TEEKAY OFFSHORE PARTNERS LP

Moderator: Peter Evensen
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11:00 am CT

Operator: Welcome to Teekay Offshore Partners First Quarter 2015 Earnings Results conference call. During the call, all participants will be in a listen only mode. Afterwards you will be invited to participate in a question and answer session.

At that time, if you have a question, participants will be asked to press star 1 to register for a question. For assistance during the call, 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 Offshore Partners' Chief Executive Officer. Please go ahead, sir.

Ryan Hamilton: Before Mr. Evensen begins, I'd like to direct all participants to our web site at www.teekay.com, where you'll find a copy of the first quarter 2015 earnings 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 first quarter 2015 earnings release and earnings presentation available on our web site.

I'll now turn the call over to Mr. Evensen to begin.

Peter Evensen: Thank you, Ryan. Good afternoon everyone and thank you for joining us on our first quarter 2015 investor conference call. I'm joined today by Teekay Corporation's CFO, Vince Lok; Chief Strategy Officer, Kenneth Hvid and MLP Controller, David Wong.

During our call today, I'll be walking through the earnings presentation which can be found on our web site. Starting on Slide 3 of the presentation, I'll briefly review some of Teekay Offshore's recent highlights.

The Partnership generated distributable cash flow of $60.6 million and reported a relatively strong 1.10 times distribution coverage for the first quarter of 2015.

For the first quarter of 2015, Teekay Offshore declared a cash distribution of 53.84 cents per unit. Teekay Offshore continued to make progress on several projects during the first quarter that will contribute to cash flow growth in future quarters.

In March Knarr FPSO successfully achieve first oil and commenced its charter contract with BG Group at partial rate. We currently expect to complete the acquisition of Knarr from our sponsored Teekay Corporation prior to the end of the second quarter.

During the quarter we took delivery of the Arendal Spirit, our first unit for maintenance and safety or UMS which is expected to commence its three year charter contract with Petrobras next month in June.

During the past three months, TOO's wholly owned subsidiary ALP Maritime completed the acquisition of the first four of six on the water long distance towing and offshore installation vessels it agreed to acquire last October.

All six vessels were acquired for an on block price of approximately $220 million and the remaining two vessels are expected to deliver in the second quarter of 2015.

In mid-April, we successfully completed a $125 million 8-1/2% perpetual preferred unit offering with the net proceeds to be used for general partnership purposes, including using a portion for the acquisition price of the Knarr FPSO. This is another example of how Teekay Offshore is been diversifying its sources of capital and reducing its overall cost to capital.

Despite lower global oil prices which have rebounded by approximately 45% since mid-January, we remain encouraged by the level of tendering activity we've seen for new transportation and production requirements in our offshore production and offshore logistics segments, which I'll touch upon more in -later in the presentation.

Turning to Slide 4, in March the Knarr FPSO, which is currently owned by Teekay Corporation, achieved first oil and commenced its charter contract at approximately 70 % of its full charter rate. Pending the completion of certain operational tests.

Since that time Teekay has made steady progress on the commissioning process including successfully producing and discharging the FPSOs first oil cargo into one of Teekay Offshore shuttle tankers and Teekay is now completing the final testing phase which mainly relates to the startup of the gas export system.

We currently expect to complete the acquisition of the Knarr FPSO prior to the end of the second quarter subject to the FPSO completing its 72-hour interim performance test and therefore commencement of the full charter rate.

We expect to finance our purchase price of the Knarr FPSO, which is based on a fully built up cost of approximately 1.25 billion through the assumption of an existing 780 million long-term debt facility.

A combination of vendor financing from Teekay and new Teekay Offshore units to be issued directly to Teekay apparent, and a portion of the approximately 121 million of proceeds from the preferred bond operating we completed last month.

We do not currently intend to fund the Knarr acquisition with proceeds from a public equity offering. The Knarr FPSO is expected to generate annual distributable cash flow of approximately 80 million, which we expect will lead to at least the 4% annualized distribution growth in the quarters following completion of the Knarr acquisition.

Turning to Slide 5, we've also continue to make progress on growth projects in our offshore production segment. In early January, the Petrojarl 1 FPSO arrived at the Damen Shipyard in Netherland and is currently undergoing required modifications and upgrades totaling approximately $235 million prior to commencing a new five year contract on the Atlanta field in offshore Brazil.

