn't on gaining new projects, I'm - I can already see that our net asset value per share is going to go up as we redeliver some of these units and get like Petrojarl Knarr coming in 2014.

So I can already see the run rate of these projects that I've talked about increasing our net asset value per share. That isn't what worries me. I'm focused in on the near-term execution right now.

But we are getting new FPSOs, particularly the Knarr, coming in, we will get back the Banff and so those operational issues, I think, are important. Not only to increase the net asset value per share, but to turn to us to profitability, which is part of our strategy to close the sum-of-the-parts gap.

Keith Mori: Thank you very much guys. I'll pass it along.

Peter Evensen: Thank you.

Operator: Thank you. And our next question comes from Fotis Giannakoulis with Morgan Stanley. Please go ahead.

Fotis Giannakoulis: Yes, good morning and thank you. A couple more questions about the two FPSOs. You mentioned that they are going to come back to operation pretty soon.

I just want to make sure that - how to model future revenues. Are we still expect something like $70 million for the Voyageur Spirit in terms of EBITDA, and another $40 million for Foinaven? And then also are there any risk of seeing any contract renegotiations because of these operational issues?

Vincent Lok: Hi Fotis. First of all, in your questions about the impact on the EBITDA. Well, Voyageur - the Voyageur EBITDA is roughly, the foregone amount is roughly, about $6.5 million per month.

So as we mentioned in the second quarter, that amount was about $12.5 million. If we get back into full production by the end of August, then that's probably another $12.5 million. So that would be the reduction about $25 million for this year.

On the Foinaven, obviously, it's a little hard to estimate that because the revenue, as you know, is based on production partly and oil prices and all that. But clearly, given this incident, it is coming in below our budget. But if you were to compare it actually to last year's revenues, it's actually slightly even higher than last year's, given that last year's production was also relatively low. So not a big change from last year on the Foinaven.

Fotis Giannakoulis: And can you comment if there are any risks of being forced to renegotiate the levels of the contracts?

Peter Evensen: We don't see that.

Fotis Giannakoulis: Okay, thank you. I want to go a little bit on the tanker side. You have still a number of tankers chartered in right now, if I count correctly, around 13 to 15 vessels. What is the plan for these vessels? Is the plan to let their contracts rollover and transfer the entire tanker business to TNK?

Peter Evensen: Well, first of all, we don't have 13 to 15, in the appendix we outline that we have eight that are in chartered. So that continues to reduce, and in fact, we have three rolling off at the end of this year. And so we're - that continues to be a legacy business that we're getting out of up at Teekay Parent.

And in addition, we have the four Bohais that we own upstairs, and at the appropriate time, we'll sell them. But as we've said, and as Bruce Chan will talk about at Teekay Tanker's call, "We continue to see the tanker market having a better future." And so now is not the time to sell some of our modern Suezmaxes. Again, I'm in the business of maximizing all the dollars that we can get upstairs, and so now isn't the time to sell those vessels.

Fotis Giannakoulis: Thank you Peter, very clear. I want to move on the LNG space. And you mentioned earlier about the newly ordered vessels, they kind of enjoy certain efficiencies in terms of fuel consumption compared even to existing modern vessels.

Can you give us a little bit more color and compare what would be the effective time charter rate differential between the newbuilding vessels and the existing vessels?

Peter Evensen: I don't think, for competitor reasons, I'm going to get drawn on that. But I can say that what happens is that our ships get preferred. So although we ordered them in December, we get preferred as being a better ship, both because of the propulsion, in other words, it's a simpler engine and it has lower OpEx, as well as the size that we have. So it's actually the whole vessel design, not just the engine.

People focus in on the engine because everybody's hot on eco-ships, and of course that saves money. But the big thing is you can save money by being able to take a bigger lot, 173,000 versus 155,000 or 160,000. And so these are preferred for going through the Panama Canal. It's the biggest that can go through the Panama Canal.

So those are, as we like to say, "Take us to the head of the line." But we're not going to get drawn on what's happening because we're bidding them right now against TFTE and DFTE vessels. So I'm sorry, Fotis, I can't give you better color on that.

Fotis Giannakoulis: I understand and thank you. Can you also, please, comment on the state of the LNG shipping market? We would expect that the rates, at least spot rates, will drop below $100,000 given the number of newbuildings as they are coming the next few months. Rates, spot rates, have stayed strong.

How long do you think that they will stay at such a high premium compared to long-term rates? And the fact that you ordered two more vessels, does this mean that you have become a little bit more optimistic about the LNG market?

Peter Evensen: I think it's a function of a few things. First of all, we're sold out, we don't have any ships for the next three years. We don't have any open ships. So we don't have a ship open until 2015. So it's rather an academic discussion on our side.

But as I have said previously, "We like the idea that LNG is going to take off in post-2016 because you actually need more gas to come on, and that's more liquefaction plants coming on." So when we placed our order, we strategically placed it for 2016 to get the timing right.