Engineering work has now been completed and all long lead items have been ordered. And as you can see from the picture on the top right of the slide, the Petrojarl 1 has already commenced work on the top side equipment. We're pleased to report that we had no HSC incidence today and the project remains on track to achieve first oil by mid-2016.

Turning to the Libra FPSO project, work is currently underway at the Jurong Shipyard in Singapore or one of TTOs former shuttle tankers, the Navion Norvegia is being converted into an FPSO for a total cost of approximately 980 million.

Upon completion the converted FPSO will commence a 12-year contract with Petrobras on the Libra filed offshore Brazil. The vessels owned to the partnerships 50-50 joint venture with our Brazilian base partner and that's TOOs 50% portion of the conversion cost is approximately 490 million.

Engineering and construction is progressing well with approximately 40% of the engineering work completed and again we have ordered our long lead items and major processing equipment.

((Inaudible)) demolition work has been completed with no surprises and fabrication of top five equipment have commenced in March and April. As you can see from the picture, the bow of the vessel has been removed in preparation for installation of a new external mooring system. To date the Libra at FPSO conversion project has also experienced now HSD incident and remains on time and budget to achieve first oil by early 2017.

Turning to Slide 6, during the quarter during the quarter Teekay Offshore took delivery of the Arendal Spirit, our first unit for maintenance and safety which arrived in Brazil on May 2, in preparation for the expected June 2015 startup of a three year charter contract with Petrobras with options to extend for an additional three years.

The partnerships other two UMS new buildings are currently scheduled to deliver in the first quarter and fourth quarters of 2016. We continued to actively evaluate employment opportunities for these units however many UMS standards have been delayed towards the end of this year.

Our ship building contracts include terms which allow delivery flexibility so that we can better match the timing of the shipyard delivery with the commencement of charter contracts. We're currently evaluating whether we should push back the delivery timing of these units by up to a year to better coincide with customer requirements.

Turning to Slide 7, as I touched upon in my opening remarks during the past three months Teekay Offshore's wholly owned subsidiary ALT maritime completed the acquisition of the 406 on the water long-distance towing and offshore installation vessels that it agreed to acquire last October, with the remaining two vessels expected to be delivered in the second quarter.

We're pleased to report that this newly acquired vessels have gotten off to a strong operational start with the three vessels that delivered in the first quarter recording a 100% utilization. We're currently experiencing strong demand for offshore rig movements with relatively short lead time to short-term charter commencement.

The last two contracts we have concluded have been estimated duration of 60 and 100 days respectively. We're also actively bidding on total of large offshore units on long-term contracts of 90 to 150 days and mostly with later commencement one to two years in the future.

Given our customers' need to secure tows well in advance ALP Maritime expects to build the strong contract backlog for these quality vessels over time.

It's important to note that while we're actively securing short and longer term opportunities for the six on the water towing vessels we are also planning ahead for the delivery of our four state of the art towage vessels being constructed at the Niigata shipyard in Japan.

With the goal of ensuring that they achieve maximum utilization on their delivery in 2016. With the delivery of all 10 vessels ALP Maritime will become the world's largest owner of and operator of dynamically position long distance towing and offshore installation vessels, which we think gives us a competitive advantage.

Turning to Slide 8, I'll take a moment to focus on recent developments in the external environment. Since the start of 2015, crude oil prices have improved by approximately 45% with Brent increasing from the lower $45 per barrel to approximately $65 today.

This is a supported trend for production from existing oil fields particularly as many oil companies have targeted production growth of 2% or higher in 2015 as shown by the chart on the right.

As I've noted in the past the production part of the offshore value chain is less sensitive to oil prices compared to the exploration phase. Nevertheless the higher oil price is positive for our customers and allows existing oil fields to continue producing longer at current levels.

In terms of new project tenders we do see that the lower oil price environment has resulted in the delay of many near term projects. However, we can also see that our customers are very focused on preserving and growing future production in cash flow through more cost effective solutions.

We believe this plays well to our partnerships unique offering a production related services and strong operational platform. And that we're well placed to help our customers achieve that goal of lowering cost while encouraging new production.