Obviously, there's about 29 ships that are sitting without contracts, and as you pointed out, they're going to be coming starting later this year and into 2014. And so we ultimately will compete against those in 2016 timeframe.

I like our chances with bigger ships that are less thirsty, in other words, more fuel friendly, and so that's what we're looking at. And we've been consistent with that. We've been consistent with that. And the other thing I would just add, if you want some color on today's market, is you also have to look at the utilization.

What we've seen is that some - it costs a lot to have a vessel that you keep cold. And so some people have elected to put those in warm layup. And therefore it costs a lot of money to bring them out.

And so that's why you also see some inherent tightness because some of the older ships have actually just gone into layup, and it takes a lot to get them out. They're not going to come out for one voyage. And so that's what we're seeing on that market.

But we're focused in not on the spot market, we're focused in on the charter market, and we're seeing lots of people, who want our ships in the 2016, 2017 timeframe. So we feel good about where our ships are delivering.

We were happy about the deal we did with Awilco that had two open ships. We think that's the right kind of deal for us, but it ends up with us having a fixed rate charter. But it also gives us the opportunity to cooperate with Awilco LNG if there's some near-term charter opportunities.

I hate not to have a ship if there's an opportunity. I always like to give a customer an opportunity, and our deal with Awilco does do that without giving us the financial exposure.

Fotis Giannakoulis: Thank you Peter. One more question about the FSRU market. We saw very recently that you started a corporation, a joint venture on the LPG side, a sector that you were not so much involved.

Do you feel that on the FSRU side, you have the operational capabilities to grow and win a number of contracts that they might become available the next few years, or you believe that you might try to strengthen your expertise with some additional JVs?

Peter Evensen: Well, those are two different things. One, you're talking about the EXMAR LPG, and then you're asking about the FSRUs. We already own 50% of an FSRU in another joint venture we have with EXMAR. So we're already getting a lot of experience. Although EXMAR operates it, we get a lot of experience on the operation of FSRUs.

But given the talent that we have on land and our engineers and their past experience with FSRU, both building and operations, yes, we have the manuals, we have the knowledge in order to do it. And that's acknowledged by the bids that we're working on that we have that. And we have continued to work with the yards on the new designs for FSRUs.

And in the usual Teekay way, we're taking a conservative way of looking at it and testing our designs with customers rather than just ordering it going forward. And so I'm happy with our position, and I think it will result in FSRU contracts, most probably by the end of this year.

Fotis Giannakoulis: Thank you very much Peter.

Peter Evensen: Thank you.

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

TJ Schultz: The timeline on the obligation for the Foinaven for offer at TOO I think isn't at July of '14. Just any update on the ability to affect the transfer prior to that timeframe, or how some of these recent issues have impacted that process?

Peter Evensen: Yes, I would say the recent impact has meant that total focus that we have, both with the charter and internally, is to get the Foinaven back up and operating. And clearly, we don't want to offer it for sale unless it's at full production going forward. There isn't a buyer who wants to buy something that has uncertain cash flows.

So even before that, we had - we were waiting approval from the charterer for the - to allow the sales, so we've had to extend it by one year. But clearly, TOO was going do their numbers, and they want to make sure that it's back to full production and that the charterer is happy with what's going on.

And as we said, "The charterer is also doing some work on the Subsea, so I anticipate when it gets back to full production, we will return to our ultimate goal, which is to have - which is to drop the Foinaven FPSO down to Teekay Offshore."

TJ Schultz: Okay. The Petrojarl I, you have a pretty broad window for expectation on redeployment. Just any information on how that process is going, and the potential to redeploy sometime this year?

Peter Evensen: Yes, and the reason it has a long redeployment period is because we're looking at numerous opportunities. If we - there are some opportunities where we don't have to do any upgrade work, where we could just go down and hook up and really use the unit as more of an early well test unit.

And so that way, we would get it employed earlier, like Q4 2013, as opposed to other projects we're looking at, which would necessitate going into the yard and doing some upgrades on the topsides, as well as on the hull, because it would go on to a longer contract. In that case, they would have a longer yard stay, so that's why you see anywhere from Q4 2013 to first half 2014 that we're looking at it.

But we do have numerous opportunities that we're looking at, as well as people who are interested in buying it. So we're going down multiple avenues.

TJ Schultz: Okay, thanks. Just lastly, you know, the commentary that the GP cash flows continue to become more meaningful. Certainly, growth in MLP distributions is in focus. So with that and given some of the Voyageur issues, is it still your plan for at least another 2.5% increase on TOO distribution later this year?

Peter Evensen: Yes it is. And in addition, we added some accretive growth at TGP with the Awilco sale leaseback. We just don't know if it's 1 or two vessels. So we haven't changed course on that.

TJ Schultz: Great, thanks.

Peter Evensen: Thank you.