On Slide 9, I'll review our financial results for the first quarter of 2015 as compared to the fourth quarter of 2014. For a reconciliation of distributable cash flow to net income, please refer to Appendix B of our earnings release and the appendix of this presentation.

Starting at the top of the statement, net revenues decreased by approximately $8 million primarily due to year-end incentive-based revenues from our FPSO units in the fourth quarter of 2014 and lower utilization in our shuttle tanker fleet partially offset by earnings from our first three towing vessels that delivered during the first quarter.

Vessel operating expenses decreased by approximately $10 million, primarily due to lower repair and maintenance costs on our FPSO units some of which is due to the timing of the expenditures as well as the decrease in crew and manning expenses from the FPSO in shuttle tanker fleet.

Maintenance CAPEX increased by 1 million mainly due to the delivery of the three towing vessels during the first quarter. G&A expense decreased by approximately 6 million primarily due to a one-off business development fee paid to Teekay Corporation during the fourth quarter of 2014 related to the acquisition of the Petrojarl 1 FPSO.

Lower business development costs related to our FPSO tenders and a pension valuation adjustment recorded during the fourth quarter. Partially offset by the timing of recognition of long-term incentive compensation expenses, which are typically higher in the first quarter of each year.

Our share of distributable cash flow related to our equity accounted joint venture net of estimated maintenance CAPEX reserve increased by $3.1 million primarily due to incentive based revenue received during the first quarter and lower repair and maintenance cost.

Interest expense decreased by approximately $2 million primarily due to scheduled repayments of various debt facilities and the exploration of an interest rate swap during the first quarter. Income tax expense increased by $1-1/2 million primarily due to a lower tax provision from our Norwegian entities recorded the fourth quarter of 2014.

Capitalized distributions related to equity financing of new buildings and conversion cost increased as a result of the units issued in the fourth quarter of 2014 to fund installation payments made on our new buildings and conversions. As a result, our coverage ratio improved to a healthy 1.10 times during the first quarter up from 0.91 times in the fourth quarter.

Looking ahead to the second quarter, we expect shuttle tanker revenues to decrease by approximately 12 million of which roughly half relates to the sale of the Navion Svenita and leaving the CoA fleet to commence its conversion to an FSO for the Gina Krog project.

And the other half relates to temporary reductions resulting from unscheduled off-hires to repairs of the spirit shuttle tanker and the schedule dry docking. Some of these reductions are expected to be offset in future quarters with the ramp up of new shuttle tanker contracts supporting the Knarr field and the new EnQuest CoA, which we highlighted in our earnings release.

In addition with the anticipated acquisition of the Knarr FPSO and the startup of the Arendal Spirit UMS in late second quarter we expect to coverage ratio to improve in the second half of the year.

Wrapping up today's call on Slide 10, we provide an update of our visible growth pipeline which is currently comprised of approximately $3.3 billion of accretive project that will drive future distribution increases.

Many of our investors that I've met would recently ask me about the effect of lower oil price on our future growth and I told them that we're encouraged by the level of tendering activity that we see for new transportation and production requirements in our offshore production and offshore logistic segment.

It's lower than you would expect but still significant and enough to satisfy our growth requirement. In addition, and in somewhat of a surprise, we're seeing more opportunities for the acquisition of quality on the water assets with fixed rate contracts, which Teekay Offshore has executed on in the past.

Finally, our ability to find good reemployment or conversion for our existing offshore assets is enhanced in the low oil price environment as we work with our customers to lower offshore field production cost by using those existing assets rather than building new units.

And when you combine those factors with Teekay Offshore's reputation for project execution and efficient operations, I remain confident in the partnership's stability to secure the necessary growth to sustain future distribution increases.

Thank you all for listening and operator I'm available to take questions.

Operator: Thank you. Ladies and gentlemen, if you would like to ask a question, please signal by pressing star 1 on your telephone keypad. If you are using a speakerphone, please make sure that your mute function is turned off to allow your signal to reach our equipment.

Again, please press star 1 to ask a question. And the first question is from Sunil Sibal from Global Hunter Securities. Please go ahead.

Sunil Sibal: Yes, hi, good afternoon guys. A couple of questions from me on the next potential FPSO dropdown bands. I think on yesterday's call you indicated that the new contract that you have for that as the cash flows increased by 9 million. So, could you remind us what the total cash flows on that FPSO now?

Vince Lok: Yes, the EBITDA on the balance at the new rate is roughly about 15 to 20 million a year. So, that's the pickup that we're getting right now.

Sunil Sibal: Okay, that's helpful. And then in terms of financing that, would it be fair to assume that Teekay would be willing to take equity similar to the rates taking far Knarr for that drop down financing in the second half if needed I guess?

Peter Evensen: We haven't determined how we're going to complete the financing of the band that depends upon market conditions at that time.

Sunil Sibal: Okay. And then in terms of your new deliveries on the towage vessels that you get, is the expectation that you would be basically looking at relatively longer term contracts of 90 to 150 days on those vessels or is there ((inaudible)) playing a different contacting market?

Ken Hvid: Hey, it's Ken here. Essentially what we're looking is to build a book of contracts going forward. And, as you know, typically these tows - the longest tows would be up to about a 150 days, as essentially because that tows typically go up from the far east in Korea and Singapore to Brazil or to the North Sea, those are typically the longest tows you can get.

And the way we're looking at that business is that for the medium term, which is basically the two to three years out in time, we have shown those very large project that are delivering in those we typically see the charters coming into the market ahead of time. Because they're obviously vital important that we have the right equipment to tow those out to the installations.

And then really the business model is that in between those jobs you're looking for short-term opportunities ad hoc rig moves that are coming up and we're well positioned to cater for those.

So, for the new fleet that we have just taken delivery off because there was an M&A transaction obviously we haven't be in a position to build a forward book. But we're responding to the market enquires that are coming in.

And as Peter said, we're really encouraged with the incoming inbound demand for rig moves which as you can imagine is quite large in this environment and probably one of the factors we didn't quite factor in. So it's been good healthy demand. I'll say a good start for our new venture.

Sunil Sibal: Yes, that's really helpful color. And then this was the last one from me on that particular segment. So once you have full fleet ramped up with 10 vessels, what kind of OpEx can you - would you be incurring on that and considering if the utilization is not that high you start a bit of the drag on the cash flow that how should we think about that?

Vince Lok: Now the OpEx on these vessels I think right now we're trailing around $6,000 to $7,000, which is on some of the older unit and that'll probably go up a bit towards maybe $8,000, $9,000. But that's what we have on those.

Sunil Sibal: Okay. This was very helpful. That's all I had. Thank you.

Operator: Thank you. The next question is from Spiro Dounis from UBS Securities. Please go ahead.

Spiro Dounis: ((Inaudible)) gentlemen. Just wanted to talk a bit of the preferred issuance if we could. You know, I thought the move made a lot of sense. You know, clear with the lower cost of capital, especially relative to where your yield was at the time.

Just wondering if there was desire to do anything bigger at the time or anything prevented you from issuing more preferred equity. You just feel like maybe that level of leverage has come down enough.

Vince Lok: Yes, this is Vince here. Well, the preferred market is I guess, sort of a smaller equity market than say the, obviously the MLP common market. So it wasn't - I think we had launched it at about 50 million to 75 million that we got, quite a bit of demand, we ended up upside and did a 125. So, that's sort of reflective of the demand for that type of market.

Spiro Dounis: Got it. That’s helpful. And then I was just wondering if you could talk to some of the counter cyclical demand that might surprise us over the next few quarters. It sounds like ((inaudible)) doing well because you got some equipment coming out of the field and UMS is in demand because of it had oil recovery and maintenance on the producing units is on a stretch there, productivity needs to each field.

Are there any other factors that were missing that kind of sound like that or they might be supportive of the next few quarters?

Peter Evensen: I would just simply say that, what we're seeing is that, a lot of our customers want to work with us on being able to, purchase existing assets, and then use Teekay's lower operating cost in order to achieve lower cost going forward.

So I think that, what you're seeing overall is customers rather than tendering out all the business are willing to work with a certain group of suppliers, in order to lower the cost, and I think that's reflective of a new trend.

And as I said, on some of our existing units, even if they're still out on producing on field, people are coming in and asking us, hey when will that unit be available because we could use it on another field and use this greater production capacity.