Operator: Thank you. Ladies and Gentlemen as a reminder if you would like to ask a question please press star 1 on your touch-tone phone. Our next question comes from Will Frohnhoefer with BTIG.

Will Frohnhoefer: Hi guys, thanks for taking the call.

Peter Evensen: Hi.

Will Frohnhoefer: So just a couple of questions, I guess, to follow up on the LNG tankers and TGP option exercises. So would it be fair to say that using the ME-GI technology here that the goal probably of most of the new entrants into the export market being largely in the Gulf are going to want to optimize vessels for the Asian trade or Pacific Rim trade, therefor fuel efficiency is going to be a more important focus going forward than it traditionally has been?

Peter Evensen: Yes. Fuel efficiency and to take the maximum cargoes through the Panama canal, which is 173,000 that we've ordered. It's both.

Will Frohnhoefer: Okay, that's fair. And there's another factor as well, most of these new entrants are also operators that used to have import facilities and they built docking facilities more for the 155,000 size vessels.

So having a vessel that size is kind of optimal for them in terms of their goal and in the market they want to appeal to, at the same time still being the proper size for their existing docking facilities that were built, you know, close to a decade ago in many case.

Peter Evensen: Actually, that's not true that they were optimized out there. The U.S. import facilities, for example, we're sized up to take up to Q-Flex and Q-Max, which were 210,000, and some could go all the way to 250,000 cubic, like for instance the Exxon Qatar plant that it is. So actually, the sizing to go from 155,000 to 173,000 isn't an issue as it relates to the ports.

Will Frohnhoefer: Excellent. And then I guess along same - kind of further lines. When talking about the take rate in the larger market and what it looks like in 2016, 2017, then you guys said, you're not looking to exploit the spot market, you're looking to do charter business.

And I guess the spot risk then would probably shift to the exporters themselves, or they would charter those vessels out to exploit the excess capacity of their own facilities. And they would enter the spot market and take that risk, while you guys would simply service them. Is that kind of the plan?

Peter Evensen: I'm not sure I understood the question. I'm sorry.

Will Frohnhoefer: If I'm one of these export projects and I want to go out and use the excess capacity that I have over and above my existing long-term contracts to go out to the spot market and market it, I'd probably want to have a vessel chartered out that I could use for that purpose when those opportunities for marketing present themselves. So I'm wondering if that's kind of you getting that sort of interest for those kind of contracts or discussions from exporters?

Peter Evensen: No, and the reason is it takes a while to de-bottleneck a liquefaction plant. So when you're starting with a liquefaction plant, you want some paying revenue. So you enter into contracts either to sell it yourself or to have some of the normal players buy your volumes up to a contracted amount, whether it's 90%, 95% or 100%. And then you look to debottleneck. But that debottlenecking, which gives you up in extra cargo, that's very spot oriented.

And so that is - that's nothing that you would probably take and look to charter a ship against because, you know, by the time you get the cargo, the ship isn't in the right place. So we see that as a spot market. We're fully fine with the fact that there will be a spot market for LNG that continues to grow every year. But we are focused in on the U.S. export.

I would also say we're focused in on the Australian export. And that - those are also coming on. And so it isn't just about the U.S. I know we're talking here in North America, but there's other liquefaction plants that are coming in and being planned, and some of the projects that we're looking at for charter revolve around other areas of the world.

Will Frohnhoefer: Speaking of which, how about in your neck of the woods, the British Columbia area?

Peter Evensen: Well, absolutely. We're having on the West Coast of Canada, we definitely see that. And Kitimat is one of the places that is ground zero as it relates to that. But those volumes aren't going to come in at 2016, 2017. They were looking 2018 to 2020.

Will Frohnhoefer: Fair enough.

Peter Evensen: So the great part about our business is we have a chance to look forward to it. But we monitor a whole bunch of projects from Russia to Australia to Canada, and we're monitoring what their transportation requirements will be, as well as for example Exxon with their plants in Papua New Guinea.

Will Frohnhoefer: That's very good color. And then I guess just one follow-up on the issues with the gas compressors. Now you said there was two really different issues for the two different vessels, for the Spirit and for Foinaven.

And I'm wondering if the issues of the compressors were due more to external factors like Subsea or resource quality and less to do with the equipment itself, and is there a common manufacturer of equipment running through this as a thread, or any further color there?

Peter Evensen: I don't really want to give too much color on that. I would just say that, "You have one FPSO that you're bringing through a commissioning phase, so you have brand new equipment that you're bringing through. On the other hand, on the Foinaven, we have a unit that's been operating for many years, and so you're looking at compressors that have been proven with themselves.

And so they're unrelated issues. Unfortunately, they're both gas compression issues, but it is wrong to draw a common thread between them.

Will Frohnhoefer: Thank you. That's all I have for now.

Peter Evensen: Thanks.

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

Peter Evensen: All right, thank you all very much. As I said, "It was a tough quarter operationally, and we look forward to reporting better news next quarter." Thank you.

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

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