So that's why some of the value to new customers in some of our existing units is actually enhanced in a low oil price environment. So that's why as I said, we're seeing some interesting M&A opportunities going forward.

Spiro Dounis: Got it. Great. Thanks guys, appreciate the color.

Peter Evensen: Thank you.

Operator: Thank you. The next question is from Peter Eric from ERS. Please go ahead.

Peter Eric: Hi, thanks for taking the question. So, it's important to try to bring down the cost of capital and obviously there's an awful lot of levers that you could pull for that. Can you talk through some other leverage that you've explored, and even just one kind of I'll call it a simpler one, but the bonds are only four year paper and they're yielding 8.8% at 90 cents on the $1.

Is just even getting a credit rating on those something, that's helpful? And then maybe some of the other broader things that you've thought about, have you considered steps about just maybe, pretty importantly increase in size of the diversity of the company, or can you just talk to levers?

Peter Evensen: Sure. Well, first of all our bonds are not yielding 8%, those are perpetual preferred stock that we've put out. When we've issued bonds in the Norwegian market, we've been able to issue it lower down and closer to 5% to 6%. So we don't...

Peter Eric: Your 6% bonds rate are about a 90 cents on a $1 which is an 8.8% yield to 2019?

Peter Evensen: Yes, but that's in the Norwegian market, that's relatively a liquid. So, there's a big spread between the bid and offer.

Peter Eric: That was your high yield issuance here in the US, the $300 million bond issue.

Peter Evensen: No.

Vince Lok: I believe you're referring to the baby bonds that we issued, is that correct?

Peter Eric: The $300 million ((inaudible)) '19.

Peter Evensen: Okay. Yes, well that's a possibility that we could go and look and get a rating but that's nothing that we're looking at in the near term. It is something we're investigating for the longer term.

Vince Lok: That's true and I guess to Peter's point earlier, as you saw we did issue a Norwegian bond for our other MLP, Teekay L&G Partners just recently, so that market is open. Now that it was closed for a few months during the winter. That's another example where we can access other sources of capital and we have a pretty diverse sources of capital available for the partnership.

And in terms of a rating, we've been able to as Peter said access Norwegian bond market as well, the baby bond market without a rating. And in terms of going forward in the future, given that partnership has grown, you know, getting a rating is something we are considering over the long term, before they diversify our sources.

Peter Evensen: The other thing I would add is that the - our sponsor when we've been buying assets from the sponsor like the Petrojarl 1, they’ve willing to give us seller financing and so that helps us as well.

Peter Eric: Okay. All right, thanks.

Peter Evensen: Thank you.

Operator: Thank you. Next question comes from Andy Gupta from Hite Hedge. Please go ahead.

Andy Gupta: Hi, good afternoon guys. Thanks for taking the question. My question is around your distribution growth. And I'm looking at the Investor Day presentation of last year, can you help us to understand how that distribution growth may be changed now that made - the details on '15 through '18 in terms of distribution growth per unit as well as the LP unit growth?

Peter Evensen: Sure. So, I think there got - there was some confusion on the call as well at Teekay Corporation. We haven't materially changed what we showed on that illustrative guidance that came at Investor Day.

We are still targeting the same level as Investor Day but as I said in my prepared remarks, some of the projects we had looked that may get delayed and therefore we may need more M&A than we had planned on when we look at that.

But we haven't materially changed what we're looking at. And that ((inaudible)) TOO, as well as Teekay Parent.

Andy Gupta: Got it. So if you do need more M&A would that affect the LP unit growth count?

Peter Evensen: Yes, but without going too much into the model you would rather than having as much organic growth you would have a little bit more M&A and you pushed out the organic growth into future years.

I would just emphasize that a lot of the projects we've been working on and when we go and talk to our customers, they still want to do the projects, they just realize that all of their inputs are going to be cheaper. As they say to me, our drillings going to be cheaper next year or subsea will be cheaper.

Probably you can fabricate cheaper because the steel price will be down with low iron ore prices and the high dollar means you can fabricate cheaper in Asia. So obviously they have spent a lot of money on licenses. They spend a lot of money exploration drilling. So they want to go ahead with the project but not under the original timeframe.

And that’s - and then that gives us the chance to work with them and say well, how can we lower the cost on the overall - on our portion of the overall field development. And that’s what every oil company is going through as they relook at their CAPEX, which is how can I do it cheaper and more cost effectively to raise the return and/or lower the breakeven oil price.

Andy Gupta: That makes sense. And one last question from me is, on the new proposal for Teekay taking equity back in Knarr drop. Does that all change this guidance that we gave on Investor Day. I don’t think that included the Knarr drop and new equity issuances. I’m not sure about that.

Peter Evensen: Probably Teekay will end up with more units. We’ll end up with more units. We actually, as I said yesterday, Teekay Corp thinks it’s a good investment in Teekay Offshore right now.

So we think it’s a good investment and up at Teekay parent we just won’t repay as much debt but on an accretive basis taking back units is - and having a lower debt financing cost is actually a good accretive investment in terms of the cash flow of Teekay Parent. However that’s not material.

Andy Gupta: Sure. Understand. Thank you so much for the answer to all the questions.

Peter Evensen: Thank you.

Operator: Thank you. Once again ladies and gentlemen, if you have a question please press star 1 at this time. And the next question is from Nick Raza from Citigroup. Please go ahead.

Nick Raza: Thank you. Thanks very much for taking the call, gentlemen. I had a quick question regarding the actual drop and the financing of the Knarr. So your presentation says that out of the 1.25 billion 780 million will be assume debt possibly use some of the 125 million preferred offering. Could you sort of walk us through what the remaining spilt is between the vendor financing and units?

Vince Lok: Yes, Vince here. Yes, if you look at the total purchase price about 1.25 billion assume get 780; you're left with about 470 of equity. And as we indicted before Teekay Parent is committed to take at least $200 million of common units as part of the drop down.

And so for the rest it's really a - we haven't determined exact split but part of the preferred offering can be allocated for that and there's vendor financing that is offered for up to 400 million.

So the partnership has a lot of flexibility in terms of one to sort of take out the vendor financing. So the units essentially fully financed at the stage.

Nick Raza: And could you also talk about some of the terms of the vendor financing and obviously the cash flows are subordinated as a result of they are being more debt? I know you don't have to worry about it from the ratings perspective but just walk us through some of the mechanics of the actual financing terms.

Vince Lok: Well, the vendor financing is really simple. It has about a 6-1/2%, so that's probably straight forward vendor financing.

Peter Evensen: Prepayment without a penalty.

Vince Lok: That's right.

Nick Raza: Okay. Any thoughts on term?

Peter Evensen: We're just sort rolling it. It's on a 12 months basis but it can be rolled.

Nick Raza: Okay, fair enough, fair enough. Thanks a lot. The other question I had was about the towage business. In terms of the armor ship water currently the existing fleet, where are you seeing most of the activity? Is it taking rigs to dry docks or dry dock facilities or are you just moving around to within the golden triangle? Could you just sort of give us the little bit more color on that?

Vince Lok: It's actually a mix. We see - we've had a couple of moves of older rigs going out of the Gulf of Mexico. We have a move right now which is coming out all the older rig out of Brazil. We have a new rig that we are moving out from Korea. And we have the couple of maintenance ships with engine issues that were bidding on.

So I would say it's a good cocktail of which is really a function of demand for high power shocks that can take these on the long hauls where these vessels that we are specially designed because of the last few capacity which is a little bit different from some of the smaller towage vessels, which can't take the very heavy tows. And also the ((inaudible)), which typically aren't really designed to take a very long tow.

So it is a bit of a niche. So you can think of it as the bigger units that need a longer tow that we're taking. But it's really all over the world but mostly I'll say in Gulf of Mexico, and South America and the Asia at the moment. We're trying to stay away from the North Sea.

Nick Raza: And is there a reason you're staying away from the North Sea?

Ken Hvid: Well, you have - In the North Sea you have a lot of short haul moves where the ((inaudible)) are typically going in right now. And those - you have a lot of angle handlers that can cater for that in the North Seam so that's a market that we'll try to shy away from right now.

Nick Raza: Fair enough. And last question guys, I'm so sorry. But in terms of your OpEx reduced towage vessels on a daily basis is there a - does the OpEx bump up for longer voyages or is it just the same?

Ken Hvid: No, it's roughly the same. I mean we have accrue cost and a maintenance cost so, it's - it doesn't really - it doesn't materially change.

Peter Evensen: Although I guess the ones we acquired just came out of dry dock recently.

Ken Hvid: Correct.

Peter Evensen: So, they may have...

Ken Hvid: So, they're a little bit lower as is typical for any of our vessels that are coming out of dry dock you typically see for the first six to 12 months that we're tracking at a lower number.

Nick Raza: Okay. Thanks a lot guys.

Peter Evensen: Thank you.

Operator: Thank you. The next question is from Sunil Sibal from Global Hunter Securities. Please go ahead.

Sunil Sibal: Hi, guys. Just had a quick follow up. You know when you think about the overall fleet profile it seems like, you know, the contract structure is changing a little bit from what it has been historically. And I was kind of wondering, you know, how do you think about leverage in such a, you know, situation? Should we expect, you know, your target leverage should change as you kind of, you know, enter - change the contract profile on your portfolio of assets?

Peter Evensen: I don't think it would change materially. I mean we're still - if you look at the contracts in the main part of the business the FPSOs and the shuttle tankers that isn't necessarily changing that much. If you look at the ((inaudible)) contracts, 12 years for example, the towage business is still relatively small part of the business. And we will have a full book of revenue that the banks can clearly see that we're building.

So - and as you've seen we - in the past we have been sort of gradually de-levering the balance sheet using little bit more equity but that can change from time to time.

So, overall wouldn't say it would change materially.

Sunil Sibal: All right. That's all I had. Thanks.

Operator: Thank you. And the next question is from Michael Webber form Wells Fargo. Please go ahead.

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

Male: Good.

Michael Webber: That's good. I - so I hopped on a bit late from another call but I did catch Andy's question around the growth rate both for the Parent and the ((inaudible)) growth rate for daughters.

And so the 20% growth rate at the parent and the ((inaudible)) growth rate for the daughters are still the current targets and it just seems like the mix - I guess a mix shift in terms of whether that's organic growth versus M&A.

And I guess Peter my question is, you know, do you get a sense in terms of the sort of model ((inaudible)) and/or, you know, kind of where that - where within the next two to three years you see that falling?

I mean, do you think there's a bigger M&A chances in 2015 more than in 2016 event? Any color there would be helpful and then I got kind of a follow up to that.

Peter Evensen: Well, as I said, we aren't materially changing. But on the - our what we showed on Investor Day and we are still targeting the same levels. But I believe that we actually could use more M&A given the deferral of the - some of the projects.

And if that happens, it'll - the M&A it will be on the water assets. And so, that's something that you'll see with full effect in 2016, rather than later out. And that's just a function of if we're able to complete. And it's actually kind of easier to put in place the financing.

You have a better sense of what the cost of financing is and then you can quickly figure out what the accretion will be of that acquisition as opposed to having more efforts we do on organic projects.

Michael Webber: Right. Okay. And that makes sense. And I guess as a follow up to that, is it too early to think about, I guess the potential sweet spot in terms of asset size and ((inaudible)) geography?

I'm assuming you're talking about larger FPSO's and maybe correct me if there are other assets that might fall into that. Is that too early or do you guys already have kind of something in mind in terms of you'd be more likely to look at now a bit more closer?

Peter Evensen: As you know, we have several verticals, Mike and I am not going to get drawn for competitive reasons at what we're looking at. But, as I said in my prepared remarks, I'm actually quite surprised that at the infrastructure assets that are available and we're much more targeting being able to buy from customers and to buy from competitors.

Michael Webber: Fair enough. Is it safe to say that every vertical would be employed at some degree then?

Peter Evensen: No I don't think so. We're...

Michael Webber: Okay.

Peter Evensen: ...(Kenneth) did a great job of explaining the towage business. I think we're fine there. We've gone from zero to 10 quite quickly. We made that acquisition last year. I think it's a well-timed acquisition. I think we're fine on where we are on the accommodation UMS, side of things. So then I think you're just really focusing in on the shuttle side and the FPSO side of things.

Michael Webber: Fair enough. All right. Great. Thanks for the time guys.

Peter Evensen: Thank you.

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

Peter Evensen: Great. Thank you all for all the questions. We look forward to reporting back to you 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 lines and have a good day.

END